

Intelligently **connected**

## 2017 highlights

- KRONES continued growth with stable profitability in 2017.
- Revenue increased 8.8% to €3.69 billion. Adjusted for acquisitions, growth comes to 7.2%.
- KRONES kept profitability stable. The EBT margin was once again 7.0%.
- KRONES intends to increase dividend to €1.70 per share (previous year: €1.55).

		2017	2016	Change
Revenue	€ million	3,691.4	3,391.3	+8.8%
Order intake	€ million	3,786.8	3,441.3	+10.0%
Orders on hand at 31 December	€ million	1,240.1	1,144.7	+8.3%
EBITDA	€ million	340.2	320.8	+6.0%
EBIT	€ million	245.5	228.0	+7.7%
EBT	€ million	258.8	237.6	+8.9%
EBT margin	%	7.0	7.0	±0.0 PP*
Consolidated net income	€ million	187.1	169.1	+10.7%
Earnings per share	€	5.97	5.40	+10.6%
Dividend per share	€	1.70**	1.55	+9.7%
Capital expenditure for PP&E and intangible assets	€ million	133.5	111.3	+€22.2 million
Free cash flow	€ million	-150.7	49.2	-€199.9 million
Net cash and cash equivalents*** at 31 December	€ million	157.4	368.9	-€211.5 million
Working capital to revenue****	%	27.3	26.7	+0.6 PP*
ROCE	%	16.6	17.0	-0.4 PP*
Employees at 31 December				
Worldwide		15,299	14,443	+856
Germany		10,366	10,061	+305
Outside Germany		4,933	4,382	+551

\*Percentage Points \*\*As per proposal for the appropriation of retained earnings \*\*\*Cash and cash equivalents less debt  
\*\*\*\*Average of last 4 quarters

## 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.



CONSOLIDATED MANAGEMENT REPORT

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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 41 to 45 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 additional 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 planned. Our core segment, Bottling and Packaging Equipment, developed slightly better than expected while our Process Technology segment did not meet its earnings targets. We intend to improve profitability in this segment considerably in 2018 and further develop the acquisitions made in previous years. The numbers in our smallest segment, Compact Class, were in line with our expectations.

### Investing heavily in sites in Germany and abroad

With more than 10,000 people, our team in Germany makes up around two-thirds of our 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 around 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 30 to 37.*

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 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.

### **People are the foundation 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 Exec-

utive 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.

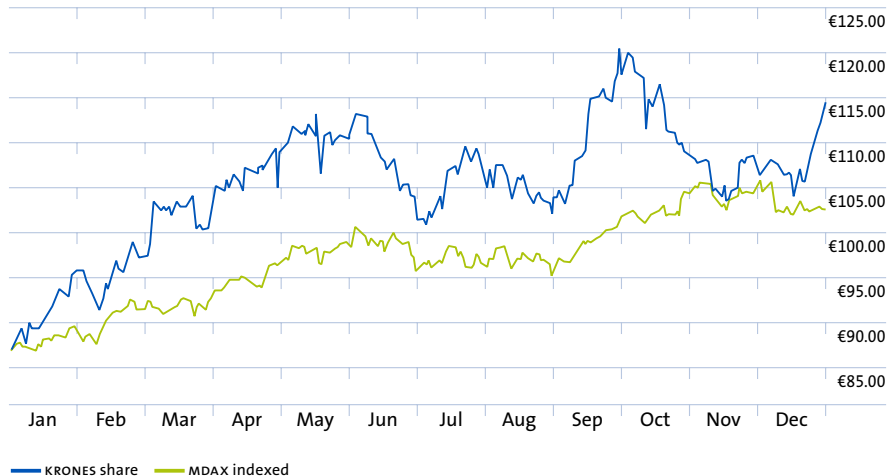
Germany's DAX blue-chip index climbed to a new all-time high in 2017 and closed the year with a 12.5% gain. That marks the sixth year of consecutive gains for the DAX. The Euro Stoxx 50, which covers the euro area's blue-chip shares, advanced only 6.5%, hampered by the weak performance of some telecommunications 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

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 55<sup>th</sup> for market capitalisation in 2017 (previous year: 44<sup>th</sup>) 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 46<sup>th</sup> (previous year: 41<sup>st</sup>). 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

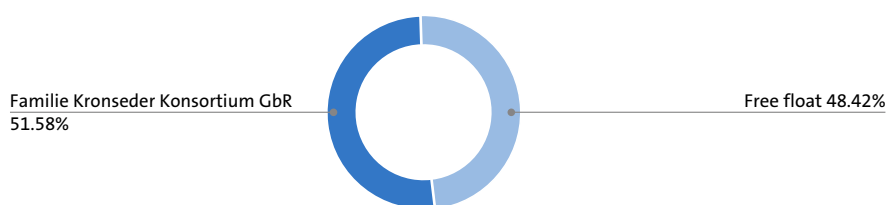
Number of shares	31,593,072
German securities identification number	633500
ISIN	DE 0006335003
XETRA ticker symbol	KRN



## 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

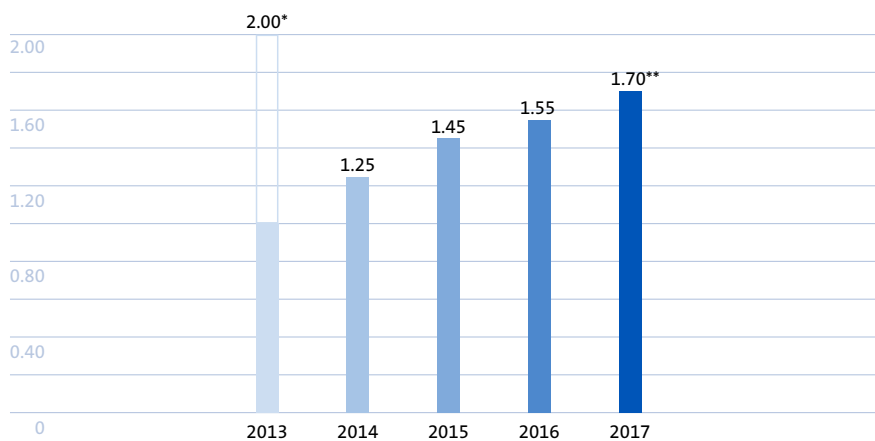


## KRONES plans to pay out a dividend of €1.70 per share for 2017

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

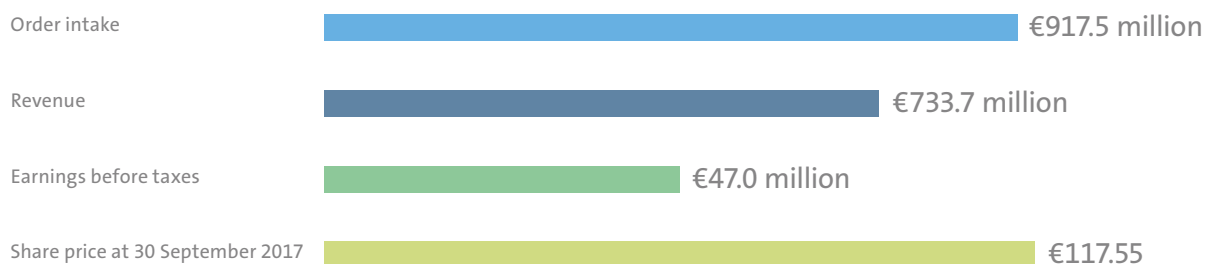
## Q1



## Q2



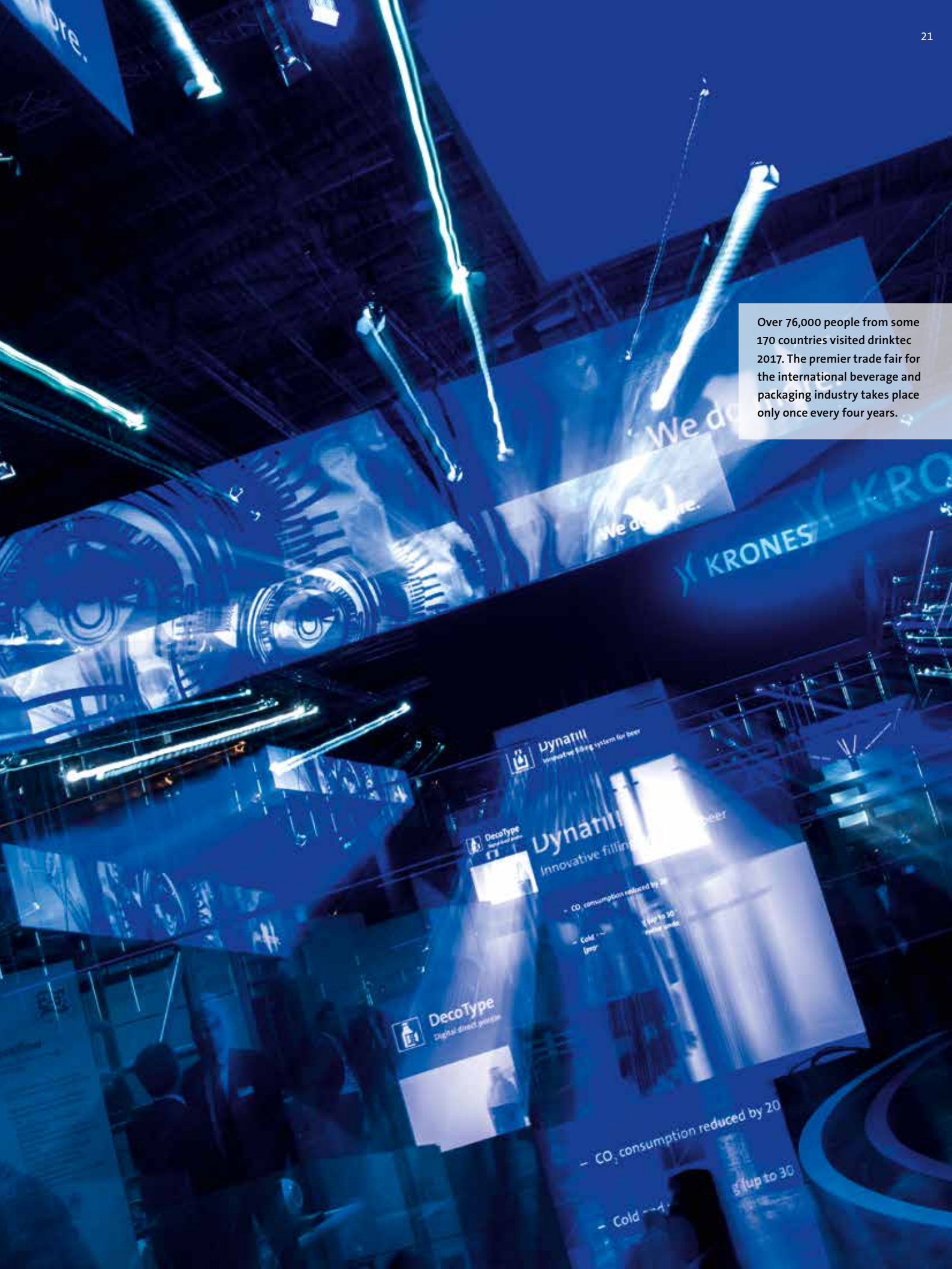
## Q3



## Q4



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.



**Dynarill**  
Innovative filling system for beer

**DecoType**  
Digital direct printing

CO<sub>2</sub> consumption reduced by 20%

Cold → 4°C

up to 30% faster grade



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



ERN-EUROPE/  
RUSSIA/CIS

We go where

KRONES



# 2

## Consolidated management report

Fundamental information about the group

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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.

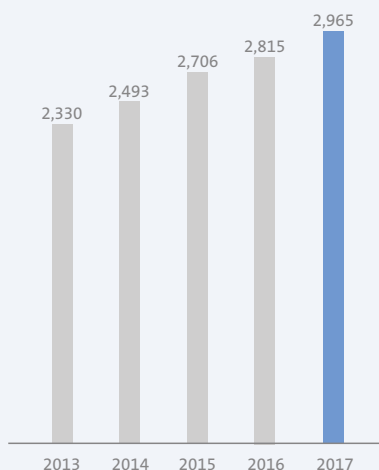
Services are an important part of KRONES' business model. The company maintains service centres and offices around the world.

KRONES reports on its three segments: Machines and Lines for Product Filling and Decoration, Machines and Lines for Beverage Production/Process Technology, and Machines and Lines for the Compact Class.

**Machines and Lines for Product Filling and Decoration**

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

Revenue (€ million)



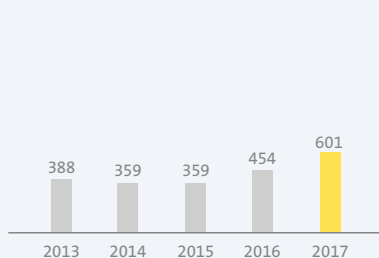
	2017	2016
EBT (€ million)	257	229.6
EBT margin (%)	8.7	8.2
Employees*	12,694	12,000

\*Consolidated group

**Machines and Lines for Beverage Production/Process technology**

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

Revenue (€ million)



	2017	2016
EBT (€ million)	-4.5	1.5
EBT margin (%)	-0.7	0.3
Employees*	1,512	1,450

\*Consolidated group

**Machines and Lines for the Compact Class**

- Labelling technology
- Filling technology
- Plastics technology

Revenue (€ million)



	2017	2016
EBT (€ million)	6.3	6.4
EBT margin (%)	5.1	5.2
Employees*	543	523

\*Consolidated group

## 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 around 90% of consolidated revenue outside Germany. The regional breakdown of revenue is well balanced overall. KRONES generated

around 48% of its revenue in industrialised countries and around 52% 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.

For information about the establishment of subsidiaries in Asia and the acquisition of an associate in the African market which is accounted for using the equity method, please see the notes.



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



This KRONES segment supplies customers with machines, lines, and digitalisation solutions for producing and processing beer, soft drinks, fruit juices, milk, and dairy drinks. Beverage Production/Process Technology also includes intralogistics products and services offered by the subsidiaries SYSKRON, TRIACOS, and SYSTEM LOGISTICS as well as EVOGUARD brand components.



In the Compact Class segment, KRONES subsidiaries KOSME and GERNEP offer a product range of filling and labelling technology similar to that of our Machines and Lines for Product Filling and Decoration segment, but for lower outputs. With KOSME and GERNEP, we are able to serve smaller and mid-sized companies that do not need high-speed machines but are nonetheless committed to quality.

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.



Partner for  
Performance



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.

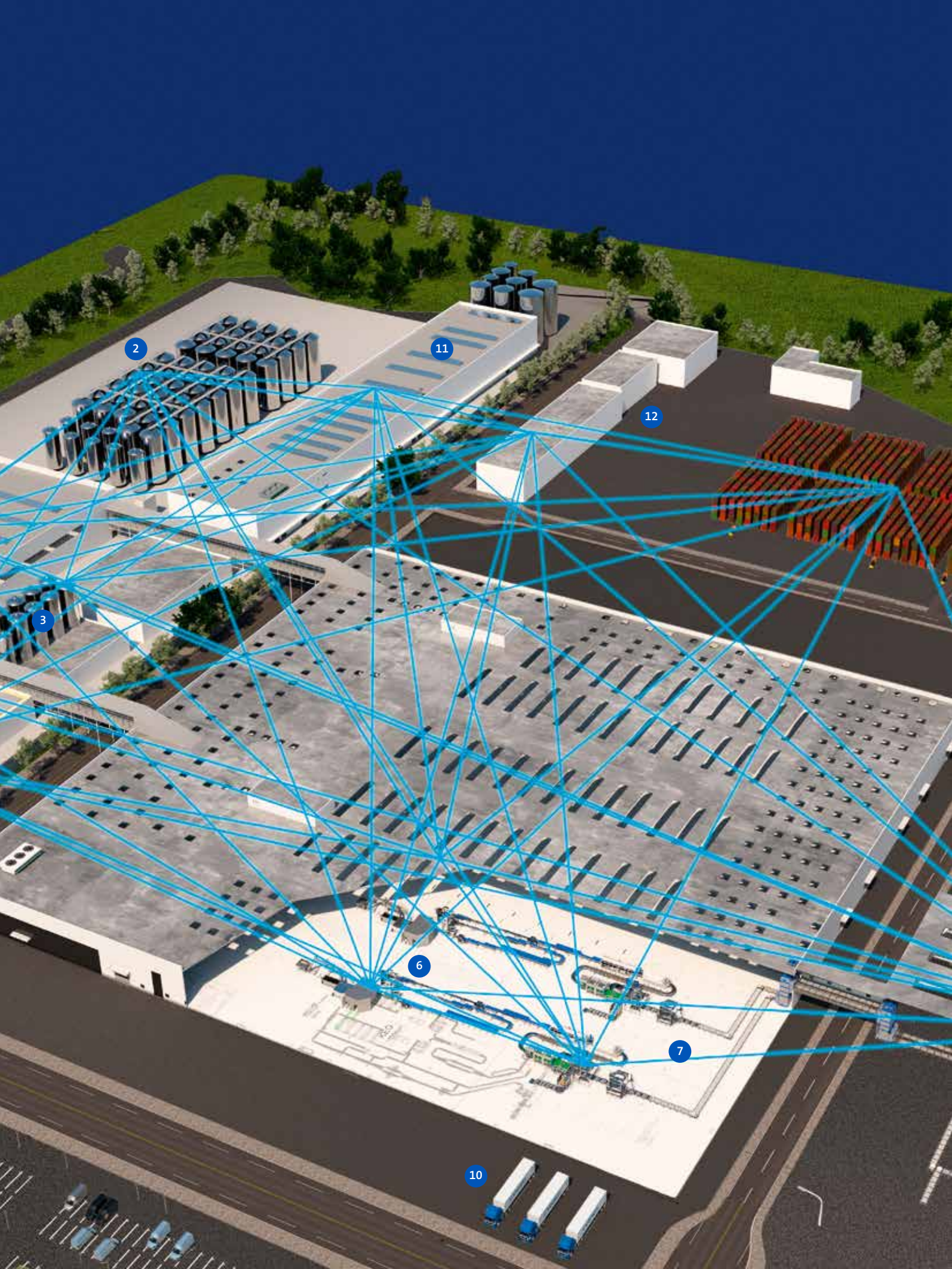
All KRONES conditioning and production tanks **3** are precision manufactured and fit perfectly into the production line.

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.







2

11

12

3

6

7

10



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.

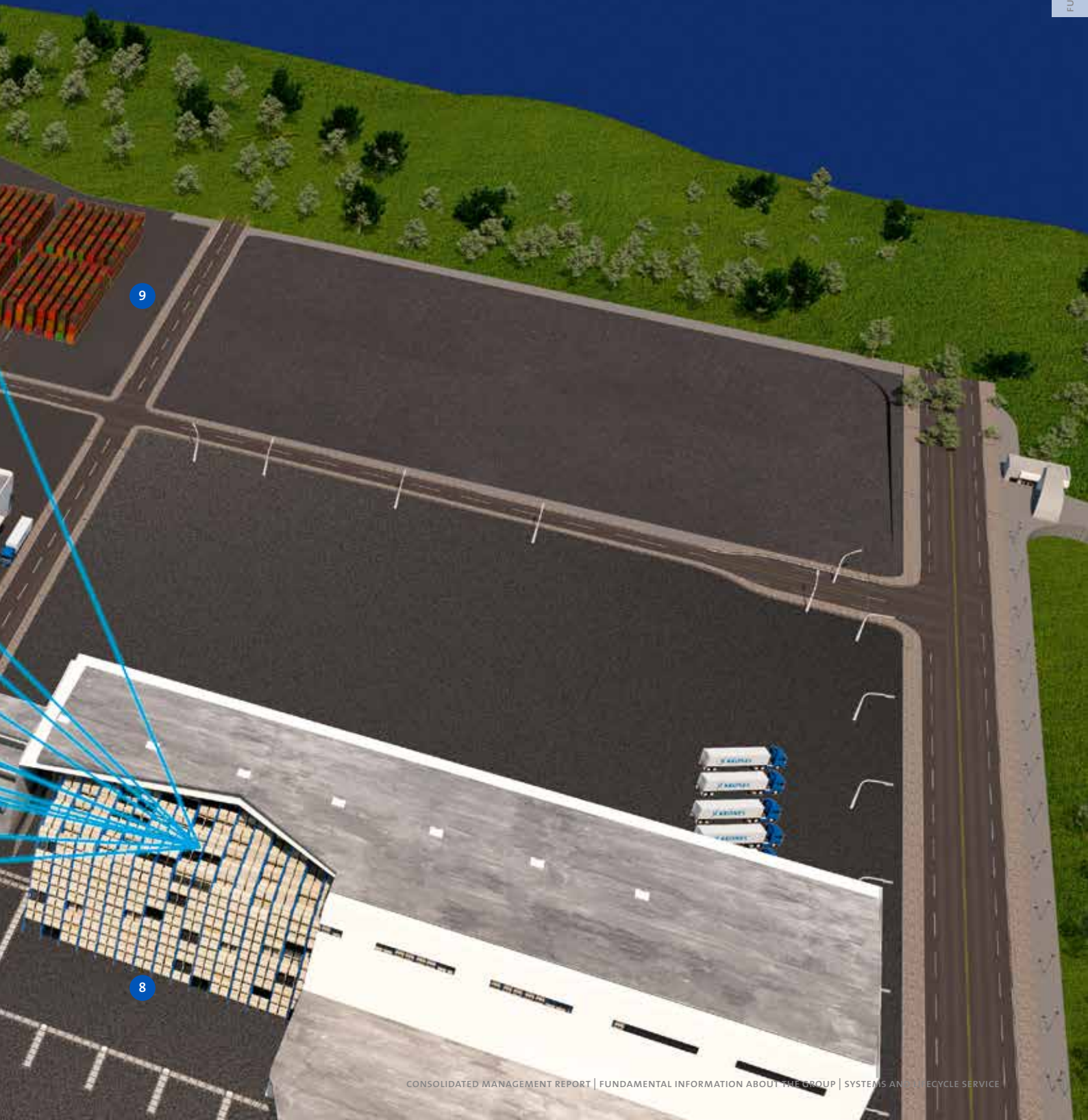
KRONES' subsidiaries SYSTEM LOGISTICS and SYSKRON deliver fully automated high-bay warehouses [8](#) that ensure highly efficient material flows. Every unnecessary logistics step costs time and money.

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.

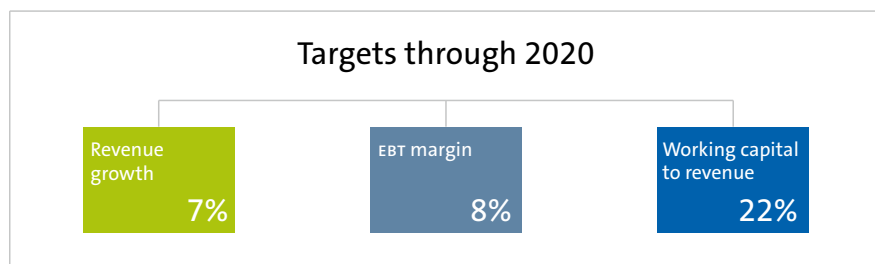
The fight for orders will remain intense as competitive pressures are not letting up. On the customers' side of things, mergers and acquisitions are increasing buying power and sometimes delaying capital investments. However, increasing digitalisation and integration of production will forever change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

### Medium-targets through 2020 – 7/8/22

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.*

### 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.

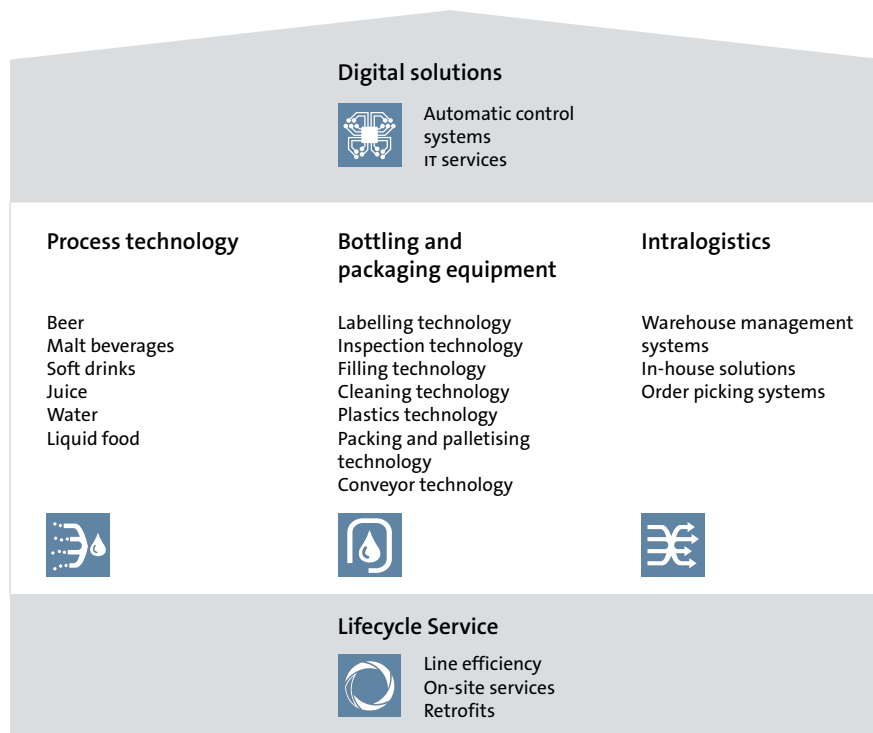
Mergers and acquisitions will also contribute to growth at KRONES. Besides intralogistics and process technology, information technology is another area of interest for acquisitions. We are also focussing on further evolving our most recent acquisitions such as SYSTEM LOGISTICS in order to accelerate 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 segment, **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 this segment, 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** segment 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 segment. 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 segment’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, 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.

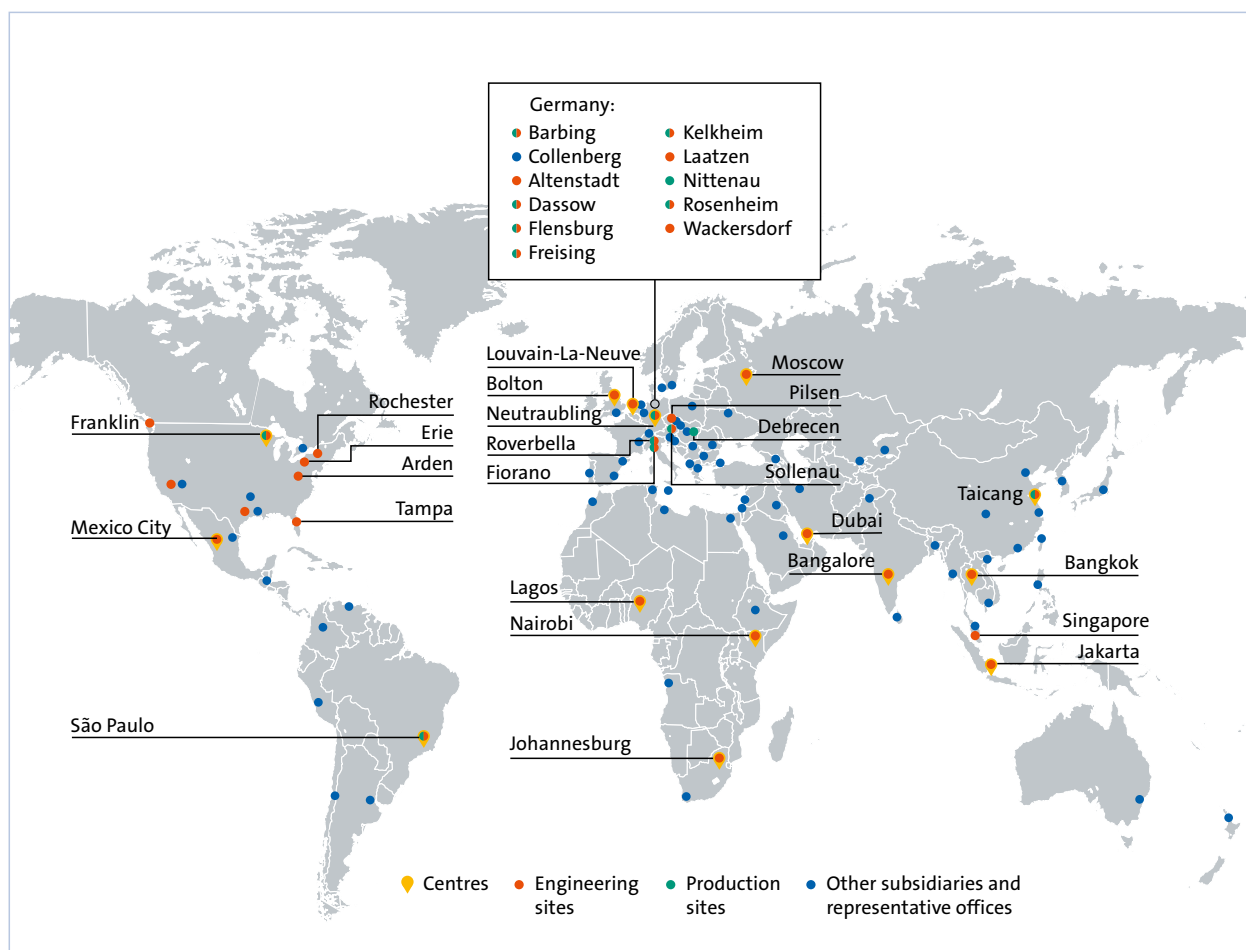
*KRONES has already brought a number of digitalisation-related products and services to market.*

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, 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. 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 substan-

tially 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

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## KRONES' management system

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

- Revenue
- EBT margin (earnings before taxes in relation to revenue)
- Ratio of working capital to revenue (at the group level)

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

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

Profitability, measured as the **EBT margin**, is among our key targets and parameters. It indicates the return on revenue (earnings before taxes in relation to revenue). For the group, we calculate the target margin as the weighted average of the three segments.

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

In addition to these performance indicators, we also use the development of **free cash flow** (cash flow from operating activities less cash flow from investing activities) and ROCE (return on capital employed, the ratio of EBIT to average capital employed) as a guide.

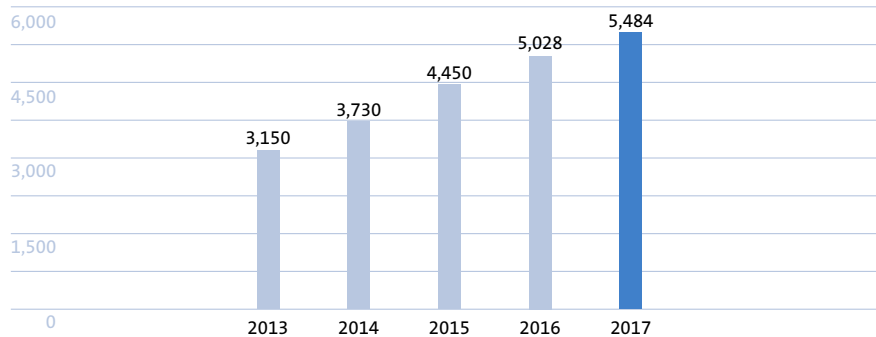
- **KRONES demonstrated its technological leadership at drinktec**
- **Innovations focus on bringing benefit to customers**
- **Digitalisation of beverage plants holds enormous opportunities**
- **New products and technologies demonstrate KRONES' innovative power**

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 demonstrated 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 worldwide 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. Of that, €39.8 million in development costs were capitalised in 2017 (previous year: €33.0 million).

*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.

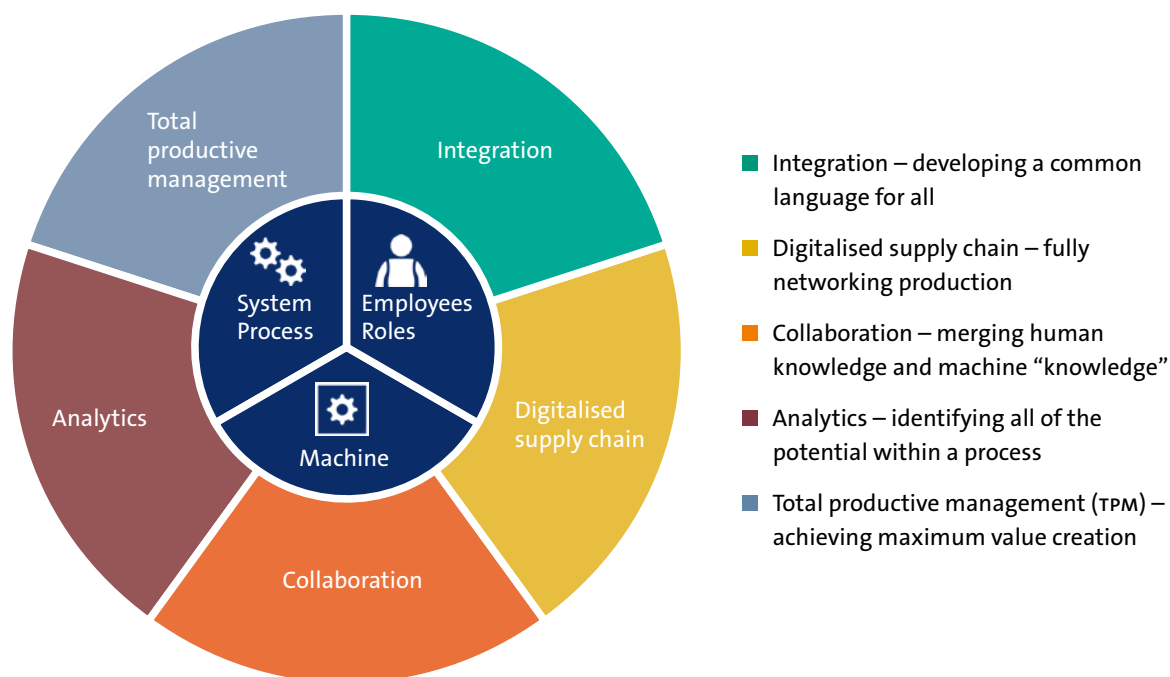
Making lines more compact is another important factor. By increasingly merging machine functions, we are able to save our customers space and time. Our Dynafill beer bottling system, which fills and crowns bottles in a single functional unit, is an example. With new after-sales services offerings such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

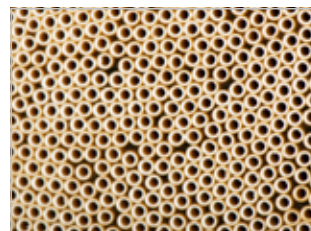
### Dynafill

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 CO<sub>2</sub> 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.





# 3

## Consolidated management report

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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%

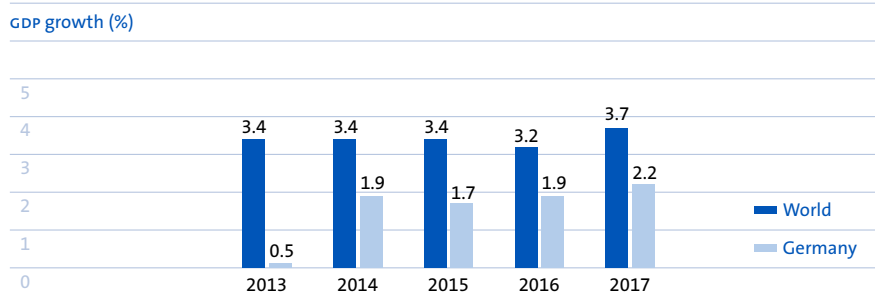
Global gross domestic product (GDP) increased more than expected in 2017. According to data released by the International Monetary Fund (IMF) in January 2018, the world economy grew 3.7% last year (previous year: +3.2%). At the start of 2017, the IMF had forecast only 3.4% growth. The biggest surprise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



Sources: IMF, Germany's Federal Statistical Office

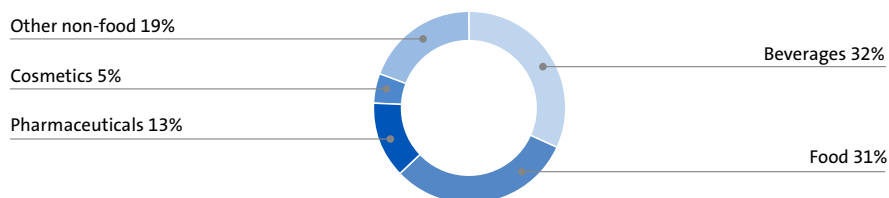
## Machinery output in Germany is increasing

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 2017.

## 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.

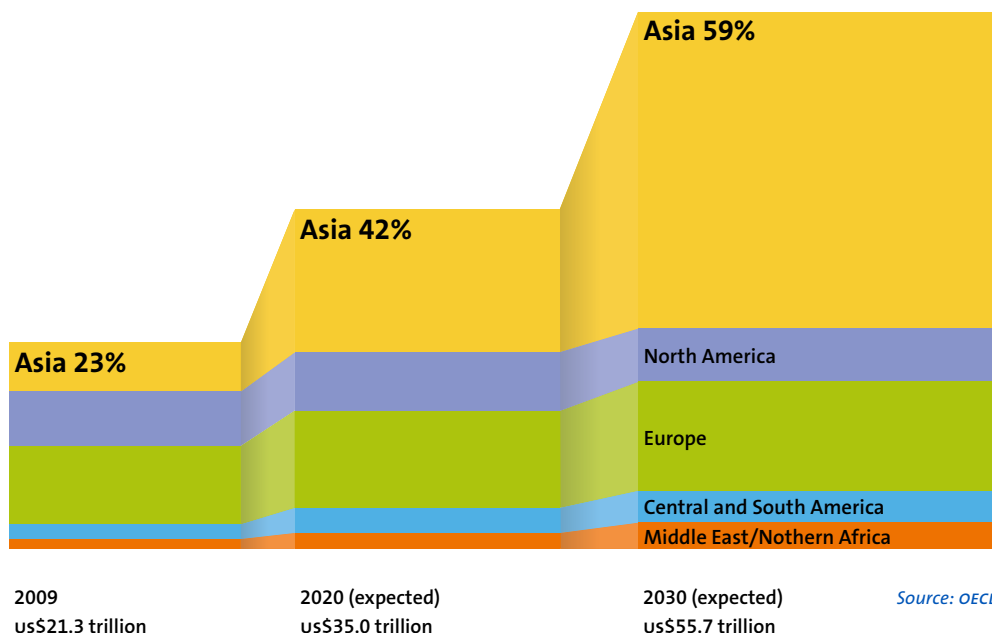
The overarching megatrend is global population growth. At the end of 2017, more than 7.5 billion people inhabited the earth. According to United Nations forecasts, that number is growing at a rate of more than 80 million each year. Population growth is especially strong in Africa and Asia. The world’s 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.*



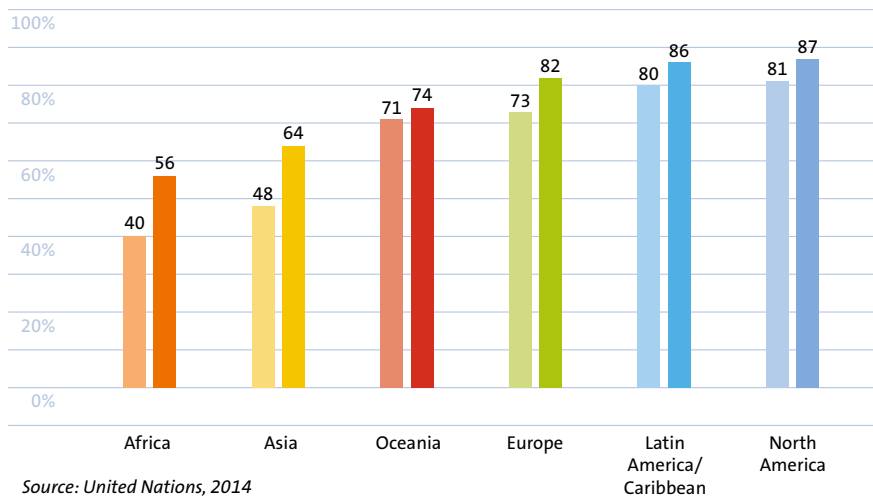


## Urbanisation is driving growth

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)



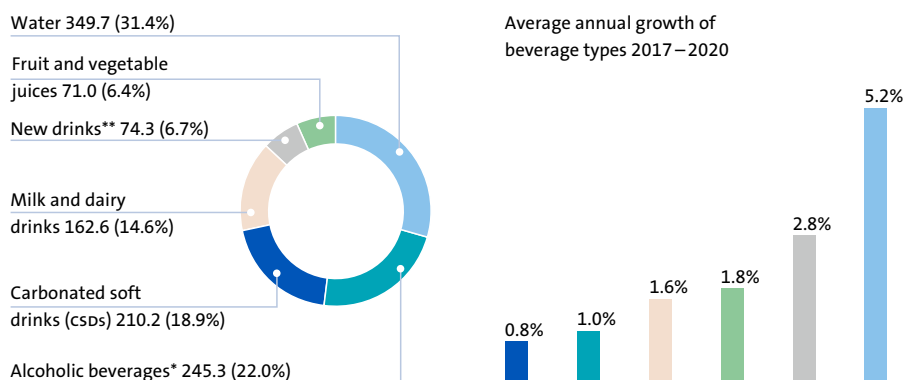
*Large numbers of people are expected to move from the countryside to urban areas in Africa and Asia in the years ahead.*

## 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.*

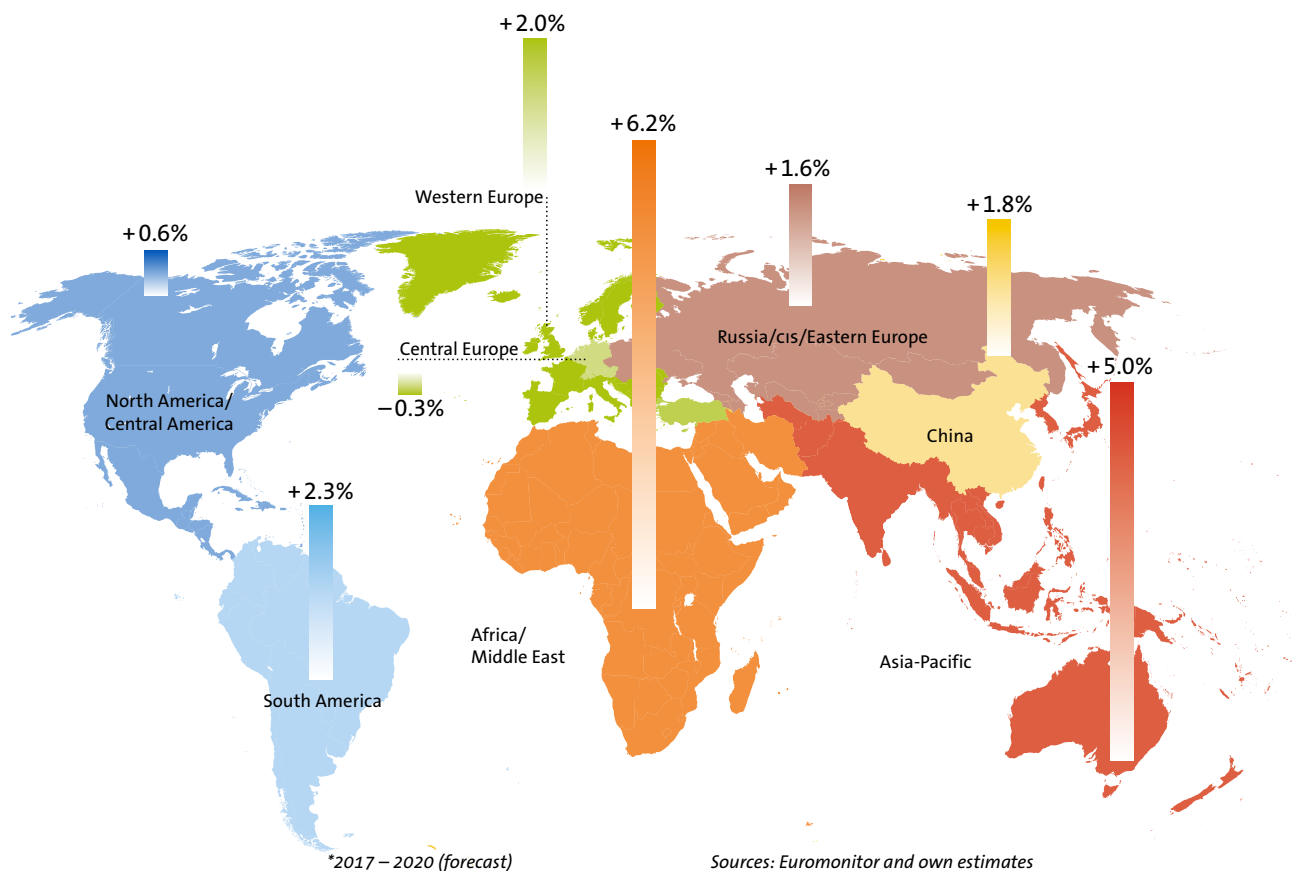
#### Worldwide consumption of packaged beverages

	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
<b>Worldwide</b>	<b>1,111.8</b>	<b>100</b>	<b>1,201.7</b>	<b>100</b>	<b>2.6</b>

\*Share of global consumption

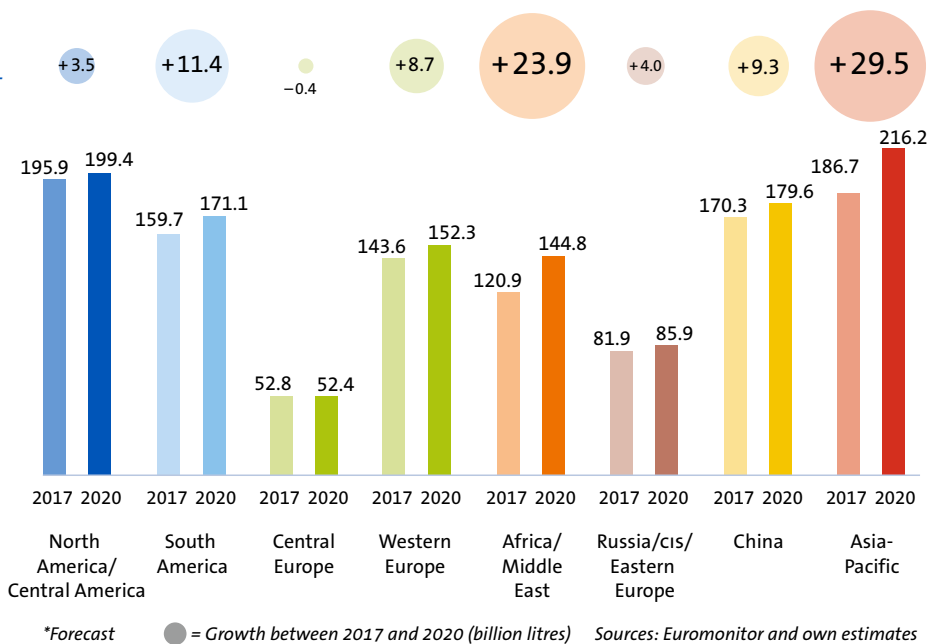
Sources: Euromonitor and own estimates

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)\*

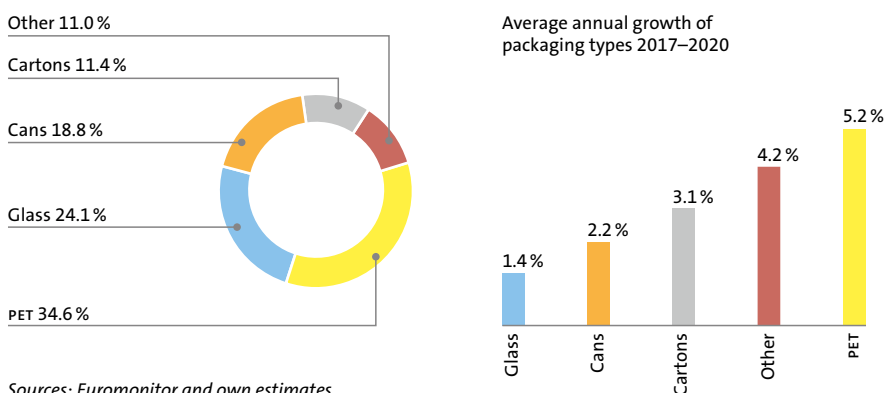




## PET leads among beverage packaging materials

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 had a good year overall in 2017
- KRONES increased revenue more than expected and achieved EBT margin target
- Dividend per share to increase to €1.70 (previous year: €1.55)

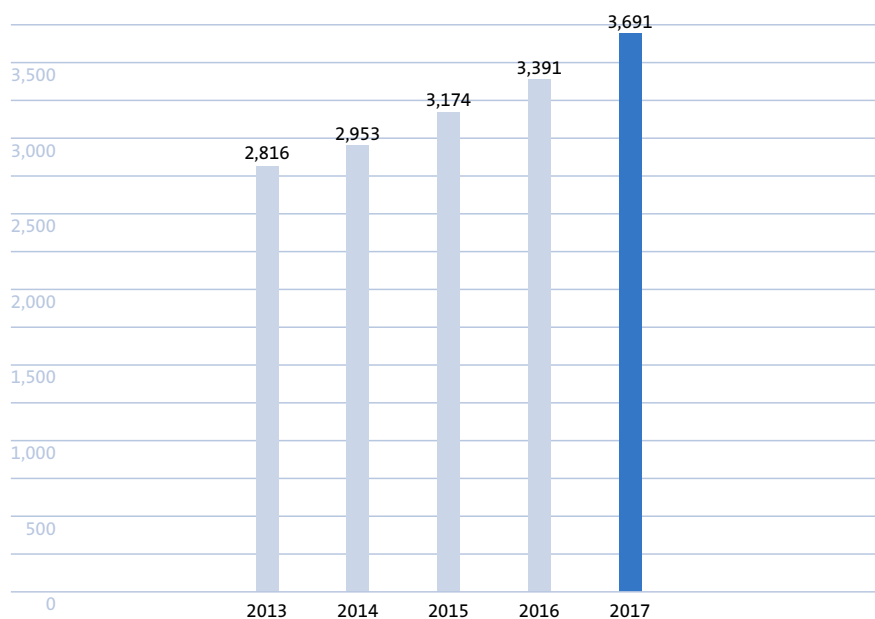
	Forecast 2017	Actual value 2017
Revenue growth (excluding acquisitions)	+4%	+7.2%
EBT margin	7.0%	7.0%
ROCE (liabilities side)	27%	27.3%

### KRONES increased revenue 8.8% to €3,691.4 million

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. The company's revenue improved 8.8% year-on-year from €3,391.3 million to €3,691.4 million in 2017. Acquisitions also contributed to the increase. Adjusted for acquisitions, revenue was up 7.2% year-on-year. That exceeds KRONES' growth target of 4% for 2017. The main reason was the fact that more progress was made on projects in the period from October to December 2017 than expected and, as a result, fourth-quarter revenue was exceptionally high (+16.9% over Q4 2016). Currency effects had little influence on the company's growth in 2017.

*KRONES' revenue has grown steadily over the past few years.*

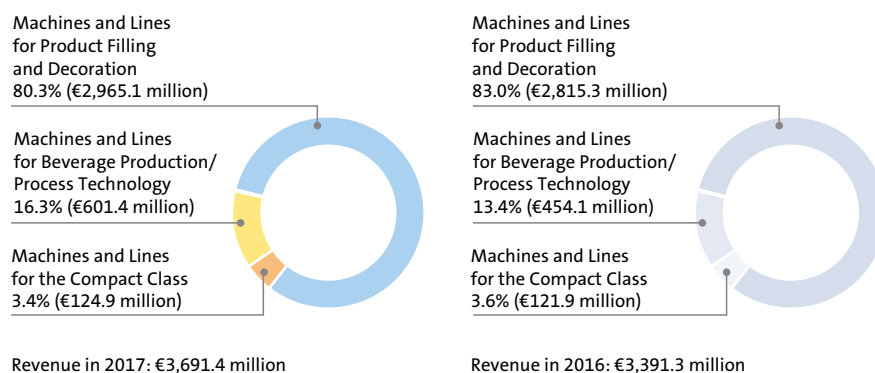
KRONES Group revenue (€ million)



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, which is enabling us to increase our proximity to customers.

## Revenue by segment

### Share of consolidated revenue



Revenue was up year-on-year in all three segments in 2017.

Revenue in our core segment, Machines and Lines for Product Filling and Decoration, increased 5.3% year-on-year to €2,965.1 million in 2017. The segment's share of consolidated revenue decreased from 83.0% in the previous year to 80.3%.

Revenue in Machines and Lines for Beverage Production/Process Technology increased 32.5% to €601.4 million, driven in part by acquisitions. The company's second-largest segment contributed 16.3% of consolidated revenue (previous year: 13.4%).

Revenue in KRONES' smallest segment, Machines and Lines for the Compact Class, grew 2.5% year-on-year to €124.9 million. The segment's share of consolidated revenue was 3.4% (previous year: 3.6%).

Further information can be found in the section "Report from the segments" beginning on page 72 and under "Segment reporting" in the notes to the consolidated financial statements on pages 132 and 133.



For more information on segment reporting, see pages 72 to 77 and 132 to 133.

*KRONES is heavily export-oriented. The company generated around 90% of its revenue outside Germany in 2017.*

### KRONES' revenue is well balanced internationally

KRONES' business in Germany grew in 2017. Contributing factors were a strong domestic economy and increasing propensity to invest among small and mid-sized companies. In all, KRONES' revenue in Germany increased 9.5% from €354.2 million to €387.9 million. Business in Germany accounted for 10.5% of consolidated revenue, which is up slightly from 10.4% the previous year.

KRONES' revenue growth in Europe (excluding Germany) was stable overall in the reporting period, thanks primarily to strong growth in Western Europe. Our revenue in this large sales region improved 22.7% in 2017 from €513.5 million in the previous year to €630.2 million. KRONES' very high installed base in Western Europe had a positive effect on after-sales service revenue. New machinery business in Western Europe was also up on the previous year. By contrast, revenue in Central Europe (Austria, Switzerland, and the Netherlands) was lower in 2017, down 10.9% to €191.0 million. However, it should be borne in mind that revenue in Central Europe had increased by more than 40% in 2016. Therefore, we are satisfied with overall revenue development in the region. The same is true for business in Eastern Europe. After a sharp increase (+34.1%) in the previous year, when we had managed to expand our business in several countries in the region, revenue there increased slightly, by 1.8% to €123.6 million, in 2017 and thus remained stable at that level. Revenue in the Russia/CIS sales region, on the other hand, continued to decline. The general economic situation there has companies less inclined to invest in capital goods. At €54.6 million, 2017 revenue was down 24.5% on the previous year.

### KRONES Group revenue by region

Share of consolidated revenue	2017		2016		Change
	€ million	%	€ million	%	
Germany	387.9	10.5	354.2	10.4	+9.5
Central Europe (excluding Germany)	191.0	5.2	214.4	6.3	-10.9
Western Europe	630.2	17.1	513.5	15.1	+22.7
Eastern Europe	123.6	3.3	121.4	3.6	+1.8
Russia, Central Asia (CIS)	54.6	1.5	72.3	2.1	-24.5
Middle East/Africa	563.5	15.3	570.4	16.8	-1.2
Asia-Pacific	502.6	13.6	402.3	11.9	+24.9
China	254.7	6.9	323.5	9.5	-21.3
North and Central America	544.6	14.8	504.9	15.0	+7.9
South America/Mexico	438.7	11.9	314.4	9.3	+39.5
<b>Total</b>	<b>3,691.4</b>	<b>100.0</b>	<b>3,391.3</b>	<b>100.0</b>	<b>+8.8</b>



All told, KRONES' revenue in Europe (excluding Germany) increased 8.4% year-on-year in 2017, from €921.6 million to €999.4 million. The region's share of consolidated revenue was almost unchanged at 27.1% (previous year: 27.2%).

The investment climate in the vast Middle East/Africa sales region, which is very important for KRONES, was favourable for our industry overall in 2017. At €563.5 million, revenue there almost matched the high year-earlier level, missing it by only 1.2%. Our revenue did not develop as well in China. Although sales picked up considerably in the fourth quarter, revenue for the year 2017 as a whole was down 21.3% year-on-year to €254.7 million. The sharp decline is due in part to the previous year's sharp increase (+12%). However, the main reason for the decrease in sales is a temporary lag in demand for new capacity. We expect business in China to pick up again in the medium term. Increased sales activity in the rest of the Asia-Pacific region fuelled a surge in revenue growth there in 2017. Revenue there improved 24.9% year-on-year to €502.6 million. Revenue in the region had been down considerably in 2016.

KRONES' business in North and Central America continued its upwards trend in 2017. Revenue in this region rose 7.9% to €544.6 million in the reporting period. A large part of the increase can be attributed to the acquisition of TRANS-MARKET, PROCESS AND DATA AUTOMATION (PDA), and JAVLYN. KRONES' business in the South America/Mexico sales region developed very dynamically in 2017. At €438.7 million, revenue there was up 39.5% year-on-year. Besides strong business in Mexico, KRONES benefited from the general economic recovery in South American countries like Brazil.

Overall, KRONES' revenue remains very well balanced internationally. KRONES generated 52.5% of consolidated revenue in the emerging markets in 2017 (previous year: 53.2%). The mature markets (Germany, Western and Central Europe, and North and Central America) contributed 47.5% to consolidated revenue in the reporting period (previous year: 46.8%).

*KRONES is well positioned in both the emerging markets and the mature industrialised countries.*

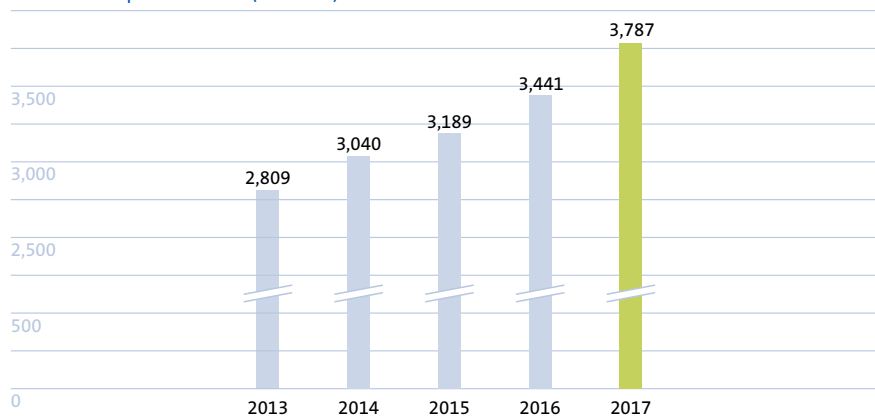
*Adjusted for acquisitions, KRONES' order intake increased 7.1% in 2017.*

### KRONES' order intake up 10.0% year-on-year

Demand for KRONES' products and services increased considerably in 2017. 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. In 2017, the contract value of orders was up 10.0% year-on-year from €3,441.3 million to €3,786.8 million. Adjusted for acquisitions, order intake grew 7.1% year-on-year in 2017. Overall, the price quality on the new orders remained unchanged in the reporting period compared with 2016.

Order intake was up year-on-year in most regions in 2017. Orders growth in Asia-Pacific and North America was higher than overall orders growth. Orders were flat in Western Europe, Eastern Europe, and South America. China and the Middle East/Africa were among the regions with slightly lower order intake in 2017.

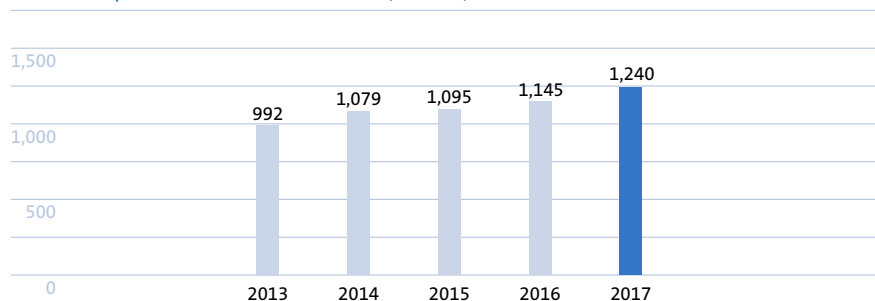
KRONES Group order intake (€ million)



### Comfortable orders backlog

Orders on hand at KRONES increased despite the significant increase in revenue in 2017. That reflects the continued strong demand for the company's products and services. At the end of December 2017, KRONES had orders on hand totalling €1,240.1 million. That is up 8.3% from the previous year (€1,144.7 million). The comfortable orders backlog provides a good basis for continued revenue growth at KRONES.

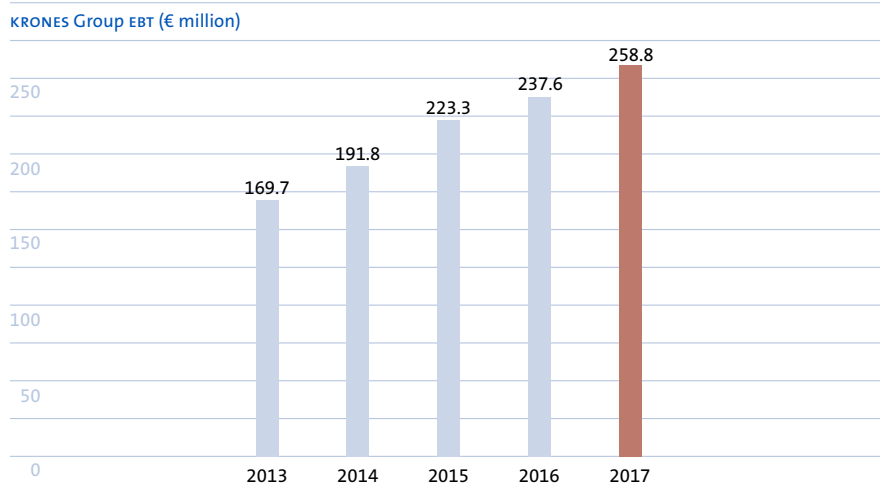
KRONES Group orders on hand at 31 December (€ million)



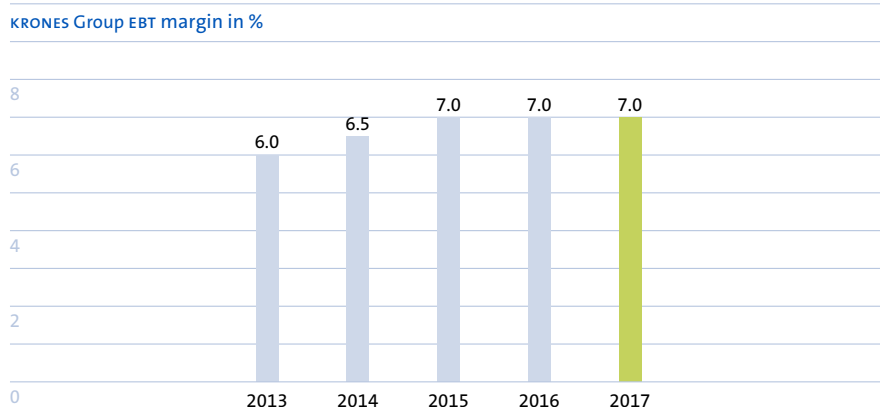
**KRONES' profitability is stable**

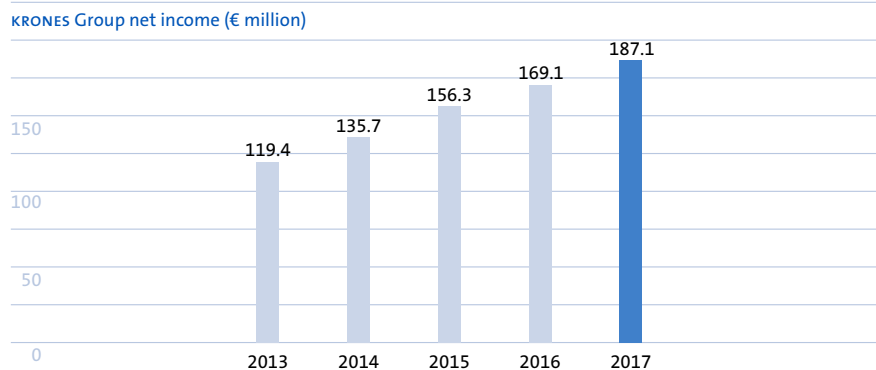
The company further increased earnings before taxes (EBT) as forecast in 2017. It should be borne in mind that the expense for the drinktec trade fair resulted in a charge against EBT in the mid-single-digit millions of euros in the reporting period. Nevertheless, EBT for 2017 was up 8.9% year-on-year from €237.6 million to €258.8 million.

*KRONES achieved its profit target in 2017 despite a number of challenges.*



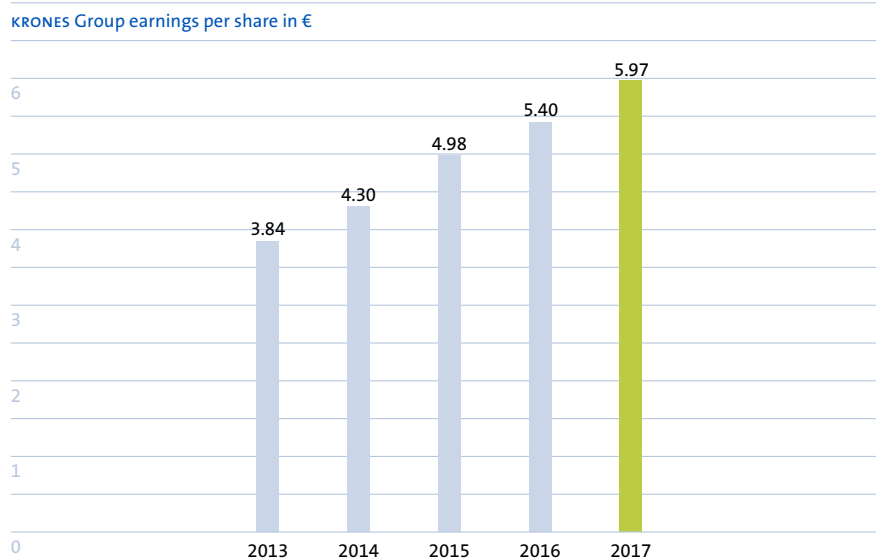
As expected, market prices provided no support. KRONES had to offset increased costs with increased efficiency in order not to compromise profitability. Factors that contributed to this process were the expansion of our global footprint, including buying materials and services locally, and general cost-cutting measures. Our efforts were successful and we were able to keep our EBT margin stable year-on-year at 7.0% in 2017. Thus, KRONES met its margin target for 2017.





The company's tax rate decreased in 2017 from 28.8% in the previous year to 27.7%. The recognition of a deferred tax asset for unused tax losses carried forward played a role in reducing the tax rate. The tax reform in the USA had almost no impact on that rate. Thanks to the lower tax rate, consolidated net income improved more than earnings before taxes. Consolidated net income rose 10.7% from €169.1 million in the previous year to €187.1 million. Earnings per share for the period rose from €5.40 in the previous year to €5.97.

*Earnings per share improved to €5.97 in 2017.*



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

In order to share the company's success with shareholders, KRONES pays out 25% to 30% of consolidated profit in the form of dividends. The Executive Board and the Supervisory Board will propose to the annual general meeting on 13 June 2018 that a dividend of €1.70 per share be paid out for the 2017 financial year (previous year: €1.55). That is up 9.7% year-on-year. The planned payout is 28.7% of consolidated net income.



## KRONES Group earnings structure

€ million	2017	2016	Change
Revenue	3,691.4	3,391.3	+8.8%
Changes in inventories of finished goods and work in progress	-36.4	-135.5	-73.1%
Total operating performance	3,654.9	3,255.8	+12.3%
Other own work capitalised	+48.2	+42.2	+14.2%
Other operating income	+112.5	+140.6	-20.0%
Goods and services purchased	-1,859.4	-1,609.7	+15.5%
Personnel expenses	-1,061.4	-974.3	+8.9%
Other operating expenses	-554.6	-533.8	+3.9%
EBITDA	340.2	320.8	+6.0%
Depreciation and amortisation on fixed assets	-94.7	-92.8	+2.0%
EBIT	245.5	228.0	+7.7%
Financial income/expense	+13.3	+9.6	+39.1%
EBT	258.8	237.6	+8.9%
Income tax	-71.7	-68.5	+4.7%
Consolidated net income	187.1	169.1	+10.7%

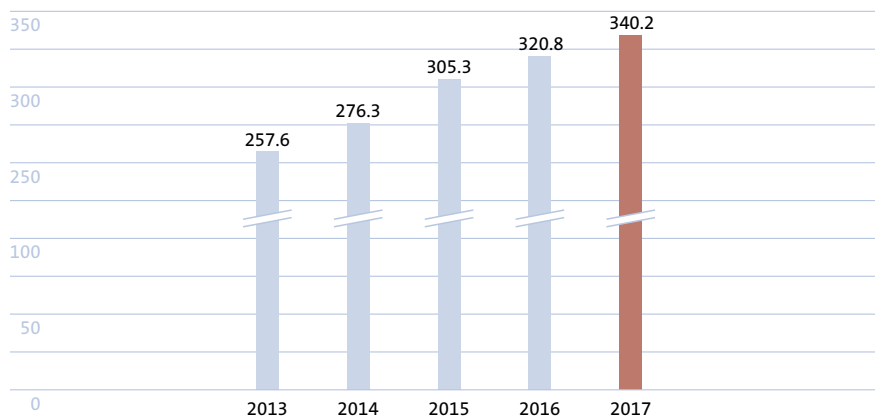


For more information, see the complete statement of profit and loss on page 126.

The company's total operating performance increased 12.3% to €3,654.9 million, which is more than the increase in revenue (8.8%). Inventories of finished goods and work in progress were the driving factor here. At €36.4 million, inventories had not decreased as much in the reporting period as they had in the previous year (-€135.5 million).

KRONES was able to keep profitability stable as forecast despite a sharper increase in expenditure for goods and services purchased and costs associated with the drink-tec trade fair, which takes place only once every four years. That is thanks to successful measures aimed at further increasing efficiency and reducing costs. The results are reflected in the fact that other operating expenses and personnel expenses increased less than total operating performance.

KRONES Group EBITDA (in € million)



*KRONES was able to offset higher expenses for goods and services purchased with efficiency increases and cost savings in 2017. Profitability was stable as forecast.*

Increased local procurement and favourable raw materials prices had a positive impact on the expenditure for goods and services purchased. However, these effects were overshadowed by the product mix. That is largely because Process Technology's share of revenue increased in 2017 and this segment buys in more goods and services and has a shallower depth of value creation than the other segments. As a result, expenditure for goods and services purchased climbed 15.5% to €1,859.4 million. The ratio of goods and services purchased to total operating performance rose year-on-year from 49.4% to 50.9%.

Personnel expenses rose 8.9% year-on-year to €1,061.4 million in the reporting period, which is less than the increase in total operating performance. Increased workforce growth abroad was the main factor holding the increase in check. However, these effects were mitigated by higher personnel expenses resulting from collecting bargaining in Germany. The ratio of personnel expenses to total operating performance decreased from 29.9% in the previous year to 29.0% in 2017.

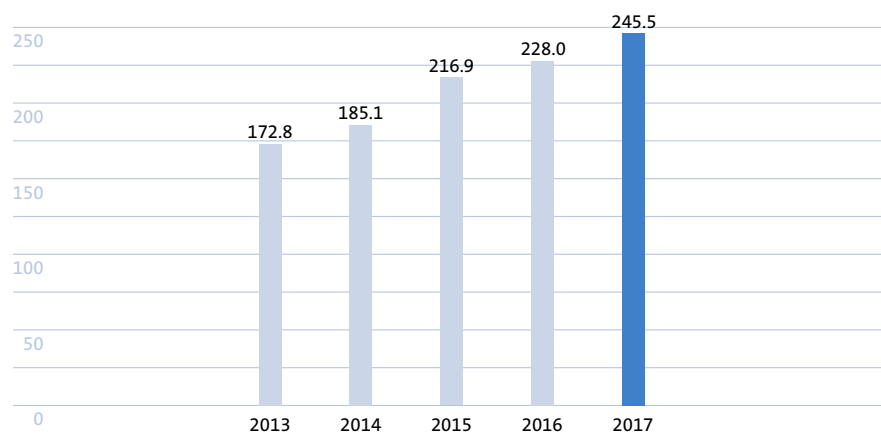
Other operating income decreased by €28.1 million year-on-year, mostly due to fewer reversals of provisions.

Capitalised development expenditure – and thus own work capitalised – increased due to the innovation-focused drinktec trade fair. Other own work capitalised stayed more or less at the year-earlier level.

Other operating expenses were up 3.9% or €20.8 million. Besides business growth, which is reflected primarily in higher expenses for freight, travel, and commissions, this figure includes expenses in the mid-single-digit millions of euros for drinktec, which takes place only once every four years, and increased IT expenditures. On the other hand, currency translation losses were lower.

The resulting net of other operating income and expenses and own work capitalised changed 12.2% from –€351.0 million in the previous year to –€393.9 million in 2017 and thus developed similarly to total operating performance.

As a result, EBITDA increased 6.0% to €340.2 million. After depreciation and amortisation of €94.7 million (previous year: €92.8 million), EBIT was €245.5 million (+7.7%). Besides interest income of €10.1 million (previous year: €8.4 million) and interest expense of €8.3 million (previous year: €2.5 million), investment income of €11.9 million (previous year: €3.7 million) relating to non-consolidated companies also shaped the financial result. The interest and similar income includes reversals of earn-out obligations totaling €4.6 million. The interest and similar expenses include a €4.5 million increase in the obligation relating to put options. KRONES improved earnings before taxes (EBT) by 8.9% to €258.8 million. The resulting EBT margin is 7.0%, as in the previous year. KRONES' tax rate decreased from 28.8% in the previous year to 27.7% in 2017. Consolidated net income was up 10.7% in 2017 to €187.1 million (previous year: €169.1 million).

**KRONES Group EBIT (€ million)**



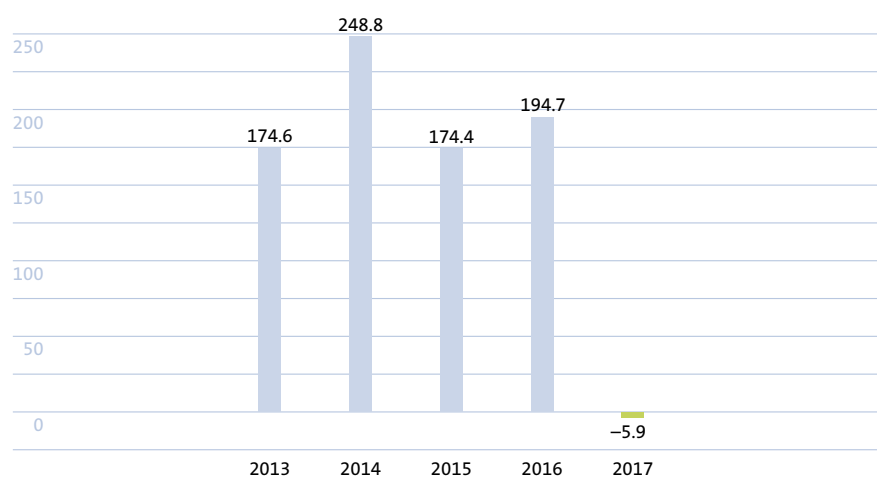
For more information, see the complete statement of cash flows on page 130.

€ million	2017	2016
<b>Earnings before taxes</b>	<b>258.8</b>	237.6
Other non-cash expenses and income	+46.4	+158.6
Changes in working capital	-188.6	-96.4
Changes in other assets and liabilities	-122.5	-105.1
<b>Cash flow from operating activities</b>	<b>-5.9</b>	194.7
Capital expenditure for intangible assets and property, plant and equipment	-133.5	-111.3
M&A activities	-32.5	-39.7
Other	+21.2	+5.5
<b>Free cash flow</b>	<b>-150.7</b>	49.2
Cash flow from financing activities	-24.7	-45.8
Other	-11.5	+0.9
<b>Net change in cash and cash equivalents</b>	<b>-186.9</b>	+4.3
<b>Cash and cash equivalents at the end of the period</b>	<b>182.0</b>	368.9

Despite strong earnings, cash flow from operating activities decreased from €194.7 million in the previous year to -€5.9 million. The main factor causing the change was a sharp increase in working capital.

The development of KRONES' cash flow was not satisfactory overall in 2017. Cash flow from operating activities decreased from €194.7 million the previous year to -€5.9 million. The main reason was the larger year-on-year increase in working capital, which in turn reduced cash flow from operating activities by €188.6 million in 2017 (previous year: €96.4 million). Higher business volume in the fourth quarter had a particularly strong effect on working capital. In all, receivables increased 18.2% to €1,277.4 million while inventories decreased by 16.0% to €611.8 million. Trade payables, the other hand, were up 16.3% to €376.5 million.

KRONES Group cash flow from operating activities (€ million)

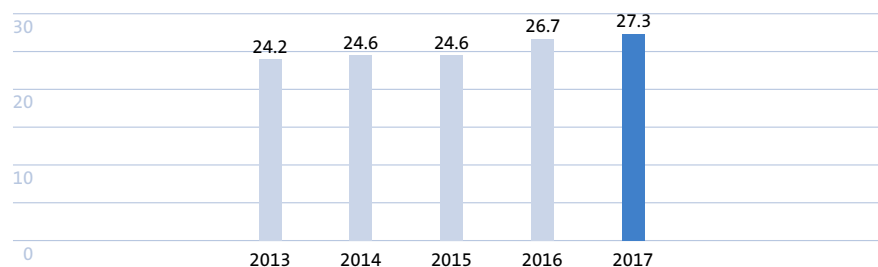




### The ratio of working capital to revenue increased from 26.7% to 27.3%

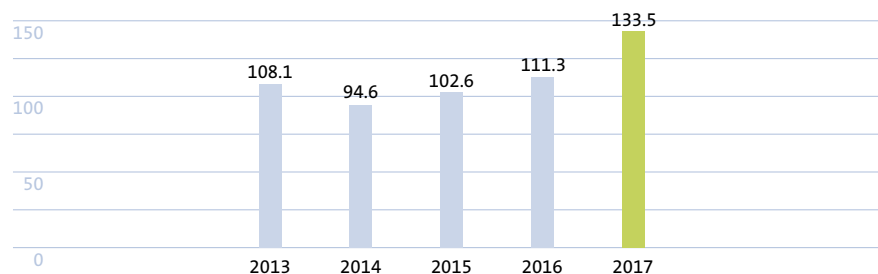
The ratio of average working capital for the past four quarters to revenue was up from 26.7% to 27.3% in the reporting period. With that, we met our target of 27% for 2017. We intend to improve it to 26% this year by way of more intensive working capital management.

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



Last year, KRONES spent €133.5 million on property, plant and equipment and intangible assets (previous year: €111.3 million). In particular, capital expenditures for property, plant, and equipment increased sharply to €78.3 million (previous year: €56.4 million). That was due mainly to capital expenditure in our German sites, in Raubling in particular, and the construction of a production site in China. The ratio of capital expenditure to depreciation and amortisation increased from 1.20 in the previous year to 1.41 in 2017. Capital expenditure in the individual segments is discussed in the report from the segments (pages 132 to 133).

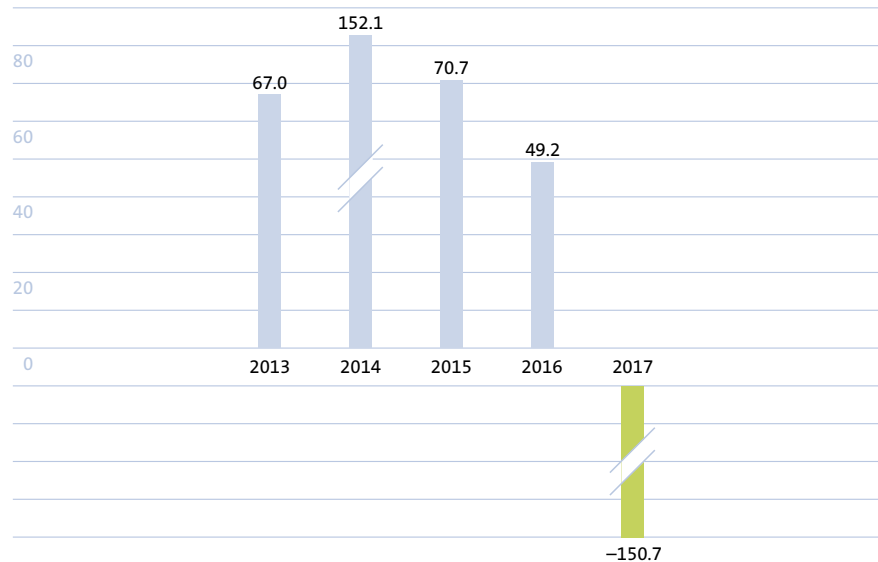
KRONES Group capital expenditure for PP&E and intangible assets (€ million)



At –€150.7 million, KRONES' free cash flow (net cash generated from operating activities) was down sharply from the year-earlier figure of +€49.2 million. Adjusted for the acquired stakes in INTEGRATED PACKAGING SYSTEMS (IPS) FZCO, PROCESS AND DATA AUTOMATION INC., and JAVLYN PROCESS SYSTEMS INC., free cash flow decreased from +€88.9 million a year earlier to –€118.2 million.

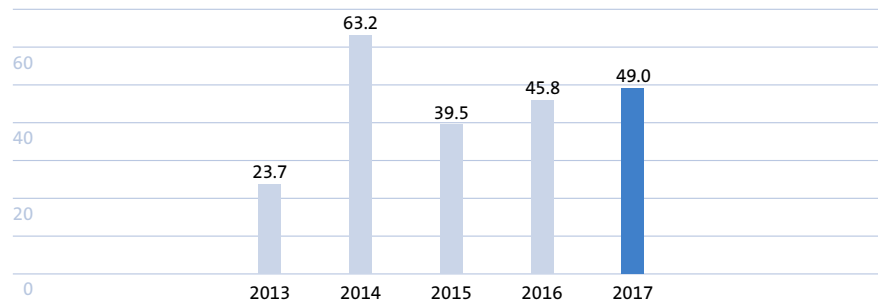
*Free cash flow decreased by €200.0 million to –€150.7 million in 2017.*

KRONES Group free cash flow (€ million)



*The dividend payout increased 7% in 2017.*

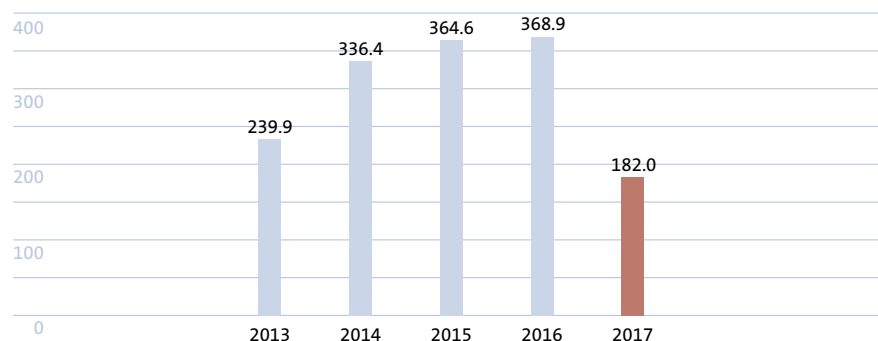
KRONES Group dividend payout (€ million)



At €24.7 million, the cash outflow from financing activities in the reporting period was less than the previous year's €45.8 million. The company paid out a dividend of €49.0 million to shareholders in 2017 (previous year: €45.8 million). On the other hand, we raised €24.6 million from short-term borrowing (previous year: €0). Changes arising from exchange rates decreased cash and cash equivalents by €11.5 million due to developments in the exchange rates of local currencies at our subsidiaries (previous year: +€0.9 million). In all, cash and cash equivalents were down in the reporting period, from €368.9 million in the previous year to €182.0 million.

*KRONES paid out €49.0 million to shareholders in the reporting period.*

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





For more information, see the complete statement of financial position on pages 128 and 129.

€ million at 31 December	2017	2016	2015
Non-current assets	882	799	697
of which fixed assets	797	725	646
Current assets	2,158	2,272	2,010
of which cash and equivalents	182	369	365
Equity	1,330	1,226	1,111
Total debt	1,710	1,845	1,596
Non-current liabilities	314	308	278
Current liabilities	1,396	1,537	1,318
<b>Total</b>	<b>3,040</b>	<b>3,071</b>	<b>2,707</b>

After having increased sharply in the previous year (+13.5%), KRONES' total assets were down slightly at 31 December 2017 compared with the end of 2016, by 1.0% to €3,039.8 million, despite an increase in business volume.

The company's non-current assets totalled €882.1 million at the end of 2017, up 10.5% on the previous year (€798.5 million). Fixed assets were up 9.8% to €796.6 million (previous year: €725.5 million). Of that, €501.6 million were property, plant and equipment (previous year: €481.3 million). KRONES' intangible assets, which consist primarily of capitalised development expenditure, increased from €238.3 million in the previous year to €263.6 million, due in part to the drinktec trade fair. Non-current financial assets increased as a result of the capitalisation of the assets relating to INTEGRATED PACKAGING SYSTEMS (IPS) FZCO, which is accounted for using the equity method.

*KRONES retains a comfortable liquidity cushion and a sound equity position. That gives KRONES plenty of financial leeway to make business investments with our own resources.*

KRONES' current assets were down. At the end of 2017, the company had current assets totalling €2,157.6 million on the books (previous year: €2,272.3 million). That is a decrease of 5.1% or €114.7 million over the end of 2016. The main reason for the change was a year-on-year decrease in cash and cash equivalents from €368.9 million to €182.0 million that resulted from the negative free cash flow. Trade receivables, on the other hand, increased by €188.4 million to €1,225.3 million, due primarily to increased production. Inventories were reduced by €116.5 million to €611.8 million.

On the liabilities side, KRONES' non-current liabilities were up slightly in the reporting period, to €314.0 million (31 December 2016: €308.0 million). Higher deferred tax liabilities were the main factor here. They were up €10 million to €12.9 million. Provisions for pensions increased only marginally, from €219.1 million in the previous year to €220.2 million. KRONES had no non-current bank debt at the end of 2017.

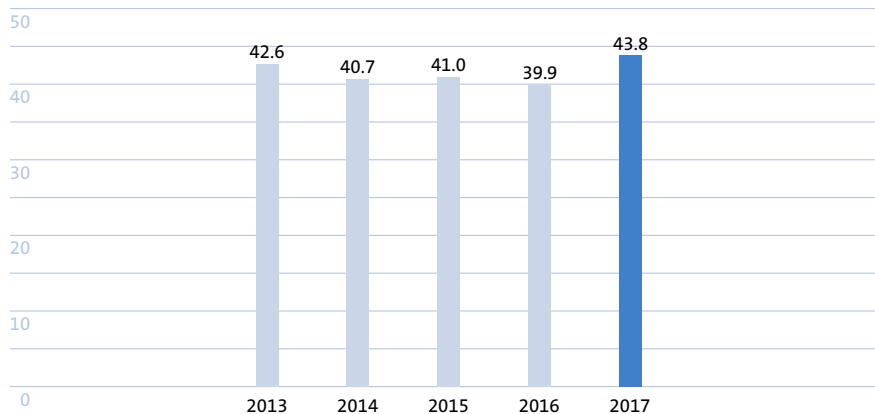
KRONES' current liabilities decreased in the reporting period, from €1,537.3 million in 2016 to €1,395.7 million. Contributing factors here were a €106.4 million decrease in advances received and €294.1 million in other liabilities and accruals (previous year: €357.9 million). Trade payables increased by €52.7 million to €376.5 million. At the end of 2017, the company had current bank debt totalling €24.6 million (previous year: €0).



KRONES' net cash and cash equivalents (cash and cash equivalents less bank debt) amounted to €157.4 million at the end of the reporting period 2017 (previous year: €368.9 million). In addition, the group has around €226.3 million in unused lines of credit. A backup facility of €250 million is also available. With that, we achieved the primary aim of KRONES' financial management, which is safeguarding KRONES' strong financial footing and independence.

Due to the positive consolidated net income, equity increased from €1,225.5 million in the previous year to €1,330.1 million in 2017. The lower total assets figure at the end of 2017 resulted in an improvement in the equity ratio from 39.9% in the previous year to 43.8%. Overall, KRONES continues to possess an exceptionally robust financial and capital structure.

KRONES Group equity ratio (%)

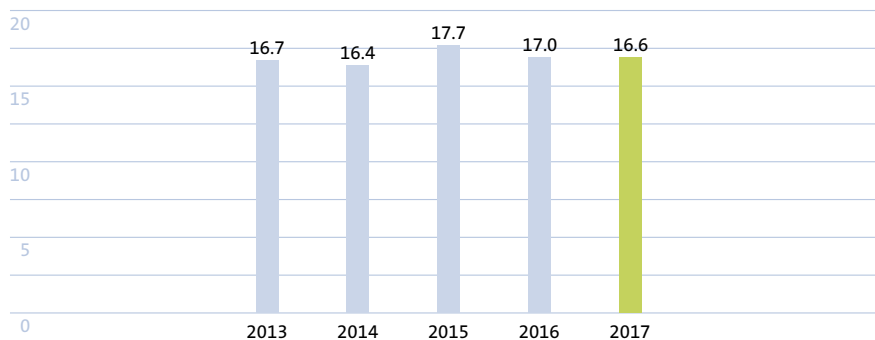


*Our equity ratio rose significantly in 2017 on positive consolidated net income and a lower total of assets and liabilities.*

### ROCE down from 17.0% to 16.6%

KRONES' return on capital employed (ROCE), the ratio of EBIT to average net capital employed, decreased slightly from 17.0% in the previous year to 16.6% in the reporting period. That is because the increase in capital employed was higher than the increase in EBIT.

KRONES Group ROCE (%)



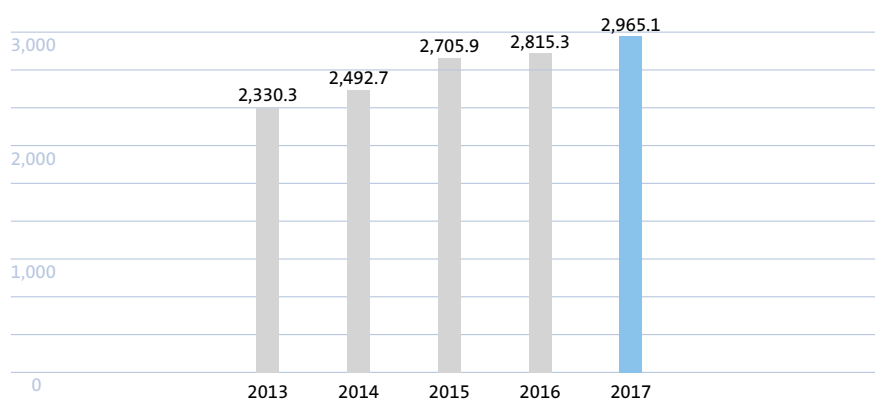
*KRONES' ROCE was down slightly year-on-year in 2017.*

*Revenue in the core segment increased more than forecast in 2017 due to brisk demand.*

### Segment revenue

Revenue in KRONES' core segment, Machines and Lines for Product Filling and Decoration, rose 5.3% year-on-year from €2,815.3 million to €2,965.1 million in 2017. That was more than expected (forecast: +3%). The company benefited from high demand for complete turnkey bottling and packaging lines and rising after-sales service revenue. The segment's share of consolidated revenue decreased year-on-year, from 83.0% to 80.3% in 2017, due to the strong growth of the company's second-largest segment.

Segment revenue (€ million)

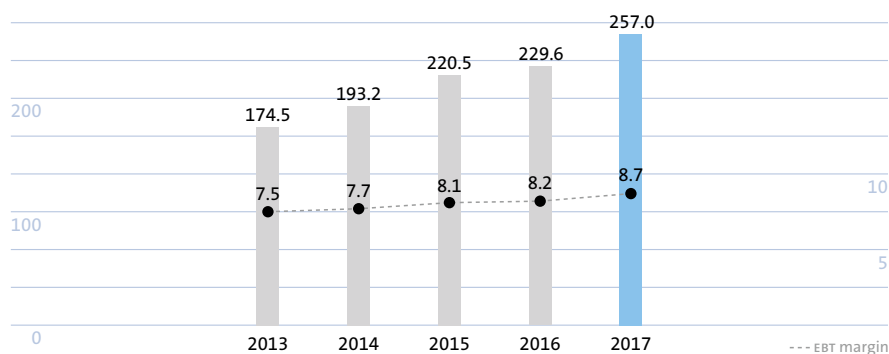



*KRONES' core segment generated an EBT margin of 8.7% in 2017 (previous year: 8.2%).*

### Segment earnings

The core segment's profitability developed better than forecast in 2017. That is thanks primarily to efficiency improvements and our process of selecting out low-margin orders as well as an increase in high-margin after-sales service revenue. Market prices provided no support. Earnings before taxes (EBT) rose 11.9% year-on-year to €257.0 million in 2017. As a result, our EBT margin improved from 8.2% in the previous year to 8.7%. Our forecast had been for the margin to be around 8%, more or less unchanged from 2016.

Segment EBT (€ million) and EBT margin (%)





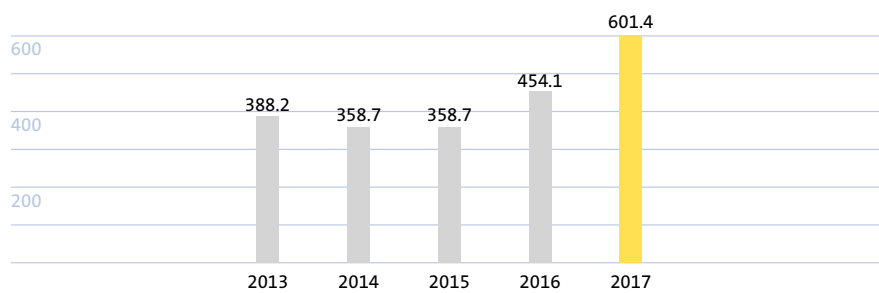
Lines for bottling water in PET account for a significant share of revenue in our Machines and Lines for Product Filling and Decoration segment.

*KRONES' second-largest segment posted strong internal and external growth in 2017.*

### Segment revenue

Revenue in Machines and Lines for Beverage Production/Process Technology, which includes intralogistics, rose from €454.1 million to €601.4 million (+32.5%) in the reporting period. Excluding acquisitions, revenue was up 19.8%. That can be attributed primarily to higher intralogistics revenue. The increase was more than the 10% forecast. The segment's share of consolidated revenue grew from 13.4% in the previous year to 16.3%.

Segment revenue (€ million)

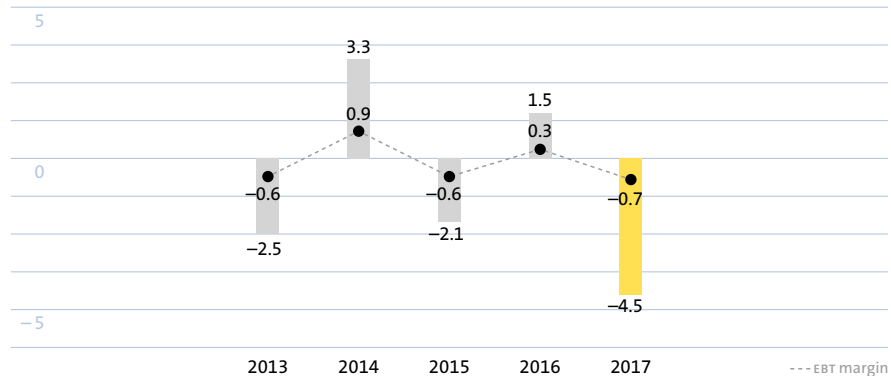


### Segment earnings


*The segment did not reach its earnings target for 2017.*

The segment slipped back into the red in the reporting period. The product mix and lower earnings from the acquisitions had a negative effect on earnings. Earnings before taxes (EBT) came to –€4.5 million in 2017 (previous year: +€1.5 million). After the first three quarters, KRONES adjusted its forecast to more or less break even in the segment in 2017 (original forecast: EBT margin of 2% to 3%). The segment fell short of this new target because the acquisitions contributed less to fourth-quarter earnings than expected.

Segment EBT (€ million) and EBT margin (%)







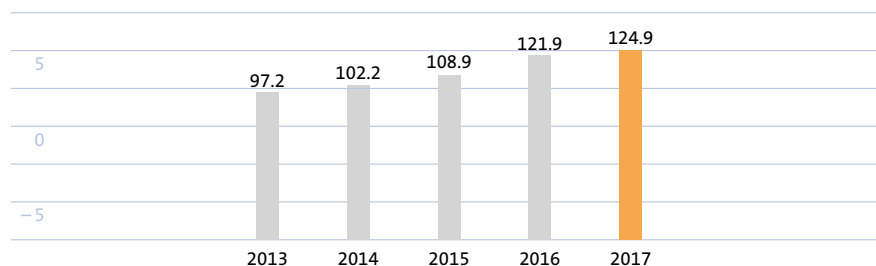
Our Process Technology offerings also include a small-scale brewhouse, the Microcube. The one pictured here is a 25 hl system.

*Revenue in Machines and Lines for the Compact Class increased 2.5% in 2017.*

### Segment revenue

Revenue in KRONES' smallest segment, Machines and Lines for the Compact Class, rose 2.5% from €121.9 million to €124.9 million in the reporting period. With that, the segment that covers the needs of customers with smaller-scale operations through the subsidiaries GERNEP and KOSME fell slightly short of the forecast growth of around 5%. That can be attributed in part to the sharp increase in the previous year (+11.9%) and in part to a weak first half of 2017. The segment contributed 3.4% of consolidated revenue in 2017 (previous year: 3.6%).

Segment revenue (€ million)

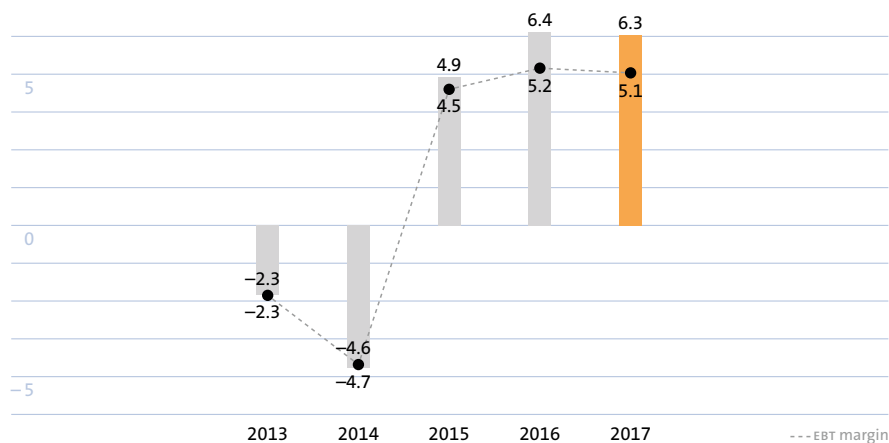


### Segment earnings


*The EBT margin held more or less steady in 2017 compared with 2016.*

Profitability in our smallest segment developed more or less as expected in 2017. Earnings before taxes (EBT) were down slightly, from €6.4 million in the previous year to €6.3 million. Low capacity utilisation at the start of the year was the main factor preventing a better earnings figure. The EBT margin was down from 5.2% in the previous year to 5.1%. The segment achieved its target for 2017, an EBT margin of at least 5%.

Segment EBT (€ million) and EBT margin (%)







Our Compact Class segment offers bottling and packaging equipment for smaller-scale operations. The portfolio includes stretch blow-moulders, fillers, and labellers.

At the time that this Annual Report went to press, the Executive Board finds that KRONES' economic position is positive overall. KRONES was able to take advantage of the favourable market environment in 2017 and continue its stable growth. The company benefited from its broad international diversification and its entire portfolio of products and services. As expected, market prices provided no support in 2017. However, KRONES was able to offset increased costs with increased efficiency and therefore keep profitability stable as forecast.

KRONES increased revenue 8.8% year-on-year to €3,691.4 million in 2017. Acquisitions also contributed to the increase. Adjusted for acquisitions, KRONES' revenue was up 7.2% year-on-year. That exceeds the company's growth target of 4% (excluding acquisitions) for 2017. Revenue increased in all three segments. Earnings increased only in the core segment, Machines and Lines for Product Filling and Decoration. The EBT margin there widened from 8.2% to 8.7%. The company did not meet earnings expectations in the Machines and Lines for Beverage Production/Process Technology segment, taking a loss of €4.5 million there. In all, consolidated earnings before taxes (EBT) improved 8.9% year-on-year, from €237.6 million to €258.8 million. The EBT margin remained stable at the year-earlier figure of 7.0%. Thus, KRONES met its margin target for 2017. The company's third target, working capital to revenue, increased from 26.7% in the previous year to 27.3% in 2017. The target for 2017 was 27%.

KRONES' financial and capital structure remains very sound. At the end of 2017, the company had cash and cash equivalents totalling €182.0 million. The equity ratio rose to 43.8% (previous year: 39.9%) on positive earnings development and a lower total of assets and liabilities. Overall, the company has a solid basis from which to continue to grow profitably.



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

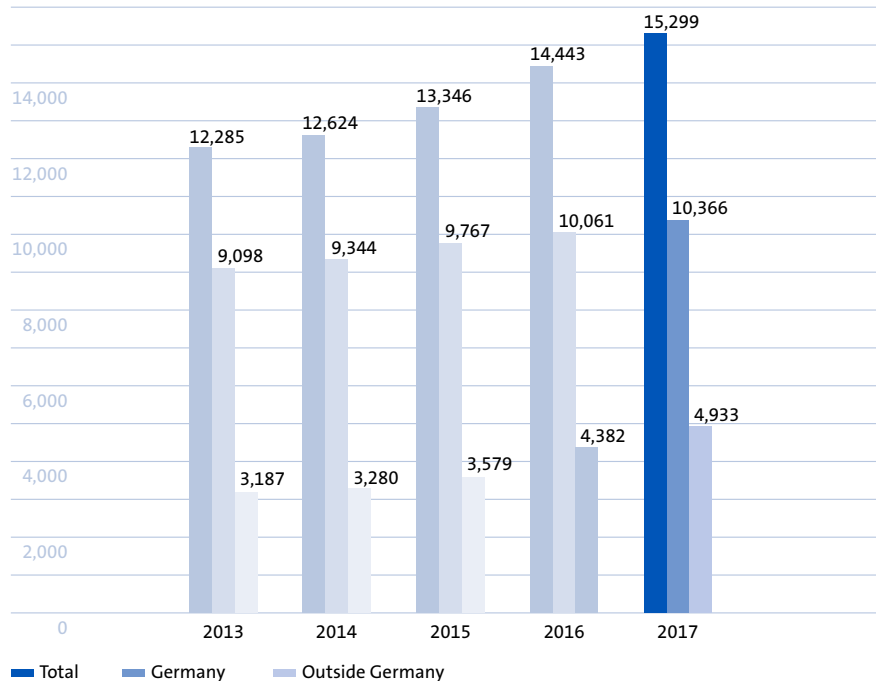


*KRONES grew its workforce in Germany and abroad in 2017. The share of employees outside Germany increased from 30.3% to 32.2%.*

### Workforce grew above the 15,000 mark in 2017

Our people are the bedrock of KRONES' long-term success. In order to exploit the great opportunities our market offers, KRONES further increased its workforce in 2017, especially in our customers' locales abroad. The company employed 15,299 people worldwide at the end of 2017, which is 856 employees or 5.9% more than in the previous year. The company's workforce in Germany grew from 10,061 to 10,366. The workforce outside Germany expanded by 551 to 4,933 people. The share of employees outside Germany rose from 30.3% to 32.2% at the end of 2017.

Employees by region



The company intends for workforce growth in the emerging markets to be stronger than overall workforce growth in the future since that is where KRONES has for years generated more than half of consolidated revenue. In the reporting period, KRONES added 288 new employees in the emerging markets, for an increase of 13.1% to 2,488 people.

#### Employees in the emerging markets 2012–2017

Year	South America	Africa	Asia	cis/Eastern Europe	China	Total
2012	438	285	293	121	298	<b>1,435</b>
2013	485	339	400	132	325	<b>1,681</b>
2014	501	363	453	136	385	<b>1,838</b>
2015	519	376	502	147	451	<b>1,995</b>
2016	549	386	602	155	508	<b>2,200</b>
2017	581	393	734	172	608	<b>2,488</b>

*KRONES expanded its workforce in the emerging markets by 13.1% to 2,488 people in 2017.*

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

*More information on our labour practices can be found in our Non-financial Report and in our Sustainability Report, which are available online at [www.krones.com](http://www.krones.com).*

*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>*



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 consolidated 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>*







KRONES' team members had their hands full trying to satisfy visitors' thirst for information at drinktec.

- 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 2018 financial year. Opportunities are possible positive deviations from our earnings forecast for the 2018 financial year. Because they share the same sales and procurement markets, the same risks and opportunities also apply to all three of the KRONES Group's operating segments.

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

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

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

### Risk planning and control

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

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

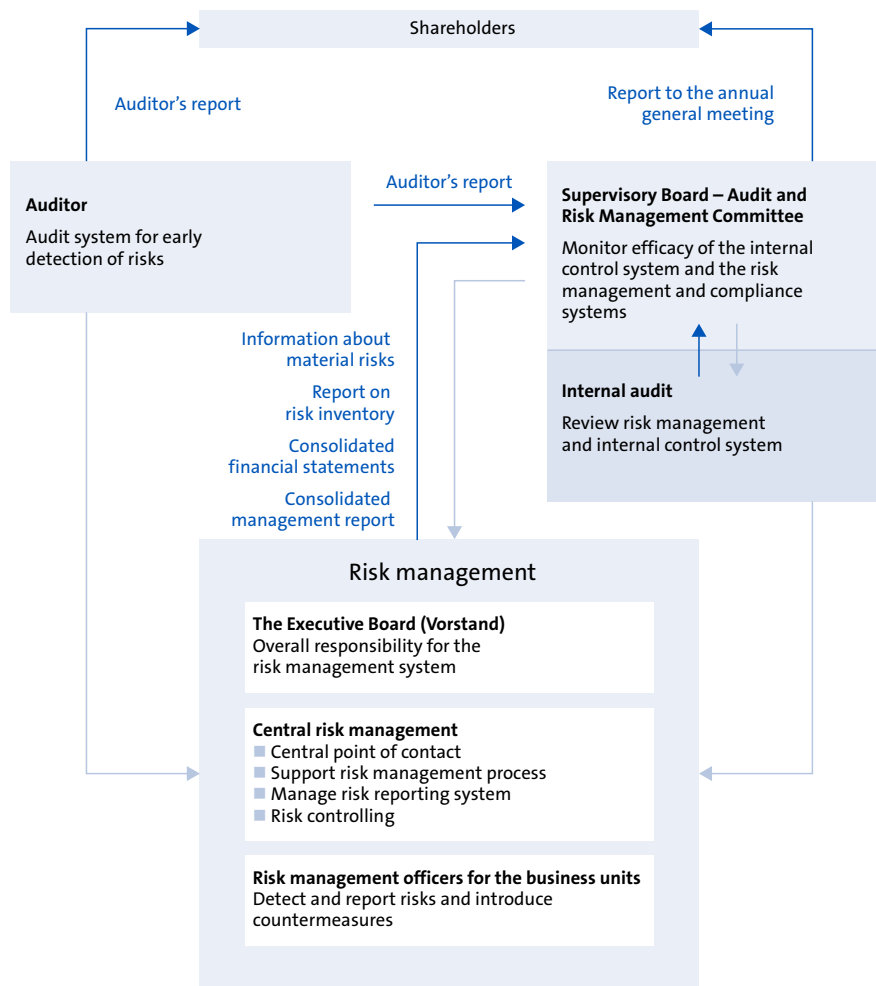
*KRONES' risk management system is continually monitored and reviewed. Competences and areas of responsibility are clearly assigned.*

## Risk management organisation

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

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

Risk management organisation at KRONES





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

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

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

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

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

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

*KRONES divides the maximum loss, the likelihood, and the potential financial impacts of material risks into three categories: low, medium, and high. See definition on page 84.*

Risk categories	Maximum loss	Likelihood of event	Potential financial impact
<b>General business environment and industry-specific risks</b>			
■ General economic risks	high	low	medium
■ Industry-specific risks	high	low	medium
<b>Financial risks</b>			
■ Default risks	high	low	medium
■ Liquidity risk	low	low	low
■ Interest rate risk	low	low	low
■ Currency risk	medium	low	low
<b>Operational risks</b>			
■ Price risk	high	medium	medium
■ Procurement risks	low	low	low
■ Cost risk	high	low	medium
■ Personnel risk	low	low	low
<b>Legal risks</b>	high	medium	medium
<b>Environmental and safety risks</b>	high	low	low
<b>IT risks</b>	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. Our description below of these risks and suitable actions is in keeping with the disclosure requirements under IFRS 7 on the reporting of risks relating to financial instruments. Because of regional and customer-related diversification, there is no material concentration of risk.

#### 1. Default risk

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

##### 1.1 Trade receivables

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

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

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

€ thousand	Carrying amount	Of which not overdue at the reporting date	Of which overdue by the following number of days at the reporting date			
			up to 90 days	between 90 and 180 days	between 180 and 360 days	more than 360 days
31 Dec 2017						
Trade receivables	1,277,358	998,659	171,991	42,825	34,363	29,520
31 Dec 2016						
Trade receivables	1,081,003	833,327	138,817	26,304	46,415	36,140

### 1.2 Derivative financial instruments

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

### 1.3 Other financial assets

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

*Impact of default risks: We rate the 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. This allows KRONES to be proactive about any possible liquidity bottlenecks. Apart from cash on hand, KRONES' cash and cash equivalents consist primarily of demand deposits. The following overview of maturities shows how the undiscounted cash flows relating to liabilities as of 31 December 2017 influence the company's liquidity situation.

€ thousand	Carrying amount at 31 Dec 2017	Cash flow for 2018		Cash flow for 2019–2022		Cash flow for 2022 or later	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Derivative financial instruments	513	0	340	0	173	0	0
Liabilities to banks	24,620	0	24,620	0	0	0	0
Liabilities from leases	102	4	92	0	6	0	0
Discounted trade bills	<b>6,979</b>	<b>0</b>	<b>6,979</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Other financial liabilities	27,811	0		42	27,811	0	0
	<b>60,025</b>	<b>4</b>	<b>32,031</b>	<b>42</b>	<b>27,990</b>	<b>0</b>	<b>0</b>

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

*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.

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

€ thousand	Currency USD	Currency NOK	Currency CAD	Currency GBP	Currency CNY
Cash and cash equivalents	2,104	0	145	0	0
Trade receivables	1,483	0	5,810	0	0
Other financial receivables	894	635	34	20	0
Derivatives at positive market values	740	524	31	39	101
Loans	0	0	0	0	0
<b>Total assets</b>	<b>5,221</b>	<b>1,159</b>	<b>6,020</b>	<b>59</b>	<b>101</b>
<b>Liabilities</b>					
Trade payables	-26,149	-11	0	-16	-55
Due to banks	0	0	0	0	0
From finance leases	0	0	0	0	0
Other liabilities	-5,038	-2,697	-2,163	-5,569	0
Derivatives at negative market values	-5	-13	-18	-4	-258
Financial liabilities at amortised cost	0	0	0	0	0
<b>Total liabilities</b>	<b>-31,192</b>	<b>-2,721</b>	<b>-2,181</b>	<b>-5,589</b>	<b>-313</b>
<b>Balance of assets and liabilities</b>	<b>-25,971</b>	<b>-1,562</b>	<b>3,389</b>	<b>-5,530</b>	<b>-212</b>
<b>Net exposure at 31 Dec 2017</b>	<b>-25,971</b>	<b>-1,562</b>	<b>3,389</b>	<b>-5,530</b>	<b>-212</b>

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

€ thousand	Currency USD	Currency NOK	Currency CAD	Currency GBP	Currency CNY
Separate income statement	1,624	137	-162	227	922
Group equity	4,808	786	268	27	174

*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 increases in revenue and earnings before taxes

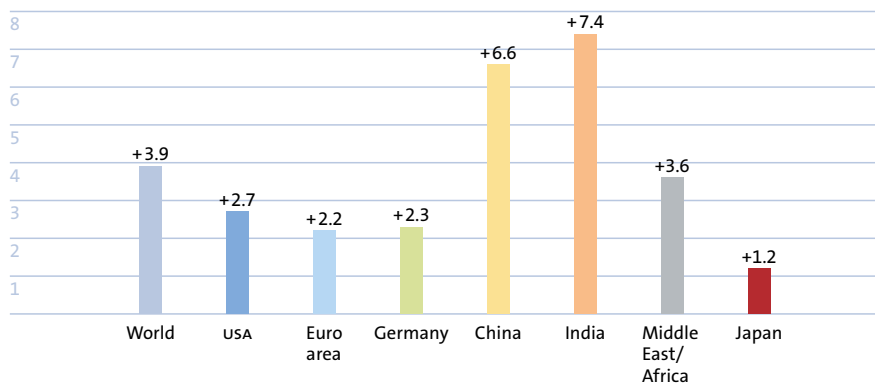
### World economy is projected to grow 3.9% in 2018

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.

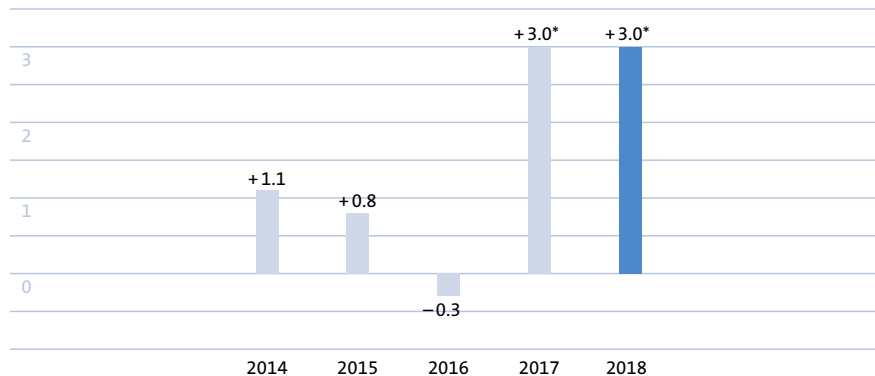
### Positive outlook for Germany's machinery sector

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 and earnings 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 in our effort to grow further and increase earnings in 2018. 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.

Beginning in 2018, our core segment Machines and Lines for Product Filling and Decoration will also include our machines and lines for the compact class, that is subsidiaries KOSME and GERNEP. Innovations and the continued expansion of international service centres will contribute to the newly structured core segment's growth 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 segment and expand our global footprint. That will enable us to achieve better procurement terms and increase efficiency within the company.

KRONES expects core-segment revenue to increase by 4% in 2018 on strong order intake and an attractive product range. KRONES expects the reported EBT margin to be 8.3% in 2018 despite high capital expenditure.

*KRONES intends to bring Process Technology into the black in 2018.*

We intend to significantly improve profitability in the Machines and Lines for Beverage Production/Process Technology segment 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 segment.

Intralogistics, which is part of the Process Technology segment, is also expected to benefit from positive momentum coming out of the drinktec trade fair this year. We want to tap the market's high potential for growth by further developing our subsidiaries SYSTEM LOGISTICS and SYSKRON, both regionally and in terms of product technology.

In all, we are forecasting 15% revenue growth and a reported EBT margin of 1.0% for the Process Technology segment for 2018.

Based on the current macroeconomic prospects and expected development of the markets relevant to KRONES, we are targeting consolidated revenue growth of 6% in 2018. The regional distribution of revenue in 2018 is likely to be changed a little from the previous year.

KRONES intends to keep profitability stable despite heavy investment in digitalisation and start-up costs associated with our global footprint, particularly the new site in Hungary. The company expects to post an EBT margin of 7.0% in 2018. We intend to improve our third financial performance target, working capital to revenue, to 26%.

	Forecast for 2018	Actual value 2017
Revenue growth	+6%	+8.8%
EBT margin	7.0%	7.0%
Working capital to revenue	26%	27.3%

*KRONES intends to increase revenue and keep the EBT margin stable in 2018.*

## Disclosures required under Sections 315 a (1) 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](http://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 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 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 €4,035 thousand at the end of the year (previous year: €3,252 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 €2,489 thousand (previous year: €2,913 thousand) were recognised for active members of the Executive Board. At the end of 2017, the corresponding Defined Benefit Obligation (DBO) amounted to the following: for Mr. Klenk €2,444 thousand, for Mr. Diepold €5,665 thousand, for Mr. Ricker €43 thousand, for Mr. Tischer €47 thousand, and for Mr. Goldbrunner €32 thousand. In addition, €1,024 thousand (previous year: €956 thousand) was paid into contribution-based plans in 2017. 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 €7,723 thousand (previous year: €7,236 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	<b>54,750</b>
Ernst Baumann	Former Chairman of the Supervisory Board	43,750	3,500	6,000	<b>53,250</b>
Werner Schrödl <sup>*,**</sup>	Deputy Chairman of the Supervisory Board	52,500	7,000	13,500	<b>73,000</b>
Klaus Gerlach <sup>*</sup>	Regular member	35,000		6,000	<b>41,000</b>
Norman Kronseder	Regular member	35,000	7,000	13,500	<b>55,500</b>
Philipp Graf von und zu Lerchenfeld	Regular member	35,000	7,000	7,500	<b>49,500</b>
Dr. Alexander Nerz	Former regular member	17,500		0	<b>17,500</b>
Prof. Dr. jur. Susanne Nonnast	Regular member	17,500		3,000	<b>20,500</b>
Dr. phil. Verena Di Pasquale <sup>*,**</sup>	Regular member	35,000		6,000	<b>41,000</b>
Johann Robold <sup>*,**</sup>	Regular member	35,000	7,000	6,000	<b>48,000</b>
Petra Schadeberg-Herrmann	Regular member	35,000		6,000	<b>41,000</b>
Jürgen Scholz <sup>*,**</sup>	Regular member	35,000		6,000	<b>41,000</b>
Hans-Jürgen Thaus	Regular member	35,000		6,000	<b>41,000</b>
Josef Weitzer <sup>*,**</sup>	Regular member	35,000	7,000	13,500	<b>55,500</b>

\* 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 the group.”

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.

# 4

## Corporate Governance

### Statement on corporate governance

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### 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 70<sup>th</sup> 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 (62<sup>nd</sup> 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 186). 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 186.*

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 186 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 186.*

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.





The “Bottling on Demand” proof of concept works down to a batch size of 1. Operators use an app to select the desired bottle configuration.

# 5

## Consolidated financial statements

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## Consolidated statement of profit and loss

		2017		2016	
€ thousand	Notes				
Revenue	20	3,691,355		3,391,253	
Changes in inventories of finished goods and work in progress	5	-36,429		-135,443	
Other own work capitalised	21	48,159		42,158	
Other operating income	22	112,470	3,815,555	140,606	3,438,574
Goods and services purchased	23				
Expenses for materials and supplies and for goods purchased		-1,408,330		-1,229,695	
Expenses for services purchased		-451,077	-1,859,407	-379,957	-1,609,652
Personnel expenses	24				
Wages and salaries		-881,788		-809,349	
Social security contributions and expenses for pension plans and for benefits		-179,659	-1,061,447	-164,993	-974,342
Depreciation and amortisation of intangible assets and property, plant and equipment	1/2		-94,719		-92,843
Other operating expenses	25		-554,515		-533,753
<b>EBIT</b>			<b>245,467</b>		<b>227,984</b>
Investment income	26	11,941		3,658	
Profit or loss shares attributable to associates that are accounted for using the equity method	4	-499		-	
Income from other securities and loans classified as non-current financial assets	26	2		4	
Interest and similar income	26	10,149		8,376	
Interest and similar expenses	26	-8,265		-2,458	
<b>Financial income/expense</b>	26		<b>13,328</b>		<b>9,580</b>
<b>Earnings before taxes</b>			<b>258,795</b>		<b>237,564</b>
Income tax	8/27		-71,668		-68,462
<b>Consolidated net income</b>			<b>187,127</b>		<b>169,102</b>
Profit share of non-controlling interests			-1,632		-1,652
Profit share of KRONES Group shareholders			<b>188,759</b>		<b>170,754</b>
Earnings per share (diluted/basic) in €	28		5.97		5.40

		2017	2016
€ thousand	Notes		
<b>Consolidated net income</b>		<b>187,127</b>	<b>169,102</b>
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Puttable instruments		0	-804
Actuarial gains and losses on pensions and similar obligations	12	-301	-15,502
		-301	-16,306
<b>Items that may be reclassified subsequently to profit or loss</b>			
Exchange differences on translation		-38,620	9,989
Derivative financial instruments	12	4,952	-2,161
		-33,668	7,828
<b>Other comprehensive income</b>	9	<b>-33,969</b>	<b>-8,478</b>
<b>Total comprehensive income</b>	9	<b>153,158</b>	<b>160,624</b>
of which attributable to non-controlling interests		-1,632	-1,652
of which attributable to KRONES Group shareholders		154,790	162,276

## Consolidated statement of financial position

Assets		31 Dec 2017		31 Dec 2016	
€ thousand	Notes				
Intangible assets	1	263,562		238,321	
Property, plant and equipment	2	501,616		481,300	
Non-current financial assets	3	6,215		5,852	
Investment accounted for using the equity method	4	25,242		0	
<b>Fixed assets</b>		<b>796,635</b>		<b>725,473</b>	
Deferred tax assets	8	29,215		24,701	
Trade receivables	6	52,064		44,131	
Income tax receivables	8	927		1,103	
Other assets	6	3,349		3,107	
<b>Non-current assets</b>			<b>882,106</b>		<b>798,515</b>
Inventories	5	611,820		728,350	
Trade receivables	6	1,225,294		1,036,872	
Current income tax receivables	8	10,227		3,799	
Other assets	6	128,292		134,406	
Cash and cash equivalents	7	181,995		368,889	
<b>Current assets</b>			<b>2,157,628</b>		<b>2,272,316</b>
<b>Total</b>			<b>3,039,818</b>		<b>3,070,831</b>



Equity and liabilities		31 Dec 2017		31 Dec 2016	
€ thousand	Notes				
Share capital	9	40,000		40,000	
Capital reserves	10	141,724		141,724	
Profit reserves	11	329,854		367,837	
Other reserves	12	-91,176		-95,827	
Group retained earnings		912,794		773,865	
<b>Group equity of the parent company</b>			<b>1,333,196</b>		<b>1,227,599</b>
Non-controlling interests	13	-3,085		-2,069	
<b>Equity</b>			<b>1,330,111</b>		<b>1,225,530</b>
Provisions for pensions	14	220,229		219,148	
Deferred tax liabilities	8	12,915		2,940	
Other provisions	15	47,187		51,712	
Provisions for taxes	15	4,488		5,322	
Liabilities to banks		0		0	
Trade payables	16	22		0	
Tax liabilities	8	0		49	
Other financial obligations	16	26,975		26,070	
Other liabilities	16	2,194		2,761	
<b>Non-current liabilities</b>			<b>314,010</b>		<b>308,002</b>
Other provisions	15	149,563		157,834	
Provisions for taxes	15	30,853		21,241	
Liabilities to banks	16	24,620		0	
Advances received	16	508,864		615,221	
Trade payables	16	376,525		323,791	
Tax liabilities	8	4,194		5,274	
Other financial obligations	16	6,979		56,032	
Other liabilities and accruals	16	294,099		357,906	
<b>Current liabilities</b>			<b>1,395,697</b>		<b>1,537,299</b>
<b>Total</b>			<b>3,039,818</b>		<b>3,070,831</b>

## Consolidated statement of cash flows

		2017	2016
€ thousand	Notes		
Earnings before taxes		258,795	237,564
Depreciation and amortisation and reversals	1,2	94,719	92,843
Decrease (previous year: increase) in provisions and accruals	15,16	-52,512	56,184
Deferred tax item changes recognised in profit or loss	8	-822	10,798
Interest and similar expenses and income	26	-1,884	-5,918
Gains and losses from the disposal of non-current assets	22,25	-1,380	201
Other non-cash expenses and income		8,258	4,466
Increase in trade receivables and other assets not attributable to investing or financing activities		-247,513	-244,450
Decrease in inventories	5	107,516	17,451
Decrease (previous year: increase) in trade payables and other liabilities not attributable to investing or financing activities		-102,579	70,974
<b>Cash generated from operating activities</b>		<b>62,598</b>	<b>240,113</b>
Interest paid		-732	-2,937
Income tax paid and refunds received		-67,722	-42,505
<b>Cash flow from operating activities</b>		<b>-5,856</b>	<b>194,671</b>
Cash payments to acquire intangible assets	1	-55,296	-54,903
Proceeds from the disposal of intangible assets	1	98	15
Cash payments to acquire property, plant and equipment	2	-78,270	-56,413
Proceeds from the disposal of property, plant and equipment	2	6,065	2,741
Cash payments to acquire non-current financial assets		-25,671	-4,331
Proceeds from the disposal of non-current financial assets		343	46
Cash payments to acquire shares in affiliated companies		-7,423	-39,676
Interest received		3,368	3,374
Dividends received		11,941	3,658
<b>Cash flow from investing activities</b>		<b>-144,845</b>	<b>-145,489</b>
Cash payments to company owners		-49,193	-45,810
Proceeds from new borrowing		24,620	0
Cash payments to pay lease liabilities		-130	0
<b>Cash flow from financing activities</b>		<b>-24,703</b>	<b>-45,810</b>
<b>Net change in cash and cash equivalents</b>		<b>-175,404</b>	<b>3,372</b>
Changes in cash and cash equivalents arising from exchange rates		-11,490	932
Cash and cash equivalents at the beginning of the period		368,889	364,585
<b>Cash and cash equivalents at the end of the period</b>	7	<b>181,995</b>	<b>368,889</b>

€ thousand	Parent company							Non-controlling interests	Group equity
	Share capital	Capital reserves	Profit reserves	Currency differences in equity	Other reserves	Group retained earnings	Equity	Equity	
Notes	9	10	11	11	12			13	
<b>At 1 January 2016</b>	<b>40,000</b>	<b>141,724</b>	<b>364,574</b>	<b>-7,233</b>	<b>-77,360</b>	<b>649,428</b>	<b>1,111,133</b>	<b>-417</b>	<b>1,110,716</b>
Dividend payment						-45,810	-45,810		-45,810
Consolidated net income 2016						170,754	170,754	-1,652	169,102
Allocation to profit reserves			507			-507	0		0
Currency differences				9,989			9,989		9,989
Changes in the consolidated group							0		0
Remeasurement of defined benefit plans					-15,502		-15,502		-15,502
Puttable Instruments					-804		-804		-804
Hedge accounting, incl. AFS					-2,161		-2,161		-2,161
<b>At 31 December 2016</b>	<b>40,000</b>	<b>141,724</b>	<b>365,081</b>	<b>2,756</b>	<b>-95,827</b>	<b>773,865</b>	<b>1,227,599</b>	<b>-2,069</b>	<b>1,225,530</b>
Dividend payment						-49,193	-49,193		-49,193
Consolidated net income 2017						188,759	188,759	-1,632	187,127
Allocation to profit reserves			637			-637	0		0
Currency differences				-38,620			-38,620		-38,620
Changes in the consolidated group							0	616	616
Remeasurement of defined benefit plans					-301		-301		-301
Hedge accounting, incl. AFS					4,952		4,952		4,952
<b>At 31 December 2017</b>	<b>40,000</b>	<b>141,724</b>	<b>365,718</b>	<b>-35,864</b>	<b>-91,176</b>	<b>912,794</b>	<b>1,333,196</b>	<b>-3,085</b>	<b>1,330,111</b>

## Notes to the consolidated financial statements of KRONES AG

### Consolidated segment reporting

€ thousand	Machines and Lines for Product Filling and Decoration		Machines and Lines for Beverage Production/ Process Technology		Machines and Lines for the Compact Class	
	2017	2016	2017	2016	2017	2016
<b>Revenue</b>	<b>2,965,071</b>	<b>2,815,300</b>	<b>601,395</b>	<b>454,066</b>	<b>124,889</b>	<b>121,887</b>
<b>Depreciation, amortisation, and write-downs</b>	<b>78,774</b>	<b>79,856</b>	<b>13,396</b>	<b>10,848</b>	<b>2,549</b>	<b>2,139</b>
of which unscheduled write-downs	0	0	0	126	0	0
Interest income	5,288	7,865	255	495	39	16
Interest expense	2,830	1,787	882	637	33	34
<b>EBT</b>	<b>256,953</b>	<b>229,618</b>	<b>-4,498</b>	<b>1,549</b>	<b>6,340</b>	<b>6,397</b>
Other material non-cash income and expenses	43,144	-35,522	-9,264	-14,200	9,582	-130
Share of profit or loss of associate accounted for using the equity method	-499	0	0	0	0	0
<b>Assets</b>	<b>2,385,964</b>	<b>2,459,967</b>	<b>560,688</b>	<b>518,400</b>	<b>121,892</b>	<b>115,304</b>
Of which investment accounted for using the equity method	25,242	0	0	0	0	0
<b>Liabilities</b>	<b>1,281,350</b>	<b>1,541,727</b>	<b>378,738</b>	<b>279,289</b>	<b>44,214</b>	<b>44,472</b>
<b>Capital expenditure for intangible assets and property, plant and equipment</b>	<b>115,271</b>	<b>88,082</b>	<b>15,529</b>	<b>14,305</b>	<b>2,766</b>	<b>8,929</b>
<b>EBT margin (EBT to revenue)</b>	<b>8.7%</b>	<b>8.2%</b>	<b>-0.7%</b>	<b>0.3%</b>	<b>5.1%</b>	<b>5.2%</b>

Total for the segments		Consolidation		Other		KRONES Group	
2017	2016	2017	2016	2017	2016	2017	2016
						<b>3,691,355</b>	3,391,253
						<b>94,719</b>	92,843
						0	126
						5,582	8,376
						3,745	2,458
						<b>258,795</b>	237,564
						43,432	-49,852
						-499	-
<b>3,068,544</b>	3,093,671	<b>-71,665</b>	-55,013	<b>42,939</b>	32,173	<b>3,039,818</b>	3,070,831
						25,242	0
<b>1,704,302</b>	1,865,488	<b>-71,665</b>	-55,013	<b>77,070</b>	34,826	<b>1,709,707</b>	1,845,301
						<b>133,566</b>	111,316
						<b>7.0%</b>	7.0%





*More information on standards and interpretations, pages 178 to 183.*

#### ■ Legal basis

The consolidated financial statements of KRONES AG (“KRONES Group”) for the period ended 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, applicable at the end of the reporting period, including the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) as adopted by the European Union. No early application was made of IFRSs that had not yet entered into force or their interpretations. A list of these standards and interpretations and of standards being applied for the first time is on pages 178 to 183. The Executive Board authorised these consolidated financial statements for issue on 12 March 2018.

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

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

The “nature of expense” method has been used for the statement of profit and loss. The group’s reporting currency is the euro.

#### ■ Consolidated group

Besides KRONES AG, the consolidated financial statements for the period ended 31 December 2017 include all material domestic and foreign subsidiaries over which KRONES AG has direct or indirect control.

In 2017, KRONES acquired a 40% direct and indirect stake in INTEGRATED PACKAGING SYSTEMS (IPS) FZCO, of Dubai, United Arab Emirates. The company is accounted for using the equity method. KRONES also acquired 100% of ASIA FOOD AND BEVERAGE CONSULTING GROUP, PTE. LTD, and KRONES IZUMI PROCESSING, PTE. LTD., Singapore, Republic of Singapore.

In addition, PROCESS AND DATA AUTOMATION LLC, Erie, Pennsylvania, USA, JAVLYN PROCESS SYSTEMS LLC, Rochester, New York, USA, KRONES MYANMAR LTD., Sanchaung, Republic of the Union of Myanmar, KRONES BANGLADESH LIMITED, Dhaka, Bangladesh, KRONES CAMBODIA CO. LTD, Phnom Phen, Cambodia, KRONES VIETNAM CO. LTD. Ho Chi Minh City, Vietnam, and KRONES HUNGARY KFT, Debrecen, Hungary, were established and acquisition accounting was done to include them in the consolidated group. In 2017, KRONES acquired 100% of the business operations of PROCESS AND DATA AUTOMATION INC., Erie, Pennsylvania, USA, and JAVLYN PROCESS SYSTEMS INC., Rochester, New York, USA, in asset deals.

By acquiring 100% of the business operations of PROCESS AND DATA AUTOMATION INC., Pennsylvania, USA, on 14 February 2017, KRONES strengthened its expertise in the area of digitalisation.

On 25 May 2017, KRONES acquired 100% of the business operations of JAVLYN, INC., New York, USA. With this acquisition, KRONES is further expanding its local capacity in the field of process technology.

Initial accounting of the acquired business operations was done as of the acquisition date.

The table below presents a summary of the consideration transferred for the acquisition and the fair values of the assets identified and liabilities assumed at the acquisition date.

€ thousand	Total
	Fair value
Goodwill	6,852
Non-current assets	3,951
Current assets	1,671
(of which trade receivables)	1,647
Cash and cash equivalents	4
<b>Total assets acquired</b>	<b>12,477</b>
Liabilities	552
<b>Total liabilities assumed</b>	<b>552</b>
<b>Net assets acquired</b>	<b>11,926</b>
Purchase prices	11,926
of which paid in cash	8,043
of which earn-out	3,883

The costs that are directly attributable to the acquisitions amount to €841 thousand and have been recognised as expenses. The total amount of goodwill that is expected to be deductible for tax purposes is €6,852 thousand.

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

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

After accounting for the effects of purchase price allocation, the acquired companies contributed a net profit of €1,435 thousand and revenue of €7,960 thousand to KRONES as of 31 December 2017. Had the companies had been acquired and initial accounting done as of 1 January 2017, revenue of €11,293 thousand and net profit of €2,103 thousand would have been recognised in the consolidated statement of profit and loss.

In determining these amounts, it was assumed that the provisional adjustments to fair value that were taken at the acquisition date would also have applied if the companies had been acquired on 1 January 2017. The amounts for the financial year 2017 as a whole were determined on a straight-line basis.

Both purchase contracts include arrangements for contingent consideration that is dependent on the input factors EBITDA and cash and cash equivalents. Taking into account the estimated input factors, the fair value of the contingent consideration from these acquisitions is €3,561 thousand at the end of the reporting period.

#### ■ Consolidation principles

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

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

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

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

Companies over which KRONES has the ability to exercise significant influence, that is, to participate in operating and financial policy decisions (generally by indirectly or directly holding between 20% and 50% of the voting shares), are accounted for using the equity method and initially recognised at cost. Any excess of the cost of the investment over KRONES’ share of the net fair value of the associate’s identifiable assets and liabilities is adjusted on a fair-value basis and the remaining amount is recognised as goodwill. Goodwill relating to the acquisition of the associate is included in the carrying amount of the investment and is not amortised. Instead, it is tested for impairment as part of the entire carrying amount of the investment in

the associate. KRONES' share in the associate's profit or loss post-acquisition is recognised in consolidated profit and loss. The carrying amount of the associate is increased or decreased to recognise the cumulative changes in value after the date of acquisition. KRONES' share in the associate's gains or losses resulting from transactions between KRONES and its associates is eliminated.

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

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

#### ■ Currency translation

The functional currency for KRONES AG is the euro.

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

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

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

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

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

		Closing rate		Average rate	
		31 Dec 2017	31 Dec 2016	2017	2016
us dollar	USD	1.199	1.056	1.130	1.107
British pound	GBP	0.887	0.859	0.876	0.819
Swiss franc	CHF	1.169	1.075	1.112	1.090
Danish krone	DKK	7.445	7.435	7.439	7.445
Canadian dollar	CAD	1.502	1.422	1.465	1.467
Japanese yen	JPY	134.880	123.510	126.671	120.324
Brazilian real	BRL	3.971	3.437	3.607	3.862
Chinese renminbi (yuan)	CNY	7.833	7.325	7.629	7.351
Mexican peso	MXN	23.607	21.842	21.331	20.660
Ukrainian hryvnia	UAH	33.750	28.617	30.041	28.281
South African rand	ZAR	14.750	14.469	15.040	16.290
Kenyan shilling	KES	123.705	108.289	116.799	112.364
Nigerian naira	NGN	430.940	321.750	378.595	284.776
Russian ruble	RUB	69.325	64.682	65.892	74.141
Thai baht	THB	39.041	37.797	38.295	39.054
Indonesian rupiah	IDR	16,263.600	14,226.500	15,116.839	14,728.709
Angolan kwanza	AOA	198.718	175.028	187.423	180.514
Turkish lira	TRY	4.534	3.727	4.118	3.342
Kazakhstan tenge	KZT	398.940	352.360	368.845	378.667
Australian dollar	AUD	1.533	1.461	1.473	1.489
New Zealand dollar	NZD	1.683	1.516	1.590	1.590
Swedish krona	SEK	9.830	9.567	9.637	9.468
Vietnamese dong	VND	27,222.000	24.045.000	25,650.854	24,772.655
Philippine peso	PHP	59.712	52.272	56.947	52.544
Bangladeshi taka	BDT	99.260	83.474	91.735	86.981
Singapore dollar	SGD	1.601	1.526	1.559	1.528
Myanmar kyat	MMK	1,623.040	1,441.920	1,537.981	1,367.231
United Arab Emirates dirham	AED	4.403	3.878	4.149	4.066
Hungarian forint	HUF	309.960	309.750	309.253	311.456



#### ■ Accounting policies

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

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

#### ■ Intangible assets

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

#### ■ Research and development expenditure

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

#### ■ Goodwill

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

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

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

■ **Property, plant and equipment**

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

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

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

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

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

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

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

## ■ Leases

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

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

## ■ Financial instruments

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

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

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

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

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

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

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

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

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

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

#### ■ Non-current financial assets

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

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

#### ■ Derivative financial instruments

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

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

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

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

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

The derivative financial instruments for which hedge accounting is applied comprise forward currency contracts and currency swaps whose changes in fair value are recognised as a “fair value hedge” in profit or loss or a “cash flow hedge” as part of equity. In the case of cash flow

hedges, to mitigate currency risks from existing underlying transactions, changes in fair value are initially recognised directly in equity and subsequently reclassified to profit and loss when the hedged item affects profit or loss.

These derivative financial instruments are measured on the basis of the relevant commercial bank's forward rates. They are derecognised/reclassified when the corresponding hedged items are recognised in the statement of financial position.

#### ■ Receivables and other assets

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

#### ■ Inventories

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

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

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

#### ■ Construction contracts for specific customers

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



#### ■ Deferred tax items

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

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

#### ■ Provisions for pensions

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

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

#### ■ Partial retirement benefit obligations

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

#### ■ Other provisions

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

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

#### ■ Financial liabilities

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

#### ■ Revenue

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

Revenue is reported less reductions.

#### ■ Segment reporting

KRONES reports on three operating segments, which are the strategic business units. They are organised by product divisions and services and managed separately due to the different technologies they cover. The Executive Board, as the chief operating decision maker, manages the company as a whole on the basis of monthly reports from the segments. Segment 1 comprises machines and lines for product filling and decoration. Segment 2 comprises machines and lines for beverage production and process technology. Segment 3 comprises machines and lines for the compact class. The accounting policies used are the same as those described under “General disclosures” above. Segment performance is measured on the basis of internal reports made to the Executive Board, in particular, segment revenues and segment EBT. Intra-segment transfers are conducted under the same conditions as transfers among third parties.

The table below shows the volume of revenue generated through business with third parties in Germany, the USA, and the rest of the world.

€ thousand	2017	2016
Germany	2,140,900	1,896,625
USA	513,715	465,272
Rest of the world	1,036,740	1,029,356
	<b>3,691,355</b>	<b>3,391,253</b>

The table below shows the volume of non-current assets held in Germany, the USA, and the rest of the world.

€ thousand	2017	2016
Germany	648,048	618,776
USA	42,209	36,055
Rest of the world	131,261	113,131
	<b>821,518</b>	<b>767,962</b>

## 1 Intangible assets

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

€ thousand	Industrial property rights and similar rights and assets as well as licenses	Goodwill	Capitalised development expenditure	Advance payments made	Total
<b>31 December 2015</b>					
Cost	136,346	14,602	304,805	10	455,763
Accumulated amortisation	97,683	0	194,891	0	292,574
<b>Net carrying amount</b>	<b>38,663</b>	<b>14,602</b>	<b>109,914</b>	<b>10</b>	<b>163,189</b>
<b>Changes in 2016</b>					
<b>Cost</b>					
Consolidated additions	14,773	42,673			57,446
Additions	21,914		32,989		54,903
Disposals	6,496				6,496
Transfers	10			-10	0
Currency differences	187	644			831
<b>Amortisation</b>					
Additions	15,588		22,280		37,868
Disposals	6,481				6,481
Currency differences	165				165
<b>Net carrying amount at 31 December 2016</b>	<b>59,779</b>	<b>57,919</b>	<b>120,623</b>	<b>0</b>	<b>238,321</b>
<b>31 December 2016</b>					
Cost	166,734	57,919	337,794	0	562,447
Accumulated amortisation	106,955	0	217,171	0	324,126
<b>Net carrying amount</b>	<b>59,779</b>	<b>57,919</b>	<b>120,623</b>	<b>0</b>	<b>238,321</b>
<b>Changes in 2017</b>					
<b>Cost</b>					
Consolidated additions	3,392	6,852			10,244
Additions	15,491		39,801	5	55,296
Disposals	2,399				2,399
Transfers	59				59
Currency differences	-1,488	-2,035			-3,523
<b>Amortisation</b>					
Additions	19,176		17,907		37,083
Disposals	2,301				2,301
Transfers	-71				-71
Currency differences	-275				-275
<b>Net carrying amount at 31 December 2017</b>	<b>58,305</b>	<b>62,736</b>	<b>142,517</b>	<b>5</b>	<b>263,562</b>
<b>31 December 2017</b>					
Cost	181,789	62,736	377,595	5	622,125
Accumulated amortisation	123,484	0	235,078	0	358,563
<b>Net carrying amount</b>	<b>58,305</b>	<b>62,736</b>	<b>142,517</b>	<b>5</b>	<b>263,562</b>

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

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

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

CGU		Carrying amount of goodwill € thousand	Forecast period in years	Annual revenue growth at the end of the forecast period	Discount rate before taxes
PDA	2017	1,997	2	1.5%	10.8%
JAVLYN	2017	4,298	4	1.5%	10.4%
TRANS-MARKET	2016	12,410	7	2.9%	9.8%
	2017	10,933	3	2.9%	9.8%
SYSTEM LOGISTICS	2016	30,906	4	1.0%	8.3%
	2017	30,906	3	1.0%	9.4%
TILL	2016	3,623	5	3.0%	6.9%
	2017	3,623	5	3.0%	8.0%
HST	2016	4,258	3	1.0%	8.6%
	2017	4,258	3	1.0%	9.4%
TRIACOS	2016	4,631	3	1.0%	8.3%
	2017	4,631	3	1.0%	9.2%
GERNEP	2016	2,090	3	1.0%	8.6%
	2017	2,090	3	1.0%	9.4%

The pre-tax discount rates are based on risk-free interest rates, which are determined on the basis of the returns on long-term government bonds. This discount rate is adjusted for a risk premium that reflects the general risk associated with equity investments and the specific risk of the CGU. Revenue growth at the end of the forecast period is the long-term average growth rate of the respective industrial sectors and countries in which the CGUs do business. For the CGU TILL, assuming sustained revenue growth of 3.0% at the end of the forecast period (due to the innovative nature of the subsector) as presented in the table, the recoverable amount is €5,153 thousand (previous year: €922 thousand), which is higher than the carrying amount. If the pre-tax discount rate were to increase to 9.1% (previous year: 7.1%) or if long-term revenue growth (previous year: 6.0%) were to be considerably (41.1%) lower than the assumption used above, which is not to be expected, the recoverable amount would equal the carrying amount. KRONES AG is otherwise of the opinion that no reasonably foreseeable change to any of the material basic assumptions used to determine the value in use of cash-generating units to which goodwill has been attributed could result in the carrying amount being higher than its recoverable amount.



The capitalised development expenditure relates to new machinery projects of KRONES AG. The development expenditure capitalised in the reporting period amounts to €39,801 thousand (previous year: €32,989 thousand). This figure includes borrowing costs totalling €28 thousand (previous year: €81 thousand). Including capitalised development expenditure, a total of €172,476 thousand was spent on research and development in 2017 (previous year: €170,803 thousand). In the reporting period, no write-downs were recognised on intangible assets within the depreciation and amortisation figure (previous year: €126 thousand, related to the segment Machines and Lines for Beverage Production/Process Technology).

In the reporting period, business combinations resulted in €10,244 thousand in additions to net carrying amounts for intangible assets (previous year: €57,446 thousand), of which €6,852 thousand is goodwill (previous year: €42,673 thousand).

## 2 Property, plant and equipment

In 2017, as in the previous year, no impairment losses were recognised under depreciation pursuant to IAS 36 for property, plant and equipment. The addition to land and buildings and construction in progress results primarily from the expansion of the Neutraubling and Raubling sites and from investment in the production site in China. Capital expenditure for the remaining property, plant and equipment amounting to €39,159 thousand relates primarily to capacity expansion and updating at the production sites.

In 2017, the carrying amounts for property, plant and equipment included grants of €28 thousand (previous year: €40 thousand). Of the grants, €12 thousand (previous year: €26 thousand) were recognised in profit and loss by way of a reduced depreciation charge in 2017. As in the previous year, no reversals are included in the depreciation figure for 2017.

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

Property, plant and equipment includes leased assets amounting to €150 thousand (previous year: €810 thousand), which are to be attributed as the economic property of the relevant group company due to the provisions of the underlying lease (finance lease).

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

€ thousand	31 Dec 2017	31 Dec 2016
Land, land rights and buildings	0	788
Technical equipment and machinery	0	22
Other equipment, furniture and fixtures, and office equipment	150	0
<b>Total</b>	<b>150</b>	<b>810</b>

In the reporting period, business combinations resulted in additions to the carrying amounts for property, plant and equipment totalling €496 thousand (previous year: €2,854 thousand).

Property, plant and equipment have changed as follows:

€ thousand	Land and buildings	Technical equipment and machinery	Other equipment, furniture and fixtures, and office equipment	Construction in progress	Advance payments made	Total
<b>31 December 2015</b>						
Cost	478,509	313,888	219,398	7,222	6,339	1,025,356
Accumulated depreciation	182,299	204,572	157,026	0	0	543,897
<b>Net carrying amount</b>	<b>296,210</b>	<b>109,316</b>	<b>62,372</b>	<b>7,222</b>	<b>6,339</b>	<b>481,459</b>
<b>Changes in 2016</b>						
<b>Cost</b>						
Consolidated additions	1,203	670	981			2,854
Additions	5,227	15,145	23,918	12,103	20	56,413
Disposals	1,745	9,977	16,852	1,895		30,469
Transfers	12,413	7,179	681	-13,973	-6,300	0
Currency differences	-1,779	885	105	-43		-832
<b>Depreciation</b>						
Additions	14,994	18,887	21,094			54,975
Disposals	1,079	9,669	16,779			27,527
Reversals						0
Currency differences	-209	826	60			677
<b>Net carrying amount at 31 December 2016</b>	<b>297,823</b>	<b>113,174</b>	<b>66,830</b>	<b>3,414</b>	<b>59</b>	<b>481,300</b>
<b>31 December 2016</b>						
Cost	493,828	327,790	228,231	3,414	59	1,053,322
Accumulated depreciation	196,005	214,616	161,401	0	0	572,022
<b>Net carrying amount</b>	<b>297,823</b>	<b>113,174</b>	<b>66,830</b>	<b>3,414</b>	<b>59</b>	<b>481,300</b>
<b>Changes in 2017</b>						
<b>Cost</b>						
Consolidated additions	188		309			496
Additions	11,353	10,878	28,281	35,556	1,327	87,395
Disposals	854	5,123	15,786	3,439	27	25,228
Transfers	328	592	1,492	-2,464	-7	-59
Currency differences	-4,885	-4,761	-3,493	-32		-13,172
<b>Depreciation</b>						
Additions	13,368	20,179	24,089			57,636
Disposals	374	5,041	15,129			20,543
Reversals						0
Transfers	23	-169	217			71
Currency differences	-2,186	-3,303	-2,559			-8,047
<b>Net carrying amount at 31 December 2017</b>	<b>293,122</b>	<b>103,094</b>	<b>71,012</b>	<b>33,036</b>	<b>1,351</b>	<b>501,616</b>
<b>31 December 2017</b>						
Cost	499,957	329,377	239,033	33,036	1,351	1,102,754
Accumulated depreciation	206,835	226,282	168,020	0	0	601,138
<b>Net carrying amount</b>	<b>293,122</b>	<b>103,094</b>	<b>71,012</b>	<b>33,036</b>	<b>1,351</b>	<b>501,616</b>

### 3 Non-current financial assets

The non-current financial assets consist primarily of lendings to and investments in non-consolidated companies.

### 4 Investment accounted for using the equity method

The table below provides details on the group's material associate:

Name of the company	Place of business	Ownership interest
		%
<b>Associate</b>		
Integrated Packaging Systems fzco Dubai	Dubai, U.A.E.	40

The company is accounted for using the equity method in these consolidated financial statements.

Summarised financial information on the group's material associate is presented below. The summarised financial information corresponds to the amounts reported in the financial statements for the associate, which were prepared in accordance with IFRSS (adapted as necessary for the purpose of accounting using the equity method for these consolidated financial statements). The acquisition date was 31 March 2017. The company paid €25,027 thousand for the investment. There are put and call options with the same exercise price and maturity date. Therefore, the options are measured with a value of zero.

€ thousand	Total at 31 Dec 2017
Non-current assets	53,095
Current assets	24,327
Non-current liabilities	3,259
Current liabilities	11,464
Equity	62,699
<b>Group's share of equity</b>	<b>25,080</b>
Other adjustments	162
<b>Carrying amount of Integrated Packaging Systems fzco Dubai, accounted for using the equity method</b>	<b>25,242</b>

€ thousand	2017
Revenue	24,519
Profit or loss for the period	-1,247
Other comprehensive income	0
Total comprehensive income	-1,247
<b>Share of profit or loss</b>	<b>-499</b>

## 5 Inventories

The inventories of the KRONES Group are composed as follows:

€ thousand	31 Dec 2017	31 Dec 2016*
Raw materials and supplies	177.422	174.617
Work in progress	210.278	249.394
Finished goods	104.280	101.784
Goods purchased for sale	114.956	187.047
Other	4.884	15.508
<b>Total</b>	<b>611.820</b>	<b>728.350</b>

\* Previous year figures have been restated.

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

Write-downs of €30,826 thousand on inventories were recognised as expense in 2017 (previous year: €52,419 thousand) and are based substantially on customary net realisable values and obsolescence allowances. The amount of reversals of write-downs recognised in profit and loss due to improved market conditions was insignificant. The carrying amount of the inventories recognised at fair value less selling expenses totalled €73,603 thousand in the reporting period (previous year: €85,079 thousand).

## 6 Receivables and other assets

€ thousand	31 Dec 2017	31 Dec 2016
Trade receivables	1,277,358	1,081,003
(of which amounts are due in 1 year or later)	52,064	44,131
Other assets	131,641	137,513
(of which amounts are due in 1 year or later)	3,349	3,107

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

€ thousand	
At 1 January 2017	29,041
Change in currency effects	-7,259
Additions	8,934
Reversals	3,272
At 31 December 2017	27,444

The trade receivables at 31 December 2017 include gross amounts due from customers for contract work totalling €120,825 thousand (previous year: €110,437 thousand). These amounts relate to construction contracts in which costs incurred plus recognised profits less the sum of recognised losses exceeds progress billings and advances received. There are no gross amounts due to customers for contract work.

The other assets include primarily advances paid (€12,923 thousand; previous year: €14,773 thousand), current tax assets (€51,199 thousand; previous year: €52,132 thousand), and prepaid expenses (€9,730 thousand; previous year: €8,698 thousand).

The derivative financial instruments measured at fair value that were entered into for future payment receipts and meet the conditions for hedge accounting or that were entered into as stand-alone hedge transactions totalled €1,973 thousand at the end of the reporting period (in the previous year, there were none).

## 7 Cash and cash equivalents

Apart from cash on hand totalling €197 thousand (previous year: €191 thousand), the cash and cash equivalents of €181,995 thousand (previous year: €368,889 thousand) consist primarily of demand deposits. Changes in cash and cash equivalents under IAS 7 “Statement of cash flows” are presented in the statement of cash flows on page 130.



*More information on the statement of cash flows, page 130.*

## 8 Income tax

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

The income tax breaks down as follows:

€ thousand	2017	2016
Deferred tax expense/income (-)	822	-10,798
Current tax	70,846	79,260
<b>Total</b>	<b>71,668</b>	<b>68,462</b>

The deferred tax items are computed on the basis of the national income tax rates that apply or are expected due to the current legal situation in the individual countries at the time of realisation. In Germany, a corporate income tax rate of 15.0% plus a solidarity surcharge of 5.5% and a local business tax rate (Gewerbesteuerhebesatz) for KRONES AG that averages 328% apply. Thus, the total income tax rate for the companies in Germany is 27.3%. Abroad, the tax rates are in the 18% to 34% range. The 27.3% rate was used to calculate deferred taxes.



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

€ thousand	Deferred tax assets		Deferred tax liabilities	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Intangible assets	7	16	39,395	33,885
Property, plant and equipment	95	81	10,591	11,085
Non-current financial assets	10,109	6,468	37	65
Other non-current assets	587	354	467	9,755
Inventories	6,904	2,704	120,436	1,639
Other current assets	3,326	2,850	22,315	28,469
Tax loss carryforwards	8,850	2,509	0	0
Provisions, non-current	9,758	8,111	7,256	267
Other non-current liabilities	1,158	476	22	423
Provisions, current	7,545	14,015	14,377	40,555
Other current liabilities	148,302	75,282	138	800
Deferred tax items recognised in other comprehensive income	34,378	37,013	96	5
Consolidation	144	0	-267	1,170
<b>Subtotal</b>	<b>231,163</b>	<b>149,879</b>	<b>214,863</b>	<b>128,118</b>
<b>Offsetting (-)</b>	<b>-201,948</b>	<b>-125,178</b>	<b>201,948</b>	<b>-125,178</b>
<b>Total</b>	<b>29,215</b>	<b>24,701</b>	<b>12,915</b>	<b>2,940</b>

The deferred tax assets and liabilities recognised in other comprehensive income amounted to €34,282 thousand at the end of the reporting period (previous year: €37,325 thousand). This figure includes the recognition in OCI of €34,378 thousand in actuarial gains and losses pursuant to IAS 19 (previous year: €34,183 thousand). A total of -€96 thousand (previous year: €3,142 thousand) resulted from hedging activities.

Deferred tax items were not recognised on tax loss carryforwards of €14,172 thousand (previous year: €34,799 thousand) or on deductible temporary differences totalling €38 thousand (previous year: €77 thousand).

The temporary differences between the carrying amounts of equity interests in subsidiaries and the tax base of those interests ("outside basis differences") came to €18,567 thousand at the end of the reporting period (previous year: €22,301 thousand) and are excepted from recognition of deferred tax liabilities.

The tax expense of €71,668 thousand reported in 2017 is €1,017 thousand higher than the expected tax expense that would theoretically result from application of the domestic tax rate of 27.3% at the group level. The difference can be attributed to the following:

€ thousand	2017	2016
Earnings before taxes	258,795	237,564
Tax rate for the parent company KRONES AG	27.30%	27.30%
Expected (theoretical) tax expense	70,651	64,855
Adjustments due to different tax rate	1,618	1,975
Reductions in tax due to tax-free earnings	-10,825	-9,481
Tax loss carryforwards	-10,569	-2,190
Increases in tax expense due to non-deductible expenses	12,652	13,028
Tax income (-) / tax expense (+) for previous years	9,111	-1,140
Other	-970	1,415
<b>Taxes on income</b>	<b>71,668</b>	<b>68,462</b>

The difference between reductions in taxes and increases in taxes for 2017 yields a net increase in taxes. This is primarily attributable to non-deductible operating expenses.

## 9 Equity

KRONES AG's share capital amounted to €40,000,000.00 at 31 December 2017, unchanged on the previous year. It is divided into 31,593,072 ordinary bearer shares, each with a theoretical par value of €1.27 per share. At the end of the reporting period, 31,593,072 shares were in circulation (previous year: 31,593,072). At 31 December 2017, as in the previous year, the company held no treasury shares.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

By resolution of the annual general meeting on 15 June 2016, the Executive Board is authorised to increase the company's share capital, with the approval of the Supervisory Board, by up to €10 million (authorised capital) through the issuance once or repeatedly of new ordinary bearer shares against cash contributions up to and including 15 June 2021. Shareholders must be granted subscription rights to these shares. The Executive Board is authorised to exclude the subscription rights of shareholders, with the approval of the Supervisory Board, for any fractional amounts that may arise. Moreover, the Executive Board is authorised to determine the further details of the capital increase and its implementation, both with the approval of the Supervisory Board. The Supervisory Board is authorised to amend the articles of association in accordance with any utilisation of the authorised capital and upon expiration of the term of the authorisation.

The changes in equity that are recognised in other comprehensive income (excluding dividends) totalled –€33,969 thousand in the reporting period (previous year: –€8,478 thousand) and consist of changes in currency differences and hedge accounting as well as the recognition of actuarial gains and losses on pensions under other reserves. In addition, the allocation of profit or loss to non-controlling interests resulted in a change in equity of –€1,632 (previous year: –€1,652 thousand). The sum of changes in equity that are recognised in other comprehensive income and those that are recognised in profit or loss was €153,158 thousand (previous year: €160,624 thousand).

A dividend of €1.55 per share was approved for the financial year 2016 and paid out by KRONES AG in 2017 (previous year: €1.45 per share). The total dividend payout came to €48,969 thousand (previous year: €45,810 thousand).

## Disclosures about capital management

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

### 10 Capital reserves

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

### 11 Profit reserves

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

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

Currency differences recognised under profit reserves contain the currency translations of financial statements of foreign subsidiaries that are recognised in other comprehensive income.

### 12 Other reserves

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

€ thousand	Reserve for post-employment benefits	Reserve for cash flow hedges	Puttable instruments	Reserve for the fair value of securities	Total
<b>At 1 January 2016</b>	<b>-75,702</b>	<b>-1,657</b>	<b>0</b>	<b>-1</b>	<b>-77,360</b>
Measurement change	-20,946	-3,600	-804	1	-25,350
Tax on items taken directly to or transferred from equity	5,684	1,782		0	7,466
Currency difference	-240	-343			-583
<b>At 31 December 2016</b>	<b>-91,204</b>	<b>-3,818</b>	<b>-804</b>	<b>0</b>	<b>-95,827</b>
Measurement change	-498	7,784	0	0	7,083
Tax on items taken directly to or transferred from equity	154	-2,833			-2,679
Currency difference	43	0			248
<b>At 31 December 2017</b>	<b>-91,505</b>	<b>1,133</b>	<b>-804</b>	<b>0</b>	<b>-91,176</b>

The measurement changes for cash flow hedges include additions of €1,133 thousand and amounts reclassified into profit or loss totalling €3,818 thousand after taxes.

### 13 Non-controlling interests

In the financial year 2017, non-controlling interests totalled –€3,085 thousand (previous year: –€2,069 thousand).

A detailed overview of the composition of and changes to the individual equity components for the KRONES Group in 2017 and the previous year is presented in the statement of changes in equity on page 131.



*Details on changes in equity, page 131.*

### 14 Provisions for pensions

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

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

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

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

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



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

%	Average for the group	
	2017	2016
Discount rate	1.8	1.8
Projected increases in wages and salaries	0.0	0.0
Projected increases in state pensions	2.0	2.0

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

The average residual term of post-employment benefit obligations is 19 years (previous year: 20 years).

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

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

€ thousand	31 Dec 2017	31 Dec 2016	31 Dec 2015
Present value of benefit commitments financed by provisions	199,129	198,381	178,675
Present value of benefit commitments financed through pension funds	50,722	52,221	49,184
Present value of benefit commitments (gross)	249,851	250,602	227,859
Fair value of plan assets	-29,622	-31,454	-30,949
<b>Carrying amount at 31 December (net defined benefit obligation)</b>	<b>220,229</b>	<b>219,148</b>	<b>196,910</b>

The pension provisions, which amounted to €216,411 thousand at the end of the reporting period (previous year: €215,402 thousand), are primarily attributable to KRONES AG. The actuarial gains or losses resulting from changes in financial assumptions totalled €0 thousand (previous year: loss of €22,679 thousand); experience adjustments totalled -€185 thousand (previous year: €815 thousand).

The costs arising from pension obligations amounted to €4,721 thousand (previous year: €5,707 thousand) and break down as follows:

€ thousand	31 Dec 2017	31 Dec 2016	31 Dec 2015
Current service cost	618	1,060	2,105
Interest expense	4,492	5,188	4,850
Expected return on plan assets	-545	-703	-605
Past service cost and plan curtailments	156	162	0
<b>Costs arising from pension obligations</b>	<b>4,721</b>	<b>5,707</b>	<b>6,350</b>

Reconciliation of the present value of defined benefit obligations, which amounted to €249,851 thousand (previous year: €250,602 thousand), and the fair value of the plan assets, which amounted to €29,622 thousand (previous year: €31,454 thousand), and the net of both items break down as follows:

€ thousand	Present value of benefit commitments	Fair value of plan assets	Total
<b>At 1 January 2016</b>	<b>227,859</b>	<b>-30,949</b>	<b>196,910</b>
Current service cost	1,060	0	1,060
Interest expense (+)/interest income (-)	5,188	-703	4,485
Actuarial gains/losses	22,578	-1,262	21,316
Employer contributions	0	-728	-728
Benefits paid	-6,335	2,207	-4,128
Recognised past service cost	162		162
Currency differences	90	-19	71
<b>At 31 December 2016</b>	<b>250,602</b>	<b>-31,454</b>	<b>219,148</b>
Current service cost	618	0	618
Interest expense (+)/interest income (-)	4,492	-545	3,947
Actuarial gains/losses	188	66	254
Employer contributions	0	-522	-522
Benefits paid	-5,816	2,835	-2,981
Recognised past service cost	156		156
Currency differences	-389	-2	-391
<b>At 31 December 2017</b>	<b>249,851</b>	<b>-29,622</b>	<b>220,229</b>

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

The fair value of the plan assets was €29.6 million at 31 December 2017 (previous year: €31.4 million). Of that, €23.7 million are pension liability reinsurance policies (previous year: €24.2 million). The rest of the plan assets are attributable to KRONES Unterstützungs-Fonds e.V., headquartered in Neutraubling. The fund assets are invested in a special fund that is administered and actively managed by Allianz GI (AGI). The eligible instruments are specified in the investment guidelines. A defensive investment strategy is used. At 31 December 2017, the AGI fund consisted of 34.9% government bonds, 25.3% Pfandbriefe (covered bonds governed by the German Pfandbrief Act), and 15.8% investment-grade corporate bonds. The amount held as cash in hand came to 0.1%. The remainder was primarily equity funds. Interest rate risk is actively managed using interest rate futures. The duration of the investment volume is 2.24 years. Managing currency risk: No direct currency investments are made. The overall rating of the fund assets is A+. KRONES AG's plan assets are secured as follows: 80% through the pension liability reinsurance policies from Allianz and 20% through KRONES Unterstützungs-Fonds e.V.

The expected contributions into the plan assets in 2018 were €466 thousand. The expected pension benefit payments in 2018 that are paid from the plan assets amount to €2,780 thousand.

In 2017, a total of €52,261 thousand (previous year: €50,218 thousand) was spent on the employer contribution to defined contribution plans (contributions to pensions insurance).

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

	Change in assumption	Effect on the obligation	
		Assumption increases	Assumption decreases
Discount rate	0.50%	9.0% decrease	9.0% increase
Change in state pensions	0.50%	7.0% increase	7.4% decrease
Life expectancy	1 year	4.3% increase	4.3% decrease

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

## 15 Provisions for taxes and other provisions

€ thousand	1 Jan 2017	Consolidated addition	Use	Reversal	Addition	Currency differences	31 Dec 2017	due within 1 year
Tax liabilities	26,563	6	5,543	6,057	21,468	-1,096	35,341	30,853
Personnel obligations	38,198	0	2,537	88	3,591	-249	38,915	807
Provision for anticipated losses	59,205	0	50,899	2,041	34,824	0	41,089	39,366
Provision for warranties	65,487	0	10,965	6,525	20,964	0	68,961	68,011
Other remaining provisions	46,657	0	12,418	14,144	30,269	-2,578	47,785	41,379
<b>Total</b>	<b>236,109</b>	<b>6</b>	<b>82,362</b>	<b>28,855</b>	<b>111,116</b>	<b>-3,923</b>	<b>232,091</b>	<b>180,416</b>

The provisions for personnel obligations are primarily for non-current obligations relating to partial retirement. The other remaining provisions include primarily provisions for damages and legal fees. The estimates for liabilities relating to projects business are based on customary empirical values. The non-current provisions have been discounted using rates between 1.3% and 2.5%.

## 16 Liabilities

€ thousand	Residual term of up to 1 year	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2017
Liabilities to banks	24,620	0	0	24,620
Advances received	508,864	0	0	508,864
Trade payables	376,525	22	0	376,547
Other financial obligations	6,979	26,975	0	33,954
Other liabilities	294,099	2,194	0	296,293
<b>Total</b>	<b>1,211,087</b>	<b>29,191</b>	<b>0</b>	<b>1,240,278</b>

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

The other financial obligations are obligations on bills, puttable instruments, and earn-out obligations. Under IAS 39, the obligations on bills represent possible liabilities from bills sold and are also recognised as trade receivables amounting to €6,358 thousand (previous year: €62,096 thousand).

The other liabilities consist of deferred income (€8,919 thousand; previous year: €14,464 thousand) and other remaining liabilities (€287,374 thousand; previous year: €346,203 thousand).

The other remaining liabilities break down as follows:

€ thousand	Residual term of up to 1 year	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2017
Tax liabilities	39,834	0	0	39,834
Social security liabilities	7,457	0	0	7,457
Payroll liabilities	27,465	1,041	0	28,506
Accruals	194,236	0	0	194,236
Other	16,188	1,153	0	17,341
<b>Total</b>	<b>285,180</b>	<b>2,194</b>	<b>0</b>	<b>287,374</b>

Accruals, which amounted to €194,236 thousand (previous year: €251,119 thousand), have greater certainty with respect to their amount and timing than provisions have. The primary items they include are outstanding supplier invoices, obligations relating to flexible working hours, accrued vacation, and performance bonuses.

€ thousand	Residual term of up to 1 year	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2016
Tax liabilities	31,551	0	0	31,551
Social security liabilities	8,542	0	0	8,542
Payroll liabilities	25,154	0	0	25,154
Accruals	251,119	0	0	251,119
Other	27,076	2,761	0	29,837
<b>Total</b>	<b>343,442</b>	<b>2,761</b>	<b>0</b>	<b>346,203</b>

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

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

€ thousand	31 Dec 2017	31 Dec 2016
Future minimum lease payments		
Up to 1 year	100	132
1 to 5 years	6	177
	<b>106</b>	309
Interest portion of future minimum lease payments		
Up to 1 year	4	15
1 to 5 years	0	11
	<b>4</b>	26
Present value of future minimum lease payments		
Up to 1 year	96	117
1 to 5 years	6	166
	<b>102</b>	283

## 17 Contingent liabilities

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

## 18 Other financial liabilities

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

€ thousand	31 Dec 2017	31 Dec 2016
Future minimum lease payments		
Up to 1 year	21,249	21,209
1 to 5 years	28,398	24,714
More than 5 years	22	21
	<b>49,669</b>	45,944
Future maintenance		
Up to 1 year	7,446	11,745
1 to 5 years	3,035	5,388
More than 5 years	0	0
	<b>10,481</b>	17,133



Payments amounting to €24,634 thousand (previous year: €24,369 thousand) were made under these rental and lease agreements in 2017.

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

## 19 Other disclosures relating to financial instruments

The derivative financial instruments of the KRONES Group substantially cover the currency risks relating to the US dollar, the Canadian dollar, the British pound, the Japanese yen, and the euro.

The nominal and fair values of the derivative financial instruments are as follows at the end of the reporting period:

€ thousand	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	Nominal value	Nominal value	Fair value	Fair value
<b>Financial assets</b>				
<b>Currency hedging</b>				
Forward exchange contracts	99,924	0	1,973	0
of which hedge accounting	88,451	0	1,607	0
<b>Financial liabilities</b>				
<b>Currency hedging</b>				
Currency hedging	63,361	364,599	513	9,612
of which hedge accounting	10,353	174,627	26	5,739

The fair value includes the difference between the forward rate received from the relevant commercial bank and the rate at the end of the reporting period as well as appropriate premiums or discounts under accepted accounting processes. These financial instruments are accounted for at the trade date.

The risk of default relating to derivative financial instruments is limited to the balance of the positive fair values in the event of a contracting party's default. The cash flow hedges presented are effective. The net loss from these stand-alone derivatives was €1,219 thousand in the reporting period (previous year: net loss of €2,527 thousand).

The German master agreements and ISDA agreements do not meet the criteria to require off-setting in the consolidated statement of financial position. That is because the company currently does not have a legally enforceable right to offset the recognised amounts. The right to offset these amounts is only enforceable if future events occur such as insolvency of a party to the contract. Hedging transactions entered into directly by subsidiaries of the KRONES Group also cannot be offset.

The table below presents the carrying amounts of the financial assets and liabilities underlying these agreements:

€ thousand	31 Dec 2017	31 Dec 2016
<b>Financial assets</b>		
Gross amounts of recognised financial assets	1,493,386	1,156,786
Amounts that are netted in accordance with IAS 32.42	0	0
Net amounts of recognised financial assets	1,493,386	1,156,786
Amounts subject to master netting agreement		
Derivatives	-513	0
Net amount of financial assets	1,492,873	1,156,786
<b>Financial liabilities</b>		
Gross amounts of recognised financial liabilities	513,798	481,018
Amounts that are netted in accordance with IAS 32.42	0	0
Net amounts of recognised financial liabilities	513,798	481,018
Amounts subject to master netting agreement	0	0
Derivatives	-513	0
Net amount of financial liabilities	513,285	481,018

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

31 Dec 2017				
€ thousand	Carrying amount 31 Dec 2017	of which subject to IFRS 7	Loans and receivables	Financial assets and liabilities measured at fair value through profit or loss
<b>Assets</b>				
Non-current financial assets*)	6,215	6,215	2,656	
Trade receivables	1,277,358	1,277,358	1,277,358	
Other assets	131,641	27,818	25,846	366
of which derivatives	1,973	1,973		366
Cash and cash equivalents	181,995	181,995	181,995	
<b>Liabilities</b>				
Liabilities to banks	24,620	24,620		
Trade payables	376,547	376,547		
Other financial obligations	33,954	33,953		26,974
Other liabilities and accruals	296,293	78,575		487
of which derivatives	513	513		487
*) Equity investments measured at cost in accordance with IAS 39.46c				

31 Dec 2016				
€ thousand	Carrying amount 31 Dec 2016	of which subject to IFRS 7	Loans and receivables	Financial assets and liabilities measured at fair value through profit or loss
<b>Assets</b>				
Non-current financial assets*)	5,852	5,852	2,580	
Trade receivables	1,081,003	1,081,003	1,081,003	
Other assets	137,513	33,042	33,042	0
of which derivatives	0	0		0
Cash and cash equivalents	368,889	368,889	368,889	
<b>Liabilities</b>				
Liabilities to banks	0			
Trade payables	323,791	323,791		
Other financial obligations	82,102	82,102		
Other liabilities and accruals	360,667	75,125		4,513
of which derivatives	9,612	9,612		3,846
*) Equity investments measured at cost in accordance with IAS 39.46c				

Measurement under IAS 39				Fair value hierarchy			
Financial assets and liabilities measured at fair value through other comprehensive income	Available-for-sale financial assets	Financial liabilities at amortised cost	Measurement under IAS 17	Level 1	Level 2	Level 3	
	3,559			990			
1,607					1,973		
1,607					1,973		
		24,620					
		376,547					
		6,979				26,974	
26		77,960	102		513	0	
26					513		

Measurement under IAS 39				Fair value hierarchy			
Financial assets and liabilities measured at fair value through other comprehensive income	Available-for-sale financial assets	Financial liabilities at amortised cost	Measurement under IAS 17	Level 1	Level 2	Level 3	
	3,272			703			
0					0		
0					0		
		323,791					
19,091		63,011				19,091	
5,766		64,563	283		9,612	667	
5,766		0			9,612		

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

€ thousand	2017	2016
Net carrying amount at 1 January	19,758	667
Additions resulting from acquisitions	3,883	18,202
Changes	3,333	889
(of which currency effects)	529	85
Net carrying amount at 31 December	26,974	19,758

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

Acquisitions made in prior years contain put options that are granted to non-controlling interests for their shares in group companies. The anticipated-acquisition method has been applied, meaning that the options are accounted for as if they have already been exercised and each is recognised as a liability at fair value instead of non-controlling interests being recognised. The liabilities are recognised in profit and loss.

The fair value of the put option for TRANS-MARKET was measured using a Monte Carlo simulation. The main input factors are the medium-term forecast and the discount rate. The estimated range of the undiscounted exercise price at the acquisition date is between zero and €2,650 thousand. At the end of the reporting period, there were no significant changes to the estimated range. Based on that, the fair value was €1,466 thousand at the end of the reporting period. The fair value of the put option for SYSTEM LOGISTICS was measured using the discounted cash flow method. The main input factors are the medium-term forecast and the discount rate. The estimated range of the undiscounted exercise price at the end of the reporting period is between €15,628 thousand and €33,796 thousand. At the end of the reporting period, there were no significant changes to the estimated range. Based on that, the fair value was €21,947 thousand at the end of the reporting period. KRONES AG has also made arrangement for contingent consideration that is dependent on the input factors EBITDA and EBITDA margin. The undiscounted contingent consideration that may need to be paid is between zero and €12,000 thousand. Taking into account the estimated input factors, the fair value of this contingent consideration is unchanged at the end of the reporting period at €0 thousand.

The age structure of trade receivables and other receivables is as follows at 31 December 2017:

€ thousand	Carrying amount	Of which not overdue at the reporting date	Of which overdue by the following number of days at the reporting date			
			up to 90 days	between 90 and 180 days	between 180 and 360 days	more than 360 days
31 Dec 2017						
Trade receivables	1,277,358	998,659	171,991	42,825	34,363	29,520
31 Dec 2016						
Trade receivables	1,081,003	833,327	138,817	26,304	46,415	36,140

The following overview of maturities shows how the undiscounted cash flows relating to liabilities as of 31 December 2017 influence the company's liquidity situation.

€ thousand	Carrying amount at 31 Dec 2017	Cashflow 2018		Cashflow 2019–2022		Cashflow 2022 or later	
		Interest	Repaymt.	Interest	Repaymt.	Interest	Repaymt.
Derivative financial instruments	513	0	340	0	173	0	0
Liabilities to banks	24,620	0	24,620	0	0	0	0
Liabilities from leases	102	4	92	0	6	0	0
Discounted trade bills	6,979	0	6,979	0	0	0	0
Other financial liabilities	27,811	0		42	27,811	0	0
	<b>60,025</b>	<b>4</b>	<b>32,031</b>	<b>42</b>	<b>27,990</b>	<b>0</b>	<b>0</b>

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



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

€ thousand	Currency USD	Currency NOK	Currency CAD	Currency GBP	Currency CNY
Cash and cash equivalents	2,104	0	145	0	0
Trade receivables	1,483	0	5,810	0	-0
Other financial receivables	894	635	34	20	0
Derivatives at positive market values	740	524	31	39	101
Loans	0	0	0	0	0
<b>Total assets</b>	<b>5,221</b>	<b>1,159</b>	<b>6,020</b>	<b>59</b>	<b>101</b>
<b>Liabilities</b>					
Trade payables	-26,149	-11	0	-16	-55
Due to banks	0	0	0	0	0
From finance leases	0	0	0	0	0
Other liabilities	-5,038	-2,697	-2,163	-5,569	0
Derivatives at negative market values	-5	-13	-18	-4	-258
Financial liabilities at amortised cost	0	0	0	0	0
<b>Total liabilities</b>	<b>-31,192</b>	<b>-2,721</b>	<b>-2,181</b>	<b>-5,589</b>	<b>-313</b>
<b>Balance of assets and liabilities</b>	<b>-25,971</b>	<b>-1,562</b>	<b>3,389</b>	<b>-5,530</b>	<b>-212</b>
<b>Net exposure at 31 Dec 2017</b>	<b>-25,971</b>	<b>-1,562</b>	<b>3,389</b>	<b>-5,530</b>	<b>-212</b>

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

€ thousand	Currency USD	Currency NOK	Currency CAD	Currency GBP	Currency CNY
Consolidated statement of profit and loss	1,624	137	-162	227	922
Group equity	4,808	786	268	27	174

## 20 Revenue

The KRONES Group's revenue, which amounts to €3,691,355 thousand for the reporting period (previous year: €3,391,253 thousand), consists of deliveries and services billed to customers less reductions. In the segment reporting, sales revenue is presented in detail, broken down by business area. In 2017, revenue of €1,764,235 thousand resulted from construction contracts (previous year: €1,683,587 thousand). Costs and gains (less any reported losses) for contracts in progress came to €838,028 thousand (previous year: €843,084 thousand). Advances received totalled €255,400 thousand (previous year: €338,399 thousand).

## 21 Other own work capitalised

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

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

## 22 Other operating income

Apart from income from the reversal of provisions and accruals (€11,293 thousand; previous year: €33,105 thousand), gains from disposals of non-current assets (€1,558 thousand; previous year: €421 thousand), and the reversal of impairments (€3,272 thousand; previous year: €3,891 thousand), which are not related to the period, the other operating income, which amounts to €112,470 thousand (previous year: €140,606 thousand), consists substantially of currency translation gains of €58,016 thousand (previous year: €59,655 thousand). This is compared with the recognition of impairment losses of €8,934 thousand (previous year: €8,357 thousand) and currency translation losses of €51,117 thousand (previous year: €62,864 thousand) under other operating expenses.

## 23 Goods and services purchased

The expenditure for goods and services purchased comprises expenses for materials and supplies and for goods purchased amounting to €1,408,330 thousand (previous year: €1,229,695 thousand) and expenses for services purchased amounting to €451,077 thousand (previous year: €379,957 thousand).

## 24 Personnel expenses

Within the KRONES Group, 14,426 people (previous year: 13,490) including trainees (541; previous year: 535) were employed on average for the year. The workforce of the KRONES Group is composed as follows (average for the year):

	2017	2016
White-collar employees exempt from collective agreements	2,551	2,421
Employees covered by collective agreements	11,875	11,069
<b>Total</b>	<b>14,426</b>	<b>13,490</b>

## 25 Other operating expenses

Apart from the €178 thousand in losses from disposals of non-current assets (previous year: €622 thousand), which are not related to the period, the other operating expenses include additions to impairments on receivables (€8,934 thousand; previous year: €8,357 thousand), other taxes (€5,898 thousand; previous year: €5,765 thousand), freight costs (€106,331 thousand; previous year: €103,119 thousand), travel costs (€107,037 thousand; previous year: €98,899), currency translation losses (€51,117; previous year: €62,864 thousand), rent and cleaning costs (€30,222 thousand; previous year: €28,114 thousand), and maintenance costs (€31,314 thousand; previous year: €31,146 thousand).

## 26 Financial income/expense

The financial income of €13,328 thousand (previous year: €9,580 thousand) breaks down as follows:

€ thousand	2017	2016
Income from other securities and loans classified as non-current financial assets	2	4
Interest and similar income	10,149	8,376
Interest and similar expenses	-8,265	-2,458
Interest income/expense	1,884	5,918
Investment income	11,941	3,658
Profit or loss shares attributable to associates that are accounted for using the equity method	-499	0
<b>Net financial income/expense</b>	<b>13,328</b>	<b>9,580</b>

Besides interest and similar income of €10,149 thousand (previous year: €8,376 thousand) and interest and similar expense of €8,265 thousand (previous year: €2,458 thousand), investment income of €11,941 thousand (previous year: €3,658 thousand) relating to non-consolidated companies also shaped the financial result. The interest and similar income includes reversals of earn-out obligations totalling €4,567 thousand. The interest and similar expenses include a €4,520 thousand increase in the obligation relating to put options. The interest income and investment income result from financial instruments that are measured at cost. The share of profit or loss of the associate accounted for using the equity method, IPS, came to -€499 thousand in 2017 (see page 151).



*Equity method, see page 151.*

## 27 Income tax

Income tax amounted to –€71,668 thousand in 2017 (previous year: –€68,462 thousand). More information is presented under Note 8, “Income tax” (pages 153 to 155).



*Income tax,  
see pages 153 to 155.*

## 28 Earnings per share

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

	2017	2016
Consolidated net income less profit or loss shares of non-controlling interests (€ thousand)	188,759	170,754
Weighted average number of ordinary shares in circulation (shares)	31,593,072	31,593,072
<b>Earnings per share (€)</b>	<b>5.97</b>	<b>5.40</b>

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

#### ■ Group audit fees

The fee for audit services provided by KPMG AG Wirtschaftsprüfungsgesellschaft related primarily to the audit of the consolidated financial statements and the annual financial statements of KRONES AG as well as annual audits of various subsidiaries.

Other assurance services relate primarily to the audit of the group's non-financial report, a certificate of value, and other audits required by law or by contract and contractually agreed assurance services.

The tax advisory services comprise support services for the preparation of income tax returns for employees working abroad.

€ thousand	2017*	2016
Audit services	742	520
Other assurance services	50	17
Tax advisory services	36	171
Other services	0	42

\* These figures only include fees for the 2017 auditor, KPMG AG Wirtschaftsprüfungsgesellschaft

#### ■ Events after the reporting period

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.

#### ■ Related party disclosures

Within the meaning of IAS 24 "Related party disclosures", the members of the Supervisory Board and of the Executive Board of KRONES AG and the companies of the KRONES Group, including unconsolidated subsidiaries, are deemed related parties. Purchases and sales between the related companies are transacted at prices customary on the market ("at arm's length"). Sales to subsidiaries that are not consolidated amounted to €33,398 thousand in 2017 (previous year: €36,111 thousand). Commissions received amount to €7,482 thousand in 2017 (previous year: €7,534 thousand). Trade and other payment transactions resulted in assets of €14,788 thousand (previous year: €12,064 thousand). Contingent liabilities of €2,579 thousand (previous year: €2,792 thousand) result from guarantees. Trade and other payment transactions with associates totalled €26,586 thousand in 2017 (previous year: none). That resulted in liabilities of €2,157 thousand (previous year: none).

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

Total Executive Board remuneration for the financial year amounted to €6,405 thousand (previous year: €4,558 thousand). Pension provisions of €2,489 thousand (previous year: €2,913 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.

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 €7,723 thousand (previous year: €7,236 thousand) were recognised.

- **Supervisory Board remuneration**

The total remuneration paid to members of the Supervisory Board for the financial year 2017 amounted to €631 thousand (previous year: €633 thousand).

- **Corporate governance**

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.

- **Risk report**

The risk report is part of the management report and is on pages 84 to 96.



*The risk report is part of the management report and is on pages 84 to 96.*



The accounting policies used in these consolidated financial statements are the standards and interpretations whose application is mandatory as of 31 December 2017. The following new or amended standards and interpretations applied for the financial year 2017.

Standard or interpretation		Endorsement	Application mandatory beginning
IAS 7	Amendments relating to additional notes disclosures	complete	1 January 2017
IFRS 12	Amendments relating to clarification of recognition of deferred tax assets for unrealised losses	complete	1 January 2017
	Annual improvements to IFRSs – 2012–2014 cycle: Amendments to IFRS 1 and IAS 28	complete	1 January 2017

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

The following standards and interpretations have been issued by the IASB but their application is not mandatory until after 31 December 2017.

Standard or interpretation		Endorsement	Application mandatory beginning
IAS 28	Amendments relating to sale or contribution of assets between an investor and its associate or joint venture	open	to be determined
IAS 40	Amendments relating to clarification of transfers of investment property	open	1 January 2018
IFRS 2	Share-based payment	open	1 January 2018
IFRS 4	Insurance contracts	open	1 January 2018
IFRS 9	Financial instruments	complete	1 January 2018
IFRS 10	Amendments relating to sale or contribution of assets between an investor and its associate or joint venture	open	to be determined
IFRS 15	Revenue from contracts with customers	complete	1 January 2018
IFRS 15	Amendments relating to clarifications and transitional reliefs	complete	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	open	1 January 2018
IFRIC 23	Uncertainty over income tax treatments	open	1 January 2019
IFRS 16	Leases	complete	1 January 2019
IFRIC 17	Insurance contracts	open	1 January 2021
	Annual improvements to IFRSs – 2014–2016 cycle	complete	1 January 2018

The following standards are expected to have a material impact on the consolidated financial statements in the reporting period to which they are applied for the first time.

The group must apply IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers to periods beginning 1 January 2018. The group has assessed the estimated impact of first-time application of IFRS 9 and IFRS 15 on the consolidated financial statements. The estimated impact of application of these standards on group equity at 1 January 2018 is based on current assessments and is summarised below. The actual impact of application of these standards at 1 January 2018 may differ from these estimates.

### **IFRS 9 Financial instruments**

IFRS 9 Financial instruments specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. It replaces IAS 39 Financial instruments: recognition and measurement.

IFRS 9 is effective for financial years beginning on or after 1 January 2018. KRONES will apply IFRS 9 for the first time for the financial year beginning on 1 January 2018. In accordance with transitional provisions stated under IFRS 9, figures from previous periods will not be restated.

#### *Classification*

IFRS 9 contains new requirements for the classification and measurement of financial assets to reflect both the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

IFRS 9 contains three important classifications for measuring financial assets as follows: at amortised cost, at fair value through profit or loss (FVTPL), and at fair value through other comprehensive income (FVOCI). The standard eliminates the existing categories under IAS 39: held to maturity, loans and receivables, and available for sale.

Based on its assessment, KRONES does not believe that the new classification requirements will have a material impact on recognition of the company's trade receivables and financial assets.

At 31 December 2017, KRONES' financial assets contain shares in affiliated companies that are not consolidated under IFRS 10 for lack of materiality as well as loans to these affiliates. While these shares in affiliated companies are not subject to IFRS 9, the loans to affiliated companies will continue to be recognised as financial instruments at cost under IFRS 9. Investments accounted for using the equity method are also not subject to IFRS 9.

IFRS 9 largely retains the existing requirements for classification of financial liabilities from IAS 39.

However, under IAS 39 all changes in the fair value of liabilities that were designated to be measured at fair value through profit or loss are recognised in profit and loss. Under IFRS 9, these changes in fair value are presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is to be presented in other comprehensive income.
- The remaining amount of change in the fair value is to be presented in profit or loss.

KRONES' other financial obligations contain liabilities that are classified as at fair value through profit or loss. KRONES will use the same classification under IFRS 9.

### *Impairment*

IFRS 9 replaces the “losses incurred” model under IAS 39 with a more future-oriented model of accounting for expected credit losses.

The new impairment model is to be applied to financial assets that are measured at amortised cost or at FVOCI.

Under IFRS 9, impairments are measured on the basis of one of the following:

- 12-month expected credit losses: The expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
- Lifetime expected credit losses: The expected credit losses that result from all possible default events over the expected life of a financial instrument.

Measurement in accordance with the concept of lifetime expected credit losses is to be done for financial instruments for which there have been significant increases in credit risk since initial recognition. Otherwise, the loss allowance is to be measured at an amount equal to 12-month expected credit losses. A company may assume that the credit risk on a financial instrument has not increased significantly if the financial instrument is determined to have low credit risk at the reporting date. However, for trade receivables or contract assets that result from transactions that do not contain a significant financing component, a company must always measure the loss allowance at an amount equal to lifetime expected credit losses. The group has decided to also apply the latter method to trade receivables and contract assets that result from transactions that do contain a significant financing component.

External ratings and actual historical credit loss experience of the last 36 months will in future serve as the basis for calculating the estimates of expected credit losses for trade receivables and other receivables, including contract assets. Credit risks for different customer segments are assessed on the basis of shared characteristics relating to risk of default.

In all, application of the new impairment model will result in earlier recognition of expected losses on trade receivables and other receivables, including contract assets, and thus in higher loss allowances. We estimate that application of the changes will reduce the group's profit reserves by up to €20 million at 1 January 2018.

Cash and cash equivalents will be deposited with banks or financial institutions. KRONES assumes that its cash and cash equivalents will be deemed to have a low credit risk based on the external ratings of banks and financial institutions and therefore first-time application of this standard will have no material impact on their recognition.

#### *Hedge accounting*

IFRS 9 also changes the requirements for hedge accounting. KRONES uses forward exchange transactions to hedge future currency risks from operations. Derivative financial instruments that are used to hedge exposure to variability in cash flows and meet the requirements for hedge accounting are accounted for as cash flow hedges.

When applying IFRS 9 for the first time, the group may choose to continue to apply the rules under IAS 39 instead of applying the rules under IFRS 9 for hedges. The group has opted to continue to apply the requirements under IAS 39.

#### *Disclosures*

IFRS 9 requires many new disclosures, particularly for accounting for credit risk and expected credit losses. The group conducted an analysis to determine whether there are any gaps in data compared with the processes currently used. The group intends to introduce to the system and controls some changes that it deems necessary in order to collect the required data.

#### *Transition*

KRONES has opted not to restate information for earlier comparative periods with respect to changes in classification or measurement (including impairments). Differences between the carrying amounts of financial assets and financial liabilities resulting from the application of IFRS 9 are recognised in profit reserves and other reserves at 1 January 2018.

#### **IFRS 15 Revenue from contracts with customers**

The new standard for revenue recognition, IFRS 15 Revenue from contracts with customers, combines the existing rules for revenue recognition and provides a single, comprehensive framework for recognising revenue. It replaces existing guidelines for revenue recognition, including IAS 18 Revenue, IAS 11 Construction contracts, and IFRIC 13 Customer loyalty programmes. The standard is effective for first-time application for financial years beginning on or after 1 January 2018.

The standards laid out in IFRS 15 set out the following five steps:

- 1 Identifying the contract
- 2 Identifying performance obligations
- 3 Determining the transaction price
- 4 Allocating the transaction price to performance obligations
- 5 Satisfaction of performance obligations

KRONES will apply IFRS 15 beginning with the 2018 financial year and will use a modified retrospective method for initial application. The cumulative effects of initially applying IFRS 15 will be recognised as an adjustment to the opening balance of profit reserves. KRONES will only apply the standard retrospectively to those contracts that have not yet been completed at the beginning of the reporting period that is subject to first-time application.

To analyse the implications of the standard, KRONES established a central internal project in which the group's material revenue flows were analysed.

KRONES offers machinery and systems for bottling and packaging and for beverage production. KRONES will continue to recognise revenue for projects that are largely customer-specific as performance obligations satisfied over time – not at a point in time – since the assets created generally have no alternative use and KRONES has an enforceable right to payment for performance completed to date. Beginning with the financial year 2018, progress will be measured using an input method. After-sales services are also part of KRONES' business model. The company maintains service centres and offices around the world. KRONES offers customers a comprehensive range of products and services under its Lifecycle Service (LCS) business. KRONES will recognise revenue from the delivery of spare parts and/or product upgrades as performance obligations satisfied at a point in time, delivery of the items. LCS services, such as maintenance services, will be recognised as performance obligations satisfied over time since the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.

We estimate that application of IFRS 15 will result in an increase in profit reserves in the mid-double-digit millions at 1 January 2018. Other effects on the consolidated financial statements will be an increase in contract assets and liabilities and a decrease in inventories.

The requirements for presentation and disclosure under the new standard go beyond those of the current standards. In the future, disclosure of additional qualitative and quantitative information will be required. KRONES is currently examining the extent to which these disclosure requirements will necessitate modifications to internal processes and IT systems.

#### *Transition*

The group will use a modified retrospective method, under which the cumulative effects will be recognised in the consolidated financial statements at 1 January 2018. As a result, the group will not apply IFRS 15 to all earlier comparative periods.

#### **IFRS 16 Leases**

IFRS 16 replaces the existing rules for leases, including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC 15 Operating leases, and SIC 27 Evaluating the substance of transactions involving the legal form of a lease.

The standard is effective for first-time application for financial years beginning on or after 1 January 2019. Earlier application is permitted if the company applies IFRS 15 at or before the date of initial application of IFRS 16. KRONES will not apply the new standard early.

IFRS 16 introduces a uniform model for accounting for leases in the lessee's statement of financial position. A lessee must recognise a right-of-use asset that represents a lessee's right to use an underlying asset and a lease liability that represents the lessee's commitment to make lease payments. There are exemptions for short-term leases and leases for which the underlying assets are of low value. Accounting on the part of the lessor is comparable to the current standard in that the lessor will continue to classify each of its leases as either a finance lease or an operating lease.

The group has completed an initial review of the possible impact on its consolidated financial statements. A more detailed assessment is not yet complete. The actual effects of application of IFRS 16 on the consolidated financial statements at the time of initial application will depend on future economic circumstances, the composition of the lease portfolio at that time, the group's assessment of whether to exercise options to extend leases, and the extent to which the group opts to make use of practical expedients and exemptions.

So far, the more material effect that has been identified is that the group will recognise new assets and liabilities for its operating leases on land and buildings and vehicles. At 31 December 2017, the future minimum lease payments for non-cancellable operating leases under IAS 17 (on an undiscounted basis) amount to €49,669 thousand (see page 165).

In addition, the type of expense associated with these leases will change under IFRS 16 since recognition of an expense on a straight-line basis for operating leases will be replaced with depreciation on right-of-use assets and interest expenses on lease liabilities.

The new standard is not expected to have a material impact on the group's accounting of finance leases.

For the transition to IFRS 16, the group can elect to:

- apply the IFRS 16 definition of a lease to all of its contracts or
- use a practical expedient and thus not reassess whether a contract is or contains a lease if it has already been analysed and classified as such under IAS 17.

The group intends to make use of the practical expedient, retaining the previous definition of a lease for transition. Thus, the group will apply IFRS 16 to all contracts that were entered into before 1 January 2019 and identified as leases under IAS 17 and IFRIC 4.

The remaining new or amended standards and interpretations listed above have no material relevance for KRONES AG. KRONES AG has not voluntarily applied early any of the new or amended rules listed above.



Name and location of the company	Share in capital held by KRONES AG (%*)
neusped NEUTRAUBLINGER SPEDITIONS-GMBH, Neutraubling, Germany	100.00
KIC KRONES INTERNATIONALE COOPERATIONS-GESELLSCHAFT MBH, Neutraubling, Germany	100.00
ecomac GEBRAUCHTMASCHINEN GMBH, Neutraubling, Germany	100.00
EVOGUARD GMBH, Nittenau, Germany	100.00
MAINTEC SERVICE GMBH, Collenberg/Main, Germany	100.00
KLUG GMBH INTEGRIERTE SYSTEME, Teunz, Germany	26.00
SYSKRON HOLDING GMBH, Wackersdorf, Germany	100.00
SYSKRON GMBH, Wackersdorf, Germany	100.00
TRACOS CONSULTING & ENGINEERING GMBH, Altenstadt a.d. Waldnaab, Germany	100.00
HST MASCHINENBAU GMBH, Dassow, Germany	100.00
TILL GMBH, Kelkheim, Germany	50.97
GERNEP GMBH ETIKETTIERTECHNIK, Barbing, Germany	100.00
MILKRON GMBH, Laatzen, Germany	100.00
KRONES BETEILIGUNGSGESELLSCHAFT MBH, Neutraubling, Germany	100.00
S.A. KRONES N.V., Louvain-la-Neuve, Belgium	100.00
MAINTEC SERVICE EOOD, Sofia, Bulgaria	100.00
KRONES NORDIC APS, Holte, Denmark	100.00
KRONES S.A.R.L., Viviers-du-Lac, France	100.00
KRONES UK LTD., Bolton, UK	100.00
SYSTEM LTD., London, UK	60.00
KRONES S.R.L., Roverbella, Italy	100.00
KOSME S.R.L., Roverbella, Italy	100.00
SYSTEM LOGISTICS, Fiorano, Italy	60.00
KRONES KAZAKHSTAN TOO, Almaty, Kazakhstan	100.00
KRONES NEDERLAND B.V., Bodegraven, Netherlands	100.00
KOSME GESELLSCHAFT MBH, Sollenau, Austria	100.00
KRONES SPÓLKA Z.O.O., Warsaw, Poland	100.00
KRONES PORTUGAL EQUIPAMENTOS INDUSTRIAIS LDA., Barcarena, Portugal	100.00
KRONES O.O.O., Moscow, Russian Federation	100.00
KRONES ROMANIA PROD. S.R.L., Bucharest, Romania	100.00
SYSTEM NORTHERN EUROPE AB, Malmö, Sweden	60.00
KRONES AG, Buttwil, Switzerland	100.00
KRONES IBERICA, S.A.U., Barcelona, Spain	100.00
SYSTEM LOGISTICS SPAIN SL, Castellon, Spain	100.00
KRONES S.R.O., Prague, Czech Republic	100.00
KONPLAN IMMOBILIENGESELLSCHAFT S.R.O., Pilsen, Czech Republic	100.00
KONPLAN S.R.O., Pilsen, Czech Republic	100.00
KRONES MAKINA SANAYI VE TIKARET LTD. SIRKETI, Istanbul, Turkey	100.00
KRONES UKRAINE LLC, Kiev, Ukraine	100.00
KRONES HUNGARY KFT, Debrecen, Hungary	100.00

Name and location of the company	Share in capital held by KRONES AG (%*)
KRONES ANGOLA – REPRESENTACOES, COMERCIO E INDUSTRIA, LDA., Luanda, Angola	100.00
KRONES SURLATINA S. A., Buenos Aires, Argentina	100.00
KRONES PACIFIC PTY LIMITED, Sydney, Australia	100.00
KRONES BANGLADESH LIMITED, Dhaka, Bangladesh	100.00
KRONES DO BRAZIL LTDA., São Paulo, Brazil	100.00
KRONES S. A., São Paulo, Brazil	100.00
KRONES CHILE SPA., Santiago de Chile, Chile	100.00
KRONES SALES (BEIJING) CO. LTD., Beijing, China	100.00
KRONES MACHINERY (TAICANG) CO. LTD., Taicang, China	100.00
KRONES TRADING (TAICANG) CO. LTD., Taicang, China	100.00
KRONES ASIA LTD., Hongkong, China	100.00
KRONES INDIA PVT. LTD., Bangalore, India	100.00
PT. KRONES MACHINERY INDONESIA, Jakarta, Indonesia	100.00
KRONES JAPAN CO. LTD., Tokyo, Japan	100.00
KRONES CAMBODIA CO. LTD., Phnom Penh, Cambodia	100.00
KRONES MACHINERY CO. LTD., Mississauga, Ontario, Canada	100.00
KRONES LCS CENTER EAST AFRICA LTD., Nairobi, Kenya	100.00
KRONES ANDINA LTDA., Bogotá, Colombia	100.00
KRONES KOREA LTD., Seoul, Korea	100.00
KRONES MEX S. A. DE C. V., Mexico City D. F., Mexico	100.00
SYSTEMLOG DE MEXICO S.A. DE C.V., Nuevo Leon, Mexico	60.00
KRONES MYANMAR LTD., Sanchaung Township, Myanmar	100.00
KRONES NEW ZEALAND LIMITED, Auckland, New Zealand	100.00
KRONES LCS CENTER WEST AFRICA LTD., Lagos, Nigeria	100.00
KRONES FILIPINAS INC., Taguig City, Philippines	100.00
KRONES SINGAPORE PTE. LTD., Singapore, Singapore (formerly ASIA FOOD AND BEVERAGE CONSULTING GROUP PTE LTD.)	100.00
KRONES-IZUMI PROCESSING PTE. LTD., Singapore, Singapore	51.00
KRONES SOUTHERN AFRICA (PROP.) LTD., Johannesburg, South Africa	100.00
KRONES (THAILAND) CO. LTD., Bangkok, Thailand	100.00
SYSTEM LOGISTICS ASIA CO. LTD., Bangkok, Thailand	60.00
KRONES INC., Franklin, Wisconsin, USA	100.00
SYSTEM LOGISTICS CORPORATION, Arden, Delaware, USA	60.00
TRANS-MARKET LLC, Tampa, Florida, USA	80.00
PROCESS AND DATA AUTOMATION LLC, Erie, Pennsylvania, USA	100.00
JAVLYN PROCESS SYSTEMS LLC, Rochester, New York, USA	100.00
MAQUINARIAS KRONES DE VENEZUELA S. A., Caracas, Venezuela	100.00
INTEGRATED PACKAGING SYSTEMS (IPS) FZCO, Dubai, United Arab Emirates	40.00
KRONES VIETNAM CO. LTD., Ho Chi Minh City, Vietnam	100.00

\*Direct and indirect shareholdings

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

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 Schrödler\*\***

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 FUTTERSATBAU  
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, SCHAWEL GMBH,  
DIVERSUM HOLDING GMBH & CO. KG

\* CHOCOLADEFABRIKEN LINDT &  
SPRÜNGLI AG

#### **Jürgen Scholz\*\***

1<sup>st</sup> 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 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	€
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



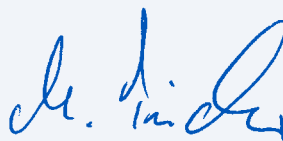
Christoph Klenk  
CEO



Michael Andersen  
CFO



Thomas Ricker



Markus Tischer



Ralf Goldbrunner



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.



### Other information

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To KRONES Aktiengesellschaft, Neutraubling

## Report on the audit of the consolidated financial statements and the group management report

### Opinions

We have audited the consolidated financial statements of KRONES Aktiengesellschaft, Neutraubling, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of cash flow, and consolidated statement of changes in equity for the financial year from 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group 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 consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated 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, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

### Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group 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 consolidated financial statements and

of the Group management report” section of our auditor’s report. We are independent of the group entities 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 consolidated financial statements and on the group management report.

### **Key audit matters in the audit of the consolidated financial statements**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated 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 consolidated 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 consolidated financial statements, page 145.

### **The financial statement risk**

The Group’s sales revenue totalled €3,691.4 million in the financial year 2017.

A significant part of the KRONES Group’s revenue is generated through large projects involving new machinery. In these cases, revenue is recognised in accordance with the stage of completion (“percentage of completion method”) since new machinery projects are construction contracts for specific customers. There is a risk in relation to the financial statements that the percentage of completion is incorrectly estimated and revenue from the construction contracts for specific customers could therefore be allocated to the wrong financial year. Revenue that does not result from such contracts for specific customers is recognised in accordance with IAS 18. For instance, revenue arising from the rendering of services is recognised on the basis of the proportion of costs incurred to date with respect to the estimated total costs of rendering the services. Determination of the total costs entails some judgments. Thus, there is a financial statement risk that the amount of revenue is misstated.

### **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, determination of costs incurred and total costs, and especially determination of the percentage of completion.

We used external confirmations and/or internal documentation to corroborate the percentage of completion and therefore the appropriateness of revenue recognition for the period. That was based on contracts for which revenue was recognised in December 2017, such contracts having been selected using a mathematical-statistical model. 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.

For services rendered, we applied the daily rates that were used to determine the ratio of costs incurred up to the end of the reporting period to estimated total costs to verify the calculations 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 estimates of total costs for prior periods with the actual total costs incurred. For a mathematical-statistical sample, we selected individual projects for which we then validated their measurements. For that, we scrutinised the assumptions underlying their measurement and critically examined the estimates of the project managers responsible.

### **Our conclusions**

The procedure used by KRONES AG for accrual accounting for revenue produces appropriate results. The underlying assumptions used for recognition of revenue arising from services rendered are appropriate.

### **Impairment testing of goodwill**

For details on the accounting principles and assumptions used, please see the notes to the consolidated financial statements, pages 139 and 147 to 149.

### **The financial statement risk**

The carrying amount of goodwill was €62.7 million at 31 December 2017.

Impairment testing of goodwill is complex and is based on a number of discretionary assumptions. These include expected business and earnings development, assumptions about long-term growth, and the discount rates applied.

The impairment tests conducted by the company showed no need for impairment. However, the company's sensitivity calculations showed that, for the cash-generating unit Till, a change in the pre-tax discount rate, which is deemed reasonably possible, would reduce the recoverable amount.

The risk to the financial statement is that an impairment existing at the end of the reporting period has not been identified.

## Our audit approach

With the support of our valuation specialists, we evaluated the appropriateness of the material assumptions and the company's calculation models. We also discussed the expected business and earnings development and the assumptions about long-term growth with those responsible for forecasting. In addition, we also examined whether the assumptions are consistent with other available internal forecasts, for instance those prepared for tax purposes, and with the forecasts 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.

Because even small changes in the discount rate can have a material impact on the results of impairment testing, 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.

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

## Our conclusions

The calculation model used for impairment testing of goodwill is appropriate and consistent with applicable accounting principles. We deem the assumptions and parameters underlying the company's valuation 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 consolidated financial statements and group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group 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 consolidated financial statements, with the group 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 consolidated financial statements and the group management report**

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated 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 group 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 group management report.

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

## Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated 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 consolidated financial statements and on the group 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) [and supplementary compliance with the ISAs] 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 consolidated financial statements and this group 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 consolidated financial statements and of the group 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 control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group 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 Group'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 consolidated financial statements and in the group 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 Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the group 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 consolidated 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 group auditor by the annual general meeting on 20 June 2017. We were engaged by the supervisory board on 30 October 2017. We have been the group 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

Braun  
[German Public Auditor]

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 current and non-current 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.
Fixed assets	Subset of non-current assets. In the context of this report, fixed assets include property, plant and equipment, intangible assets, and non-current financial assets.
Free cash flow	Measure of financial performance calculated as the cash flow from operating activities minus cash flow from investing activities. It is the cash available to pay dividends, reduce debt, or to be retained.
IFRS	International Financial Reporting Standards. Accounting standards issued by the International Accounting Standards Board (IASB) that are harmonised and applied internationally.
Net cash and equivalents	Cash and highly liquid securities under current assets less liabilities to banks.
Return on equity before taxes	Ratio of earnings before taxes to average equity.
ROCE	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 KRONES Konzern Geschäftsbericht 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](http://krones.com).

#### Publication information

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### Key figures for the KRONES Group 2013 – 2017

		2017	2016	2015	2014	2013
<b>Revenue</b>						
Sales revenue	€ million	3,691	3,391	3,174	2,953	2,816
Germany	€ million	388	354	382	284	292
Outside Germany	€ million	3,303	3,037	2,792	2,669	2,524
Export share	%	89	90	88	90	90
<b>Earnings</b>						
Earnings before taxes	€ million	259	238	223	192	170
Net income	€ million	187	169	156	136	119
Earnings per share	€	5,97	5,40	4,98	4,30	3,84
<b>Assets and capital structure</b>						
Non-current assets	€ million	882	799	697	672	642
of which fixed assets	€ million	797	725	646	624	605
Current assets	€ million	2,158	2,272	2,010	1,756	1,596
of which cash and equivalents	€ million	182	369	365	336	240
Equity	€ million	1,330	1,226	1,111	989	954
Total debt	€ million	1,710	1,845	1,596	1,439	1,284
Non-current liabilities	€ million	314	308	278	275	213
Current liabilities	€ million	1,396	1,537	1,318	1,164	1,071
Total assets	€ million	3,040	3,071	2,707	2,428	2,238
<b>Cash flow/capital expenditure</b>						
Free cash flow	€ million	-151	49	71	152	67
Capital expenditure for PP&E and intangible assets	€ million	134	111	103	95	108
Depreciation, amortisation, and write-downs	€ million	95	93	88	91	85
Net cash position (cash and cash equivalents less debt)	€ million	157	369	365	336	240
<b>Profitability ratios</b>						
EBT margin	%	7.0	7.0	7.0	6.5	6.0
Working capital to revenue*	%	27.3	26.7	24.6	24.6	24.2
Return on equity before taxes	%	20.3	20.3	21.3	19.7	19.4
ROCE (liabilities side)	%	16.6	17.0	17.7	16.4	16.7
<b>Employees (at 31 December)</b>						
Germany		10,366	10,061	9,767	9,344	9,098
Outside Germany		4,933	4,382	3,579	3,280	3,187
<b>Dividend</b>						
Dividend per share	€	1.70**	1.55	1.45	1.25	2.00***

\* Average over 4 quarters \*\* As per proposal for appropriation of retained earnings \*\*\* Including a €1.00 special dividend



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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