Annual Report 2016

Expanding our expertise worldwide

KRONES

2016 highlights

- KRONES met its growth and earnings targets for 2016
- Revenue increased 6.9% to €3.39 billion, order intake increased 7.9%
- Profitability was stable, with the EBT margin once again at 7.0%
- KRONES intends to increase dividend to €1.55 per share for 2016 (previous year: €1.45)

		2016	2015	Change
Revenue	€ million	**3,391.3**	3,173.5	+6.9%
Order intake	€ million	**3,441.3**	3,189.0	+7.9%
Orders on hand at 31 December	€ million	**1,144.7**	1,094.6	+4.6%
EBITDA	€ million	**320.8**	305.3	+5.1%
EBIT	€ million	**228.0**	216.9	+5.1%
EBT	€ million	**237.6**	223.3	+6.4%
EBT margin	%	**7.0**	7.0	–
Consolidated net income	€ million	**169.1**	156.3	+8.2%
Earnings per share	€	**5.40**	4.98	+8.4%
Dividend per share	€	**1.55***	1.45	+6.9%
Capital expenditure for PP&E and intangible assets	€ million	**111.3**	102.6	+€8.7 million
Free cash flow	€ million	**49.2**	70.7	–€21.5 million
Net cash and cash equivalents** at 31 December	€ million	**368.9**	364.6	+€4.3 million
ROCE	%	**17.0**	17.7	–
Employees at 31 December				
Worldwide		**14,443**	13,346	+1,097
Germany		**10,061**	9,767	+294
Outside Germany		**4,382**	3,579	+803

* As per proposal for the appropriation of retained earnings **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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OTHER INFORMATION

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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. Revenue rose 6.9% to €3.39 billion. Earnings before taxes (EBT) 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 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.

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. 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 TRANS-MARKET has significantly strengthened KRONES' process technology business in the USA as it enabled us to expand our local engineering and procurement capacities there.

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 7.0%. 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. 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

THE EXECUTIVE BOARD

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 separate and consolidated financial statements and makes recommendations. In addition, the Audit and Risk Management Committee monitors the effectiveness of the internal control system, the risk management system, and the compliance system.

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 separate 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.

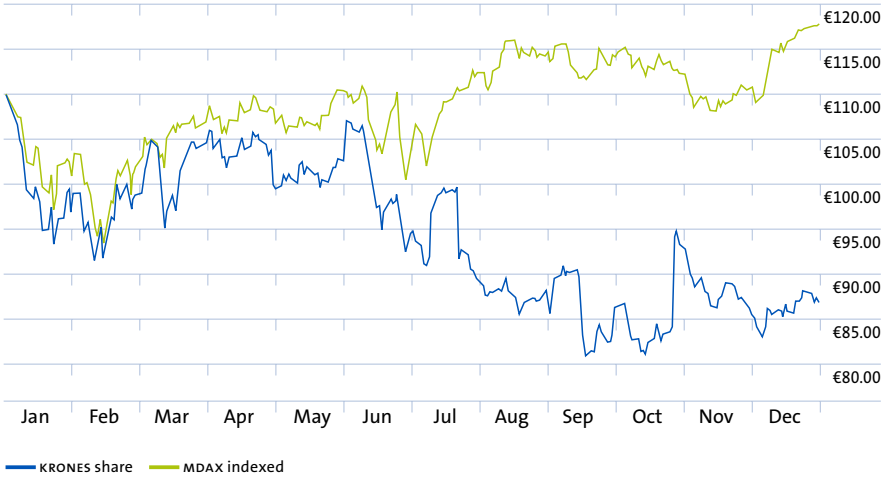
2016 trading year ended well overall

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

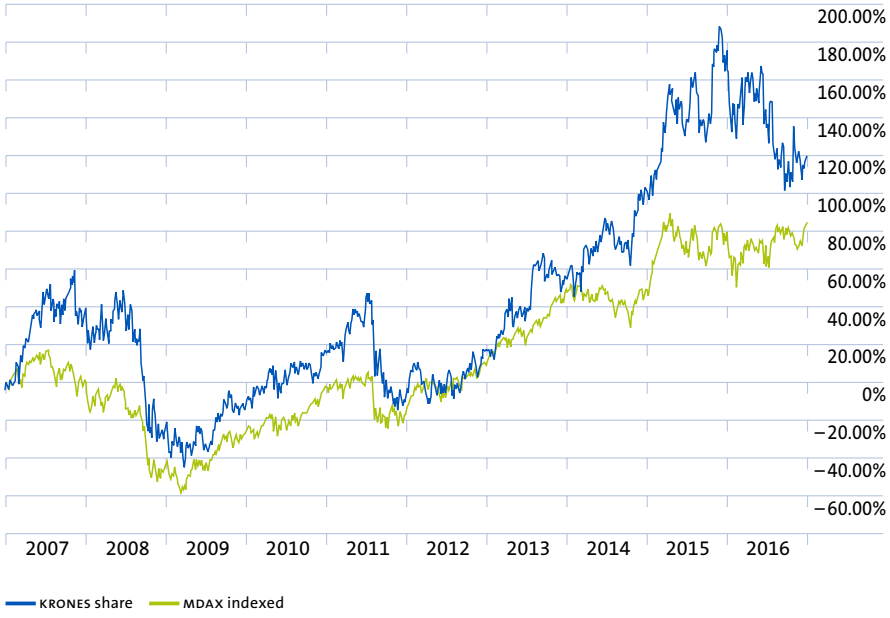
At 31 December		2016	2015	2014
Number of shares	million	31.59	31.59	31.59
Free cash flow per share	€	1.56	2.04	4.82
Equity per share	€	38.79	35.19	31.29
Earnings per share	€	5.40	4.98	4.30
Price/earnings (P/E) ratio based on closing price for the year		16.1	22.1	18.8
Dividend per share	€	1.55*	1.45	1.25
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).

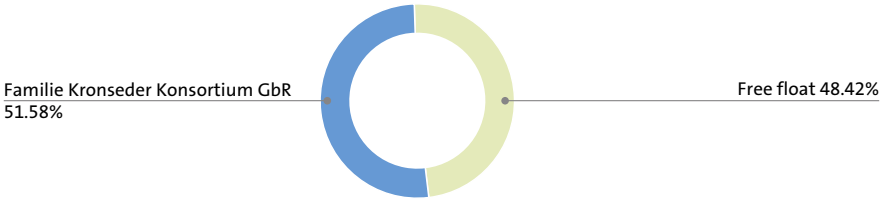
Institutional investors execute much of their trading on off-exchange platforms. In 2016, some 90,000 KRONES shares changed hands each day on average on such platforms (previous year: around 77,000).

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

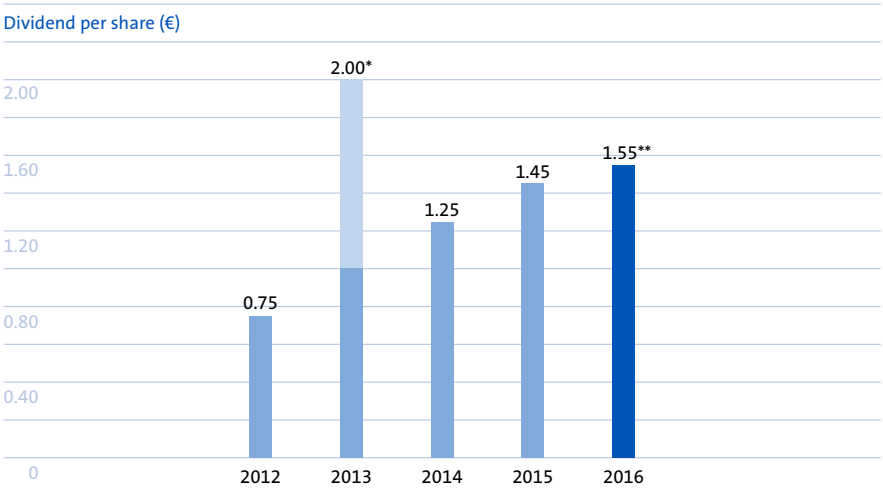
There were no significant changes to KRONES' shareholder base in the reporting period. At 31 December 2016, Kronseder Family Konsortium GbR was the majority shareholder of KRONES AG with a 51.58% stake. The family intends to remain a stable majority shareholder in the future. That allows the company 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.

2016 in review

Q1

Order intake: €822.2 million

Revenue: €772.1 million

Earnings before taxes: €55.1 million

Share price at 31 March 2016: €105.85

At the end of March, KRONES purchased a 60% stake in SYSTEM LOGISTICS. The Northern Italy-based company is a leading supplier of innovative solutions for intralogistics, material flows, and warehousing. By acquiring the majority stake in SYSTEM LOGISTICS, KRONES has expanded its own internal logistics expertise, particularly in the area of automated order picking systems.

KRONES got 2016 off to a good start. First-quarter revenue was up 4.5% year-on-year to €772.1 million. Order intake also rose 4.5%, to €822.2 million. Earnings before taxes for the period from January to March improved 9.8% year-on-year to €55.1 million in 2016.

The world's stock markets got the year 2016 off to a terrible start. Bad economic news from China and a plummeting oil price put downward pressure on share prices. The KRONES share did not come away unscathed. However, strong preliminary figures for the 2015 financial year as a whole enabled KRONES' share price to recover from its low of €91 and close the first quarter at €105.85, 4.0% lower than where it had started the year.

Q2

Order intake: €780.2 million

Revenue: €788.2 million

Earnings before taxes: €52.2 million

Share price at 30 June 2016: €94.80

KRONES held its annual general meeting on 15 June in Neutraubling. Ernst Baumann (right) presided over the meeting for the last time. He retired from the Supervisory Board as of the meeting's close. Mr. Baumann joined the Supervisory Board in 2001 and had served as its chairman since 2009. Executive Board Chairman Christoph Klenk thanked Mr. Baumann on behalf of the entire Executive Board for his many years of excellent collaboration. Mr. Baumann's successor, Volker Kronseder (left), stood for election to the board. He was voted in by the annual general meeting and subsequently elected chairman by the Supervisory Board itself.

Earnings before taxes were down slightly (3.2%) year-on-year for the period from April to June, to €52.5 million, largely as a result of negative currency effects. Revenue rose 3.1% to €788.2 million. Second-quarter orders intake was up 5.8% year-on-year despite the increasingly competitive environment.

In the second quarter, shares trended sideways with considerable ups and downs until 23 June. Prices collapsed after the Brexit vote. Although shares recouped a large part of those losses in the days that followed, it was a bad first-half overall. KRONES' share lost 14.1% in the first six months and closed at €94.80 at the end of June.

Q3

Order intake: €850.1 million

Revenue: €819.8 million

Earnings before taxes: €56.3 million

Share price at 30 September 2016: €86.60

KRONES purchased 80% of the business operations of TRANS-MARKET at the end of August. The US-based company is a leading provider of process engineering and related services as well as automation solutions for the food and beverage industry. By taking majority ownership of the company, KRONES is expanding its local capacity for engineering and procurement and strengthening its process technology business in the USA.

KRONES' growth picked up in the third quarter of 2016. Revenue rose 6.9% year-on-year to €819.8 million. Order intake increased 8.0% to €850.1 million. Earnings before taxes (EBT) grew from €52.0 million to €56.3 million. Thus, the EBT margin improved slightly year-on-year, from 6.8% to 6.9%.

KRONES' share price declined 8.6% in the period from July to September 2016. With that, our share underperformed in the third quarter compared with the MDAX, which rose 8.8% in the same period. Our results for the second quarter of 2016 had disappointed analysts' high expectations and were the main reason for the poor performance. On 30 September, the share closed at €86.60, down 21.5% overall from the start of the year.

Q4

Order intake: €988.8 million

Revenue: €1,011.2 million

Earnings before taxes: €74.0 million

Share price at 31 December 2016: €86.90

The Brau Beviale took place from 8 to 10 November in Nuremberg, Germany. KRONES presented selected product innovations to the trade public at this international capital goods fair for the brewing industry. We made a joint appearance with SYSTEM LOGISTICS for the first time. The Italian intralogistics provider exhibited unmanned vehicles for production and warehouse.

KRONES' share price trended sideways overall in the fourth quarter. The share briefly gained momentum at the end of October when we affirmed our forecast for the year and unveiled our new medium-term targets. That drove our share price from just under €83 to €95. The share faltered again, though, and closed the year at €86.90. In all, the KRONES share lost 21.2% in 2016. Including the dividend of €1.45 per share, the share's performance for 2016 came to –19.9%.

Business was good in the fourth quarter. Quarterly revenue was up 12.0% year-on-year to €1,011.2 million. Earnings before taxes rose 10.1% to €74.0 million. Thus, we met our growth and earnings targets for the year 2016 as a whole.


GRANO

2

Consolidated management report

Fundamental information about the group

KRONES at a glance

Business model, business areas, and organizational structure

KRONES offers machinery and systems for filling and packaging and for beverage production. KRONES' customers include breweries, beverage producers, and companies in the food, chemical, pharmaceutical, and cosmetic industries. Services are an important part of KRONES' business model. The company maintains service centres and offices around the world.

KRONES reports on its three segments: "machines and lines for product filling and decoration", "machines and lines for beverage production/process technology", and "machines and lines for the compact class".

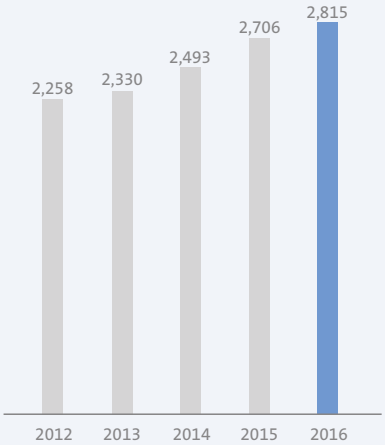
Machines and lines for product filling and decoration

This is by far KRONES' largest and most profitable segment. It offers machines and lines for filling, labelling, packaging, and conveying products. Machines for producing PET containers and converting used plastic bottles into food-grade recycled material (PET recycling systems) are also part of this segment.

	2016	2015
EBT (€ million)	229.6	220.5
EBT margin (%)	8.2	8.1
Employees*	12,000	11,502

*Consolidated group

Revenue (€ million)

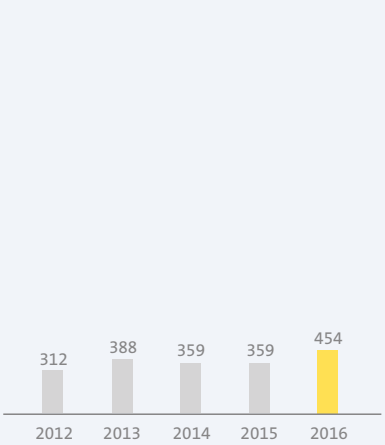


Machines and lines for beverage production/process technology

This KRONES segment offers machinery and equipment for producing and treating beer, soft drinks, fruit juices, milk, and dairy drinks. Intralogistics business with our subsidiaries SYSKRON, TRIACOS, and SYSTEM LOGISTICS and our EVOGUARD brand components are also part of the beverage "production/process technology" segment.

	2016	2015
EBT (€ million)	1.5	−2.1
EBT margin (%)	0.3	−0.6
Employees*	1,450	944

Revenue (€ million)

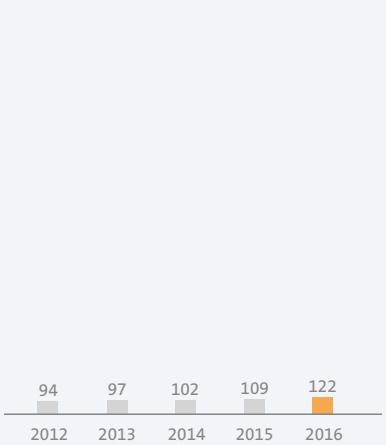


Machines and lines for the Compact Class

In the Compact Class segment, KRONES subsidiaries KOSME and GERNEP offer a product range of filling and labelling technology similar to that of our "machines and lines for product filling and decoration" segment, but for smaller-scale operations. With KOSME and GERNEP, we are able to serve smaller and mid-sized companies that do not need high-speed machines but are nevertheless committed to quality.

	2016	2015
EBT (€ million)	6.4	4.9
EBT margin (%)	5.2	4.5
Employees*	523	495

Revenue (€ million)



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).

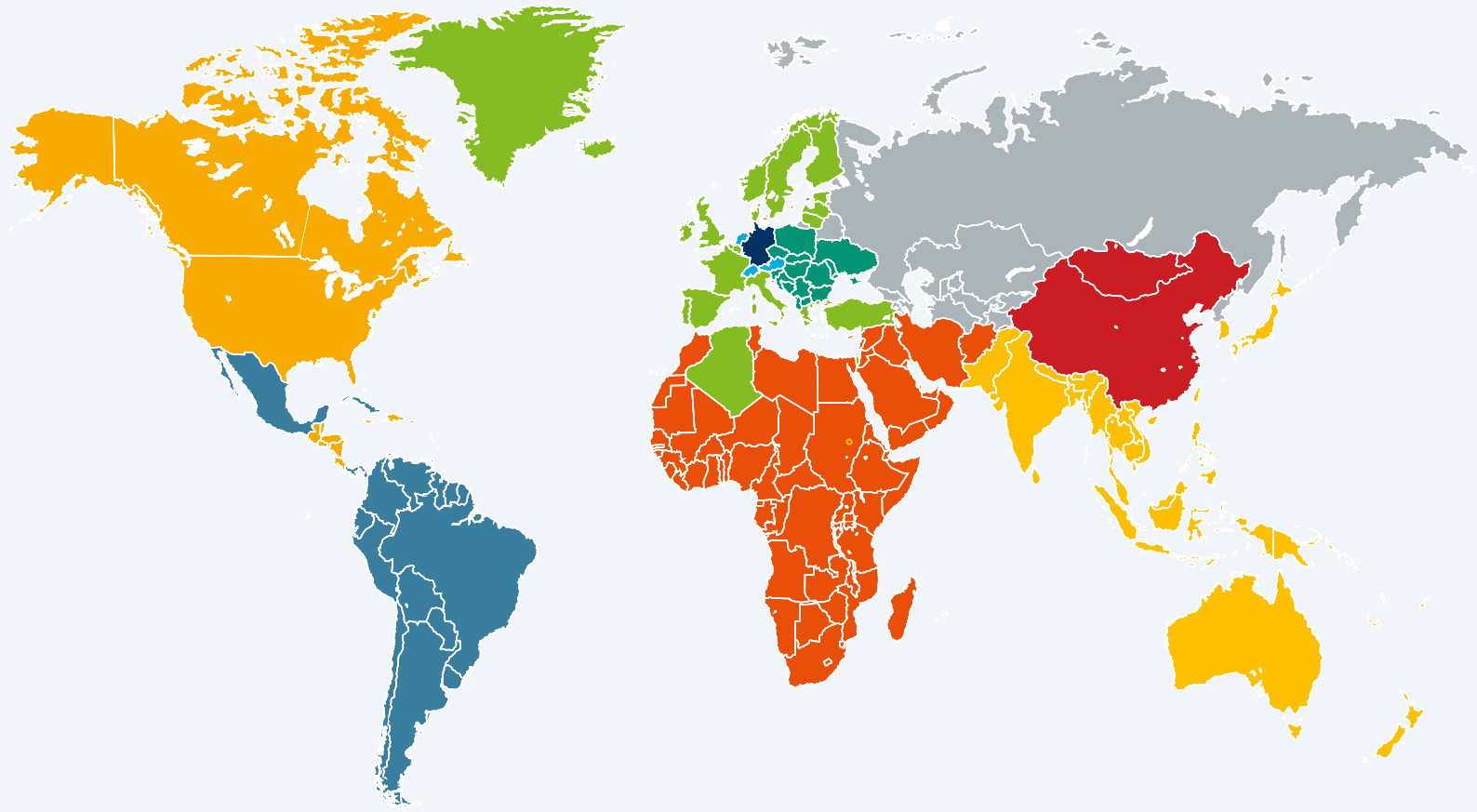
KRONES is heavily export-oriented, generating around 90% of consolidated revenue outside Germany. The regional breakdown of revenue is well balanced overall. KRONES generates around 45% of its revenue in mature industrialised countries and around 55% in the rapidly growing emerging markets.

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.

For information about the establishment of subsidiaries in Asia, please see the notes.

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.

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

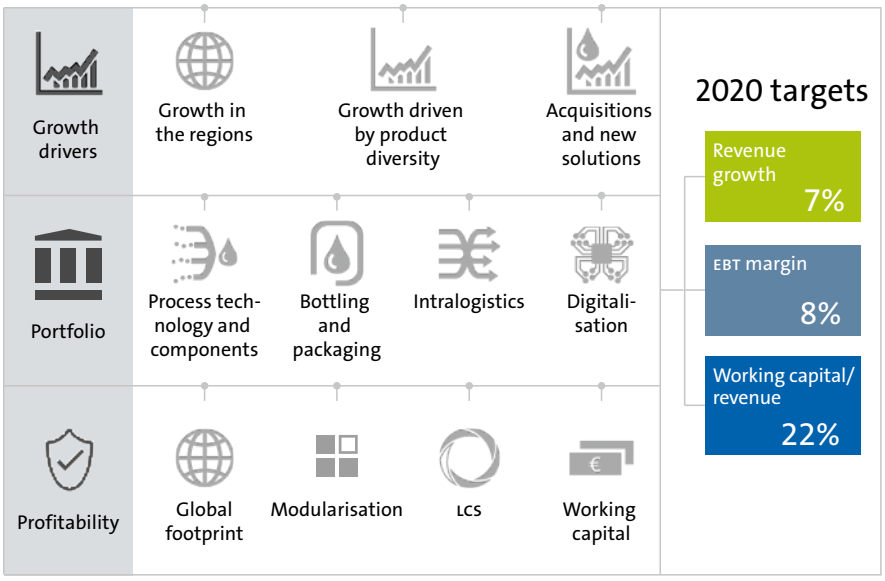
7/8/22 is our new medium-target through 2020

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

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

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.



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%.

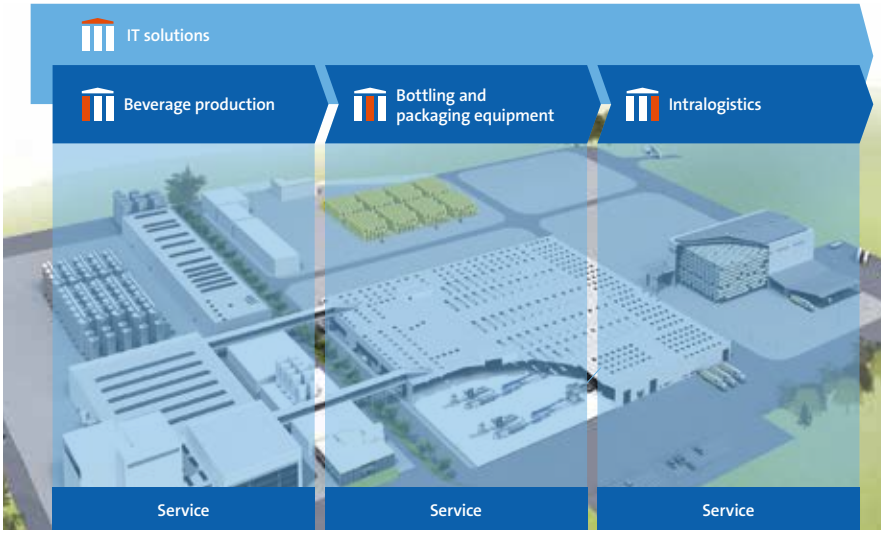
According to our estimates, the market for KRONES' products is growing by 3%. To achieve our target of 7% annual revenue growth, we must systematically seize the opportunities the market presents. That is why KRONES intends to achieve its strongest growth in markets where beverage consumption is growing 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 three of our segments, 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 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

KRONES' management primarily uses the following financial performance indicators to steer the group and its three segments:

- Revenue
- Earnings before taxes (EBT)
- EBT margin (earnings before taxes in relation to revenue)
- Working capital to revenue

To strengthen our market position and utilise economies of scale, we aim to achieve **revenue growth** above the market average.

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

Profitability, measured as the **EBT margin**, is among our key targets and parameters. It indicates the return on revenue. For the group, we calculate the target margin as the weighted average of the three segments.

Our new major performance indicator is **working capital to revenue.** Working capital is calculated as follows: (inventories + trade receivables + prepayments) – (trade payables + advances received). The result indicates how much capital is needed to finance revenue. The lower the number, the less capital is tied up in operations and, thus, the more financial leeway the company has to use its cash and cash and cash equivalents for other purposes.

In addition to these performance indicators, we also use the development of **free cash flow** (cash flow from operating activities less cash flow from investing activities) as a guide.

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.

Revenue and workforce development in the Asia-Pacific region

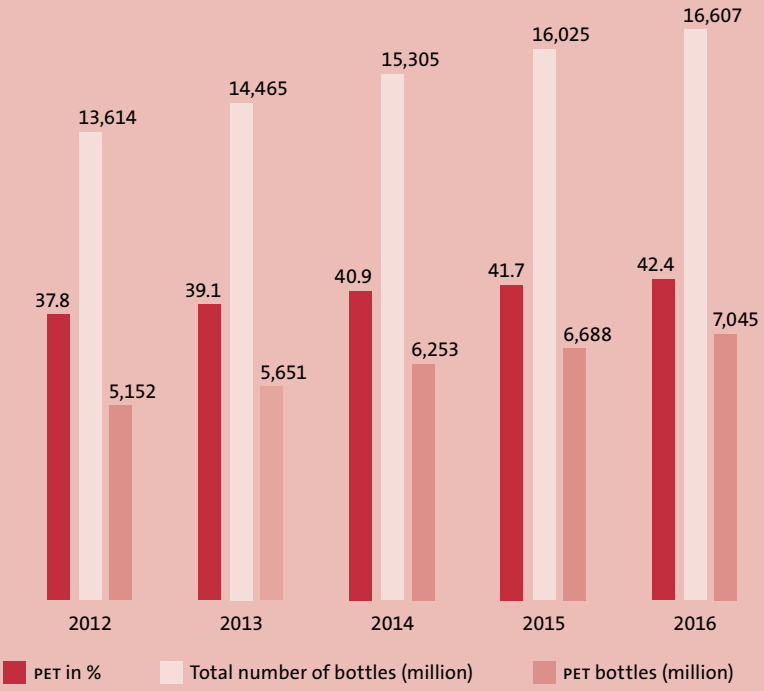
	2012	2013	2014	2015	2016
Revenue (€ million)	340.3	378.6	532.7	489.9	402.3
Employees	293	400	453	502	602

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

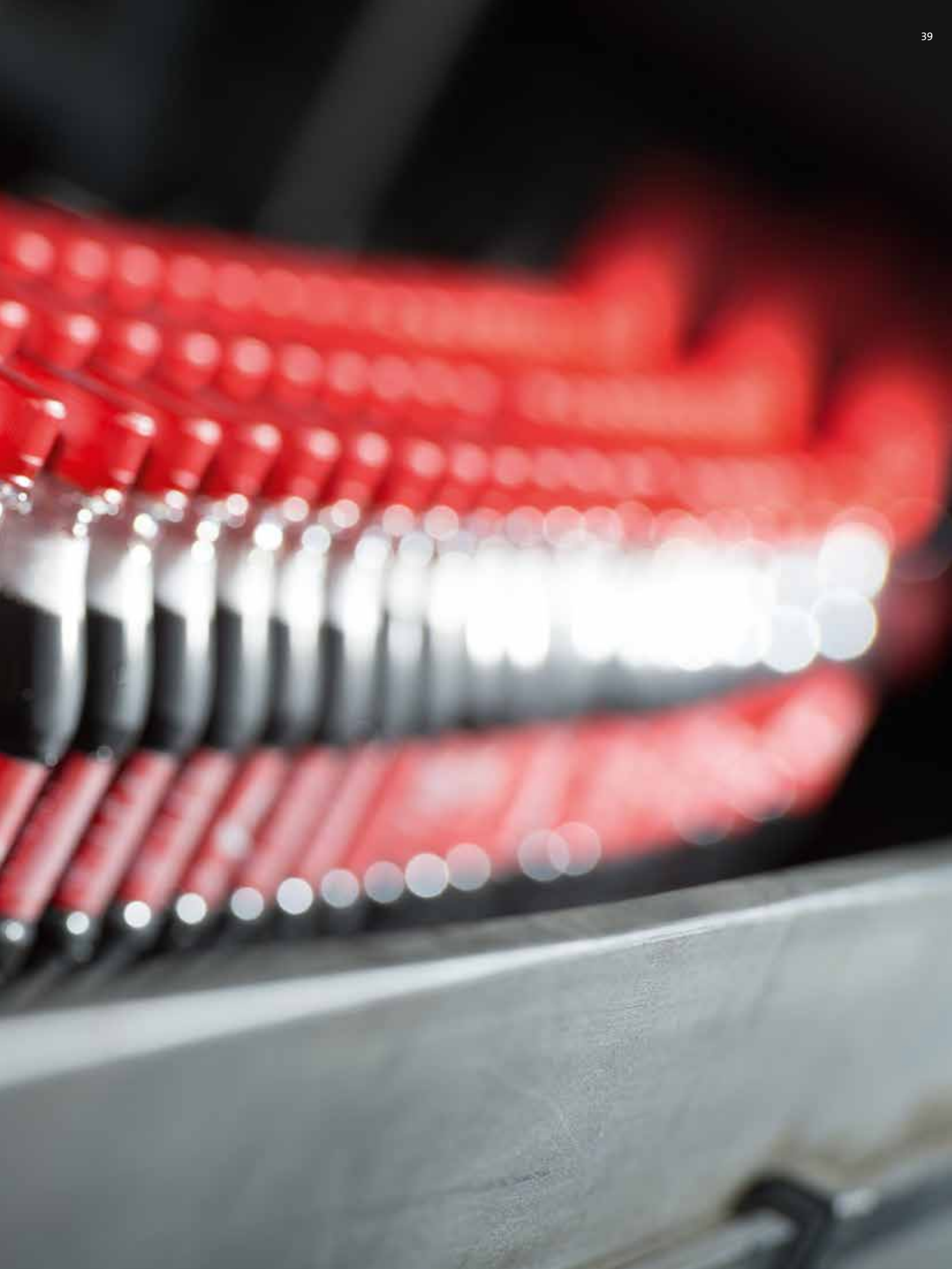


Source: Euromonitor

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.

Revenue and workforce development in Germany and Central Europe

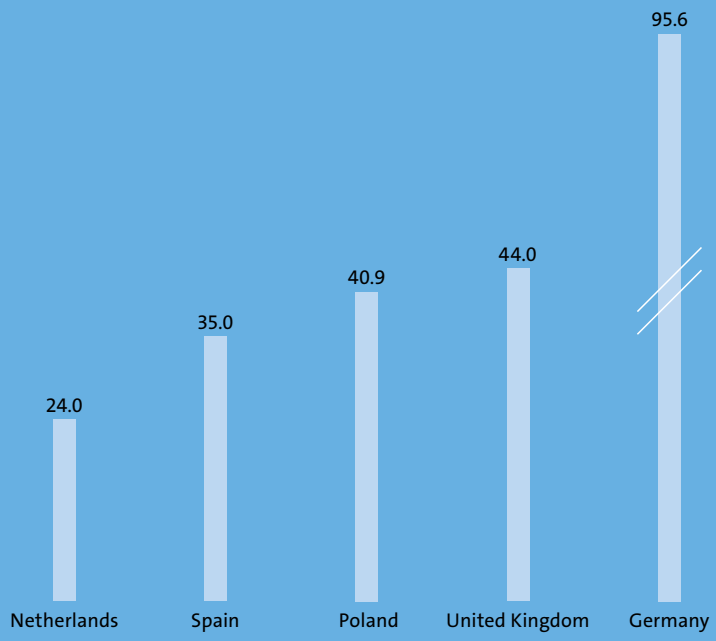
	2012	2013	2014	2015	2016
Revenue (€ million)	319.6	383.0	445.4	535.1	568.6
Employees	9,116	9,140	9,384	9,812	10,249

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.

Revenue and workforce development in the Middle East/Africa

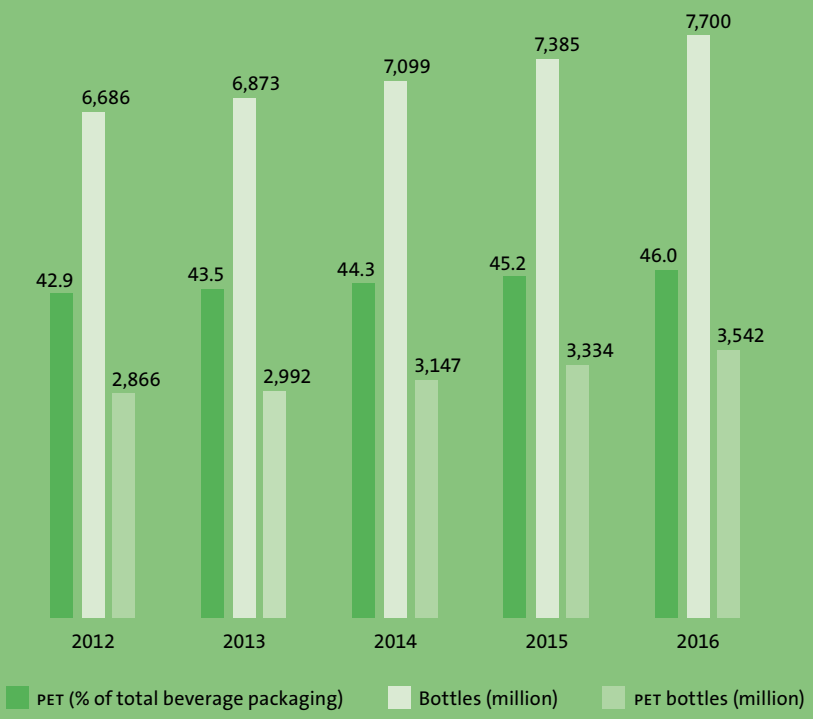
	2012	2013	2014	2015	2016
Umsatz in Mio. €	383.0	454.1	422.8	431.8	570.4
Mitarbeiter	285	339	363	376	386

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.

Revenue and workforce development in North and Central America

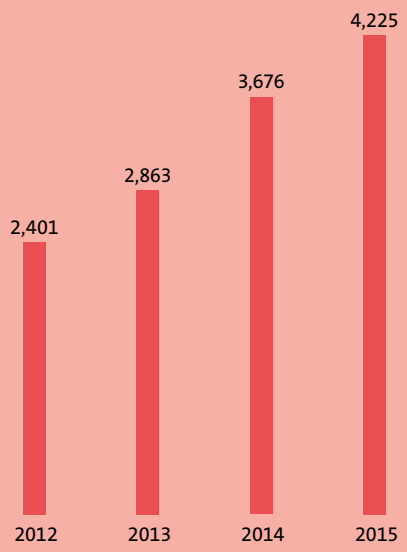
	2012	2013	2014	2015	2016
Revenue (€ million)	327.7	331.1	274.0	437.5	504.9
Employees	488	519	529	559	602

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

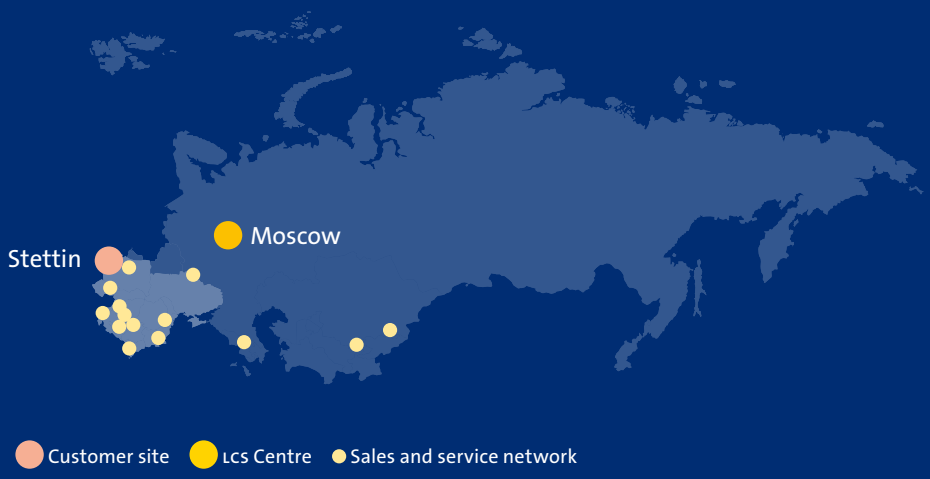


Source: Brewers Association

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.

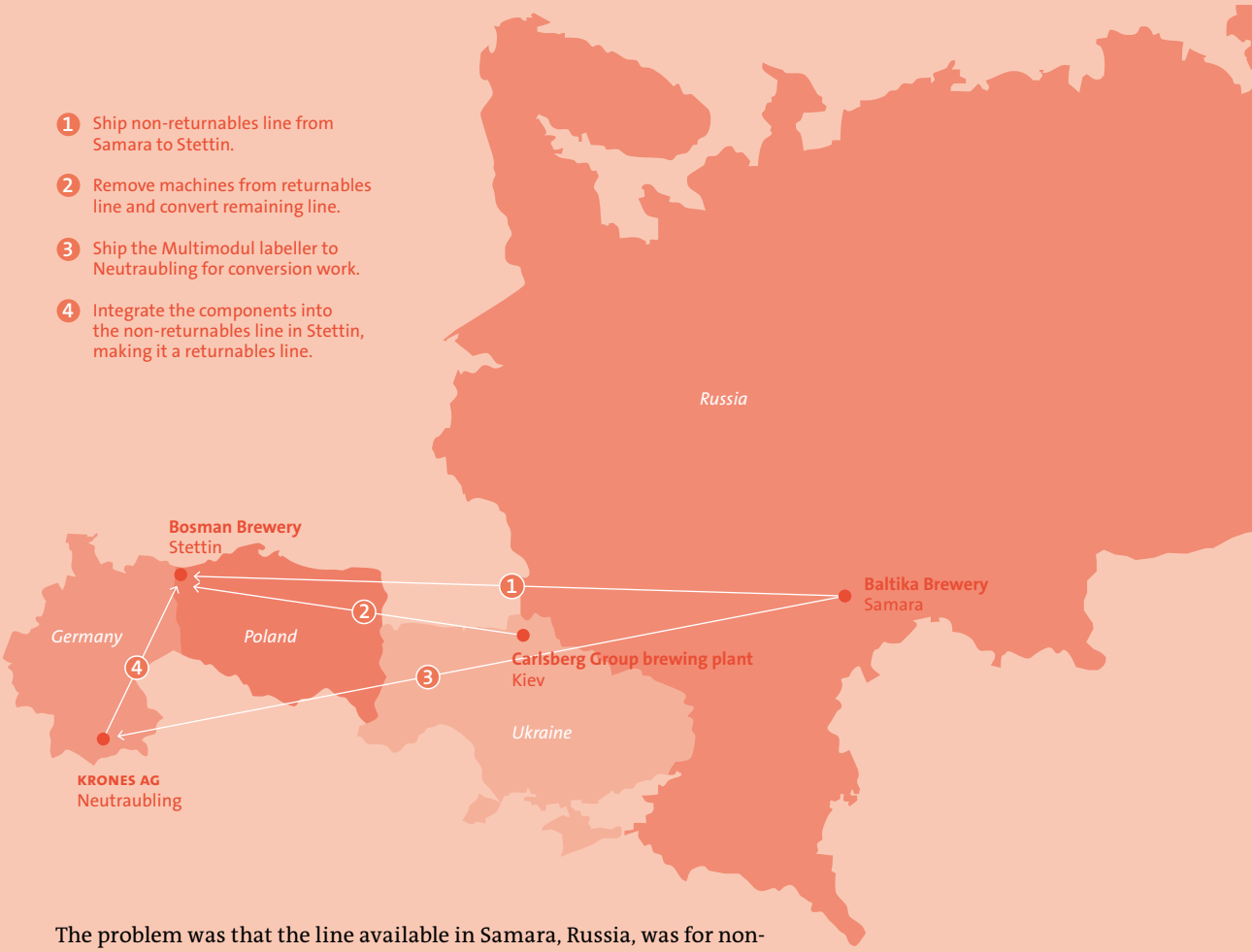
Revenue and workforce development in Eastern Europe, Russia, and Central Asia

	2012	2013	2014	2015	2016
Revenue (€ million)	226.4	184.2	196.2	172.7	193.7
Employees	121	132	136	147	155

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.

Revenue and workforce development in the South America/Mexico region

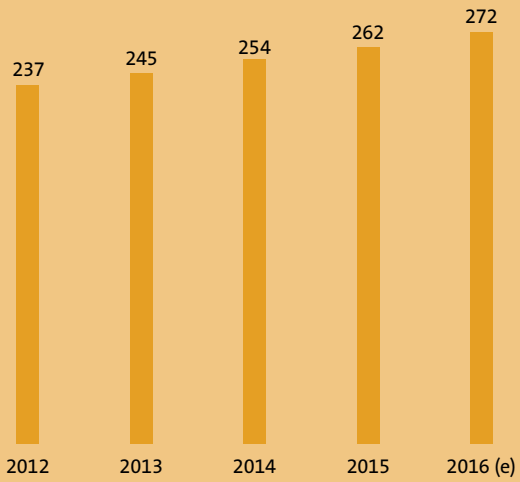
	2012	2013	2014	2015	2016
Revenue (€ million)	349.2	387.6	372.9	304.1	314.4
Employees	438	485	501	519	549

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.

Revenue and workforce development in China

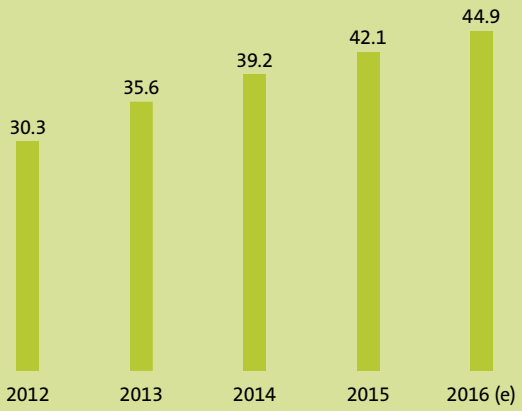
	2012	2013	2014	2015	2016
Revenue (€ million)	359.8	246.8	258.6	289.1	323.5
Employees	298	325	385	451	508

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.

Revenue and workforce development in Western Europe

	2012	2013	2014	2015	2016
Revenue (€ million)	358.2	459.3	450.8	513.3	513.5
Employees	308	322	342	409	429

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)

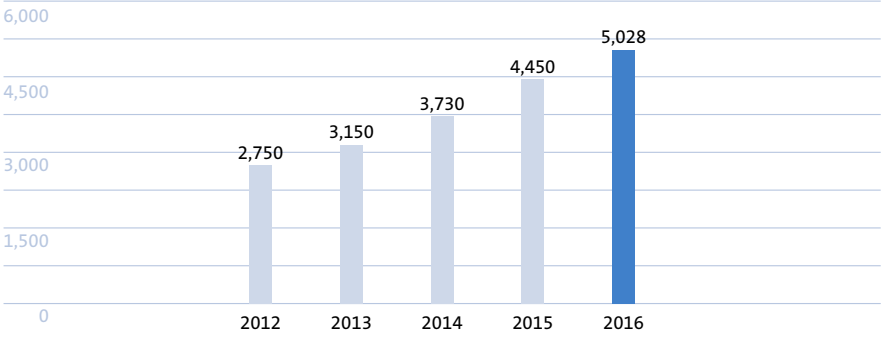
- All R&D work is focused on customer benefit
- Megatrends drive new developments
- New products demonstrate KRONES' innovative power

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 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. In the financial year, €32,989 thousand (previous year: €31,069 thousand) in development expenditures were capitalised. Amortisation of development projects came to €22,280 thousand (previous year: €23,076 thousand).

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

Registered patents and utility models – KRONES Group



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

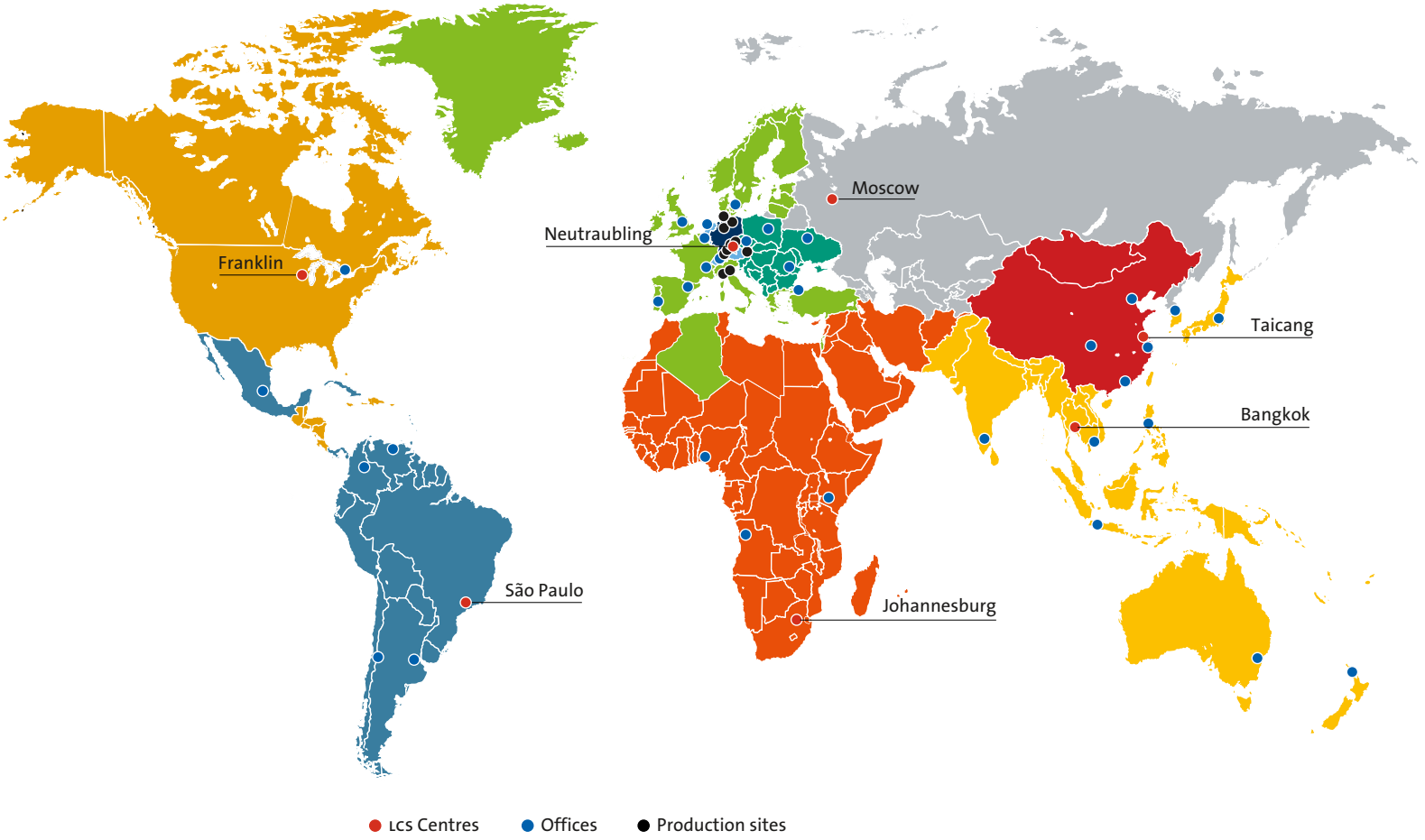
Breweries gain real added value when fermentation and lagering (cold conditioning) times are shortened, increasing cellar capacities. That is what our Poseidon dynamic fermentation development project is all about. It features a pipe-within-a-pipe mixing system that generates or supports different flow 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.

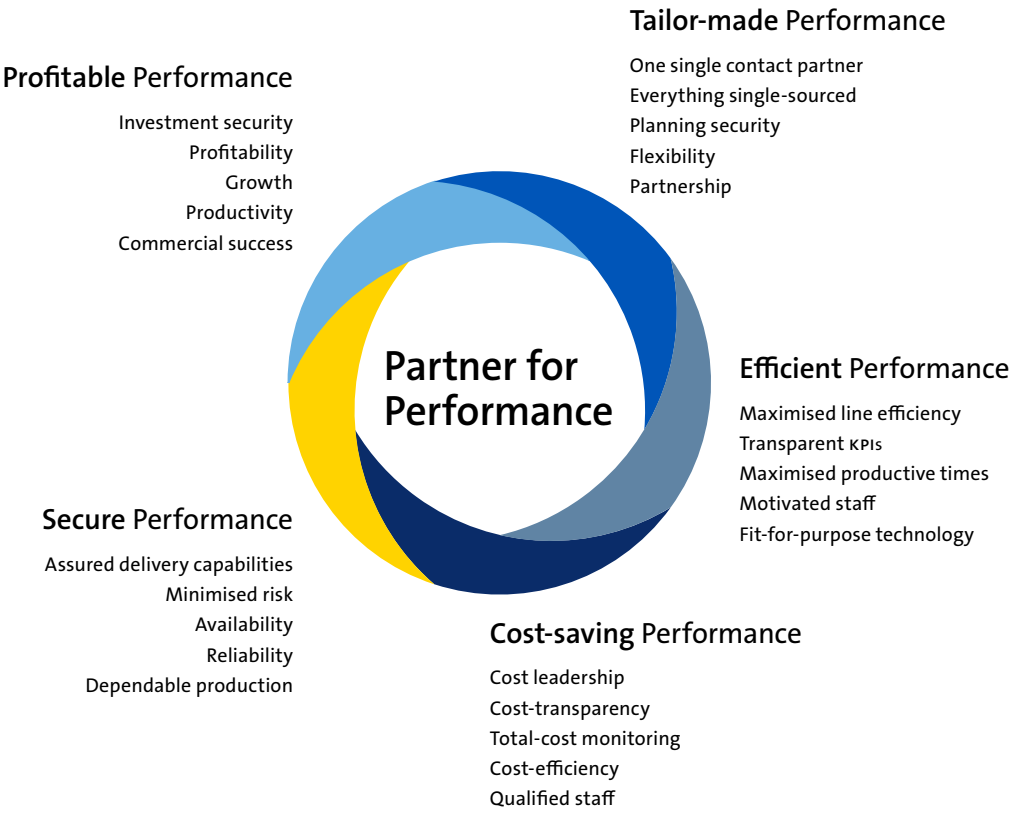
Short response times are essential to the success of any service business. That is why we are continually moving closer to our customers and increasingly deploying local staff to carry out LCS projects. Key spare parts are kept on hand at regional warehouses. Seven LCS Centres at strategically important 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 53 of this Annual Report.

We make sure the entire line is transported to the new site quickly and securely.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29

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Consolidated management report

- 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.

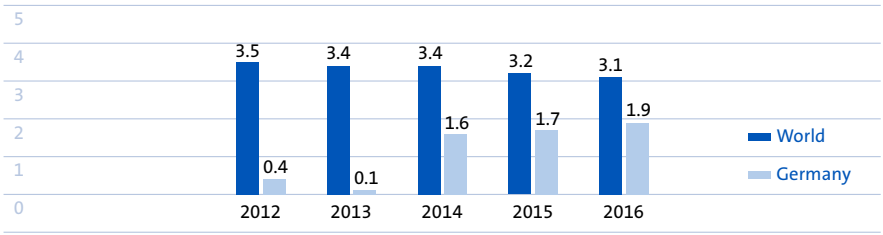
In all, gross domestic product (GDP) in the emerging markets increased 4.1% year-on-year in 2016. While China's economy expanded a bit more than expected (+6.7%) thanks to government stimulus measures, India's GDP growth slowed to 6.6% (previous year: +7.6%). Economic activity in the Middle East/Northern 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

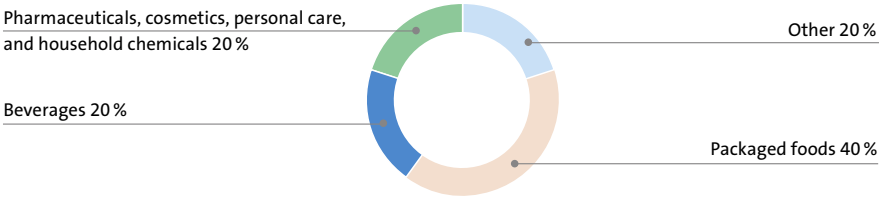
Output in German machinery sector stagnates

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. Concrete figures for the food and packaging machinery subsector for the past year were also not yet available when this report was prepared.

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: €31.6 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 consolidated 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

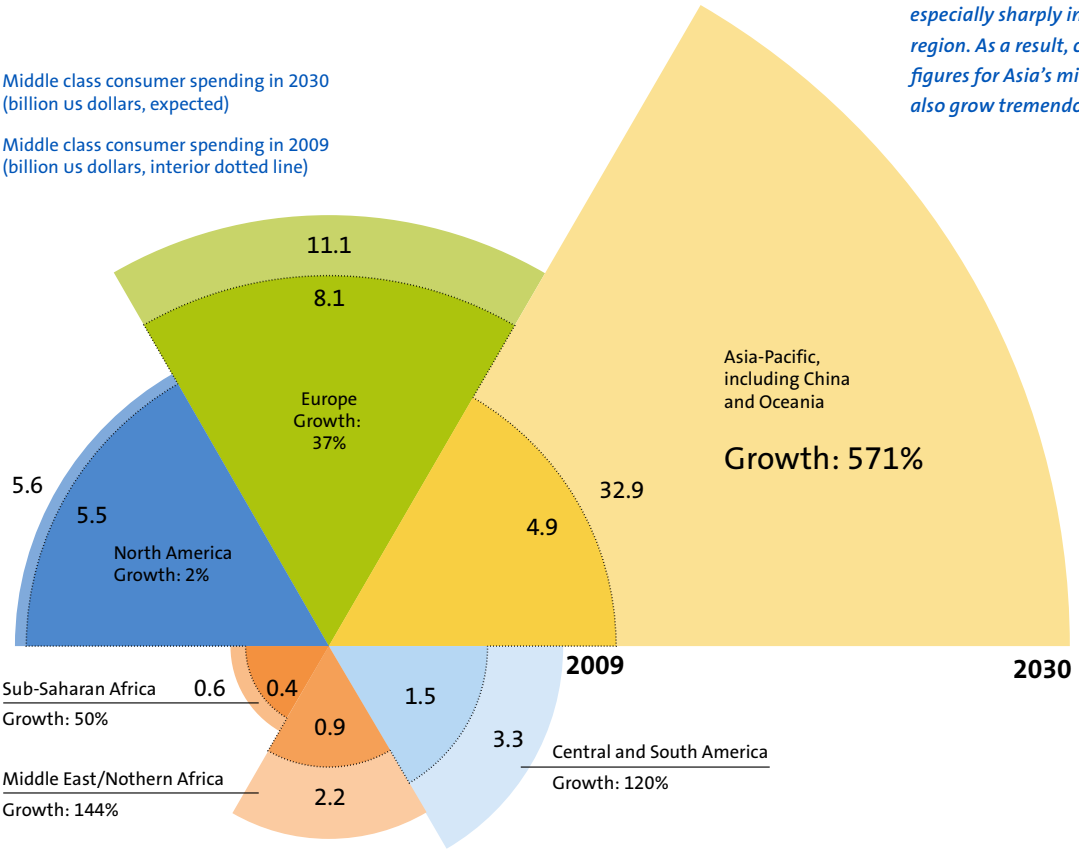
KRONES operates in a market that exhibits stable long-term growth. The average annual growth rate is higher than that of the world economy. Several megatrends ensure that demand for food and beverage packaging machinery is rising faster than overall demand for machinery.

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.

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.

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



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.

Source: East Asia Bureau of Economic Research and own calculations

GERNEP – simply good labelling

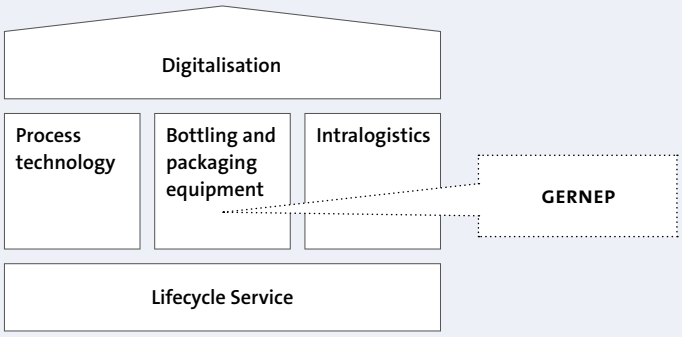
Purchased	April 2015
Employees in 2016	96

At a glance

The company, which is based in Barbing, in the German state of Bavaria, employs around 100 people and manufactures labelling machines for the low and medium output ranges. GERNEP offers its customers tailored solutions in more than 110 countries. GERNEP and KOSME make up KRONES' machines and lines for the compact class segment.

Strategic role

Besides the beverage industry, GERNEP's principal markets are food, cosmetics, and pharmaceuticals. By acquiring GERNEP, KRONES is tapping into growth potential in market segments outside the beverage industry. GERNEP also perfectly complements KRONES' product offerings for strategically important small-and-mid-sized operations.



HST strengthens KRONES' process technology

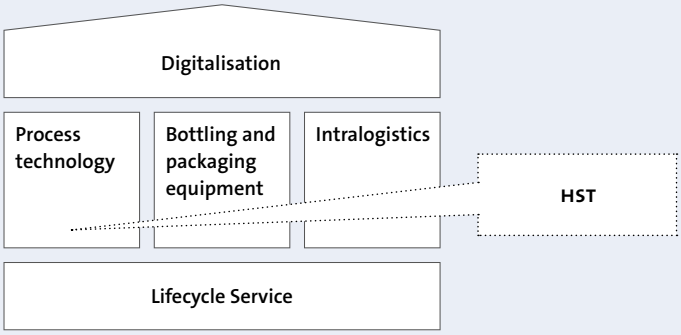
HST purchased	December 2013
Employees in 2016	46

At a glance

At the end of 2013, KRONES purchased HST Maschinenbau GmbH, which is based in Dassow, in the German state of Mecklenburg-West Pomerania. The company manufactures homogenisers and reciprocating pumps for the food and beverage industry.

Strategic role

HST strengthens KRONES in the area of "non-alcoholic" process technology. That includes all products and services needed for producing and processing juice and milk. In the long term, KRONES also intends to become a major global supplier to the dairy industry. The segment offers attractive opportunities for growth in spare parts and service business.



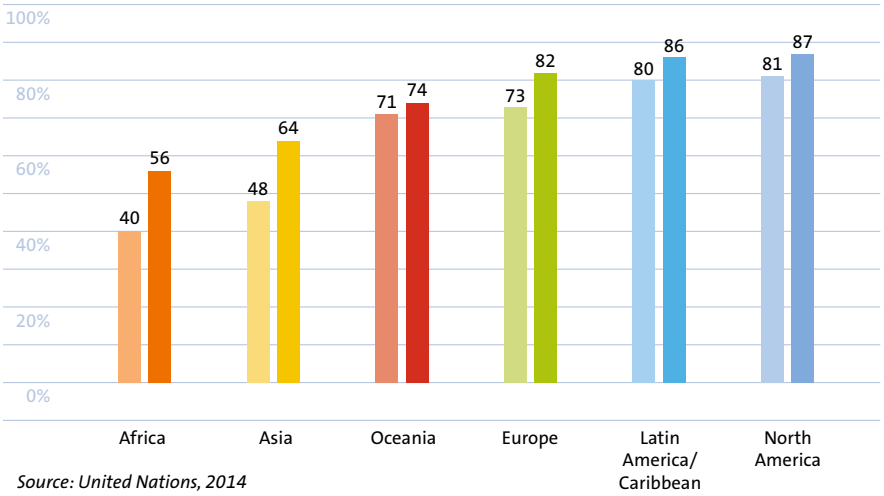
As people's incomes rise, so too does their consumer spending – and that includes spending on packaged foods and beverages. According to forecasts by the East Asia Bureau of Economic Research, middle class consumer spending will increase sharply overall worldwide between 2009 and 2030. Growth in consumer 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

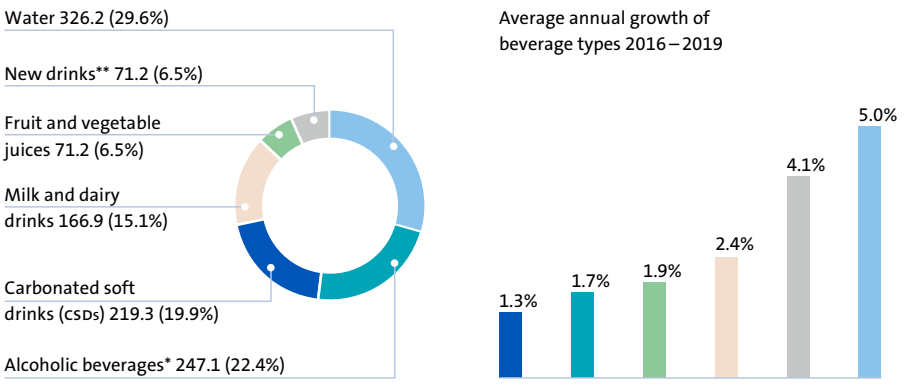
In Africa and Asia, most people still live in rural areas. However, more and more people will move to cities in the years and decades ahead.

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

SYSKRON GMBH – always the best-fit solution

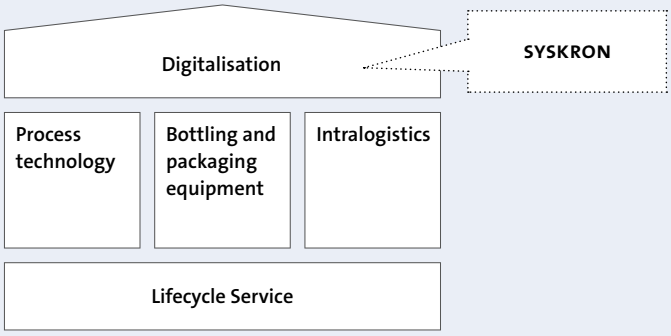
Established	July 2014
Employees in 2016	100

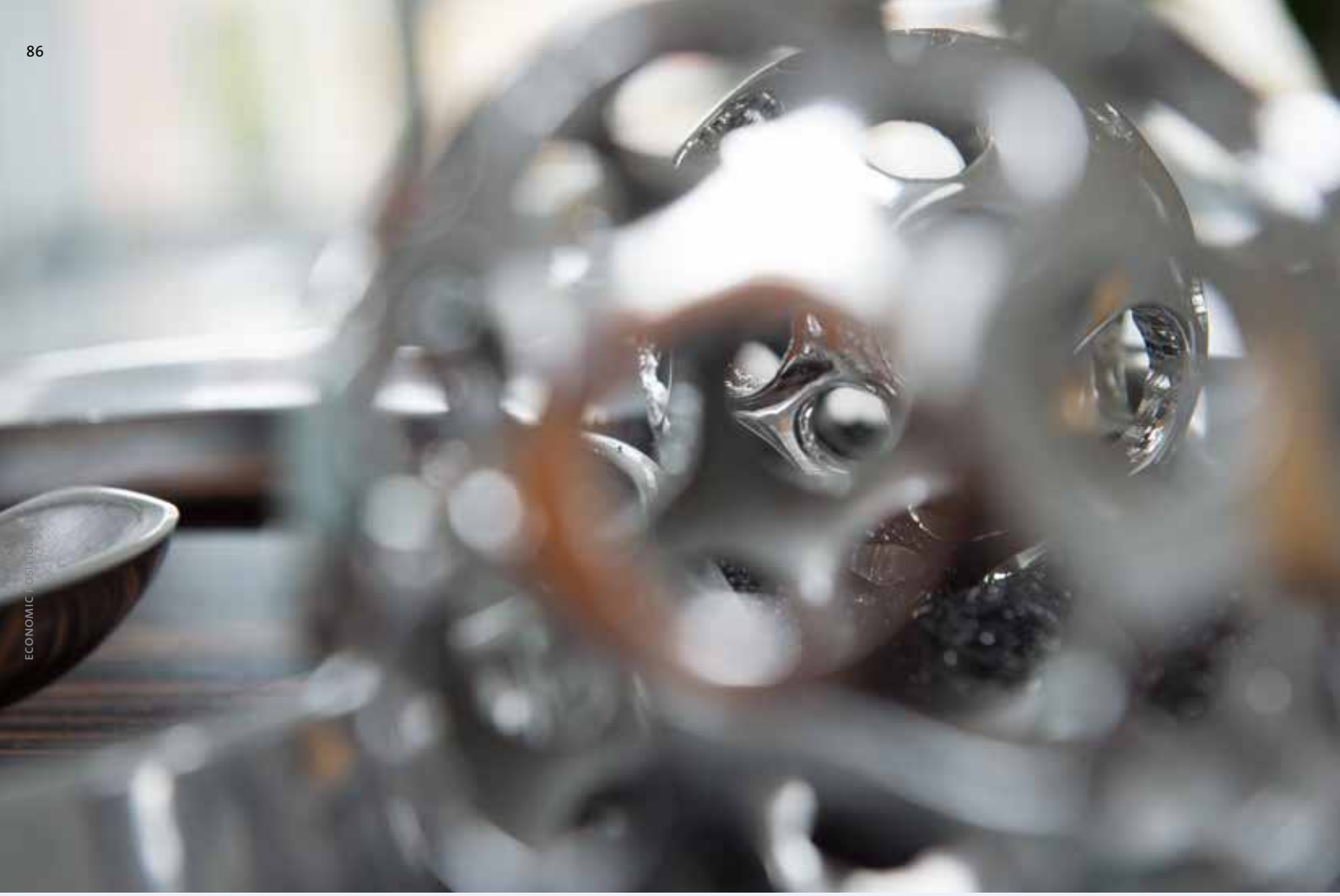
At a glance

KRONES established SYSKRON GMBH in mid-2014, making its headquarters in Wackersdorf, Bavaria, one of Germany's hotspots for logistics development. The company specializes in software and consulting, offering customers in the food and beverage industries complete intralogistics solutions. SYSKRON GMBH's primary focus is on IT and most of the company's roughly 100 employees are software developers.

Strategic role

The intralogistics market for the beverage industry is growing rapidly. Intralogistics also plays a crucial role in capturing and managing entire flows of materials and data in production operations. With SYSKRON GMBH, KRONES has significantly expanded its expertise and capacity for the software side of logistics solutions.





TRIACOS GMBH – SAP specialist for intralogistics

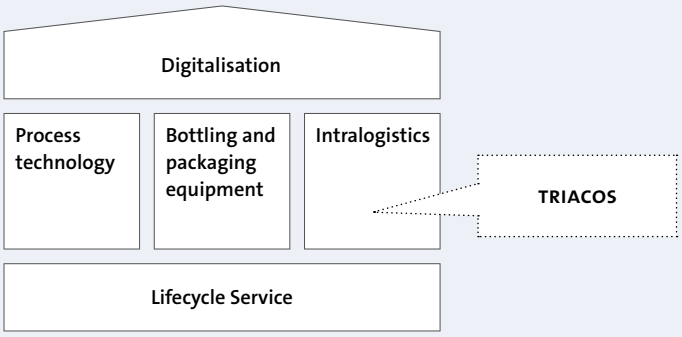
Purchased	February 2015
Employees in 2016	33

At a glance

KRONES acquired TRIACOS CONSULTING & ENGINEERING GMBH in early 2015. The family-run business, based in Altenstadt and der Waldnaab, in the German state of Bavaria, installs SAP solutions in production logistics and intralogistics. TRIACOS employs 33 SAP specialists and primarily serves small and mid-sized companies. SYSKRON GMBH and TRIACOS GMBH both belong to SYSKRON HOLDING, which is part of the process technology segment.

Strategic role

TRIACOS and SYSKRON complement each other perfectly. Since purchasing TRIACOS, KRONES can now offer standard SAP solutions for the beverage industry in addition to its own software products. Integration of SAP software solutions is important for developing new business models in light of the Industrial Internet of Things (IoT).



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.

Population growth is driving demand for packaged beverages in emerging markets and developing countries

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.

SYSTEM LOGISTICS – Intralogistics at its best

Purchased	March 2016
Employees in 2016	387

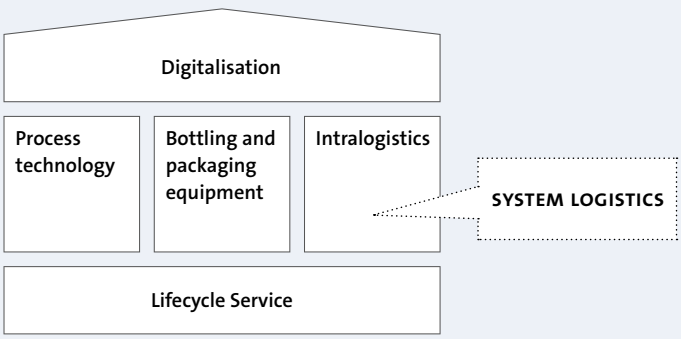
At a glance

KRONES purchased a 60% stake in SYSTEM LOGISTICS S.P.A. in mid-2016. The company, which is based in Fiorano, Italy, is a leading supplier of innovative solutions for intralogistics, material flows, and warehousing and has a broad international presence. Many of SYSTEM LOGISTICS' customers are in the food and beverage industry.

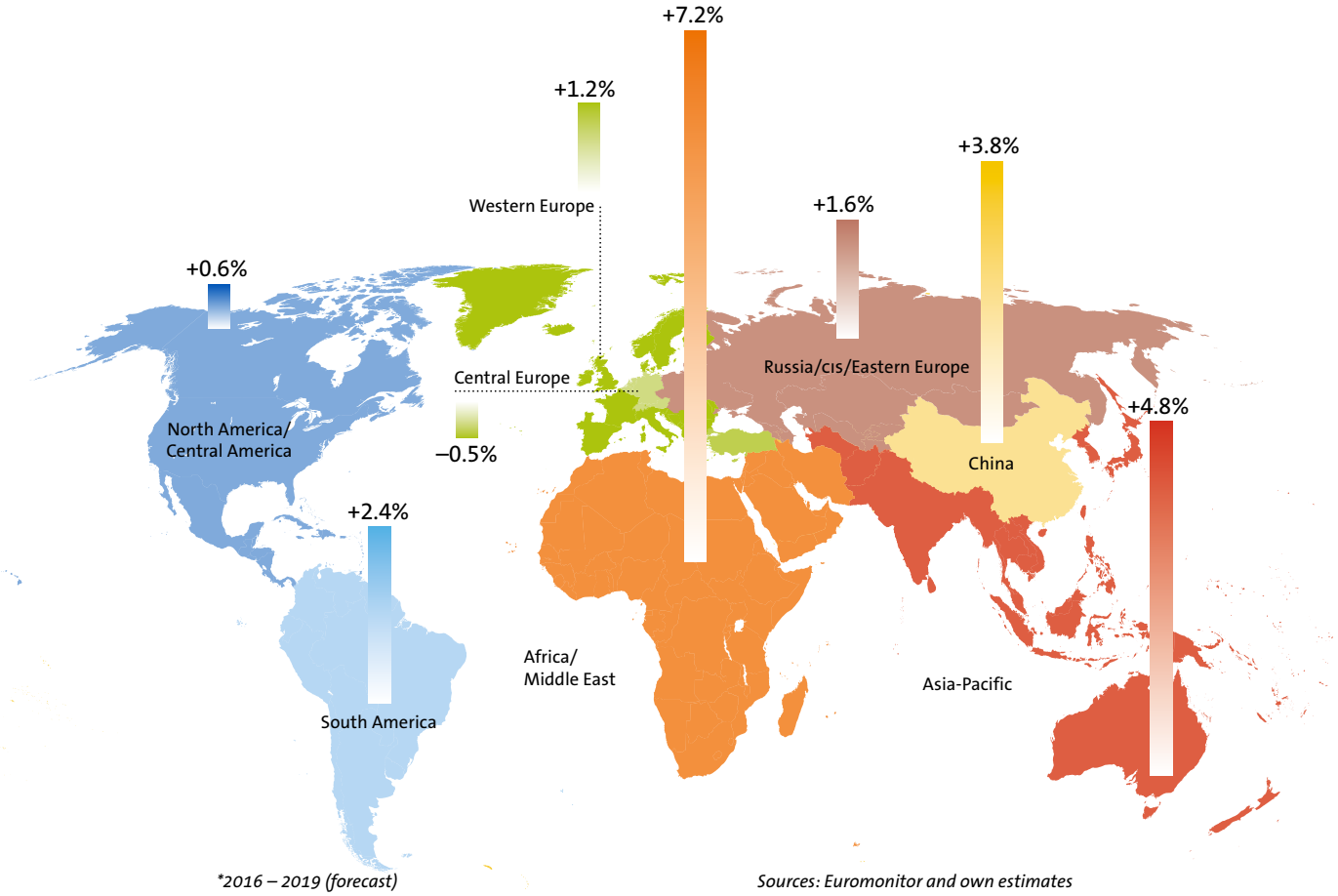
Strategic role

SYSTEM LOGISTICS develops nearly all of its system solutions, including the software, itself. The company possesses the entire range of process expertise. With this acquisition, KRONES has taken a great step towards covering the critical flows of materials and data along customers' entire value chains. Analysis of the data will enable KRONES to develop new business models and generate even more added value for customers.

KRONES reports SYSTEM LOGISTICS' revenue and earnings under its machines and lines for the beverage production/process technology segment.



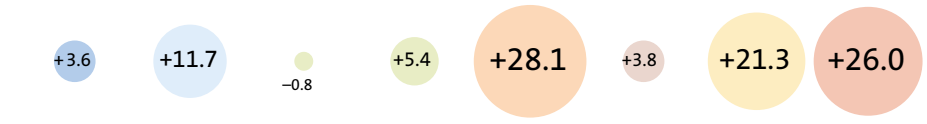
Global consumption of packaged beverages by region – annual growth (%)*

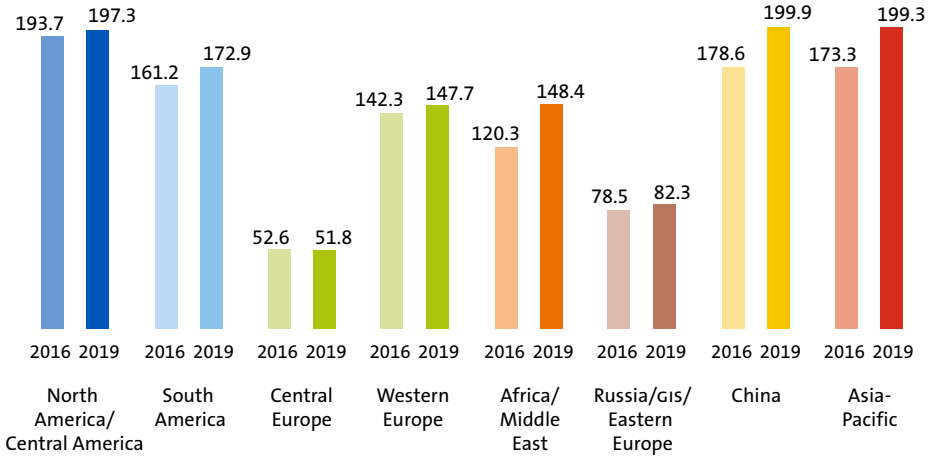


2016 – 2019 (forecast)

Sources: Euromonitor and own estimates

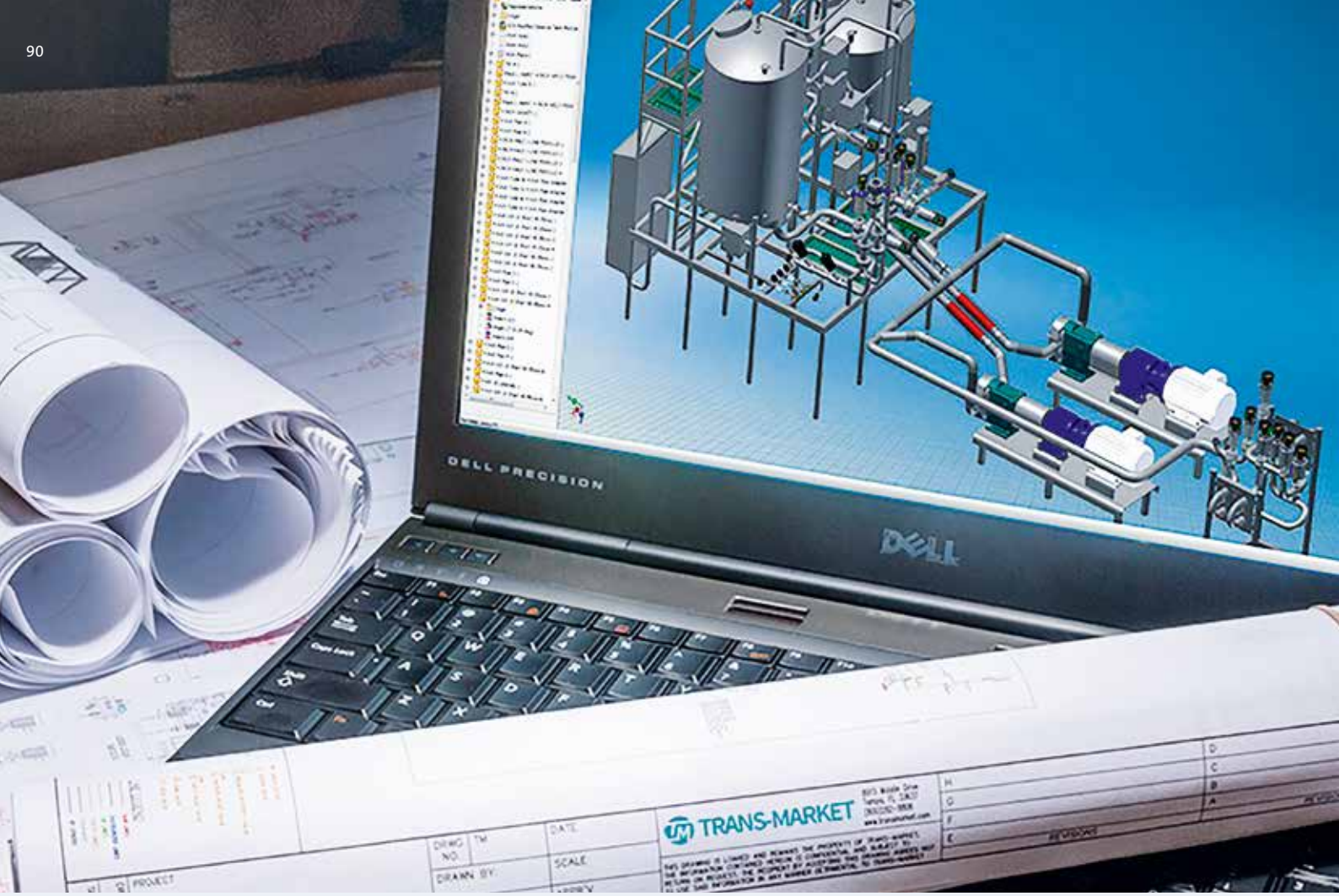
Global consumption of packaged beverages by region (billion litres)*





**Forecast* *= Growth between 2016 and 2019 (billion litres)* *Sources: Euromonitor and own estimates*

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.



TRANS-MARKET – a mainstay for process technology in the United States

Purchased	August 2016
Employees in 2016	61

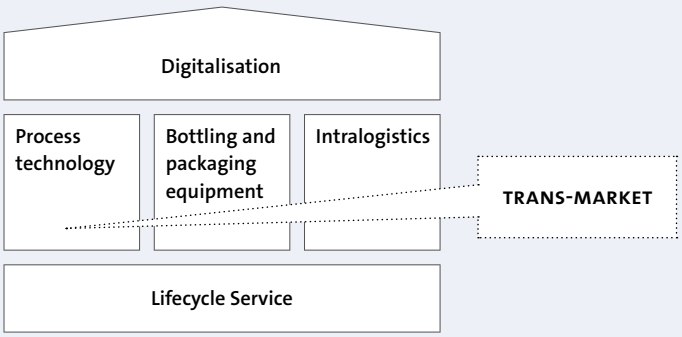
At a glance

TRANS-MARKET SALES & EQUIPMENT INC. is an established leader for process engineering and related services and automation solutions for the food and beverage (liquid food) industry. The Tampa, Florida-based company employed around 60 people at the end of 2016.

KRONES has acquired 80% of the company's business operations. KRONES reports TRANS-MARKET's revenue and earnings under its machines and lines for beverage production/process technology segment.

Strategic role

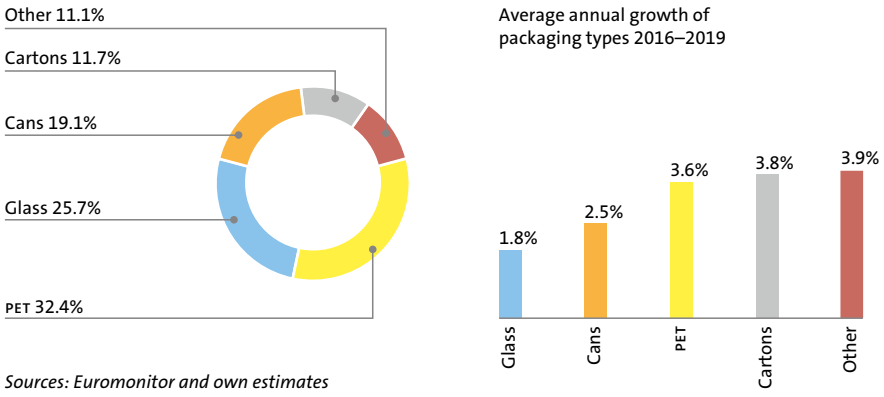
The acquisition is part of KRONES' strategy of expanding local engineering and procurement capacities. By acquiring the majority of TRANS-MARKET's business operations, KRONES has strengthened its process technology business in the USA and increased the group's presence in North America. With TRANS-MARKET, KRONES can now offer North American customers in the liquid food industry a complete, turnkey approach for their plants, from process engineering solutions to filling and packaging technology to logistics systems.



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 in figures

- KRONES increases earnings as forecast, revenue exceeds expectations
- All three segments grow profitably
- KRONES plans to pay out a dividend of €1.55 per share for 2016 (previous year: €1.45)

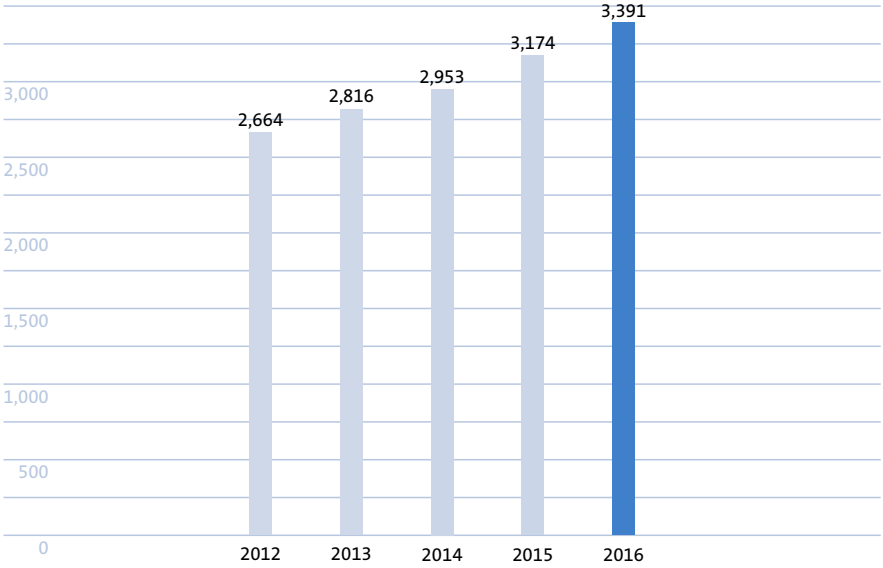
	Forecast 2016	Actual value 2016
Revenue growth	+3%	+6.9%
EBT margin	7.0%	7.0%
ROCE (liabilities side)	18%	17.0%

KRONES' revenue grows 6.9% to €3,391.3 million

KRONES continued its stable growth in 2016. Revenue increased 6.9% year-on-year from €3,173.5 million to €3,391.3 million. The increase is due in part to acquisitions. In 2016, the company purchased a majority stake in SYSTEM LOGISTICS and the majority of business operations of TRANS-MARKET. Adjusted for the acquisitions, revenue growth came to 4.2%. With that, KRONES slightly exceeded its internal growth target of 3% for the year 2016. Our comprehensive range of products and services and our strong international presence continued to support the company's growth. KRONES is very well positioned, not only in the emerging markets but also in the mature industrialised countries.

New machinery and services business both contributed to our revenue growth in 2016. In terms of new machinery, KRONES benefited primarily from the continuing trend towards beverage packaging made of PET plastic. KRONES is the global technology leader in this area. The large installed base of existing machinery as well as our efforts to expand our international service business and the resulting proximity to customers all contributed to increasing our service revenue.

KRONES Group revenue (€ million)

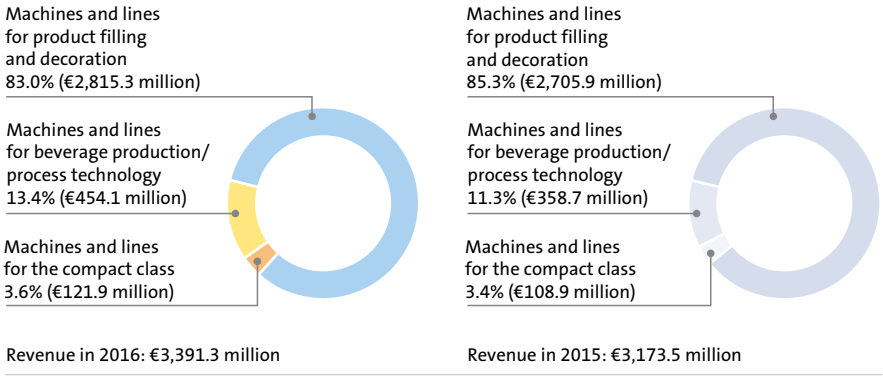


KRONES continued its stable growth in 2016.

Revenue by segment

KRONES' revenue increased in all three segments in 2016.

Share of consolidated revenue



Revenue in our core segment, machines and lines for product filling and decoration, rose 4.0% year-on-year to €2,815.3 million in 2016. The segment's share of consolidated revenue decreased year-on-year, from 85.3% to 83.0%.

Revenue in the machines and lines for beverage production/process technology segment increased 26.6% to €454.1 million, primarily as a result of acquisitions. The segment's share of consolidated revenue was 13.4% (previous year: 11.3%).

Revenue in KRONES' smallest segment, machines and lines for the compact class, grew 11.9% year-on-year to €121.9 million. The segment contributed 3.6% of consolidated sales (previous year: 3.4%).

Further information can be found in the section "Reports from the segments" beginning on page 106 and under "Segment reporting" in the notes to the consolidated financial statements on pages 162 and 163.

KRONES' revenue increases in most regions

KRONES generated 53% of revenue in the emerging markets and 47% in mature markets in the reporting period.

After a strong first half, capital spending on the part of our customers in Germany tapered off over the course of the year 2016. KRONES' domestic revenue was down 7.4% from €382.3 million in the year-earlier period to €354.2 million. It should be borne in mind, though, that domestic revenue had increased by more than one-third in 2015. For that reason, we are satisfied with revenue development in Germany in 2016. Domestic revenue's share of consolidated revenue decreased to 10.4% (previous year: 12.0%).

KRONES' business in Europe (excluding Germany) developed well overall in 2016. After a strong final quarter, revenue in the Western Europe sales region came to €513.5 million for 2016, holding steady at the high year-earlier level (€513.3 million). The company exhibited strong growth in Central Europe (Austria, Switzerland, and the Netherlands). Revenue there rose 40.3% year-on-year to €214.4 million in 2016 on higher business volume. Revenue in Eastern Europe also increased sharply, by 34.1% to €121.4 million, in the reporting period. KRONES benefited primarily from the general economic recovery there. Russia, on the other hand, remained in recession in 2016. That fact is reflected in KRONES' revenue in the Russia/CIS region, which was down 12.0% to €72.3 million.

KRONES Group revenue by region

Share of consolidated revenue	2016		2015		Change.
	€ million	%	€ million	%	%
Germany	354.2	10.4	382.3	12.0	–7.4
Central Europe (excluding Germany)	214.4	6.3	152.8	4.8	+40.3
Western Europe	513.5	15.1	513.3	16.2	0.0
Eastern Europe	121.4	3.6	90.5	2.9	+34.1
Russia, Central Asia (CIS)	72.3	2.1	82.2	2.6	–12.0
Middle East/Africa	570.4	16.8	431.8	13.6	+32.1
Asia-Pacific	402.3	11.9	489.9	15.4	–17.9
China	323.5	9.5	289.1	9.1	+11.9
North and Central America	504.9	15.0	437.5	13.8	+15.4
South America/Mexico	314.4	9.3	304.1	9.6	+3.4
Total	**3,391.3**	**100.0**	**3,173.5**	**100.0**	**+6.9**

Growth in the vast Middle East/Africa sales region, which is very important for KRONES, accelerated in the fourth quarter of 2016. That was partly due to invoice timing. In all, revenue in the region increased by 32.1% from €431.8 million in 2015 to €570.4 million. With that, the Middle East/Africa region had the highest revenue of all regions in 2016. The uptrend also continued in China. Revenue there was up 11.9% to €323.5 million. By contrast, business was slower in the rest of the Asia-Pacific region, declining 17.9% from the 2015 figure to €402.3 million in 2016.

Revenue in the North and Central America region grew 15.4% on the already strong year-earlier figure, to €504.9 million in 2016. Investment in the region had picked up again after several slow years. Revenue in the South America/Mexico sales region stabilised in 2016 despite economic turmoil in several South American countries. That was thanks to strong business in Mexico. Overall, revenue in the South America/Mexico sales region rose slightly, by 3.4% to €314.4 million.

KRONES' revenue remains very well balanced internationally. As in 2015, KRONES generated 53.2% of consolidated revenue in the emerging markets in the reporting period. Similarly, the mature markets (Germany, Western and Central Europe, and North and Central America) once again contributed 46.8% to consolidated revenue.

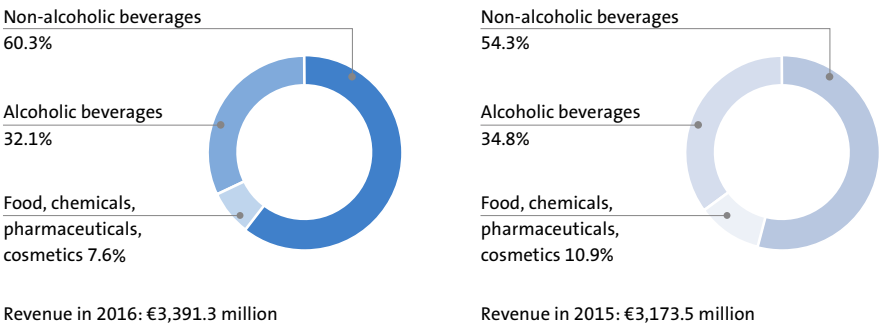
Customers in the beverage industry account for most of KRONES' revenue

Demand for KRONES products and services was high in 2016 among producers of non-alcoholic beverages such as water, soft drinks, and juices. At €2,044.9 million, revenue with this customer group exceeded the previous year's figure of €1,723.6 million by 18.6% in 2016. The group's contribution to consolidated revenue rose from 54.3% in the previous year to 60.3%.

Revenue from business with producers of alcoholic beverages was down slightly, 1.3% year-on-year, from €1,104.1 million to €1,090.2 million in 2016. Producers of alcoholic beverages accounted for a smaller, 32.1% share of consolidated revenue in the reporting period (previous year: 34.8%).

After strong growth in years past, revenue from business with customers in the non-beverage sectors (milk/dairy, food, chemicals, pharmaceuticals, and cosmetics) in 2016 did not match the high year-earlier level. Revenue with this customer group declined 25.9% from €345.8 million in 2015 to €256.1 million in 2016. The non-beverage sector's share of consolidated revenue came to 7.6% (previous year: 10.9%).

KRONES Group revenue by industry



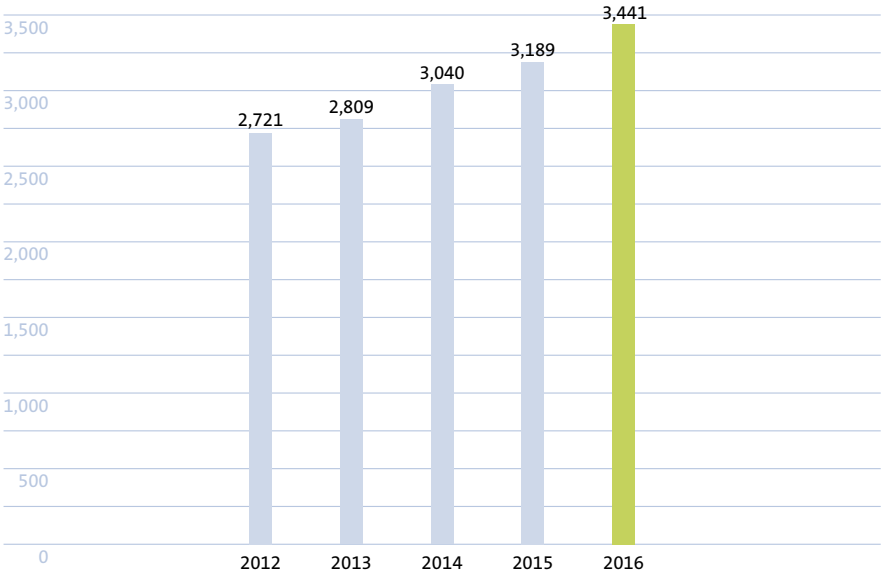
Demand for KRONES products and services grows

The capital spending of our customers in the international food and beverage industry was satisfactory overall in 2016. However, ordering activity fluctuated over the course of the year. After a temporary lull in the second quarter, orders picked up again. All told, order intake at KRONES improved 7.9% year-on-year from €3,189.0 million to €3,441.3 million in 2016.

KRONES' order intake increased 7.9% in 2016, which is more than the increase in revenue.

The highest percentage increase in order intake was in North America and Eastern Europe/CIS. The contract value of new orders in the South America and Europe sales regions also exceeded the year-earlier totals. Orders were down in the Asia, China, and Africa regions.

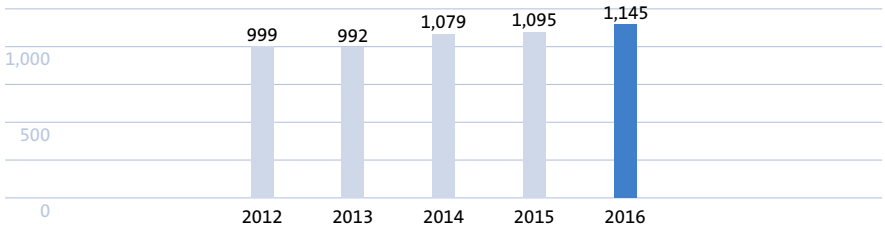
KRONES Group order intake (€ million)



Orders backlog grows to €1.14 billion

The high demand for KRONES products and services is also reflected in our orders backlog. At the end of 2016, the company had orders on hand totalling €1,144.7 million. That is up 4.6% from the previous year's €1,094.6 million. KRONES heads into 2017 with a large orders cushion and a high level of planning security.

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

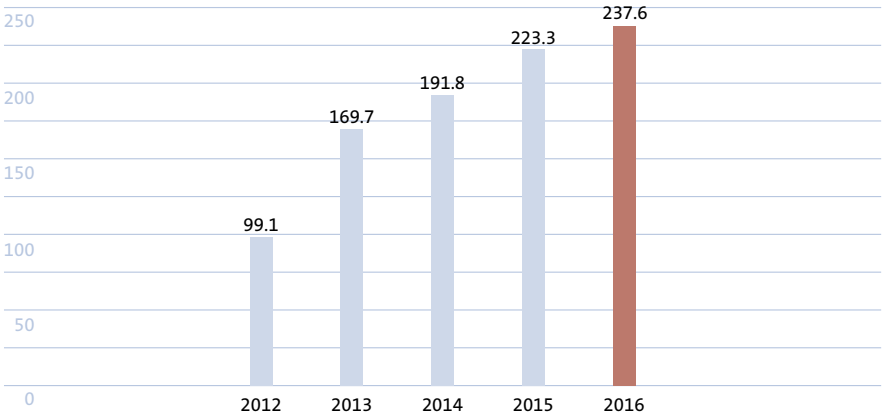


EBT margin stable despite heavy competition

KRONES increased earnings again in 2016 despite the highly competitive markets. Earnings before taxes (EBT) rose 6.4% year-on-year, from €223.3 million to €237.6 million. The EBT margin remained unchanged year-on-year at 7.0%. Thus, KRONES met its EBT margin target for 2016. Market prices provided no support, as expected.

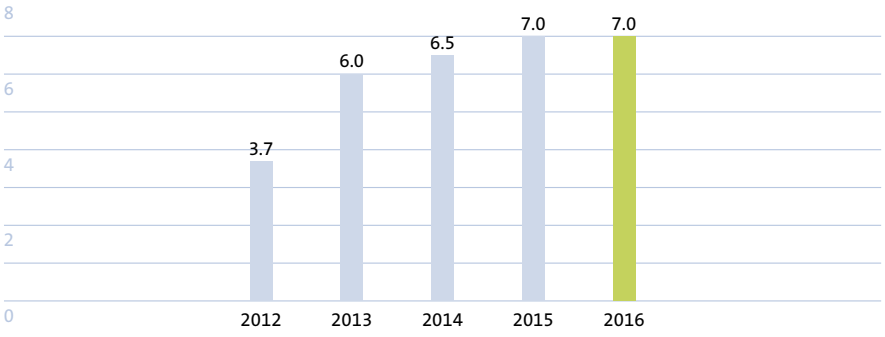
The EBT margin held steady and earnings before taxes hit a new high in 2016.

KRONES Group EBT (€ million)

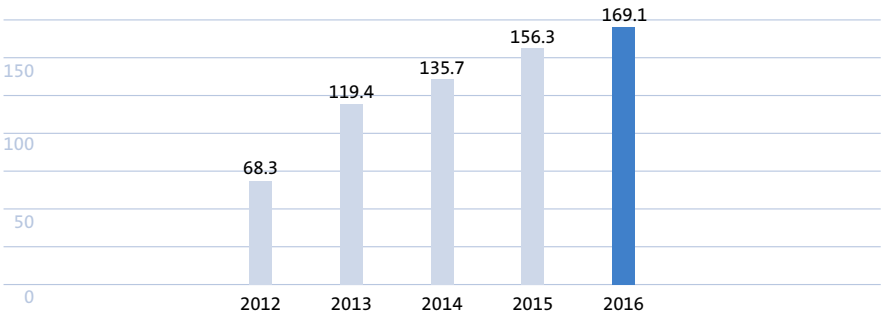


KRONES was able to keep its EBT margin stable in the reporting period, due primarily to effects from the Value strategy programme. Accomplishments under Value in 2016 include a higher degree of modularisation of our machines and lines and savings through local procurement of materials and services. Additional cost savings from Value also contributed to the better earnings.

KRONES Group EBT margin in %

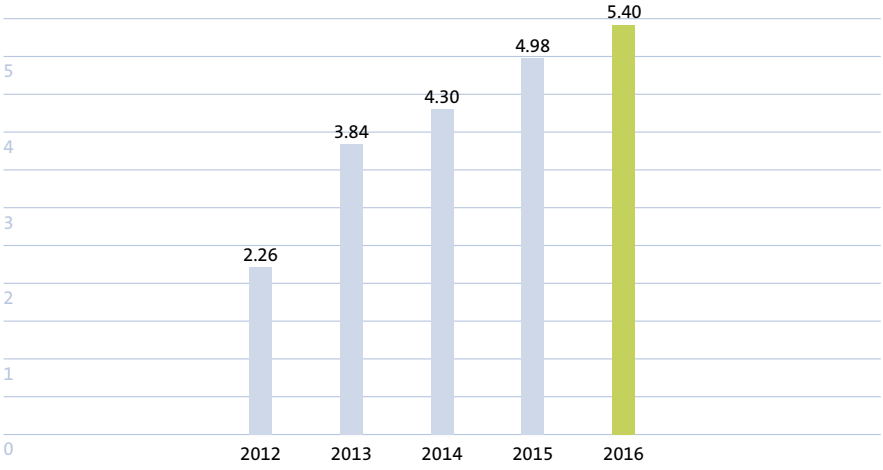


KRONES Group net income (€ million)



Consolidated net income increased 8.2%, from €156.3 million in the previous year to €169.1 million in 2016, slightly more than earnings before taxes. That is because the company's tax rate was lower year-on-year, from 30.0% to 28.8%, due to optimisation measures. Earnings per share improved 8.4% in the reporting period, from €4.98 in the previous year to €5.40.

KRONES Group earnings per share in €



Earnings per share improved to €5.40 in 2016.

KRONES intends to pay out a dividend of €1.55 for 2016

In order to share the company's success with shareholders, KRONES pays out 25% to 30% of consolidated profit in the form of dividends. 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 2016 financial year (previous year: €1.45). The planned payout corresponds to 29.0% of consolidated net income and lies near the upper end of the target corridor.

KRONES Group earnings structure

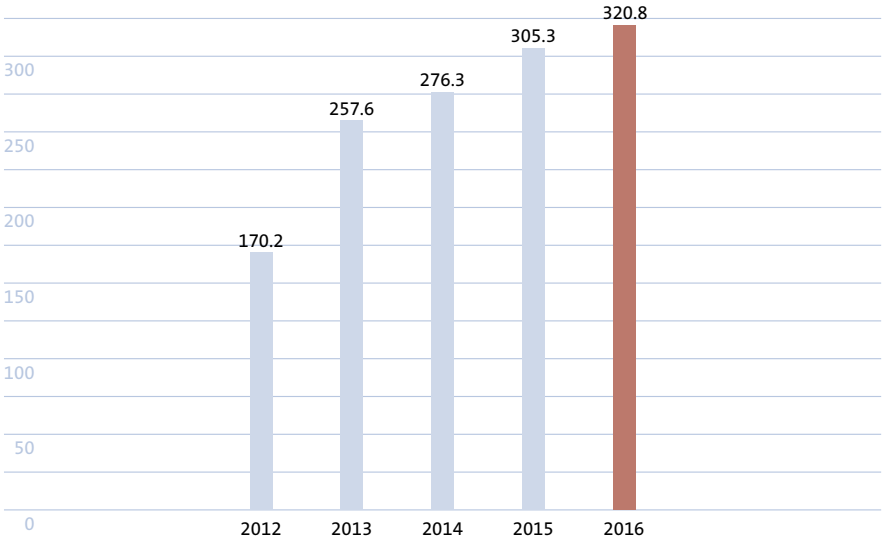
€ million	2016	2015	Change
Revenue	3,391.3	3,173.5	+6.9%
Changes in inventories of finished goods and work in progress	–135.5	+25.6	–
Total operating performance	3,255.8	3,199.1	+1.8%
Goods and services purchased	–1,609.7	–1,589.3	+1.3%
Personnel expenses	–974.3	–919.1	+6.0%
Other operating income (expenses) and own work capitalised	–351.0	–385.4	–8.9%
EBITDA	320.8	305.3	+5.1%
Depreciation and amortisation on fixed assets	–92.8	–88.4	+5.0%
EBIT	228.0	216.9	+5.1%
Financial income/expense	+9.6	+6.4	+49.3%
EBT	237.6	223.3	+6.4%
Income tax	–68.5	–67.0	+2.1%
Consolidated net income	169.1	156.3	+8.2%

For more information, please refer to the complete income statement on page 156.

KRONES increased total operating performance by 1.8% year-on-year to €3,255.8 million in 2016. Total operating performance was up less sharply than revenue (6.9%) because inventories of finished goods and work in progress were reduced by €135.5 million (previous year: increased by €25.6 million) due to periods of lower capacity utilisation over the course of the year.

The company kept earnings performance stable as forecast despite increased costs for personnel and purchased goods. Implementation of the Value strategy programme contributed a large part of this. For example, expenses for goods and services purchased increased by only 1.3% to €1,609.7 million, slightly less than proportionately to total operating performance. That was partly due to effects from our modularisation efforts. The ratio of goods and services purchased to total operating performance declined from 49.7% to 49.4%.

KRONES Group EBITDA (in € million)



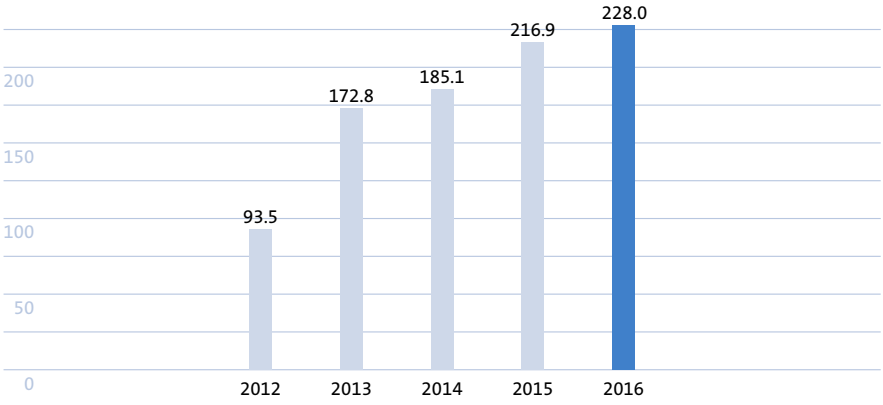
Personnel expenses, the second-largest cost item, rose 6.0% year-on-year to €974.3 million in the reporting period. The ratio of personnel expenses to total operating performance increased from 28.7% in the previous year to 29.9%. The disproportionate increase in personnel expenses can be attributed to higher pay rates as a result of collective bargaining and to the high rate of workforce growth within the group (8.0%), some of which was due to acquisitions.

The net of other operating income and expenses and own work capitalised contributed significantly to the positive earnings trend. It changed by 8.9% from –€385.4 million in the previous year to –€351.0 million in 2016. The main reason for the improvement was the fact that other operating expenses (€30.9 million) were significantly lower thanks to savings under the Value strategy programme while other operating income was largely unchanged.

As an intermediate figure, EBITDA was up 5.1% to €320.8 million. After deducting depreciation and amortisation of €92.8 million (previous year: €88.4 million), EBIT comes to €228.0 million (+5.1%). Higher income from investments and improved interest income yielded financial income of €9.6 million, which is higher than in the previous year (€6.4 million). As a result, earnings before taxes (EBT) increased 6.4% to €237.6 million and the EBT margin came to 7.0%, as in the previous year. Because KRONES' tax rate decreased from 30.0% in the previous year to 28.8% in 2016, consolidated net income increased 8.2% to €169.1 million (previous year: €156.3 million).

Measures taken under the Value strategy programme enabled KRONES to offset higher costs of goods and services purchased and personnel expenses in 2016. Earnings performance was stable as forecast.

KRONES Group EBIT (€ million)



Consolidated cash flow

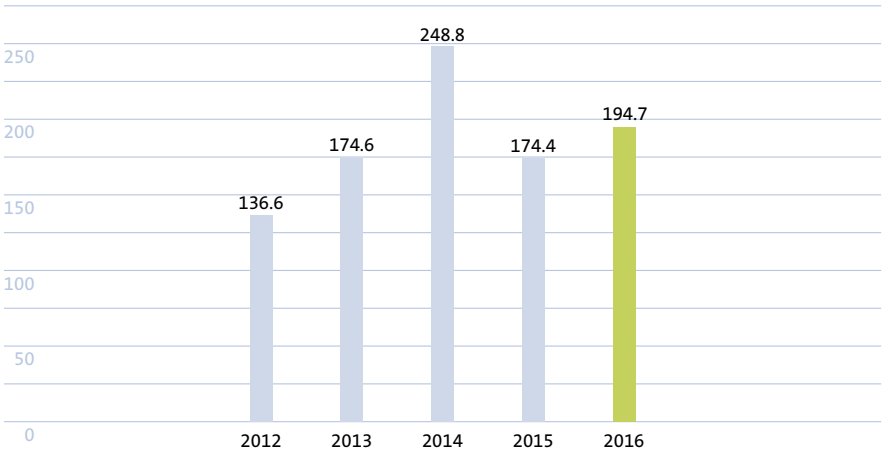
€ million	2016	2015
Earnings before taxes	**237.6**	**223.3**
Other non-cash expenses and income	+158.6	+91.5
Changes in working capital	–96.4	–42.2
Changes in other assets and liabilities	–105.1	–98.1
Cash flow from operating activities	**194.7**	**174.4**
Capital expenditure for intangible assets and property, plant and equipment	–111.3	–102,6
Other	–34.2	–1.1
Free cash flow	**49.2**	**70.7**
Cash flow from financing activities	–45.8	–39.5
Other	+0.9	–3.0
Net change in cash and cash equivalents	**+4.3**	**+28.2**
Cash and cash equivalents at the end of the period	**368.9**	**364.6**

For more information, please refer to the complete statement of cash flow on page 160.

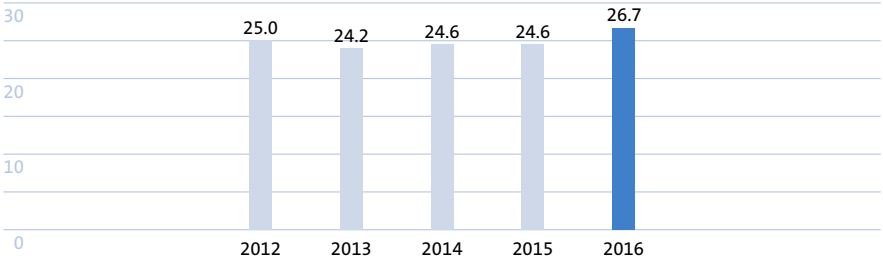
KRONES increased cash flow from operating activities from €174.4 million the previous year to €194.7 million in the reporting period. Besides the better earnings before taxes, higher non-cash income and expenses also contributed to the improvement. Non-cash income and expenses rose from €91.5 million in the previous year to €158.6 million. The larger year-on-year increase in working capital in turn reduced cash flow from operating activities by €96.4 million in 2016 (previous year: by €42.2 million). The ratio of average working capital for the past four quarters to revenue rose from 24.6% to 26.7%. This figure will replace ROCE as our third major financial performance indicator in 2017 and will therefore take on greater importance. We intend to keep this target at 27% this year by way of more intensive working capital management.

KRONES improved cash flow from operating activities from €174.4 million in the previous year to €194.7 million in 2016.

KRONES Group cash flow from operating activities (€ million)

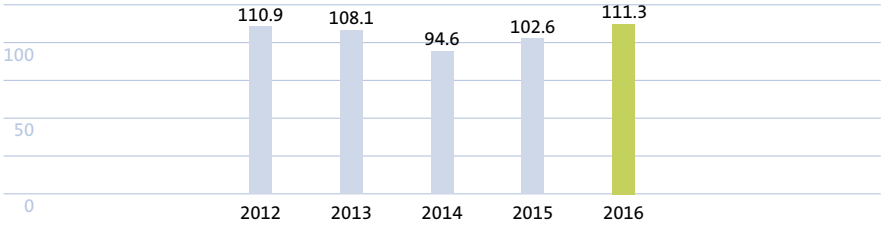


KRONES Group working capital to revenue (%, average over 4 quarters)

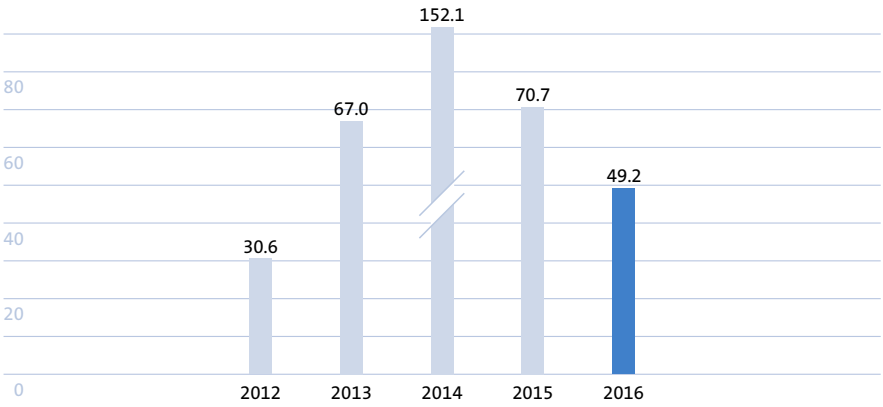


Last year, KRONES spent €111.3 million on property, plant and equipment and intangible assets (previous year: €102.6 million). The company invested heavily in information technology and new production facilities in the reporting period. The ratio of capital expenditure to depreciation and amortisation increased from 1.16 in the previous year to 1.20. In addition, €39.7 million in our own resources went into the acquisition of shares in affiliated companies in the reporting period (previous year: €12.1 million). Capital expenditure in the individual segments is presented in the report from the segments on pages 162 to 163. At €49.2 million, KRONES' free cash flow (net cash generated from operating activities) was down from the year-earlier figure of €70.7 million.

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

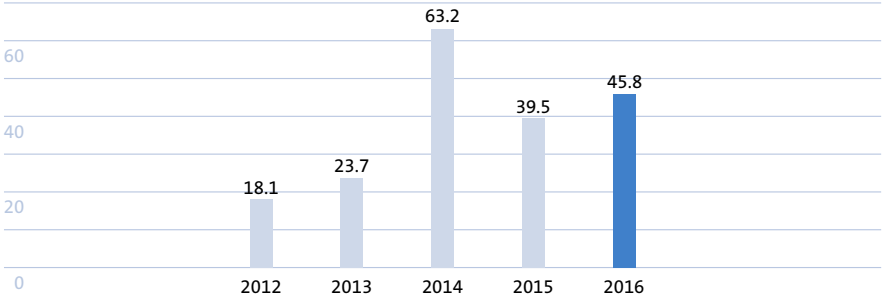


KRONES Group free cash flow (€ million)



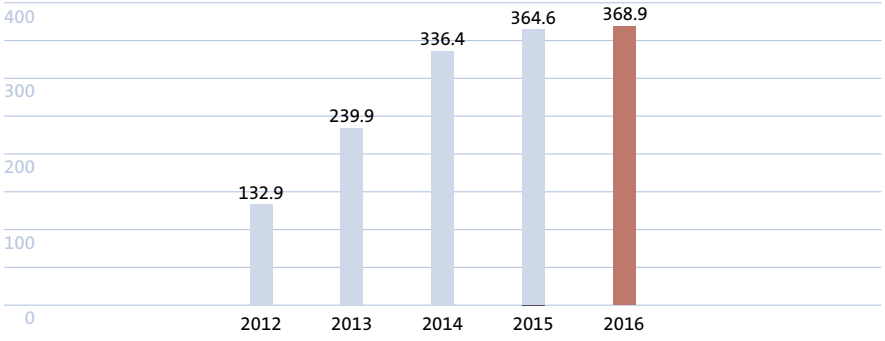
Free cash flow decreased from €70.7 million to €49.2 million in 2016 because of the purchase of shares in two companies, SYSTEM LOGISTICS and TRANS-MARKET.

KRONES Group dividend payout (€ million)



As in the previous year, cash flow from financing activities reflects only the dividend payout. In 2016, the company paid out €45.8 million to shareholders, after €39.5 million in 2015. As a result, cash flow from financing activities was correspondingly higher in the reporting period. Changes arising from exchange rates increased cash and cash equivalents by €0.9 million in 2016 due to developments in the exchange rates of local currencies at our subsidiaries (previous year: –€3.0 million). In all, KRONES' cash and cash equivalents increased by €4.3 million in 2016, from €364.6 million in the previous year to €368.9 million.

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



Assets and capital structure

€ million at 31 December	2016	2015	2014
Non-current assets	799	697	672
of which fixed assets	725	646	624
Current assets	2,272	2,010	1,756
of which cash and equivalents	369	365	336
Equity	1,226	1,111	989
Total debt	1,845	1,596	1,439
Non-current liabilities	308	278	275
Current liabilities	1,537	1,318	1,164
Total	**3,071**	**2,707**	**2,428**

For more information, please refer to the complete statement of financial position on pages 158 and 159.

At 31 December 2016, KRONES' total assets had grown 13.5% compared with the end of 2015, to 3,070.8 million, primarily due to acquisitions and higher working capital.

The company's non-current assets came to €798.5 million at the end of 2016, up 14.5% on the previous year (€697.3 million). Fixed assets were up 12.3% to €725.5 million (previous year: €646.2 million). Property, plant and equipment, virtually unchanged from the previous year, accounted for €481.3 million of fixed assets at 31 December 2016. KRONES' intangible assets, which consist primarily of development costs that must be capitalised, increased from €163.2 million in the previous year to €238.3 million. The intangible assets resulting from the acquisition of SYSTEM LOGISTICS and TRANS-MARKET accounted for much of this sharp increase.

A comfortable liquidity cushion, no bank debt, and a sound equity position give KRONES sufficient financial leeway for further investment.

At the end of 2016, the company had current assets totalling €2,272.3 million. That is up 13.1% or €262.9 million over the end of 2015. The main reason for the significant increase was that trade receivables grew by €240.1 million to €1,036.9 million in the reporting period, partly as a result of higher business volume. Inventories rose only 0.5% to €728.4 million. The year-on-year increase in cash and cash equivalents was also slight, €4.3 million to €368.9 million.

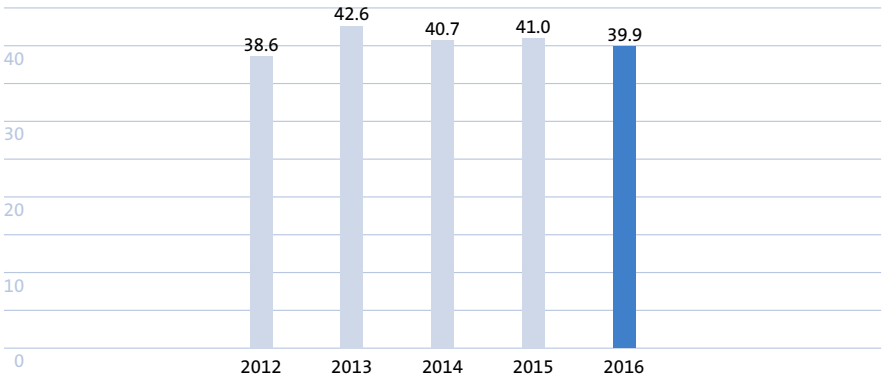
On the liabilities side, KRONES' non-current liabilities were up in the reporting period, to €308.0 million (31 December 2015: €278.5 million). Higher provisions for pensions were the main factor here. They increased from €196.9 million to €219.1 million. KRONES had no non-current bank debt at the end of 2016.

Current liabilities rose from €1,317.4 million in 2015 to €1,537.3 million in the reporting period. Contributing factors were higher advances received and higher trade payables. Each of these items increased by around €70 million. KRONES had no current bank debt at the end of 2016. In all, KRONES had net cash and cash equivalents (cash and cash equivalents less bank debt) totalling €368.9 million at the end of the reporting period for 2016 (previous year: €364.6 million). In addition, the group has around €263 million in unused lines of credit.

A backup facility of €250 million is also available. That further strengthens the main objectives of our financial management – ensuring KRONES' strong financial footing and independence.

Due to the positive consolidated net income, equity increased from €1,110.7 million to €1,225.5 million in 2016. Nevertheless, because of the sharp increase in total assets, the equity ratio came to 39.9% at the end of 2016, slightly below the year-earlier figure of 41.0%. Overall, KRONES continues to possess an exceptionally robust financial and capital structure.

KRONES Group equity ratio (%)

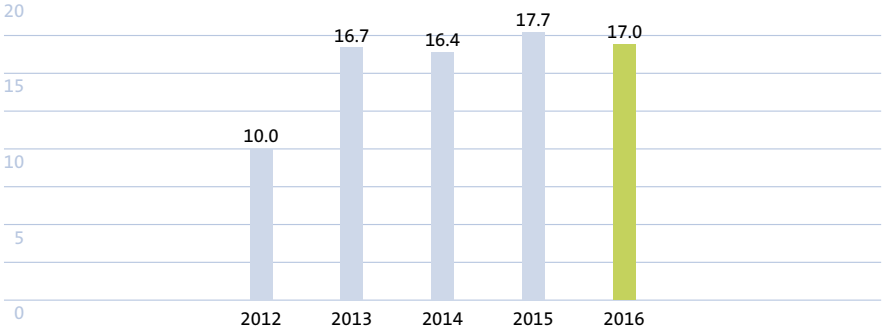


ROCE down from 17.7% to 17.0%

KRONES' return on capital employed (ROCE), the ratio of EBIT to average net capital employed, decreased from 17.7% in the previous year to 17.0% in the reporting period. With that, KRONES did not achieve its ROCE target of 18% for 2016. The reason is that the increase in capital employed was higher than the increase in EBIT. Beginning in 2017, the ratio of working capital to revenue will replace ROCE as one of our key financial performance indicators.

With ROCE at 17.0%, KRONES did not meet its 18% target for this indicator in 2016.

KRONES Group ROCE (%)



Report from the segments

Machines and lines for product filling and decoration

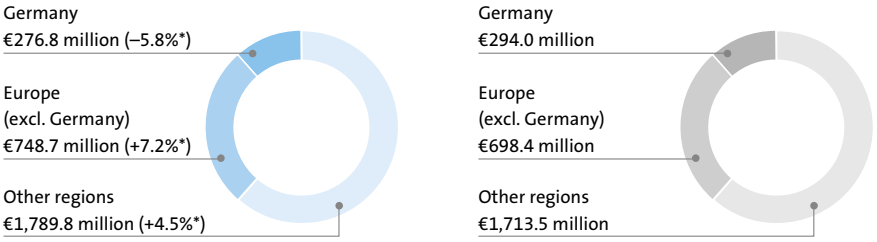
Segment revenue

Revenue in KRONES' core segment, machines and lines for product filling and decoration, rose 4.0% year-on-year, from €2,705.9 million to €2,815.3 million in 2016. That is slightly more than expected (forecast: +3%). KRONES benefited from high demand for individual machines as well as complete turnkey bottling and packaging lines. Rising service revenue also contributed to this growth. The segment's share of consolidated revenue decreased year-on-year, from 85.3% to 83.0% in 2016.

Revenue in the core segment increased slightly more than forecast in 2016.

Photo right:
Machines for applying labels to bottles are part of the machines and lines for product filling and decoration segment.

Segment revenue by region



Revenue in 2016: €2,815.3 million

Revenue in 2015: €2,705.9 million

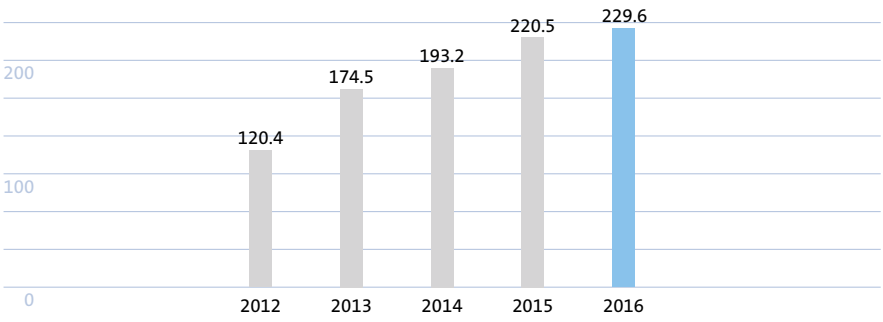
* Percentage change on previous year

Segment earnings

Although the price environment was unchanged overall and personnel expenses were higher, the core segment's profitability more or less maintained its high year-earlier level in 2016. Earnings before taxes (EBT) rose 4.1% year-on-year, from €220.5 million to €229.6 million. The EBT margin improved slightly from 8.1% in the previous year to 8.2%. That reflects the successful measures taken under the Value strategy programme. Additional cost reductions in the reporting period also had a positive impact on the core segment's performance.

The segment was slightly more profitable despite the intensely competitive markets.

Segment EBT (€ million)



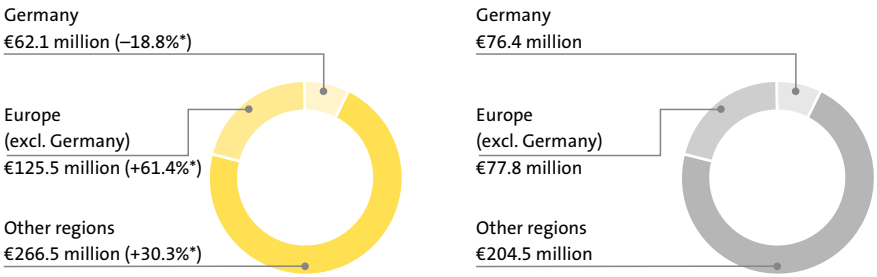
Segment revenue

In 2016, the company purchased a majority stake in SYSTEM LOGISTICS and the majority of business operations of TRANS-MARKET. As a result of first-time accounting of the acquisitions, revenue in the machines and lines for beverage production/process technology segment increased 26.6% year-on-year from €358.7 million to €454.1 million. Adjusted for the acquisitions, revenue was up 2.9%. With that, the segment did not meet its target for internal growth of around 10%. That is because some projects were deferred. The segment's share of consolidated revenue grew from 11.3% in the previous year to 13.4%.

KRONES expanded the segment through acquisitions in the reporting period.

Photo right: Fermentation and conditioning tanks are part of KRONES' broad range of process technology products for breweries

Segment revenue by region



Revenue in 2016: €454.1 million

Revenue in 2015: €358.7 million

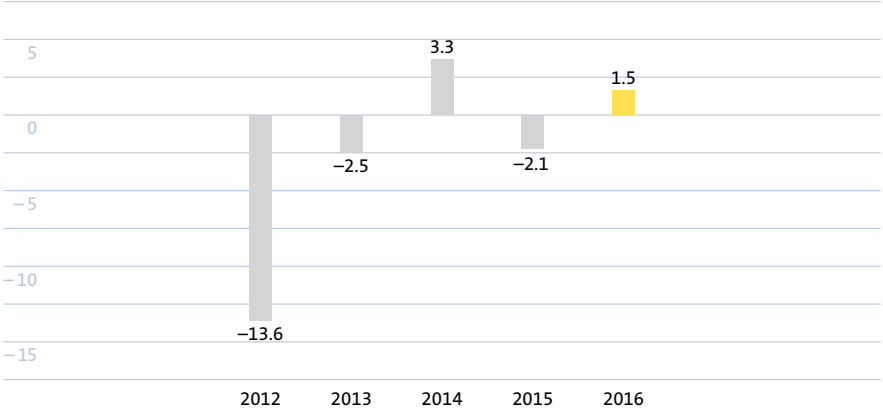
* Percentage change on previous year

Segment earnings

As forecast, the segment was back in the black in 2016. Earnings before taxes (EBT) improved from –€2.1 million in the previous year to +€1.5 million. The acquisitions made a positive contribution to the EBT margin. In all, with an EBT margin of 0.3%, the segment's profitability did not develop quite as well as expected (forecast: around 1%). Insufficient revenue was one reason for that. In 2016, KRONES stepped up implementation of a raft of measures aimed at increasing the segment's profitability for the long term.

After posting a loss in the previous year, the process technology segment was back in the black in 2016.

Segment EBT (€ million)



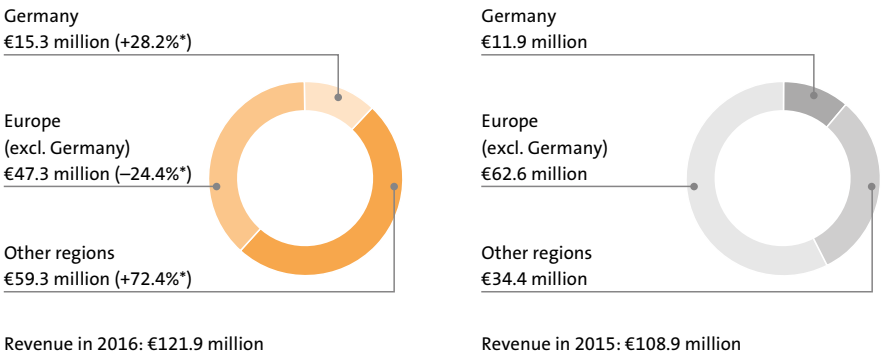
Segment revenue

KRONES' smallest segment, machines and lines for the compact class, covers the needs of customers with smaller-scale operations through the subsidiaries GERNEP and KOSME. Overall, segment revenue developed better than expected, increasing 11.9% year-on-year from €108.9 million to €121.9 million in 2016. Revenue growth outside Europe was considerably higher than overall revenue growth. The segment contributed 3.6% of consolidated sales in 2016 (previous year: 3.4%).

Revenue in the machines and lines for the compact class segment increased 11.9% in 2016.

Photo right:
Filling lines for smaller-scale operations are part of our "compact class" portfolio.

Segment revenue by region



Revenue in 2016: €121.9 million

Revenue in 2015: €108.9 million

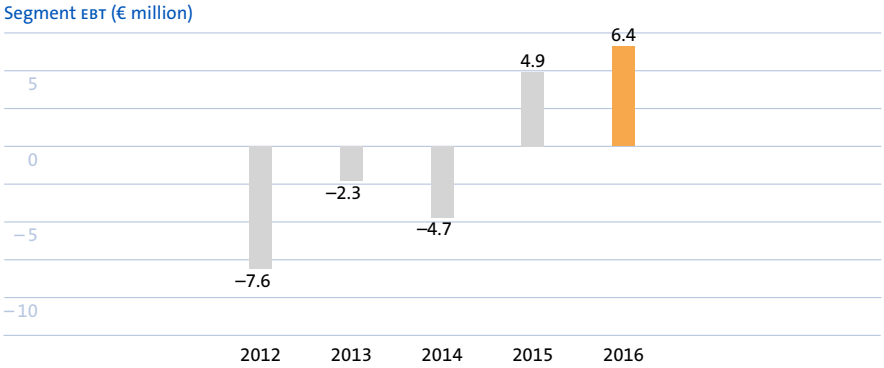
* Percentage change on previous year

Segment earnings

The segment's EBT margin more or less held steady in 2016, thanks primarily to revenue growth and resulting economies of scale. The successful restructuring of KOSME Italy also had a positive effect on earnings. Earnings before taxes (EBT) rose from €4.9 million in 2015 to €6.4 million. Both GERNEP and KOSME contributed to the increase in earnings. The EBT margin rose from 4.5% a year earlier to 5.2% in 2016.

The segment's EBT margin was more or less stable.

Segment EBT (€ million)



Overall assessment of economic position

At the time this Annual Report went to press, the Executive Board finds that KRONES' economic position is favourable overall. KRONES performed well in highly competitive markets in 2016 and continued its stable growth. The company benefited from its broad international diversification and its entire portfolio of products and services. Thanks to the successful implementation of the Value strategy programme and additional cost savings, KRONES' profitability remained stable without any support from market prices.

The company's revenue grew 6.9% in the reporting period. Acquisitions contributed part of the group's €3,391.3 million in consolidated revenue in 2016 (previous year: €3,173.5 million). Adjusted for the acquisitions, revenue was up 4.2%. That exceeds KRONES' 3% target for internal growth for 2016. Because of the acquisitions in the reporting period, the machines and lines for beverage production/process technology segment had the highest revenue growth rate, 26.6%. Revenue and earnings both increased in all three segments. In all, earnings before taxes (EBT) rose 6.4% year-on-year, from €223.3 million to €237.6 million in 2016. The EBT margin remained stable at the year-earlier figure of 7.0%. Thus, KRONES has met its margin target for 2016.

Strong earnings development made for a good return on capital employed (ROCE). Nevertheless, the ratio of EBIT to average capital employed did decrease slightly year-on-year, from 17.7% to 17.0% in the reporting period. Thus, we did not achieve our ROCE target of 18% for 2016. KRONES' financial and capital structure remains very sound. At the end of 2016, the company had no bank debt and had cash and cash equivalents totalling €368.9 million. The equity ratio was 39.9%. Our comfortable liquidity cushion and sound equity position give KRONES a high level of financial flexibility. Overall, the company has a solid basis from which to continue to grow profitably.

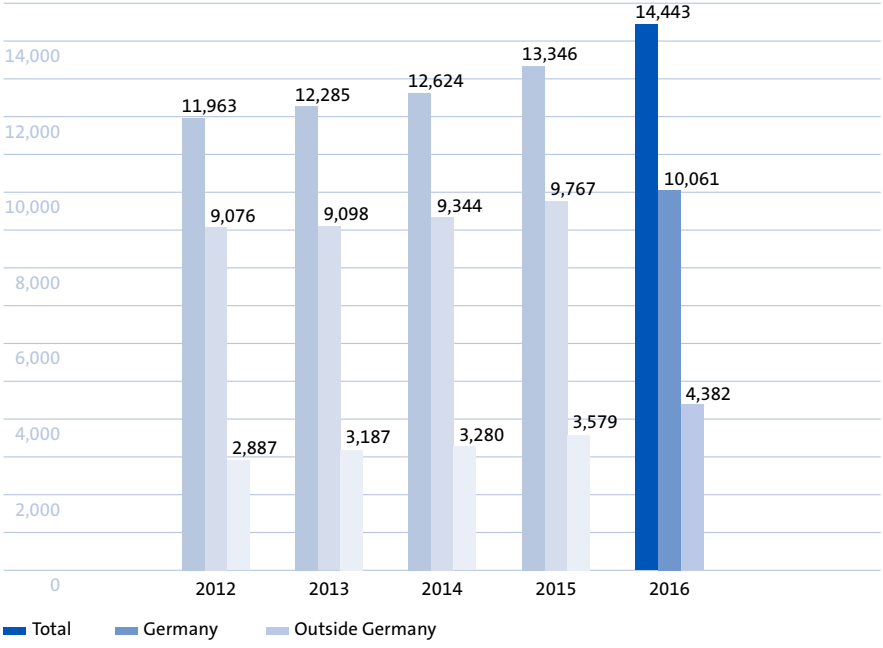

SCORE
THE ENERGY DRINK

Workforce grows by 8.2% worldwide in 2016

In order to leverage our markets' potential for growth, we are growing our workforce internationally, especially in our customers' locales. At the end of 2016, the company employed 14,443 people worldwide, 1,097 employees or 8.2% more than in the previous year. The company's workforce in Germany grew from 9,767 to 10,061. The company expanded its workforce outside Germany by 803 to 4,382 people. Of these, 448 came to the company by way of the acquisition of SYSTEM LOGISTICS and TRANS-MARKET in the reporting period. The share of employees outside Germany rose from 26.8% to 30.3% at the end of the reporting period.

KRONES grew its workforce in Germany and abroad in 2016. The share of employees outside Germany was up from 26.8% to 30.3%.

Employees by region



The company intends to continue to grow its team more in the emerging markets, where KRONES has for years generated more than half of consolidated revenue, than overall. For this purpose, KRONES added 205 new employees in the emerging markets, for an increase of 10.3% to 2,200 people in the reporting period.

KRONES expanded its workforce in the emerging markets by 10.3% to 2,200 people in 2016.

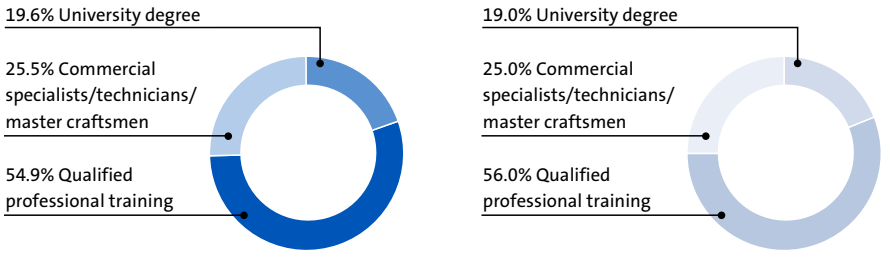
Employees in the emerging markets 2012–2016

Year	South America	Africa	Asia	CIS/ Eastern Europe	China	**Total**
2012	438	285	293	121	298	**1,435**
2013	485	339	400	132	325	**1,681**
2014	501	363	453	136	385	**1,838**
2015	519	376	502	147	451	**1,995**
2016	549	386	602	155	508	**2,200**

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 worldwide, strengthening not only their subject-matter expertise but also more general skills.

In the emerging markets, where employee turnover rates are generally higher, KRONES intends to employ suitable measures to build a greater sense of loyalty among employees. For example, we are training our own talent on-site in Nairobi, Kenya, and Wuhan, China. In 2016, we also launched a trainee programme at our site in Taicang, China, in order to foster long-term loyalty to KRONES among university graduates there.

Employee qualifications in Germany

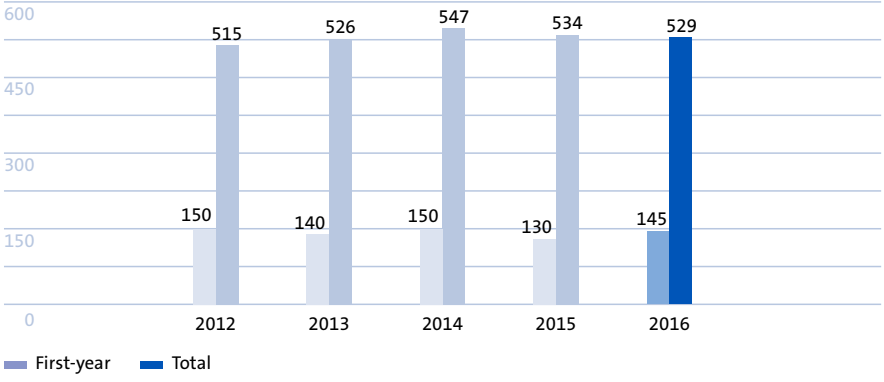


KRONES grows its own talent

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

Recruiting qualified young people is an important objective of KRONES' human resources policy, to counter the effects of demographic change (population ageing) in the industrialised countries. 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 529 young people in more than 20 different fields in Germany at the end of 2016.

Apprentices (total and first-year) within the KRONES Group in Germany

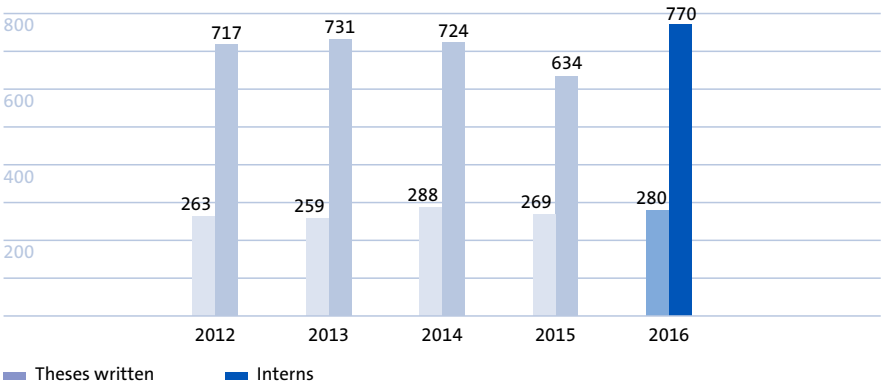


Of these, 76 were completing a dual course of vocational training and university study. Under the programme known as "Profil 21", 105 employees are earning both a trade proficiency certificate ("Facharbeiterbrief") and a title of state-certified service technician. We permanently hired 124 trainees and 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 students in a wide range of disciplines internships and thesis-writing opportunities. 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.

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

Interns and theses at KRONES



More information on our labour practices can be found 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. Because they share the same sales and procurement markets, the same risks and opportunities also apply to all three of the KRONES Group's operating segments.

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. Therefore, we conduct a profitability analysis of all of our quotes prior to order acceptance. For orders that exceed a specified volume, we also conduct a multi-dimensional risk analysis. Apart from profitability, we also individually record and evaluate financing risks, technological risks, and 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 within the KRONES Group. Regular comprehensive reports from the individual business units keep the Executive Board and other decision-makers apprised of all possible risks and deviations from the company's planning and forecasts 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:

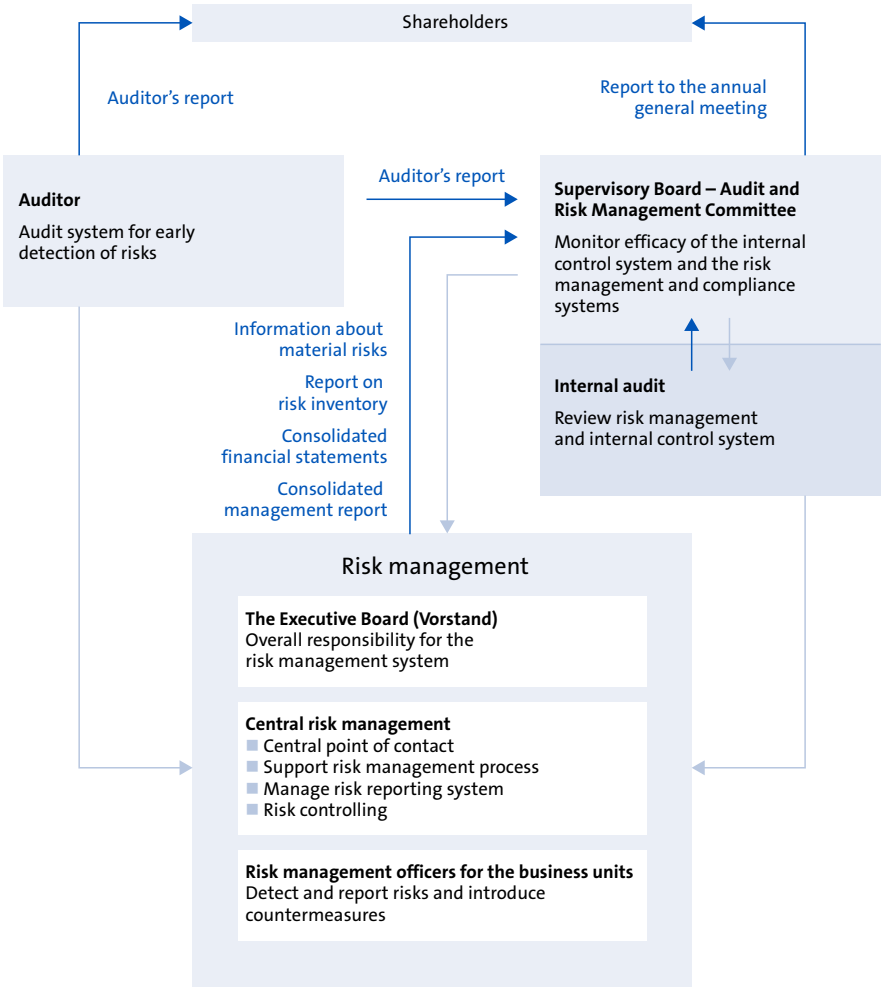
- Annual planning
- Medium-term planning
- Strategic planning
- Rolling forecasts
- Monthly and quarterly reports
- Capital expenditure planning
- Production planning
- Capacity planning
- Project controlling
- Accounts receivable management
- Exchange rate hedges
- Insurance policies

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

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

The KRONES Group has a clear management and corporate structure. Key duties that reach across various units are centrally managed.

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

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. Our description below of these risks and suitable actions is in keeping with the disclosure requirements under IFRS 7 on the reporting of risks relating to financial instruments. 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.

€ thousand	Carrying amount	Of which not overdue at the reporting date	Of which overdue by the following number of days at the reporting date			
			up to 90 days	between 90 and 180 days	between 180 and 360 days	more than 360 days
31 Dec 2016						
Trade receivables	1,081,003	833,327	138,817	26,304	46,415	36,140
31 Dec 2015						
Trade receivables	820,612	582,286	136,757	49,895	25,766	25,908

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. More on this topic is in the notes to the consolidated financial statements.

1.3 Other financial assets

The maximum credit risk position arising from other financial assets corresponds to the carrying amount of these instruments. KRONES is not 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. Apart from cash on hand, KRONES' cash and cash equivalents consist primarily of demand deposits. The following overview of maturities shows how the undiscounted cash flows relating to liabilities as of 31 December 2016 influence the company's liquidity situation.

€ thousand	Carrying amount at 31 Dec 2016	Cash flow for 2017		Cash flow for 2018–2021		Cash flow for 2021 or later	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Derivative financial instruments	9,612	0	9,513	0	99	0	0
Liabilities to banks	0	0	0	0	0	0	0
Liabilities from leases	283	15	117	11	166	0	0
Discounted trade bills	63,011	0	56,032	0	6,979	0	0
Other financial liabilities	32,157	0	10,527	123	21,630	0	0
	105,063	**15**	**76,189**	**134**	**28,874**	**0**	**0**

€ thousand	Carrying amount at 31 Dec 2015	Cash flow for 2016		Cash flow for 2017–2020		Cash flow for 2020 or later	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Derivative financial instruments	2,540	0	2,540	0	0	0	0
Liabilities to banks	0	0	0	0	0	0	0
Liabilities from leases	367	17	107	22	260	0	0
Discounted trade bills	68,916	0	56,325	0	12,591	0	0
Other financial liabilities	18,088	0	16,712	153	1,376	0	0
	89,911	**17**	**75,684**	**175**	**14,227**	**0**	**0**

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 or the relevant functional currency.

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

€ thousand	Currency USD	Currency CAD	Currency AUD	Currency GBP
Cash and cash equivalents	386	154	0	0
Trade receivables	1,316	3,360	0	84
Other financial receivables	393	35	717	20
Derivatives at positive market values	0	0	0	170
Loans	0	0	0	0
Total assets	**2,095**	**3,549**	**717**	**274**
Liabilities				
Trade payables	–5,585	–1	0	–17
Due to banks	0	0	0	0
From finance leases	0	0	0	0
Other liabilities	–5,561	–1,050	–200	0
Derivatives at negative market values	–8,953	–486	–220	0
Financial liabilities at amortised cost	0	0	0	0
Total liabilities	**–20,099**	**–1,537**	**–420**	**–17**
Balance of assets and liabilities	**–18,004**	**2,012**	**297**	**257**
Items hedged through derivatives	**0**	**0**	**0**	**0**
Net exposure at 31 Dec 2016	**–18,004**	**2,012**	**297**	**257**

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

€ thousand	Currency USD	Currency CAD	Currency AUD	Currency GBP
Separate income statement	–3,075	–545	–1,001	29
Group equity	8,340	–328	–178	444

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.

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 company is accounted for using the equity method. The transaction is subject to approval by antitrust authorities.

In February 2017, KRONES Inc. of Franklin, USA, acquired a 100% equity interest in PROCESS AND DATA AUTOMATION INC. based in Erie, USA. The company generates approximately €5 million in revenue and employs around 40 people.

- Global economic growth to accelerate in 2017
- General economic environment is good for KRONES overall
- KRONES forecasts revenue and earnings growth for 2017

IMF expects global growth of 3.4% in 2017

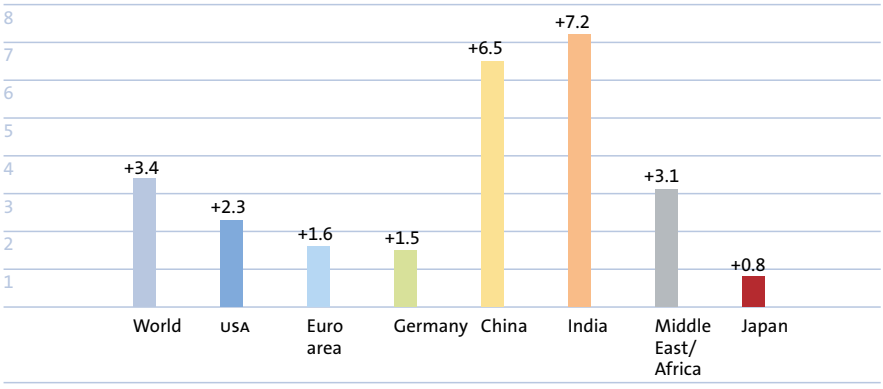
The International Monetary Fund (IMF) updated its forecasts for world economic growth in January 2017. It now expects growth in both the advanced economies and the emerging markets and developing economies to be stronger this year than it was in 2016. In all, the IMF is forecasting global growth of 3.4% 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 pick up 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

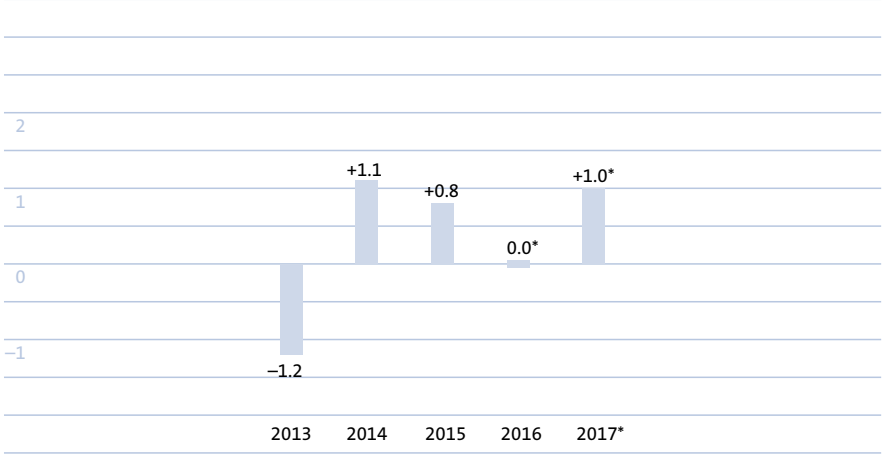
Consumer spending is a key factor determining the propensity of KRONES customers to invest and, consequently, the level of demand for beverage filling and packaging equipment. Low unemployment and low inflation rates have a positive effect on consumer's buying power and therefore support demand for packaged 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 markets. 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 improve earnings and revenue in all three segments 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 and increase earnings before taxes in all three segments 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 segment, 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.

KRONES is projecting slightly lower-than-average revenue growth of 3% in 2017 for our core segment because we are intentionally forgoing low-margin orders. The EBT margin should once again be around 8%.

In our "process technology" segment, 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 the segment's profitability and growth for the long term. With our ownership of the majority of the business operations of TRANS-MARKET, we will complete significantly more projects in North America in 2017.

The process technology segment is expected to make a sustainable return to profitability in 2017.

This year, we intend to seize upon the considerable growth opportunities in intralogistics, which are also part of the process technology segment. 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.

In all, we are forecasting revenue growth of around 10% and an EBT margin of 2% to 3% for the process technology segment for 2017.

In our smallest segment, machines and lines for the compact class, which bundles the activities of KOSME and GERNEP, we intend to continue to benefit from strong demand for machines and lines designed for lower outputs. We expect around 5% revenue growth and an EBT margin of at least 5% this year.

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

The company's profitability should remain stable this year. KRONES expects to achieve an EBT margin of 7.0% in 2017. Our forecast for our third financial performance target, working capital to revenue, is 27% for the current financial year. Our medium-term target for this new indicator is 22%.

	Forecast for 2017*	Actual value 2016
Revenue growth	+4%	+6.9%
EBT margin	7.0%	7.0%
Working capital to revenue	27%	26.7%

* Excluding acquisitions

KRONES intends to increase revenue and keep the EBT margin stable in 2017.

Disclosures required under Sections 315 (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.

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.

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

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 group 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 STI 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 STI 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 €3,252 thousand at the end of the year (previous year: €2,946 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 €2,913 thousand (previous year: €5,536 thousand) were recognised for active members of the Executive Board. At the end of 2016, the corresponding Defined Benefit Obligation (DBO) amounted to the following: for Mr. Klenk €2,403 thousand, for Mr. Diepold €5,834 thousand, for Mr. Ricker €42 thousand, for Mr. Tischer €46 thousand, and for Mr. Goldbrunner €31 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. In addition, €956 thousand (previous year: €652 thousand) was paid into contribution-based plans in 2016.

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 €7,236 thousand (previous year: €2,282 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

Responsibility statement

Statement required by Section 37y No. 1 of the German Securities Trading Act (WpHG) in conjunction with Sections 297 (2) Sentence 4 and 315 (1) Sentence 6 of the German Commercial Code (HGB)

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

Neutraubling, 10 March 2017
KRONES AG
The Executive Board

Christoph Klenk
CEO

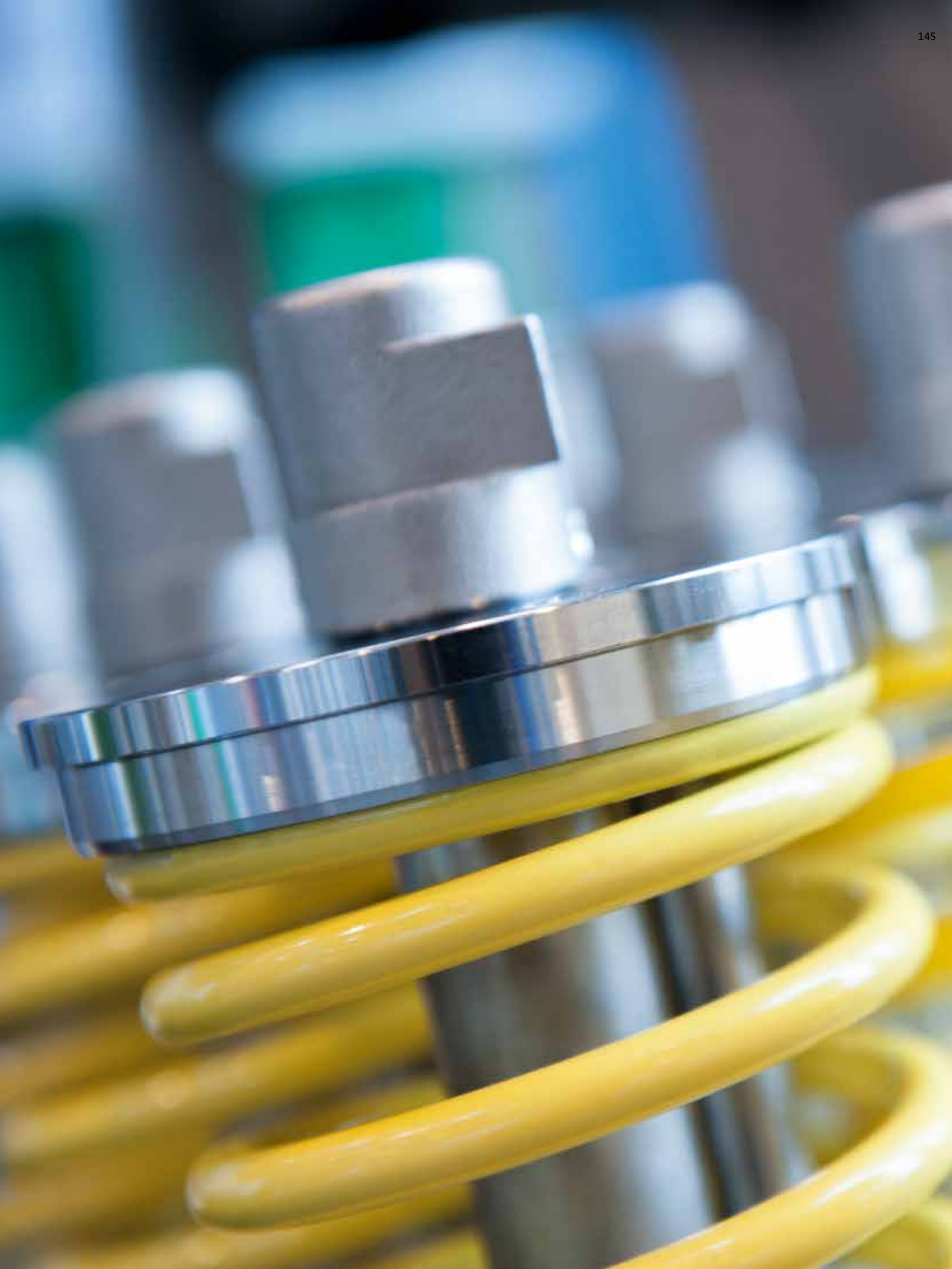
Michael Andersen
CFO

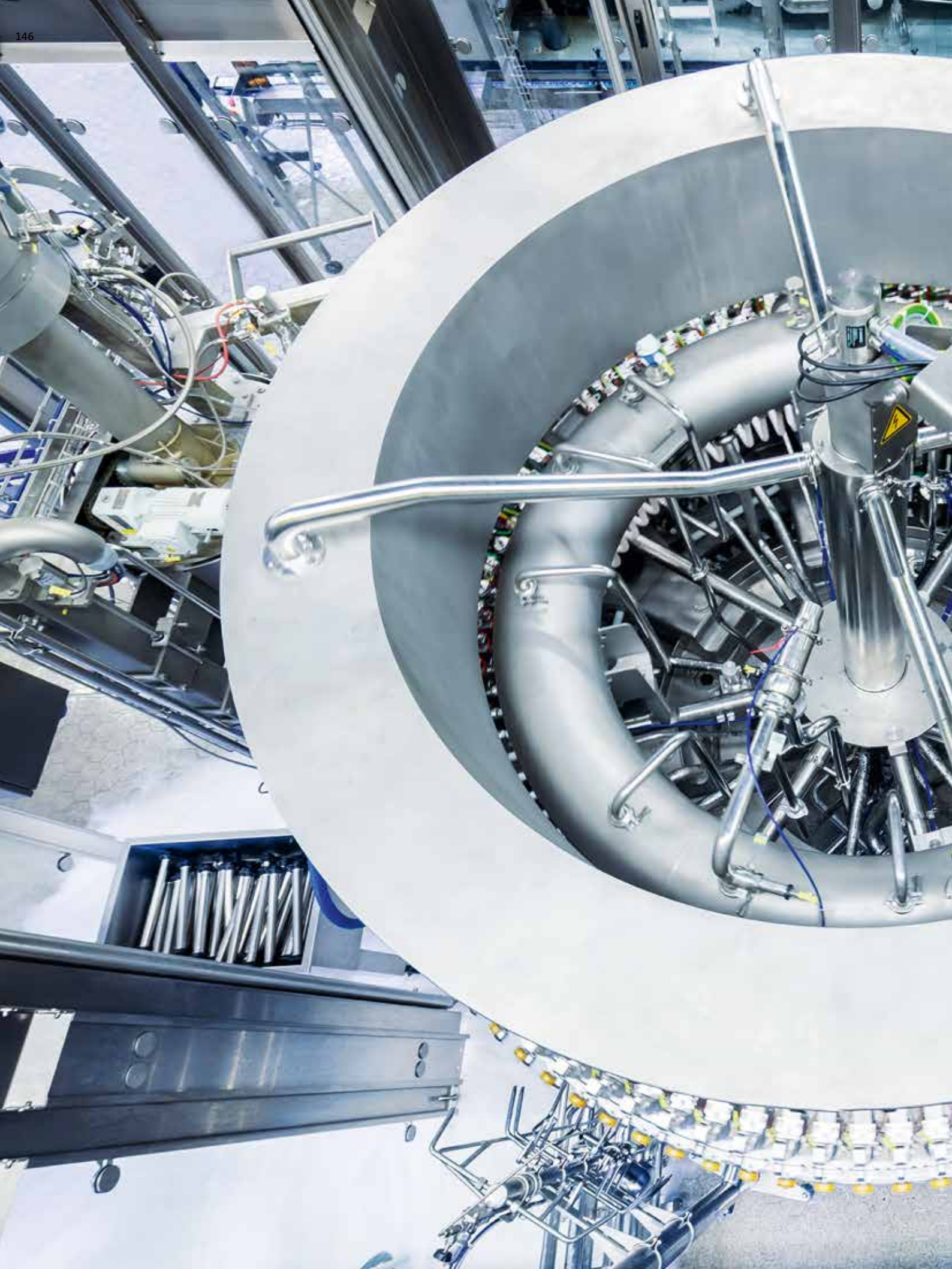
Rainulf Diepold

Thomas Ricker

Markus Tischer

Ralf Goldbrunner





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Corporate Governance

Statement on corporate governance

Statement on corporate governance

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.

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:

Volker Kronseder
Chairman

Composition of the Supervisory Board

Pursuant to Item 5.4.1 of the German Corporate Governance Code, the Supervisory Board must specify concrete objectives relating to its composition that, while considering the company's specific situation, take into account the company's international activities, potential conflicts of interest, 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 8 to 9 and 204). 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 15 and 204 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 separate and consolidated financial statements and makes recommendations. In addition, the Audit and Risk Management Committee monitors the effectiveness of the internal control system, the risk management system, and the compliance system.

Composition, duties, and activities of the Standing Committee

The Standing Committee consists of Werner Schrödl, Norman Kronseder, Josef Weitzer, and 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.

5

Consolidated financial statements

Notes to the consolidated financial statements

Separate income statement

€ thousand	Notes	2016		2015	
Revenue	19	3,391,253		3,173,509	
Changes in inventories of finished goods and work in progress	4	–135,443		25,572	
Other own work capitalised	20	42,158		38,332	
Other operating income	21	140,606	3,438,574	140,847	3,378,260
Goods and services purchased	22				
Expenses for materials and supplies and for goods purchased		–1,229,695		–1,290,815	
Expenses for services purchased		–379,957	–1,609,652	–298,435	–1,589,250
Personnel expenses	23				
Wages and salaries		–809,349		–767,350	
Social security contributions and expenses for pension plans and for benefits		–164,993	–974,342	–151,775	–919,125
Depreciation and amortisation of intangible assets and property, plant and equipment	1/2		–92,843		–88,361
Other operating expenses	24		–533,753		–564,617
EBIT			**227,984**		**216,907**
Investment income	25	3,658		2,141	
Income from other securities and loans classified as non-current financial assets	25	4		13	
Other interest and similar income	25	8,376		6,212	
Interest and similar expenses	25	–2,458		–1,948	
Financial income/expense	25		9,580		6,418
Earnings before taxes			**237,564**		**223,325**
Income tax	7/26		–68,462		–67,070
Consolidated net income			**169,102**		**156,255**
Profit share of non-controlling interests			–1,652		–1,174
Profit share of KRONES Group shareholders			170,754		157,429
Earnings per share (diluted/basic) in €	27		5.40		4.98

Statement of comprehensive income

€ thousand	Notes	2016	2015
Consolidated net income		**169,102**	**156,255**
Items that will not be reclassified subsequently to profit or loss			
Puttable instruments		–804	0
Actuarial gains and losses on pensions and similar obligations	11	–15,502	12,306
		–16,306	12,306
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation		9,989	–6,670
Derivative financial instruments	11	–2,161	–183
		7,828	–6,853
Other comprehensive income	8	**–8,478**	**5,453**
Total comprehensive income	8	**160,624**	**161,708**
of which attributable to non-controlling interests		–1,652	–1,174
of which attributable to KRONES Group shareholders		162.276	162,882

Statement of financial position

Assets		31 Dec 2016		31 Dec 2015	
€ thousand	Notes				
Intangible assets	1	238,321		163,189	
Property, plant and equipment	2	481,300		481,459	
Non-current financial assets	3	5,852		1,567	
Fixed assets		**725,473**		**646,215**	
Deferred tax assets	7	24,701		21,974	
Trade receivables	5	44,131		23,820	
Income tax receivables	7	1,103		1,712	
Other assets	5	3,107		3,537	
Non-current assets			**798,515**		**697,258**
Inventories	4	728,350		724,502	
Trade receivables	5	1,036,872		796,792	
Current income tax receivables	7	3,799		15,027	
Other assets	5	134,406		108,469	
Cash and cash equivalents	6	368,889		364,585	
Current assets			**2,272,316**		**2,009,375**
Total			**3,070,831**		**2,706,633**

Equity and liabilities		31 Dec 2016		31 Dec 2015	
€ thousand	Notes				
Share capital	8	40,000		40,000	
Capital reserves	9	141,724		141,724	
Profit reserves	10	367,837		357,341	
Other reserves	11	–95,827		–77,360	
Group retained earnings		773,865		649,428	
Group equity of the parent company			**1,227,599**		1,111,133
Non-controlling interests	12	–2,069		–417	
Equity			**1,225,530**		1,110,716
Provisions for pensions	13	219,148		196,910	
Deferred tax liabilities	7	2,940		17,261	
Other provisions	14	51,712		47,196	
Provisions for taxes	14	5,322		2,899	
Liabilities to banks		0		0	
Current tax liabilities	7	49		0	
Other financial obligations	15	26,070		12,591	
Other liabilities	15	2,761		1,636	
Non-current liabilities			**308,002**		278,493
Other provisions	14	157,834		147,004	
Provisions for taxes	14	21,241		9,480	
Liabilities to banks		0		0	
Advances received	15	615,221		545,664	
Trade payables	15	323,791		247,906	
Current tax liabilities	7	5,274		17,413	
Other financial obligations	15	56,032		56,325	
Other liabilities and accruals	15	357,906		293,632	
Current liabilities			**1,537,299**		1,317,424
Total			**3,070,831**		2,706,633

Statement of cash flows

€ thousand	Notes	2016	2015
Earnings before taxes		237,564	223,325
Depreciation and amortisation and reversals	1, 2	92,843	88,361
Increase in provisions and accruals	14, 15	56,184	16,253
Deferred tax item changes recognised in profit or loss	7	10,798	–7,758
Interest expenses and interest income	25	–5,918	–4,264
Gains and losses from the disposal of non-current assets	21, 24	201	335
Other non-cash expenses and income		4,466	–1,510
Increase in trade receivables and other assets not attributable to investing or financing activities		–244,450	–144,034
Decrease (previous year: increase) in inventories	4	17,451	–71,569
Increase in trade payables and other liabilities not attributable to investing or financing activities		70,974	129,086
Cash generated from operating activities		**240,113**	**228,225**
Interest paid		–2,937	–1,417
Income tax paid and refunds received		–42,505	–52,377
Cash flow from operating activities		**194,671**	**174,431**
Cash payments to acquire intangible assets	1	–54,903	–43,055
Proceeds from the disposal of intangible assets	1	15	63
Cash payments to acquire property, plant and equipment	2	–56,413	–59,569
Proceeds from the disposal of property, plant and equipment	2	2,741	6,933
Cash payments to acquire non-current financial assets		–4,331	–10
Proceeds from the disposal of non-current financial assets		46	142
Cash payments to acquire shares in affiliated companies		–39,676	–12,126
Interest received		3,374	1,725
Dividends received		3.658	2,141
Cash flow from investing activities		**–145,489**	**–103,756**
Cash payments to company owners		–45,810	–39,491
Cash flow from financing activities		**–45,810**	**–39,491**
Net change in cash and cash equivalents		**3,372**	**31,184**
Changes in cash and cash equivalents arising from exchange rates		932	–3,043
Changes in cash and cash equivalents arising from the consolidated group		0	0
Cash and cash equivalents at the beginning of the period		364,585	336,444
Cash and cash equivalents at the end of the period	6	**368,889**	**364,585**

Statement of changes in equity

	Parent company							Non-controlling interests	Group equity
€ thousand	Share capital	Capital reserves	Profit reserves	Currency differences in equity	Other reserves	Group retained earnings	Equity	Equity	
Notes	8	9	10	10	11			12	
At 1 January 2015	**40,000**	**141,724**	**364,266**	**–563**	**–89,483**	**531,798**	**987,742**	**757**	**988,499**
Dividend payment (€1.25 per share)						–39,491	**–39,491**		**–39,491**
Consolidated net income 2015						157,429	**157,429**	–1,174	**156,255**
Allocation to profit reserves			308			–308	**0**		**0**
Currency differences				–6,670			**–6,670**		**–6,670**
Changes in the consolidated group							**0**		**0**
Remeasurement of defined benefit plans					12,306		**12,306**		**12,306**
Hedge accounting, incl. Afs					–183		**–183**		**–183**
At 31 December 2015	**40,000**	**141,724**	**364,574**	**–7,233**	**–77,360**	**649,428**	**1,111,133**	**–417**	**1,110,716**
Dividend payment (€1.45 per share)						–45,810	**–45,810**		**–45,810**
Consolidated net income 2016						170,754	**170,754**	–1,652	**169,102**
Allocation to profit reserves			507			–507	**0**		**0**
Currency differences				9,989			**9,989**		**9,989**
Changes in the consolidated group							0		0
Remeasurement of defined benefit plans					–15,502		**–15,502**		**–15,502**
Puttable instruments					–804		**–804**		**–804**
Hedge accounting, incl. Afs					–2,161		**–2,161**		**–2,161**
At 31 December 2016	**40,000**	**141,724**	**365,081**	**2,756**	**–95,827**	**773,865**	**1,227,599**	**–2,069**	**1,225,530**

Notes to the consolidated financial statements of KRONES AG

Segment reporting

€ thousand	Machines and lines for product filling and decoration		Machines and lines for beverage production/ process technology		Machines and lines for the compact class	
	2016	2015	2016	2015	2016	2015
Revenue	**2,815,300**	2,705,894	**454,066**	358,683	**121,887**	108,932
Germany	276,834	294,018	62,076	76,438	15,294	11,930
Rest of Europe	748,732	698,394	125,528	77,758	47,309	62,615
Other regions	1,789,735	1,713,482	266,462	204,487	59,283	34,387
Depreciation, amortisation, and write-downs	**79,856**	77,273	**10,848**	8,821	**2,139**	2,267
of which unscheduled write-downs	0	175	126	0	0	0
Interest income					16	18
Interest expense					34	42
EBT	**229,618**	220,524	**1,549**	–2,055	**6,397**	4,856
Other material non-cash income and expenses	–35,522	–9,690	–14,200	–1,347	–130	–3,706
Assets	**2,459,967**	2,308.734	**518,400**	293,451	**115,304**	81,094
Germany	1,325,375	1,464,015	352,677	293,451	12,568	12,430
Rest of Europe	279,430	194,408	136,014	0	102,736	68,664
Other regions	855,162	650,311	29,709	0	0	0
Liabilities	**1,541,727**	1,395,059	**279,289**	124,851	**44,472**	47,932
Capital expenditure for intangible assets and property, plant and equipment	**88,082**	90,520	**14,305**	7,701	**8,929**	6,006
Germany	77,981	83,420	12,734	7,701	386	0
Rest of Europe	512	734	1,491	0	8,543	6,006
Other regions	9,589	6,367	80	0	0	0
EBT margin (EBT to revenue)	**8.2%**	8.1%	**0.3%**	–0.6%	**5.2%**	4.5%

Total for the segments		Consolidation		Other			KRONES Group	
2016	2015	2016	2015	2016	2015		2016	2015
							3,391,253	**3,173,509**
							354,204	382,386
							921,569	838,767
							2,115,480	1,952,356
							92,843	**88,361**
							126	175
				8,360	6,194		8,376	6,212
				2,424	1,906		2.458	1,948
							237,564	**223,325**
							–49,852	–14,743
3,093,671	**2,683,279**	**–55,013**	**–16,078**	**32,173**	**39,432**		**3,070,831**	**2,706,633**
1,690,620	1,769,896	–44,180	–7,700	32,173	39,432		1,678,613	1,801,628
518,180	263,072	–8,407	–7,320	0	0		509,773	255,752
884,871	650,311	–2,426	–1,058	0	0		882,445	649,253
1,865,488	**1,566,841**	**–55,013**	**–16,078**	**34,826**	**44,154**		**1,845,301**	**1,595,917**
							111,316	**104,228**
							91,101	91,121
							10,546	6,740
							9,669	6,367
							7.0%	**7,0%**

General disclosures

Legal basis

The consolidated financial statements of KRONES AG ("KRONES Group") for the period ended 31 December 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, applicable at the end of the reporting period, including the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) as adopted by the European Union. No early application was made of IFRSs that had not yet entered into force or their interpretations. A list of these standards and interpretations and of standards being applied for the first time is on pages 200 to 201. The Executive Board authorised these consolidated financial statements for issue on 10 March 2017.

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

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

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

Consolidated group

Besides KRONES AG, the consolidated financial statements for the period ended 31 December 2016 include all material domestic and foreign subsidiaries over which KRONES AG has direct or indirect control.

In 2016, KRONES acquired the following companies: SYSTEM LOGISTICS S.P.A., Fiorano, Italy, SYSTEM LTD., London, UK, SYSTEM NORTHERN EUROPE AB, Malmö, Sweden, SYSTEM LOGISTICS SPAIN SL, Castellon, Spain, SYSTEMLOG DE MEXICO S.A. DE C.V., Nuevo Leon, Mexico, SYSTEM LOGISTICS CORPORATION, Delaware, USA, and SYSTEM LOGISTICS ASIA CO. LTD., Bangkok, Thailand.

In addition, KRONES Sales (Beijing) Co. Ltd., Beijing, China, KRONES PACIFIC PTY. LIMITED, Sydney, Australia, KRONES New Zealand Limited, Auckland, New Zealand, KRONES Vietnam Co. Ltd., Ho Chi Minh City, Vietnam, KRONES Filipinas Inc., Taguig City, Philippines, KRONES Beteiligungsgesellschaft mbH, Neutraubling, Germany, and TRANS-MARKET LLC, Tampa, USA were established and acquisition accounting was done to include the companies in the consolidated group.

The following companies were also established: KPC-PROCESSING GMBH, Neutraubling, Germany, and KRONES CHILE SPA., Santiago de Chile, Chile.

KRONES AG owns a 60% equity stake in the companies of the SYSTEM LOGISTICS Group and 80% of the business operations of TRANS-MARKET LLC. All of the other companies listed above are wholly owned by KRONES. Initial accounting of the acquired equity interest was done as of the acquisition date. By acquiring the 60% equity interest in SYSTEM LOGISTICS S.P.A, Fiorano, Italy on 31 May 2016, KRONES has expanded its own internal logistics expertise, particularly in the area of automated order picking systems. On 31 August 2016, KRONES bought 80% of the business operations of TRANS-MARKET SALES & EQUIPMENT INC., Tampa, USA, in an asset deal. With this acquisition, KRONES is expanding its local capacity for engineering and procurement. The table below presents a summary of the consideration transferred and the acquisition-date fair values of the assets identified and liabilities assumed.

€ thousand	TRANS-MARKET	SYSTEM LOGISTICS	Total
	Fair value	Fair value	Fair value
Goodwill	11,767	30,906	42,673
Non-current assets	9,161	8,611	17,772
Current assets	4,629	69,627	74,256
(of which trade receivables)	2,859	47,493	50,352
Cash and cash equivalents	0	4,343	4,343
Total assets acquired	**25,557**	**113,487**	**139,044**
Liabilities	3,224	73,598	76,822
Total liabilities assumed	**3,224**	**73,598**	**76,822**
Net assets acquired	**22,333**	**39,889**	**62,222**
Purchase prices	22,333	39,889	62,222
of which paid in cash	20,755	23,265	44,020
of which puttable instruments	1,578	16,624	18,202

Both purchase contracts contain put options that are granted to non-controlling interests for their shares in group companies. The anticipated-acquisition method has been applied, meaning that the options are accounted for as if they have already been exercised and each is recognised as a liability at fair value instead of non-controlling interests being recognised. The liabilities are presented in equity ("double credit accounting"). The fair value of the put option for TRANS-MARKET was measured using a Monte Carlo simulation. The main input factors are the medium-term forecast and the discount rate. The estimated range of the undiscounted exercise price at the acquisition date is between zero and €2,650 thousand. At the end of the reporting period, there were no significant changes to the estimated range. Based on that, the fair value was €1,664 thousand at the end of the reporting period. The fair value of the put option for SYSTEM LOGISTICS was measured using the discounted cash flow method. The main input factors are the medium-term forecast and the discount rate. The estimated range of the undiscounted exercise price at the acquisition date is between €13,290 thousand and €26,782 thousand. At the end of the reporting period, there were no significant changes to the estimated range. Based on that, the fair value was €17,429 thousand at the end of the reporting period. KRONES AG has also made arrangement for contingent consideration that is dependent on the input factors EBITDA and EBITDA margin. The undiscounted contingent consideration that may

need to be paid is between zero and €12,000 thousand. Taking into account the estimated input factors, the fair value of this contingent consideration is unchanged from the acquisition date at €0 thousand.

The goodwill is the result of expected synergies from the integration of the companies and their workforces for intralogistics and for engineering services in process technology and from the companies' earnings potential, which under IFRSs cannot be attributed to individual items under assets.

The direct acquisition-related costs amount to €1,270 thousand and have been recognised as expenses. The total amount of goodwill that is expected to be deductible for tax purposes is €11,767 thousand.

The fair value of trade receivables equals the gross amount. None of the trade receivables have been impaired and the entire contractually agreed amounts are expected to be recoverable.

After accounting for the effects of purchase price allocation, TRANS-MARKET contributed a net profit of €363 thousand and revenue of €6,134 thousand to KRONES as of 31 December 2016. Had the company been acquired and initial accounting done as of 1 January 2016, the figures recognised in the separate income statement for the group would have been revenue of €18,402 thousand and net profit of €1,090 thousand.

After accounting for the effects of purchase price allocation, SYSTEM LOGISTICS contributed a net profit of €29 thousand and revenue of €78,906 thousand to KRONES as of 31 December 2016. Had the company been acquired and initial accounting done as of 1 January 2016, the figures recognised in the separate income statement for the group would have been revenue of €135,267 thousand and net profit of €49 thousand.

In determining these amounts, it was assumed that the provisional adjustments to fair value that were taken at the acquisition date would also have applied if the companies had been acquired on 1 January 2016. The amounts for the financial year 2016 as a whole were determined on a straight-line basis.

Consolidation principles

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

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

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

Shares in the equity of subsidiaries that are not held by the parent company are reported as "non-controlling interests".

Companies over which KRONES has the ability to exercise significant influence, that is, to participate in operating and financial policy decisions (generally by indirectly or directly holding between 20% and 50% of the voting shares), are accounted for using the equity method and initially recognised at cost. Any excess of the cost of the investment over KRONES' share of the net fair value of the associate's identifiable assets and liabilities is adjusted on a fair-value basis and the remaining amount is recognised as goodwill. Goodwill relating to the acquisition of the associate is included in the carrying amount of the investment and is not amortised. Instead, it is tested for impairment as part of the entire carrying amount of the investment in the associate. KRONES' share in the associate's profit or loss post-acquisition is recognised in consolidated profit or loss. The carrying amount of the associate is increased or decreased to recognise the cumulative changes in value after the date of acquisition. KRONES' share in the associate's gains or losses resulting from transactions between KRONES and its associates is eliminated.

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

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

Currency translation

The functional currency for KRONES AG is the euro.

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

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

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

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

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

		Closing rate		Average rate	
		31 Dec 2016	31 Dec 2015	2016	2015
US dollar	USD	1.056	1.089	1.107	1.111
British pound	GBP	0.859	0.735	0.819	0.727
Swiss franc	CHF	1.075	1.082	1.090	1.068
Danish krone	DKK	7.435	7.462	7.445	7.459
Canadian dollar	CAD	1.422	1.513	1.467	1.419
Japanese yen	JPY	123.510	131.120	120.324	134.408
Brazilian real	BRL	3.437	4.314	3.862	3.695
Chinese renminbi (yuan)	CNY	7.325	7.073	7.351	6.916
Mexican peso	MXN	21.842	18.923	20.660	17.612
Ukrainian hryvnia	UAH	28.617	26.171	28.281	24.172
South African rand	ZAR	14.469	16.988	16.290	14.161
Kenyan shilling	KES	108.289	111.424	112.364	109.035
Nigerian naira	NGN	321.750	216.690	284.776	219.682
Russian ruble	RUB	64.682	80.536	74.141	67.924
Thai baht	THB	37.797	39.254	39.054	38.023
Indonesian rupiah	IDR	14,226.500	15,017.200	14,728.709	14,869.088
Angolan kwanza	AOA	175.028	147.384	180.514	132.871
Turkish lira	TRY	3.727	3.183	3.342	3.022
Kazakhstan tenge	KZT	352.360	370.980	378.667	246.637
Australian dollar	AUD	1.461	1.489	1.489	1.478
New Zealand dollar	NZD	1.516	1.592	1.590	1.591
Swedish krona	SEK	9.567	9.182	9.468	9.359
Vietnamese dong	VND	24,045.000	24,490.000	24,772.655	24,331.273
Philippine peso	PHP	52.272	51.047	52.544	50,546

Accounting policies

The separate financial statements of KRONES AG and its domestic and foreign subsidiaries have been prepared using uniform accounting policies, in accordance with IFRS 10.

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

Intangible assets

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

Research and development expenditure

Development expenditure of the KRONES Group is capitalised at cost to the extent that costs can be allocated clearly and the technical feasibility and a future economic benefit as a result of their use are probable. According to IAS 38, research expenditure cannot be capitalised and is, therefore, recognised as an expense directly in profit or loss. Borrowing costs are capitalised as cost at a capitalisation rate of 0.35%.

Goodwill

Goodwill is not amortised. Instead, it is tested for impairment annually. It is also tested for impairment if an event occurs or circumstances arise that suggest that the recoverable amount might be less than the carrying amount. Goodwill is recognised at cost less cumulative impairment losses.

Testing for impairment on goodwill is done at the level of the cash-generating unit or group of cash-generating units represented by a division (or corresponding unit). The cash-generating unit or group of cash-generating units represent the lowest level at which the goodwill is monitored for internal management purposes.

For impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit or group of cash-generating units that are expected to benefit from the synergies of the business combination. If the carrying amount of the cash-generating unit or group of cash-generating units to which the goodwill is allocated exceeds the recoverable amount, an impairment loss is recognised for the goodwill to which the cash-generating unit or group of cash-generating units are allocated. The recoverable amount is either the fair value less costs of disposal or the value in use, whichever is higher, of the cash-generating unit or group of cash-generating units. If one of these amounts exceeds the carrying amount, it is not always necessary to determine both values. These values are based on discounted cash flow measurements. Even if the recoverable amount of the cash-generating unit or group of cash-generating units to which the goodwill is allocated exceeds the carrying amount in subsequent periods, impairment losses on that goodwill are not reversed.

Property, plant and equipment

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

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

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

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

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

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

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

Leases

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

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

Financial instruments

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

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

For the measurement categories, the carrying amounts correspond to the fair values provided by the respective financial institutions at the end of the reporting period.

The non-current assets consist primarily of loans, which are recognised at amortised cost. They are tested for impairment annually.

The fair value of the financial assets and liabilities is determined on the basis of financial accounting models using inputs observable in the market at the end of the reporting period (Level 2 under IFRS 13.72). Level 2 assets and liabilities are primarily hedging and non-hedging derivatives.

The fair value of Level 1 inputs is based on quoted prices (unadjusted) in active markets for identical assets and liabilities. For Level 3 inputs under IFRS 13.72, the fair values are the same as the carrying amounts. Measurement is based on estimates from forecasts of future development.

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

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

Pursuant to IAS 39, the classes under IFRS 7 also include cash and cash equivalents, liabilities from finance leases as well as construction contracts with amounts due and derivative financial instruments for which hedge accounting is applied in addition to the categories listed above.

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

Non-current financial assets

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

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

Derivative financial instruments

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

The primary category of currency risk at KRONES is transaction risk arising from exchange rates and cash flows in foreign currencies. These currencies are, primarily, the US dollar, Canadian dollar, Japanese yen, British pound, and euro.

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

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

The derivative financial instruments are measured at fair value at the end of the reporting period. The fair values are determined using Level 2 inputs under IFRS 13.72. Gains and losses from the measurement are recognised as profit or loss on the separate income statement unless the conditions for hedge accounting are met.

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

They are derecognised/reclassified when the corresponding hedged items are recognised in the statement of financial position.

Receivables and other assets

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

Inventories

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

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

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

Construction contracts for specific customers

Construction contracts for specific customers are recognised by reference to the stage of completion pursuant to IAS 11 ("percentage of completion method"). Under this method, contract revenue for the line and machinery portion is recognised in accordance with the

percentage of physical completion of the lines and machines at the end of the reporting period. The percentage of completion for the assembly and installation portion and for software projects corresponds to the ratio of contract costs incurred up to the end of the reporting period to the total costs calculated for the assembly and installation portion or software project. Construction contracts that are ongoing at the end of the reporting period are recognised under trade receivables.

- **Deferred tax items**

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

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

- **Provisions for pensions**

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

Actuarial gains and losses have a direct impact on the consolidated statement of financial position, resulting in an increase or decrease in provisions for pensions and similar obligations and a reduction or increase in equity (in other comprehensive income, OCI). The separate income statement for the group is free of effects from actuarial gains and losses since these are now to be recognised in other comprehensive income. In addition, recognition of net interest was introduced. Net interest on the net defined benefit obligation is determined by multiplying the net defined benefit obligation by the discount rate used to measure the defined benefit obligation. Because the net defined benefit obligation is reduced by any plan assets, the same discount rate is used to calculate the returns on the plan assets.

- **Partial retirement benefit obligations**

According to the definition of post-employment benefits under IAS 19, the "top-up payments" promised under partial retirement agreements fall under "other long-term employee benefits". Thus, top-up payments are not recognised in full as liabilities at their net present value. Instead, they are accrued on a pro-rated basis across the relevant years of active service of the employee taking partial retirement.

Other provisions

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

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

Financial liabilities

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

Revenue

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

Revenue is reported less reductions.

Segment reporting

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

Segment 1 comprises machines and lines for product filling and decoration. Segment 2 comprises machines and lines for beverage production and process technology. Segment 3 comprises machines and lines for the compact class.

The accounting policies used are the same as those described under “General disclosures” above.

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

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

1 Intangible assets

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

€ thousand	Industrial property rights and similar rights and assets as well as licenses	Goodwill	Capitalised development expenditure	Advance payments made	Total
31 December 2014					
Cost	129,215	7,881	273,736	63	410,895
Accumulated amortisation	95,737	0	171,815	0	267,552
Net carrying amount	**33,478**	**7,881**	**101,921**	**63**	**143,343**
Changes in 2015					
Cost					
Consolidated additions	4,497	6,721	0	0	11,218
Additions	11,959	0	31,069	27	43,055
Disposals	9,171	0	0	63	9,234
Transfers	17	0	0	–17	0
Currency differences	–171	0	0	0	–171
Amortisation					
Consolidated additions	41	0	0	0	41
Additions	11,245	0	23,076	0	34,321
Disposals	9,171	0	0	0	9,171
Currency differences	–169	0	0	0	–169
Net carrying amount at 31 December 2015	**38,663**	**14,602**	**109,914**	**10**	**163,189**
31 December 2015					
Cost	136,346	14,602	304,805	10	455,763
Accumulated amortisation	97,683	0	194,891	0	292,574
Net carrying amount	**38,663**	**14,602**	**109,914**	**10**	**163,189**
Changes in 2016					
Cost					
Consolidated additions	17,078	42,673	0	0	59,751
Additions	21,914	0	32,989	0	54,903
Disposals	6,496	0	0	0	6,496
Transfers	10	0	0	–10	0
Currency differences	187	644	0	0	831
Amortisation					
Consolidated additions	2,305	0	0	0	2,305
Additions	15,588	0	22,280	0	37,868
Disposals	6,481	0	0	0	6,481
Currency differences	165	0	0	0	165
Net carrying amount at 31 December 2016	**59,779**	**57,919**	**120,623**	**0**	**238,321**
31 December 2016					
Cost	169,039	57,919	337,794	0	564,752
Accumulated amortisation	109,260	0	217,171	0	326,431
Net carrying amount	**59,779**	**57,919**	**120,623**	**0**	**238,321**

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

All goodwill was regularly tested for impairment under IAS 36, as in the previous year. Also as in the previous year, no impairment losses were recognised on the goodwill. Impairment testing is done at the level of the smallest cash-generating unit (CGU) or group of cash-generating units on the basis of its value in use. The cash flow projections underlying the impairment test are based on the approved business forecasts. These forecasts are based in part on external sources of information. They also take into account price agreements based on past experience and expected efficiency improvements as well as assumptions about revenue development based on strategic management.

The table below provides an overview of the tested goodwill and the assumptions used for the respective impairment tests, each of which was performed at the level of the smallest cash-generating unit (CGU):

CGU		Carrying amount of goodwill € thousand	Forecast period in years	Annual revenue growth at the end of the forecast period	Discount rate before taxes
TRANS-MARKET	2016	12,410	7	2.9%	9.8%
SYSTEM LOGISTICS	2016	30,906	4	1.0%	8.3%
TILL	2015	3,623	5	3.0%	6.6%
	2016	3,623	5	3.0%	6.9%
HST	2015	4,258	3	1.0%	9.4%
	2016	4,258	3	1.0%	8.6%
TRIACOS	2015	4,631	3	1.0%	10.3%
	2016	4,631	3	1.0%	8.3%
GERNEP	2015	2,090	3	1.0%	11.7%
	2016	2,090	3	1.0%	8.6%

The forecast period for TRANS-MARKET is seven years because a different forecasting programme is used. The pre-tax discount rates are based on risk-free interest rates, which are determined on the basis of the returns on long-term government bonds. This discount rate is adjusted for a risk premium that reflects the general risk associated with equity investments and the specific risk of the CGU. Revenue growth at the end of the forecast period is the long-term average growth rate of the respective industrial sectors and countries in which the CGUs do business. For the CGU TILL, assuming sustained revenue growth of 3.0% at the end of the forecast period (due to the innovative nature of the subsector) as presented in the table, the recoverable amount is €922 thousand (previous year: €6,075 thousand), which is higher than the carrying amount. If the pre-tax discount rate were to increase to 7.1% (previous year: 7.9%) or if long-term revenue growth (previous year: 41.3%) were to be considerably (6%) lower than the assumption used above, which is not to be expected, the recoverable amount would equal the carrying amount. KRONES AG is otherwise of the opinion that no reasonably foreseeable change to any of the material basic assumptions used to determine the value in use of cash-generating units to which goodwill has been attributed could result in the carrying amount being higher than its recoverable amount.

The capitalised development expenditure relates to new machinery projects of KRONES AG. The development expenditure capitalised in the reporting period amounts to €32,989 thousand (previous year: €31,069 thousand). This figure includes borrowing costs totalling €81 thousand (previous year: €116 thousand). Including capitalised development expenditure, a total of €170,803 thousand was spent on research and development in 2016 (previous year: €163,686 thousand). In the reporting period, a €126 thousand write-down on intangible assets was recognised within the depreciation and amortisation figure (previous year: €175 thousand) and relates to the machines and lines for beverage production/process technology segment (previous year: machines and lines for product filling and decoration). The write-down is for capitalised development projects to which no further benefit can be attributed.

In the reporting period, business combinations resulted in additions to net carrying amounts for intangible assets totalling €57,446 thousand (previous year: €11,177 thousand), of which €42,673 thousand is goodwill (previous year: €6,721 thousand).

2 Property, plant and equipment

For property, plant and equipment, no impairment losses were recognised under depreciation pursuant to IAS 36 in 2016, as in the previous year. The addition to land and buildings results primarily from the expansion of the Neutraubling site. Capital expenditure for the remaining property, plant and equipment amounting to €39,063 thousand relates primarily to capacity expansion and updating at the production sites.

In 2016, the carrying amounts for property, plant and equipment included grants of €40 thousand (previous year: €66 thousand). Of the grants, €26 thousand (previous year: €46 thousand) were recognised in profit and loss by way of a reduced depreciation charge in 2016. As in the previous year, no reversals are included in the depreciation figure.

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

Property, plant and equipment includes leased assets amounting to €810 thousand (previous year: €4,354 thousand), which are to be attributed as the economic property of the relevant group company due to the provisions of the underlying lease (finance lease).

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

€ thousand	31 Dec 2016	31 Dec 2015
Land, land rights and buildings	788	4,064
Technical equipment and machinery	22	83
Other equipment, furniture and fixtures, and office equipment	0	207
Total	**810**	**4,354**

In the reporting period, business combinations resulted in additions to the carrying amounts for property, plant and equipment totalling €2,854 thousand (previous year: €744 thousand).

Property, plant and equipment have changed as follows:

€ thousand	Land and buildingss	Technical equipment and machinery	Other equipment, furniture and fixtures, and office equipment	Construction in progress	Advance payments made	Total
31 December 2014						
Cost	459,802	301,674	212,589	8,693	3,125	985,883
Accumulated depreciation	167,707	187,696	151,272	0	0	506,675
Net carrying amount	**292,095**	**113,978**	**61,317**	**8,693**	**3,125**	**479,208**
Changes in 2015						
Cost						
Consolidated additions	0	2,062	646	0	0	2,708
Additions	12,670	9,525	23,317	10,610	5,051	61,173
Disposals	668	4,556	24,842	0	0	30,066
Transfers	3,929	2,894	7,083	–12,070	–1,836	0
Currency differences	2,776	2,289	605	–11	–1	5,658
Depreciation						
Consolidated additions	0	1,590	374	0	0	1,964
Additions	13,171	17,979	22,890	0	0	54,040
Disposals	22	4,556	18,220	0	0	22,798
Currency differences	1,443	1,863	710	0	0	4,016
Net carrying amount at 31 December 2015	**296,210**	**109,316**	**62,372**	**7,222**	**6,339**	**481,459**
31 December 2015						
Cost	478,509	313,888	219,398	7,222	6,339	1,025,356
Accumulated depreciation	182,299	204,572	157,026	0	0	543,897
Net carrying amount	**296,210**	**109,316**	**62,372**	**7,222**	**6,339**	**481,459**
Changes in 2016						
Cost						
Consolidated additions	1,203	1,827	4,039	0	0	7,069
Additions	5,227	15,145	23,918	12,103	20	56,413
Disposals	1,745	9,977	16,852	1,895	0	30,469
Transfers	12,413	7,179	681	–13,973	–6,300	0
Currency differences	–1,779	885	105	–43	0	–832
Depreciation						
Consolidated additions	0	1,157	3,058	0	0	4,215
Additions	14,994	18,887	21,094	0	0	54,975
Disposals	1,079	9,669	16,779	0	0	27,527
Currency differences	–209	826	60	0	0	677
Net carrying amount at 31 December 2016	**297,823**	**113,174**	**66,830**	**3,414**	**59**	**481,300**
31 December 2016						
Cost	493,828	328,947	231,289	3,414	59	1,057,537
Accumulated depreciation	196,005	215,773	164,459	0	0	576,237
Net carrying amount	**297,823**	**113,174**	**66,830**	**3,414**	**59**	**481,300**

3 Non-current financial assets

The non-current financial assets consist primarily of lendings.

4 Inventories

The inventories of the KRONES Group are composed as follows:

€ thousand	31 Dec 2016	31 Dec 2015
Raw materials and supplies	174,617	163,594
Work in progress	173,525	263,601
Finished goods	70,820	116,187
Goods purchased for sale	293,880	173,751
Other	15,508	7,369
Total	**728,350**	**724,502**

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

Write-downs of €52,419 thousand on inventories were recognised as expense in 2016 (previous year: €37,309 thousand) and are based substantially on customary net realisable values and obsolescence allowances. The amount of reversals of write-downs recognised in profit and loss due to improved market conditions was insignificant. The carrying amount of the inventories recognised at fair value less selling expenses totalled €85,079 thousand in the reporting period (previous year: €59,232 thousand).

5 Receivables and other assets

€ thousand	31 Dec 2016	31 Dec 2015
Trade receivables	1,081,003	820,612
(of which amounts are due in 1 year or later)	44,131	23,820
Other assets	137,513	112,006
(of which amounts are due in 1 year or later)	3,107	3,537

For receivables from customers, the amounts recognised correspond to the fair values. The allowance account developed as follows:

€ thousand	
At 1 January 2016	21,795
Change in the consolidated group and currency effects	623
Additions	9,837
Reversals	3,214
At 31 December 2016	29,041

The trade receivables at 31 December 2016 include gross amounts due from customers for contract work totalling €110,437 thousand (previous year: €91,917 thousand). These amounts relate to construction contracts in which costs incurred plus recognised profits less the sum of recognised losses exceeds progress billings and advances received. There are no gross amounts due to customers for contract work.

The other assets include primarily advances paid (€14,773 thousand; previous year: €23,586 thousand), current tax assets (€52,132 thousand; previous year: €49,973 thousand), and prepaid expenses (€8,698 thousand; previous year: €4,163 thousand).

At the end of the reporting period, there were no derivative financial instruments measured at fair value that were entered into for future payment receipts and met the conditions for hedge accounting or that were entered into as stand-alone hedge transactions (previous year: €718 thousand).

6 Cash and cash equivalents

Apart from cash on hand totalling €191 thousand (previous year: €296 thousand), the cash and cash equivalents of €368,889 thousand (previous year: €364,585 thousand) consist primarily of demand deposits. Changes in cash and cash equivalents under IAS 7 "Statement of cash flows" are presented in the statement of cash flows on page 160.

7 Income tax

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

The income tax breaks down as follows:

€ thousand	2016	2015
Deferred tax expense/income (–)	–10,798	7,758
Current tax	79,260	59,312
Total	**68,462**	**67,070**

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

Thus, the total income tax rate for the companies in Germany is 27.3%. Abroad, the tax rates are in the 18% to 36% range. The 27.3% rate was used to calculate deferred taxes.

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

€ thousand	Deferred tax assets		Deferred tax liabilities	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Intangible assets	16	20	33,885	30,937
Property, plant and equipment	81	63	11,085	11,504
Non-current financial assets	6,468	1,883	65	158
Other non-current assets	354	357	9,755	2,800
Inventories	2,704	1,844	1,639	1,227
Other current assets	2,850	4,299	28,469	22,478
Tax loss carryforwards	2,509	968	0	0
Provisions, non-current	8,111	8,632	267	32
Other non-current liabilities	476	357	423	856
Provisions, current	14,015	26,299	40,555	7,486
Other current liabilities	75,282	8,729	800	784
Deferred tax items recognised in other comprehensive income	37,013	29,089	5	100
Consolidation	0	535	1,170	0
Subtotal	**149,879**	83,075	**128,118**	78,362
Offsetting (–)	**–125,178**	–61,101	**–125,178**	–61,101
Total	**24,701**	21,974	**2,940**	17,261

The deferred tax assets and liabilities recognised in other comprehensive income amounted to €37,325 thousand at the end of the reporting period (previous year: €28,959 thousand). This figure includes the recognition in OCI of €34,183 thousand in actuarial gains and losses pursuant to IAS 19 (previous year: €28,336 thousand). A total of €3,142 thousand (previous year: €623 thousand) resulted from hedging activities. Deferred tax items were not recognised on tax loss carryforwards of €34,799 thousand (previous year: €45,864 thousand) or on deductible temporary differences totalling €77 thousand (previous year: €2,460 thousand). The temporary differences between the carrying amounts of equity interests in subsidiaries and the tax base of those interests ("outside basis differences") came to €22,301 thousand at the end of the reporting period (previous year: €17,243 thousand) and are excepted from recognition of deferred tax liabilities.

The tax expense of €68,462 thousand reported in 2016 is €3,607 thousand lower than the expected tax expense that would theoretically result from application of the domestic tax rate of 27.3% at the group level. The difference can be attributed to the following:

€ thousand	2016	2015
Earnings before taxes	237,564	223,325
Tax rate for the parent company KRONES AG	27.30 %	27.30 %
Expected (theoretical) tax expense	64,855	60,968
Adjustments due to different tax rate	1,975	890
Reductions in tax due to tax-free earnings	–9,481	–4,088
Tax loss carryforwards	–2,190	–424
Increases in tax expense due to non-deductible expenses	13,028	9,694
Tax income (–) / tax expense (+) for previous years	–1,140	–2,315
Other	1,415	2,345
Taxes on income	**68,462**	**67,070**

The difference between reductions in taxes and increases in taxes for 2016 yields a net increase in taxes. This is primarily attributable to non-deductible operating expenses. Penalty interest is recognised under tax expense.

8 Equity

KRONES AG's share capital amounted to €40,000,000.00 at 31 December 2016, unchanged on the previous year. It is divided into 31,593,072 ordinary bearer shares, each with a theoretical par value of €1.27 per share. At the end of the reporting period, 31,593,072 shares were in circulation (previous year: 31,593,072). At 31 December 2016, as in the previous year, the company held no treasury shares.

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

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

The authorisation became effective upon resolution by the annual general meeting on 25 June 2014 and applies until the end of the day 24 June 2019. The authorisation resolved by the annual general meeting on 16 June 2010 (agenda item 6) expired when this new authorisation took effect.

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

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

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

If the shares are purchased through a public tender offer or a public call for tenders, the tender price per share or the high and low ends of the price range per share (excluding incidental costs) shall not exceed by more than 10% and not fall short of by more than 20% the opening price in the XETRA trading system (or any comparable successor system) on the Frankfurt Stock Exchange on the third trading day prior to the public announcement of the public tender offer or public call for tenders (the "relevant price"). If significant deviations from the relevant price occur after the publication of an announcement of a public tender offer or a public call for tenders, the offer or invitation to tender can be adjusted. In such a case, the basis of any adjustment shall be the corresponding price on the last trading day prior to the public announcement of any adjustment. The tender offer or call for tenders can stipulate additional conditions. If the tender offer is oversubscribed – or, in the case of a call for tenders, if there are several tenders of equal value and the total amount exceeds the total amount accepted – acceptance must be granted on a pro-rated basis. In order to avoid fractional shares, provision may be made for rounding and for preferential acceptance of small lots of up to 100 tendered shares per shareholder, with partial exclusion of any shareholder rights to tender their shares.

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

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

The shares can be sold by means other than a stock exchange or a tender offer directed at all shareholders if the shares are sold in exchange for cash payment at a price not substantially below the stock exchange price of the company's shares at the time of the sale. In this case, the total portion of share capital accounted for by shares to which subscription rights are excluded, even the sum of multiple sales, shall not exceed a total of 10% of the share capital – either at the time that this authorisation enters into effect or at the time it is exercised. In calculating this limit, the portion of the share capital shall also be included that applies to shares issued during the term of this authorisation in direct or analogous application of Section 186 (3) Sentence 4 of the German Stock Corporation Act under the exclusion of subscription rights. Moreover, the portion of the share capital that applies to shares issued to meet obligations arising from debt securities (bonds) shall also be included in calculating the 10% limit if the debt securities are issued during the term of this authorisation and under the exclusion of subscription rights pursuant to Section 221 (4) Sentence 2 and Section 186 (3) Sentence 4 of the German Stock Corporation Act.

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

The shares can be used to service warrant or conversion rights or corresponding obligations from warrants or convertible bonds that have been or will be issued by the company or one of the group companies.

In the event of a tender offer directed at all shareholders or of a capital increase with subscription rights, the holders of warrants or convertible bonds of the company or a group company can be granted subscription rights to the company's shares in the amount to which they would be entitled following exercise of the options or conversion rights or following fulfilment of the corresponding obligations.

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

The shareholders' subscription rights on these treasury shares are excluded insofar as these shares are sold in return for contributions in kind, sold by means other than the stock exchange, or used to service warrant or conversion rights or in a tender offer directed at all shareholders in accordance with the above authorisation.

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

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

The changes in equity that are recognised in other comprehensive income (excluding dividends) totalled –€8,478 thousand in the reporting period (previous year: €5,453 thousand) and consist of changes in currency differences and hedge accounting as well as the recognition of actuarial gains and losses on pensions under other reserves and puttable instruments. In addition, the allocation of profit or loss to non-controlling interests resulted in a change in equity of –€1,652 (previous year: –€1,174 thousand). The sum of changes in equity that are recognised in other comprehensive income and those that are recognised in profit or loss was €160,624 thousand (previous year: €161,708 thousand).

Disclosures about capital management

A strong equity position is an important prerequisite for ensuring KRONES' long-term survival. To achieve this, KRONES regularly monitors and manages its capital on the basis of the equity ratio, return on capital employed (ROCE), and return on equity (ROE). In order to share the company's success with shareholders, KRONES pays out 25% to 30% of consolidated profit in the form of dividends.

9 Capital reserves

The capital reserves total €141,724 thousand (previous year: €141,724 thousand). The capital reserves include amounts transferred under Section 272 (2) No. 4 of the German Commercial Code (HGB) and amounts transferred under Section 272 (2) No. 1 HGB totalling €37,848 thousand.

10 Profit reserves

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

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

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

11 Other reserves

Changes in the reserve for post-employment benefits, the reserve for cash flow hedges, puttable instruments, and the reserve for the fair value of securities presented under "other reserves" were as follows:

€ thousand	Reserve for post-employment benefits	Reserve for cash flow hedges	Puttable instruments	Reserve for the fair value of securities	Total
At 1 January 2015	**–88,008**	**–1,479**		**4**	**–89,483**
Measurement change	16,873	626		–6	17,493
Tax on items taken directly to or transferred from equity	–4,584	–631		1	–5,214
Currency difference	17	–173			–156
At 31 December 2015	**–75,702**	**–1,657**	0	**–1**	**–77,360**
Measurement change	–20,946	–3,600	–804	1	–25,350
Tax on items taken directly to or transferred from equity	5,684	1,782		0	7,466
Currency difference	–240	–343			–583
At 31 December 2016	**–91,204**	**–3,818**	**–804**	**0**	**–95,827**

The measurement changes include €496 thousand in amounts reclassified into profit or loss (previous year: €35 thousand).

12 Non-controlling interests

In the financial year 2016, non-controlling interests totalled –€2,069 thousand (previous year: –€417 thousand).

A detailed overview of the composition of and changes to the individual equity components for the KRONES Group in 2016 and the previous year is presented in the statement of changes in equity on page 161.

13 Provisions for pensions

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

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

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

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

The basis for calculating provisions for pensions in Germany is the company's pension scheme from 31 December 1982, which is closed to new entrants. The scheme entitles all covered employees to post-employment, permanent disability, and widow(er)'s pensions. The age limits are 63 for men and 60 for women. The post-employment pension amounts to 1% (0.5% beginning 1 January 1983) of the eligible earned income for each eligible year of employment, not to exceed 25%. It should also be noted that a safeguard for workers' benefits was put into place at the time the new scheme was established on 31 December 1982. The basis for measurement of the permanent disability and widow(er)'s pensions (50% of post-employment pension) is the post-employment pension that can be earned by the time the employee reaches the age limit, although for the permanent disability benefit only that portion is granted that corresponds to the years of service actually reached. The measurement date for eligible years of service is 31 December 1982. A fixed table applies to new entries after this date. The individual provisions are based on individual contractual agreements.

Both the defined benefit obligations and the plan assets are subject to fluctuations over time. That can have a positive or negative effect on funding status. Fluctuations in the defined benefit obligation within the KRONES Group result primarily from changes in financial assumptions such as discount rates and an increase in the cost of living as well as changes in demographic assumptions such as changed life expectancy.

%	Average for the group	
	2016	2015
Discount rate	1.8	2.3
Projected increases in wages and salaries	0.0	0.0
Projected increases in state pensions	2.0	2.0

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

The average residual term of post-employment benefit obligations is 20 years (previous year: 20 years).

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

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

€ thousand	31 Dec 2016	31 Dec 2015	31 Dec 2014
Present value of benefit commitments financed by provisions	198,381	178,675	189,991
Present value of benefit commitments financed through pension funds	52,221	49,184	50,869
Present value of benefit commitments (gross)	250,602	227,859	240,860
Fair value of plan assets	–31,454	–30,949	–29,539
Carrying amount at 31 December (net defined benefit obligation)	**219,148**	**196,910**	**211,321**

The pension provisions, which amounted to €215,402 thousand at the end of the reporting period (previous year: €193,330 thousand), are primarily attributable to KRONES AG. The actuarial gains or losses resulting from changes in financial assumptions totalled a loss of €22,679 thousand (previous year: gain of €13,667 thousand); experience adjustments totalled €815 thousand (previous year: €2,680 thousand).

The costs arising from pension obligations amounted to €5,707 thousand (previous year: €6,350 thousand) and break down as follows:

€ thousand	31 Dec 2016	31 Dec 2015	31 Dec 2014
Current service cost	1,060	2,105	4,182
Interest expense	5,188	4,850	6,210
Expected return on plan assets	–703	–605	–1,022
Past service cost and plan curtailments	162	0	–3,365
Costs arising from pension obligations	**5,707**	**6,350**	**6,005**

Reconciliation of the present value of defined benefit obligations, which amounted to €250,602 thousand (previous year: €227,859 thousand), and the fair value of the plan assets, which amounted to €31,454 thousand (previous year: €30,949 thousand), and the net of both items break down as follows:

€ thousand	Present value of benefit commit-ments	Fair value of plan assets	Total
At 1 January 2015	**240,860**	**–29,539**	**211,321**
Current service cost	1,541	–1,152	389
Interest expense (+)/interest income (–)	2,105		2,105
Actuarial gains/losses	4,850	–605	4,245
Employer contributions	**–16,603**	–85	–16,688
Benefits paid		–1,906	–1,906
Recognised past service cost	–4,955	2,364	–2,591
Currency differences	61	–26	35
At 31 December 2015	**227,859**	**–30,949**	**196,910**
Current service cost	1,060		1,060
Interest expense (+)/interest income (–)	5,188	–703	4,485
Actuarial gains/losses	22,578	–1,262	21,316
Employer contributions		–728	–728
Benefits paid	–6,335	2,207	–4,128
Recognised past service cost	162		162
Currency differences	90	–19	71
At 31 December 2016	**250,602**	**–31,454**	**219,148**

The actuarial gains/losses consist primarily of changes in financial assumptions. KRONES Unterstützungs-Fonds e.V., an occupational pension scheme, is responsible for administrating and managing a portion of the plan assets. KRONES AG is the scheme's sponsoring company. Allianz Global Investor is responsible for administering and managing another portion of the plan assets as reinsurer.

The fair value of the plan assets was €31.4 million at 31 December 2016 (previous year: €30.9 million). Of that, €24.2 million are pension liability reinsurance policies (previous year: €22.7 million). The rest of the plan assets are attributable to KRONES Unterstützungs-Fonds e.V., headquartered in Neutraubling. The fund assets are invested in a special fund that is administered and actively managed by Allianz GI (AGI). The eligible instruments are specified in the investment guidelines. A defensive investment strategy is used. At 31 December 2016, the AGI fund consisted of 34.9% government bonds, 25.3% Pfandbriefe (covered bonds governed by the German Pfandbrief Act), and 15.8% investment-grade corporate bonds. The amount held as cash in hand came to 0.1%. The remainder was primarily equity funds. Interest rate risk is actively managed using interest rate futures. The duration of the investment volume is 2.24 years. Managing currency risk: No direct currency investments are made. The overall rating of the fund assets is A+. KRONES AG's plan assets are secured as follows: 77% through the pension liability reinsurance policies from Allianz and 23% through KRONES Unterstützungs-Fonds e.V.

The expected contributions into the plan assets in 2017 were €660 thousand. The expected pension benefit payments in 2017 that are paid from the plan assets amount to €2,267 thousand.

In 2016, a total of €50,218 thousand (previous year: €48,527 thousand) was spent on the employer contribution to defined contribution plans (contributions to pensions insurance).

The sensitivity of the total pension commitments to changes in the weighted assumptions is as follows:

		Effect on the obligation	
	Change in assumption	Assumption increases	Assumption decreases
Discount rate	0.50%	9.0% decrease	9.4% increase
Change in state pensions	0.50%	7.3% increase	7.3% decrease
Life expectancy	1 year	4.3% increase	4.3% decrease

The above sensitivity analysis is based on the change in one assumption, with all other factors remaining constant. It is unlikely that this would be the case in reality and changes in several assumptions can be correlated. The same method was used to calculate the sensitivity of defined benefit obligation to actuarial assumptions as was used to calculate the provisions for pensions in the statement of financial position.

14 Provisions for taxes and other provisions

Of the provisions for taxes and other provisions amounting to €236,109 thousand (previous year: €206,579 thousand), €179,075 thousand (previous year: €156,484 thousand) are due within one year. These other provisions apply to the following items:

€ thousand	1 Jan 2016	Consol-idated addition	Use	Reversal	Addition	Currency differences	31 Dec 2016	due within 1 year
Tax liabilities	12,379		5,901	2,483	22,449	119	26,563	21,241
Personnel obligations	37,152		547	302	1,817	78	38,198	1,398
Administrative obligations	2,269		0	1,176	2,166	276	3,535	2,055
Other remaining provisions	154,779	2,704	212,423	36,977	257,054	2,676	167,813	154,381
Total	**206,579**	**2.704**	**218,871**	**40,938**	**283,486**	**3,149**	**236,109**	**179,075**

The provisions for personnel obligations are primarily for non-current obligations relating to partial retirement (€24,797 thousand; previous year: €25,393 thousand). The other remaining provisions primarily consist of warranties and anticipated losses. Estimates are based on customary empirical values. The non-current provisions have been discounted using rates between 1.6% and 3.0%.

15 Liabilities

€ thousand	Residual term of up to 1 year	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2016
Liabilities to banks	0	0	0	0
Advances received	615,221	0	0	615,221
Trade payables	323,791	0	0	323,791
Other financial obligations	56,032	26,070	0	82,102
Other liabilities	357,906	2,761	0	360,667
Total	**1,352,950**	**28,831**	**0**	**1,381,781**

€ thousand	Residual term of up to 1 year	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2015
Liabilities to banks	0	0	0	0
Advances received	545,664	0	0	545,664
Trade payables	247,906	0	0	247,906
Other financial obligations	56,325	12,591	0	68,916
Other liabilities	293,632	1,636	0	295,268
Total	**1,143,527**	**14,227**	**0**	**1,157,754**

The other financial obligations are obligations on bills and puttable instruments. Under IAS 39, these represent possible liabilities from bills sold and are also recognised as trade receivables amounting to €62,096 thousand (previous year: €62,893 thousand).

The other liabilities consist of deferred income (€14,464 thousand; previous year: €3,521 thousand) and other remaining liabilities (€346,203 thousand; previous year: €291,747 thousand).

The other remaining liabilities break down as follows:

€ thousand	Residual term of up to 1 year	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2016
Tax liabilities	31,551			31,551
Social security liabilities	8,542			8,542
Payroll liabilities	25,154			25,154
Accruals	251,119			251,119
Other	27,076	2,761		29,837
Total	**343,442**	**2,761**		**346,203**

Accruals, which amounted to €251,119 thousand (previous year: €206,054 thousand), have greater certainty with respect to their amount and timing than provisions have. The primary items they include are outstanding supplier invoices, obligations relating to flexible working hours, accrued vacation, and performance bonuses.

€ thousand	Residual term of up to 1 year	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2015
Tax liabilities	29,497			29,497
Social security liabilities	7,574			7,574
Payroll liabilities	20,299			20,299
Debtors with credit balances	16,711			16,711
Accruals	206,054			206,054
Other	9,976	1,636		11,612
Total	**290,111**	**1,636**		**291,747**

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

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

€ thousand	31 Dec 2016	31 Dec 2015
Future minimum lease payments		
Up to 1 year	132	108
1 to 5 years	177	260
	309	368
Interest portion of future minimum lease payments		
Up to 1 year	15	17
1 to 5 years	11	22
	26	39
Present value of future minimum lease payments		
Up to 1 year	117	91
1 to 5 years	166	238
	283	**329**

16 Contingent liabilities

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

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

17 Other financial liabilities

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

€ thousand	31 Dec 2016	31 Dec 2015
Future minimum lease payments		
Up to 1 year	21,209	14,874
1 to 5 years	24,714	15,355
More than 5 years	21	0
	45,944	**30.229**
Future maintenance		
Up to 1 year	11,745	11,201
1 to 5 years	5,388	8,294
More than 5 years	0	170
	17,133	**19,665**

Payments amounting to €24,369 thousand (previous year: €22,540 thousand) were made under these rental and lease agreements in 2016.

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

18 Other disclosures relating to financial instruments

The derivative financial instruments of the KRONES Group, with positive and negative current values and a fair value of –€9,612 thousand (previous year: –€1,821 thousand) of which –€9,513 thousand are short-term (previous year: –€1,858 thousand), substantially cover the currency risks relating to the US dollar, the Canadian dollar, the British pound, the Japanese yen, and the euro. The fair value includes the difference between the forward rate received from the relevant commercial bank and the rate at the end of the reporting period as well as appropriate premiums or discounts under accepted accounting processes. These financial instruments are accounted for at the trade date.

The derivative financial instruments are essentially composed of forward exchange contracts at a secured volume of €364.6 million (previous year: €344.9 million), of which €361.7 million are short-term (previous year: €338.0 million). This volume includes a nominal volume of €173.2 million (previous year: €199.5 million) for short-term cash flow hedges that is measured with a fair value of –€5.8 million (previous year: –€1.3 million). The risk of default relating to derivative financial instruments is limited to the balance of the positive fair values in the event of a contracting party's default. The cash flow hedges presented are effective. The net loss from these stand-alone derivatives was €2,527 thousand in the reporting period (previous year: net loss of €112 thousand).

No offsetting of financial assets and financial liabilities is done in accordance with IAS 32.42. The German master agreements and ISDA agreements do not meet the criteria to require offsetting in the consolidated statement of financial position. That is because the company currently does not have a legally enforceable right to offset the recognised amounts. The right to offset these amounts is only enforceable if future events occur such as insolvency of a party to the contract. A total of €1,150 thousand (previous year: €218 thousand) in derivatives that are recognised as financial assets and liabilities are subject to this global netting agreement.

The table below presents the financial instruments by their measurement categories and classes and also shows how the financial instruments that are measured at fair value fit within the fair value hierarchy.

31 Dec 2016			Measurement under IAS 39				
€ thousand	Carrying amount 31 Dec 2016	of which subject to IFRS 7	Loans and receivables	Financial assets and liabilities measured at fair value through profit or loss	Financial assets and liabilities measured at fair value through other comprehensive income	Available-for-sale financial assets	Financial liabilities at amortised cost
Assets							
Non-current financial assets*)	5,852	5,852	2.580			3,272	
Trade receivables	1,081,003	1,081,003	1.081.003				
Other assets	137,513	33,042	33.042	0	0		
of which derivatives	0	0		0	0		
Cash and cash equivalents	368,889	368,889	368,889				
Liabilities							
Liabilities to banks	0						
Trade payables	323,791	323,791					323,791
Other financial obligations	82,102	82,102			19,091		63,011
Other liabilities and accruals	360,667	75,125		4,513	5,766		64,563
of which derivatives	9,612	9,612		3,846	5,766		0

*) Equity investments measured at cost in accordance with IAS 39.46c

31 Dec 2015			Measurement under IAS 39				
€ thousand	Carrying amount 31 Dec 2015						
Assets							
Non-current financial assets*)	1,567	1,567	587			980	
Trade receivables	820,612	820,612	820,612				
Other assets	112,006	24,454	23,735	353	366		
of which derivatives	719	719		353	366		
Cash and cash equivalents	364,585	364,585	364,585				
Liabilities							
Liabilities to banks	0						
Trade payables	247,906	247,906					247,906
Other financial obligations	68,916	68,916					68,916
Other liabilities and accruals	295,268	72,802		813	2,394		69,266
of which derivatives	2,540	2,540		146	2,394		0

*) Equity investments measured at cost in accordance with IAS 39.46c

		Fair value hierarchy		
	Measurement under IAS 17	Level 1	Level 2	Level 3
		703		
			0	
			0	
				19,091
	283		9,612	667
			9,612	

		Fair value hierarchy		
		97		
			719	
			719	
	329		2,540	667
			2,540	

Financial instruments categorised as Level 3 inputs and measured at fair value developed as follows:

€ thousand	2016	2015
Net carrying amount at 1 January	667	667
Additions resulting from acquisitions	18,202	0
Changes	889	0
(of which currency effects)	85	0
Net carrying amount at 31 December	19,758	667

There were no other changes. The financial liabilities, which are based on individual measurement parameters and recognised at fair value, comprise contingent consideration and combinations of put and call options relating to the acquisitions made during the financial year. These items are recognised under “other financial obligations” and have been measured on the basis of recognised accounting models, taking into account contractual agreements as well as the market and company data available at the end of the reporting period.

The following overview of maturities shows how the undiscounted cash flows relating to liabilities as of 31 December 2016 influence the company's liquidity situation.

€ thousand	Carrying amount at 31 Dec 2016	Cashflow for 2017		Cashflow for 2018–2021		Cashflow 2021 or later	
		Interest	Repaym.	Interest	Repaym.	Interest	Repaym.
Derivative financial instruments	9,612	0	9,513	0	99	0	0
Liabilities to banks	0	0	0	0	0	0	0
Liabilities from leases	283	15	117	11	166	0	0
Discounted trade bills	63,011	0	56,032	0	6,979	0	0
Other financial liabilities	32,157	0	10,527	123	21,630	0	0
	105,063	**15**	**76,189**	**134**	**28,874**	**0**	**0**

€ thousand	Carrying amount at 31 Dec 2015	Cashflow for 2016		Cashflow for 2017–2020		Cashflow 2020 or later	
		Interest	Repaym.	Interest	Repaym.	Interest	Repaym.
Derivative financial instruments	2,540	0	2,540	0	0	0	0
Liabilities to banks	0	0	0	0	0	0	0
Liabilities from leases	367	17	107	22	260	0	0
Discounted trade bills	68,916	0	56,325	0	12,591	0	0
Other financial liabilities	18,088	0	16,712	153	1,376	0	0
	89,911	**17**	**75,684**	**175**	**14,227**	**0**	**0**

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

€ thousand	Currency USD	Currency CAD	Currency CNY	Currency GBP
Cash and cash equivalents	386	154	0	0
Trade receivables	1,316	3,360	0	84
Other financial receivables	393	35	717	20
Derivatives at positive market values	0	0	0	170
Loans	0	0	0	0
Total assets	**2,095**	**3,549**	**717**	**274**
Liabilities				
Trade payables	–5,585	–1	0	–17
Due to banks	0	0	0	0
From finance leases	0	0	0	0
Other liabilities	–5,561	–1,050	–200	0
Derivatives at negative market values	–8,953	–486	–220	0
Financial liabilities at amortised cost	0	0	0	0
Total liabilities	**–20,099**	**–1,537**	**–420**	**–17**
Balance of assets and liabilities	**–18,004**	**2,012**	**297**	**257**
Items hedged through derivatives	**0**	**0**	**0**	**0**
Net exposure at 31 Dec 2016	**–18,004**	**2,012**	**297**	**257**

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

€ thousand	Currency USD	Currency CAD	Currency CNY	Currency GBP
Separate income statement	–3,075	–545	–1,001	29
Group equity	8,340	–328	–178	444

19 Revenue

The KRONES Group's revenue, which amounts to €3,391,253 thousand for the reporting period (previous year: €3,173,509 thousand), consists of deliveries and services billed to customers less reductions. In the segment reporting, sales revenue is presented in detail, broken down by business area and geographic market. In 2016, revenue of €1,683,587 thousand resulted from construction contracts (previous year: €1,683,713 thousand). Costs and gains (less any reported losses) for contracts in progress came to €924,102 thousand (previous year: €1,019,485 thousand). Advances received amounted to €338,399 thousand (previous year: €295,481 thousand).

20 Other own work capitalised

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

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

21 Other operating income

Apart from income from the reversal of provisions and accruals (€33.105 thousand; previous year: €12,869 thousand), gains from disposals of non-current assets (€421 thousand; previous year: €228 thousand), and the reversal of impairments (€3,891 thousand; previous year: €8,042 thousand), which are not related to the period, the other operating income, which amounts to €140,606 thousand (previous year: €140,847 thousand), consists substantially of currency translation gains of €59,655 thousand (previous year: €64,414 thousand). This is compared with the recognition of impairment losses of €8,357 thousand (previous year: €6,532 thousand) and currency translation losses of €62,864 thousand (previous year: €90,454 thousand) under other operating expenses.

22 Goods and services purchased

The expenditure for goods and services purchased comprises expenses for materials and supplies and for goods purchased amounting to €1,229,695 thousand (previous year: €1,290,815 thousand) and expenses for services purchased amounting to €379,957 thousand (previous year: €298,435 thousand).

23 Personnel expenses

Within the KRONES Group, 13,490 people (previous year: 12,651) including trainees (535; previous year: 538) were employed on average for the year. The workforce of the KRONES Group is composed as follows (on average for the year):

	2016	2015
White-collar employees exempt from collective agreements	2,421	2,330
Employees covered by collective agreements	11,069	10,321
Total	**13,490**	12,651

24 Other operating expenses

Apart from the €622 thousand in losses from disposals of non-current assets (previous year: €563 thousand), which are not related to the period, the other operating expenses include additions to impairments on receivables (€8,357 thousand; previous year: €6,532 thousand), other taxes (€5,765 thousand; previous year: €5,236 thousand), freight costs (€103,119 thousand; previous year: €96,542 thousand), travel costs (€98,899 thousand; previous year: €96,408 thousand), and rent and cleaning costs (€28,114 thousand; previous year: €30,847 thousand).

25 Financial income/expense

The financial income of €9,580 thousand (previous year: €6,418 thousand) breaks down as follows:

€ thousand	2016	2015
Income from other securities and loans classified as non-current financial assets	4	13
Other interest and similar income	8,376	6,212
Interest and similar expenses	–2,458	–1,948
Interest income	5,918	4,264
Investment income	3,658	2,141
Net financial income/expense	**9,580**	**6,418**

Interest income of €8,376 thousand (previous year: €6,212 thousand) had a major impact on net financial income, particularly compared with the interest expense of €2,458 thousand (previous year: €1,948 thousand). The interest income and investment income result from financial instruments that are measured at cost. As in the previous year, there was no share of profit or loss of associates accounted for using the equity method for KLUG GmbH in 2016 because that company is being liquidated. Thus, there are no effects from any non-recognised losses in the financial statements of KRONES AG.

26 Income tax

Income tax amounted to –€68,462 thousand in 2016 (previous year: –€67,070 thousand). More information is presented under Note 7, "Income tax" (pages 180 to 182).

27 Earnings per share

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

	2016	2015
Consolidated net income less profit or loss shares of non-controlling interests (€ thousand)	170,754	157,429
Weighted average number of ordinary shares in circulation (shares)	31,593,072	31,593.072
Earnings per share (€)	**5.40**	**4.98**

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

Group audit fees

Expenses of €520 thousand (previous year: €520 thousand) were incurred in the financial year 2016 for the KRONES Group audit and the audit of the parent company. In addition, for the parent company, expenses totalling €171 thousand (previous year: €115 thousand) were incurred for tax consultancy services. The expense for the audit of the German subsidiaries was €102 thousand (previous year: €82 thousand). In addition, the company received other services totalling €42 thousand (previous year: €14 thousand) and other assurance services totalling €17 thousand (previous year: €0 thousand).

Risk report
The risk report is part of the management report and is on pages 118 to 129.

Events after the reporting period

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 company is accounted for using the equity method. The transaction is subject to approval by antitrust authorities.

In February 2017, KRONES INC. of Franklin, USA, acquired a 100% equity interest in PROCESS AND DATA AUTOMATION INC. of Erie, USA. The company generates approximately €5 million in revenue and employs around 40 people.

Related party disclosures

Within the meaning of IAS 24 "Related party disclosures", the members of the Supervisory Board and of the Executive Board of KRONES AG and the companies of the KRONES Group, including unconsolidated subsidiaries, are deemed related parties. Purchases and sales between the related companies are transacted at prices customary on the market ("at arm's length"). Sales to subsidiaries that are not consolidated amounted to €36,111 thousand in 2016 (previous year: €38,423 thousand). Trade and other payment transactions resulted in assets of €12,064 thousand (previous year: €12,894 thousand). Contingent liabilities of €2,792 thousand (previous year: €2,775 thousand) result from guarantees.

Executive Board remuneration and benefits paid to former members of the Executive Board

Total Executive Board remuneration for the financial year amounted to €4,558 thousand (previous year: €5,573 thousand). Pension provisions of €2,913 thousand (previous year: €5,536 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.

For former members of the Executive Board and their surviving dependents, payments were made amounting to €1,451 thousand (previous year: €988 thousand). Pension provisions of €7,236 thousand (previous year: €2,282 thousand) were recognised.

Supervisory Board remuneration

The total remuneration paid to members of the Supervisory Board for the financial year 2016 amounted to €633 thousand (previous year: €642 thousand).

Corporate governance

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.

Standards and interpretations

The accounting policies used in these consolidated financial statements are the standards and interpretations whose application is mandatory as of 31 December 2016. The following new or amended standards and interpretations applied for the financial year 2016.

Standard or interpretation		Endorsement	Application mandatory beginning
IFRS 10	Amendments relating to the consolidation exception	complete	1 January 2016
IFRS 11	Amendments relating to accounting for acquisitions of interests in joint operations	complete	1 January 2016
IFRS 12	Amendments relating to the consolidation exception	complete	1 January 2016
IAS 1	Amendments relating to disclosure initiative	complete	1 January 2016
IAS 16	Amendments relating to bearer plants	complete	1 January 2016
IAS 16	Amendments relating to clarification of acceptable methods of depreciation and amortisation	complete	1 January 2016
IAS 19	Amendments relating to employee contributions	complete	1 January 2015
IAS 27	Amendments relating to equity method in separate financial statements	complete	1 January 2016
IAS 28	Amendments relating to the consolidation exception	complete	1 January 2016
IAS 38	Amendments relating to clarification of acceptable methods of depreciation and amortisation	complete	1 January 2016
IAS 41	Amendments relating to bearer plants	complete	1 January 2016
	Annual improvements to IFRSs – 2010–2012 cycle	erfolgt	1 January 2015
	Annual improvements to IFRSs – 2012–2014 cycle	complete	1 January 2016

The new or amended standards and interpretations listed above have no material relevance for KRONES AG. The following standards and interpretations have been issued by the IASB but their application is not mandatory until after 31 December 2016.

Standard or interpretation		Endorsement	Application mandatory beginning
IAS 7	Amendments relating to additional notes disclosures	open	1 January 2017
IAS 12	Amendments relating to clarification of recognition of deferred tax assets for unrealised losses	open	1 January 2017
IAS 28	Amendments relating to sale or contribution of assets between an investor and its associate or joint venture	open	to be determined
IAS 40	Amendments relating to clarification of transfers of investment property	open	1 January 2018
IFRS 2	Share-based payment	open	1 January 2018
IFRS 4	Insurance contracts	open	1 January 2018
IFRS 9	Financial instruments	complete	1 January 2018
IFRS 10	Amendments relating to sale or contribution of assets between an investor and its associate or joint venture	open	to be determined
IFRS 14	Regulatory deferral accounts	open	1 January 2016
IFRS 15	Revenue from contracts with customers	complete	1 January 2018
IFRS 15	Amendments relating to clarifications and transitional reliefs	complete	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	open	1 January 2018
IFRS 16	Leases	open	1 January 2019
	Annual improvements to IFRSs – 2014–2016 cycle	open	1 January 2017

In July 2014, the IASB issued a new standard, IFRS 9 Financial Instruments. IFRS 9 introduces a single approach for the classification and measurement of financial assets. It also introduces a new impairment model that is based on expected credit losses. IFRS 9 also contains new rules for hedge accounting in order to present a better picture of a company's risk management activities, particularly with respect to managing non-financial risks. The new standard is effective for financial years beginning on or after 1 January 2018. Early application is permitted. KRONES will apply IFRS 9 for the first time for the financial year beginning on 1 January 2018. The group is not yet able to say what effects initial application of the standard will have.

In May 2014, the IASB published IFRS 15, which provides a single, comprehensive framework for determining the amount and timing of revenue recognition. IFRS 15 replaces the previous revenue-recognition standards IAS 18 Revenue and IAS 11 Construction contracts and the associated interpretations. Under IFRS 15, revenue is to be recognised when control of the good or service is passed to the customer. In the future, the principle of the transfer of control will replace the principle of the transfer of risks and rewards. An amendment to IFRS 15 was issued in September 2015, deferring the effective date (mandatory application) of the standard from 1 January 2017 to financial years beginning on or after 1 January 2018. The standard was adopted by the European Union in October 2016. The qualitative analyses are not yet complete. Therefore, it is not yet possible to quantify the possible impacts of transition. KRONES will apply the standard for the first time to the financial year 2018. KRONES has not yet decided which of the available transition methods to use or whether to use the simplified approach.

In May 2014, the IASB issued a new standard, IFRS 16 Leases. The objective of IFRS 16 is to introduce a single reporting model that requires all assets and liabilities for all leases to be recognised in the statement of financial position unless the lease term is 12 months or less or the underlying asset has a low value. Thus, previously unrecognised leases will, in future, be reported, much like the current treatment of finance leases. IFRS 16 will replace IAS 17 Leases and its associated interpretations and thus also the classification of leases as operating or finance leases for the lessee. IFRS 16 is effective for financial years beginning on or after 1 January 2019. Early application is permitted if IFRS 15 is already being applied. KRONES will apply IFRS 16 for the first time for the financial year beginning on 1 January 2019. The group is not yet able to say what effects initial application of the standard will have.

The remaining new or amended standards and interpretations listed above have no material relevance for KRONES AG.

KRONES AG has not voluntarily applied early any of the new or amended rules listed above.

Shareholdings

Name and location of the company	Share in capital held by KRONES AG (%*)
neusped Neutraublinger Speditions-GmbH, Neutraubling, Germany	100.00
KIC KRONES Internationale Cooperations-Gesellschaft mbH, Neutraubling, Germany	100.00
ecomac Gebrauchtmaschinen GmbH, Neutraubling, Germany	100.00
EVOGUARD GmbH, Nittenau, Germany	100.00
MAINTEC Service GmbH, Collenberg/Main, Germany	100.00
KLUG GmbH Integrierte Systeme, Teunz, Germany	26.00
SYSKRON Holding GmbH, Wackersdorf, Germany	100.00
SYSKRON GmbH, Wackersdorf, Germany	100.00
TRIACOS Consulting & Engineering GmbH, Altenstadt an der Waldnaab, Germany	100.00
HST Maschinenbau GmbH, Dassow, Germany	100.00
TILL GmbH, Hofheim, Germany	50.97
GERNEP GmbH Etikettiertechnik, Barbing, Germany	100.00
MILKRON GmbH, Laatzen, Germany (former KPC-PROCESSING GMBH, Neutraubling)	100.00
KRONES Beteiligungsgesellschaft mbH, Neutraubling, Germany	100.00
S.A. KRONES N.V., Louvain-la-Neuve, Belgium	100.00
MAINTEC Service eood, Sofia, Bulgaria	100.00
KRONES Nordic ApS, Holte, Denmark	100.00
KRONES S.A.R.L., Lyon, France	100.00
KRONES UK Ltd., Bolton, UK	100.00
SYSTEM Ltd., London, UK	60.00
KRONES S.R.L., Garda (VR), Italy	100.00
KOSME S.R.L., Roverbella, Italy	100.00
SYSTEM LOGISTICS, Fiorano, Italy	60.00
KRONES Kazakhstan TOO, Almaty, Kazakhstan	100.00
KRONES Nederland B.V., Bodegraven, Netherlands	100.00
KOSME Gesellschaft mbH, Sollenau, Austria	100.00
KRONES Spólka z.o.o., Warsaw, Poland	100.00
KRONES Portugal Equipamentos Industriais Lda., Barcarena, Portugal	100.00
KRONES o.o.o., Moscow, Russian Federation	100.00
KRONES Romania Prod. S.R.L., Bucharest, Romania	100.00
SYSTEM NORTHERN EUROPE AB, Malmö, Sweden	60.00
KRONES AG, Buttwil, Switzerland	100.00
KRONES Iberica, S. A., Barcelona, Spain	100.00
SYSTEM LOGISTICS SPAIN SL, Castellon, Spain	60.00
KRONES S.R.O., Prague, Czech Republic	100.00

Name and location of the company	Share in capital held by KRONES AG (%*)
KONPLAN Immobiliengesellschaft S.R.O., Pilsen, Czech Republic	100.00
KONPLAN S.R.O., Pilsen, Czech Republic	100.00
KRONES Makina Sanayi ve Tikaret Ltd. Sirketi, Istanbul, Turkey	100.00
KRONES Ukraine LLC, Kiev, Ukraine	100.00
RONES Angola – Representacoes, Comercio e Industria, Lda., Luanda, Angola	100.00
KRONES Surlatina S. A., Buenos Aires, Argentina	100.00
KRONES PACIFIC PTY LIMITED, Sydney, Australia	100.00
KRONES do Brazil Ltda., São Paulo, Brazil	100.00
KRONES S. A., São Paulo, Brazil	100.00
KRONES CHILE SpA., Santiago de Chile, Chile	100.00
KRONES Sales (Beijing) Co. Ltd., Beijing, China	100.00
KRONES Machinery (Taicang) Co. Ltd., Taicang, China	100.00
KRONES Trading (Taicang) Co. Ltd., Taicang, China	100.00
KRONES Asia Ltd., Hong Kong, China	100.00
KRONES India Pvt. Ltd., Bangalore, India	100.00
PT. KRONES Machinery Indonesia, Jakarta, Indonesia	100.00
KRONES Japan Co. Ltd., Tokyo, Japan	100.00
KRONES Machinery Co. Ltd., Mississauga, Ontario, Canada	100.00
KRONES LCS Center East Africa Limited, Nairobi, Kenya	100.00
KRONES Andina Ltda., Bogotá, Colombia	100.00
KRONES Korea Ltd., Seoul, Korea	100.00
KRONES Mex S. A. DE C. V., Mexico D. F., Mexico	100.00
SYSTEMLOG DE MEXICO S.A. DE C.V., Nuevo Leon, Mexico	60.00
KRONES New Zealand Limited, Auckland, New Zealand	100.00
KRONES LCS Center West Africa Limited, Lagos, Nigeria	100.00
KRONES Filipinas Inc., Taguig City, the Philippines	100.00
KRONES Southern Africa (Prop.) Ltd., Johannesburg, South Africa	100.00
KRONES (Thailand) Co. Ltd., Bangkok, Thailand	100.00
SYSTEM LOGISTICS ASIA Co. Ltd., Bangkok. Thailand	60.00
KRONES, Inc., Franklin, Wisconsin, USA	100.00
SYSTEM LOGISTICS CORPORATION, Delaware, USA	60.00
TRANS-MARKET LLC, Tampa, USA	80.00
MAQUINARIAS KRONES de Venezuela S. A., Caracas, Venezuela	100.00
KRONES Vietnam Co. Ltd., Ho Chi Minh City, Vietnam	100.00

*Direct and indirect shareholdings

KRONES AG, Neutraubling, Germany is the parent company and is recorded in Commercial Register B of the Regensburg Local Court under HRB 2344.

Members of the Supervisory Board and the Executive 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.

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.

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 per share	48,969,261.60
Amount brought 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

6

Other information

Auditor's report

We have audited the consolidated financial statements prepared by KRONES Aktiengesellschaft, Neutraubling, comprising the separate income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the financial year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. [paragraph] 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

AUDITOR'S REPORT

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

Regensburg, 10 March 2017

KPMG Bayerische Treuhandgesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Renner
Wirtschaftsprüfer
(German Public Auditor)

Feege
Wirtschaftsprüfer
(German Public Auditor)

AUDITOR'S REPORT

Commercial glossary

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.
Fixed assets	Subset of non-current assets. In the context of this report, fixed assets include property, plant and equipment, intangible assets, and non-current financial assets.
Free cash flow	Measure of financial performance calculated as the cash flow from operating activities minus cash flow from investing activities. It is the cash available to pay dividends, reduce debt, or to be retained.
IFRS	International Financial Reporting Standards. Accounting standards issued by the International Accounting Standards Board (IASB) that are harmonised and applied internationally.
Net cash and equivalents	Cash and highly liquid securities under current assets less liabilities to banks.
Return on equity before taxes	Ratio of earnings before taxes to average equity.
ROCE (assets side)	Ratio of EBIT to the average sum of fixed assets and working capital.
ROCE (liabilities side)	Ratio of EBIT to average capital employed (total assets less interest-free liabilities and interest-free other provisions).
Statement of cash flows	Statement of inflows and outflows of cash that shows the sources and uses of funds within the financial year.
Total debt	Combined term for the provisions, liabilities, and deferred income stated on the liabilities side of the balance sheet.
Total operating performance	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

Technical 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.

GLOSSARY

This English language report is a translation of the original German KRONES Konzern Geschäftsbericht 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.

Publication information

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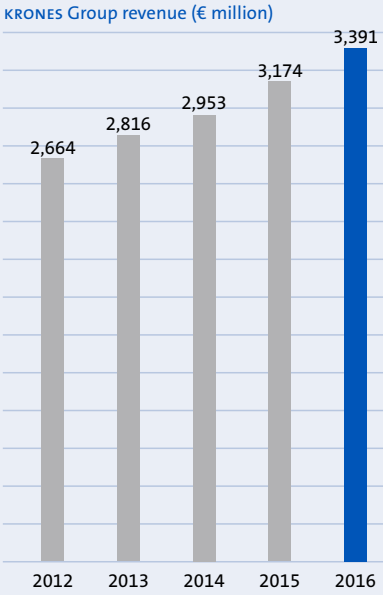
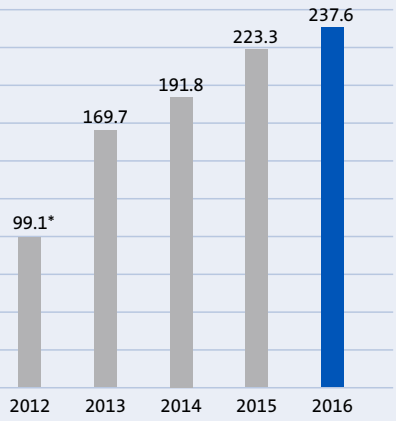
At a glance: revenue, earnings, employees, dividends

KRONES Group revenue (€ million)

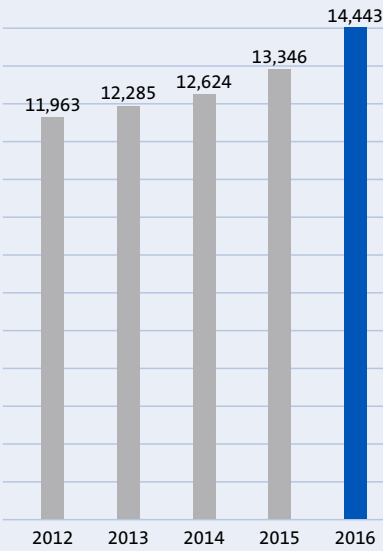


KRONES Group EBT (€ million)

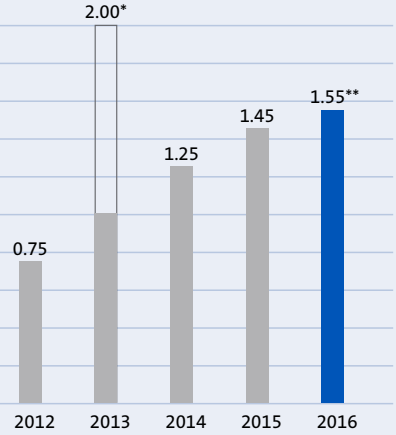


* Adjusted according to IAS 19R

KRONES workforce



Dividend per share (€)



* Including a €1.00 special dividend
** As per proposal for the appropriation of retained earnings

Key figures for the KRONES Group 2012 – 2016

		2016	2015	2014	2013	2012*
Revenue						
Sales revenue	€ million	3,391	3,174	2,953	2,816	2,664
Germany	€ million	354	382	284	292	224
Outside Germany	€ million	3,037	2,792	2,669	2,524	2,440
Export share	%	90	88	90	90	92
Earnings						
Earnings before taxes	€ million	238	223	192	170	99
Net income	€ million	169	156	136	119	68
Earnings per share	in €	5.40	4.98	4,30	3.84	2.26
Assets and capital structure						
Non-current assets	€ million	799	697	672	642	625
of which fixed assets	€ million	725	646	624	605	587
Current assets	€ million	2,272	2,010	1,756	1,596	1,445
of which cash and equivalents	€ million	369	365	336	240	133
Equity	€ million	1,226	1,111	989	954	798
Total debt	€ million	1,845	1,596	1,439	1,284	1.272
Non-current liabilities	€ million	308	278	275	213	193
Current liabilities	€ million	1,537	1,318	1,164	1,071	1,079
Total assets	€ million	3,071	2,707	2,428	2,238	2,070
Cash flow/capital expenditure						
Free cash flow	€ million	49	71	152	67	31
Capital expenditure for PP&E and intangible assets	€ million	111	103	95	108	111
Depreciation, amortisation, and write-downs	€ million	93	88	91	85	77
Net cash position (cash and cash equivalents less debt)	€ million	369	365	336	240	133
Profitability ratios						
EBT margin	%	7.0	7.0	6.5	6.0	3.7
Return on equity before taxes	%	20.3	21.3	19.7	19.4	12.2
ROCE (liabilities side)	%	17.0	17.7	16.4	16.7	10.0
ROCE (assets side)	%	14.7	15.6	14.1	13.8	7.8
Employees (at 31 December)		14,443	13,346	12,624	12,285	11,963
Germany		10,061	9,767	9,344	9,098	9,076
Outside Germany		4,382	3,579	3,280	3,187	2,887
Dividend						
Dividend per share	in €	1.55**	1.45	1.25	2.00***	0.75

* Adjusted according to IAS 19R ** As per proposal for appropriation of retained earnings *** Including a €1.00 special dividend

KRONES Group segments and product divisions

Machines and lines
for product filling
and decoration

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

Machines and lines
for beverage production/
process technology

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

Machines and lines
for the compact class

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

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Financial calendar

23 March 2017	Annual report for 2016
27 April 2017	Quarterly statement for the period from 1 January to 31 March 2017
20 June 2017	Annual general meeting
20 June 2017	Interim report for the period ended 30 June 2017
26 October 2017	Quarterly statement for the period from 1 January to 30 September 2016

KRONES