

Intelligently **connected**

2017 highlights

- KRONES continued profitable growth in 2017.
- Revenue increased 8.4% to €2.95 billion.
- Earnings before taxes grew to €217.7 million.
- KRONES plans to pay out a dividend of €1.70 per share for 2017 (previous year: €1.55).

		2017	2016	Change %
Revenue	€ million	2,950.0	2,721.2	+8.4
Order intake	€ million	2,874.7	2,639.7	+8.9
Orders on hand at 31 December	€ million	1,382.2	1,457.5	-5.2
EBITDA	€ million	147.9	191.5	-22.8
EBIT	€ million	93.4	138.9	-32.8
EBT	€ million	217.7	146.3	+48.8
Net income for the year	€ million	185.8	111.1	+67.2
Earnings per share (KRONES Group, IFRS)	€	5.97	5.40	+10.6
Dividend per share	€	1.70*	1.55	+9.7
Capital expenditure for PP&E and intangible assets	€ million	57.1	53.2	+€3.9 million
Cash flow**	€ million	240.3	163.7	+€76.6 million
Net cash and cash equivalents*** at 31 December	€ million	-18.9	188.2	-€207.1 million
Employees at 31 December		9,532	9,402	+130

*As per proposal for the appropriation of retained earnings

** Net income or loss for the year plus depreciation and amortisation

*** Cash and cash equivalents less debt

Intelligently **connected**

KRONES has always focussed on customers' needs and demonstrated that our products and services offer real added value. Now, technologies are available that enable us to significantly boost efficiency in customers' plants.

With cloud computing, big data, smart data, and the Internet of Things, all processes along the entire value chain can be viewed holistically. We support our customers with smart machines, custom IT solutions, and state-of-the-art lifecycle services. Simply put, by intelligently connecting high-tech lines with IT solutions, KRONES is transforming customer plants into smart, efficient production sites.



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Automated order-picking systems easily handle a wide variety of different product and packaging types.





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“At drinktec 2017, the KRONES team demonstrated its technological leadership in all areas, including digitalisation. We will ensure that all machines and people in the digital beverage plant are intelligently connected.”

Christoph Klenk
CEO

Dear shareholders and friends of KRONES,

2017 was a successful year overall for KRONES. Despite a market and competitive environment that are not altogether easy, business was good and our numbers were on target. KRONES also made important decisions in the reporting period to ensure our continued strong performance.

Drinktec 2017 was a huge success for KRONES

Of course, the drinktec trade fair was the absolute highlight of 2017. Drinktec is the beverage and liquid food industry's equivalent of the World Economic Summit and takes place only once every four years. The fair was a resounding success for KRONES. Attendee feedback on our innovations was very positive and our customers' interest in placing orders was more than satisfactory. Some of the innovations we took to the fair are described on pages 39 to 43 of this report. One topic that dominated drinktec like no other was digitalisation. That shows that there is a general sense of excitement about it across the industry and confirms that we are on the right track.

Digitalisation is an enormous opportunity for growth

The digitalisation of beverage plants holds enormous potential for KRONES. As a full-service supplier, we are able to connect all processes and data along the entire value chain. We intend to increase the efficiency of our customers' lines considerably by intelligently analysing and linking data with human and machine knowledge. In so doing, we are creating real added value for our customers. Fortunately for us, that is by no means new territory for KRONES. We are already supporting our customers with IT products and services and will continue to place particular emphasis on the digital intelligence of all new and evolving developments.

Business development satisfactory overall

Although sales prices provided no support once again in 2017, we were able to offset rising costs for personnel and purchased goods and services to such an extent that we achieved our growth and earnings targets for the year. Revenue increased 8.8% to €3.69 billion. Earnings before taxes (EBT) improved by 8.9% to €259 million. And at 7.0%, our EBT margin was as forecast. (All figures relate to the group).

Investing heavily in sites in Germany and abroad

With more than 10,000 people, our team in Germany makes up around two-thirds of the group's total workforce. Germany offers us myriad advantages such as highly skilled workers and outstanding infrastructure. KRONES remains committed to Germany as a business location and has underscored this commitment with a promise to secure employment and the future of our German sites until the end of the year 2022. We will invest around €200 million in our German sites over the next five years. For example, we intend to build the factory of the future, equipped with the very latest logistics and digitalisation solutions, at our headquarters in Neutraubling.

However, the fact is that KRONES generates almost 90% of revenue in markets abroad, around the globe. For this reason, KRONES will continue to invest heavily in expanding its global footprint. Being as close to our customers as possible is of great strategic importance. That applies especially to after-sales service but also to production.



See also Strategy and management system, pages 28 to 35.

Because we have to expand value creation abroad in our core segment, we will establish a new plant in Hungary. The new production site is slated to go into operation in early 2019. We intend to employ 500 new people there. KRONES will assemble components and modules at the site, which will be located in Debrecen, Hungary.

Changes to the executive management team

Rainulf Diepold, who served as Chief Sales Officer on KRONES' Executive Board since the year 2000, retired from the board at the end of 2017, having reached the age limit for membership stipulated under the company's internal Executive Board rules. The entire Executive Board would like to thank Rainulf Diepold for his many years and extremely successful work at KRONES. Thomas Ricker succeeds Rainulf Diepold as CSO. Ricker has been a member of the Executive Board, responsible for Bottling and Packaging Equipment, since 2012. He switched over to CSO on 1 January 2018.

Ambitious growth targets for 2018

Despite the many opportunities our market offers, conditions are unlikely to improve in the near future. Nevertheless, we have some pretty big plans for 2018. We aim to further increase KRONES' revenue and earnings. For 2018, we are forecasting revenue growth of 6%. We intend to maintain an EBT margin of 7.0% despite start-up costs for the plant in Hungary. (All figures relate to the group).

People are the bedrock of KRONES' success

Highly qualified, motivated employees will be crucial to our ability to meet our short and medium-term goals. Getting new employees excited about working for KRONES will be as important as continuing to train and educate our existing personnel. KRONES' success depends on our people. That is why, on behalf of the entire Executive Board, I would like to extend my sincere thanks to the entire KRONES team for contributing their dedication and skill. As a team, we will ensure KRONES' continued success.

Christoph Klenk
CEO

Michael Andersen
CFO
Finance, Controlling,
Process Technology,
Strategic Purchasing

Ralf Goldbrunner
Bottling and Packaging
Equipment

Markus Tischer
International Operations
and Services



Thomas Ricker
Sales and Marketing

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



Long-time sales chief retires

KRONES' internal rules stipulate that Executive Board members must step down when they reach age 62. And that is now the case for our long-time Chief Sales Officer, Rainulf Diepold. At the end of 2017, he entered a well-deserved retirement.

And it would not be an exaggeration to say that this marks the end of an era. All told, Rainulf Diepold worked for KRONES for 34 years.

After serving in various capacities in our Sales department, he received the Supervisory Board's appointment as a deputy member of the Executive Board in 1996. At the end of 1999, Diepold then became a full member of the Executive Board, responsible for Sales and Marketing. Since then, he has been KRONES' face to our customers. He embodies two values that are very important to KRONES: continuity and trust. He was and still is 100% reliable.

Loved by customers and employees alike

Rainulf Diepold is a true bundle of energy. Especially when it comes to securing orders for KRONES. Countless times, he was able to come up with the right argument at the right time to persuade a hesitant customer to sign on the dotted line. For him, it was always important to understand what the customer wanted and what the customer really needed. He was able to read between the lines and build that crucial level of trust with customers. Diepold explains his recipe for success this way: "Customers have to feel that KRONES is the best partner for their business."

Mr. Diepold was also very popular among employees. He placed great value on teamwork and always tried to highlight each employee's individual identity and talents. He wanted everyone to be able to bring their best to the table. Customers can tell when the person working with them is being genuine – it makes KRONES authentic. And that authenticity is what leads customers to place their orders with us. "People who pretend to be something they are not are found out pretty fast. That's why I have always encouraged my colleagues to be themselves," Diepold explains about his leadership style.

Respected by the competition

Employees and customers loved him. Competitors respected him. And that may be the biggest compliment of all for a fair-minded, successful CSO. Rainulf Diepold had a lot to do with KRONES' success. And for that, we – the Executive Board, the Supervisory Board, and the entire KRONES team – thank him.

We are also pleased to say that Rainulf Diepold will remain connected with the company and will continue to serve Krones in an advisory capacity.

"Customers have to feel that KRONES is the best partner for their business."

*Rainulf Diepold
Retired Executive Board member
for Sales and Marketing (CSO)*





*Volker Kronseder
Chairman of the Supervisory Board*

Ladies and Gentlemen,

KRONES was successful in 2017. Revenue and earnings were strong, as was the company's showing at the drinktec, the industry's premier trade fair worldwide, which takes place every four years. The weeks leading up to the drinktec and then the fair itself demand a great deal of time and energy of the Executive Board and employees alike. It is, after all, the most important trade fair for KRONES worldwide. The company's success there testifies to the trade fair team's great accomplishment. For that, I offer my sincere thanks.

I visited the KRONES booth several times myself and saw great enthusiasm on the faces of many attendees. But drinktec also showed me that KRONES is up against strong competition. The challenges of the future will require the unwavering commitment of the entire team. The Supervisory Board will continue to actively monitor and support the company's development and do its part to ensure KRONES' continued success.

Unfortunately, we also have some sad news to report from the Supervisory Board. Philipp Graf von und zu Lerchenfeld passed away on 1 December 2017. He had been a member of the board since 2009 and, with his considerable knowledge and expertise, contributed greatly to KRONES' success.

Advising and oversight

In the financial year 2017, 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. Topics relating to strategy, such as expanding the company's global footprint, were a focus of the Supervisory Board's work in 2017. The Executive Board regularly informed the Supervisory 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 2017. The first was on 22 March. Representatives from KRONES' auditing firm were present for a portion of the meeting. They explained to the Supervisory Board their audit mandate and the areas on which their review of the 2016 annual financial statements focused and provided a detailed overview of the audit. The Supervisory Board then ratified the annual financial statements and management report for KRONES AG and approved the consolidated financial statements and consolidated management report. Matters relating to the Supervisory Board and Executive Board were another item on the agenda. At the recommendation of the Standing Committee, the Supervisory Board resolved that Thomas Ricker, the Executive Board member hitherto responsible for Bottling and Packaging Equipment, change responsibilities and take on the role of Chief Sales Officer (CSO) effective 1 January 2018.

The Supervisory Board convened again on 20 June 2017, for its constitutive meeting immediately following the annual general meeting. Chairman of the Supervisory Board Volker Kronseder welcomed Beate Eva Maria Pöpperl, whom employees had

elected as a representative to the board. She replaced Johann Robold, whom Volker Kronseder thanked for his many years of service on the Supervisory Board. The remainder of this meeting was devoted to appointing members to the Standing Committee and to the Audit and Risk Management Committee.

The Supervisory Board convened for its third meeting of 2017 on 19 July. One item on the agenda was succession planning for the Bottling and Packaging Equipment area of Executive Board responsibility. At the recommendation of the Standing Committee, the Supervisory Board resolved as part of the succession plan for Bottling and Packaging Equipment to reduce the size of KRONES AG's Executive Board from six members to five effective 1 January 2018 and to redistribute the areas of Executive Board responsibility. Then, as part of the report on economic position, the respective Executive Board members provided current reports on the segments for which they are responsible. The Executive Board also informed the Supervisory Board in detail about the planned expansion of the company's global footprint and discussed manufacturing in the regions of Eastern Europe, China, and North America.

The fourth meeting of the Supervisory Board in 2017 took place on 28 September at the offices of KRONES' subsidiary SYSKRON in Wackersdorf, Germany. As the first order of business, the board adopted the current by-laws for the Supervisory Board and then took necessary decisions relating to the CSR Directive Implementation Act. In its report on economic position, the Executive Board informed the Supervisory Board about the medium-term capital expenditure and human resources forecasts, which will be significantly affected by the expansion of the company's global footprint and the company's plans to build the "factory of the future". The Executive Board also presented in detail the management's overall strategy for the company as well as the sales strategy and strategies for the individual segments. The Executive Board then explained KRONES' medium-term targets and the measures designed for achieving them.

The Supervisory Board held its fifth meeting of 2017 on 29 November. Under the agenda item "Matters relating to the Executive Board and the Supervisory Board", the Supervisory Board adopted resolutions relating to diversity policy and to Executive Board remuneration. Another item on the meeting's agenda was the Audit and Risk Management Committee's report, which covered such topics as risk management, internal auditing, and compliance. Chief Financial Officer Michael Andersen then presented the results from the third quarter of 2017 to the board. The final agenda item related to Executive Board's forecasts and planning for the financial year 2018.

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 (until 1 December 2017), Josef Weitzer, Johann Robold (until 20 June 2017), and

Jürgen Scholz (since 20 June 2017). Philipp Graf von und zu Lerchenfeld chaired the committee until 1 December 2017. The Audit and Risk Management Committee oversees the company's accounting and financial reporting and the audit of the financial statements and other reporting 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 twice in 2017. On 21 March, the committee prepared the Supervisory Board meeting held to ratify the financial statements. Based on the remarks of the auditor and information from the auditor's report, the members of the Audit and Risk Management Committee unanimously agreed to recommend to the Supervisory Board that the annual financial statements and management report of KRONES AG for the financial year 2016 be ratified and the consolidated financial statements and consolidated management report for 2016 be approved.

The Audit and Risk Management Committee held its second meeting on 28 November. At this meeting, committee members were informed about current risks and the status of the Internal Auditing and Compliance Management departments. In addition, the committee resolved to appoint KPMG AG Wirtschaftsprüfungsgesellschaft to audit the consolidated non-financial report for 2017.

In keeping with Item 5.4.7 of the German Corporate Governance Code, I hereby report that, due to illness, Philipp Graf von und zu Lerchenfeld and Volker Kronseder were able to participate in only half of the Audit and Risk Management Committee meetings that took place in 2017.

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 three times in 2017.

The meeting on 21 March was convened in order to discuss succession of responsibility for Sales and Marketing within the Executive Board. The members of the Standing Committee decided unanimously to recommend that the Supervisory Board resolve that Thomas Ricker, the Executive Board member then responsible for Bottling and Packaging Equipment, change responsibilities and take on the role of Chief Sales Officer (CSO) effective 1 January 2018.

The Standing Committee's second meeting took place on 18 July. The main item on the agenda was succession planning for the Bottling and Packaging Equipment area of Executive Board responsibility. As part of its search for a successor to Thomas

Ricker, the Standing Committee also considered the possibility of reducing the Executive Board from six members to five. Owing to the advantages of this alternative, the Standing Committee recommended that the Supervisory Board resolve to reduce the size of the Executive Board of KRONES AG from six members to five effective 1 January 2018 and to redistribute the areas of Executive Board responsibility. It was decided that Ralf Goldbrunner, previously responsible for Plants and Components at the Executive Board level, should take over responsibility for Bottling and Packaging Equipment, effective 1 January 2018.

The committee's third meeting on 18 November was convened to discuss the review of the Executive Board remuneration system ahead of the 29 November Supervisory Board meeting. The Standing Committee resolved to recommend to the Supervisory Board that the fixed and variable remuneration for Executive Board members be adjusted.

The Supervisory Board concurs with the audit result

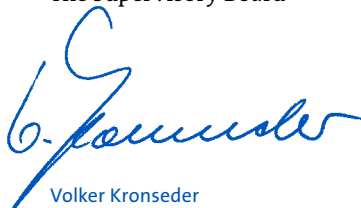
The annual financial statements of KRONES AG, the consolidated financial statements, the management report for KRONES AG, and the consolidated management report prepared by the Executive Board for the period ended 31 December 2017 were examined by the auditors elected by the annual general meeting, KPMG AG Wirtschaftsprüfungsgesellschaft, 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 2017 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 14 March 2018. 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 ratified the annual financial statements for KRONES AG and approved the consolidated financial statements as well as the Executive Board's proposal for the appropriation of retained earnings. The 2017 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 2017.

Neutraubling, March 2018

The Supervisory Board



Volker Kronseder
Chairman of the Supervisory Board



"I am very pleased for our shareholders that KRONES' share price picked up considerable gains in 2017."

Olaf Scholz
Head of Investor Relations

- Low interest rates and a strong global economy put equity markets in an exuberant mood in 2017
- KRONES share price climbed 31.8%
- KRONES plans to pay out a dividend of €1.70 per share for 2017

The world's stock markets post sharp gains

The environment was favourable for shares in 2017. A strong global economy overall and rising corporate profits coupled with low interest rates all supported gains on the world's major equity markets. Fears that central banks would end their expansive monetary policy impacted share prices only briefly. There are several indications that the FED will raise interest rates only slowly. The extension of the European Central Bank's bond-buying programme also contributed to the positive mood on the markets.

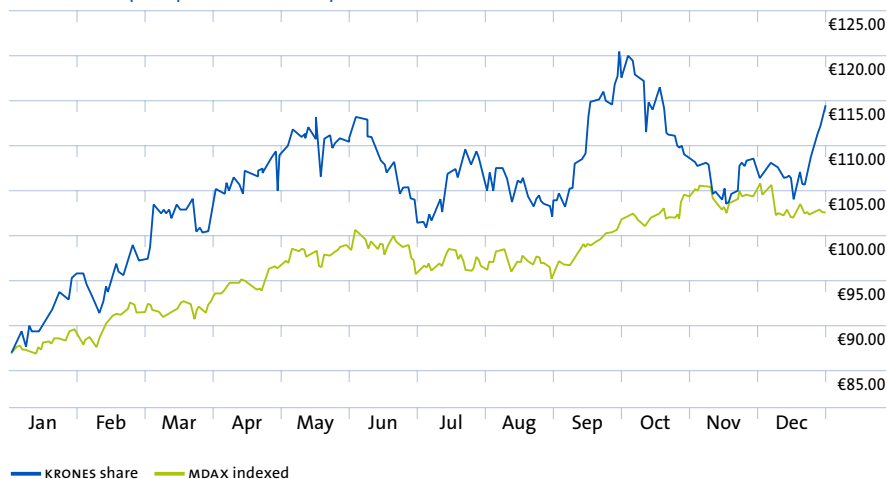
Germany's DAX blue-chip index climbed to a new all-time high in 2017 and closed the year with a 12.5% gain. That marks the sixth year of consecutive gains for the DAX. The Euro Stoxx 50, which covers the euro area's blue-chip shares, advanced only 6.5%, hampered by the weak performance of some telecommunications and pharmaceuticals shares in 2017. The bulls were charging on Wall Street. The Dow Jones Industrial Average rose by around 25%. Contributing to this impressive performance were the FED's interest rate policy and the prospect of business-friendly tax reform. Japan's stock markets also picked up momentum last year. The Nikkei index climbed 19.5% in all in 2017.

KRONES share far outperforms the MDAX in 2017

KRONES' share price benefited from the generally positive market mood in 2017. Investors also rewarded the company's strong business development. Our share price rose 31.8% to €114.50 in the period from January through December 2017. Including the dividend of €1.55 per share, the share gained 33.7%. Thus, the KRONES share outperformed the MDAX, which includes our share, by a significant margin. The mid-cap index advanced 18.1% last year.

KRONES' share price rose sharply, outperforming the MDAX by a considerable margin in 2017.

KRONES share price performance compared with the MDAX 2017



Apart from some smaller corrections, KRONES' share gained steadily from the start of 2017 through early June, moving from €90 to nearly €115. Our figures for the 2016 financial year and for the first quarter of 2017 supported the uptrend. The stock markets came under pressure temporarily in June and KRONES' share was also affected, falling back down to around €100. The share then trended sideways until it picked up new momentum in September. Our successful showing at the drinktec trade fair contributed to the rebound. The company also hosted a conference for analysts at the fair. On 4 October, our share price hit €121.25, its high for the year 2017. That was followed by a sharper correction, which can be attributed in part to our earnings report for the third quarter of 2017. Although the figures were within our forecast, they did not quite meet analysts' high expectations. The share rallied again at the end of the year, recovering much of the ground it had lost and closing the year 2017 at €114.50.

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

At 31 December		2017	2016	2015
Earnings per share	€	5.97	5.40	4.98
Equity per share	€	42.10	38.79	35.19
Free cash flow per share	€	-4.77	1.56	2.04
Price/earnings (P/E) ratio based on closing price for the year		19.2	16.1	22.1
Dividend per share	€	1.70*	1.55	1.45
High	€	121.25	108.60	117.10
Low	€	87.28	80.54	78.44
Year's closing price	€	114.50	86.90	110.30

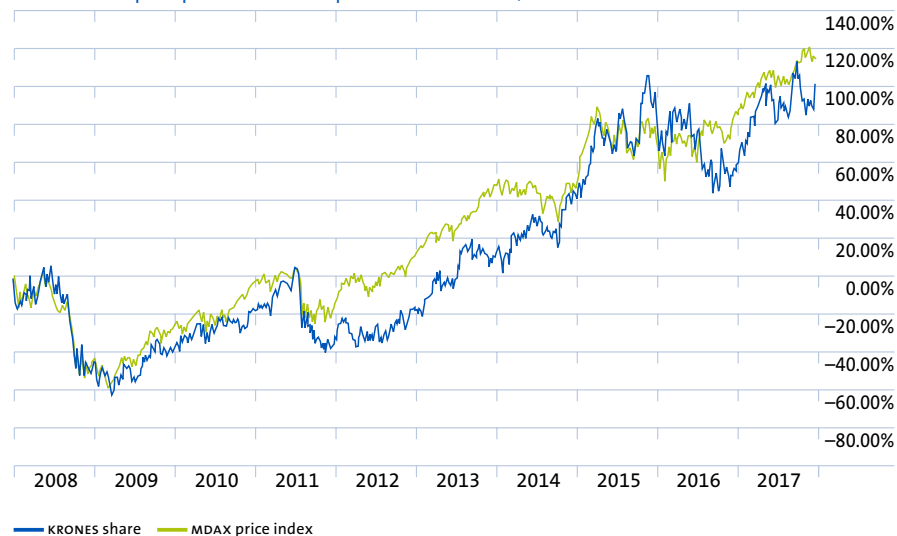
* As per proposal for the appropriation of retained earnings

KRONES share offers long-term high returns

Our share price has climbed 108% over the past ten years, from 2008 to 2017. KRONES' average annual share price gain in this period comes to 7.6%. That is slightly less than the MDAX price index (7.9%), 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 9.1%. The comparable MDAX performance index gained 10.3% annually.

KRONES' share price has risen by 108% over the past ten years.

KRONES share price performance compared with the MDAX, 2008 – 2017



Although the KRONES share gained more than the MDAX mid-cap index in 2017, we fell in the MDAX ranking. That was due to new IPOs and increased free float on some other shares.

KRONES slips in MDAX ranking

The KRONES share has been listed and available for trading on all German stock exchanges since 29 October 1984. Krones 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. KRONES has been included in the MDAX share index, the German stock exchange's mid-cap index, since its inception.

Key criteria for inclusion in Deutsche Börse AG's indices are free-float market capitalisation as well as volumes traded through the XETRA trading platform and floor trading on the Frankfurt stock exchange. At the end of 2017, market capitalisation of KRONES' free float came to €1.645 billion, around 25% higher than at the end of 2016. Nevertheless, KRONES' share slipped to 55th for market capitalisation in 2017 (previous year: 44th) in the rankings used to determine the composition of the 50-share MDAX. The reasons for this change include large IPOs (e.g. Delivery Hero) and the fact that several companies significantly increased their free float – and thus their relevant market capitalisation (e.g. Aroundtown, Rocket Internet).

In the financial year 2017, daily trading volume in XETRA trading and on the Frankfurt stock exchange averaged around 49,000 shares in total (previous year: 60,000 shares). As a result, we also lost ground with respect to trading volume and fell to 46th (previous year: 41st). Fewer KRONES shares also changed hands in 2017 on alternative trading platforms, where primarily institutional investors place their orders. Daily trading volume there came to around 81,000 shares (previous year: around 90,000).

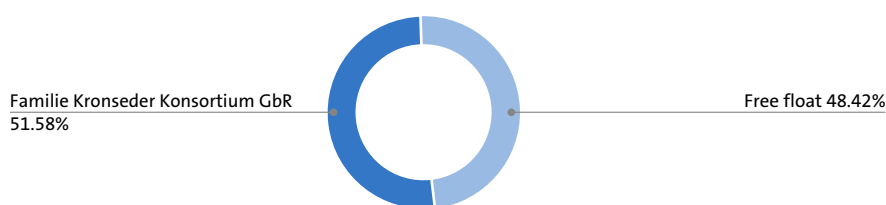
Key data for the KRONES share

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 2017, Familie Kronseder Konsortium GbR held the majority of KRONES AG's shares, with 51.58%. The family intends to remain a stable majority shareholder of KRONES AG. The free float (those shares not held by the family) came to 48.42% at the end of 2017.

Shareholder structure as of January 2018

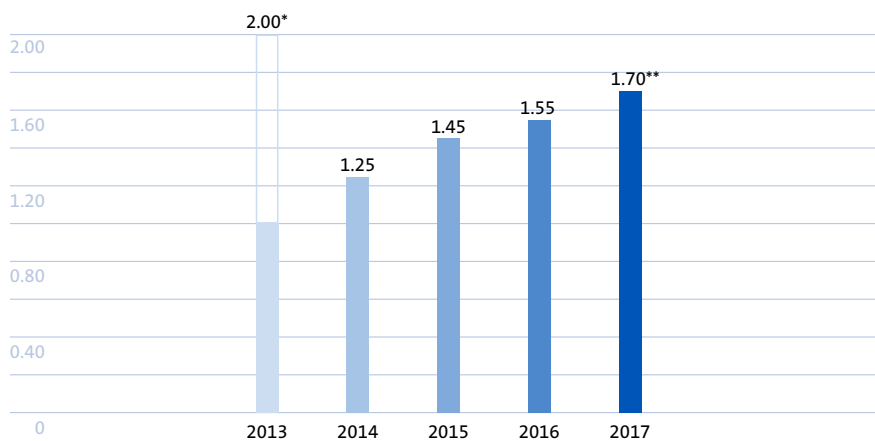


KRONES plans to pay out a dividend of €1.70 per share for 2017

Given the company's strong earnings performance, the Executive Board and the Supervisory Board will propose to the annual general meeting on 13 June 2018 that a dividend of €1.70 per share be paid out for the financial year 2017. That is 9.7% more than the previous year's dividend (€1.55 per share). The company's long-term dividend policy is to pay out 25% to 30% of consolidated profit to shareholders. The dividend for 2017 corresponds to 28.7% of consolidated net income.

KRONES has steadily increased its dividend payout over the past several years.

Dividend per share (€)



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

Besides the numerous innovations in bottling and packaging equipment, KRONES' booth showcased advances in intralogistics and digitalisation.



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Management report for KRONES AG

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Business model, business areas, and organisational structure

KRONES offers machinery and systems for bottling and packaging and for beverage production. Innovative digitalisation and intralogistics solutions round out our portfolio. KRONES' customers include breweries, beverage producers, and companies from 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.

Major markets and competitive position

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

KRONES is heavily export-oriented, generating almost 90% of revenue outside Germany. The regional breakdown of revenue is well balanced overall. KRONES generated around 45% of its revenue in industrialised countries and around 55% in the rapidly growing emerging markets in 2017.

Apart from a few large companies that are part of a corporate group, KRONES competes with a number of smaller companies that offer only individual bottling and packaging products. Most of our main competitors are based in the euro area. Chinese manufacturers have primarily competed against KRONES for orders on their home market.

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 bottling and packaging equipment.

Machines and Lines for Product Filling and Decoration is by far KRONES' largest and most profitable business area. It offers machines, lines, and digitalisation solutions for filling, labelling, packaging, and conveying products. It also includes machines for producing PET containers and converting used plastic bottles into food-grade recycled material (PET recycling systems).

The Machines and Lines for Beverage Production/Process Technology business area supplies customers with machines, lines, and digitalisation solutions for producing and processing beer, soft drinks, fruit juices, milk, and dairy drinks.



KRONES delivers turnkey plants to the beverage and liquid food industry. We use our unique mix of expertise to keep our customers' investment and operating costs low. Of equal importance, we enable our customers to produce reliably and at the highest level of quality. We deliver all of the machines and lines necessary for producing, filling, and packaging beverages. We also provide complete logistics systems, supply and disposal systems, and custom IT and digitalisation solutions that manage and document all production processes.

In addition, we support our customers with excellent, 24/7 after-sales service. That is crucial to ensuring the beverage plants deliver consistently high performance. KRONES' Lifecycle Service (LCS) experts are not just service providers – they are partners to our customers. Together, we find the best solutions for achieving production that is efficient, secure, reliable, and cost-effective. Our LCS team provides optimum maintenance and retrofitting as well as expert consulting as a Partner for Performance.

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



KRONES offers everything that is needed for beverage production. The brewhouse

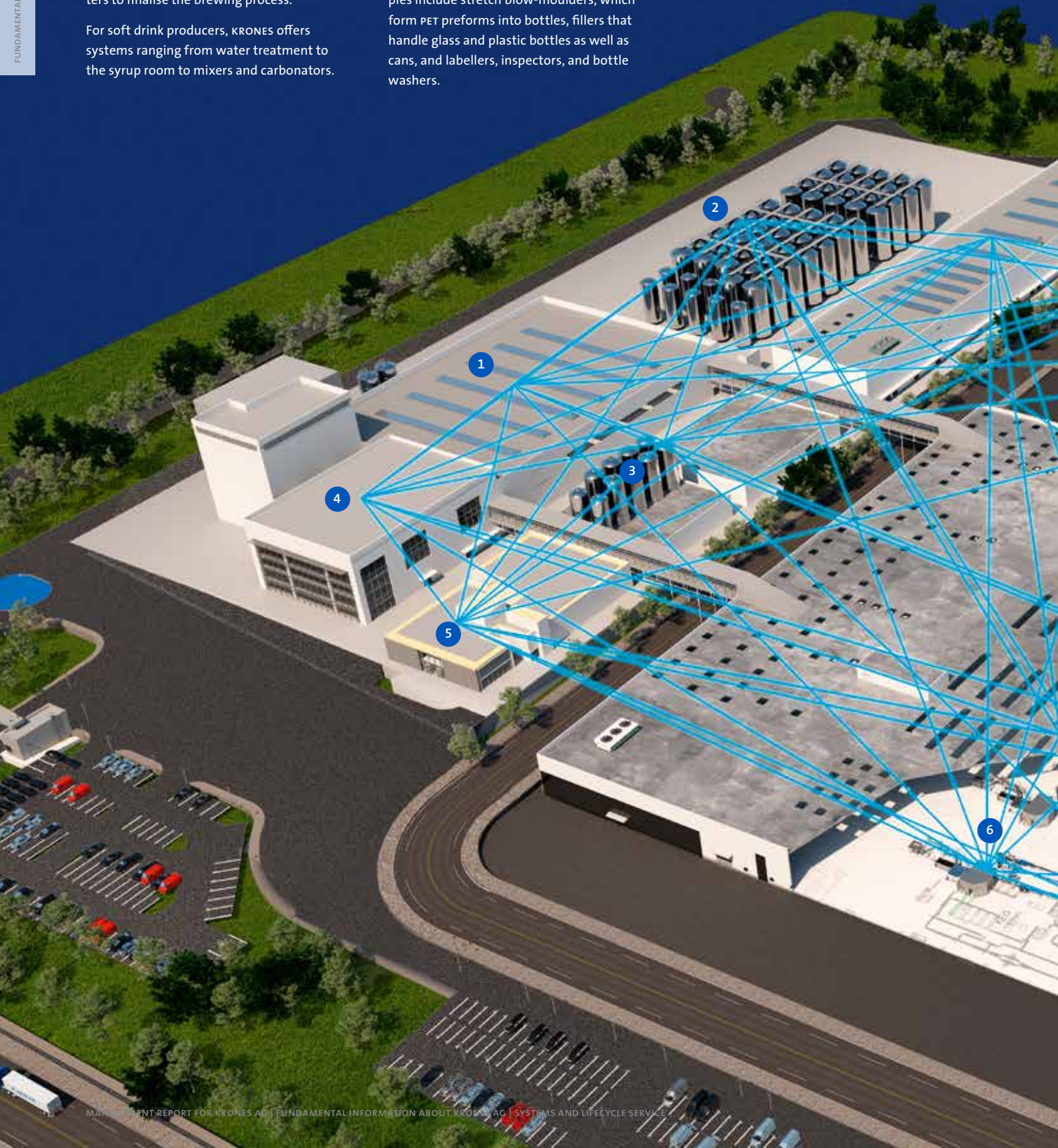
1 is the heart of a brewery. Here, beer is brewed in several stages from the basic ingredients water, hops, and malt. The brewhouse consists of various systems such as the malt silo, mash tun, lauter tun, wort kettle, whirlpool, and wort chiller. Beer also passes through KRONES-built fermentation and conditioning tanks **2** and filters to finalise 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 packing and palletising machines **7** and packaged according to the customer's specifications. KRONES offers products ranging from stand-alone palletising robots to complete packaging lines.

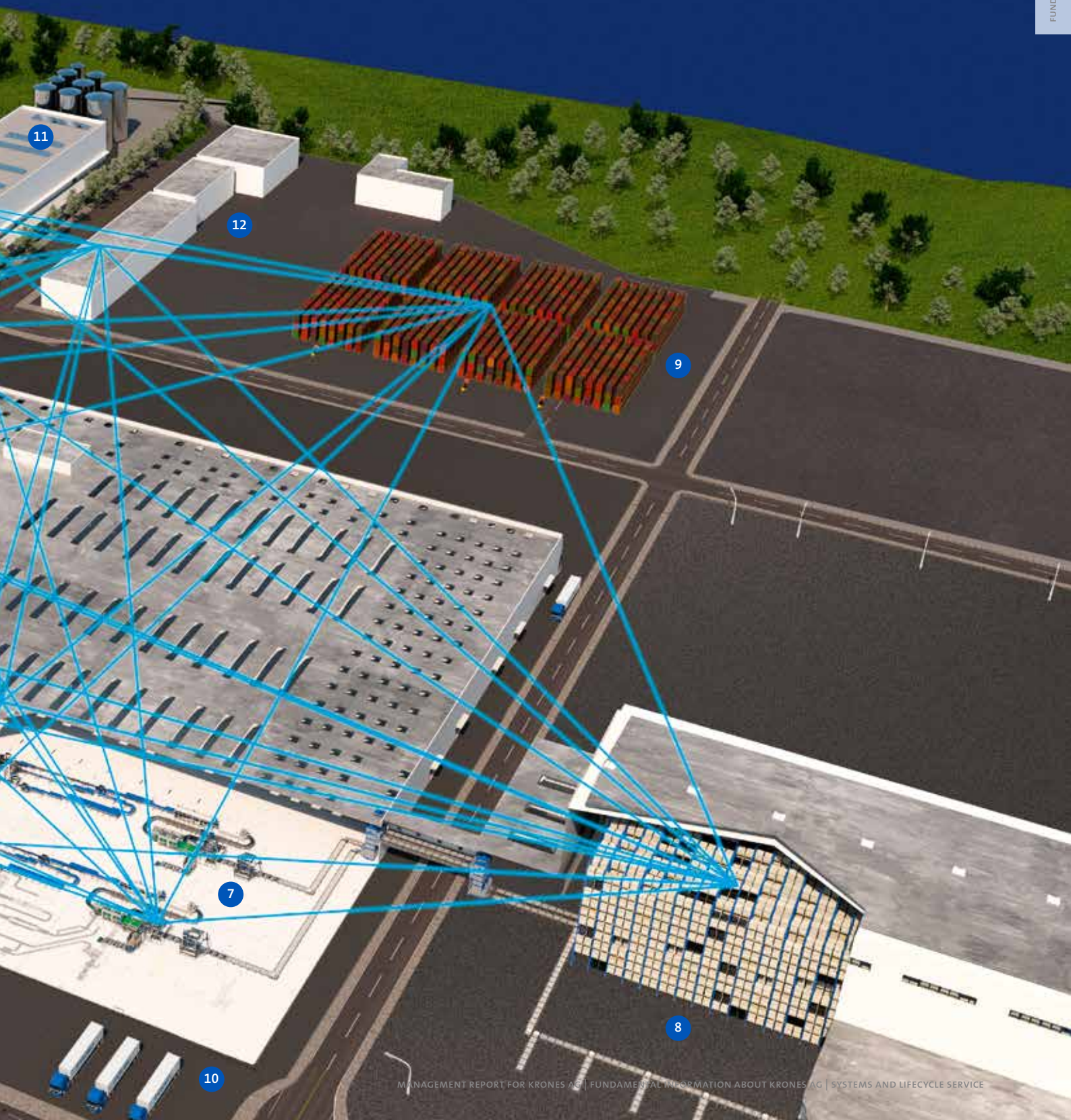
KRONES' subsidiaries SYSTEM LOGISTICS and SYSKRON deliver fully automated high-bay warehouses **8** that ensure highly efficient material flows. Every unnecessary logistics step costs time and money.

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 for all of our customers' 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**, such as those for waste and waste water, to suit and helps ensure that all environmental standards are met.





“Our market is attractive but also challenging. For KRONES to achieve its ambitious medium-term targets, the entire KRONES team will have to continue to pull together.”

Christoph Klenk
CEO

KRONES offers 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, benefitting from 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. Those factors and the trend towards the digitalisation of beverage plants are enabling market growth to outpace GDP growth for the long term.

We offer our customers everything they need from a single source, from beverage production to filling to packaging. Intralogistics solutions, digitalisation, and high-level after-sales service round out our portfolio. We offer products and services to cover everything from the simple to the highly sophisticated. That makes KRONES one of the few one-stop shops in this market.

Besides our big European competitors, a number of smaller providers are also vying for orders. However, most of our competitors only offer products relating to a certain part of beverage production or operate only in certain regions. KRONES' global turn-key approach and global service network put the company in an excellent position and we intend to defend our strong position in our core segment and to considerably improve our standing in our two smaller segments.

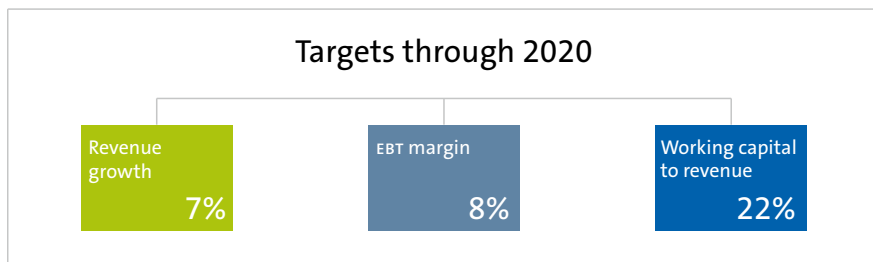
Just as the market offers opportunities, it also presents a number of challenges for KRONES. Political uncertainties, protectionism, and at times acute economic crises in individual countries and regions are now a daily reality. That means we have to be more flexible, faster, and more regional in our operations. The fact that our business is well balanced and diversified helped us to offset fluctuations in demand and meet our forecasts for revenue and earnings once again in 2017.

The fight for orders will remain intense as competitive pressures are not letting up. On the customers' side of things, mergers and acquisitions are increasing buying power and sometimes delaying capital investments. However, increasing digitalisation and integration of production will forever change our market and its business models and require capital investment.

Medium-targets through 2020 – 7/8/22 (for the group)

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

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



KRONES has set ambitious goals for 2020. The necessary measures have been put in place. (All figures relate to the group).

Making use of growth opportunities

KRONES intends to increase revenue by 7% each year on average through 2020. In order to achieve that, we will have to seize market opportunities in a purposeful manner. That is why KRONES is focussing on markets that exhibit higher-than-average growth in beverage consumption, aiming to achieve higher-than-average revenue growth there. We are aiming for especially strong business development in Africa and Asia, where the overall population and the middle class are growing rapidly.

KRONES is aiming for internal growth of around 5% annually, of which 2% is to come from acquisitions.

The proliferation of different products and packaging forms and the trend towards smaller packaging units are additional factors driving growth. More and more, customers are demanding extremely versatile machines and lines. KRONES aims to claim a large piece of this burgeoning market segment by offering the best, most advanced technology. LineXpress is an excellent example. This KRONES solution automates much of the product changeover process, thereby accelerating changeovers considerably. At drinktec, we presented for the first time our “Bottling on Demand” proof of concept study, production of the smallest possible batches down to just a single unit.

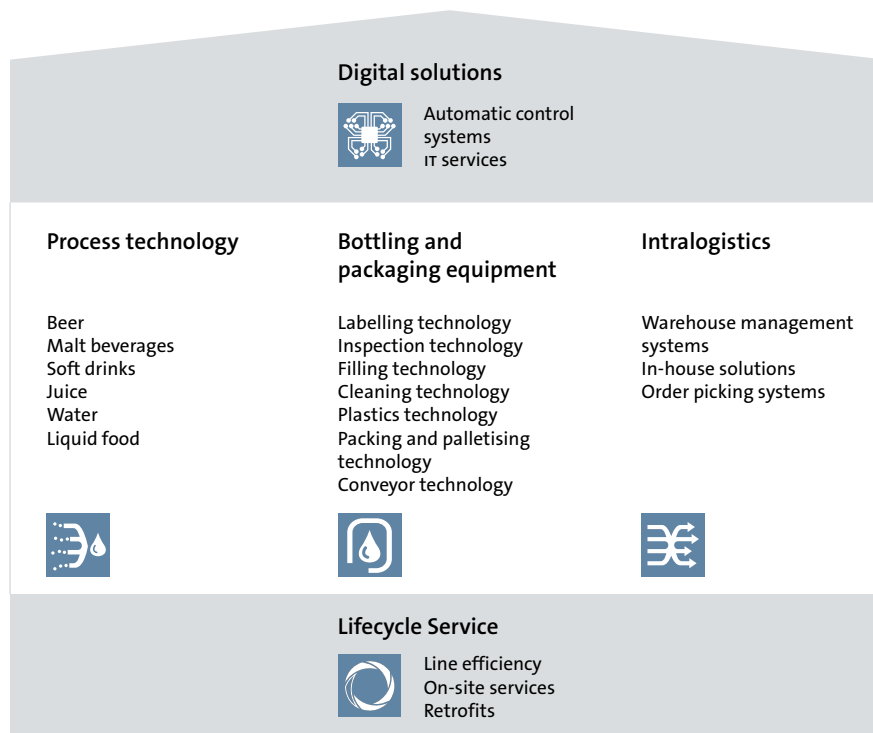
Mergers and acquisitions will also contribute to growth at KRONES. Besides intralogistics and process technology, information technology is another area of interest for acquisitions. We are also focussing on further evolving our most recent acquisitions such as SYSTEM LOGISTICS in order to accelerate the generation of internal growth from them. Around 2% of annual revenue growth is expected to come from acquisitions through 2020.

Driving growth with existing product range and innovations

As a rule, all of our products and solutions must create added value for our customers. At drinktec, KRONES presented innovations that demonstrated our commitment to putting customer benefit front and center in all new developments. Continued innovation in all areas remains the basis for sustainable growth at KRONES. In this respect, we will not only strengthen the three main pillars of our business: beverage production, bottling and packaging, and intralogistics. After-sales service and IT and digitalisation solutions will also contribute to our targeted growth.

Innovation is the basis for sustained, profitable growth at KRONES.

With the “House of KRONES” concept, KRONES has precisely tailored its business model to its customers’ needs and to the state-of-the-art beverage factory.



We intend to further grow our core business area, **Bottling and Packaging Equipment**. Because we have to expand value creation abroad in our core segment, we will establish a new plant in Hungary. Starting in 2019, this new location will employ around 500 people for the manufacture of machine components and modules. In our core business area, we still see good potential for growth in less complex systems that deliver high and mid-range performance. KRONES will step up efforts to develop simple, cost-optimised products and solutions. In addition, we will continue to grow our high-end operations with leading technologies and capitalise on customers’ steadily rising demands.

The **Beverage Production/Process Technology** business area covers all production processes upstream and downstream of filling and packaging. It includes beverage production and treatment as well as intralogistics. We will continue to work hard to achieve our medium-term growth and profitability targets in this area. The measures implemented at the end of 2015 for this purpose are taking effect but not as extensively or as quickly as we had hoped. However, we still firmly believe that the key to this business area’s long-term success lies in expanding the regional structure and establishing international hubs. Such a network will enable us to respond quickly and cost-effectively to customers’ needs and thus strengthen customer

loyalty. Acquisitions made in specific regions in the last two financial years, such as TRANS-MARKET and JAVLYN in the USA, will help us build that international structure. Now, it is time to take it a step further and make use of these newly acquired, local employees' knowledge of their markets.

Intralogistics is of great importance both to customers and to KRONES, in its role as a one-stop shop. Short pathways, streamlined processes, and flexible material flows that can be easily adapted to production and delivery are of critical importance. We provide customised systems to handle any task. With SYSKRON GMBH, our group's own specialist for highly sophisticated intralogistics projects, and SYSTEM LOGISTICS, in which we acquired a majority stake in 2016, we are in an excellent position to utilise the market's high potential for growth. In the future, KRONES intends to grow both its international reach and its product range in this area.

Digital beverage plant holds enormous potential

The digitalisation of beverage plants opens up enormous potential for growth for KRONES in the medium and long terms. As a full-service supplier, the company is in a position to capture all material and data flows along a customer's entire production process and to intelligently connect them. Technologies like cloud computing, big data, smart data, and the Internet of Things serve as a basis for new business models. We intend to leverage this potential along the customer's entire value chain. Our goal is to create even more added value for our customers.

In order to successfully implement the concept of digitalisation in collaboration with our customers, KRONES has structured it into five main points.

- **Integration**
- **Digitalised supply chain**
- **Collaboration**
- **Analytics**
- **Total productive management (TPM)**

Digitalisation is not just a topic of the future for KRONES. The company is already supporting customers with smart machines and customised IT solutions from two different portfolios – KRONES software applications and SAP modules.

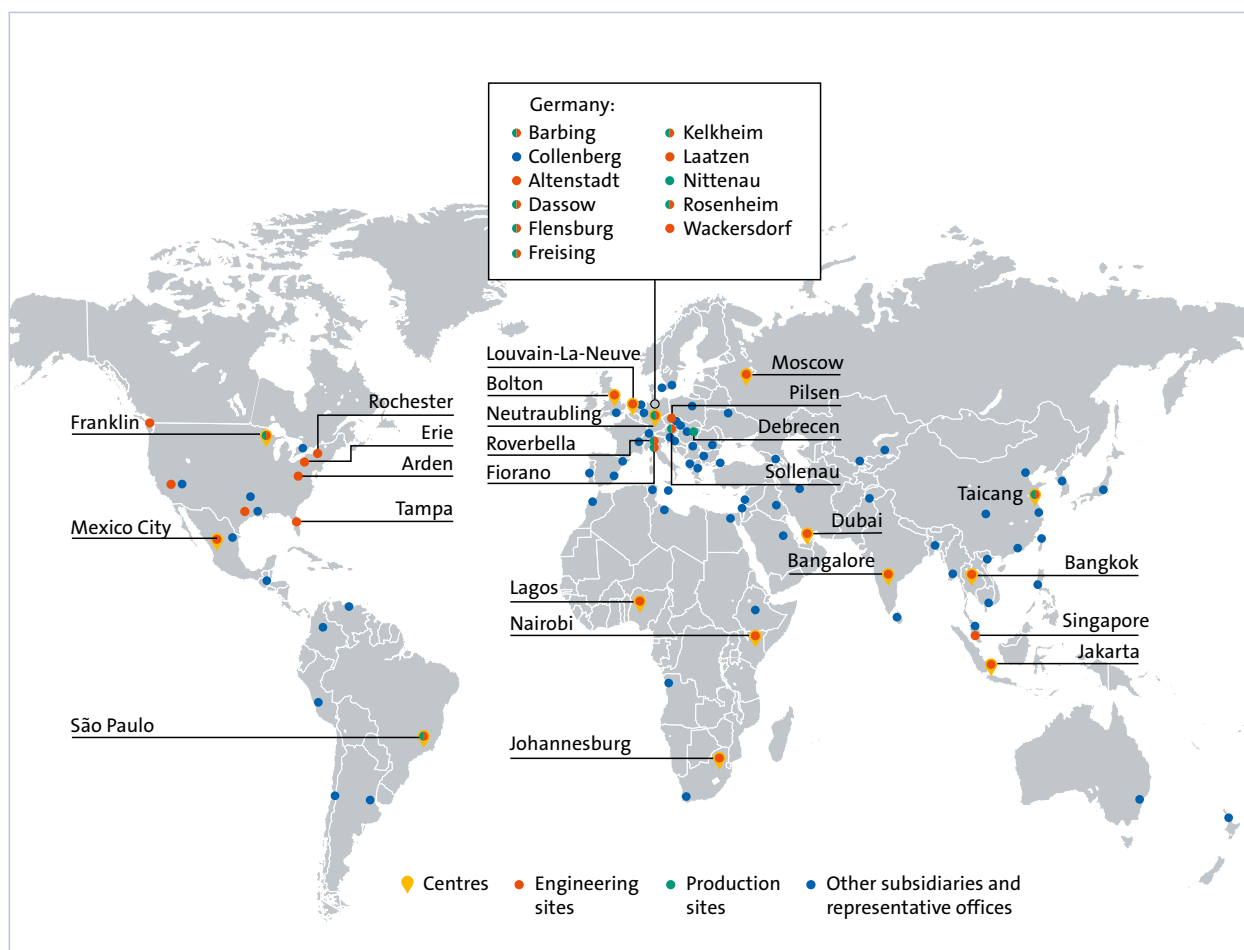
KRONES has already brought a number of digitalisation-related products and services to market.

KRONES will continue to invest heavily in digitalisation capacities and further grow its IT team. The agile organisation of our software incubator SYSKRON and our innovation lab will enable us to develop creative digital business models and quickly make them ready for market.

Profitability to increase further

With profitability having been consistently strong for some time, KRONES now intends to take it to the next level. Expanding our global presence will be an important part of this process. We currently generate only a small share of value added outside Germany although nearly 90% of revenue comes from abroad. This imbalance is unhealthy and fraught with risk – and we intend to correct it. We have already taken an important step in this direction by establishing additional international subsidiaries and acquiring companies abroad. We will continue to pursue our localisation strategy and generate an increasing share of value creation in the regions. We will also establish some production capacities near our customers worldwide. That will enable us to reduce personnel and materials costs and deliver regionally adapted products to the emerging markets at competitive prices.

KRONES intends to gradually increase profitability in the years ahead. Expanding our global footprint will play an important role here.



The next stage of modularising our products is aimed at countering the rising prices we pay for materials. On the one hand, we will further increase the degree of modularisation of our machines and lines and thus reduce their complexity. On the other, we will simplify the design of our modules. That will enable more suppliers in the regions to meet our specifications. That, in turn, will increase competition among suppliers and improve our purchasing prices.

In order to increase KRONES' profitability for the long term, we will also further expand our after-sales service business. Proximity to customers is crucial for KRONES' success in this business line. That is why we will further increase the number of service and sales offices. To make this work, we must recruit and retain enough sufficiently qualified people in the regions. We are investing heavily in training and continuing education for employees in the regions in order to reduce the relatively high rate of employee turnover in the emerging markets.

Reducing working capital – unlocking capital

Of our three core targets for the group, the third is working capital to revenue. At 27.3%, we still have a ways to go to reach our 22% target. We have developed a number of short and medium-term measures to achieve our target and reduce working capital. These include cutting lead times, accelerating the process of commissioning lines at customers' plants, and reducing inventories. Reducing the ratio of working capital to revenue in the years ahead will directly increase the capital available for investment.

Solid financial position enables us to invest in growth in Germany and abroad.

With net cash and equivalents of around €157 million and an equity ratio of 43.8%, KRONES is in excellent financial health (figures related to the group). Combined with operating profits, that gives the company enough money to invest in growth, acquire additional companies, and pay out dividends. Our dividend strategy is to pay out 25% to 30% of consolidated net income to shareholders.

KRONES will continue to invest in its sites in Germany and its presence abroad in order to strengthen its market position.

To remain competitive for the long term, KRONES must invest – in its German sites as well as in its international presence. In Germany, we will invest around €200 million in the years ahead. A large share of that money will go towards the **factory of the future**, in which we intend to digitalise our own internal processes and stages of production as far as possible – as at our customers' plants – and thereby increase our own productivity and efficiency. Germany will remain the development and innovation headquarters for KRONES machines and lines. But we will also invest substantially in resources abroad. Besides establishing and expanding our international

service centres and engineering hubs, we will also invest in production facilities. In addition to the new factory in Hungary, mentioned previously, we are also growing our site in Taicang, China, substantially. There, we will manufacture machines specifically for the local market, particularly for bottling and packaging water. We will also expand our Franklin plant in the USA and produce labellers there using components made in Germany. It is important to us that these investments abroad not come at the expense of our core workforce in Germany but rather that we continue to maintain and create jobs in Germany as well.

Employees are the key to growth and long-term success

Every one of our employees is important for our company. Any strategy is only as good as the people implementing it. Our 15,300-strong team is moving KRONES forward every day. They are essential to KRONES' long-term success. We will have to expand our team even further in order to handle the growth we are forecasting. Thus, it is important that KRONES establish a reputation as an attractive employer – worldwide. Particularly at our sites abroad, we will step up these efforts and further expand the training centres in Africa, China, Southeast Asia, and South America as they enable us to build skills and expertise within our global value chain. This close proximity helps us to better understand our customers, market, trends, and developments and ultimately increases customer satisfaction. In Germany and Europe, workforce growth will be less dramatic. But, here too, we will continue to invest in our team and provide ongoing training and continuing education.

Christoph Klenk
CEO

KRONES AGs' management system

Although KRONES AG is by far the most important individual company within the KRONES Group, the Executive Board bases its management primarily on consolidated figures under IFRSs. The performance indicators used are described in the KRONES Group Annual Report.

In addition, KRONES' management primarily uses the following financial performance indicators to steer the company:

- Revenue growth
- Earnings before taxes (EBT)

In order to strengthen our market position and utilise economies of scale, we aim to achieve revenue growth above the market average. That also lays a strong foundation for our important LifeCycle Services business.

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

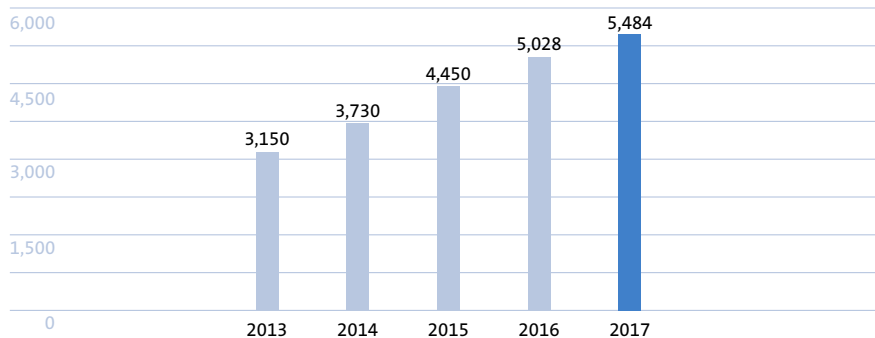
- **KRONES demonstrated its technological leadership at drinktec**
- **Innovations focus on bringing benefit to customers**
- **Digitalisation of beverage plants holds enormous opportunities**
- **New products and technologies demonstrate KRONES' innovative power**

Every four years, the beverage industry convenes for drinktec, the largest, most important event for the beverage and packaging industry worldwide. The fair is a testing ground of sorts, where it becomes apparent whether our development teams' hard work has paid off and their innovations have piqued the interest of customers from around the globe. The results are in and the innovations KRONES presented at drinktec underscored the company's technological leadership. Current and potential new customers showed great enthusiasm.

New, successful products safeguard the company's future. KRONES' team of some 2,200 highly qualified people keeps the pipeline filled with new and evolving machines, systems, and services. Our portfolio of registered patents and utility models is proof of our team's innovative power. It grew from 5,028 in the previous year to 5,484 at the end of 2017. To accomplish this, we invested €172 million (previous year: €171 million) in research and development in the reporting period. That corresponds to 4.7% of consolidated revenue.

KRONES invested approximately 4.7% of consolidated revenue in research and development in 2017.

Registered patents and utility models – KRONES Group



Innovations generate added value for customers

For every development at KRONES, we ask this question: How will this innovation contribute to our customers' success? Successful innovation depends on intensive dialogue with our customers about their needs. Our conversations with customers give us a sense of how different market trends influence customers' needs. The market demands machines and lines that do the following:

- Reduce operating costs
- Increase performance
- Increase flexibility
- Provide for easy, safe, and reliable operation

Of course, **operating costs and performance** are top priorities for customers.

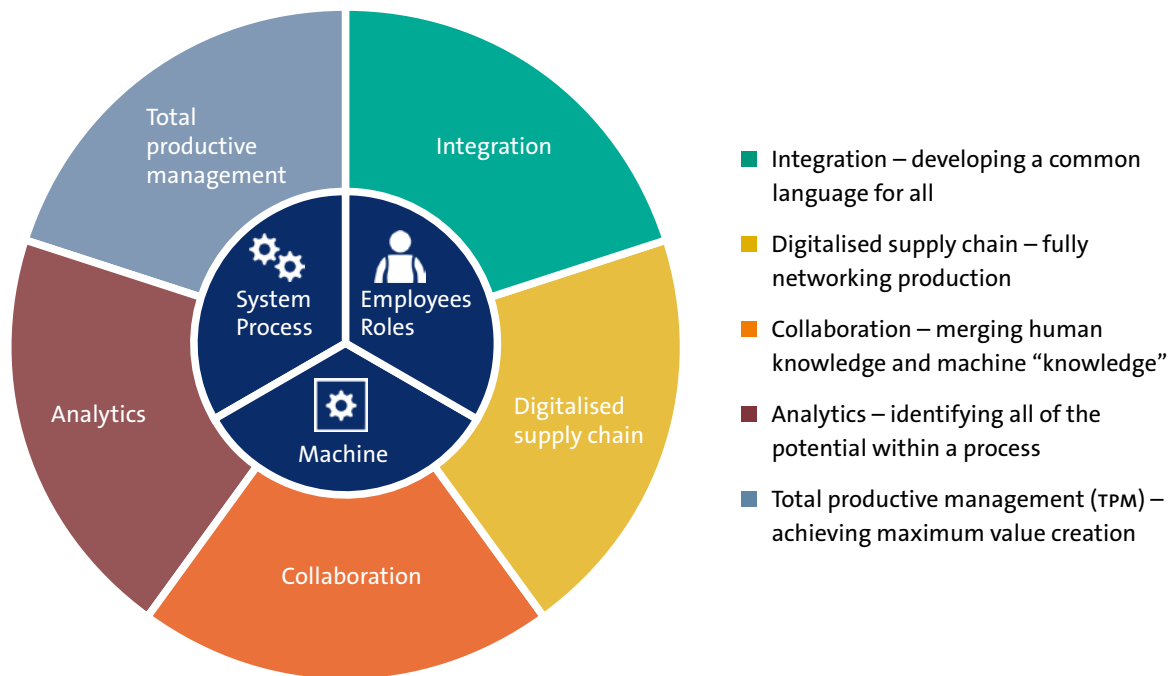
Making lines more compact is another important factor. By increasingly merging machine functions, we are able to save our customers space and time. Our Dynafill beer bottling system, which fills and crowns bottles in a single functional unit, is an example. With new after-sales services offerings such as predictive maintenance, we are able to increase line availability and, consequently, performance.

Flexibility is an important factor for our customers as they must cope with a steadily growing variety of products and packaging forms. Customers want to be able to process the widest possible variety of different beverages and packaging forms on a single line. That requires versatile machines and lines that can be changed over quickly, like our Modulfill vFS-M filler. As batch sizes become smaller and smaller, KRONES has been pushing the limits of flexibility and presented the results of these efforts in a proof of concept study for bottling on demand at drinktec. The study's goal was to produce a batch size of 1. The ultra-flexible line can fill and directly print various PET containers – each with a different product, size, and design – at the push of a button or by way of an app-based ordering system. It is an important step towards the bottling line of the future.

Going digital holds great opportunities

New technologies make it possible to create a digital picture of an entire beverage plant. With it, we can more comprehensively use potential along the entire value chain and create real added value for companies in the food and beverage industries. To enhance our focus on digitalisation, Krones has divided the topic into five major points.

KRONES is developing smart machines, state-of-the-art lifecycle services, and customised IT solutions from two different portfolios – KRONES software applications and SAP – in all five of these areas of digitalisation for our customers.



KRONES is committed to sustainability and ecological efficiency

KRONES pays strict attention to sustainability and ecological efficiency in all product developments. Our goal is to reduce consumption of precious resources.

Sustainability and ecological efficiency also play an important role in our new development work. KRONES’ enviro sustainability programme set the industry standard for energy and media efficiency and eco-friendliness. All KRONES innovations are aimed at reducing energy and media consumption on our machines and lines. Therefore, enviro is an integral part of our product development process, ensuring that our machines meet the latest standards of efficiency and environmental compatibility. All of the machines and lines presented at drinktec have undergone enviro’s strict review processes. In addition, we are working on a research project aimed at developing the brewery of the future, which will operate completely without fossil fuels and use waste as fuel instead.

On the following pages, we present a selection of innovations and trade fair highlights in somewhat greater detail to illustrate how our R&D philosophy translates into products with real market appeal.

Selected innovations and drinktec highlights

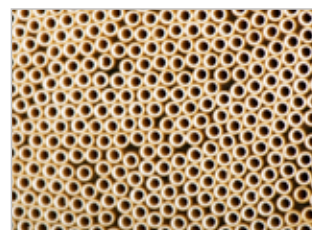
Dynafill

The Dynafill was a major attraction at the drinktec. With it, KRONES has revolutionised beer bottling. Dynafill fills and crowns bottles of beer in a single functional unit, reducing the amount of time involved in filling and crowning by 50% to just five seconds. We were able to reduce the number of filling valves from 100 to 66 while keeping performance unchanged at 36,000 containers per hour. The closed, hygienic filling and crowning area ensures optimum purity of the product. The system also eliminates the need for a high-pressure fobber and transport of open bottles after filling. As a result, no product is wasted during the filling process. The system uses 20% less CO₂ than conventional systems. Another benefit is that Dynafill can bottle beverages cold or warm (at temperatures of up to 30 °C), at the same speed.



Filtration technologies

Some 90% of the beer filtered worldwide is clarified using precoat filtration with kieselguhr (diatomaceous earth) as the filter medium. Kieselguhr has many advantages but also a number of disadvantages with respect to waste management. The industry has for years been searching for alternatives to diatomite filtration. KRONES has taken two different approaches to this challenge. On the one hand, we have explored replacing the kieselguhr with a combination of viscose and cellulose as the filtration medium. On the other, we have explored membrane filtration as an alternative to precoat filtration.



Viscose as an alternative filtration medium: Viscose is a synthetic fibre that consists entirely of natural cellulose. Functional viscose fibres are an alternative with great potential for filtering beer and other food products. They provide a high level of process flexibility, are completely biodegradable, and are non-toxic and therefore easy to handle. Moreover, they help achieve the best possible product quality without affecting the beer's flavour.

Phoebus membrane filtration system: Compared with kieselguhr filtration, membrane filters offer advantages with respect to automation potential and filtrate quality. Membrane filtration for treating water has passed through the first stages on its way to becoming part of KRONES' portfolio and membrane filtration for beer is currently undergoing field testing.

The DecoType digital direct printing system can also apply design elements to PET and glass containers that have grooved and relief structures. Conventional labels can't do that.



DecoType Select (left)

A pioneering technology has gone into production. KRONES presented a prototype of the DecoType model at the 2013 drinktec. Since then, the digital direct printing system has reached market-readiness. The DecoType Select's versatility sets it apart from other machines on the market. It is capable of printing cylindrical and specially-shaped containers made of PET, HDPE, and glass at speeds of up to 25,000 bottles per hour. KRONES is currently developing the technology to add metal containers and other plastics such as PP to the machine's repertoire. A generous printing height of up to 205 millimetres allows plenty of space for extensive text information on the container, even when a highly complex design is used. Unlike conventional labels, direct printing can also apply designs to grooved and relief structures.

That opens up entirely new possibilities for distinguishing consumer products from the mass of competing items – for instance, creating astonishing 3D effects on their packaging or simulating the look of different materials.

The print heads operate on the drop-on-demand principle, in which each drop of ink is only created immediately before it is actually used – a method that marks the very latest state of the art. The printing ink used has been confirmed as recyclable in extensive laboratory tests and also meets packaging industry standards. Even though digital printing is already advancing worldwide, it has yet to achieve a major breakthrough in the food and beverage sectors.

Connected HMI

The human-machine interface, HMI for short, ensures fast, reliable communication between operators and machines. It serves as the operator's central access point to the line and is becoming increasingly important in light of advancing automation and digitalisation. With the new Connected HMI platform, KRONES is setting the standard for technology, user-friendliness, and consistency.

The housing is designed with the specific requirements of the beverage industry in mind and far exceeds customary hygiene standards. Connected HMI's networked view of the line gives each user the clear overview he or she needs. Open, standardised application programming interfaces (APIs) link the HMI to broader IT systems. The advantages are clear: Less walking between machines, faster response times, and prevention of unnecessary downtimes. An innovative navigation structure and dashboard customisation enable all users to access the contents they need for their specific jobs. The system is protected by multiple firewalls.



The PFR filling valve enables infinitely variable flow rates. The valve is used in our Modulfill vrs-m filler.



Robobox T-GS

With customers demanding ever-faster lines that occupy less and less space on the production floor, KRONES has completely revamped its familiar Robobox grouping system. At its heart is a new robotic system whose axes can be moved in parallel. The design also uses lightweight materials such as carbon and aluminium, which, depending on the application, can significantly increase performance. As a result, it will soon be possible to serve most lines with just one module, which opens up new possibilities for customers with limited space available.



A larger working area and configurable turning area make it possible to create packing groups and layer patterns with even greater flexibility. Because the Robobox T-GS design eliminates moving cables, maintenance and servicing needs are significantly reduced.

Modulfill vFS-M

The Modulfill vFS-M filler, which features an integrated Contiflow mixer, merges two process steps – beverage production and filling – into a single machine. A buffer tank in the mixer replaces the ring bowl. An infinitely variable PFR (proportional flow regulator) valve is the cornerstone of this system. It allows the flow speed to be adjusted precisely to match the various products. As a result, foaming due to too-fast filling and time wasted on filling too slowly are a thing of the past.



This combination of a filler, mixer, and PFR valve enables savings at many levels. Apart from a smaller footprint, the system also features lower consumption of energy and cleaning media and less product waste. The Modulfill vFS-M also makes for considerably faster changeovers. Product changeover can now be completed in less than ten minutes.

KRONES' proof of concept study for bottling on demand created quite a stir at the drinktec. It combines ultra-flexible filling with direct printing down to a batch size of 1.

ECONOMIC POSITION



3

Management report for KRONES AG

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- Global growth accelerated in 2017
- Rising exports benefit German machinery manufacturers
- Demand for packaging machinery is increasing steadily

Global economic growth was stronger than expected in 2017.

Global economy grows 3.7%

Global gross domestic product (GDP) increased more than expected in 2017. According to data released by the International Monetary Fund (IMF) in January 2018, the world economy grew 3.7% last year (previous year: +3.2%). At the start of 2017, the IMF had forecast only 3.4% growth. The biggest surprise for IMF economists was the positive development in Europe and Asia.

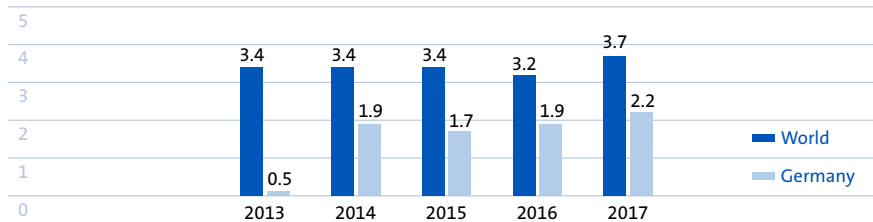
In the emerging market and developing countries, GDP rose 4.7% year-on-year in 2017 (2016: +4.4%). The countries of Asia were a major force driving that growth. For example, China's economy grew 6.8% in 2017 (previous year: +6.7%). Economic activity in Latin America recovered considerably in 2017 and GDP there advanced 1.3% (previous year: -0.7%). In the Middle East/Northern Africa region, GDP grew 2.5% (previous year: +4.9%).

Growth in the advanced economies accelerated considerably in 2017. GDP grew by 2.3% overall in these countries (previous year: +1.7%). The US economy grew 2.3% (previous year: +1.5%). Euro-area growth was also far more dynamic than in the previous year. GDP there rose 2.4% in 2017 (previous year: +1.8%). In Japan, GDP improved by 1.8% (previous year: +0.9%).

Germany's GDP grows 2.2% in 2017

According to preliminary figures from Germany's Federal Statistical Office, German GDP increased 2.2% in 2017. With that, growth was up year-on-year. GDP had grown 1.9% in 2016. The strongest momentum for growth in 2017 came from private consumer spending and business' capital expenditures.

GDP growth (%)



Sources: IMF, Germany's Federal Statistical Office

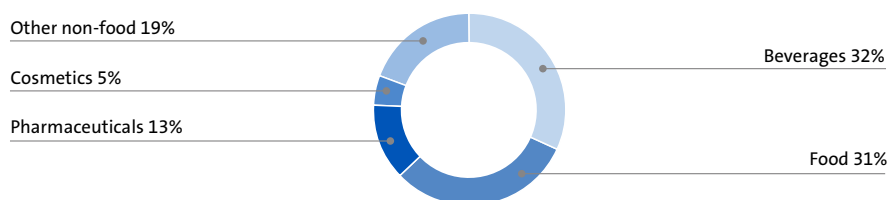
Machinery output in Germany is increasing

Germany's machinery and industrial equipment manufacturers benefited from increasing demand from abroad in 2017. For example, the German Engineering Federation (VDMA) says orders from China were up sharply. According to preliminary figures from the VDMA, total output in the German machinery sector increased 3% year-on-year in 2017.

The food and packaging machinery subsector, which is relevant for KRONES, grew more than the industry as a whole once again in 2017. According to the VDMA, revenue in this subsector increased 3.4% year-on-year in 2018.

Demand for packaging machinery is on the rise

Global market for packaging machinery by application in 2016



Source: VDMA estimate for 2016

According to the VDMA, the global market for packaging machinery had a volume of €35.3 billion in 2016 (2015: €34.0 billion). Figures for 2017 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 beverage industry is the largest single market for packaging machinery, with a share of 32%.

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

KRONES has conducted an analysis on the potential effects of Britain's withdrawal from the European Union (Brexit). Given the market and competitive environment in our industry, we foresee no material impact for our business model, financial position, or earnings.

Megatrends ensure stable market growth

KRONES operates in a market exhibiting stable long-term growth. The average annual growth rate is higher than that of the world economy as a whole. Several megatrends are driving this stronger demand for food and beverage packaging machinery.

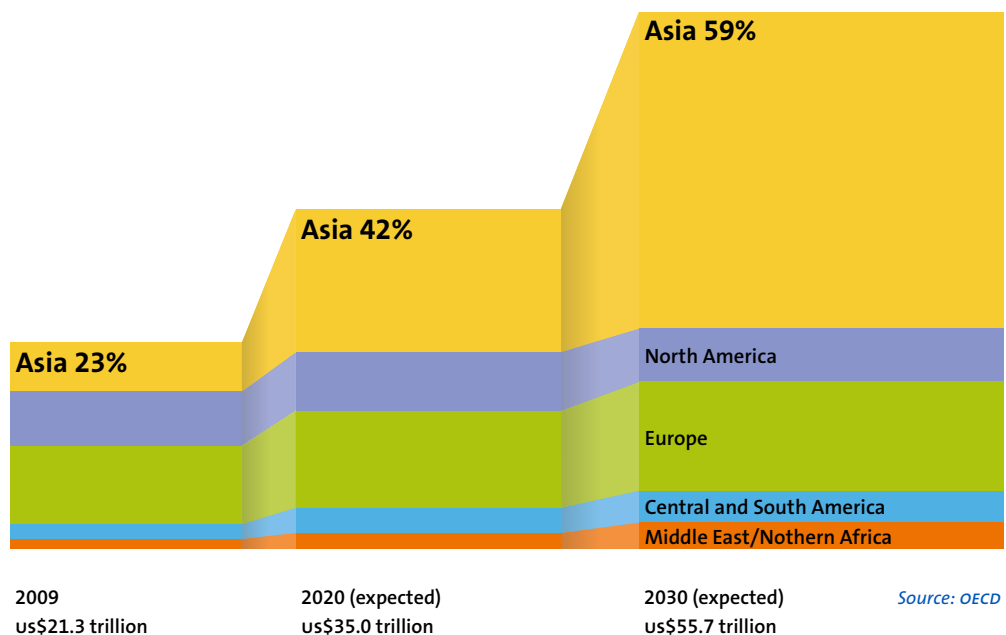
The overarching megatrend is global population growth. At the end of 2017, more than 7.5 billion people inhabited the earth. According to United Nations forecasts, that number is growing at a rate of more than 80 million each year. Population growth is especially strong in Africa and Asia. The world's population is expected to reach about 8.5 billion by 2030. All those people will need to eat and drink. And, increasingly, they are opting for packaged beverages and foods.

Growing middle class increases consumer spending

More and more people in the emerging market and developing countries are escaping poverty and rising into the middle class. According to forecasts by the OECD, the middle class worldwide will grow from 3.2 billion people to 4.9 billion in the period from 2020 to 2030. As incomes rise, so too does consumer spending – and that includes spending for packaged beverages and foods. Asia accounts for a large share of the growth of the middle class and the corresponding increase in buying power worldwide. The OECD predicts that Asia's share of total middle class consumer spending worldwide will be 42% by 2020. By 2030, that figure is expected to rise to 59%. The total of consumer spending by the global middle class is likely to increase from US\$35 trillion to US\$55.7 trillion in that time.

[Asia's share of global middle class consumption is growing rapidly](#)

The number of people rising into the middle class is increasing especially fast in Asia. As a result, the region's share in rising middle class consumer spending worldwide is also growing.

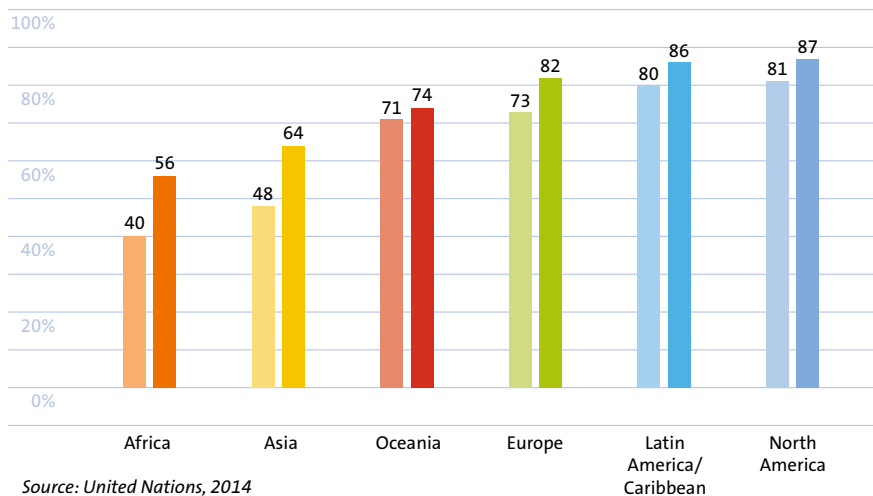


Urbanisation is driving growth

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.

The United Nations forecasts that two out of three of the earth's inhabitants will live in cities by 2050. At present, only about half of the world's population lives in cities. The strongest influx of people into cities is in the developing and emerging market countries of Africa and Asia.

Urban population in 2014 and 2050 (% of total)



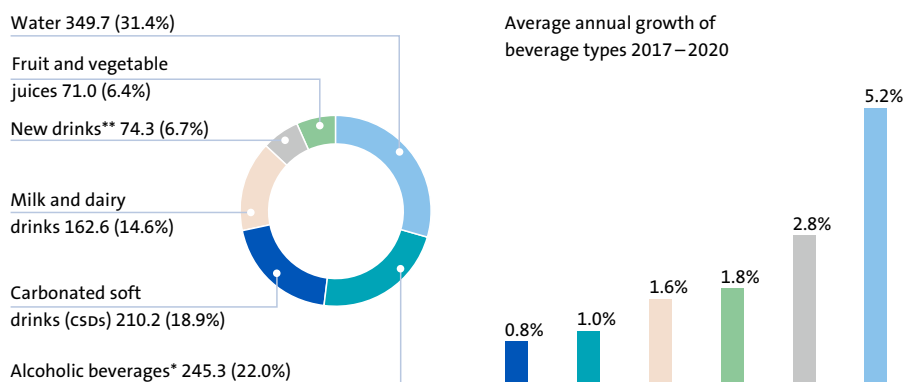
Large numbers of people are expected to move from the countryside to urban areas in Africa and Asia in the years ahead.

Global consumption of packaged beverages is growing steadily

According to preliminary data from Euromonitor, a market research institute, people consumed 1,113 billion litres of packaged beverages worldwide in 2017. With that, demand is up 2.2% over the previous year. Growth has been stable for many years now and is likely to remain so in the future. Euromonitor expects global consumption of packaged beverages to increase by 2.6% annually on average from 2017 to 2020.

The fastest-growing market segment is bottled water. Demand for water is increasing twice as fast as total consumption of packaged beverages.

Global consumption of packaged beverages in 2017 (billion litres)



2017: 1,113.1 billion litres

*Beer, wine, and spirits

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

Sources: Euromonitor, own estimates

Euromonitor predicts that **bottled water** will see the most pronounced growth in consumption in this period. This market segment is also the largest by far. In 2017, people around the world drank some 350 billion litres of “bottled” water. That is 31.4% of total packaged beverage consumption. Euromonitor expects demand for packaged water to increase by 5.2% annually on average through 2020. A major reason why water is growing so much faster than the beverage market as a whole is the growing need for clean, packaged drinking water in emerging market and developing countries. In addition, the trend towards healthy eating is supporting demand for water products in the industrialised countries.

The picture is quite different for **alcoholic beverages**, which made up the second-largest segment with 22.0% of the world’s beverage consumption in 2017. People around the world consumed 245 billion litres of alcoholic beverages last year. The biggest share of that was beer (nearly 80%), followed by wine and spirits. The prospects for growth are weaker than for the market as a whole. That is because demand for beer is saturated in most industrialised countries. Market researchers expect growth rates averaging 1.0% for the years from 2017 through 2020.

The outlook for the third-largest market segment, **carbonated soft drinks (CSDs)**, is also restrained. Around 210 billion litres of packaged CSDs were consumed in 2017 (share of total beverage consumption: 18.9%). Demand for CSDs is dwindling due to the growing health consciousness of consumers, who are avoiding sugar-sweetened beverages like colas and sodas and choosing water instead. For this reason, consumption of soft drinks is expected to increase only 0.8% on average per year from 2017 through 2020.

Demand for packaged **milk and dairy drinks** is expected to develop better. Consumers drank almost 163 billion litres of them in 2017 (share of total beverage consumption: 14.6%). Plain milk accounted for a solid 80% of the segment but niche products like soy milk and yoghurt smoothies are showing the highest growth rates. In all, Euromonitor expects the milk and dairy drinks segment to grow by 1.6% on average each year from 2017 to 2020.

Fruit and vegetable juices (share of total beverage consumption in 2016: 6.4%) and “new drinks” (share: 6.7%) are the two relatively small segments of the global beverage market. 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 1.8% on average through 2020, Euromonitor predicts that “new drinks” will expand significantly faster, by 2.8% on average per year. Sports and energy drinks are expected to be the fastest-growing of the new drinks category.

Population growth is driving demand for packaged beverages in emerging market countries

Since the megatrends – global population growth, a burgeoning middle class, and increasing urbanisation – are mainly playing out in the emerging market and developing countries, demand for packaged beverages is rising more sharply in those regions.

The highest growth rates are likely to be in the Africa/Middle East region, where consumption is expected to grow at an average annual rate of 6.2% in the period from 2017 to 2020. Demand for packaged beverages is also expected to grow at a far higher rate in the Asia-Pacific region than in the world as a whole, with average annual growth rates of 5.0%. In the mature markets of Europe and North and Central America, populations and, therefore, beverage consumption are growing only slightly. However, KRONES benefits from the increasing variety of beverage products and the proliferation of packaging options.

KRONES benefits from population growth in emerging market and developing countries. The growing variety of beverages and the proliferation of packaging options are driving demand in the advanced economies.

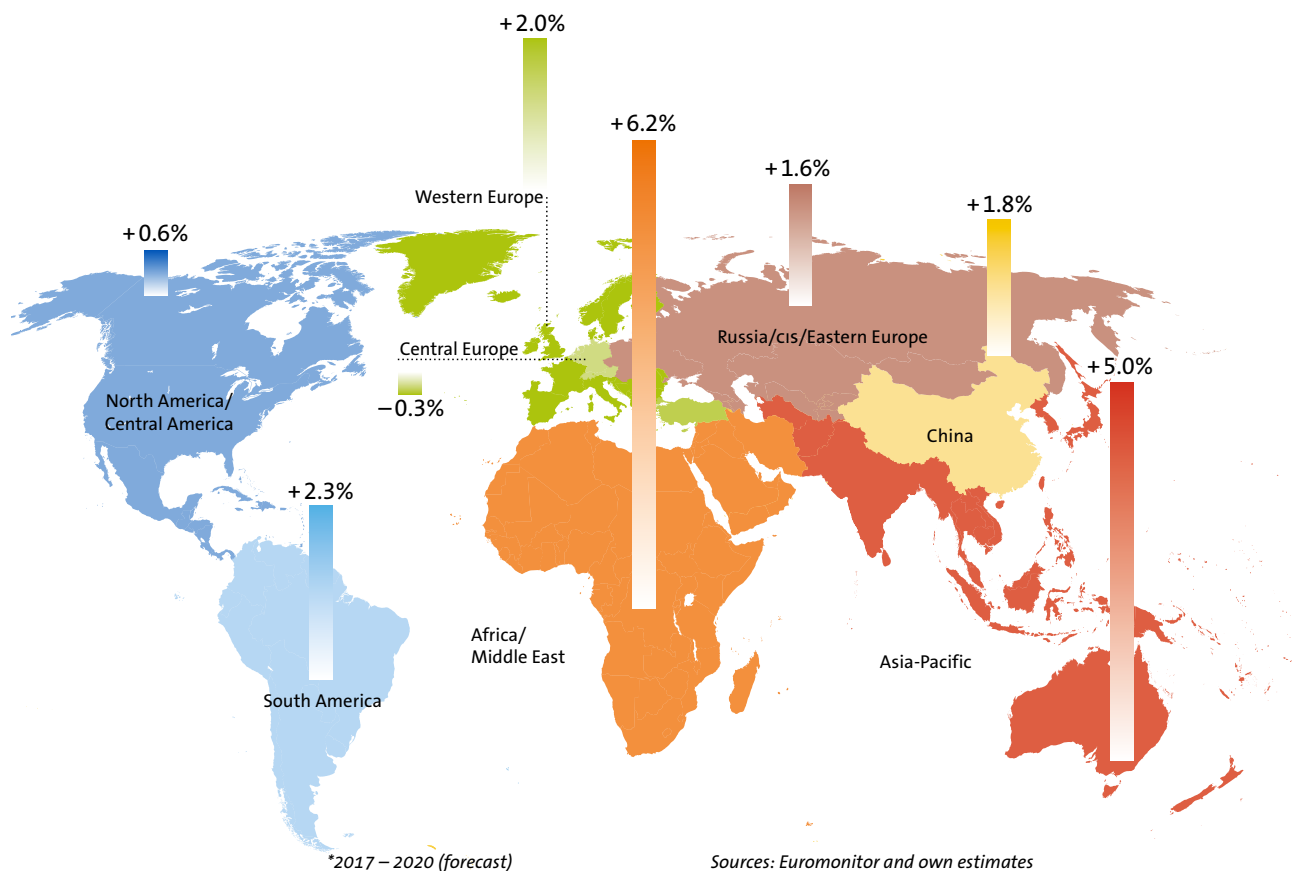
Worldwide consumption of packaged beverages

	2017 (e)		2020 (e)		Average annual growth (%) 2017–2019
	Billion litres	%*	Billion litres	%*	
North America/Central America	195.9	17.6	199.4	16.6	0.6
China	170.3	15.3	179.6	14.9	1.8
Asia-Pacific	186.7	16.8	216.2	18.0	5.0
South America	159.7	14.4	171.1	14.2	2.3
Western Europe	143.6	12.9	152.3	12.7	2.0
Africa/Middle East	120.9	10.9	144.8	12.0	6.2
Russia/CIS/Eastern Europe	81.9	7.4	85.9	7.1	1.6
Central Europe	52.8	4.7	52.4	4.4	-0.3
Worldwide	1,111.8	100	1,201.7	100	2.6

*Share of global consumption

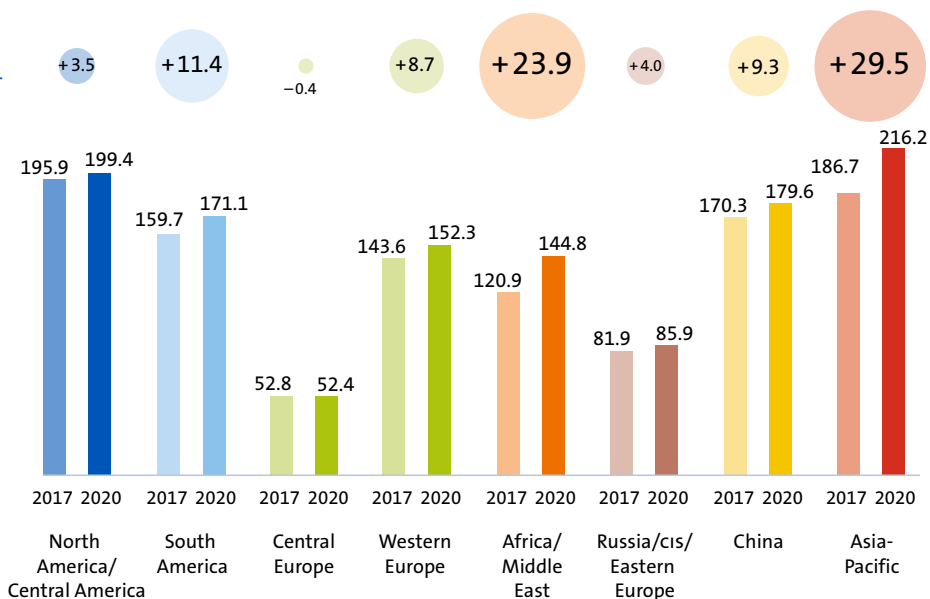
Sources: Euromonitor and own estimates

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



In the period from 2017 to 2020, consumption growth in terms of volume is expected to be highest in the Asia-Pacific region (+29.5 million litres). The Africa/Middle East region will see the highest percentage growth rate (+6.2%).

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

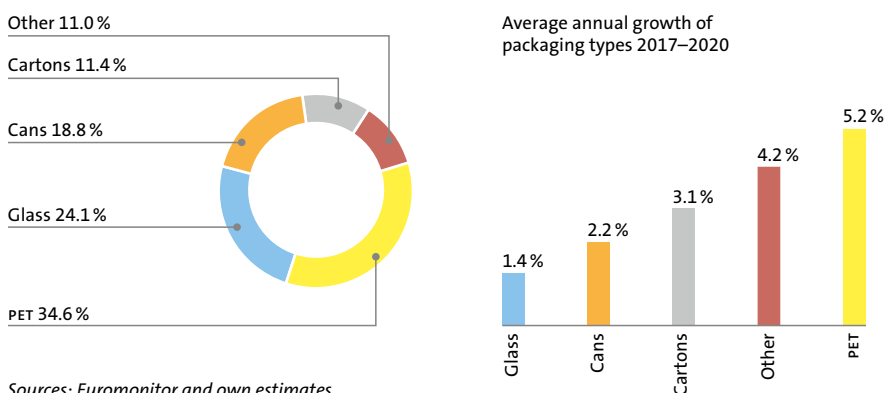


*Forecast ● = Growth between 2017 and 2020 (billion litres) Sources: Euromonitor and own estimates

PET leads among beverage packaging materials

According to preliminary figures from Euromonitor, 1,630 billion containers will be filled with beverages worldwide in 2017. That number is growing steadily and is expected to increase by 3.4% per year on average to 1,800 billion by 2020. The most popular beverage container types are plastic bottles, glass bottles, metal cans, and paper-based cartons.

Global beverage market by packaging material in 2017 (based on units filled)



Sources: Euromonitor and own estimates

Demand for beverage packaging made of PET is rising fast.

In 2017, 34.6% of all beverage containers were made of polyethylene terephthalate (PET) plastic. PET is not only the most popular beverage packaging material by far. It also continues to post the highest growth rates. The number of PET beverage containers is likely to increase 5.2% per year on average through 2020. The primary factor driving this growth is the rising consumption of packaged water, most of which is bottled in PET worldwide. As the leading provider of machines and lines for the production, filling, and packaging of PET containers, KRONES benefits from this trend.

Glass is the second most popular packaging material for beverages, accounting for 24.1% of the total number of beverage containers filled last year. Glass bottles are primarily used for beer and other alcoholic beverages – that is, beverages for which demand is growing only slowly. For this reason, the number of beverage containers made of glass is expected to grow more slowly than the packaging market overall from 2017 to 2020, with annual growth rates of 1.4%.

Metal cans are the third most commonly used packaging material (share in 2017: 18.8%). They are used primarily for beer and carbonated soft drinks (CSDs). The number of cans used for beverage packaging is likely to increase 2.2% per year on average through 2020.

Demand for cartons, the fourth most popular beverage packaging, is growing somewhat slower than the overall packaging market (share of packaging market in 2017: 11.4%). The number of cartons filled is expected to grow by 3.1% on average each year through 2020. Cartons are mainly used to package milk and dairy drinks and fruit and vegetable juices.

- KRONES AG revenue increased 8.4%
- Profitability improved
- Shareholders to receive a dividend of €1.70 per share for 2017 (previous year: €1.55)

A comparison of the forecasts we made in our 2016 annual report (page 115) with the figures actually attained in 2017 reveals the following:

Revenue growth far exceeded our forecast (forecast: 4%, actual growth: 8.4%). Thus, revenue growth matched the high level from 2016 (+8.3%).

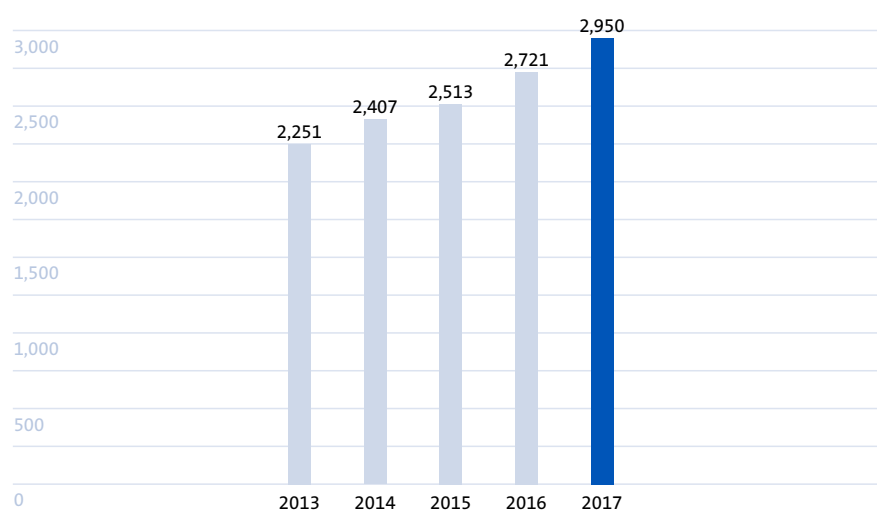
With EBT at €217.7 million, we exceeded the forecast range (€110 to €120 million) by a considerable margin. The main reason for that is a change in the income distribution policy for subsidiaries compared with that used for the original forecasts. In order to concentrate the cash and cash equivalents within the group into KRONES AG as much as possible, considerably more dividends and profit transfers were paid out from the subsidiaries than in previous years. This measure helped to optimise liquidity management and minimise risk.

KRONES AG increased revenue and earnings considerably

The market environment worldwide for filling and packaging technology manufacturers was favourable overall in 2017. KRONES was able to benefit from the situation and continued its stable growth trend. Revenue increased 8.4% to €2,950.0 million in 2017 (previous year: €2,721.2 million).

KRONES continued its stable growth in 2017.

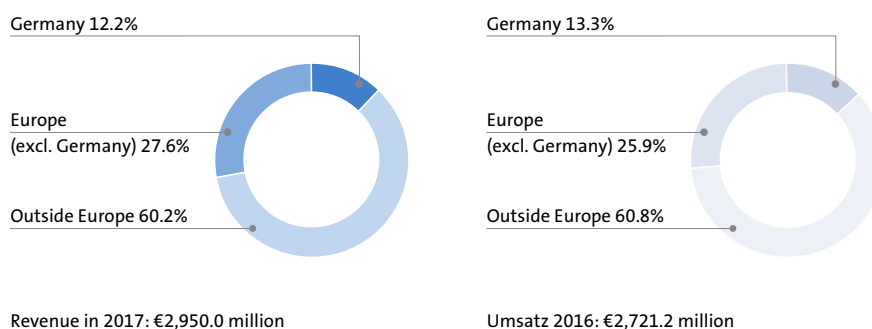
KRONES AG revenue (€ million)



KRONES' broad international diversification and comprehensive portfolio of products and services served the company well in the reporting period. They allowed us to offset temporary shifts in demand in individual regions and for individual products. New machinery and after-sales service business both contributed to our revenue growth in 2017. New machinery revenue improved across wide sections of the company's product range. KRONES' after-sales service revenue benefited from the large installed base of KRONES machinery and from the company's tightly woven service network worldwide.

Revenue by region

KRONES AG revenue by region



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

After two years of very strong growth, business in **Germany** stabilised at a high level. At €359.4 million (previous year: €362.9 million), domestic revenue made up 12.2% of total revenue (previous year: 13.3%).

Revenue generated in the rest of **Central Europe** grew 17.9%, from €108.6 million in 2016 to €128.1 million. The region accounted for 4.3% of total revenue.

After a strong year in 2017 (€530.9 million), revenue in **Western Europe** was up 24.7% on the previous year (€425.6 million) and even outpaced the high revenue figure from 2015. The market share rose to 18.0%.

Activity in the **Eastern Europe/CIS** region slowed 7.9%. Revenue there decreased from €169.0 million to €155.6 million (share of total revenue: 5.3%).

In all, the European sales regions (excluding Germany) accounted for slightly more than one-quarter (27.6%) of total revenue (previous year: 25.9%).

With its portfolio of products and services, KRONES benefits from global population growth, increasing urbanisation, and the growth of the middle class in the emerging markets. We delivered 60.2% of our goods and services to markets outside Europe last year (previous year: 60.8%).

The development of those markets varied.

In **China**, an important sales region for us, revenue decreased 16.5% from €202.2 million to €168.8 million (share of total revenue: 5.7%). The cause was a temporarily reduced need for new production capacity. We expect demand here to increase again in the medium term. By contrast, revenue in the **rest of the Asia-Pacific region** jumped 28.0% year-on-year from €379.1 million to €485.2 million. With that, the region contributed 16.5% to revenue. We established a number of sales and service companies here in order to better penetrate this large market and be closer to customers.

Despite economic and political crises in **South America**, we were able to further increase revenue in the region to €276.6 million (previous year: €249.9 million, +10.7%). Mexico and Brazil made positive contributions. With that, we further increased our market share and generated 9.4% of total revenue in the region.

KRONES was able to maintain a high level of revenue in the mature **North American market** in 2017 after a sharp increase in the previous year. Customers' investments in necessary equipment replacements and the continued growth of the craft beer scene helped us generate €319.7 million in revenue and almost match the year-earlier figure of €326.5 million. The region contributed 10.8% to total revenue.

For several years now, we have been very successful in the **Middle East/Africa** region thanks in part to our strong local presence. Customers there include a number of well-known key accounts as well as many local companies. In this sales region, which is one of our strongest alongside Western Europe, we were able to increase sales of goods and services by 5.7%. In absolute figures, that was an increase from €497.3 million to €525.7 million. Thus, the region accounted for 17.8% of total revenue.

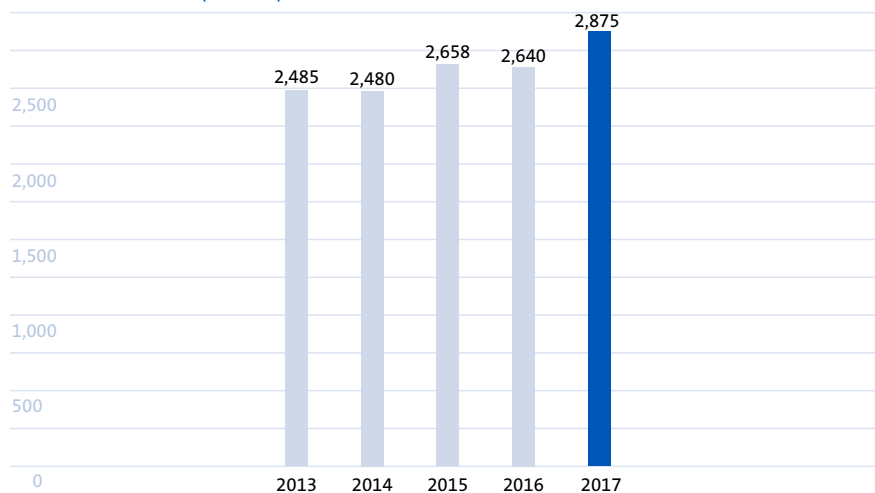
Contract value of orders at KRONES AG increased considerably

Despite the highly competitive, price-sensitive market, orders at KRONES AG increased 8.9% from €2,639.7 million to €2,874.7 million. The company benefited from good ordering activity among customers in the food and beverage industry and used its position as a full-service supplier to its advantage.

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

A look at the sales regions shows strong growth in the Asia-Pacific region, Latin America, and Western Europe. China and Eastern Europe/CIS also exceeded our year-earlier figures. Order intake was down in Central Europe. The Middle East/Africa and North America also did not quite match year-earlier figures. No doubt, one of KRONES' strengths is the fact that we are well positioned in all regions and able to offset or even more than offset temporary dips in demand in individual regions.

KRONES AG order intake (€ million)

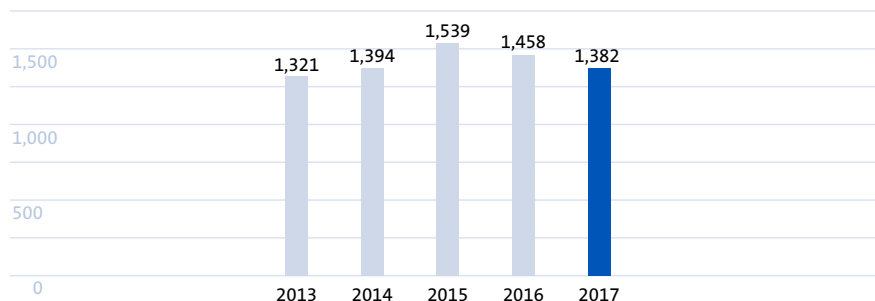


Orders on hand decreased temporarily after revenue surge

At the end of 2017, KRONES AG had an orders backlog of €1,382.2 million on the books. At 31 December 2016, orders on hand had totalled €1,457.5 million. A surge in revenue activity in December had orders on hand down at the end of the year despite strong order intake in 2017.

Nevertheless, as in the previous years, the orders cushion serves as a good basis for achieving our volume targets for 2018.

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



KRONES AG improved earnings considerably in 2017.

KRONES shareholders to receive a dividend of €1.70 per share for 2017.

KRONES increased profitability

KRONES AG improved earnings considerably even as the markets remained highly competitive. That was thanks in part to economies of scale resulting from significantly higher revenue. As expected, market prices provided no support. In order not to compromise profitability, KRONES had to increase efficiency to offset increased costs and the non-recurring expense associated with the drinktec trade fair, which takes place once every four years.

EBT benefited in particular from an improved financial result, owing to changes to the income distribution policy for subsidiaries. In order to concentrate the cash and cash equivalents within the group into KRONES AG as much as possible, considerably more dividends and profit transfers were paid out from the subsidiaries than in previous years (2017: €141.4 million, 2016: €14.2 million). This measure helped to optimise liquidity management and minimise risk arising from currency fluctuations. In all, KRONES AG generated €217.7 million in earnings before taxes, which is up 48.9% over the previous year (€146.3 million).

The Executive Board and the Supervisory Board will propose to the annual general meeting that a dividend of €1.70 per share be paid for the financial year 2017 (previous year: €1.55 per share). If the annual general meeting approves this proposal, the dividend payout ratio for 2017 will be 28.7% based on consolidated net income.

KRONES AG earnings structure

€ million	2017	2016	Change
Revenue	2,950.0	2,721.2	+8.4%
Changes in inventories of finished goods and work in progress	-123.0	-1.9	-
Total operating performance	2,827.0	2,719.3	+4.0%
Goods and services purchased	-1,592.4	-1,537.4	+3.6%
Personnel expenses	-750.7	-718.9	+4.4%
Other operating income (expenses) and own work capitalised	-336.0	-271.5	+23.8%
EBITDA	147.9	191.5	-22.8%
Depreciation and amortisation on fixed assets	-54.5	-52.6	3.6%
EBIT	93.4	138.9	-32.8%
Financial income (expense)	124.3	7.4	-
EBT	217.7	146.3	+48.9%
Income tax	-31.0	-34.0	-
Other taxes	-0.9	-1.2	-25.0%
Net income for the year	185.8	111.1	+67.2%

KRONES AG expanded its business volume considerably in 2017. Revenue exceeded the previous year's by 8.4% due to invoice timing, which made for a strong December. This was more than forecast (+4%). Total operating performance (revenue + changes in inventories) matched our forecast exactly (+4.0%).

Goods and services purchased (€1,592.4 million) increased 3.6%, somewhat less than total operating performance. The ratio of expenses for goods and services purchased to total operating performance improved slightly, from 56.5% to 56.3%. Although we got no support from the sales side, negotiations with suppliers and internal performance programmes enabled us to reduce this ratio slightly. We were even able to bring expenses for raw materials, consumables and supplies and of purchased merchandise down below the absolute figure from the previous year. By contrast, expenses for services purchased were up considerably. This was due primarily to increased need for external design and planning services.

Personnel expenses (+4.4%) grew slightly more than total operating performance. The increase in this expense item came from workforce growth, an increase in pay rates as a result of collective bargaining, and higher social security contributions. In all, personnel expenses came to €750.7 million (previous year: €718.9 million).

Personnel expenses (+4.4%) grew slightly more than total operating performance.

The **ratio of personnel expenses to total operating performance** increased slightly, from 26.4% to 26.6%.

Depreciation and amortisation of fixed assets increased 3.6% from €52.6 million to €54.5 million.

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

The **net of other operating income and expenses** and own work capitalised increased from –€271.5 million in the previous year to –€336.0 million in 2017. That puts the ratio of this figure to total operating performance at 11.9%. The fact that this figure worsened year-on-year (previous year ratio: 10.0%) resulted largely from a decline in other operating income, where the previous year had seen a €15.0 million reversal of a write-down on the carrying amount of our long-term equity investment in KOSME Srl., Roverbella, Italy. Strict cost discipline shaped kept other operating expenses in check. The only one-off charge was the drinktec trade fair, which takes place only once every four years.

Financial income (€124.3 million) changed dramatically from the previous year (€7.4 million). As mentioned previously in this report, changes to the income distribution policy resulted in higher income from investments and profit transfers from our subsidiaries, which increased from €14.2 million to €141.4 million. On the other hand, the net of interest income and interest expenses worsened by €10.0 million as a result of changes in the income and expenses from discounting for pensions (some of which arose from legislative changes) over which we have no influence. Once the low level of other effects is taken into account, the change in the financial result comes to +€116.9 million.

After income taxes (€31.0 million, previous year: €34.0 million) and other taxes (€0.9 million), KRONES AG had net income of €185.8 million (previous year: €111.1 million). That is an increase of 67.2%. The tax rate was down to 14.2% (previous year: 23.2%), due primarily to the higher income from investments.

In contrast to the many years previous, KRONES AG had a small amount of short-term bank debt at the end of the reporting period (€24.6 million). **Cash and cash equivalents** at the end of the reporting period came to €5.7 million (31 December 2016: €188.2 million). As a result, net cash and equivalents came to –€18.9 million. However, the KRONES Group has considerable cash and cash equivalents.

Working capital increased further on higher business volume. Improving this important performance indicator will be a key task once again in 2018.

Existing lines of credit totalling €252.7 million may be used as cash credit or surety credit. In addition, the company also has at its disposal extensive pure surety lines.

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

Thus, KRONES AG is able to fulfil all of its payment obligations and has achieved the primary aim of KRONES' financial management, safeguarding KRONES' strong financial footing and independence.

Cash flow (net income or loss for the year plus depreciation, amortisation, and write-downs) improved to €240.3 million in 2017 (2016: €163.7 million).

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

€ million	2017	2016	2015
Cash and cash equivalents at 1 January	188.2	125.7	165.5
Cash flow from operating activities	–110.1	138.4	45.0
Cash flow from investing activities	–74.4	–66.1	–48.4
Cash flow from financing activities	–22.6	–9.8	–36.4
Cash and cash equivalents at 31 December	–18.9	188.2	125.7

Asset and capital structure of KRONES AG

(€ million at 31 December)	2017	2016	2015
Fixed assets	598.5	561.8	514.1
Current assets and prepaid expenses	1,137.5	1,053.1	1,006.6
of which cash and cash equivalents	5.7	188.2	125.7
Equity	839.0	702.2	636.9
Total debt	897.0	912.7	883.8
Provisions	533.8	483.1	488.4
Liabilities	363.2	429.6	395.4
Total	1,736.0	1,614.9	1,520.7

At 31 December 2017, KRONES AG's total assets were up €121.1 million to €1,736.0 million. The 7.5% increase was smaller than the increase in revenue (+8.4%).

For more information, see the detailed balance sheet on pages 104 and 105.

Fixed assets increased 6.5% to €598.5 million. Of that, €345.4 million were property, plant and equipment (previous year: €341.8 million). Of the €96.4 million in additions, the biggest share of capital expenditure went towards the purchase of standard software and machinery and equipment purchased to expand production capacity and update facilities.

Long-term financial assets were up by €32.9 million from €183.6 million to €216.5 million. Of that, the largest share relates to the acquisition of shares in IPS in Dubai and to the establishment of a new subsidiary in Hungary.

At €1,137.5 million, **current assets**, including prepaid expenses, were up 8.0% on the previous year. Trade receivables increased 59.2% from €358.6 million to €571.0 million. That was due to the very high level of revenue recognised near the end of the reporting period. We also see room for improvement in our working capital management. Receivables from affiliated companies increased from €150.9 million to €217.9 million. Other assets changed only slightly (from €66.8 million to €65.0 million). Netted against prepayments received, inventories decreased from €286.1 million to €273.8 million. At the end of the reporting period, finished goods in particular were lower since revenue was high.

We intend to further improve working capital management.

At the end of the reporting period, the company had **cash and cash equivalents** totaling €5.7 million (31 December 2016: €188.2 million).

On the liabilities side, **provisions** increased slightly, from €483.1 million to €533.8 million. Pension provisions changed by €11.2 million from €126.2 million to €137.4 million. That was due primarily to the change in the discount rate. Personnel provisions, including bonuses and provisions for partial retirement, increased by €10.3 million to €102.6 million. Provisions for customer projects (€249.6 million) and other remaining provisions increased by €17.2 million to €267.5 million. In all, other provisions were up €27.5 million to €370.1 million.

Liabilities were reduced by 15.5% from €429.6 million to €363.2 million in the reporting period. The decrease related to both trade payables and, especially, liabilities to affiliated companies. Unlike in previous years, KRONES AG had bank debt at the end of the reporting period (31 December 2017: €24.6 million). Thus, the company's net cash and cash equivalents (cash and cash equivalents less bank debt) amounted to -€18.9 million at the end of the reporting period (31 December 2016: +€188.2 million). However, that was primarily a factor of the reporting date and the heavy delivery activity in December.

KRONES AG's **equity** at 31 December 2017 came to €839.0 million (31 December 2016: €702.2 million). That is an increase of €136.8 million or 19.5%. The dividend payout to our shareholders in June 2017 reduced equity by €49.0 million. Net income for 2017 increased equity by €185.8 million. The result is a significantly improved equity ratio of 48.3% (31 December 2016: 43.5%).

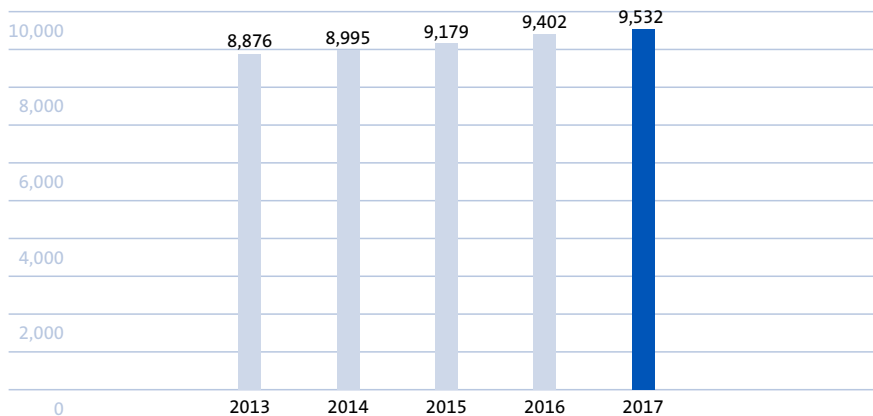
Overall, KRONES AG has a robust financial and capital structure.

KRONES also further expanded its workforce in Germany.

KRONES AG's workforce grows further

Our people are the bedrock of KRONES' long-term success. In order to exploit the great opportunities our market offers, KRONES further expanded its workforce in 2017, especially abroad. But we also grew the team at KRONES AG last year. The number of employees at KRONES AG in Germany increased from 9,402 to 9,532. That is an increase of 130 people or 1.4%. We also added another 16 employees at our representative offices abroad.

KRONES AG employees at 31 December in Germany



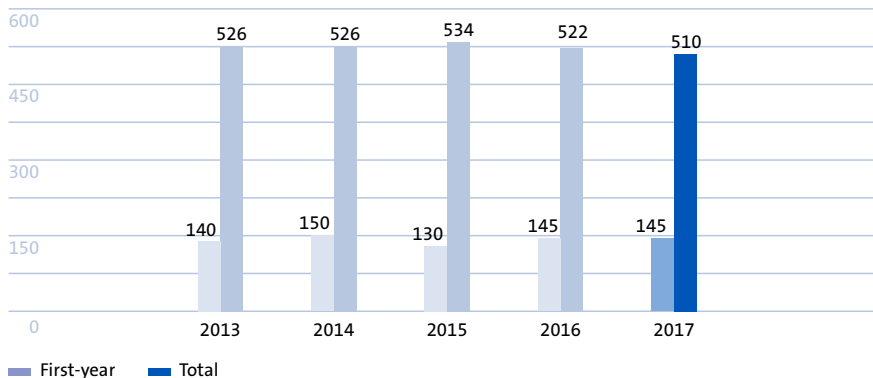
More information on our labour practices can be found in our Sustainability Report and in our Non-financial Report. Both are available online at <https://www.krones.com/en/company/responsibility/downloads.php>.



If we are to meet our 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.

Recruiting qualified young people is an important objective of KRONES' human resources policy, to counter the effects of demographic change (population ageing). KRONES strives to replace retiring employees in Germany with our own home-grown talent. For this, KRONES relies on a strong in-house training programme. In all, KRONES was training 510 young people in more than 20 different fields in Germany at the end of 2017.

Apprentices at KRONES AG (total and first-year)



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 is a party to the UN Global Compact and is committed to its ten internationally recognised sustainability principles in the areas of human rights, labour standards, environmental protection, and anti-corruption. To fulfil our responsibilities as part of a greater world community, we engage in active dialogue with our customers, employees, shareholders, suppliers, and other stakeholder groups.

Non-financial reporting for 2017

Under the requirements of the CSR Directive Implementation Act, which entered into force in Germany in April 2017, we disclose the concepts we have followed with respect to the non-financial issues most relevant to KRONES. KRONES has decided to publish a separate Non-financial Report for this purpose. It is not part of the management report. The Non-financial Report will be published online at <https://www.krones.com/en/company/responsibility/downloads.php>. In addition, we will publish a separate Sustainability Report for 2017 for KRONES AG, which will also be available online at <https://www.krones.com/en/company/responsibility/downloads.php>.

The KRONES Group is publishing a separate Non-financial Report for the first time for the financial year 2017. It is available online at <https://www.krones.com/en/company/responsibility/downloads.php>.



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

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

KRONES' risk management system

KRONES is exposed to a variety of risks that are inextricably linked with doing business globally. We continuously monitor all significant business processes to identify risks early and to actively manage and limit them. Within our corporate strategy, we also identify, analyse, and unlock opportunities. However, unlike risks, business opportunities are not documented within our risk management system.

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

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

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

For the sake of clarity, we have changed the way we present risks and now use a three-column approach, which covers the maximum loss associated with a risk, the likelihood of an event, and the financial impact – the latter being the product of the first two factors. Each factor is categorised as either low, medium, or high. The categories are defined as follows:

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

* Based on EBIT

Multi-stage risk management system

We are continually improving our risk management system on the basis of practical experience. The system consists of the following modules: risk analysis, risk monitoring, and risk planning and control.

Risk analysis

In order to identify risks early, we continuously monitor all business activities.

Material project-related risks are reduced or avoided before an order is accepted.

We conduct a profitability analysis of all quotes prior to order acceptance. For orders that exceed a specified volume, we also conduct a multi-dimensional risk analysis.

Apart from profitability, we also individually record and evaluate financing risks, technological risks, and tax risks as well as scheduling and other contractual risks before accepting an order.

To manage risks that arise from changes in the market and competitive situation, we create detailed market and competition analyses for all segments and business areas on a regular basis.

In addition, we conduct a comprehensive risk inventory annually for KRONES AG and all significant group companies. The results of the risk inventory and mitigating actions are used in our annual planning and forecasting. The basic principles and process are documented in our risk policy. The risk management system serves not only the purpose mandated by law, of detecting early those risks that could jeopardize the company's survival, but also covers all risks that may have a significant negative impact on earnings.

Risk monitoring

We use a variety of interlinked controlling processes to monitor risks for KRONES AG. Regular comprehensive reports from the individual business units keep the Executive Board and other decision-makers apprised of all possible risks and deviations from company planning and of the status of mitigating actions in a timely manner. For projects with a high contract value, potential risks are examined and evaluated in regular meetings. Employees who identify risks pass their information on promptly through the company's internal reporting system.

Risk planning and control

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

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

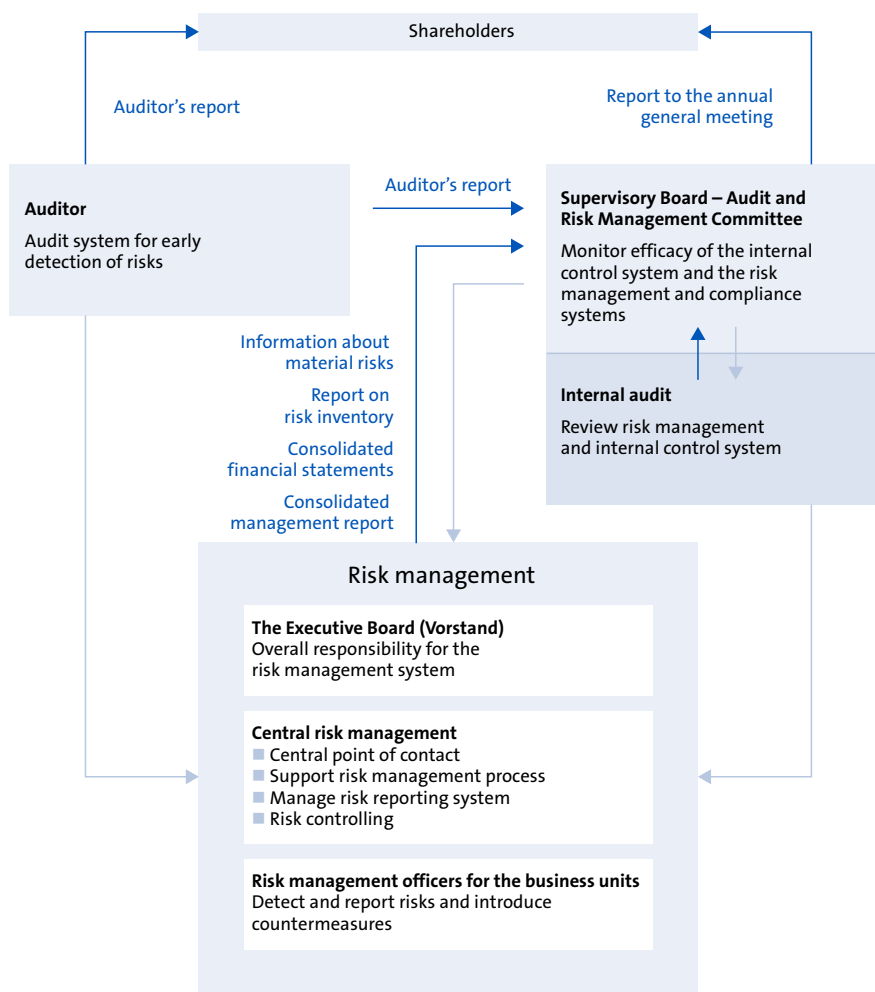
Risk management organisation

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

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

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

Risk management organisation at KRONES



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

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

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

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

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

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

KRONES divides the maximum loss, likelihood, and financial impacts of material risks into three categories: low, medium, and high. See page 64 for details.

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

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 the maximum loss as high, the likelihood of an event as low, and the financial impact as medium.

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 maximum loss as high, the likelihood of an event as low, and the financial impact as medium.

Financial risks

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

1. Default risk

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

1.1 Trade receivables

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

KRONES bases its management of credit risks from trade receivables on internal policies. A large portion of trade receivables is secured by various, sometimes country-specific, hedges. The hedges include, for instance, retention of title, guarantees and sureties, and documentary credits. In order to prevent credit risk, we also run external credit checks on customers. In addition, there are processes in place for continually monitoring receivables that may be at risk of default. Write-downs on bad debt (non-recoverable trade receivables) are taken on an individual basis. The very low volume of actual defaults, as measured against the total volume of receivables, attests to the effectiveness of the measures taken.

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

1.2 Derivative financial instruments

KRONES uses derivative financial instruments on the basis of individual contracts solely for risk management purposes. Not using derivative financial instruments would expose the company to greater financial risks. These instruments essentially cover the risks arising from changes in exchange rates between the euro and the us dollar, the Australian dollar, the Canadian dollar, and the British pound. The material contractual details (amount, term) of the underlying and hedge transactions are largely identical. The risk of default relating to derivative financial instruments is limited to the balance of the positive fair values in the event of a contracting party's default.

1.3 Other financial assets

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

Impact of default risks: We rate the maximum loss as high, 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.

Impact of liquidity risk: We rate the maximum loss as low, the likelihood of an event as low, 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 very little bank debt at the end of the 2017 reporting period.

Impact of interest rate risk: We rate the maximum loss as low, the likelihood of an event as low, 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 also make most purchasing and sales transactions in euros or the relevant functional currency.

Impact of currency risk: We rate the maximum loss as medium, the likelihood of an event as low, 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 the maximum loss as high, the likelihood of an event as medium, 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 the maximum loss as low, the likelihood of an event as low, 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 maximum loss as high, 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 the maximum loss as low, the likelihood of an event as low, 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 the maximum loss as high, the likelihood of an event as medium, 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 the maximum loss as high, the likelihood of an event as low, and the financial impact as low.

IT risks

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

Impact of IT risks: We rate the maximum loss as low, the likelihood of an event as medium, 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.

Acquisition of equity interests

In March 2018, KRONES BETEILIGUNGSGESELLSCHAFT MBH, Neutraubling, acquired the remaining 49.03% of TILL GMBH, Kelkheim, Germany. KRONES now owns 100% of Till GmbH, Kelkheim.

- Positive outlook for the global economy
- Conditions for growth are favourable for KRONES overall
- Executive Board expects revenue to increase further

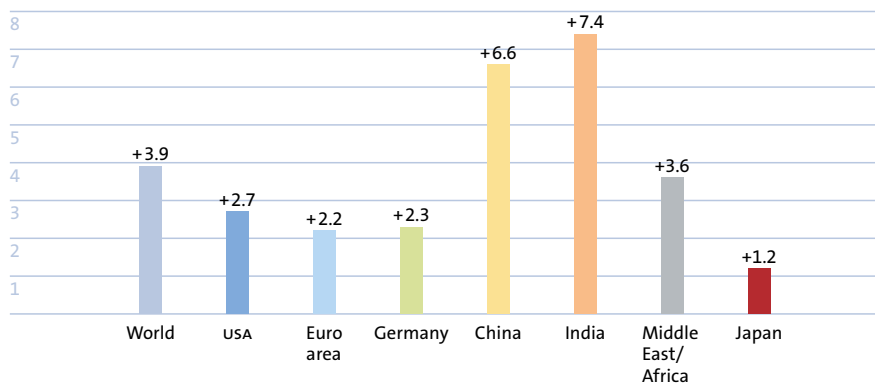
World economy is projected to grow 3.9% in 2018

The International Monetary Fund (IMF) upgraded its forecasts for global economic growth in January 2018. The experts are projecting that the global economic upswing will continue to accelerate in 2018, driven primarily by the tax reform in the USA. The reform is expected to benefit not only the US but also international trading partners. The IMF expects the positive trend in Europe will also contribute considerably to the global economy. In all, the IMF is forecasting global economic growth of 3.9% for 2018 (2017: 3.7%).

According to IMF projections, the global economic upswing will accelerate in 2018.

The emerging market and developing economies will likely grow more than the global economy overall in 2018 due to the powerful uptrend in Asia.. China will once again play a significant role here. The IMF expects the world's second-largest economy to grow its GDP by 6.6% in 2018 (previous year: +6.8%). India's economy is likely to expand at an even faster pace. The IMF is predicting that the country's GDP will grow by 7.4% (previous year: +6.7%). The uptrend in the Middle East/Africa region is expected to pick up considerable speed in 2018. The IMF projects that the region's GDP will grow by 3.6% (previous year: +2.5%). In all, the IMF is forecasting 4.9% economic growth for the emerging market and developing economies for 2018 (previous year: 4.7%).

GDP growth in 2018 (% forecast)



Source: IMF

The IMF's confidence with respect to the economic outlook in the advanced economies has increased. The main reason is the tax reform in the USA. The world's largest economy is expected to increase GDP by 2.7% in 2018 (previous year: 2.3%). In October 2017, before the tax reform passed, the IMF forecast was at just 2.3%. In January 2018, the IMF also raised its growth forecast for the euro area and for Germany in particu-

lar. The economists now expect the common currency area's GDP to increase 2.2% (previous year: 2.4%). The previous forecast was for 1.9% GDP growth. Germany's economy is projected to expand by 2.3% in 2018 (previous year: 2.5%). In autumn 2017, the forecast was for just 1.8% growth. For Japan, the IMF is forecasting 1.2% GDP growth in 2018 (previous year: 1.8%). In all, the IMF is forecasting 2.3% economic growth for the advanced economies for 2018 (previous year: 2.3%). That is 0.3 percentage points higher than the October 2017 forecast.

Strong employment figures and moderate inflation rates support consumer spending

Consumer spending is a key factor determining the propensity of KRONES' customers to make capital expenditures and, consequently, the level of demand for beverage filling and packaging equipment. Low unemployment and 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 and services. We do not expect either of these factors to have any negative effects on KRONES' business overall in 2018.

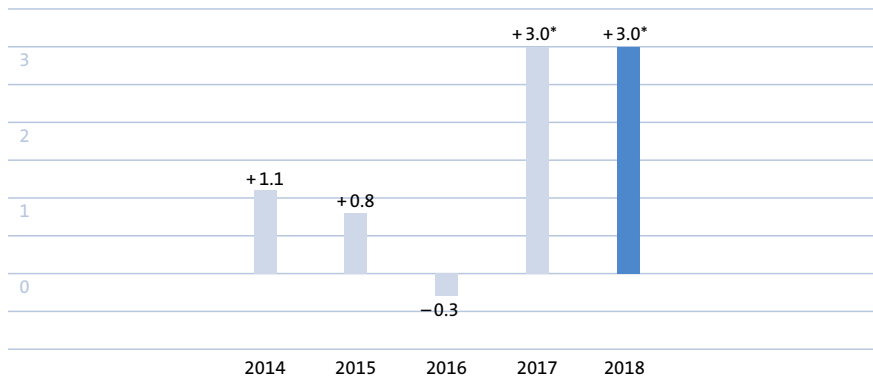
Positive outlook for Germany's machinery sector

The strong global economic outlook is likely to have a positive impact on Germany's machinery sector. For that reason, the German Engineering Federation (VDMA) is cautiously optimistic about 2018 and expects the sector to achieve further growth. The VDMA expects the value of machinery and equipment produced in 2018 to rise by 3% year-on-year.

The food and packaging machinery subsector, to which KRONES belongs, is likely to grow more than the industry as a whole. The VDMA is projecting 4% revenue growth for this subsector for 2018.

The German Engineering Federation (VDMA) expects the industry to grow in 2018.

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



* Forecast

Source: Germany's Federal Statistical Office, VDMA

KRONES optimistic going into 2018

With economic forecasts for the current year positive overall, KRONES is optimistic going into 2018 despite several political and economic uncertainties. The packaging machinery market is growing at a relatively stable pace because demand for packaged beverages and foods is rising. Despite the positive environment, our market remains challenging. Customers' buying power is increasing as a result of mergers and acquisitions and the fight for orders remains intense. We expect no support from prices in 2018.

Revenue expected to increase further in 2018

KRONES intends to take the momentum from a successful drinktec 2017 into the current year. Launching new products and services and further reducing costs remain important factors. Moreover, KRONES will increase its presence worldwide and move even closer to customers. Parts of procurement, engineering, and 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 more competitive prices.

Innovations and the continued expansion of international service centres will contribute to growth in our core business area, Machines and Lines for Product Filling and Decoration, in 2018. We intend to improve our position in the emerging markets by offering less-complex systems that deliver high performance. In addition, KRONES will continue to press ahead with the modularisation of our products in our core business area and expand our global footprint. That will enable us to achieve better procurement terms and increase efficiency within the company.

We intend to significantly improve profitability in the Machines and Lines for Beverage Production/Process Technology business area in 2018. Measures implemented have not yet taken their full effect. However, we are confident that we will be able to leverage revenue and earnings potential this year by further expanding our global footprint and fully integrating the acquisitions in this business area.

Intralogistics is also expected to benefit from positive momentum coming out of the drinktec trade fair this year.

We expect EBT to be around €170 million.

Based on the current macroeconomic prospects and expected development of the markets relevant to KRONES, we are targeting revenue growth of 2.5%, in 2018. The regional distribution of revenue in 2018 is likely to be little changed from the previous year.

KRONES intends to increase revenue in 2018.

	Forecast for 2018	Actual value 2017
Revenue growth	+2.5%	+ 8.4%
EBT	about €170 million	€217.7 million



KRONES' booth at drinktec 2017 impressed visitors with innovative exhibits and appealing design.

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

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 with a simple majority of the votes cast or, in cases in which the law prescribes a majority of shares in addition to a majority of votes, with a simple majority of the share capital represented in the vote.

Pursuant to 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 shareholders' 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 the 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%

Changes to the shareholdings listed above that are not required to be reported to the company may have occurred since the specified date (January 2018). 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 of 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, with the approval of the Supervisory Board, 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.



Dependency report

Pursuant to Section 17 of the German Stock Corporation Act (AktG), Familie Kronseder Konsortium GbR, Neutraubling, has a controlling influence over KRONES AG. Thus, in keeping with Section 312 AktG, the Executive Board has prepared a report which contains the following final declaration:

For every transaction made between KRONES AG and the owners of Familie Kronseder Konsortium GbR and affiliated companies in the reporting period, KRONES AG made arrangements for appropriate consideration within the meaning of Section 312 AktG and – to the extent that it was to be fulfilled in the reporting period – received said consideration.

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

Executive Board remuneration

Basic features of Executive Board remuneration

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

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

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

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

Remuneration components

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

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

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

Fixed components (base salary and fringe benefits)

The fixed amount is the base salary stipulated in the members' contracts and is paid out in equal monthly amounts. It is reviewed on a regular basis. For the financial year 2017, the base salaries of the six members of the Executive Board who were active in 2017 totalled €3,220 thousand (previous year: €2,990 thousand).

In addition, the members received fringe benefits which are essentially the cost or non-cash benefit of customary insurance premiums, housing expenses, school fees, and the use of a company car. These benefits are taxed in accordance with applicable tax rules. For the 2017 financial year, the members of the Executive Board received fringe benefits totalling €345 thousand (previous year: €319 thousand).

Variable components

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

- Short-term incentive (STI, measurement period: 1 year)
 - Awarded annually
 - Target bonus: 3 months' salary per annum (=100% of performance target attained)
 - Reference figures: EBT margin (primary), order intake, consolidated revenue, and (since 2017) net working capital
 - Capped at 200% (max. 6 months' salary)
 - No payment if EBT is negative

STI payment for the financial year 2017 amounts to €1,127 thousand in 2018 (previous year: €673 thousand). In addition, the Supervisory Board can, at its equitable discretion, pay out a special bonus if extraordinary events or exceptional performance warrant it. No special bonuses were paid out for the 2017 financial year.

- Medium-term incentive (MTI, measurement period: 3 years)
 - Awarded annually (on a revolving basis)
 - Target bonus: 3 months' salary per annum (=100% of performance target attained)
 - Reference figures: through 2016 ROCE (primary), revenue, EBT margin, and quality costs; since 2017 net working capital, 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 €1,138 thousand at the end of the financial year (previous year: €1,169 thousand). Of that, €520 thousand apply to the year 2017 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 €3,994 thousand at the end of the year (previous year: €3,157 thousand). The earliest point at which payment from the LTI can occur is the end of the financial year 2018, 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 €6,405 thousand (previous year: €4,558 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 €257 thousand (previous year: €284 thousand) were recognised for active members of the Executive Board. In addition, €1,024 thousand (previous year: €956 thousand) was paid into contribution-based plans in 2017. At the end of 2017, the corresponding Defined Benefit Obligation (DBO) amounted to the following: for Mr. Klenk €1,599 thousand, for Mr. Diepold €4,316 thousand, for Mr. Ricker €26 thousand, for Mr. Tischer €28 thousand, and for Mr. Goldbrunner €19 thousand. In 2017, 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 €3 thousand, for Mr. Ricker €180 thousand, for Mr. Tischer €160 thousand, and for Mr. Goldbrunner €160 thousand.

Additional benefits in the event of termination of employment

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

Advances and loans

No loans or advances were provided to members of the Executive Board in 2017.

Benefits paid to former members of the Executive Board

Payments to former members of the Executive Board and their surviving dependents amounted to €1,504 thousand (previous year: €1,451 thousand). Pension provisions of €2,465 thousand (previous year: €989 thousand) were recognised.

Total remuneration paid to members of the Executive Board in 2016/2017

Remuneration 2017 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	28	828	280	128	0	1,236
Michael Andersen	CFO Finance, Controlling, Strategic Purchasing	since 2016	510	219	729	179	0	0	908
Rainulf Diepold	Sales and Marketing	since 1996	660	29	689	231	140	1,193	2,253
Thomas Ricker	Bottling and Packaging Equipment	since 2012	450	21	471	158	93	0	722
Markus Tischer	International Operations and Services	since 2014	400	16	416	140	79	0	635
Ralf Goldbrunner	Plants and Components	since 2014	400	32	432	140	79	0	651

Remuneration 2016 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

The incentive amounts are amounts that will be paid out in the subsequent year.

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 2017, the articles of association as amended by the annual general meeting on 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 2017 amounted to €631 thousand (previous year: €633 thousand) and is shown in the table below with individualised disclosure.

Remuneration 2017 pursuant to GAS 17 (€)

Name	Position	Base compensation	Additional compensation for committee work	Meeting attendance fee	Total remuneration in 2017
Volker Kronseder	Chairman of the Supervisory Board	87,500	7,000	9,000	103,500
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	4,500	46,500
Prof. Dr. jur. Susanne Nonnast	Regular member	35,000		6,000	41,000
Dr. phil. Verena Di Pasquale**	Regular member	35,000		6,000	41,000
Johann Robold**	Regular member	17,500	3,500	3,000	24,000
Beate Eva Maria Pöpperl	Regular member	17,500		4,500	22,000
Petra Schadeberg-Herrmann	Regular member	35,000		6,000	41,000
Jürgen Scholz**	Regular member	35,000	3,500	7,500	46,000
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

*** Deceased 1 December 2017

Remuneration 2016 pursuant to GAS 17 (€)

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

“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 KRONES AG.”

Neutraubling, 12 March 2018

KRONES AG

The Executive Board



Christoph Klenk
CEO



Michael Andersen
CFO



Thomas Ricker



Markus Tischer



Ralf Goldbrunner



KRONES

Around 90% of drinktec's 76,000 attendees visited our booth. As a result, things were quite busy there at times.



Valves from KRONES' subsidiary EVOGUARD were an essential part of our drinktec exhibit. They are powerful, reliable components of our customers' lines.

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Corporate Governance

Statement on corporate governance

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

KRONES recognises its responsibilities

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

The Code presents essential statutory regulations for the management and supervision (governance) of German listed companies and contains internationally and nationally recognised standards for good and responsible corporate governance. The management of KRONES takes the principles and rules of corporate governance into account in all business activities.

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 7 February 2017 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.

- An anonymous whistleblowing system is not currently in place. (Item 4.1.3 of the Code)

A dedicated system for employees and third parties to anonymously report suspected breaches of the law within the company is currently being developed and is expected to be introduced in the company soon.

- 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 sample tables would serve to make the remuneration report more clear and generally understandable, as the company aims to do in its compliance with financial reporting requirements (see Item 4.2.5 Sentence 3 of the Code).

- 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 does not currently disclose the personal and business relationships of every candidate with the enterprise, the company's governing bodies, and any shareholders 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."

Neutraubling, 19 February 2018

For the Executive Board

For the Supervisory Board


Christoph Klenk
CEO


Volker Kronseider
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 and develop a profile of skills and expertise for the board as a whole. With consideration to the company's specific situation, the composition of the board should duly 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. With respect to the elected employee representatives, the specific requirements of the codetermination acts (Mitbestimmungsgesetze) must be taken into account.

In keeping with the 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 KRONES AG's public reputation.

Consideration of candidates should also take into account motivation, integrity, character, professionalism, and independence.

b) Potential conflicts of interest (independence of the members)

The independence of the members of the Supervisory Board shall be ensured in order to prevent conflicts of interest. Potential candidates shall not serve as advisors 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. At least two shareholder representatives on the Supervisory Board must be independent. In the reporting period, those were Prof. Dr. Susanne Nonnast and Philipp Graf von und zu Lerchenfeld (who passed away on 1 December 2017).

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 ends 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 when selecting members of the Supervisory Board.

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

f) Diversity

The Supervisory Board of KRONES AG takes 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, at least 30 percent of Supervisory Board seats at KRONES must be held by women and men, respectively. 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. Petra Schadeberg-Herrmann and Prof. Dr. Susanne Nonnast represent shareholders on the Supervisory Board. The Supervisory Board also has two female employee representatives, Dr. Verena Di Pasquale and Beate Eva Maria Pöpperl (as of 20 June 2017).

The Supervisory Board of KRONES implemented all of the objectives a) through f) in the financial year 2017.

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 our interaction with 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 impact of the manufacture and use of our products. KRONES maintains eco-friendly production operations and not only complies with statutory regulations but makes every effort to remain as far below the prescribed limits as possible.

Our governance principles ensure that the welfare of the very people who contribute to our success is never subordinated to economic interests. In order to prevent accidents at the workplace and work-related illness, 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 the workplace is ergonomic.

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

Diversity policies, succession planning for the Executive Board

The Executive Board, the Supervisory Board, and the Standing Committee are responsible for succession planning and for monitoring diversity. For the appointment of members of the Executive Board, preference shall be given to candidates whose accomplishments and knowledge make them the most qualified to safeguard the interests of the company and its stakeholders for the long term. The company's diversity policy shall also be taken into account in such appointment processes. When filling a position on the Executive Board, the Supervisory Board shall consider diversity with respect to candidates' professional and educational backgrounds, age, gender, and international management qualifications. The policy consists of the following aspects in detail:

- The Supervisory Board has set a standard age limit for members of the Executive Board. The standard age limit is 62 years (62nd birthday). The board also gives due consideration to ensuring a balanced age structure.
- At least two members of the Executive Board should have a technical/engineering background. At least two members should have international management experience. The Executive Board as a whole should represent the best possible composition for the KRONES Group, its core business, and all stakeholders.
- Pursuant to Section 111 (5) of the German Stock Corporation Act, the Supervisory Board has established a target of 0% participation of women on the Executive Board. That is because the Supervisory Board has not yet been able to find a suitable female candidate for the Executive Board and expects this to remain difficult in the near future. However, under the company's diversity policy, women will be given priority consideration for filling openings on the Executive Board.
- The Supervisory Board has set the contract term for first-time appointees to Executive Board positions at three years.

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 2017. Each member is responsible for specific areas of the company (see page 133). 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.



For a detailed list of members of the Executive Board, see page 133.

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 forecasts, 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 page 133 for a listing of the members). The Chairman or Deputy Chairman presides over the Supervisory Board's meetings.



For a detailed list of members of the Supervisory Board, see page 133.

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 members.

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 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 (until 1 December 2017), Josef Weitzer, Johann Robold (until 20 June 2017), and Jürgen Scholz (since 20 June 2017). Philipp Graf von und zu Lerchenfeld chaired the committee until 1 December 2017.

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. Volker Kronseder chairs the committee. 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 2017, the percentage of women in each of these two levels of management came to 10.9%. The Executive Board of KRONES AG aims to keep this figure stable through 30 June 2020.

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

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€ thousand		2017	2016
	Notes		
1. Revenue	13	2,949,954	2,721,153
2. Changes in finished goods inventories and work in progress		-122,940	-1,897
3. Other own work capitalised		7,863	8,041
4. Other operating income	14	60,686	101,897
5. Goods and services purchased			
a) Cost of raw materials, consumables and supplies, and of purchased merchandise		-1,173,099	-1,176,580
b) Cost of purchased services		-419,331	-360,852
		-1,592,430	-1,537,432
6. Personnel expenses	15		
a) Wages and salaries		-633,273	-608,520
b) Social security, post-employment and other employee benefit costs		-117,459	-110,341
		-750,732	-718,861
7. Depreciation and amortisation of tangible and intangible fixed assets	16	-54,445	-52,633
8. Other operating expenses	17	-404,534	-381,419
9. Income from long-term equity investments	18	141,376	14,229
10. Income from other securities and long-term loans	19	455	709
11. Other interest and similar income	19	1,129	2,247
12. Interest and similar expenses	19	-18,649	-9,793
13. Taxes on income	20	-31,067	-33,959
14. Earnings after taxes		186,666	112,282
15. Other taxes	20	-894	-1,206
16. Net income for the year		185,772	111,076
17. Retained profits brought forward		121,755	59,648
18. Retained earnings		307,527	170,724

Assets		31 Dec 2017	31 Dec 2016
€ thousand	Notes		
A. Fixed assets			
I. Intangible fixed assets	1		
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets		36,578	36,412
II. Tangible fixed assets	2		
1. Land, including buildings on third-party land		223,866	229,101
2. Technical equipment and machinery		54,430	61,721
3. Other equipment, operating and office equipment		49,222	48,052
4. Prepayments and assets under construction		17,862	2,924
		345,380	341,798
III. Long-term financial assets	3		
1. Shares in affiliated companies		169,467	153,072
2. Loans to affiliated companies		33,825	29,736
3. Other long-term equity investments		12,996	348
4. Other loans		253	473
		216,541	183,629
		598,499	561,839
B. Current assets			
I. Inventories	4		
1. Raw materials, consumables and supplies		137,637	131,724
2. Work in progress		183,936	213,368
3. Finished goods and merchandise		392,868	531,117
4. Prepayments		6,141	8,613
5. Payments received on account of orders		-446,765	-598,743
		273,817	286,079
II. Receivables and other assets	5		
1. Trade receivables		571,031	358,617
2. Receivables from affiliated companies		217,859	150,882
3. Receivables from other long-term investees and investors		1,705	-
4. Other assets		64,983	66,846
		855,578	576,345
III. Cash-in-hand, bank balances, and cheques	6	5,711	188,233
		1,135,106	1,050,657
C. Prepaid expenses		2,353	2,444
Total		1,735,958	1,614,940

Equity and liabilities		31 Dec 2017	31 Dec 2016
€ thousand	Notes		
A. Equity			
I. Subscribed capital	7		
Ordinary shares		40,000	40,000
II. Capital reserves		141,551	141,551
III. Revenue reserves			
1. Legal reserve		51	51
2. Other revenue reserves		349,888	349,888
		349,939	349,939
IV. Retained profits brought forward	8	121,755	59,648
V. Net income for the year	8	185,772	111,076
		839,017	702,214
B. Provisions			
1. Provisions for pensions and similar obligations	9	137,361	126,180
2. Provisions for taxes		26,327	14,367
3. Other provisions		370,083	342,571
		533,771	483,118
C. Liabilities			
1. Liabilities to banks	10	24,619	–
2. Trade payables		188,437	205,246
3. Liabilities to affiliated companies		96,465	179,487
4. Liabilities to other long-term investees and investors		3,862	248
5. Other liabilities		49,779	44,612
		363,162	429,593
D. Deferred income			
		8	15
D. Total		1,735,958	1,614,940

Statement of changes in fixed assets

€ thousand	Cost				
	At 1 Jan 2017	T Transfers Additions	Costs subsequently added	T Transfers Disposals	At 31 Dec 2017
Intangible fixed assets					
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	133,358	14,317	0	435	147,240
Tangible fixed assets					
1. Land, including building on third-party land	392,524	T 319 1,874	1,516	167	396,066
2. Technical equipment and machinery	259,198	6,228	0	5,295	260,131
3. Other equipment, operating and office equipment	173,930	T 1,080 18,329	0	12,949	180,390
4. Prepayments and assets under construction	2,924	16,337	0	T 1,399 0	17,862
		T 1,399		T 1,399	
	828,576	42,768	1,516	18,411	854,449
Long-term financial assets					
1. Shares in affiliated companies	239,387	15,965	430	0	255,782
2. Loans to affiliated companies	29,736	8,726	0	4,637	33,825
3. Other long-term equity investments	5,384	12,648	0	0	18,032
4. Loans to other long-term investees and investors	508	0	0	0	508
5. Other loans	473	1	0	221	253
	275,488	37,340	430	4,858	308,400
		T 1,399		T 1,399	
	1,237,422	94,425	1,946	23,704	1,310,089

	Depreciation, amortisation, and write-downs				Carrying amounts		
	At 31 Dec 2017	Depreciation and amortisa- tion in the re- porting period	Costs subsequently added	Disposals	At 31 Dec 2017	At 31 Dec 2017	At 31 Dec 2016
	96,946	14,135	0	419	110,662	36,578	36,412
	163,423	8,893	0	116	172,200	223,866	229,101
	197,477	13,387	0	5,163	205,701	54,430	61,721
	125,878	18,030	0	12,740	131,168	49,222	48,052
	0	0	0	0	0	17,862	2,924
	486,778	40,310	0	18,019	509,069	345,380	341,798
	86,315	0	0	0	86,315	169,467	153,072
	0	0	0	0	0	33,825	29,736
	5,036	0	0	0	5,036	12,996	348
	508	0	0	0	508	0	0
	0	0	0	0	0	253	473
	91,859	0	0	0	91,859	216,541	183,629
	675,583	54,445	0	18,438	711,590	598,499	561,839

General disclosures

■ Legal basis

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

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

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

■ Currency translation

Receivables and liabilities in foreign currencies with a remaining maturity of one year or less are initially recorded using the exchange rate at the date of the transaction. At the end of the reporting period, they are translated using the middle spot rate.

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

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

Accounting policies

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

Assets

Purchased intangible fixed assets are recognised at the cost that must be capitalised and are amortised on a scheduled straight-line basis over an estimated useful life of no more than 5 years or, if longer, over the contractually agreed useful life. Internally generated intangible fixed assets are not capitalised. Therefore, development costs are immediately expensed in their full amount. Unscheduled write-downs are taken as necessary.

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

Depreciation and write-downs of tangible fixed assets are carried out using the highest applicable rates under the law. Buildings and moveable items of fixed assets of KRONES AG are depreciated using the declining balance method wherever possible. All other fixed assets are depreciated using the straight-line method. For assets depreciated using the declining balance method, depreciation switches to the straight-line method if it results in higher depreciation.

Since the declining balance method of depreciation is not compatible with BilMoG rules, all tangible fixed assets acquired on or after 1 January 2010 are depreciated using the straight-line method only. Unscheduled write-downs are taken for impairments that are expected to be permanent.

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

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

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

Shares in affiliated companies and associates are recognised at amortised cost less required write-downs and plus available reversals.

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

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

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

Receivables are recognised at cost. Identifiable risks are accounted for through specific valuation allowances. General credit and financing risks are accounted for by way of global valuation allowances. Receivables and non-interest-bearing items with longer terms are discounted based on the expected date of payment.

Other assets are recognised at their nominal or fair values, payment amounts, or present values. Derivative financial instruments are measured using the fair values provided by the banks. If the fair value is negative, provisions for anticipated losses are recognised.

In the currency translation, receivables in foreign currencies are initially recorded using the exchange rate at the date of the transaction. At the end of the reporting period, they are translated using the middle spot rate. Gains are only recognised if they relate to receivables with amounts due in 12 months or less. Currency translation losses from hedging activities are recognised by way of provisions for anticipated losses.

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

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

Equity and liabilities

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

Other provisions are recognised for obligations to third parties when an outflow is probable and there is uncertainty regarding the amount or timing of its utilisation. They are recognised at the amount dictated by prudent business judgement for all identifiable risks and uncertain obligations. Measurement is based on the settlement amount. Provisions with a remaining maturity of more than one year are discounted at the 7-year average market interest rate corresponding to their remaining maturity, as calculated by the Deutsche Bundesbank.

Provisions for anniversary bonuses are discounted at the 7-year average market interest rate calculated by the Deutsche Bundesbank based on an assumed remaining maturity of 15 years pursuant to Section 253 (2) Sentence 2 HGB.

Liabilities are carried at the settlement amount. In the currency translation, liabilities in foreign currencies are initially recorded using the exchange rate at the date of the transaction. At the end of the reporting period, they are translated using the middle spot rate. Gains are only recognised if they relate to liabilities with amounts due in 12 months or less. Currency translation losses from hedging activities are recognised by way of provisions for anticipated losses.

The value date for contingent liabilities on bills, binding letters of comfort (Patronatserklärungen), guarantees, and warranties is the reporting date.

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

Income statement

Revenue is recognised at the time the service is rendered or the risks relating to the products sold are transferred to the customer. In the case of machinery and equipment, the transfer of risk is deemed to take place as soon as the machinery or equipment is installed and operational. In the time between completion of the installation and acceptance, minor ancillary services are performed, mostly correcting and optimising machine or equipment settings. For these, provisions for installation work not yet performed are recognised.

Assets

■ Fixed assets

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

1 Intangible fixed assets

The addition relates primarily to software licenses (€12,667 thousand).

2 Property, plant and equipment

The addition to land and buildings results primarily from the expansion of the Neutraubling (€2,239 thousand) and Freising (€732 thousand) sites. Capital expenditure for the remaining property, plant and equipment amounting to €40,894 thousand relates primarily to capacity expansion and updating at the production sites.

3 Long-term financial assets

The additions to long-term financial assets relate primarily to

an increase in the carrying amount of the investments in

- HST MASCHINENBAU GMBH, Dassow, Germany,
- GERNEP GMBH ETIKETTIERTECHNIK, Barbing, Germany,
- KRONES VIETNAM CO. LTD., Ho Chi Minh City, Vietnam,
- KRONES FILIPINAS INC., Taguig City, Philippines,
- TILL GMBH, Kelkheim, Germany, and
- KRONES BETEILIGUNGSGESELLSCHAFT MBH, Neutraubling Germany,

the investment in

- INTEGRATED PACKAGING SYSTEMS – IPS, Dubai, United Arab Emirates,

the establishment of

- KRONES SINGAPORE LTD., Singapore, Singapore,
- KRONES HUNGARY KFT., Debrecen, Hungary,
- KRONES BANGLADESH LIMITED, Dhaka, Bangladesh,
- KRONES MYANMAR LTD., Yangon, Myanmar,

and loans to

- TILL GMBH, Kelkheim, Germany,
- HST MASCHINENBAU GMBH, Dassow, Germany,
- SYSKRON HOLDING GMBH, Wackersdorf, Germany,
- KRONES SINGAPORE LTD., Singapore, Singapore,
- TOO KRONES KAZAKHSTAN, s. Raiymbek, Kasachstan.

A capital increase against contributions in kind to KRONES BETEILIGUNGSGESELLSCHAFT MBH, Neutraubling, was completed with a notarial deed dated 28 November 2017. The capital increase against contributions in kind was implemented by way of contribution of shares in the following companies at their carrying amounts

- neusped NEUTRAUBLINGER SPEDITIONS-GMBH, Neutraubling, Germany,
- KIC KRONES INTERNATIONALE COOPERATIONS-GESELLSCHAFT MBH, Neutraubling, Germany,
- ecomac GEBRAUCHTMASCHINEN GMBH, Neutraubling, Germany,
- GERNEP GMBH, Barbing, Germany,
- MAINTEC SERVICE GMBH, Collenberg, Germany,
- HST MASCHINENBAU GMBH, Dassow, Germany,
- MILKRON GMBH, Laatzen, Germany, and
- TILL GMBH, Kelkheim, Germany,

The disposals among the long-term financial assets result primarily from the partial or full repayment of loans to

- KRONES EAST AFRICA LTD., Nairobi, Kenya,
- TILL GMBH, Kelkheim, Germany,
- EVOGUARD GMBH, Nittenau, Germany,
- HST MASCHINENBAU GMBH, Dassow, Germany, and
- KONPLAN S.R.O., Pilsen, Czech Republic.

A complete presentation of shareholdings is made public through the electronic Federal Gazette (elektronischer Bundesanzeiger).

4 Inventories

The carrying amount of inventories is down 18.6% compared with the previous year. Around 62% of inventories were prefinanced through prepayments from customers.

5 Receivables and other assets

€ thousand	31 Dec 2017	Amounts due in more than 1 year	31 Dec 2016	Amounts due in more than 1 year
Trade receivables	571,031	43,553	358,617	31,442
Receivables from affiliated companies	217,859		150,882	
Receivables from other long-term investees and investors	1,705		0	
Other assets	64,983	250	66,846	250
	855,578	43,803	576,345	31,692

Of the trade receivables, 12.2% are due from customers in Germany and 87.8% are due from customers outside Germany. The general credit risk is sufficiently accounted for by way of a global valuation allowance of 1% of the risky receivables. Delinquent accounts and non-interest-bearing items with longer terms are discounted at a rate of 1.33%.

The receivables from affiliated companies result from deliveries effected or services rendered between group companies (€285,892 thousand) and from other settlements (–€68,033 thousand).

6 Cash-in-hand, bank balances

€ thousand	31 Dec 2017	31 Dec 2016
Cash-in-hand	2	3
Bank balances	5,709	188,230
	5,711	188,233

7 Subscribed capital

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

By resolution of the annual general meeting of 15 June 2016, a stock of authorised capital was established. With this authorised capital, the Executive Board may, with approval of the Supervisory Board, increase the share capital by a total of up to €10,000,000.00 through the issuance once or repeatedly of ordinary bearer shares against cash contributions up to and including 15 June 2021. Shareholders must be granted subscription rights to these shares.

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

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

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

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

By resolution of the annual general meeting on 25 June 2014, the Executive Board is authorised to use treasury shares of KRONES AG for any lawful purpose.

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

8 Retained earnings

€ thousand	31 Dec 2017	31 Dec 2016
Retained profits brought forward	121,755	59,648
Net income for the year	185,772	111,076
	307,527	170,724

Of the €170,724 thousand in retained earnings from 2016, €121,755 thousand was carried forward to new account and €48,969 thousand was paid out in dividends.

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

Measurement of the fair value of plan assets designated to cover post-employment benefit obligations resulted in €3,039 thousand being restricted from distribution as dividends.

The amount barred from distribution, which is the difference between the amount recognised for the post-employment benefit provision based on the corresponding 10-year average market interest rate and the last seven financial years comes to €27,181 thousand.

9 Provisions

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

	2017	2016
Standard of measurement	Projected unit credit method	Projected unit credit method
Basis of calculation	»2005G actuarial tables« from Klaus Heubeck	»2005G actuarial tables« from Klaus Heubeck
Discount rate (10-year average)	3.68%	4.01%
Discount rate (7-year average)	2.80%	3.24%
Projected increase in wages and salaries (individual commitments)	3.00%	3.00%
Projected increase in state pensions	2.00%	2.00%
Employee turnover rate	2.00% p. a.	2.00% p. a.

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

The settlement amount of the pension liabilities that was netted against the plan assets was €159,733 thousand. The fair value of the plan assets, which serve exclusively to cover post-employment benefit obligations and are exempt from attachment by all other creditors, was €22,371 thousand; the cost of the plan assets was €19,332 thousand. The difference between the fair value and cost of the plan assets (€3,039 thousand) is not available for distribution to shareholders pursuant to Section 268 (8) HGB. The net of these expenses and income was €14,034 thousand.

Pursuant to an amendment to Section 253 (2) HGB, the discount rate used for measuring pension provisions is no longer to be based on the moving average of the past seven years but rather on the moving average of the past ten years. If the seven-year average were used, the provisions would have come to €186,913 thousand at 31 December 2017. Thus, the amount restricted from distribution to shareholders comes to €27,181 thousand.

Direct pension obligations that are not covered by the assets of KRONES Unterstützungsfonds e.V. amount to €9,654 thousand.

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

The other provisions cover all identifiable risks and other uncertain obligations. The long-term provisions were discounted at rates between 1.26% and 2.51% corresponding to their remaining maturities.

The provisions for anniversary bonuses were discounted at a rate of 2.80%.

The other provisions consist of provisions for work not yet performed (provision for installation costs). The provisions are recognised for machinery and equipment that has already been delivered and installed and is operational. Transfer of risk and revenue recognition for these orders have already taken place. In the time between completion of the installation and acceptance, minor ancillary services are performed, mostly correcting and optimising machine or equipment settings. In this project stage, KRONES AG performs services that are required under the contract but for which the exact amount of expense is unknown. Provisions have also been recognised for risks relating to warranties and outstanding invoices. Other material provisions relate to balances on employee flextime accounts.

€ thousand	31 Dec 2017	31 Dec 2016
Provisions for personnel obligations	102,552	92,235
Provisions for installation work not yet performed	71,563	62,706
Provisions for warranties	59,893	60,853
Provisions for outstanding supplier invoices	56,887	36,978
Provisions for anticipated losses	28,964	49,249
Other order-specific provisions	32,336	22,433
Provisions for other administrative expenses	17,888	18,117
	370,083	342,571

10 Liabilities

€ thousand	31 Dec 2017	Amounts due in 1 year or earlier	Amounts due in more than 1 year	31 Dec 2016	Amounts due in 1 year or earlier	Amounts due in more than 1 year
Liabilities to banks	24,619	24,619	0	0	0	0
Trade payables	188,437	188,437	0	205,246	205,246	0
Liabilities to affiliated companies	96,465	96,465	0	179,487	179,487	0
Liabilities to other long-term investees and investors	3,862	3,862	0	248	248	0
Other liabilities	49,779	48,943	836	44,612	43,795	817
Total	363,162	362,326	836	429,593	428,776	817

The liabilities to banks result from the use of a short-term line of credit.

Of the liabilities to affiliated companies, €51,523 thousand resulted from deliveries effected or services rendered between group companies.

The other liabilities contain tax liabilities amounting to €14,860 thousand (previous year: €12,708 thousand), liabilities arising from debtors with credit balances amounting to €11,793 thousand (previous year: €10,381 thousand), and social security liabilities totalling €3,679 thousand (previous year: €3,046 thousand).

11 Contingent liabilities

€ thousand	31 Dec 2017	31 Dec 2016
Contingent liabilities from bill guarantees	7,535	24,309
Contingent liabilities from binding letters of comfort, guarantees, and warranties	51,279	57,143
Reverse repurchase agreement (repo)	0	38,816
Total	58,814	120,268

The contingent liabilities from bill guarantees result from the issuance and transfer of trade bills. The liabilities arising from binding letters of comfort (Patronatserklärungen) (€2,000 thousand) and guarantees and warranties (€49,279 thousand), of which €50,979 thousand relate to affiliated companies, provide security for credit lines with banks. In addition, there are also commitments to non-banks relating to financial support of affiliated companies if needed.

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

12 Other financial liabilities

€ thousand	31 Dec 2017	Amounts due in years 2 – 5	Amounts due after year 5	31 Dec 2016	Amounts due in years 2 – 5	Amounts due after year 5
Rental and lease agreements	30,221	15,151	0	22,958	9,218	0
Maintenance contracts	10,481	3,035	0	17,133	5,388	0
Total	40,702	18,186	0	40,091	14,606	0

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

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

13 Revenue

Breakdown by sales region	2017	2016
Germany	12.2%	13.3%
Rest of Central Europe	4.3%	4.0%
Western Europe	18.0%	15.7%
Eastern Europe/cis	5.3%	6.2%
Asia-Pacific	16.5%	13.9%
South America	9.4%	9.2%
North and Central America	10.8%	12.0%
China	5.7%	7.4%
Middle East/Africa	17.8%	18.3%

14 Other operating income

€ thousand	2017	2016
Income from currency translation	23,192	23,021
Prior-period income	19,297	49,457
Income from disposal of fixed assets	1,174	418
Income from reversal of provisions	10,538	31,607
Income from reduction in specific and global valuation allowances on receivables	1,921	1,451
Income from derecognition of liabilities	3,304	266
Income from reversals of write-downs and costs subsequently added to the carrying amounts of assets	1,946	14,994
Other prior-period income	414	721

The income from reversals of write-downs and costs subsequently added to the carrying amounts of assets relates to costs subsequently added to the carrying amounts of the long-term equity investments in HST MASCHINENBAU GMBH, Dassow, Germany, GERNEP GMBH, Barbing, Germany, and TILL GMBH, Kelkheim, Germany, as well as costs subsequently added to the carrying amount of a piece of land in Neutraubling.

15 Personnel expenses

€ thousand	2017	2016
Wages and salaries	633,273	608,520
Social security, post-employment and other employee benefit costs	117,459	110,341
of which for post-employment benefits	10,431	10,523
Total	750,732	718,861

Average number of employees for the year (excluding trainees)	2017	2016
Employees covered by collective agreements	6,903	6,725
White-collar employees exempt from collective agreements	2,083	2,085
Total	8,986	8,810

The company employed 487 trainees on average in 2017 (previous year: 489 trainees).

16 Depreciation, amortisation, and write-downs

Scheduled amortisation of intangible fixed assets amounting to €14,135 thousand was taken on purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets.

Scheduled depreciation of tangible fixed assets totalling €40,310 thousand was taken on land and buildings (€8,893 thousand), technical equipment and machinery (€13,387 thousand), and other equipment, operating and office equipment (€18,030 thousand).

17 Other operating expenses

€ thousand	2017	2016
Operating costs	118,381	119,257
Administrative expenses	51,324	53,556
of which losses from currency translation	19,683	21,898
Selling expenses	232,422	207,960
Prior-period expenses	2,407	646

The prior-period expenses include expenses and derecognised receivables totalling €2,097 thousand.

18 Investment income

T€	2017	2016
Income from long-term equity investments, from affiliated companies	136.695	14.229
Income from profit transfer agreements with affiliated companies	4.681	0
Total investment income	141.376	14.229

On 30 March 2017, KRONES Aktiengesellschaft and KRONES BETEILIGUNGSGESELLSCHAFT MBH, Neutraubling, entered into a profit and loss transfer agreement (PLTA). The annual general meeting of KRONES AG of 20 June 2017 and the shareholder meeting of KRONES BETEILIGUNGSGESELLSCHAFT MBH of 27 July 2017 approved this profit and loss transfer agreement.

19 Interest income/expense

€ thousand	2017	2016
Income from other securities and long-term loans	455	709
Other interest and similar income		
from affiliated companies	129	78
from other companies	1,000	1,893
from discounting	0	276
Interest and similar expenses		
to affiliated companies	-1,424	-705
to other companies	-100	-5,423
from discounting	-17,125	-3,665
Net interest income/expense	-17,065	-6,837

The interest expense arising from the discounting of long-term provisions results primarily from the discounting of provisions for pensions and similar obligations (€14,034 thousand), the discounting of provisions for warranties (€1,732 thousand), the discounting of provisions for partial retirement (€518 thousand), the discounting of provisions for anniversary bonuses (€403 thousand), and the discounting of long-term receivables (€319 thousand).

20 Income taxes and other taxes

The item “taxes on income” includes tax charges for the financial year. The income tax expense includes prior-period tax income of €88 thousand and prior-period tax expenses of €9,743 thousand.

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

20 Deferred taxes

Temporary measurement differences on assets, liabilities, and items of prepaid expenses and deferred income resulted in deferred tax assets of €28,159 thousand (previous year: €31,441 thousand). These relate to differences in “raw materials, consumables and supplies”, “provisions for pensions and similar obligations”, and “other provisions”.

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

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

22 Corporate Governance Code

Shareholders can view the declaration of the Executive Board and the Supervisory Board from 19 February 2018 pursuant to Section 161 of the German Stock Corporation Act [AktG] concerning the Corporate Governance Code as amended on 7 February 2017 at KRONES AG's website. The exceptions are also listed there.

23 Notifications of shareholdings in KRONES AG

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

Related parties:

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

24 Audit fees

KPMG AG Wirtschaftsprüfungsgesellschaft audited the annual financial statements and consolidated financial statements of KRONES AG and conducted annual audits on various subsidiaries. The auditor was also engaged to perform other assurance services such as the audit of the group's non-financial report. In addition to a certificate of value, other audits required by law or by contract such as EMIR audits under Section 20 of the German Securities Trading Act (WpHG) and contractually agreed assurance services were provided or performed. Tax advisory services were provided in particular with respect to tax compliance.

Disclosure of the audit fees is made in the consolidated financial statements of KRONES AG. In accordance with Section 285 No. 17 HGB, the Company has opted not to include a disclosure of the total audit fee charged by the auditor in this report since such disclosure is already made in the consolidated financial statements.

25 Derivative financial instruments

KRONES AG uses derivative financial instruments solely for the purpose of hedging currency risks arising from operating activities and therefore practices micro-hedging. Changes in the value of the hedged items and the hedging instrument largely offset each other over the term of the hedge since material details of the contract, such as term and amount, are largely identical for the hedged item and the hedging instrument. KRONES AG does not use derivative financial instruments for speculative purposes.

The derivative financial instruments are primarily composed of forward exchange contracts. These hedge transactions, with a fair value of €893 thousand (previous year: –€1,601 thousand) and a nominal volume of €65,558 thousand (previous year: €52,745 thousand), primarily cover the currency risks relating to the British pound, the Swiss franc, the Canadian dollar, the Japanese yen, and the US dollar. The fair value includes the difference between the forward rate received from the relevant commercial bank and the rate at the end of the reporting period as well as appropriate premiums or discounts for the expected price development through maturity.

In accordance with the imparity principle, positive fair values of forward exchange contracts used to hedge future currency risks arising from operating activities are not recognised on the balance sheet (€941 thousand, previous year: €975 thousand). A provision for anticipated losses has been recognised for negative fair values of forward exchange contracts used to hedge future currency risks arising from operating activities (€6 thousand, previous year: €1,253 thousand).

Hedges

Highly probable forecast transactions are combined with hedging instruments to form macro hedges using the net hedge presentation method. Under this method, the carrying amounts of the individual components are fixed (“frozen”) at the time that hedge accounting is applied. Effective changes in values in subsequent periods with respect to the hedged risk are not recognised.

Because hedge accounting is applied using the net hedge presentation method for highly probable forecast transactions, negative fair values of forward exchange contracts used to hedge future currency risks arising from operating activities are not recognised on the balance sheet (€233 thousand, previous year: €1,323 thousand).

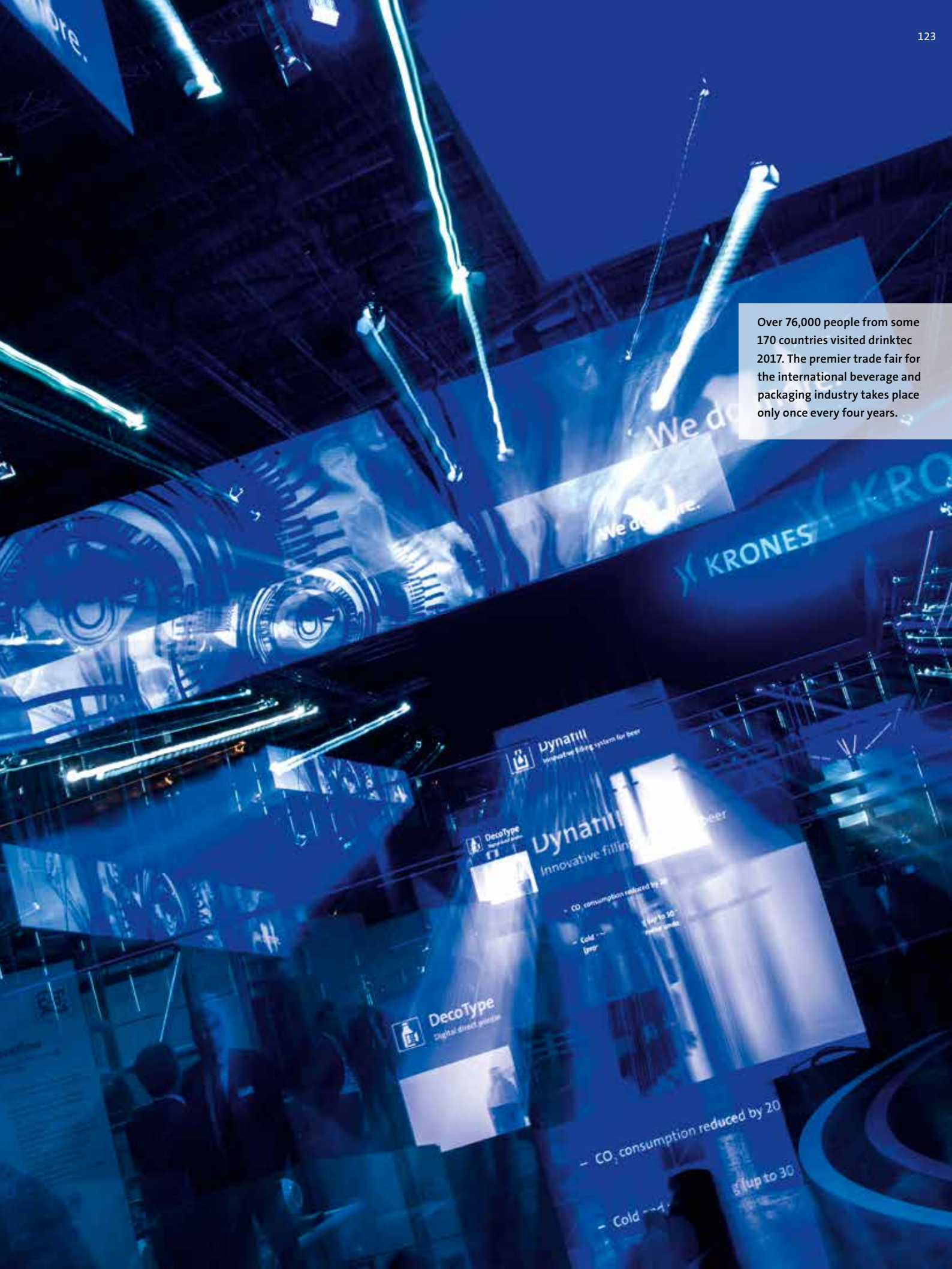
Receivables are then recognised in combination with the relevant hedging instruments using the gross hedge presentation method. The currency hedge has resulted in a positive fair value of €191 thousand (previous year: –€99 thousand) on the forward exchange contracts, which is included in the hedge accounting in accordance with the gross hedge presentation method. The underlying transactions are invoices in foreign currencies with a carrying amount of €187 thousand (previous year: –€200 thousand).

The hedges are expected to be highly effective since the primary measurement characteristics of the hedged items and the hedging transactions match. Hedge effectiveness is prospectively assessed using a sensitivity analysis (under the dollar offset method) and retrospectively assessed using the critical terms match method.

26 Events after the reporting period – Acquisition of equity interests

In March 2018, KRONES BETEILIGUNGSGESELLSCHAFT MBH, Neutraubling, acquired the remaining 49.03% of TILL GMBH, Kelkheim, Germany. KRONES now owns 100% of TILL GMBH, Kelkheim.

Over 76,000 people from some 170 countries visited drinktec 2017. The premier trade fair for the international beverage and packaging industry takes place only once every four years.



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 consolidated 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 2017, the base salaries of the six members of the Executive Board who were active in 2017 totalled €3,220 thousand (previous year: €2,990 thousand).

In addition, the members received fringe benefits which are essentially the cost or non-cash benefit of customary insurance premiums, housing expenses, school fees, and the use of a company car. These benefits are taxed in accordance with applicable tax rules. For the 2017 financial year, the members of the Executive Board received fringe benefits totalling €345 thousand (previous year: €319 thousand).

Variable components

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

- Short-term incentive (STI, measurement period: 1 year)
 - Awarded annually
 - Target bonus: 3 months' salary per annum (= 100% of performance target attained)
 - Reference figures: EBT margin (primary), order intake, consolidated revenue, and (since 2017) net working capital
 - Capped at 200% (max. 6 months' salary)
 - No payment if EBT is negative

STI payment for the financial year 2017 amounts to €1,127 thousand in 2018 (previous year: €673 thousand). In addition, the Supervisory Board can, at its equitable discretion, pay out a special bonus if extraordinary events or exceptional performance warrant it. No special bonuses were paid out for the 2017 financial year.

- Medium-term incentive (MTI, measurement period: 3 years)
 - Awarded annually (on a revolving basis)
 - Target bonus: 3 months' salary per annum (= 100% of performance target attained)
 - Reference figures: through 2016 ROCE (primary), revenue, EBT margin, and quality costs; since 2017 net working capital, 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 €1,138 thousand at the end of the financial year (previous year: €1,169 thousand). Of that, €520 thousand apply to the year 2017 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 €3,994 thousand at the end of the year (previous year: €3,157 thousand). The earliest point at which payment from the LTI can occur is the end of the financial year 2018, 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 €6,405 thousand (previous year: €4,558 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 com-

mitments 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 €257 thousand (previous year: €284 thousand) were recognised for active members of the Executive Board. In addition, €1,024 thousand (previous year: €956 thousand) was paid into contribution-based plans in 2017. At the end of 2017, the corresponding Defined Benefit Obligation (DBO) amounted to the following: for Mr. Klenk €1,599 thousand, for Mr. Diepold €4,316 thousand, for Mr. Ricker €26 thousand, for Mr. Tischer €28 thousand, and for Mr. Goldbrunner €19 thousand. In 2017, 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 €3 thousand, for Mr. Ricker €180 thousand, for Mr. Tischer €160 thousand, and for Mr. Goldbrunner €160 thousand.

Additional benefits in the event of termination of employment

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

Advances and loans

No loans or advances were provided to members of the Executive Board in 2017.

Benefits paid to former members of the Executive Board

Payments to former members of the Executive Board and their surviving dependents amounted to €1,504 thousand (previous year: €1,451 thousand). Pension provisions of €2,465 thousand (previous year: €989 thousand) were recognised.

Total remuneration paid to members of the Executive Board in 2016/2017

Remuneration 2017 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	28	828	280	128	0	1,236
Michael Andersen	CFO Finance, Controlling, Strategic Purchasing	since 2016	510	219	729	179	0	0	908
Rainulf Diepold	Sales and Marketing	since 1996	660	29	689	231	140	1,193	2,253
Thomas Ricker	Bottling and Packaging Equipment	since 2012	450	21	471	158	93	0	722
Markus Tischer	International Operations and Services	since 2014	400	16	416	140	79	0	635
Ralf Goldbrunner	Plants and Components	since 2014	400	32	432	140	79	0	651

Remuneration 2016 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

The incentive amounts are amounts that will be paid out in the subsequent year.

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 2017, the articles of association as amended by the annual general meeting on 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 2017 amounted to €631 thousand (previous year: €633 thousand) and is shown in the table below with individualised disclosure.

Remuneration 2017 pursuant to GAS 17 (€)

Name	Position	Base compensation	Additional compensation for committee work	Meeting attendance fee	Total remuneration in 2017
Volker Kronseder	Chairman of the Supervisory Board	87,500	7,000	9,000	103,500
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	4,500	46,500
Prof. Dr. jur. Susanne Nonnast	Regular member	35,000		6,000	41,000
Dr. phil. Verena Di Pasquale**	Regular member	35,000		6,000	41,000
Johann Robold**	Regular member	17,500	3,500	3,000	24,000
Beate Eva Maria Pöpperl	Regular member	17,500		4,500	22,000
Petra Schadeberg-Herrmann	Regular member	35,000		6,000	41,000
Jürgen Scholz**	Regular member	35,000	3,500	7,500	46,000
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

*** Deceased 1 December 2017

Remuneration 2016 pursuant to GAS 17 (€)

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

Proposal for the appropriation of retained earnings of KRONES AG

KRONES AG had retained earnings of € 307,526,386.08 at 31 December 2017.

We propose to the annual general meeting on 13 June 2018 that this amount be used as follows:

Proposal for the appropriation of retained earnings	€307,526,386.08
Dividend of €1.70 per share (for 31,593,072 shares)	53,708,222.40
Amount brought forward to new account	253,818,163.68

Neutraubling, 12 March 2018

KRONES AG

The Executive Board:



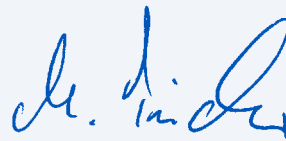
Christoph Klenk
CEO



Michael Andersen
CFO



Thomas Ricker



Markus Tischer



Ralf Goldbrunner

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

Volker Kronseder

Chairman of the Supervisory Board

* 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
until 1 December 2017

Professor Dr. jur. Susanne Nonnast

Professor at Regensburg University
of Applied Sciences

Dr. Verena Di Pasquale**

Deputy Chairperson of
DGB Bayern (the German Trade Union
Confederation in Bavaria)

Beate Eva Maria Pöpperl**

Member of the Works Council
since 20 June 2017

Johann Robold**

Member of the Works Council
until 20 June 2017

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 RHEINHAUSEN
GMBH
* KURTZ HOLDING GMBH &
BETEILIGUNGS KG

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, Intralogistics,
Digitalisation, Communication,
Quality, Information Management

Michael Andersen

CFO
Finance, Controlling,
Process Technology,
Strategic Purchasing

Thomas Ricker

Sales and Marketing

Markus Tischer

International Operations
and Services

Ralf Goldbrunner

Bottling and Packaging
Equipment

* 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.



KRONES presented the ErgoBloc LM for bottling non-carbonated water at drinktec. This block combines all processes from stretch blow-moulding to labelling to filling and capping.

6

Other information

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To KRONES Aktiengesellschaft, Neutraubling

Report on the audit of the annual financial statements and the management report

Opinions

We have audited the annual financial statements of KRONES Aktiengesellschaft, Neutraubling, which comprise the balance sheet as at 31 December 2017 and the statement of profit and loss (income statement) for the financial year from 1 January to 31 December 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of KRONES Aktiengesellschaft, Neutraubling, for the financial year from 1 January to 31 December 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements are further described in the "Auditor's

responsibilities for the audit of the annual financial statements and of the management report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Accrual basis of accounting for revenue

For details on the accounting principles used, please see the notes to the annual financial statements, page 111. Please also see the separate presentation below on the key audit matter “Completeness and valuation of the provision for installation work not yet performed”, which is directly related to the accrual basis of accounting for revenue.

The financial statement risk

KRONES AG’s sales revenue totalled €2,950.0 million in the financial year 2017.

A significant part of KRONES AG’s revenue is generated through large projects involving new machinery. The transfer of risk is deemed to take place as soon as the machinery and equipment are installed and operational. When risk is transferred, the corresponding revenue is recognised. In the time between completion of the installation and acceptance, minor ancillary services are performed, mostly correcting and optimising machine or equipment settings. For these, KRONES AG recognises provisions for installation work not yet performed. There is a risk in relation to the financial statements that the timing of the transfer of risk is incorrectly estimated and revenue from the construction contracts for specific customers could therefore be allocated to the wrong financial year.

Our audit approach

In order to verify that the appropriate amount of revenue was recognised for the period, we evaluated the design, setup, and effectiveness of the internal control system relating to revenue recognition and invoices and especially determination and review of proper and actual transfer of risk.

We used internal documentation to corroborate the timing of installation being completed and therefore of the machinery and equipment becoming operational. That was based on contracts for which revenue was recognised in December 2017 and January 2018, such contracts having been selected using a mathematical-statistical model.

In addition, we obtained third-party confirmations as at 31 December 2017 or, alternatively, reviewed internal documentation on completion of installation work as well as external proof of delivery in order to evaluate the proper timing of revenue recognition for the period.

In addition, we examined whether any revenue was recognised that did not result in a receivable in a specified period prior to the end of the reporting period.

Our conclusions

The procedure used by KRONES AG for accrual accounting for revenue produces appropriate results.

Impairment testing of shares in and loans to affiliated companies

For details on the accounting principles used, please see the notes to the annual financial statements, page 109.

The financial statement risk

The annual financial statements of KRONES AG as at 31 December 2017 report shares in affiliated companies totalling €169.5 million and loans to affiliated companies totalling €33.8 million under long-term financial assets. Together, those shares in and loans to affiliated companies make up 11.7% of total assets and therefore have a material impact on the Company's assets and liabilities.

The shares in and loans to affiliated companies are recognised at cost or at their nominal value or, if their value is expected to be impaired for a prolonged period, at the lower fair value. The Company uses a discounted cash flow method to determine the fair value of shares in affiliated companies. The discounted cash flow method is also used to determine the fair value of loans, taking into account the remaining time to maturity.

The products manufactured and sold by the subsidiaries are the main factors influencing the measurement of fair value. Forecasting future revenue and earnings development depends to a great extent on the Company's own estimates and assessments with regard to the underlying assumptions applied.

The cash flows used for the discounted cash flow method are based on forecasts for the next three years, which are unique to each company and which are projected forward using assumptions about long-term growth rates. The respective discount rate is determined on the basis of the return on an alternative investment with similar risk. If the fair value is lower than the carrying amount, we then evaluate whether the impairment can be expected to be long-term based on qualitative and quantitative criteria.

The Company did not take any unscheduled write-downs on shares in and loans to affiliated companies in the financial year 2017. Thus, there is a financial statement risk that the shares in and loans to affiliated companies are impaired.

Our audit approach

Our audit focussed on risk. Based on the information obtained in our audit, we have assessed whether there are indications that the shares in and loans to affiliated companies are impaired. In this respect, we have focussed in particular on the forecasting of future revenue and earnings development of the individual companies. First, we discussed the forecast amounts with those responsible for forecasting. We also examined whether the assumptions are consistent with other available internal forecasts, for instance those prepared for tax purposes, and with the budget prepared by management and approved by the supervisory board.

Furthermore, we evaluated and confirmed the quality of the company's previous projections by comparing the forecasts for prior periods with the results actually achieved and analysing any deviations. We compared the assumptions and parameters underlying the discount rates applied, in particular the risk-free interest rates, the market risk premium, and the beta factor with our own assumptions as well as with publicly available data. In addition, to account for existing forecast uncertainty, we have conducted a sensitivity analysis, examining possible changes to the discount rate and to long-term growth rates as relates to fair value by calculating alternative scenarios and comparing them with the results of the Company's valuation.

To ensure the mathematical accuracy of the valuation model used, we tested the company's calculations on the basis of elements that had been selected for risk. We also examined the valuation method used.

Our conclusions

The Company's assumptions and estimates for impairment testing of shares in and loans to affiliated companies are appropriate.

Completeness and valuation of the provisions for installation work not yet performed

For details on the accounting principles used, please see the notes to the annual financial statements, page 110.

The financial statement risk

KRONES AG has recognised €71.6 million in provisions for installation work not yet performed as a liability on its balance sheet at 31 December 2017. The provisions are recognised for machinery and equipment that has already been delivered and installed and is operational. Transfer of risk and revenue recognition for these orders have already taken place. In the time between completion of the installation and acceptance, minor ancillary services are performed, mostly correcting and optimising machine or equipment settings. In this project stage, KRONES AG performs services that are required under the contract but for which the exact amount of expense is unknown.

Determination of the provisions for installation work not yet performed is done in accordance with the principles of commercial law on the basis of an estimate of the installation work not yet performed in man-days, multiplied by a country-specific daily rate depending on the location where installation is taking place.

The forecast of future installation costs, comprising country-specific daily rates and the number of man-days still needed, entails some judgments. There is a risk for the annual financial statements that the provisions for installation work not yet performed are not recognised or not recognised in sufficient amount.

Our audit approach

In order to verify the completeness and valuation of the provisions for installation work not yet performed, we evaluated the design, setup, and effectiveness of the internal control system relating to the recording of installation work and especially determination and review of proper and actual transfer of risk. In evaluating the completeness of the provisions for installation work not yet performed, we have also reviewed the functionality of a relevant interface within the IT system.

We verified the daily rates that were used to determine the provisions for installation work not yet performed and also evaluated their appropriateness by way of comparisons with actual costs. Furthermore, we evaluated and confirmed the quality of the company's previous projections by comparing the provisions recognised in prior periods with the actual installation costs incurred. For a mathematical-statistical sample, we selected individual projects for which we then verified their measurements. For that, we scrutinised the assumptions underlying their measurement and critically examined the estimates of the project managers responsible.

Our conclusions

The approach used by KRONES AG for recognition and valuation of the provisions for installation work not yet performed are appropriate. In all, the underlying assumptions used for valuation are appropriate.

Other information

Management is responsible for the other information. The other information comprises the remaining parts of the annual report, with the exception of the audited annual financial statements and management report and our auditor's report.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report, or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of management and the supervisory board for the annual financial statements and the management report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 17 June 2017. We were engaged by the supervisory board on 30 October 2017. We have been the auditor of KRONES Aktiengesellschaft, Neutraubling, without interruption since the financial year 2001.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Andreas Feege.

Munich, 12 March 2018

KPMG AG

Wirtschaftsprüfungsgesellschaft

sgd. Braun
[German Public Auditor]

sgd. Feege
[German Public Auditor]

Cash flow	All inflows and outflows of cash and cash equivalents during a period.
Corporate governance	Framework for responsible corporate management and supervision that is oriented toward sustainability.
Depreciation and amortisation	Non-cash expenses (impairment losses) that represent the cost of fixed assets being used over time.
EBIT	Earnings before interest and taxes.
EBITDA	Earnings before interest, taxes, depreciation and amortisation.
EBT	Earnings before taxes.
EBT margin	Ratio of earnings before taxes to revenue (return on sales).
Equity	Funds made available to the company by the owners by way of contribution and/or investment plus retained earnings.
Free cash flow	Measure of financial performance calculated as the cash flow from operating activities minus cash flow from investing activities. It is the cash available to pay dividends, reduce debt, or to be retained.
HGB	German Commercial Code (Handelsgesetzbuch)
Net cash and equivalents	Cash and highly liquid securities under current assets less liabilities to banks.
Return on equity before taxes	Ratio of earnings before taxes to average equity.
ROCE	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	Working capital is calculated as follows: (inventories + trade receivables + prepayments) – (trade payables + advances received).
Working capital to revenue	The ratio of working capital to revenue indicates how much capital is needed to finance revenue generation.

Aseptic beverage filling	Germ-free filling of beverages at ambient temperature.
Bloc (also: block)	Two or more individual machines that are directly linked together. The ErgoBloc L for the wet section of the line comprises a stretch blow-moulder, a labeller, and a filler.
Bottling on demand	An innovative process for quickly handling a broad range of products on a single line – with the smallest conceivable batch size (down to one container).
Brewhouse	In the brewhouse, the raw materials malt, hops, and water are processed in several stages to produce 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 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.
HMI (human-machine interface)	Literally, the interface between the operator and the machine. It enables the exchange of information between humans and machines, for example by way of a control terminal.
Intralogistics	The internal flow of materials and goods within a company, including warehouse, order-picking, and conveyance systems.
Membrane filtration	A membrane is a thin layer of material that controls which materials can pass through. Membrane filtration is a physical process for separating solids from liquids.
PET	Polyethylene terephthalate, a thermoplastic material from the polyester family used for producing beverage bottles.
Soft drinks	Non-alcoholic beverages, usually carbonated.

This English language report is a translation of the original German Geschäftsbericht der KRONES AG 2017. In case of discrepancies the German text shall prevail.

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

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Financial calendar

26 April 2018	Quarterly statement for the period ended 31 March 2018
13 June 2018	Annual general meeting
26 July 2018	Interim report for the period ended 30 June 2018
25 October 2018	Quarterly statement for the period ended 30 September 2018