

KRONES Group Annual Report 2018

**Investment in the future**  
**Consolidated management report**

 **KRONES**

# 2

## CONSOLIDATED MANAGEMENT REPORT

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## KRONES at a glance

### 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 complete 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.

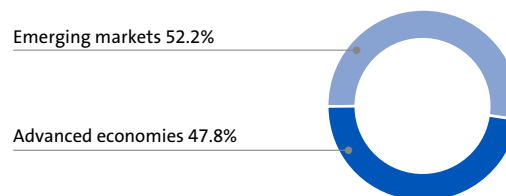
KRONES reports on two segments: **Machines and Lines for Product Filling and Decoration** and **Machines and Lines for Beverage Production/Process Technology**. The Machines and Lines for the Compact Class segment, which was reported on separately until 2017, was made part of KRONES' core segment **Machines and Lines for Product Filling and Decoration** with effect from 1 January 2018.

### 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 47.8% of its revenue in industrialised countries and around 52.2% in the rapidly growing emerging markets in 2018.

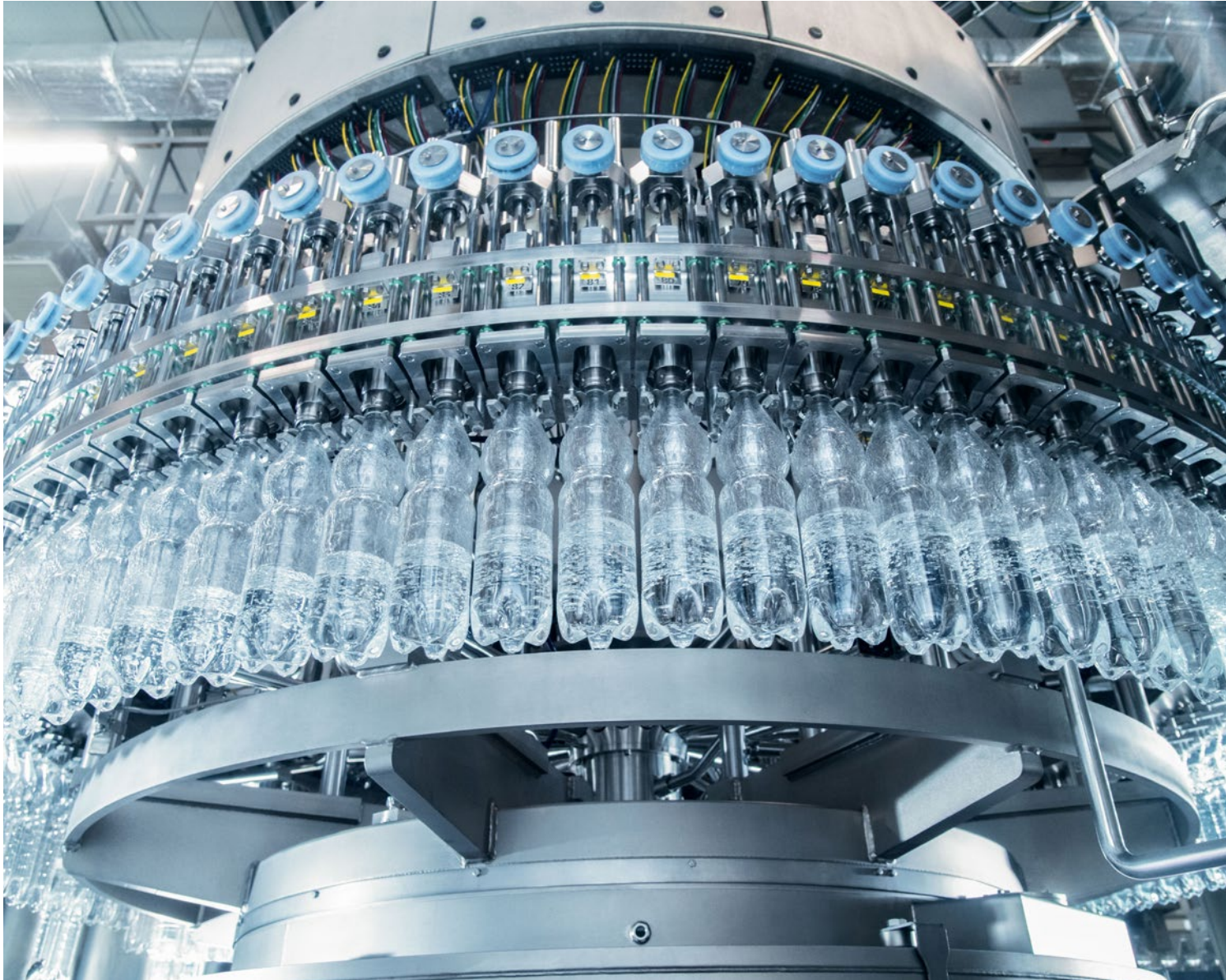
KRONES group share of consolidated revenue 2018



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

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

## Machines and Lines for Product Filling and Decoration

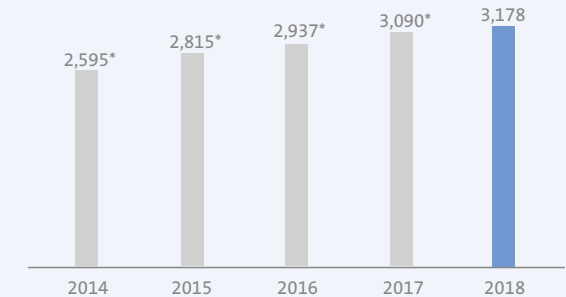


This is by far KRONES' largest segment. It offers machines, lines, and solutions for filling, labelling, packaging, and conveying products. Machines for producing PET containers and converting used plastic bottles into food-grade recycled material (PET recycling systems) are also part of this segment.

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

📄 See also Segment report, pages 79 and 130.

## Revenue (€ million)



	2018	2017*
EBT (€ million)	223.3	263.3
EBT margin (%)	7.0	8.5
Employees**	13,986	13,237

\* incl. Machines and Lines for the Compact Class

\*\* Consolidated group

## Machines and Lines for Beverage Production/Process technology

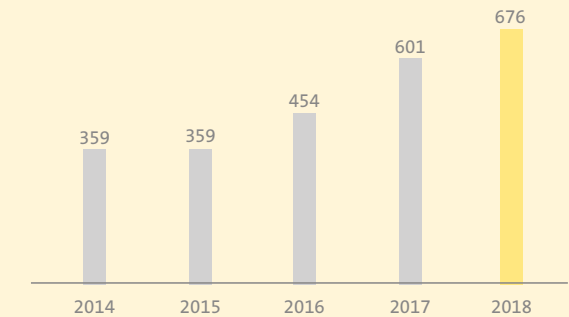


This KRONES segment supplies customers with machines, lines, and digitalisation solutions for producing and processing beer, soft drinks, fruit juices, milk, and dairy drinks. Beverage Production/Process Technology also includes intralogistics products and services offered by the subsidiaries SYSTEM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

- Brewhouse and filtration technology
- Digitalisation
- Information technology
- Intralogistics

📄 See also Segment report, pages 81 and 130.

Revenue (€ million)



	2018	2017
EBT (€ million)	-19.0	-4.5
EBT margin (%)	-2.8	-0.7
Employees**	1,990	1,512

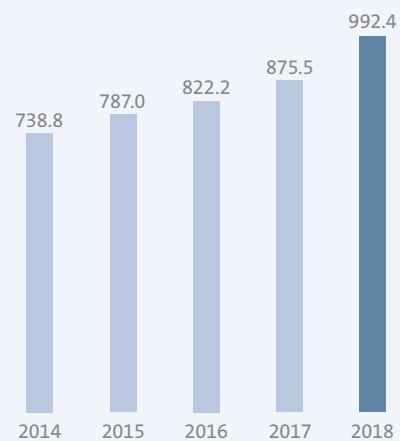
\*Consolidated group

## First quarter 2018

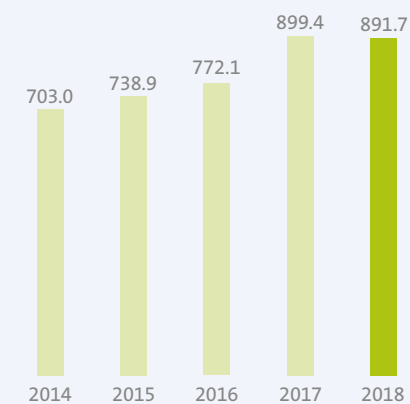
The figures for the first quarter of 2018 were good overall. Revenue was down 0.9% year-on-year, to €891.7 million. Order intake climbed 13.4% to €992.4 million. Earnings before taxes decreased 14.8% to €56.2 million due to a one-time effect within personnel expenses.

Prices on the stock exchanges were volatile in the first quarter. After a strong start of the year, fears of rising interest rates and a trade war were responsible for a period of volatility on the markets. Between January and March the KRONES share price developed much like the market as a whole. Overall, our share price declined by 4.5% during the first quarter.

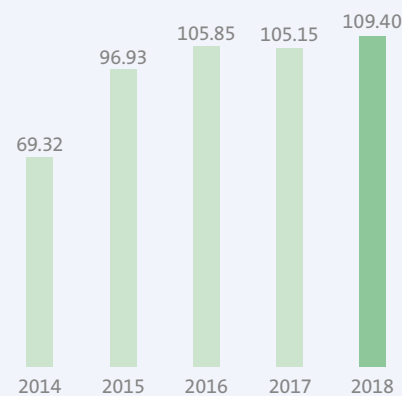
Order intake Q1 (€ million)



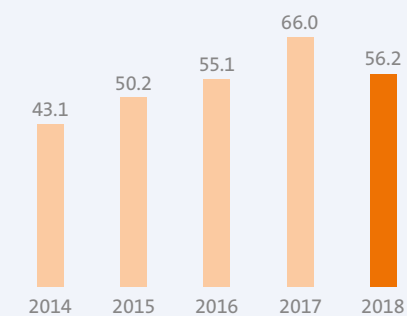
Revenue Q1 (€ million)



Share price 31 March (€)



EBT Q1 (€ million)



## Second quarter 2018

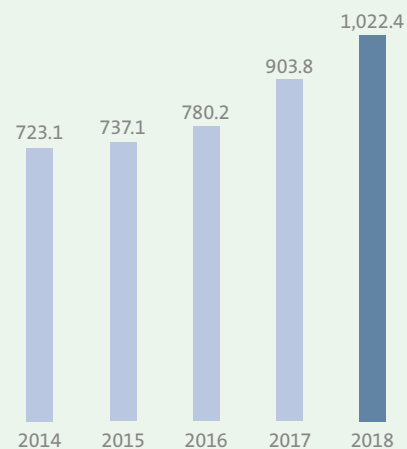
At the end of April, KRONES announced a price increase for all bottling and packaging equipment and for process technology by an average of 4.5% with effect from 1 May. The price increases were necessary in order to continue providing customers with innovative products and services at top quality despite rising material and labour costs.

The KRONES Annual General Meeting was held in Neutraubling on 13 June. An important item on the agenda was the re-election of the Supervisory Board, which now consists of 16 members instead of the previous 12. The shareholders elected the eight shareholder candidates for nomination to the Supervisory Board by a large majority.

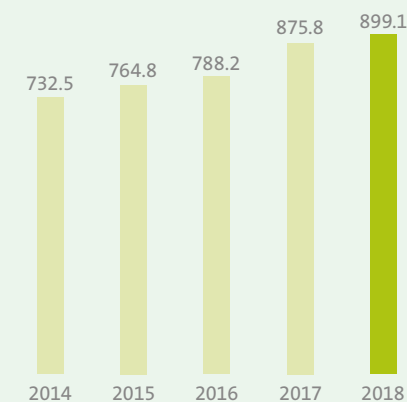
With effect from 18 June, KRONES switched from the MDAX index to the SDAX. This was due to a low volume of trading in our shares. The change of index did not have a lasting impact on our share price. In total, the KRONES share price rose between April and June by 1.2% to €110.70.

Second-quarter business performance was in line with expectations. Revenue increased between April and June by 2.7% compared with the previous year to €899.1 million, while order intake went up by 13.1% to €1,022.4 million. Earnings before taxes grew 2.7% to €56.5 million.

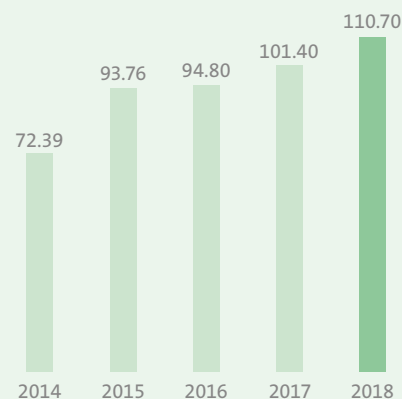
Order intake Q2 (€ million)



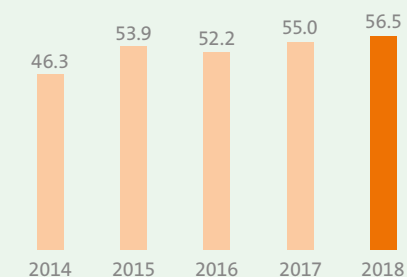
Revenue Q2 (€ million)



Share price 30 June (€)



EBT Q2 (€ million)



## Third quarter 2018

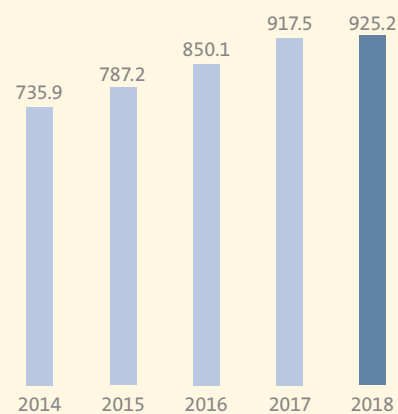
On September 3, CEO Christoph Klenk welcomed 97 young people who were beginning their training at the Neutraubling plant. A further 44 trainees started their careers on the same day at the four other KRONES locations across Germany.

On 18 September, KRONES held a Capital Market Day at the STEINECKER plant in Freising. We provided analysts with information about new developments in process engineering and about our digitalisation strategy.

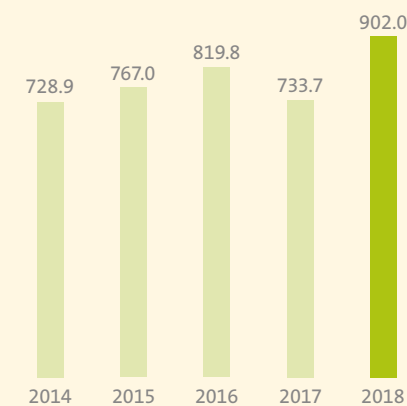
KRONES' revenue from July to September went up by 22.9% on the prior-year figure – which was low due to timing – to €902.0 million. Order intake increased by a slight 0.8% to €925.2 million. Earnings before taxes decreased 43.2% to €26.7 million due to expenses for reorganisation.

Our share price performed poorly in the third quarter, falling by 18.4% between July and September. One reason for this was a general aversion among investors towards shares in the mechanical engineering sector.

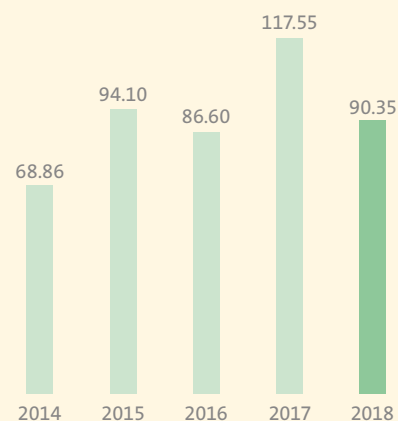
Order intake Q3 (€ million)



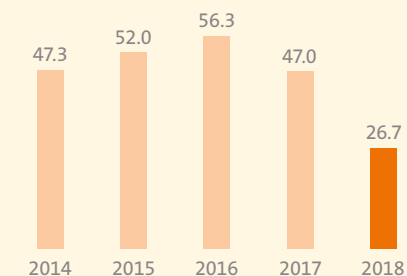
Revenue Q3 (€ million)



Share price 30 September (€)



EBT Q3 (€ million)



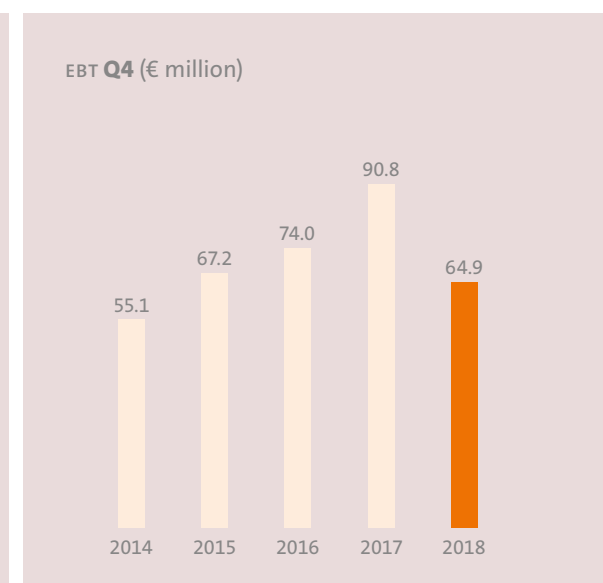
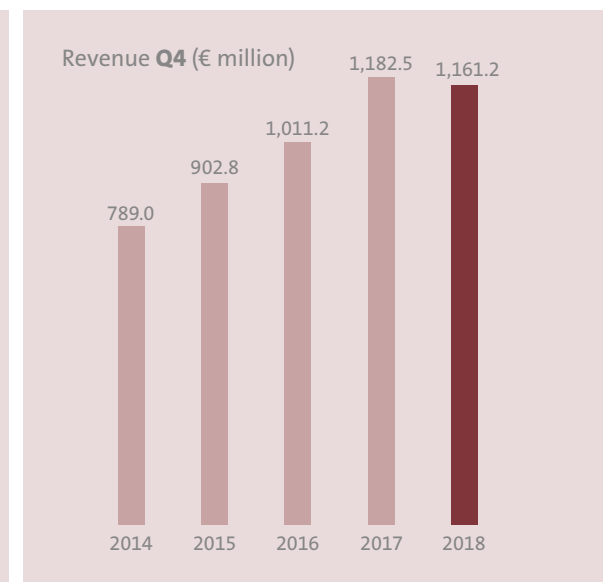


## Fourth quarter 2018

KRONES took part in a number of major international trade fairs during the autumn. From 6 to 8 November, the company exhibited at Gulfood, Dubai, one of the most important trade fairs for the food and beverage industry in the Middle East. BrauBeviale, the most important capital goods exhibition for the beverage industry, took place in Nuremberg from 13 to 15 November. KRONES presented innovations from its product and service range.

On 24 October, KRONES lowered its revenue and earnings targets for 2018. In addition, the company announced that its medium-term targets would be achieved later than expected. This news had a negative impact on the KRONES share price. Our shares lost 25.3% in value over the fourth quarter.

As expected, order intake and revenue in the fourth quarter of 2018 did not quite match the high levels recorded in the previous year. KRONES generated EBT of €64.9 million from October to December 2018 (previous year: €90.8 million).



## Systems and Lifecycle Service – **performance matters**

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. Also important is that we enable customers to produce reliably and at the highest level of quality.

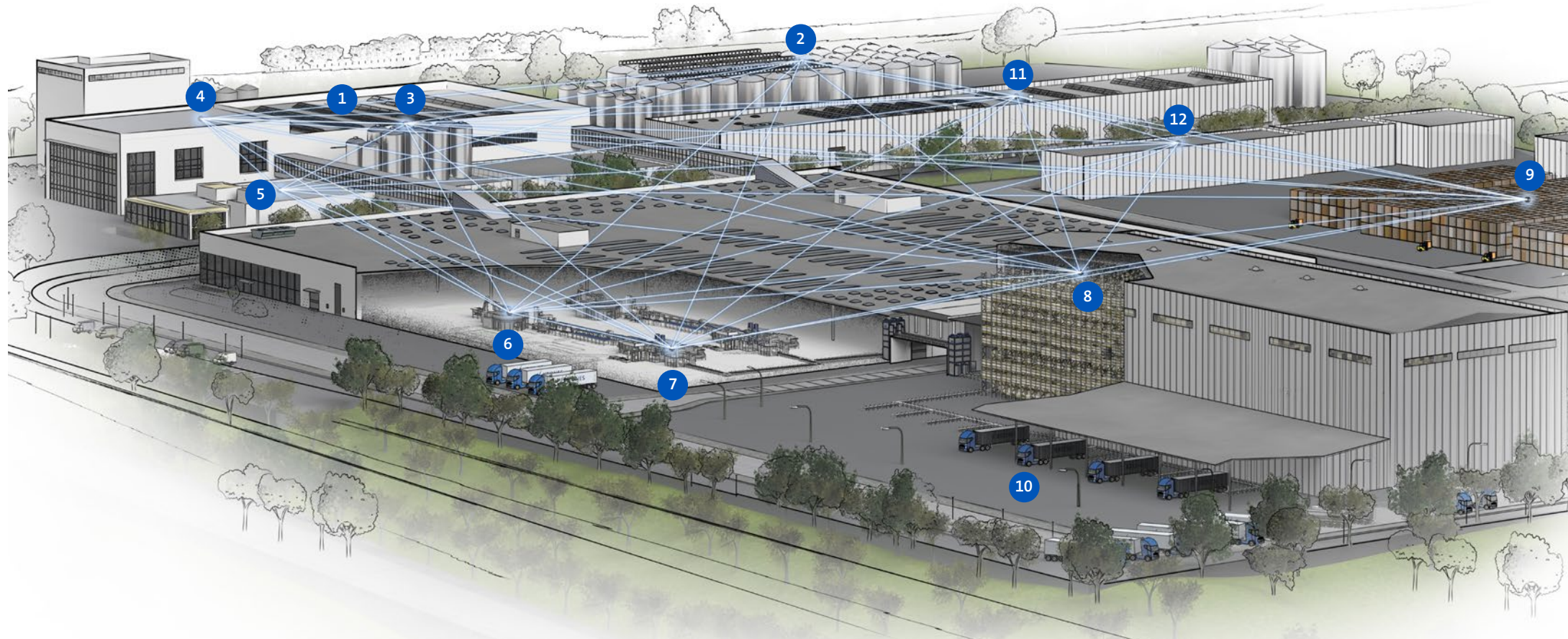
We deliver all machines and lines needed for producing, filling and packaging beverages. We also provide complete logistics systems, supply and disposal systems, and custom IT and digitalisation solutions that manage and document all production processes.

In addition, we support our customers with excellent, 24/7 after-sales service. This is crucial to ensuring that 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 portfolio.



Partner for  
Performance



1 | Brewhouse (malt silo, mash tun, lauter tun, wort kettle, whirlpool, and wort chiller)

2 | Fermentation and conditioning tanks and filters

3 | Conditioning and production tanks

4 | Administration

5 | Laboratories

6 | Bottling hall

7 | Packing and palletising machines

8 | Fully automated high-bay warehouses

9 | Manual warehousing system

10 | Order-picking and distribution

11 | Heat, cooling, compressed air and energy supplies

12 | Disposal systems

## Strategy and management system



*“We are in a challenging market. This was plain to see last year. It is also a market with huge opportunities. This is why we are sticking to our medium-term goals, even if they are ambitious.”*

**Christoph Klenk**  
CEO

KRONES is very well positioned with its full global portfolio of products and services. We provide customers from the liquid food industry with everything they need from a single source, from beverage production to filling to packaging. Intralogistics solutions, information technology and high-level after-sales service complete the portfolio. KRONES aims to defend its strong market position in the core bottling and packaging equipment segment and to significantly improve its position in process technology/beverage production.

Just as the market harbours opportunities, KRONES also faces major challenges. Political uncertainties, trade conflicts and economic crises in individual countries and regions create for unpredictability. Competition for orders will remain intense, as competitive pressures are not easing. On the customers' side, mergers and acquisitions result in enhanced buying power and sometimes delay investment.

KRONES' markets show relatively stable growth. Long-term, growth rates are expected to be above global GDP growth. Besides our big competitors, a number of smaller providers also contend for orders. However, most of these competitors offer products relating to subsegments of beverage production, filling and packaging, or are only focused on specific regions.

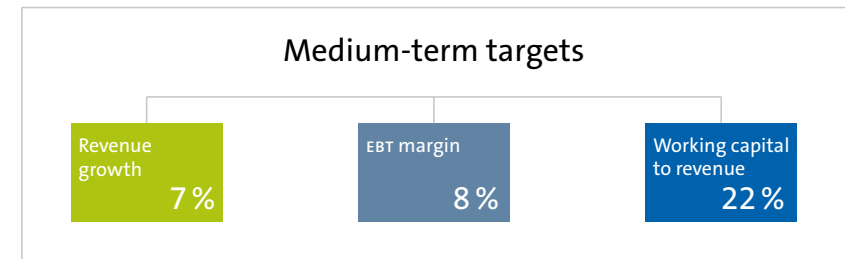
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The ongoing digitalisation and integration of production are also increasingly changing our market and business models and requires investments.

### 7/8/22 medium-term target unchanged

KRONES has set itself ambitious medium-term financial targets to consolidate its market position. 7/8/22 stands for:

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



Due to various challenges, however, such as continuously rising material and labour costs and ongoing heavy investment in the future of the business, it will take longer for the medium-term targets to be attained.

*The medium-term targets are unaltered. However, KRONES will take longer to attain them.*

## Leveraging market opportunities

*KRONES will make targeted use of its market opportunities.*

For KRONES to grow at a faster pace in the medium term than the global economy, which on IMF estimates is expected to show growth of about 3.5% in 2019 and 2020, we must make targeted use of market opportunities. KRONES is therefore expanding in markets where beverage consumption shows above-average growth – most of all in Africa and Asia. A further growth driver is rapidly growing product diversity. Both beverage products and packaging are becoming increasingly diverse. Customers demand versatile machines and lines in response. KRONES aims to profit from this attractive market segment with its technologically sophisticated products.

Alongside internal initiatives, acquisitions will also continue to contribute to growth. We made a number of further acquisitions last year, primarily in process technology. Just as important as acquiring companies is their rapid integration. We aim to step up the further development of acquisitions in the KRONES Group in order to promote 'bought-in' internal growth. In the medium term, around 2% of annual revenue growth is planned to come from acquisitions.

## Innovation secures future growth

Innovation is the foundation for sustainable growth at KRONES. Our customers are a source of ideas for new products and services. Equally, our workforce are known for their innovativeness. For KRONES, customer benefit takes first prior-

ity in all innovation (*see R&D, p. 53*). Not only do we seek to score with new products in the three key areas of process technology/beverage production, filling/packaging and intralogistics, we also aim to harness innovative after-sales service together with IT and digitalisation solutions for our growth targets.

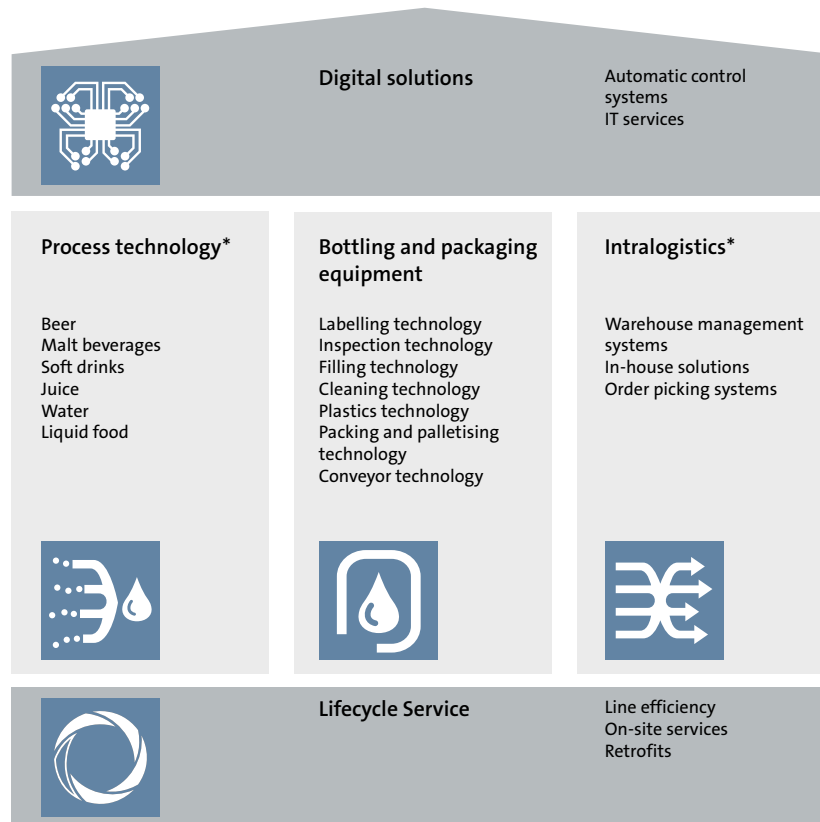
One of our strengths lies in the long-term orientation of our innovation strategy. It frequently takes several years for our products to become established and capture the market. This requires persistence. But persistence pays, as plenty of examples demonstrate. An example is our extremely space-saving, high-performance ErgoBloc L, which we first presented at drinktec in 2011 and which, after a certain lead time, ultimately became a best seller. We already shipped our 250<sup>th</sup> ErgoBloc L in 2018. Our aseptic portfolio, which we have been building with new developments for several years, is now likewise gaining momentum. This is exemplified by the Contiform AseptBloc, which major customers are increasingly ordering and which we intend to position in the Asian and US markets this year.

Another key element of KRONES' innovation strategy is the establishment of an innovation network. Working in close cooperation with universities, research institutes and start-ups, we aim to develop products and solutions for the digitalisation of the beverage industry. Product innovations are no longer created in isolation inside development departments, but in open networks incorporating expertise from other industries and disciplines.



## Expanding our global footprint in the House of KRONES

With the “House of KRONES”, KRONES has tailored its business model to customer needs and to the state-of-the-art beverage plant.



We aim to further strengthen our core **bottling and packaging equipment** segment. For this, we are going to expand our global footprint and increase international value creation. A key step in this is our new production location in Debrecen, Hungary. There, we plan to assemble components, primarily for conveyor technology, with a 500-strong workforce from the second half of 2019.

\*The two pillars Process Technology and Intralogistics comprise the Machines and Lines for Process Technology segment

We will rapidly bring the capacity added at our facility in Taicang, China, to full utilization in the coming years. This will increasingly enable us to supply the Chinese and Asian markets from the region.

Bottling and packaging equipment, as the highest-revenue pillar in the House of KRONES, is expected to grow further and will benefit from the increasingly demanding of customer requirements. These primarily relate to high system efficiency and flexibility. KRONES is well positioned here with its technologically advanced products.

KRONES takes the debate about plastic packaging very seriously. We have consequently provided lines for high-quality PET recycling for many years. We have ten systems already in operation at customers, and we continue to expect brisk demand. As well as being a pioneer in PET recycling lines, KRONES also leads in the economical utilisation of plastics in the bottle production and the packaging technology.

The **process technology** pillar of our business is set to grow further in the medium term with significantly improved profitability. We intend to improve order quality and hence profitability in the high-revenue breweries business. Expanding local capacity will enable us to respond even better to market needs. A further key to this segment’s long-term success lies in expanding its regional structure and establishing international hubs. Medium-sized and smaller orders in particular – which we plan to focus even more in the future – can be met more quickly and more cost-effectively from a regional base. This extends all the way from quotation, purchasing and engineering through to assembly and management. We plan to establish all of these capabilities in our hubs around the world. The acquisitions of W.M. SPRINKMAN CORP., TRANS-MARKET and JAVLYN in the USA give us a strong presence in this segment in North America. We are well positioned in process technology in China following the acquisition of SHANGHAI XIATONG EQUIPMENT. In the medium term, we also plan acquisitions to strengthen our presence in other regions.

*Innovations that create added value for customers are the basis for sustained profitable growth.*

better the complexity in their products and optimise material flow management. Intralogistics also helps to manage and distribute the increasing number of different packaging variants.

KRONES is well positioned in intralogistics with SYSTEM LOGISTICS and our in-house specialist for sophisticated intralogistics projects. In order to exploit the market's strong growth opportunities, KRONES intends to further expand both its international reach and its product portfolio in this area.

### Actively shaping the digitalisation of the beverage plant

The digitalisation of beverage plants offers huge opportunities in the medium to long term. KRONES is in a very strong position as a full-service supplier, as we are able to capture the material and data flows along a customer's entire production process. The captured data can be used to develop new LCS products and services that create sustained added value for customers. An example is predictive maintenance of machines and systems using sophisticated data analysis. This avoids customers expensive downtime, as production data analysis enables problems with components to be detected at an early stage.

We pool our digitalisation capabilities in our subsidiary SYSKRON. This now has a workforce of some 180 employees, who use the latest technologies to develop digitalisation solutions for the beverage industry that create measurable added value for customers. Connected Line is an excellent example.

The **intralogistics** part is a further key pillar in the House of KRONES and an important element of the digital beverage plant. This is an important area for our customers because it allows them to control

The digitalised line provides both operators and KRONES with valuable information round the clock, thus enabling improvements in system efficiency. Our Share2Act platform – a network linking all employees, machines and IT systems involved in production – helps streamline customer processes, shorten lines of communication and reduce downtime.

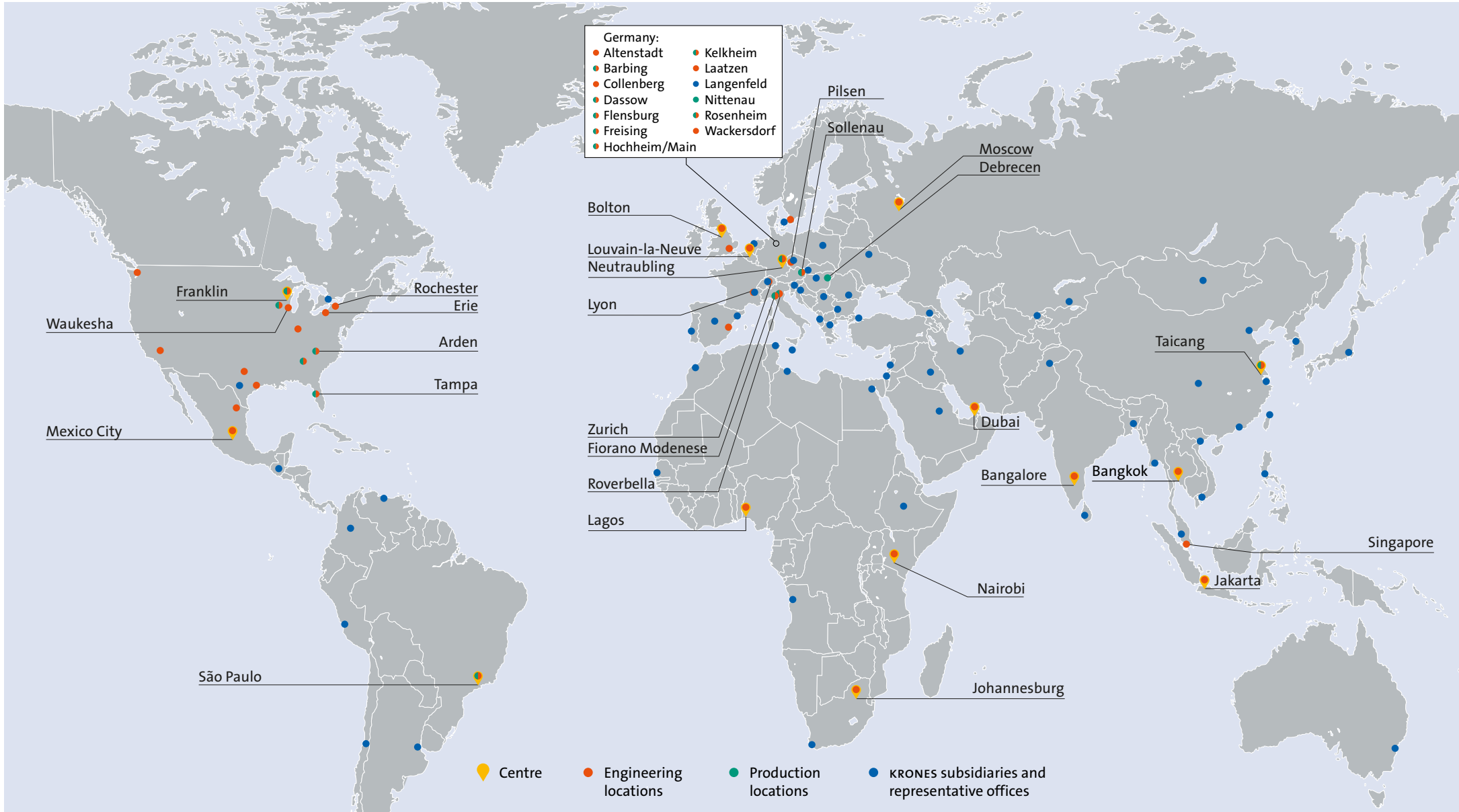
The company will maintain its high level of investment in digitalisation going forward. SYSKRON and its agile subsidiaries will continue to develop attractive software solutions and viable digital business models and establish them as quickly as possible in the food and beverage industry.

### Price increases and expansion of the company's global footprint to enhance profitability

We did not achieve our profitability targets in 2018. The main reason for this was the more rapid increase in personnel and material expenses. Expenses for reorganisation and acquisitions also had a negative impact on earnings. Cost of materials went up because the booming economy enabled suppliers to push through substantial price rises. At the same time, selling prices in the markets served by KRONES have remained stable for years. To continue delivering innovative products and services at top quality despite increasing material and labour costs, Krones raised the prices for all bottling and packaging machinery and for process technology by an average of 4.5% as of 1 May 2018. These price rises are necessary in order to partially offset the cost increases.

*KRONES is forging ahead with digitalisation. Share2Act and Connected Line are prime examples.*

### KRONES' global footprint





*Expansion of our global footprint is essential for KRONES to deliver sustained improvements in profitability.*

Despite the setback in 2018, KRONES plans to raise profitability in the years ahead. Also expanding our global presence in bottling and packaging equipment is an important part of this process. We currently generate a small share of added value outside Germany, even though almost 90% of revenue comes from abroad. Establishing a supply chain in China and Hungary will enable us to reduce personnel and material costs in the medium term.

With the next stage in modularising the products in our core segment we want to reduce the substantial rise in the prices we pay for materials. Firstly, we will further increase modularisation and thus reduce the complexity of our machines and lines. That should result in a lower material cost input. Secondly, we will simplify the design of our modules so that local suppliers will also be capable of meeting our requirements in the medium term. That will increase competition and should lead to more attractive purchase prices.

Our service business is important to the profitability of KRONES. Nearness to customers is the key success factor here. We will therefore further reinforce our global network of service and sales offices. The challenge for KRONES here is recruiting and retaining enough well-qualified people from local regions. KRONES is consequently investing significantly in training and development for local employees in order to counter the relatively high employee turnover rates in emerging markets.

## Strong growth investment in Germany and internationally

To remain competitive for the long term, KRONES must invest – both in its German locations and in its global footprint. In Germany, we intend to invest around €190 million in the next few years. We plan to digitalise and automate internal production operations, processes, organisation and logistics as far as possible for substantial gains in productivity and efficiency. As the high level of investment in Germany shows, Germany remains KRONES' central location for the development of innovative machines, lines and services.

*KRONES will continue to invest substantially in its operations at home and in its global footprint.*

However, we also plan substantial investment abroad. In addition to the new factory in Hungary, which has already been mentioned, we also continue to expand our international service centres and engineering hubs.

## Security from healthy financial and capital structure

KRONES continues to have a sound financial and capital structure, with net cash and cash equivalents totalling €215 million and an equity ratio of 43.2%. The company has sufficient capital and financial headroom to finance growth investment and potential acquisitions and to provide shareholders with their share of the company's success in the form of dividends. Our dividend strategy is to pay out 25% to 30% of consolidated net income to shareholders.

## Improved working capital management

KRONES is not satisfied with performance towards our third target, working capital as a percentage of revenue. This came to 27.3% in 2018, which is short of our 22% target. We consequently aim for progress in working capital in the years ahead and have defined short and medium-term measures for this purpose. This comprises larger customer downpayments, faster completion of on-site assembly and optimised inventory management. All this is for reducing the ratio of working capital to revenue. Less capital tied up in the operating business means more capital for investment. For each percentage point by which we improve this ratio, our liquidity improves by around €40 million.

## Workforce the foundation of lasting success

Our workforce is the key for the success of KRONES. They are responsible for customers' satisfaction with our products and services.

KRONES consequently invests significantly in training and employee development. But we also need to make even more efficient use of the knowledge and the networks that are already there within the KRONES Group. Every decision that is delayed and every piece of information that is lost costs valuable time. By using direct communication channels, we succeed in keeping up with rapid change in globalised and digitalised markets.

KRONES will continue to expand the international workforce in the coming years in order to use market growth opportunities. We specifically plan to step up recruitment for KRONES in the emerging markets. With our training centres in Africa, China and South America, we already have a good basis in this regard. The more people we recruit for our international locations from local regions, the closer we are to our customers and markets. This allows us to identify trends and developments at an early stage and so increase customer satisfaction.

Employees in the emerging markets 2013–2018

Year	South America	Africa	Asia-Pacific	cis/Eastern Europe	China	Total
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>
2018	637	452	830	213	716	<b>2,848</b>

KRONES will also continue to invest in the workforce in Germany and Western Europe. Workforce growth in this region will be at a lower rate, however.

## KRONES' management system

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

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

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. Out of EBT, the group pays taxes and dividends and makes investments and capital expenditures. Profitability, measured as the **EBT margin**, is among our key targets and parameters. The EBT margin indicates the company's profitability in relation to revenue. For the group, we calculate the target margin as the weighted average of the two segments.

Our third major performance indicator is **working capital to revenue**, which is calculated at 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 possibility the company has to use its cash and cash equivalents for other purposes.

## Other financial key performance figures

In addition to the above, a further important performance indicator for KRONES is **EBITDA**, which is earnings before interest, taxes, depreciation and amortisation. We take further guidance from 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).

## Research and development (R&D)

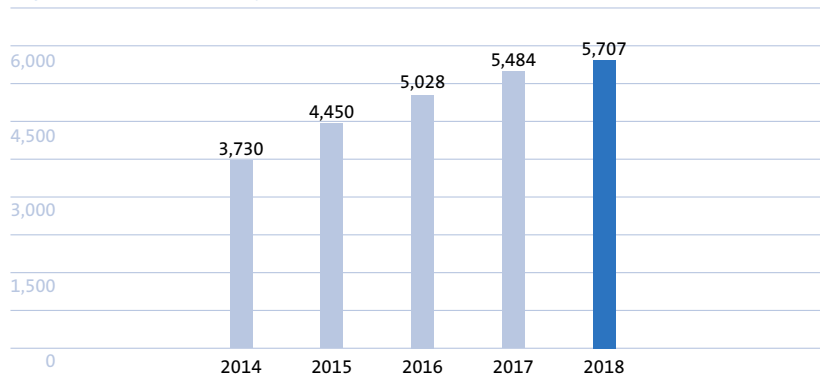
- 4.6% of revenue invested in R&D
- Focus on customer benefit
- Digitalisation a key priority
- Attractive products reflect KRONES' innovative capacity

Innovative products that create added value for customers are the basis of our future business success. Some 2,300 highly qualified people at KRONES keep the pipeline filled with new and evolving machines, systems and services. The portfolio of registered patents and utility models grew from 5,484 in the previous year to 5,707 at the end of 2018. This underscores the innovative capacity of the KRONES team. A total of €179 million (previous year: €172 million) was invested

*KRONES invested approximately 4.6% of consolidated revenue in research and development in 2018.*

in research and development in the reporting period. That corresponds to 4.6% of consolidated revenue. Of this total, €38.5 million was capitalised as development costs in 2018 (previous year: €39.8 million).

Registered patents and utility models – KRONES Group



### Innovation focused on customer benefit

When developing new products, our prime focus is on market needs. Our sales force and engineers have excellent contacts with customers. We consequently have very good knowledge of customer requirements. Our House of KRONES also provides us with a 360-degree view of customers' needs and expectations. We feed this knowledge into the innovation process in order to identify suitable development projects. Employees from a wide variety of disciplines then follow these through as swiftly as possible.

The market essentially demands machines and lines that:

- Cut operating costs
- Increase output
- Improve flexibility
- Simplify operation.

Low operating costs on machines will continue to be an important issue for customers. Efficient machine block arrangements play a major role in this regard. Combining machine functions permits us to make our lines more compact. That saves customers space and time. The LinaFlex Compact pasteuriser is a good example.

A key parameter in achieving higher output is low downtime. New digital technologies allow us to provide services such as predictive maintenance. This enables us to increase line availability and hence performance.

With the increasing diversity of products and packaging forms, flexibility is another important decision criterion. Many customers want to be able to process the greatest possible variety of beverages and packaging forms on a single line. That requires flexible machines and lines that can be changed over quickly.

Our LineXpress system largely automates product changeover during filling. Smaller and smaller batch sizes are being produced on a single line with a single beverage before changing over. KRONES has pushed the envelope as far as it can go here by reducing the smallest possible batch to a single unit. Our bottling on demand proof-of-concept study presented at drinktec in 2017 continues to generate strong customer interest. 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.

Ease of operation is increasingly important to our customers. In the future, our systems will therefore have to feature technologies that massively simplify operation, maintenance and care. Ultimately, digital technologies will make for systems that are self-integrating, self-diagnosing and self-repairing.

### Huge opportunities in digitalisation

New technologies make it possible to create a digital simulation of an entire beverage plant. This enables us to more fully unlock potential along the entire value chain and create measurable added value for customers in the food and beverage industries.

### Transforming existing technologies for the digital age

KRONES has a very strong portfolio of products and services. In order to further build on our high standards, we must think ahead and complete the transformation to the digital age as soon as possible. To this end, we are combining the know-how of our workforce with new technologies such as cloud computing, big data and the Internet of Things (IoT). This results in innovative products that provide significant added value for customers – such as Share2Act, our dynamic software platform.

### Innovation networks accelerate product development

Product innovations are no longer created in isolation inside development departments, but in open networks incorporating expertise from other industries and disciplines. By collaboration between various corporate units and customers, suppliers and research institutes, we aim to minimise the time needed to develop and launch innovative products.

For this purpose, KRONES is setting up an innovation network on the TechCampus in Regensburg. The aim here is to collaborate with the University of Regensburg, Regensburg University of Applied Sciences and other innovation partners on the development and implementation of solutions for the beverage industry, primarily in the fields of digitalisation, information technology and IoT. We already pursue this approach with our InnovationLab, which is also located on the TechCampus. Through our subsidiary SYSKRON, we implement targeted investment in these areas.

### Commitment to sustainability: Ten years of enviro

KRONES made the decision to introduce the enviro sustainability programme in 2008. A TÜV-certified management system, enviro is an integral part of the product development process at KRONES. An objective of all KRONES innovations is to reduce energy and media consumption on our machines and lines. As a result, all new KRONES machines are state-of-the-art in terms of efficiency and environmental performance.

On the following pages, we present a selection of innovations in greater detail. After drinktec 2017, where KRONES showcased an above-average range of new products and services, the focus in the follow-up year has been on implementation.

## Contiform 3 Speed

The new Contiform 3 Speed further enhances added value for KRONES customers. Unlike on a conventional stretch blow-moulding machine, where the two mould halves are held together during the stretch blow-moulding process by a pressure pad in the mould carrier, the same task is performed on the Contiform 3 Speed by a redesigned locking mechanism. Eliminating the pressure pad means that larger bottles can be produced without increasing the dimensions of the blow module and the machine.

KRONES has combined the advantages of a smaller blowing wheel and machine size with further improvements. This makes for substantial gains in machine output. The Contiform 3 Speed can produce up to 2,750 containers per station per hour – about 10% more than comparable machines – while consuming less energy.



## MetaPure washing module for polyolefins

The KRONES MetaPure PET recycling line is well-established on the market. Now we have developed MetaPure w-PO, a special washing module for polyolefins. The main polyolefins are polypropylene and polyethylene. These account for about 50% of the market in plastic packaging. To put that in context, PET has a market share of about 2.5%. This underscores the huge potential in recycling polyolefins.

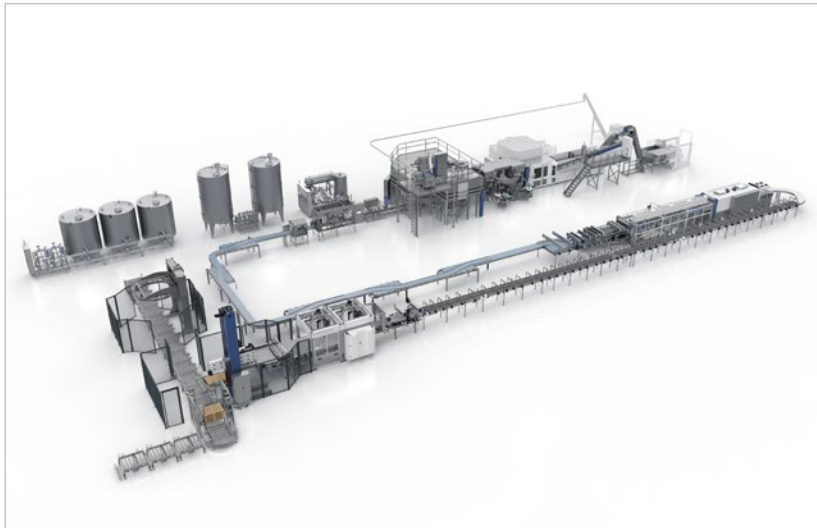
The washing process is always key to the quality of recyclate obtained from a recycling process. As polyolefins have very different physical properties to PET, we had to adapt the process with regard to washing. However, the overall concept continues to be based on our extensive experience in PET washing technology.



## LineXpress

Fast product changeover is critically important for customers. LineXpress enables PET bottle fillers to change their line over to other products, grades, formats and containers extremely quickly. The range consists of a selection of automation components. Together with the machines on the filling line, these control the changeover process and assist the line operator.

Automation components from KRONES' LineXpress range are available for packers, fillers and blow moulds. Switching out blow moulds, for example, is the job of the MouldXpress Robot module. This changes over the blow moulds on the Contiform 3 Pro almost fully automatically in less than 15 minutes. The outcome is reduced downtime and increased system output.



## LinaFlex Compact

LinaFlex Compact supplements the KRONES pasteurisation portfolio at the lower end of the output range. This pasteuriser is delivered completely pre-installed in one piece and offers easy plug-and-play setup. Connection to an existing line and all media together with commissioning are completed in a matter of days.

Technically, the LinaFlex Compact is based on the proven KRONES pasteuriser technology. It is contained in a compact machine housing. That saves customers valuable space. The machine also features a newly developed spray nozzle system that requires less pumping power and so reduces energy consumption.



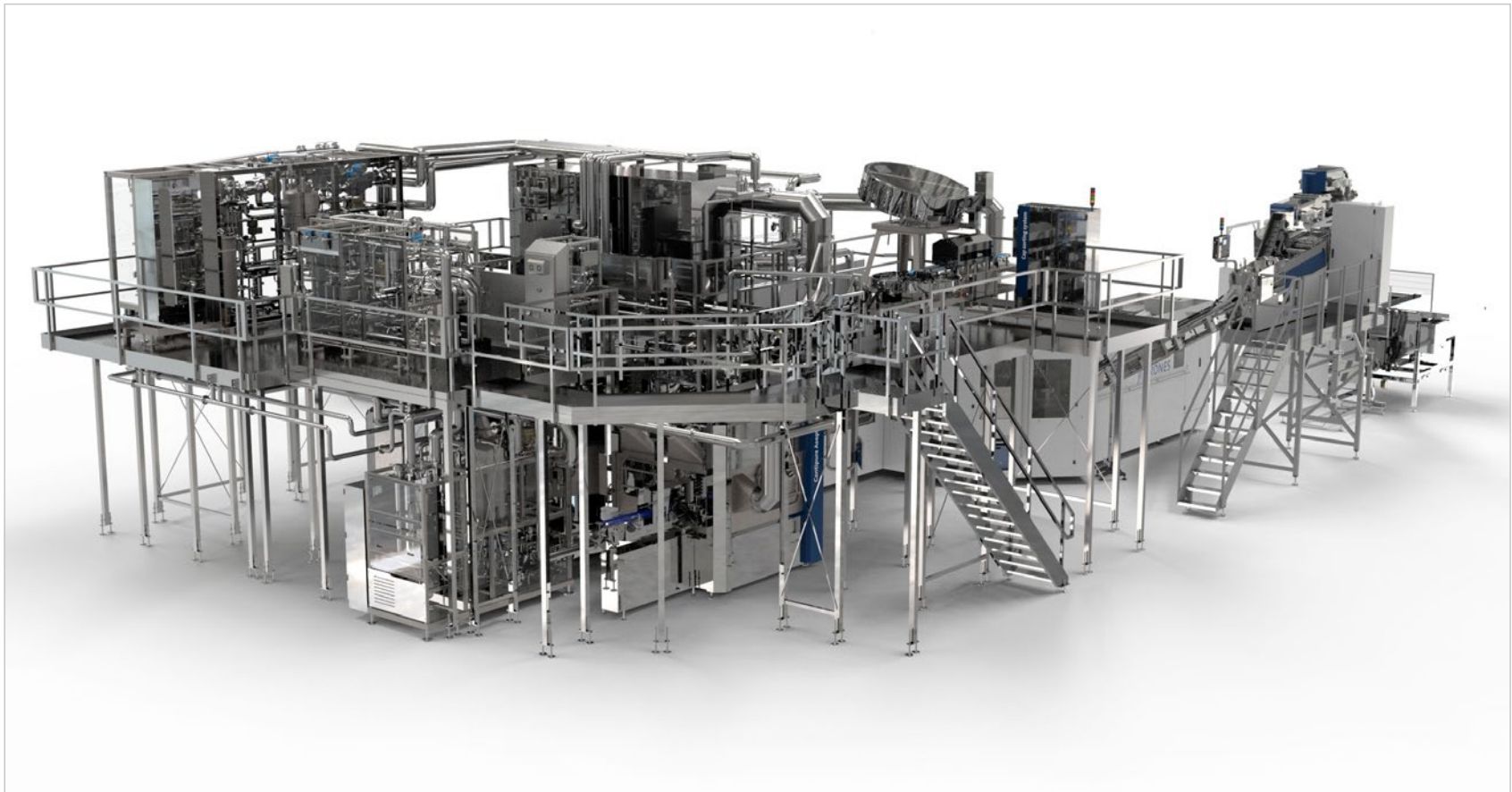
## Aseptic bloc for the lower output range

Beverage manufacturers all over the world use KRONES aseptic lines for bottling sensitive beverages. Our customers value the flexibility, reliability and performance of our aseptic systems portfolio.

The lower output range, with filling capacities of less than 24,000 bottles per hour (bph), has so far been handled with bottle sterilisation, which is a tried and tested process. Thanks to various adaptations, we are now able to serve the large

market for aseptic filling systems in this performance range with innovative preform sterilisation technology. This means that an end-to-end bloc solution from blow-moulder to filler – as KRONES has successfully offered for years in the larger output range – can be provided for capacities as small as 12,000 bph.

With this innovative approach, KRONES has closed the gap between the smaller and larger output range in aseptic filling systems, and at attractive prices.





## Economic environment

- Global economic growth weaker than expected
- German mechanical engineering production up 2% year-on-year in 2018
- Rising global demand for packaged beverages

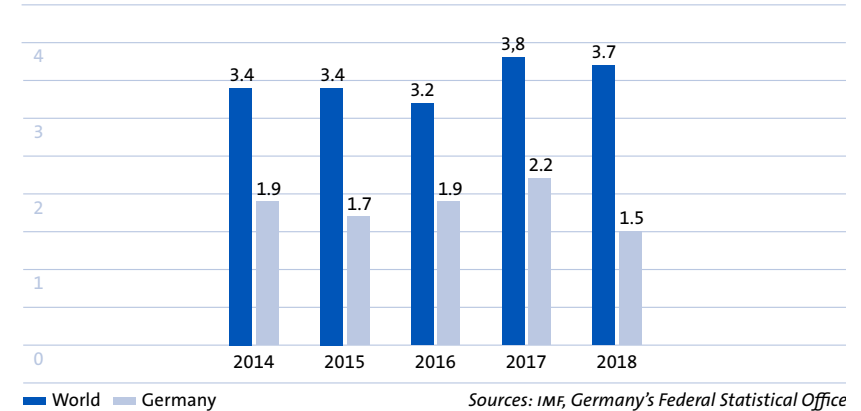
### Trade conflicts slow global economic growth

The pace of global economic growth slowed slightly in 2018 compared with the previous year. According to data released by the International Monetary Fund (IMF) in January 2019, global gross domestic product (GDP) grew by 3.7% in the reporting period (2017: 3.8%). The IMF had originally forecast growth of 3.9% for 2018. World trade and growth were slowed down in the momentum by the trade conflict between the USA and China. Fears of a No deal Brexit and the problems of the automotive industry in Germany additionally had a negative impact on the overall economy in Europe.

GDP growth in emerging and developing economies continued to outpace other markets in 2018 but was nonetheless weaker than anticipated at 4.6% (2017: plus 4.7%). Chinese economic growth was particularly disappointing. GDP there rose 6.6% in 2018 (previous year: plus 6.9%). That was the weakest growth in China for nearly 30 years. Economic activity in Latin America also lost momentum. There, GDP gained only 1.1% (previous year: plus 1.3%). Growth in the Middle East/North Africa (MENA) region accelerated in the reporting period to 2.4% (previous year: plus 2.2%).

GDP in mature industrialised economies improved by a total of 2.3% in 2018 compared with 2017 (previous year: plus 2.4%). Economic growth in the euro area slowed disproportionately to 1.8% (previous year: plus 2.4%). Despite the

GDP growth (%)



trade dispute with China, the US economy performed significantly better in the reporting period. One reason for this was lower taxes. US GDP rose by 2.9% in 2018 (previous year: plus 2.2%). In Japan, by contrast, GDP improved by just 0.9% (previous year: plus 1.9%).

### German GDP grows 1.5% in 2018

According to preliminary figures from Germany's Federal Statistical Office, German GDP was 1.5% higher in 2018 than in the previous year. That made it the ninth consecutive year of GDP growth. The pace of growth was lower, however. In 2017, GDP growth had been 2.2%. The strongest momentum for growth in 2018 came from private consumer spending and business capital expenditure.

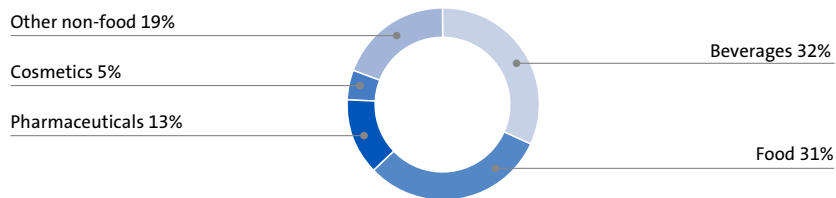
## German machinery output growth weaker than expected

German machinery and industrial equipment manufacturers saw output decrease slightly towards the end of 2018. Output for the full year 2018 consequently fell significantly short of the Mechanical Engineering Industry Association (VDMA) forecast. On preliminary figures, production did not grow by 5% as predicted for 2018, but by just 2%. One reason for the weak fourth-quarter performance according to the VDMA consisted of capacity bottlenecks relating to material and labour.

According to preliminary figures, production in the food and packaging machinery subsector relevant to KRONES rose by around 6% year-on-year in 2018.

## Demand for packaging machinery 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 and 2018 were not yet available for preparation of this 2018 annual report. However, VDMA forecasts suggest that demand for packaging machinery is likely to have 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%.

*Around two-thirds of the global demand for packaging machines comes from the food and beverage industry.*

KRONES has conducted an analysis on the potential effects of Britain's withdrawal from the European Union (Brexit). Due to the fact that the KRONES Group does not produce in the United Kingdom, we foresee no material impact on our business model, financial position or earnings.

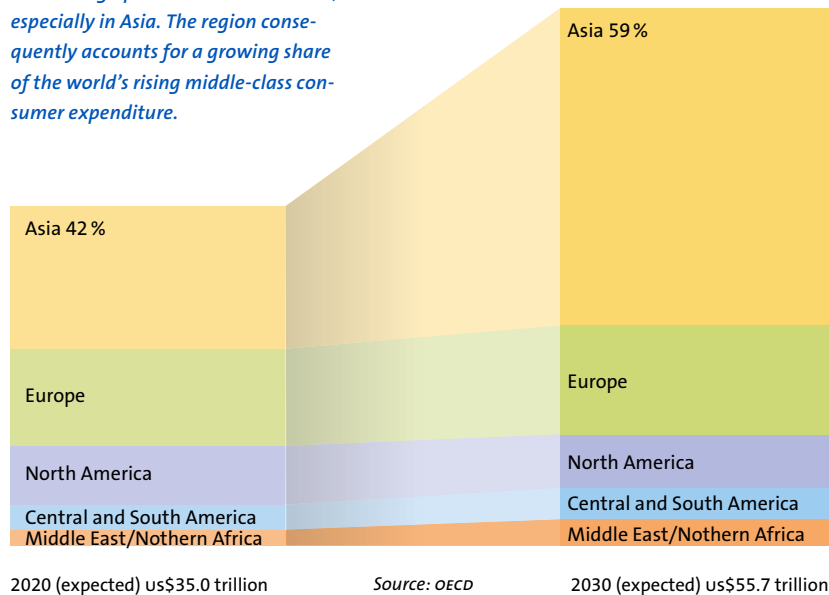
## Megatrends ensure stable market growth

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 2018, more than 7.6 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.

## Asia's share of global middle class consumption is growing rapidly

Rapidly increasing numbers of people are moving up into the middle classes, especially in Asia. The region consequently accounts for a growing share of the world's rising middle-class consumer expenditure.

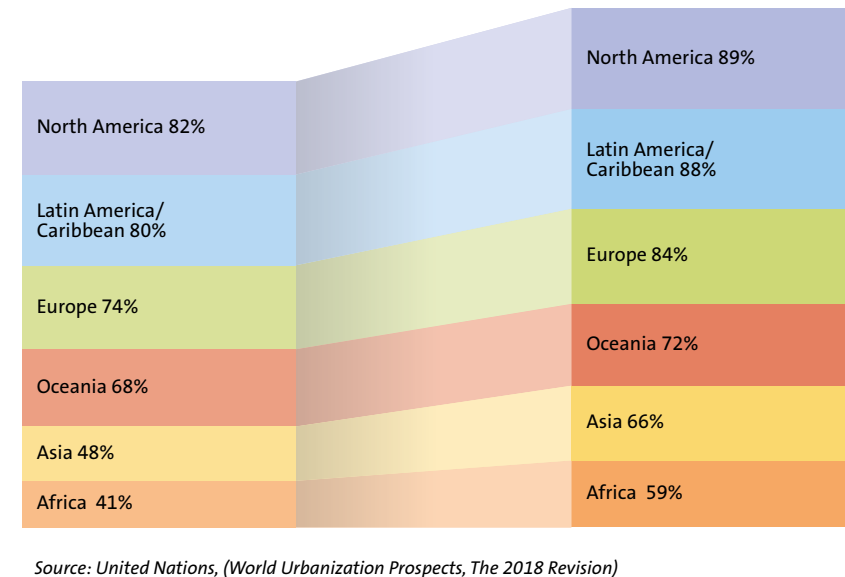


## Growing middle class increases consumer spending

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.

## Urban population in 2015 and 2050 (% of total)

The trend towards urbanisation is strongest in Africa and Asia.



## Urbanisation is driving growth

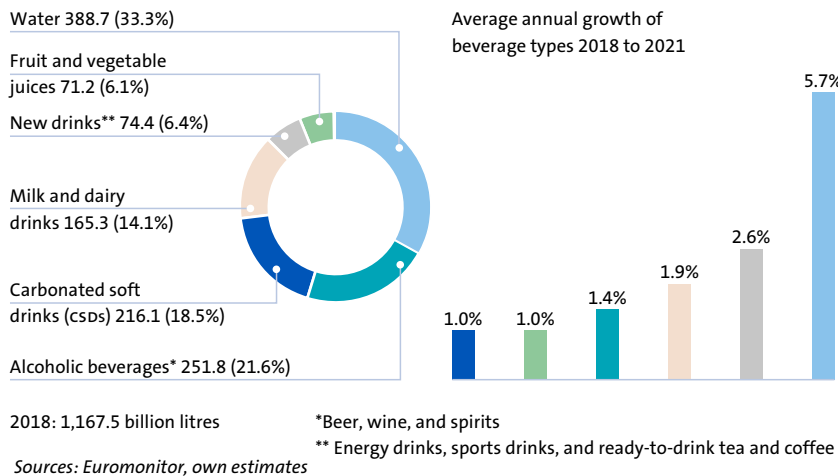
Increasing urbanisation, the migration of people from rural areas to cities, also promotes demand for packaged food and beverages. That is because city-dwellers generally consume more packaged products than people who live in the countryside.

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.

## Consumption of packaged beverages steadily increasing

According to preliminary data from market research institute Euromonitor, the world population consumed 1,168 billion litres of packaged beverages in 2018. Global consumption was thus 2.6% higher than in the previous year. Consumption of packaged beverages has been steadily growing for many years. This stable growth is likely to continue due to the megatrends mentioned above. Euromonitor expects global consumption of packaged beverages to rise by an average of 2.9% a year from 2018 to 2021.

Global consumption of packaged beverages in 2018 (billion litres)



The consumption of bottled **water** is expected to increase significantly more rapidly between 2018 and 2021 than the market as a whole. Euromonitor projects a 5.7% average annual growth rate for this market segment. A key growth driver is rising demand for clean bottled drinking water in emerging and developing countries. In addition, the trend towards healthy eating is supporting

*Consumption of bottled water is rising sharply. This is mainly due to strong demand in emerging and developing countries.*

demand for bottled water in industrialised economies. Bottled water is already by far the largest segment of the global beverage market. In 2018, people around the world drank some 390 billion litres of bottled water. That is one third of all packaged beverage consumption.

**Alcoholic beverages** are the second largest segment, with a 21.6% share in 2018. This corresponds to consumption of some 252 billion litres. The biggest share of that (nearly 80%) was beer. Aside from growing demand for craft beers – speciality beers from smaller breweries – demand for beer in many industrialised countries is saturated. As a result, consumption of alcoholic beverages will grow at a slower rate than the overall market. Market researchers expect annual growth rates averaging 1.4% for the years 2018 to 2021.

Another large market is **carbonated soft drinks (CSDs)**. The world population consumed some 216 billion litres of packaged CSDs in 2018 (share of total beverage consumption: 18.5%). With expected average growth rates of 1.0%, however, demand for CSDs is expected to rise only slowly in the period 2018 to 2021. A major reason for this is spreading consumer health consciousness. Consumers are increasingly replacing mostly sugary soft drinks, such as cola and lemonades, with water.

Within the **milk and dairy drinks** segment (share of global beverage consumption in 2018: 14.1%), Euromonitor expects high growth rates for niche products such as yoghurt smoothies (+6.7%) and soy milk (+3.8%). However, consumption of plain milk, which accounts for nearly 80% of the market segment, is likely to grow by just 1.8%. Overall, the experts project average annual growth rates of 1.9% for the milk and dairy drinks segment from 2018 to 2021.

**New drinks** (share of total beverage consumption in 2018: 6.4%) and **fruit and vegetable juices** (share: 6.1%) are the two smaller segments of the global beverage market. The new drinks category includes ready-to-drink tea and coffee together with sports and energy drinks. From 2018 to 2021, new drinks are expected to show significantly higher average growth rates (+2.6%) than fruit and vegetable juices (+1.0%).

### Booming demand for packaged beverages in emerging market countries

*KRONES is benefiting from population growth in emerging and developing economies. The growing diversity of beverage products and increasingly varied packaging are boosting demand in mature industrial countries.*

The megatrends – global population growth, a burgeoning middle class and urbanisation – mainly play out in emerging and developing countries. These are consequently the strongest source of growth in demand for packaged beverages.

Consumption is likely to climb most rapidly in the Africa/Middle East region. There, Euromonitor expects average annual growth rates of 5.9% from 2018 to 2021. Similarly strong (5.7%) demand growth for packaged beverages is anticipated in the Asia/Pacific region.

In the mature markets of Europe and North and Central America, population and hence beverage consumption show only marginal growth. KRONES' growth opportunities in these markets relate not to rising beverage consumption, but to the increasing diversity of packaging variants.

### Worldwide consumption of packaged beverages

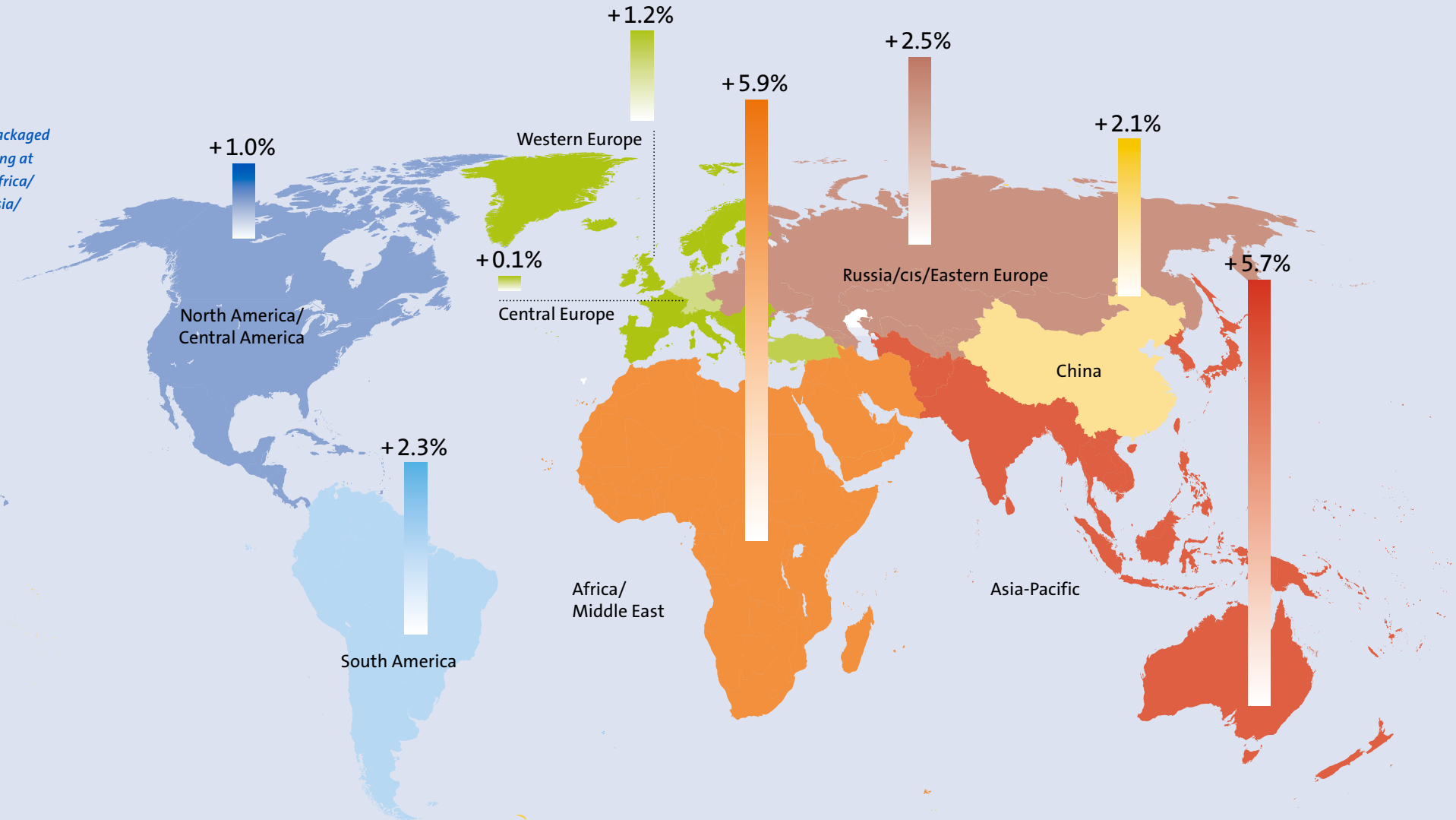
	2018 (e)		2021 (e)		Average annual growth (%) 2018–2021
	Billion litres	%*	Billion litres	%*	
North America/Central America	201.2	17.3	207.4	16.3	1.0
Asia-Pacific	197.6	16.9	233.3	18.4	5.7
China	177.2	15.2	188.8	14.9	2.1
South America	158.0	13.5	169.3	13.3	2.3
Africa/Middle East	148.5	12.7	176.6	13.9	5.9
Western Europe	144.5	12.4	149.8	11.8	1.2
Russia/cis/Eastern Europe	86.2	7.4	92.8	7.3	2.5
Central Europe	53.1	4.6	53.2	4.2	0.1
<b>Worldwide</b>	<b>1,166.3</b>	<b>100</b>	<b>1,271.2</b>	<b>100</b>	<b>2.9</b>

\*Share of global consumption

Sources: Euromonitor and own estimates

Global consumption of packaged beverages by region: annual growth in percent\*

Consumption of packaged beverages is growing at high rates in the Africa/Middle East and Asia/Pacific regions.

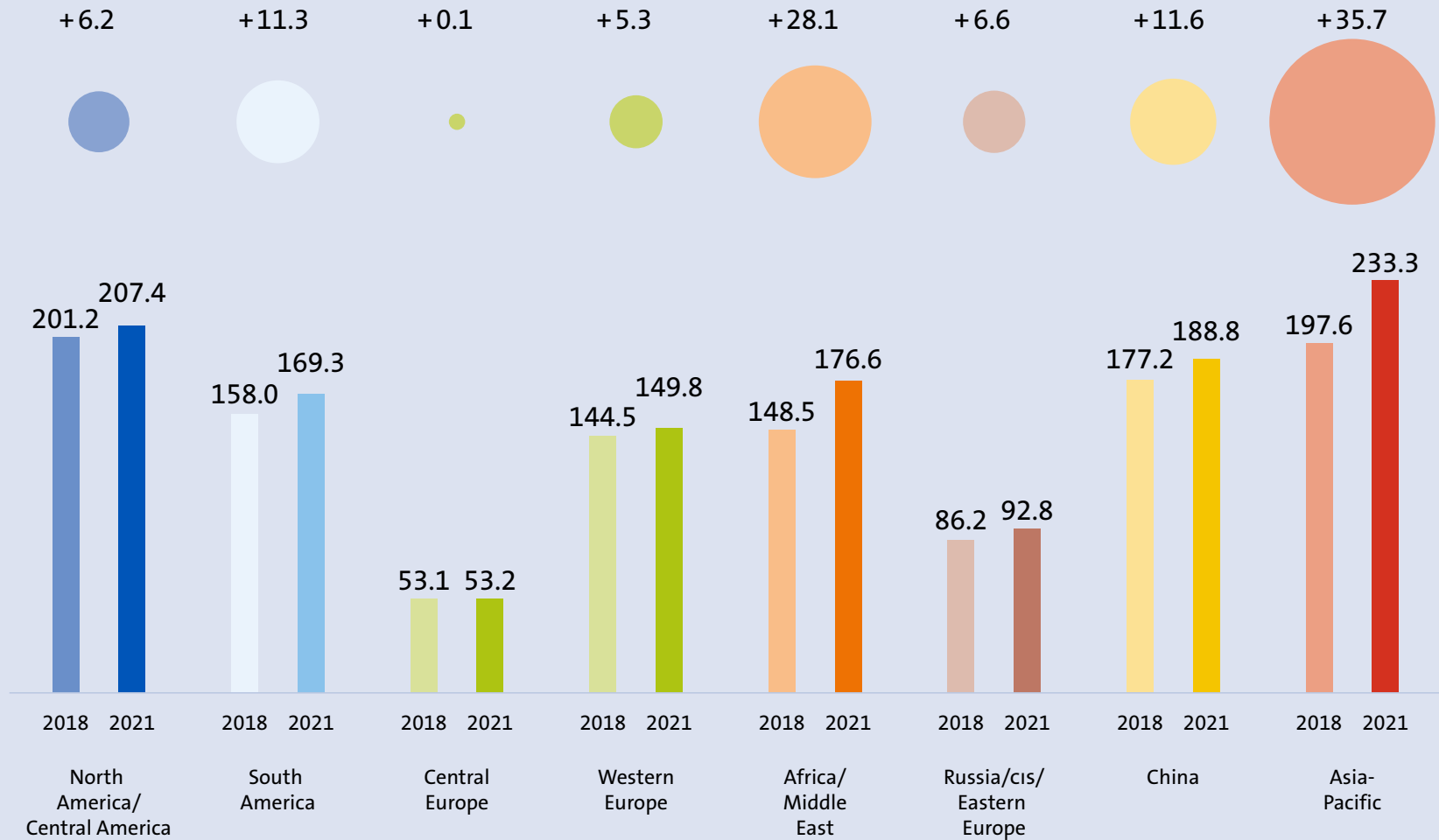


\*2018 – 2021 (forecast)

Sources: Euromonitor and own estimates

Global consumption of packaged beverages by region: billion litres\*

In the Asia/Pacific region, consumption of packaged beverages is expected to be 35.7 billion litres higher in 2021 than in 2018. Consumption is also growing rapidly in the Africa/Middle East region and in China.



\*Forecast

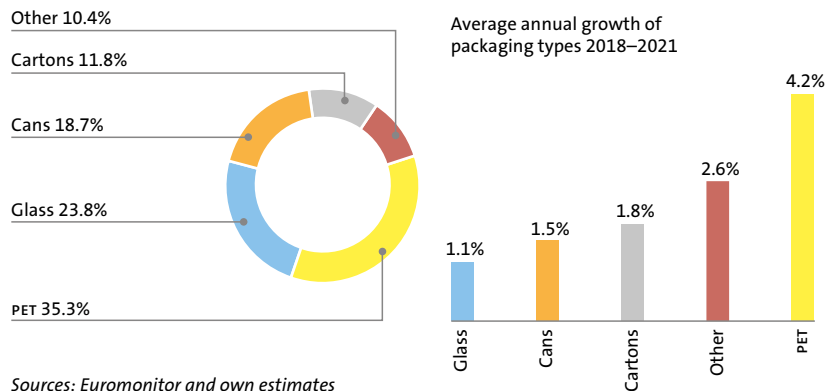
● = Growth between 2018 and 2021 (billion litres)

Sources: Euromonitor and own estimates

## PET plastic the preferred packaging material for beverages

According to preliminary figures from Euromonitor, some 1,650 billion containers will be filled with beverages worldwide in 2018. That number is growing steadily with rising beverage consumption and is expected to increase by 2.5% per year on average to 1,780 billion by 2021. The most popular beverage container types are plastic bottles, glass bottles, metal cans, and paper-based cartons.

Global beverage market by packaging material in 2018 (based on units filled)



*The strongest growth is in demand for PET beverage packaging.*

By far the most frequent packaging material for beverages is **polyethylene terephthalate (PET)**. According to the figures from Euromonitor, more than a third (35.3%) of all beverage containers were made of PET in 2018. The quantity of PET beverage containers is expected to increase by 4.2% per year on average through to 2021, and thus more rapidly than for other container materials. The main growth driver is increasing demand for bottled water. PET is the predominant choice of material for this worldwide.

**Glass** is the second most popular packaging material for beverages, accounting for 23.8% of the total number of beverage containers in 2018. Glass bottles are primarily used for beer and other alcoholic beverages – that is, beverages for which demand is growing disproportionately slowly relative to the overall market. Accordingly, the number of beverage containers made of glass is expected to see annual average growth of just 1.1% from 2018 to 2021.

18.7% of beverage containers last year were **metal cans**. These are consequently the third most common packaging material. Cans are frequently used for beer and carbonated soft drinks (CSDs). The number of cans used for beverage packaging is likely to increase by an average of 1.5% per year through to 2021.

A further significant packaging material comprises **paper-based cartons**. Cartons are mainly used to package milk and dairy drinks and fruit and vegetable juices. The number of paper-based cartons (share of beverage packaging in 2018: 11.8%) is expected to grow by an average of 1.8% per year through to 2021.

As the leading provider of machines and lines for the production, filling, and packaging of PET containers, KRONES benefits from the continued growth in PET packaging. The company also has a strong market position in lines for filling and packaging beverages in glass bottles and cans. KRONES does not provide solutions for carton packaging.



## KRONES in figures

- 2018 was a challenging year overall for KRONES
- Revenue grew 4.4% to €3.85 billion. Expenses for reorganisation and acquisitions impacted profitability
- Shareholders to receive stable dividend of €1.70 per share

	Forecast 2018	Actual 2018
Revenue growth (excluding acquisitions)	6%	4.4%
EBT margin	7.0%	5.3%
Working capital/revenue	26%	27.3%

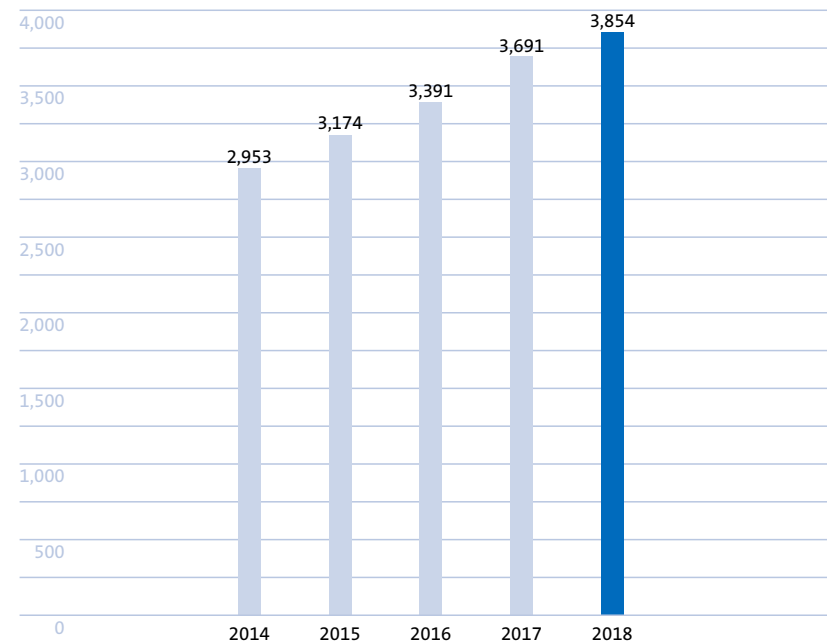
### KRONES increases revenue by 4.4% to €3,854.0 million

*KRONES continued to grow in 2018 despite a difficult overall economic environment.* Despite difficult conditions, KRONES continued to grow in 2018. Revenue went up by 4.4% year-on-year, from €3,691.4 million to €3,854.0 million. The company benefited as a full-service provider from its extensive product and service range and broad international footprint. Currency effects impacted revenue in 2018 by an amount in the mid-double-digit millions of euros. Adjusted for currency and acquisition effects, the revenue increase in 2018 was around 5%.

KRONES' entire product range contributed to revenue growth. Overall, revenue from sales of new machinery grew more strongly than service revenue. New machinery revenue increased in both segments across a large cross-section of the product range. In the core segment, Machines and Lines for Product Filling and Decoration, the large installed base had a positive effect on service revenue.

Altogether in the reporting period, KRONES achieved the revised, 4% revenue growth target announced in autumn 2018. Due to negative currency effects and project postponements, however, growth fell slightly below our original 6% target.

KRONES Group revenue (€ million)

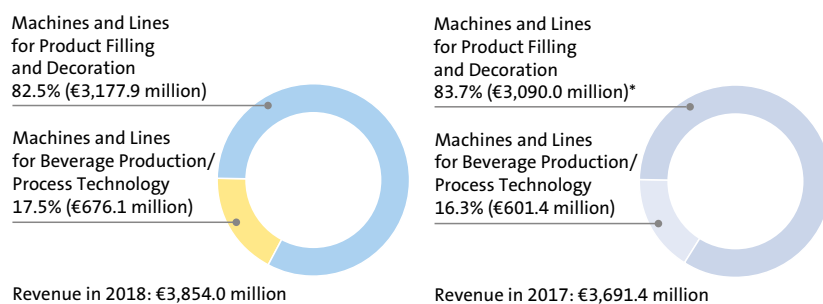


## Revenue by segment

*The Compact Class segment, the third and smallest corporate segment until 2017, has been part of the core segment since 1 January 2018.*

Revenue in the core segment, Machines and Lines for Product Filling and Decoration, rose by 2.8% year-on-year from €3,090.0 million to €3,177.9 million in 2018. The segment's share of consolidated revenue decreased from 83.7% in the previous year to 82.5%.

### Share of consolidated revenue



\* Incl. Machines and Lines for the Compact Class

Revenue in the Machines and Lines for Beverage Production/Process Technology segment improved by 12.4%, from €601.4 million to €676.1 million. The segment contributed 17.5% of consolidated revenue (previous year: 16.3%).



Further information can be found in the section "Report from the segments" beginning on page 79 and under "Segment reporting" in the notes to the consolidated financial statements on page 130.

## Revenue by region

KRONES' revenue in Germany was slightly down in the reporting period. In total, domestic revenue in the period January to December 2018 decreased by 6.6% year-on-year to €362.3 million. Business in Germany accounted for 9.4% of consolidated revenue, down from 10.5% a year earlier.

*KRONES is strongly export-oriented. Some 90% of revenue was generated internationally in 2018.*

In Europe (excluding Germany), KRONES generated strong revenue growth in 2018. This is largely due to sustained strong demand in Western Europe. Despite the already high prior-year figure, revenue there climbed by 14.5% to €721.6 million. In Central Europe (Austria, Switzerland and the Netherlands), KRONES increased revenue by 17.6% in 2018 to €224.6 million. The disproportionately large increase is partly due to the base effect. In Eastern Europe, KRONES benefited in reporting period from the general economic upswing in the region. Revenue improved by 51.6% to €187.4 million. The Russia/CIS region also picked up rapidly in 2018 after a cyclical downturn. There, revenue went up by 46.2% to €79.8 million.

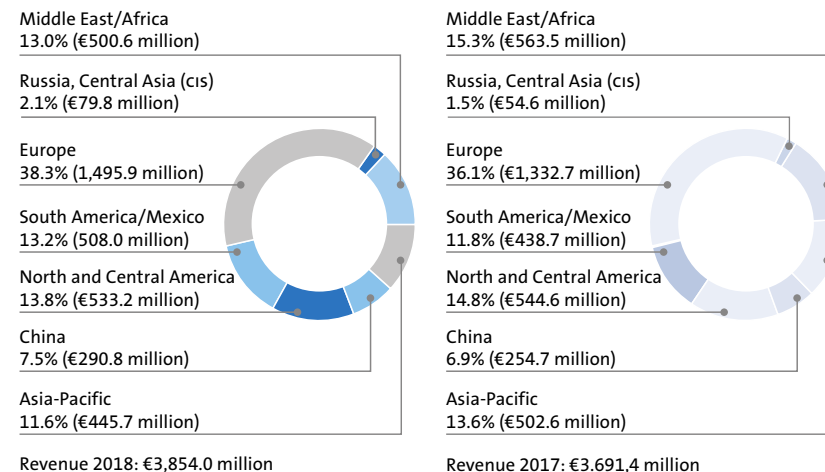
In all, KRONES improved revenue in Europe (excluding Germany) in 2018 by 21.4%, from €999.4 million to €1,213.4 million. The share of consolidated revenue in the reporting period accounted for Europe (excluding Germany) increased to 31.5% (previous year: 27.1%).

Share of consolidated revenue	2018		2017		Change
	€ million	%	€ million	%	%
Germany	362.3	9.4	387.9	10.5	-6.6
Central Europe (excluding Germany)	224.6	5.8	191.0	5.2	+17.6
Western Europe	721.6	18.7	630.2	17.1	+14.5
Eastern Europe	187.4	4.9	123.6	3.3	+51.6
Russia, Central Asia (cis)	79.8	2.1	54.6	1.5	+46.2
Middle East/Africa	500.6	13.0	563.5	15.3	-11.2
Asia-Pacific	445.7	11.6	502.6	13.6	-11.3
China	290.8	7.5	254.7	6.9	+14.2
North and Central America	533.2	13.8	544.6	14.8	-2.1
South America/Mexico	508.0	13.2	438.7	11.9	+15.8
<b>Total</b>	<b>3,854.0</b>	<b>100.0</b>	<b>3,691.4</b>	<b>100.0</b>	<b>+4.4</b>

After in part strong growth in previous years, revenue in the Middle East/Africa region decreased in 2018 by 11.2% to €500.6 million due to a slight calm down in the market. KRONES nonetheless continues to have good medium and long-term growth prospects in the region. Revenue in China increased after a weak prior year by 14.2% to €290.8 million. It thus accounted for 7.5% of consolidated revenue. We are confident that business in China will continue to recover. By contrast, KRONES' revenue in the rest of the Asia/Pacific region fell as a result of a slight decrease in local demand by 11.3% to €445.7 million.

The good revenue growth in the South America/Mexico region continued. At €508.0 million, revenue in 2018 exceeded the already high prior-year figure by 15.8%. In addition to stabilisation effects, this is partly due to economic recovery

## Share of consolidated revenue



in some countries in the region. Revenue in North and Central America was slightly down in the reporting period. The decrease, which was partly due to currency effects, was by 2.1% to €533.2 million. This is still satisfactory, however, in light of the high prior-year figure.

Overall, KRONES' revenue remains well balanced internationally in established and emerging markets. The company generated a total of 52.2% of consolidated revenue in emerging markets in 2018 (previous year: 52.5%). Mature industrialised economies accounted for 47.8% (previous year: 47.5%) of KRONES' revenue.

*KRONES generated slightly higher revenue growth in industrialised economies in 2018 than in emerging markets. This was mainly due to the good performance in Europe.*

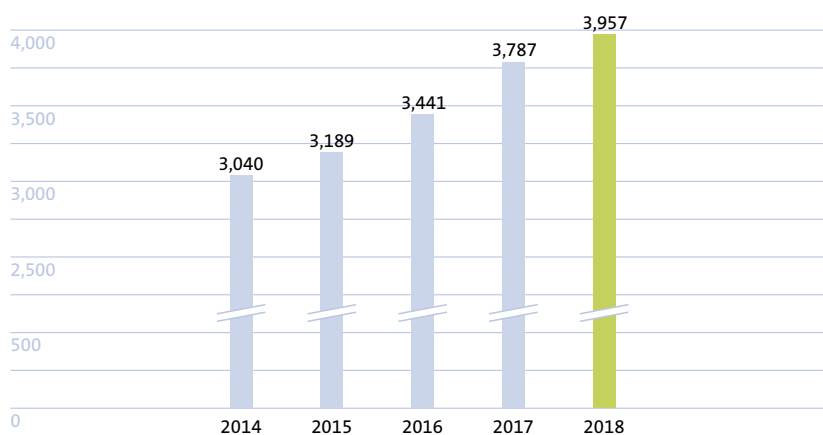
## Order intake and orders on hand

### Strong demand for KRONES products and services

*KRONES' order intake improved by 4.5% year-on-year in 2018.*

On the demand side, 2018 was a good year for KRONES. Our customers' investment confidence was satisfactory throughout the year. Despite the high prior-year order intake and the price rises as of 1 May 2018, KRONES' order intake increased year-on-year. The contract value of orders from January and December 2018 was 4.5% higher than the previous year, rising from €3,786.8 million to €3,957.3 million. Acquisitions did not have any noticeable impact on order intake. Our pricing policy on orders had a particularly noticeable effect on orders in the fourth quarter of 2018. Order intake in this quarter was down on the previous year.

KRONES Group order intake (€ million)

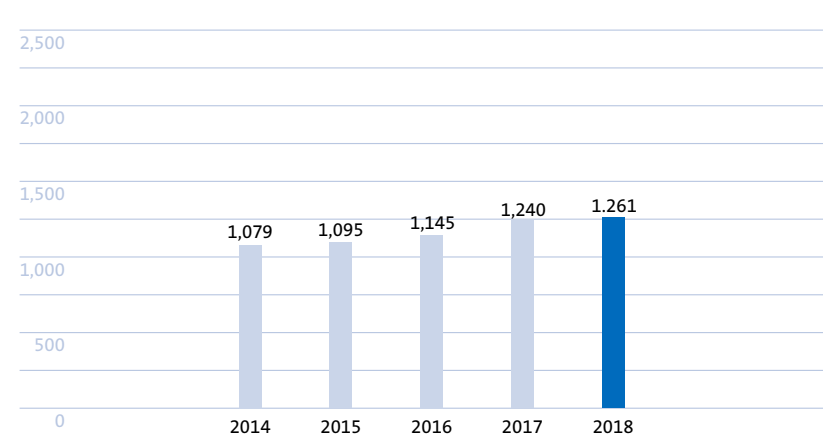


Growth in KRONES' order intake during 2018 was above average in Western and Eastern Europe and in China. The level of new orders in 2018 was stable overall in the Middle East/Africa, North America and South America. Order intake was down in the Asia/Pacific region.

### KRONES has a large orders backlog

KRONES had orders on hand totalling €1,261.1 million at 31 December 2018. The orders backlog thus showed an increase of 1.7% on the figure of €1,240.1 million a year earlier. All in all, the comfortable orders backlog provides KRONES with enhanced planning certainty and a solid foundation for further revenue growth.

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



## KRONES Group earnings

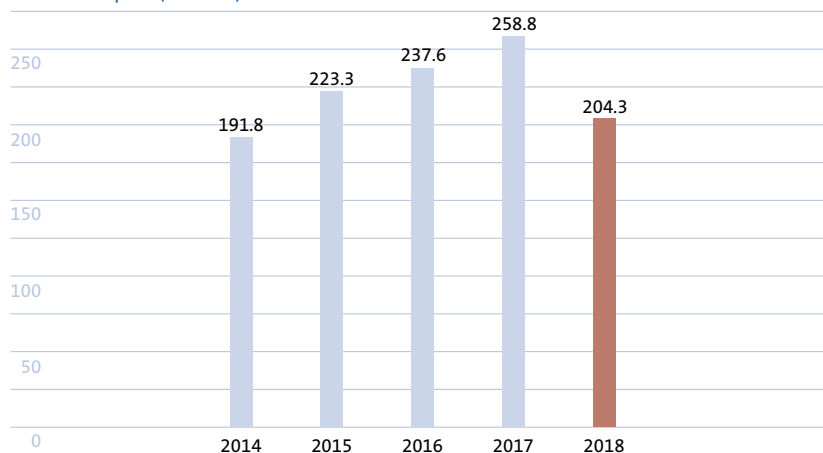
### Expenses for reorganisation and acquisitions impact profitability

*The EBT margin decreased from 7.0% in the previous year to 5.3% in 2018.*

KRONES' earnings were significantly impacted by higher material and labour costs in 2018.

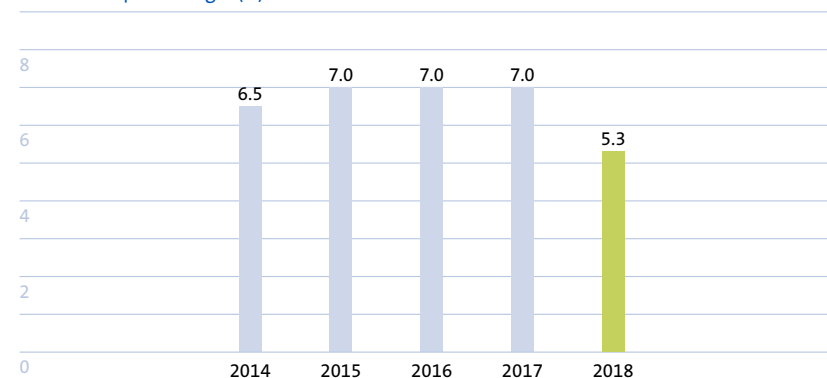
The company's profitability was also affected by approximately €42 million in expenses for reorganisation and in connection with acquisitions. Costs of measures in connection with the production site in Hungary account for the largest share of this amount. In total, earnings before taxes (EBT) in 2018 were down by 21.1% or €54.5 million year-on-year to €204.3 million.

KRONES Group EBT (€ million)

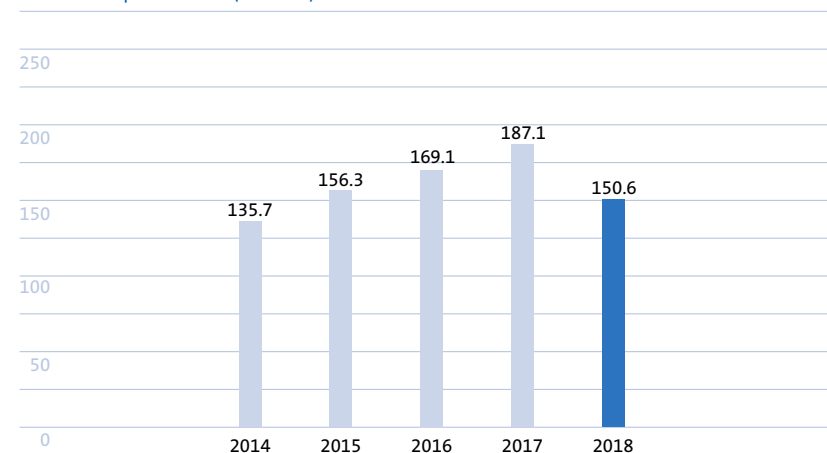


Due to long project durations, the price increases – an average of 4.5% on all bottling and packaging equipment and process technology as of 1 May 2018 – were not yet reflected in earnings.

KRONES Group EBT margin (%)

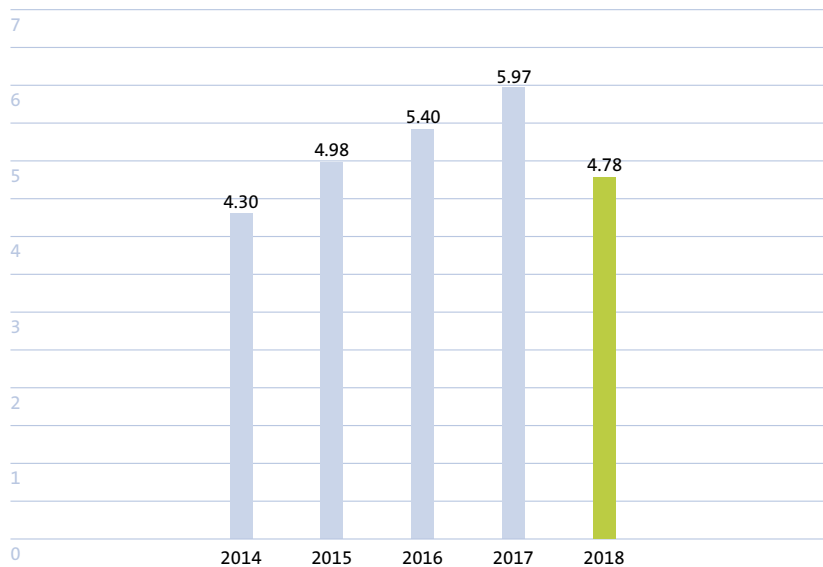


KRONES Group net income (€ million)



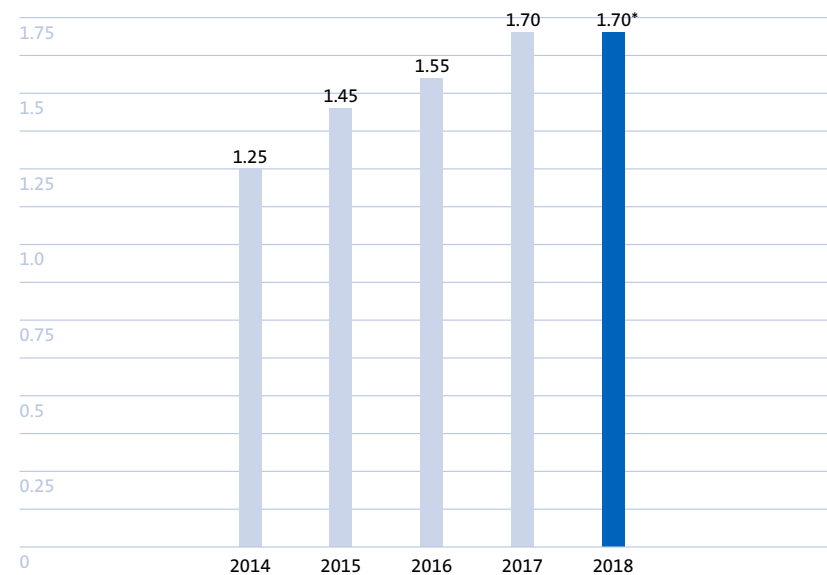
The EBT margin dropped from 7.0% in the previous year to 5.3%. Had there been no expenses for reorganisation and acquisitions in 2018, the EBT margin would have been 6.4%.

KRONES Group earnings per share (€)



KRONES' tax rate was reduced, due to local tax concessions, from 27.7% in the previous year to 26.3% in 2018. As a result, the decrease in consolidated net income in the reporting period was not quite as large as the decrease in EBT. With consolidated net income of €150.6 million, KRONES earned 19.5% less in 2018 than in the previous year. Earnings per share fell from €5.97 in the previous year to €4.78 in 2018.

KRONES Group Dividend per share (€)



\* As per proposal for the appropriation of retained earnings available for distribution

### KRONES plans to pay out a dividend of €1.70 per share for 2018

In order to share the company's success with shareholders, KRONES' policy is to pay out 25% to 30% of consolidated profit in the form of dividends. At the Annual General Meeting on 5 June 2019, the Executive Board and Supervisory Board will be proposing a dividend of €1.70 per share for the financial year 2018. The proposed dividend is stable relative to the previous year. This is because a large part of the decrease in earnings in 2018 is attributable to expenses for reorganisation and acquisitions. The planned payout is 35.7% of consolidated net income.

## KRONES Group earnings structure

€ million	2018	2017	Change.
Revenue	3,854.0	3,691.4	+ 4.4%
Changes in inventories of finished goods and work in progress	1.1	- 36.4	-
Total operating performance	3,855.1	3,654.9	+ 5.5%
Other own work capitalised	+ 49.6	+ 48.2	+ 3.0%
Other operating income	+ 114.5	+ 112.5	+ 1.8%
Goods and services purchased	- 2,032.0	- 1,859.4	+ 9.3%
Personnel expenses	- 1,137.3	- 1,061.4	+ 7.2%
Other operating expenses	- 544.0	- 554.6	- 1.9%
EBITDA	305.9	340.2	- 10.1%
Depreciation and amortisation on fixed assets	- 102.7	- 94.7	+ 8.5%
EBIT	203.2	245.5	- 17.2%
Financial income/expense	+ 1.1	+ 13.3	- 91.8%
EBT	204.3	258.8	- 21.1%
Income tax	- 53.7	- 71.7	- 25.1%
Consolidated net income	150.6	187.1	- 19.5%



For further information, please see the full statement of profit and loss on p. 123.

KRONES improved total operating performance by 5.5% in 2018 to €3,855.1 million. This was greater than the growth in revenue (which was up 4.4%) because the company increased inventories of finished goods and work in progress by €1.1 million in the reporting period, in contrast to the previous year when these decreased by €36.4 million.

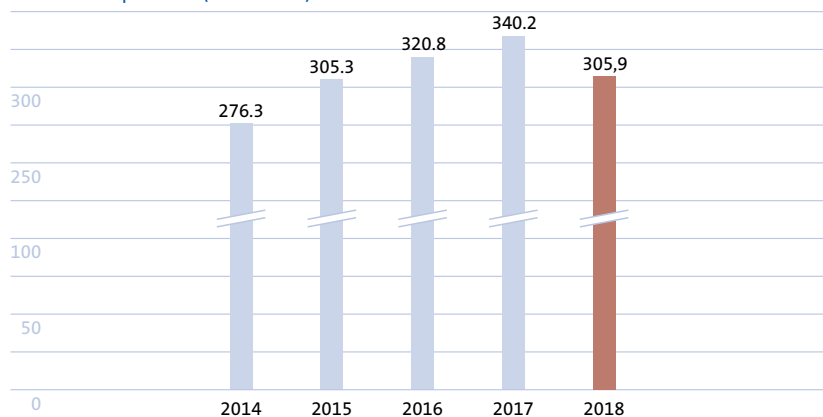
A major factor impacting KRONES' profitability comprised goods and services purchased. These went up by 9.3% in the reporting period to €2,032.0 million. The ratio of goods and services purchased to total operating performance went up from 50.9% in the previous year to 52.7%. Material purchase prices increased due to the booming economy. Additional factors contributing to the high ratio included disproportionately strong sales growth in process technology – where costs of material account for a larger share – and strong new machinery sales in our core segment.

*Expenses for reorganisation and acquisitions and the sharp rise in goods and services purchased reduced KRONES' profitability in 2018.*

Personnel expenses increased by slightly more than total operating performance. These went up by 7.2% to €1,137.3 million. KRONES was unable to compensate for collective pay increases, growth in the workforce and the costs of reorganisation – most of which were incurred within personnel expenses – with further optimisation of internal resources. The ratio of personnel expenses to total operating performance went up from 29.0% in the previous year to 29.5% in 2018.

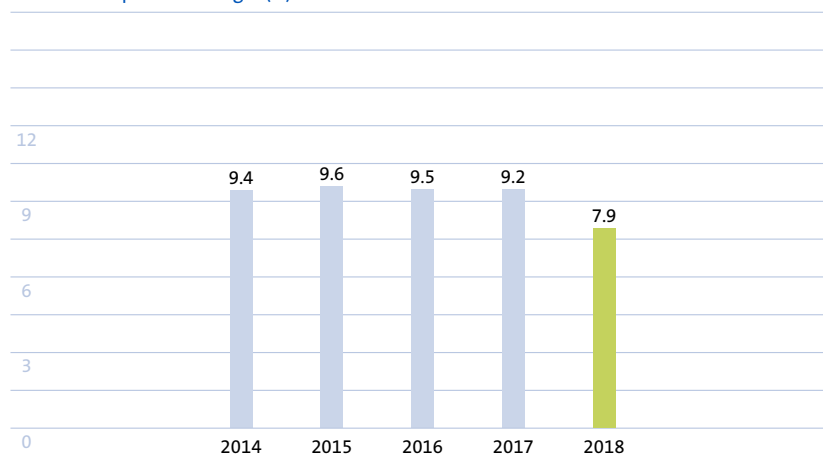
General savings across all major cost areas meant that other operating expenses decreased slightly despite the higher total operating performance. The reduction was by 1.9% to €544.0 million. Other operating income increased from €112.5 million to €114.5 million. Other own work capitalised went up in the financial year from €48.2 million to €49.6 million. The net balance of other operating income and expenses and own work capitalised changed by 3.6% from -€393.9 million to -€379.9 million. As a percentage of total operating performance, this represented a slight decrease from 10.8% to 9.9%.

KRONES Group EBITDA (in € million)



EBITDA (earnings before interest, taxes, depreciation and amortisation) consequently amounted to €305.9 million, which is 10.1% below the prior-year figure of €340.2 million. The EBITDA margin dropped from 9.2% to 7.9%. After depreci-

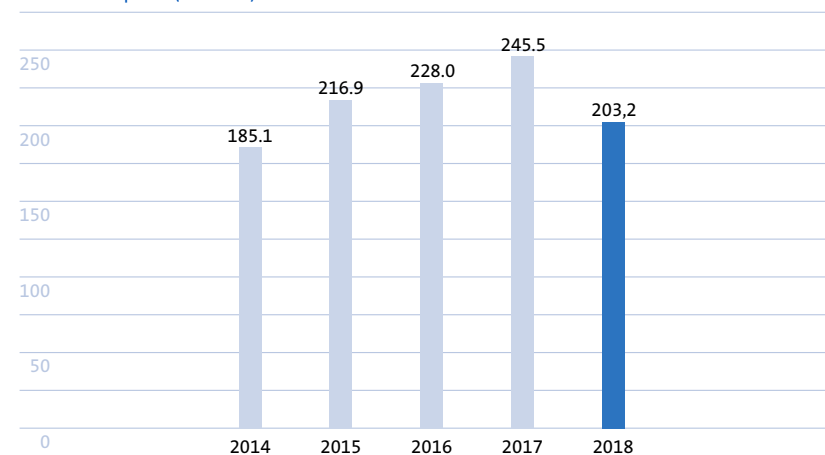
KRONES Group EBITDA margin (%)



ation and amortisation, which increased slightly as a result of investing activity to €102.7 million (previous year: €94.7 million), EBIT was €203.2 million (-17.2%). Net financial income/expense went down from €13.3 million to €1.1 million. The main factor here is an increase in interest and similar expenses from €8.3 million to €14.6 million. This includes an €11.2 million increase in the obligation relating to put options as a result of an acquisition. Investment income relating to non-consolidated companies went down from €11.9 million to €8.8 million. Interest and similar income was also down. This decreased from €10.1 million to €6.1 million because the prior-year figure included an additional €4.6 million from the reversal of earn-out obligations.

Earnings before taxes (EBT) went down from €258.8 million to €204.3 million. This results in an EBT margin of 5.3% (previous year: 7.0%). KRONES' tax rate decreased from 27.7% in the previous year to 26.3% in 2018. Consolidated net income was down 19.5% to €150.6 million (previous year: €187.1 million).

KRONES Group EBIT (€ million)





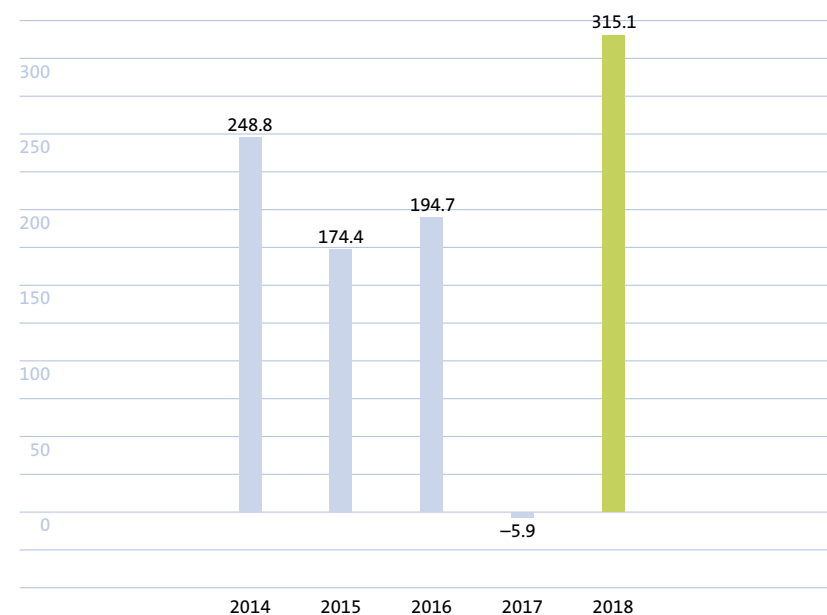
## Consolidated cash flow

€ million	2018	2017
<b>Earnings before taxes</b>	<b>204.3</b>	258.8
Other non-cash changes	+18.6	+46.4
Changes in working capital	+178.9	-188.6
Changes in other assets and liabilities	-86.7	-122.5
<b>Cash flow from operating activities</b>	<b>+315.1</b>	-5.9
Capital expenditure for intangible assets and property, plant and equipment	-179.1	-133.5
M&A activities	-28.3	-32.5
Other	+13.0	+21.2
<b>Free cash flow</b>	<b>+120.7</b>	-150.7
Cash flow from financing activities	-77.9	-24.7
Other	-6.0	-11.5
<b>Net change in cash and cash equivalents</b>	<b>+36.8</b>	-186.9
<b>Cash and cash equivalents at the end of the period</b>	<b>218.8</b>	182.0

*Cash flow from operating activities increased, despite lower earnings, from -€5.9 million in the previous year to €315.1 million. This was mainly due to a substantial reduction in working capital.*

After a weak prior year, KRONES' cash flow performance was strongly positive in 2018. The company increased cash flow from operating activities by €321.0 million to €315.1 million (previous year: -€5.9 million). This strong growth was mainly due to the positive trend in working capital. KRONES

KRONES Group cash flow from operating activities (€ million)

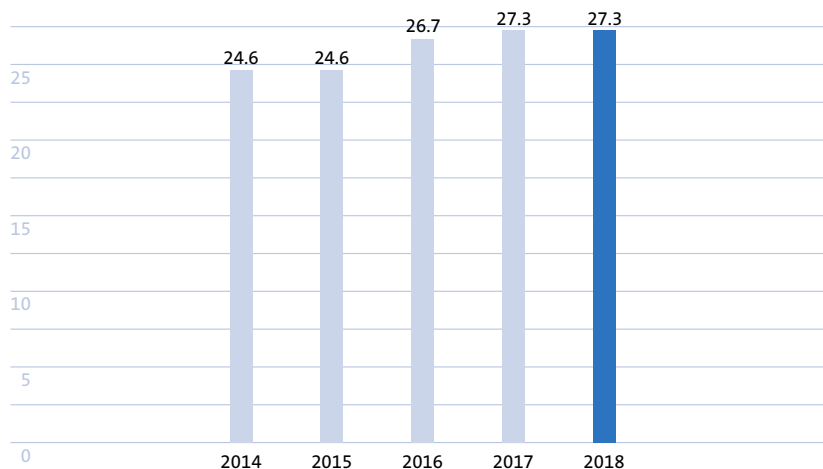


reduced working capital by €178.9 million in the reporting period; this contrasts with the previous year, when working capital increased by €188.6 million and resulted in a reduction in cash flow from operating activities. In addition to a decrease in receivables and inventories, working capital was primarily affected in the reporting period by the rise in trade payables.

*For further information, please see the full cash flow statement on p 127.*



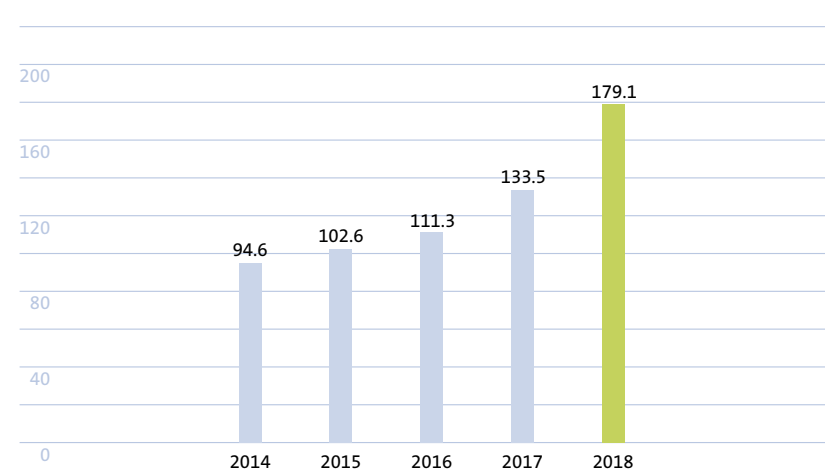
KRONES Group working capital to revenue (% average over four quarters)



#### Ratio of working capital to revenue stable at 27.3%

KRONES was able to hold stable the ratio of average working capital over the past four quarters to revenue at 27.3%, the same figure as in the previous year. This means we did slightly better than the revised target announced in summer 2018 of 28% for 2018 as a whole. We intend to improve this to 26% this year by more intensive working capital management.

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



KRONES spent €179.1 million on property, plant and equipment and intangible assets in 2018 (previous year: €133.5 million). Capital expenditure on property, plant, and equipment increased particularly sharply to €121.5 million (previous year: €78.3 million). This mainly related to the establishment of the Hungarian production location and to expansion at our German locations. As a result, the ratio of capital expenditure to depreciation and amortisation once again substantially increased in 2018, from 1.41 in the previous year to 1.74. *Capital expenditure in the individual segments is discussed in the report from the segments (page 130).*

*KRONES improved free cash flow in 2018 by €271.4 million to €120.7 million.*

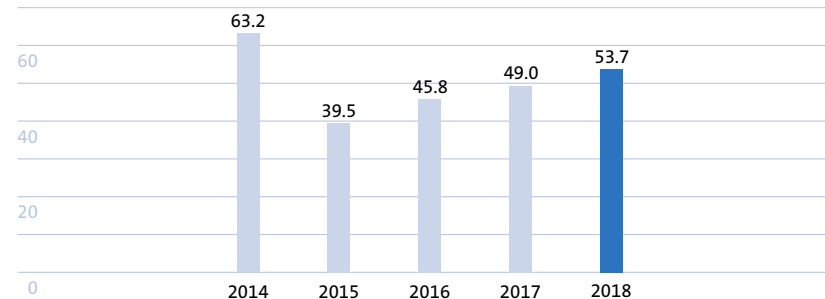


KRONES Group free cash flow (€ million)



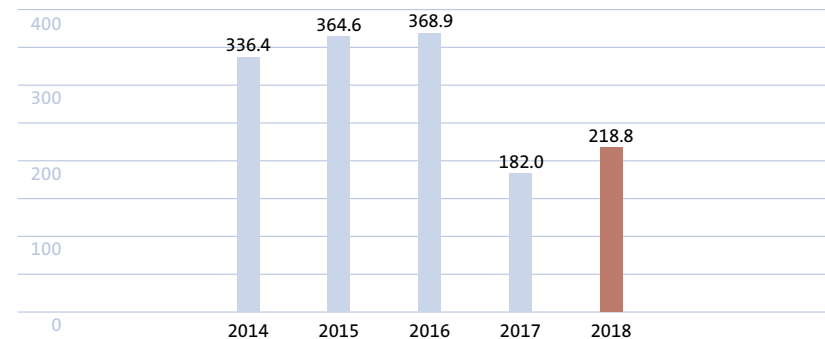
KRONES improved free cash flow (net cash from operating activities) in the reporting period by €271.4 million to €120.7 million (previous year: minus €150.7 million). Operating free cash flow, which is adjusted for acquisitions, came to €149.0 million, also substantially above the previous year's figure of minus €118.2 million.

KRONES Group dividend payout (€ million)



At €77.9 million in 2018, the cash outflow from financing activities was €53.2 million larger than the previous year's €24.7 million. This was due to the repayment of short-term bank borrowings in the amount of €24.6 million, which were shown in the previous year in the same amount. KRONES distributed €53.7 million to shareholders during reporting period (previous year: €49.0 million). Changes arising from exchange rates decreased cash and cash equivalents by €6.4 million due to exchange rate movements in local currencies at our subsidiaries (previous year: minus €11.5 million). In total, cash and cash equivalents increased in 2018 by €36.8 million to €218.8 million.

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



## Assets and capital structure

€ million at 31 December	2018	2017	2016
Non-current assets	1,010	882	799
of which fixed assets	936	797	725
Current assets	2,312	2,158	2,272
of which cash and equivalents	219	182	369
Equity	1,433	1,330	1,226
Total debt	1,888	1,710	1,845
Non-current liabilities	359	314	308
Current liabilities	1,529	1,396	1,537
<b>Total</b>	<b>3,321</b>	<b>3,040</b>	<b>3,071</b>



For further information, please see the full statement of financial position on p. 125 to 126.

After a slight decrease (by 1.0%) in the previous year, KRONES' total assets increased relative to the 2017 year-end, mostly due to the larger volume of business and capital expenditure on fixed assets, by 9.3% to €3,321.4 million as of 31 December 2018.

The company's non-current assets totalled €1,009.8 million at the end of 2018, up 14.5% on the previous year (€882.2 million). Fixed assets were up 17.6% to €936.4 million (previous year: €796.6 million). A large part of this related to property, plant and equipment, which increased by €69.2 million to €570.8 million as a result of capital expenditure at our locations. KRONES' intangible assets, mainly comprising capitalised development expenditure, grew from €263.6 million in the previous year to €328.2 million. Most of the increase related to additions to goodwill due to acquisitions in the reporting period.

KRONES' current assets also increased. At the end of 2018, the company had current assets totalling €2,311.6 million. That is an increase of 7.1% or €154.0 million relative to the 2017 year-end. At the end of 2018, KRONES' inventories were substantially down, at €320.7 million (31 December 2017: €611.8 million), while trade receivables had decreased to €955.4 million (31 December 2017: €1,225.3 million).

*KRONES retains a comfortable liquidity cushion and a solid equity base. This provides KRONES with sufficient financial headroom for investment out of its own resources.*

A large part of the decrease in this balance sheet item can be attributed to the new IFRS 15 financial reporting standard. Added to trade receivables are claims against customers, which from 2018 are accounted for under the new contract assets item. This is included in the statement of financial position for the first time and totalled €647.1 million at 31 December 2018. Cash and cash equivalents increased by €36.8 million to €218.8 million in the reporting period.

On the equity and liabilities side, KRONES' non-current liabilities increased in the reporting period to €358.8 million (31 December 2017: €314.0 million). This related to increases in deferred tax liabilities, in other provisions and in other financial liabilities. Provisions for pensions were virtually unchanged at €220.6 million (31 December 2017: €220.2 million). KRONES had non-current bank debt totalling €3.2 million at the end of 2018 (previous year: nil).

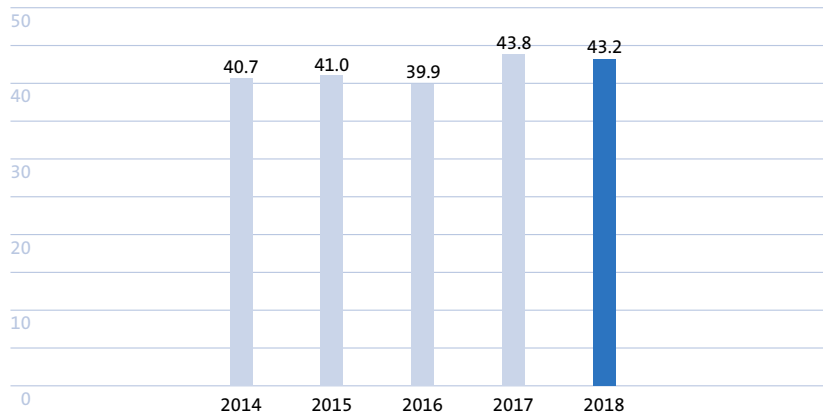
Current liabilities went up relative to the end of 2017, from €1,395.7 million to €1,529.4 million. While KRONES increased trade payables to €491.6 million (31 December 2017: €376.5 million), current bank debt decreased to €0.6 million (31 December 2017: €24.6 million). Other financial liabilities rose significantly

*The equity ratio decreased slightly from 43.8% to 43.2% in 2018 despite the positive net income. This reflects a larger increase in total assets.*

to €106.7 million (previous year: €7.0 million). The new contract liabilities item (under IFRS 15), mainly comprising delivery obligations, came to €547.2 million at the 2018 year-end.

KRONES improved net cash (cash and cash equivalents less bank debt) to €215.1 million at the 2018 reporting date (previous year: €157.4 million). In addition, the group has around €323 million in unused lines of credit. A backup facility of €250 million is also available. KRONES thus further advanced its primary financial management objective, which is to safeguard the company's strong financial resources and independence.

KRONES Group equity ratio (%)



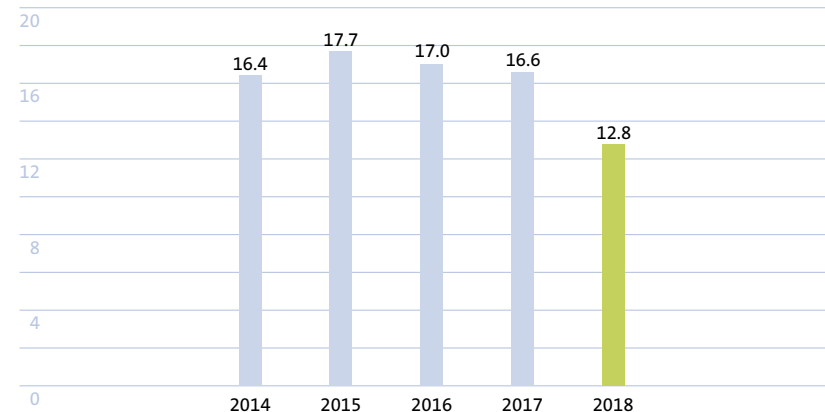
Due to the positive consolidated net income, equity increased in 2018 by 7.8% from €1,330.1 million to €1,433.2 million. The larger increase in total assets results in a slight drop in the equity ratio from 43.8% to 43.2%. Overall, KRONES continues to possess an exceptionally robust financial and capital structure.

### Return on capital employed (ROCE) down from 16.6% to 12.8%

Return on capital employed (ROCE) – the ratio of EBIT to average net capital employed – decreased from 16.6% in the previous year to 12.8% in the reporting period. This was mainly due to the lower EBIT.

*KRONES' ROCE went down from 16.6% to 12.8% in 2018.*

KRONES Group ROCE (%)



## Report from the segments

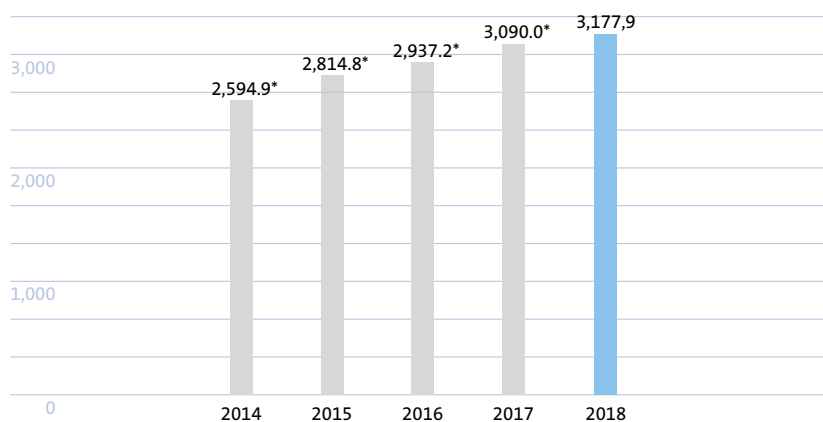
### Machines and Lines for Product Filling and Decoration

#### Segment revenue

*Revenue in the newly established core segment climbed in 2018 by 2.8% to €3,178 million.*

From 1 January 2018, the core segment – Machines and Lines for Product Filling and Decoration – additionally includes the activities of GERNEP and KOSME. Until the end of 2017, these were shown in the Machines and Lines for the Compact Class segment. Revenue in the newly established core segment grew slightly more slowly than expected in 2018, partly due to currency effects. In total, revenue increased by 2.8% year-on-year, from €3,090.0 million to €3,177.9 million. The core segment's share of consolidated revenue decreased from 83.7% in the previous year to 82.5% in 2018.

Segment revenue (€ million)



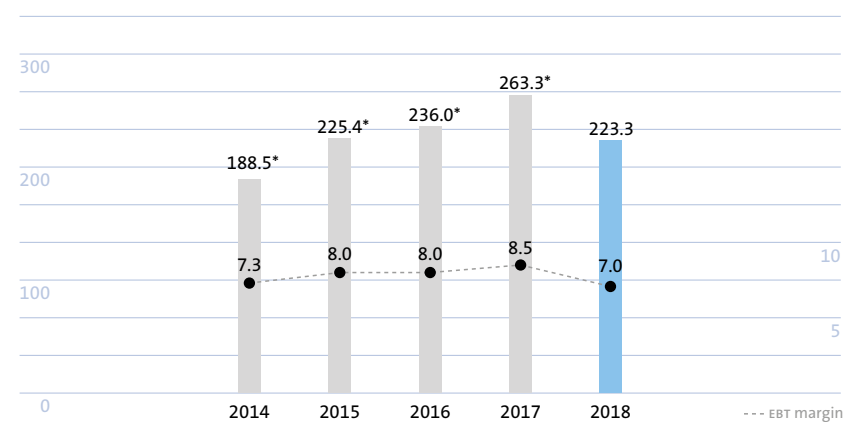
\* incl. Machines and lines for the Compact Class segment

#### Segment earnings

In addition to higher material and labour costs, core segment earnings were also impacted by expenses for reorganisation. These mainly related to expenses in connection with measures for the production location in Hungary. The expenses for reorganisation in the core segment in 2018 came in total to around €25 million. Earnings before taxes (EBT) decreased by 15.2% year-on-year from €263.3 million to €223.2 million in 2018. The EBT margin went down from 8.5% in the previous year to 7.0%.

*Core segment profitability was affected in 2018 by around €25 million in expenses for reorganisation. The EBT margin went down from 8.5% to 7.0%*

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



\* incl. Machines and lines for the Compact Class segment

## Machines and Lines for Product Filling and Decoration



## Machines and Lines for Beverage Production/Process Technology

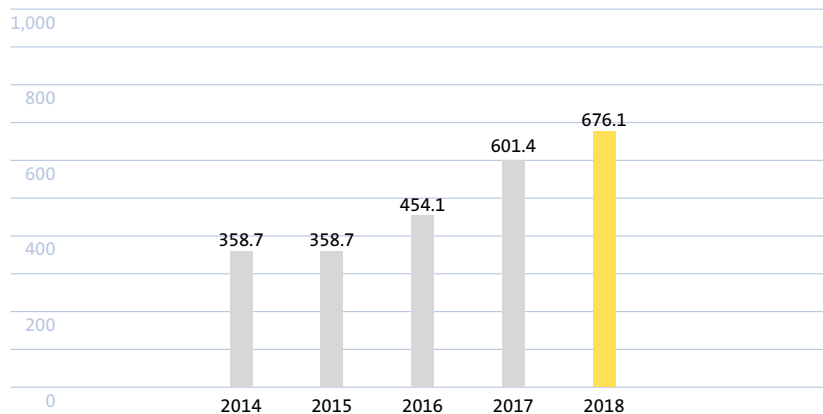
### Segment revenue

*Revenue in the Machines and Lines for Beverage Production/Process Technology segment increased 12.4% year-on-year in 2018.*

Revenue in the Machines and Lines for Beverage Production/Process Technology segment was up 12.4% year-on-year from €601.4 million to €676.1 million in 2018. KRONES focused more on price quality in the reporting period.

This prevented stronger growth. The intralogistics business that forms part of the segment performed very well in 2018. The percentage of consolidated revenue accounted for by the Machines and Lines for Beverage Production/Process Technology segment increased to 17.5% in 2018 (previous year: 16.3%).

Segment revenue (€ million)

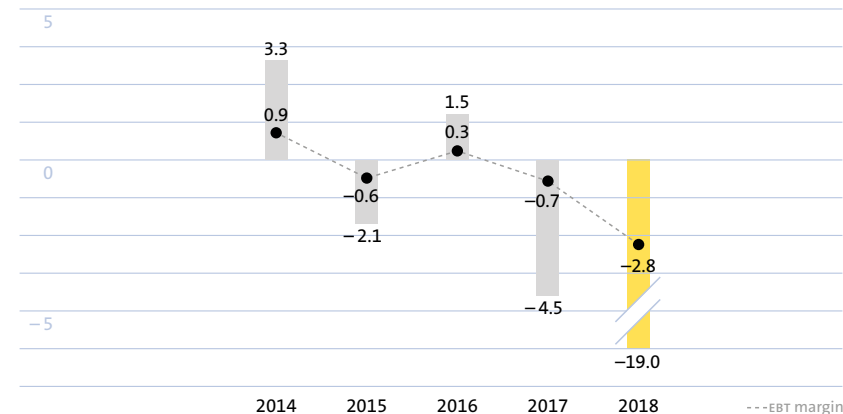


### Segment earnings

The segment's profitability was weaker than expected in 2018. Earnings before taxes (EBT) decreased from –€4.5 million in the previous year to –€19.0 million. This mainly related to a total of around €17 million in expenses for reorganisation and acquisitions. Most of this was a result of higher variable purchase price obligations on an acquisition in 2018. In addition, there were expenses for measures for a sustained improvement in future earnings. Expenses relating to digitalisation activities, which are not yet profitable, are also reflected in segment earnings. The EBT margin was –2.8% in 2018 (previous year: –0.7%).

*The Machines and Lines for Beverage Production/Process Technology segment made a loss in 2018.*

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





## Machines and Lines for Beverage Production/Process Technology



## Overall assessment of **economic position**

At the time that this Annual Report went to press, the Executive Board finds that KRONES' economic position is satisfactory overall. Although overall economic conditions have deteriorated, KRONES' markets, i.e. the international beverage and packaging industry, show stable growth.

KRONES continued to growth in 2018. The company benefited from its broad global footprint and its full range of products and services. KRONES' profitability was primarily affected by higher material and labour costs and by expenses for reorganisation and acquisitions.

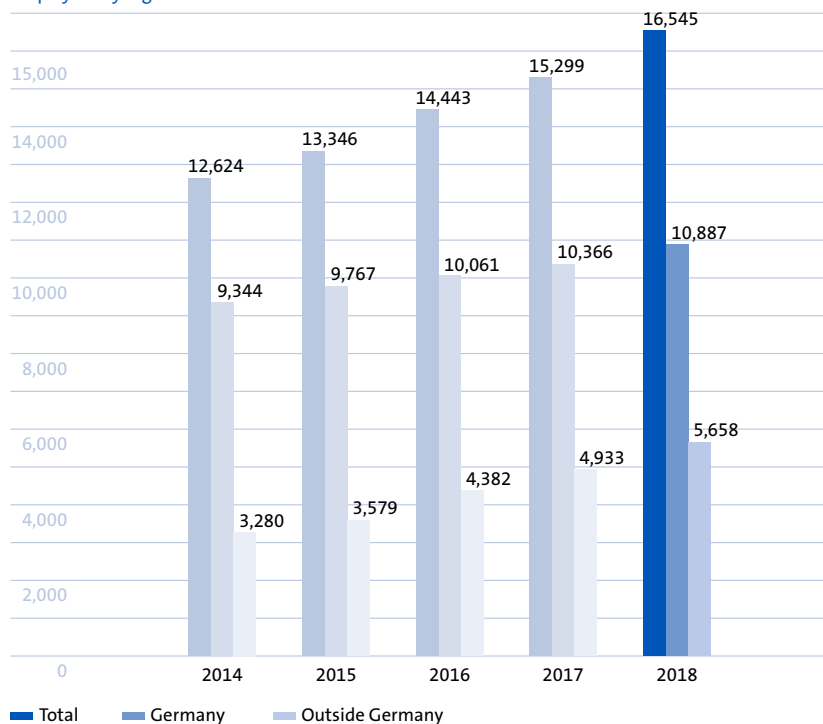
Revenue rose by 4.4% year-on-year to €3,854.0 million in 2018. Adjusted for currency and acquisition effects, revenue growth was around 5%. Overall, the company attained the revised 4% growth target announced in autumn 2018. Revenue increased in both segments. Conversely, profitability was down both in the core segment – Machines and Lines for Product Filling and Decoration – and in the Machines and Lines for Beverage Production/Process Technology segment. The EBT margin went down in the core segment from 8.5% to 7.0%. In process technology, EBT deteriorated from –€4.5 million year to –€19.0 million.

For the KRONES Group as a whole, earnings before taxes (EBT) decreased by 21.1% year-on-year from €258.8 million to €204.3 million in 2018. This includes around €42 million in expenses for reorganisation and acquisitions. Including these expenses, the company generated an EBT margin of 5.3% in 2018 (previous year: 7.0%). KRONES' third target ratio – working capital to revenue – held stable compared with the previous year, at 27.3% in 2018.

The company's financial and capital structure remains very sound. At the end of 2018, it had cash and cash equivalents of €218.8 million. Net cash and cash equivalents (cash and cash equivalents less bank debt) came to €215.1 million. Due to the increase in total assets, the equity ratio decreased slightly to 43.2% (previous year: 43.8%). KRONES continues to have a good overall basis for profitable growth.

## Employees

Employees by region



### Number of employees up 8.1% to 16,545

In order to exploit the opportunities our market offers, KRONES invests heavily not only in training and employee development, but also in new employees. The company further expanded its workforce in 2018, especially in our customers' markets abroad. The company employed 16,545 people worldwide at the end

of 2018, which is 1,246 employees or 8.1% more than in the previous year. In Germany, the number employed went up by 521 to 10,887. The workforce outside Germany expanded by 725 to 5,658 people. The share of employees outside Germany rose from 32.2% to 34.2% at the end of 2018.

Employees in the emerging markets 2014–2018

Year	South America	Africa	Asia-Pacific	cis/Eastern Europe	China	Total
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>
2018	637	452	830	213	716	<b>2,848</b>

Half of the workforce outside of Germany is now employed in emerging markets. The company plans to continue rapid growth in such markets, where KRONES has for years generated more than 50% of consolidated revenue. In the reporting period, KRONES added 360 new employees in emerging regions, for an increase of 14.5% to 2,848 people.

To counteract the international shortage of skilled labour, one of the top human resources priorities is to attract young and qualified recruits to KRONES. For this reason, KRONES invests heavily in training and continuing education for personnel worldwide. In addition to the good training activities at our German locations, we also train our own employees locally in countries such as Kenya and China.

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



## Sustainability at KRONES

For KRONES, corporate social responsibility (CSR) is about sustainability in business. By actively managing CSR, the KRONES Group contributes to sustainable development. In order to identify potential risks at an early stage, reduce our environmental footprint and continuously enhance our positive impact on the community, sustainability must be incorporated in all major decisions. We are aware of our responsibility in the KRONES Group, not only for our business performance, but also for the effects of our business activities on the environment, employees, society and future generations.

### Non-financial report for 2018

Under the CSR Directive Implementation Act, which entered into force in Germany in 2017, we disclose the policies we followed in the last financial year with respect to the non-financial aspects that are material to KRONES. The non-financial report for 2018, which does not form part of the Group Management Report is simultaneously the combined separate consolidated non-financial report for the KRONES Group and KRONES AG for the 2018 financial year, within the meaning of Sections 315b and 315c read in conjunction with Sections 289c to 289e of the German Commercial Code (HGB).



*The Non-financial Report is published online at  
<https://www.krones.com/en/company/responsibility/downloads.php>.*

## Risk and opportunity report

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

### KRONES' risk management system

*KRONES actively addresses potential risks. All key business processes are constantly subject to an internal control and 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 potential negative deviations from our earnings forecast for the 2019 financial year. Opportunities are potential positive deviations from our earnings forecast for the 2019 financial year. Because they share the same sales and procurement markets, the same risks and opportunities also apply to both 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 potential financial impact. Starting with gross risk, we determine the net risk, which takes into account any mitigating actions taken.

KRONES presents risks using 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 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 primarily use the following tools to plan our business activities and control risk within our internal control system:

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

## Risk management organisation

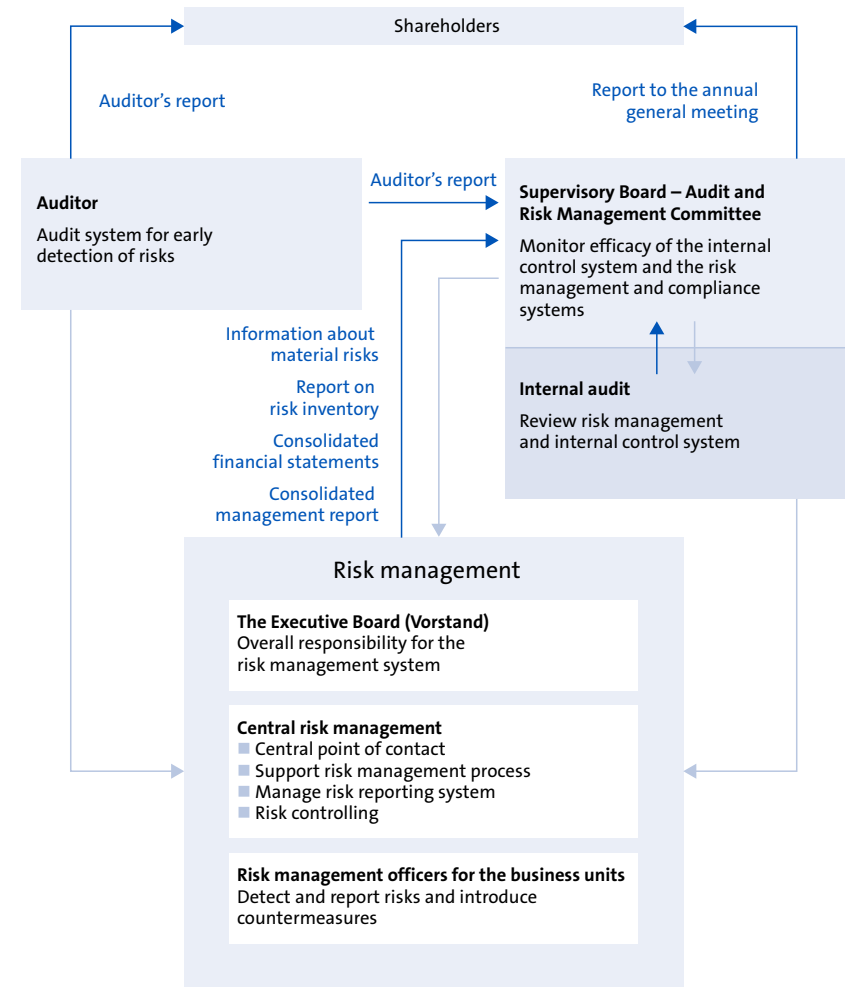
*KRONES' risk management system is continuously monitored and reviewed. This is governed by clear areas of responsibility and accountability.*

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.

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.

### Risk management organisation at KRONES



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

*The internal control and risk management system ensures that all business transactions are correctly recorded, processed, recognised and included in 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, recognised and included in financial reporting. 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. Cross-cutting key functions are centrally managed.

- The duties of the units that are materially involved in accounting and financial reporting processes are explicitly segregated and responsibilities 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.



## Overview and description of material risks

Risk categories	Maximum loss	Likelihood of event	Potential financial impact
<b>General business environment and industry-specific risks</b>			
■ General economic risks	high	medium	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	medium	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



KRONES classifies the maximum loss, the likelihood of an event and the potential financial impact of material risks into the three risk categories low, medium, and high. Definitions are provided below on page 86.

## 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. Our direct impact from international trade conflicts is minor. If, however, global economic growth were to be considerably weaker than expected, for example due to sustained trade conflicts, this would have a negative impact on KRONES' revenue and earnings. Economic conditions deteriorated due to currency volatility in a number of emerging markets in 2018. If the number of emerging markets affected continues to increase and the crisis proves not to be merely temporary, there could be a fall in investment confidence among our customers in such markets. 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 decline in business in individual regions.

*Impact of general economic risks: We rate the maximum loss as high, the likelihood of an event as medium, 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. KRONES' strong focus on service also 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 of these risks and suitable actions below 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 potential risk arising from each individual position at the reporting date. Any counter-exposures are not taken into account.

##### 1.1 Trade receivables

Credit risk is the risk of economic loss arising from a customer's failure to fulfil contractual payment obligations. KRONES manages credit risk on trade receivables on the basis of internal policies. Most trade receivables are

backed by various, sometimes country-specific, forms of security. These include retention of title, guarantees 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 2018 Trade receivables and contract assets	1,635,059	1,460,726	116,017	21,212	24,337	12,767
31 Dec 2017 Trade receivables and contract assets	1,277,358	998,659	171,991	42,825	34,363	29,520

## 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 pound sterling. 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 information on this topic is provided 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 the 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 risk 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 man-

agement 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 enables 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 2018 influence the company's liquidity situation.

€ thousand	Carrying amount at 31 Dec 2018	Cash flow for 2019		Cash flow for 2020–2023		Cash flow for 2023 or later	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Derivative financial instruments	1,982	0	1,980	0	2	0	0
Liabilities to banks	3,724	0	555	680	3,169	0	0
Liabilities from leases	295	6	118	15	177	0	0
Discounted trade bills	106,670	0	106,670	0	0	0	0
Other financial liabilities	41,302	0		44	41,302	0	0
	<b>153,973</b>	<b>6</b>	<b>109,323</b>	<b>739</b>	<b>44,650</b>	<b>0</b>	<b>0</b>

€ 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	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>

*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 risk arising from possible fluctuations in market interest rates. KRONES had very little bank debt at the end of the 2018 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 in principle to currency risk. We use exchange rate hedges to counter such risk as far as possible. In addition, we make most purchasing and sales transactions in euros or the relevant functional currency.

## Material items denominated in foreign currencies by IFRS 7 classes:

€ thousand	Currency USD	Currency NOK	Currency CAD	Currency CNY	Currency GBP
Cash and cash equivalents	395	0	132	56	0
Trade receivables	907	0	5,239	0	0
Other financial receivables	0	635	34	0	0
Derivatives at positive market values	194	284	269	0	45
Loans	0	0	0	0	0
<b>Total assets</b>	<b>1,496</b>	<b>919</b>	<b>5,673</b>	<b>56</b>	<b>45</b>
<b>Liabilities</b>					
Trade payables	-2,114	0	0	-1,082	-39
Due to banks	0	0	0	0	0
From finance leases	0	0	0	0	0
Other liabilities	-856	-14,217	-2,543	0	-4,007
Derivatives at negative market values	-1,100	-11	-7	-589	0
Financial liabilities at amortised cost	0	0	0	0	0
<b>Total liabilities</b>	<b>-4,070</b>	<b>-14,228</b>	<b>-2,550</b>	<b>-1,671</b>	<b>-4,046</b>
<b>Balance of assets and liabilities</b>	<b>-2,574</b>	<b>-13,309</b>	<b>3,123</b>	<b>-1,615</b>	<b>-4,001</b>
<b>Net exposure at 31 Dec 2018</b>	<b>-2,574</b>	<b>-13,309</b>	<b>3,123</b>	<b>-1,615</b>	<b>-4,001</b>

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

€ thousand	Currency USD	Currency NOK	Currency CAD	Currency CNY	Currency GBP
Consolidated statement of profit and loss	-116	1,254	-87	68	567
Consolidated equity	3,022	1,254	553	214	671

*Impact of currency risk: We rate the maximum loss as medium, the likelihood of an event as medium, 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 of a deterioration in the prices we are able to attain for our products and services. Fixed-price contracts with customers also entail price risks as KRONES must bear any additional costs that arise. KRONES has introduced a multidimensional order analysis process to minimise this risk. Any enquiry 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. We are also optimising cost structures along our entire value chain for the long term as part of the Value programme. Our primary focus here 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 mitigate this risk by continually monitoring the projects underway across the company.

*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 growth, in particular in the services business. For that purpose 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 harm 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 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.*

## Overview and description of material opportunities

### Material opportunities

KRONES does not record business opportunities within the risk management system. For this reason, we do not report in the following on likelihood of event or possible financial impact. 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 considerably strengthened its market position in the emerging markets in the Asia-Pacific region and in Africa and the Middle East in recent years. The International Monetary Fund forecasts that growth in emerging and developing economies will slow in 2019. If this forecast does not materialise, and growth in emerging markets even accelerates, then KRONES would stand to benefit. We would benefit more than proportionately from accelerated growth in the emerging markets. Better-than-expected economic growth in the euro area and in the USA could also result in earnings above our forecast.

### Industry-specific opportunities

Beverage and food producers are increasingly focused on conserving energy and other resources. There is a chance of trend intensifying and customers being more willing to accept higher prices. That would open additional selling and revenue opportunities for KRONES due to the company's competitive advantages in this area. With enviro, our certified management system, we have established the basis for ensuring that KRONES machines and lines feature especially low energy and media consumption. The company has also developed a competitive advantage here.

### Opportunities arising from acquisitions

The company's sound financial position and capital structure enable KRONES to seize opportunities for external growth. As part of our strategy, we keep 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. Additionally, we anticipate that the price increases on all bottling and packaging equipment and for process technology with effect from 1 May 2018 will have an increasingly positive effect in the 2019 financial year. If market prices should develop better than expected, this would yield opportunities for the company.

#### 2. Procurement prices

The company increasingly buys same parts and complete assemblies from suppliers. In addition, KRONES increasingly procures 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 also optimising its cost structures as part of the Value strategy programme. Opportunities arise for KRONES if specific measures have greater or more rapid effect than planned.

### 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 materially changed. The main risks remain in the general business environment and in industry-specific and financial risks.

## Events after the reporting period

After the end of the reporting period, no significant events took place.



## Report on **expected developments**

- Global economic outlook slightly weaker
- Good growth opportunities for KRONES overall
- Executive Board expects increases in revenue and earnings before taxes in 2019

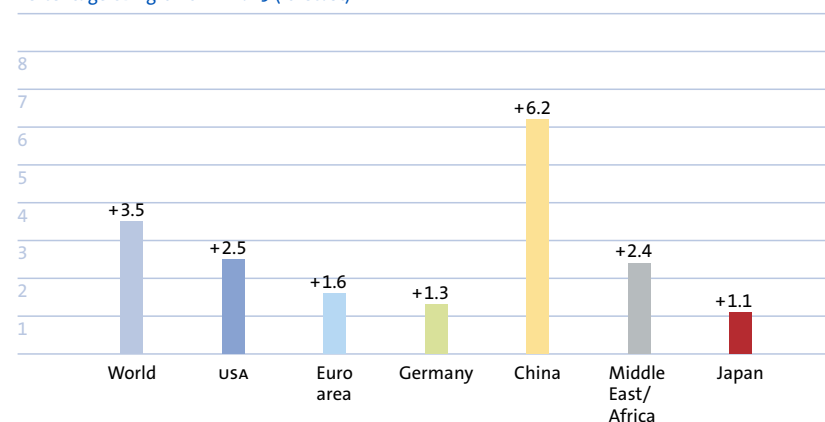
### Global economic growth for 2019 estimated at 3.5%

In January 2019, the International Monetary Fund (IMF) lowered its forecast for global economic growth in the full year 2019 from 3.7% to 3.5%. The main reasons for this were the trade conflict between the USA and China and weakening growth rates in a number of countries, including France, Germany and China. At the same time, the IMF experts pointed out that risks are tilted to the downside. This includes volatility on financial markets and rising interest rates in the USA. However, the IMF does not believe that the global economy is headed for recession.

*The International Monetary Fund has slightly lowered its growth forecast for 2019.*

In emerging and developing economies, the pace of growth is likely to be a little slower in 2019 than in the previous year. This is mainly due to the Chinese economy. The IMF expects that China's gross domestic product (GDP) will grow by only 6.2% in 2019 (previous year: 6.6%), partly due to tariff disputes with the USA. For the Middle East/Africa region, the IMF anticipates GDP growth of 2.4% in 2019 (previous year: 2.4%). In Latin America, the growth rate is expected to accelerate, with GDP growth of 2.0% relative to 2018 (previous year: 1.1%). In total, the IMF is forecasting 4.5% economic growth for the emerging and developing economies in 2019 (previous year: 4.6%).

Percentage GDP growth in 2019 (forecast)



Source: IMF

The IMF expects economic problems in a number of industrialised economies in 2019, most of all in the euro area. Its experts lowered their growth forecast most sharply for Germany, which is labouring under production difficulties in the automotive industry and lower export demand. German GDP is expected to grow by just 1.3% in 2019 (previous year: 1.5%). For the euro area, the IMF anticipates GDP growth of 1.6% in 2019 (previous year: 1.8%). The IMF's economists are more optimistic about the outlook for the US economy. With the positive effect of fiscal incentives, the world's largest economy is expected to increase GDP by 2.5% in 2019 (previous year: 2.9%). For Japan, the IMF is forecasting 1.1% GDP growth (previous year: 0.9%). In total, the IMF forecasts 2.0% GDP growth for industrialised economies in 2019 (previous year: 2.3%).

## Strong employment 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 purchasing 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 effect on KRONES' business overall in 2019.

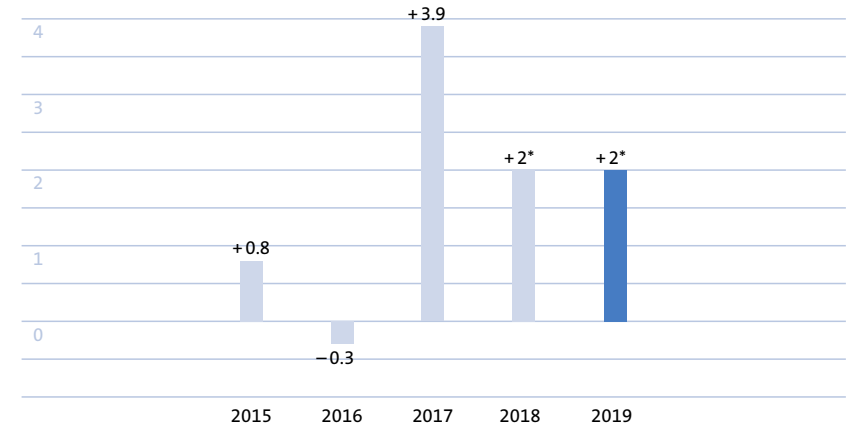
## German machinery and industrial equipment manufacturers expected to slightly increase production

*The German Mechanical Engineering Industry Association (VDMA) expects growth for the industry in 2019.*

Germany's Mechanical Engineering Industry Association (VDMA) expects that the economic growth slowdown in 2019 will also affect demand for capital goods. It also highlights unknowns such as Brexit and the trade disputes. Overall, the VDMA expects machinery and industrial equipment output to rise in value by 2% in 2019 (previous year: plus 2%).

The VDMA likewise projects 2% output growth in 2019 for the food and packaging machinery subsector to which KRONES belongs.

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



\* Forecast

Source: Germany's Federal Statistical Office, VDMA

## KRONES moderately optimistic going into 2019

With the year's economic forecasts still positive overall, KRONES is moderately optimistic going into the 2019 financial year despite political and economic uncertainties. The packaging machinery market is growing at a relatively stable pace because demand for packaged beverages and foods is rising on the back of multiple megatrends. Despite the positive environment, our market remains challenging. Competition for orders is intense, and customers are tending to gain in purchasing power due to mergers and acquisitions. Material and labour costs are not expected to ease in 2019.

## Revenue and profitability to increase in both segments in 2019

The key to profitable growth for KRONES lies in expanding our global footprint. Establishing a cost-optimised supplier network in the various regions plays a major part here. In addition, launching new products and services and further reducing costs remain important factors in order to grow further and improve profitability in both segments in 2019.

In the core segment, Machines and Lines for Product Filling and Decoration, KRONES will further expand its global footprint in 2019. An important step here is the start of production at our new plant in Hungary in the second half of 2019. Innovation will also contribute to growth. To further offset the rising cost of material, we will continue to press ahead with modularisation. That enables us to secure better procurement terms and increase efficiency within the company.

For the core segment, KRONES expects sales growth of around 3% in 2019, which is temporarily below the market growth rate due to the price increases. The EBT margin is expected to be around 7%.

*The Process Technology Segment is expected to continue growing in 2019.*

In the Machines and Lines for Beverage Production/ Process Technology segment, the focus is likewise on expanding our global footprint. By establishing additional international hubs, we aim to fulfil orders from within the various regions faster and more cost-efficiently. We plan to increase order quality and hence profitability in the high-revenue brewery business. Rapid integration of the 2018 acquisitions in this segment will enable us to unlock additional revenue and earnings potential.

The intralogistics business, which is part of the Process Technology segment, is once again expected to harness the good market growth opportunities and make a positive contribution to earnings this year. Intralogistics is becoming

ever more important to our customers as it helps them properly manage and distribute the increasing diversity of packaging types and forms. It is also a major element of the digital beverage plant.

For the Process Technology segment in 2019, we are forecasting revenue growth by 5% and an EBT margin of approximately 1%.

Based on the prevailing macroeconomic outlook and the current expected development of the markets relevant to KRONES, the company expects consolidated revenue growth of 3% in 2019.

In order to attain its medium-term corporate goals, KRONES will continue in 2019 to work towards a future-ready global structure. The company does not expect any noticeable fall in material procurement prices in 2019; the same applies to labour costs. KRONES' price increases on all bottling and packaging equipment and for process technology with effect from 1 May 2018 are likely to have a slight positive effect on earnings in the 2019 financial year. Overall, KRONES expects an EBT margin of around 6% for 2019.

*KRONES aims to increase revenue and the EBT margin in 2019.*

Above all due to the focus on increases in the price level, in the current economic and geopolitical climate, KRONES sees the management of its targets for 2019 subject to greater uncertainties than in the past.

For its third performance target, working capital to revenue, KRONES expects a figure of 26% in 2019. We intend to reach this target by more intensive working capital management.

	Forecast 2019	Actual 2018
Revenue growth	3%	4.4%
EBT margin	6%	5.3%
Working capital to revenue	26%	27.3%

## Disclosures required under Sections 315 a (1) and 289 a (1) of the German Commercial Code (HGB)

Pursuant to Section 4 (1) of the articles of association, the share capital of KRONES Aktiengesellschaft 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 law stipulate otherwise, resolutions of the annual general meeting are made with a simple majority of 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 custody account is held, shall constitute sufficient evidence of the shareholding. The evidence of shareholding must relate 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 annual general meeting may specify a relaxation of this requirement without prejudice to Section 135 of the German Stock Corporation Act (AktG).

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: indirect voting rights attributable pursuant to Section 34 (2) of the Securities Trading Act
Familie Kronseder Konsortium GbR, Neutraubling, Germany	51.61%	51.61%

Changes to the shareholdings listed above that are not required to be reported to the company may have occurred since the specified date (January 2019). Because the company's shares are bearer shares, the company is generally only aware of changes in shareholdings if the 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 adopted by resolution of 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) by issuing ordinary bearer shares against cash contributions on one or more occasions up to and including 15 June 2021. Shareholders must normally be granted subscription rights to such shares. The Executive Board may exclude shareholders' subscription rights, with the approval of the Supervisory Board, for any fractional amounts that may arise.

By resolution of the annual general meeting of 13 June 2018, the Executive Board is authorised, up to and including 12 June 2023, with the approval of the Supervisory Board, to buy treasury shares totalling up to 10% of the company's share capital at the time that the resolution was adopted or, if smaller, at the time that the authorisation is exercised.

By resolution of the annual general meeting of 13 June 2018, the Executive Board is authorised to use any treasury shares bought pursuant to the aforementioned authorisation in accordance with Section 71 (1) No. 8 of the Stock Corporation Act, besides for sale on the stock exchange or by offer to all shareholders, for any permissible purpose, and in particular as follows:

- 1) The shares may be cancelled, without the cancellation or its execution requiring a further resolution by the annual general meeting.
- 2) The shares may be offered and transferred to third parties in return for non-cash contributions, in particular in connection with business combinations or on the acquisition of companies, businesses, parts of companies or equity interests. In addition, the shares may also be used for the termination or settlement of shareholder actions at affiliates of the company.

- 3) The shares may be sold to third parties against cash payment if the price at which the shares in the company are sold is not significantly lower, within the meaning of sections 71 (1) no. 8 sentence 5 and 186 (3) sentence 4 of the Stock Corporation Act, than the stock exchange price of a company share at the time of sale.
- 4) The shares may be used to service obligations or rights to purchase shares in the company arising from and in connection with convertible bonds or bonds with warrants, or profit-sharing rights with conversion rights or warrants, issued by the company or any of its group companies.

Shareholders' statutory subscription rights to such shares are excluded to the extent that the shares are used in exercise of the authorisations set out above under 2) to 4) inclusive or, in the case of sales of treasury shares to all shareholders, to the extent necessary to avoid fractional amounts.

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.

## 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 – also 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 Section 314 (1) No. 6a of the German Commercial Code (HGB).



*The statement on corporate governance is also available online  
at [www.krones.com](http://www.krones.com).*

## Remuneration report

The remuneration report presents the basic features, structure, and amounts of Executive Board and Supervisory Board remuneration at KRONES AG. In the interest of clarity and transparency, the disclosures on individual remuneration and the description of the basic features of the remuneration system have been combined in the following remuneration report, which forms part of the consolidated management report. As such, it covers the disclosures required under Sections 314 (1) No. 6a 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 2017.

In this connection, the previous five-year Long-Term Incentive (LTI) was replaced by a new three-year Long-Term Incentive arrangement awarded on a revolving basis.

A transitional phase beginning 1 January 2018 was agreed to ensure neutrality in allocation.

This new arrangement was adopted by resolution of the Supervisory Board on 29 November 2017 and approved by the Annual General Meeting on 13 June 2018.

#### 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 long-term incentives containing risk factors, with a measurement period of 3 years
- Post-employment benefits

All 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 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 2018, the base salaries of the five members of the Executive Board who were active in 2018 totalled €2,930 thousand (previous year: €3,220 thousand/six members).

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 2018 financial year, the members of the Executive Board received fringe benefits totalling €280 thousand (previous year: €345 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 2017:

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

STI payment for the financial year 2018 amounts to €220 thousand in 2019 (previous year: €1,127 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 2018 financial year.

- Medium-term incentive (MTI, measurement period: 3 years)
  - Replaced by three-year LTI and therefore last awarded in 2017
  - Target bonus: 3 months' salary per annum (at 100% performance target level)
  - 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 €807 thousand at the end of the financial year (previous year: €1,138 thousand), of which €398 thousand relates to remuneration for 2018 (prior year: €520 thousand).

- Long-term incentive (LTI, measurement period: 3 years)
  - Awarded annually (on a revolving basis)
  - Target bonus: 5.4 months' salary per annum (at 100% performance target level)
  - Reference figures: enterprise value on three-year average (EBT times 9, EBIT times 7, sales times 1) for start and end value plus net cash and less pension provisions
  - Capped at 200% (max. 6 months' salary)
  - No payment if EBT is negative on average



The provision for the long-term incentive for the transitional phase (2018–2020) amounted to €238 thousand at the end of the financial year.

The transitional LTI pays out as of at the end of the 2020 financial year provided that the reference figures have been attained or exceeded. If an Executive Board member leaves before the end of the measurement period, payment is pro-rated.

- Long-term incentive (LTI, measurement period: 5 years)
- Replace by three-year LTI.

The provision for the long-term incentive amounted to €3,379 thousand at the end of the financial year (previous year: €4,035 thousand), of which €2.651 thousand relates to remuneration for 2018. The LTI pays out as of the end of the 2018 financial year provided that the reference figures have been attained or exceeded and the entitlement is due. If an Executive Board member leaves before the end of the measurement period, payment is pro-rated.

Total Executive Board remuneration amounted to €6,479 thousand (previous year: €6,405 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 €2,087 thousand (previous year: €2,489 thousand) were recognised for active members of the Executive Board. At the end of 2018, the corresponding Defined Benefit Obligation (DBO) amounted to the following: for Mr. Klenk €3,866 thousand, for Mr. Ricker €42 thousand, for Mr. Tischer €46 thousand, and for Mr. Goldbrunner €31 thousand. In addition, €1,172 thousand (previous year: €1,024 thousand) was paid into contribution-based plans in 2018. In 2018, pension-related expenditure, including contributions into the post-employment benefits plan (bAV) amounted to the following: for Mr. Klenk €320 thousand, for Mr. Anderson €252 thousand, for Mr. Ricker €216 thousand, for Mr. Tischer €192 thousand, and for Mr. Goldbrunner €192 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 2018.

#### **Benefits paid to former members of the Executive Board**

Payments to former members of the Executive Board and their surviving dependents amounted to €1,688 thousand (previous year: €1,504 thousand). Pension provisions of €8,761 thousand (previous year: €7,723 thousand) were recognised.

## Total remuneration paid to members of the Executive Board in 2017/2018

## Remuneration 2018 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, Intralogistics, Digitalisation, Communication, Quality, Information Management	since 2003	800	28	828	60	133	920	1,942
Michael Andersen	CFO Finance, Controlling, Process Technology, Strategic Purchasing	since 2016	630	182	812	47	85	0	945
Thomas Ricker	Sales and Marketing	since 2012	540	21	561	41	67	669	1,337
Markus Tischer	International Operations and Services	since 2014	480	18	498	36	57	569	1,160
Ralf Goldbrunner	Bottling and Packaging Equipment	since 2014	480	31	511	36	57	493	1,096

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

## 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

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 2018 financial year, the articles of association as amended by the annual general meeting on 13 June 2018 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 2018 financial year amounted to €712 thousand (previous year: €631 thousand) and is shown in the table below with individualised disclosure.

## Total remuneration paid to members of the Supervisory Board in 2017/2018

## Remuneration 2018 pursuant to GAS 17 (€ thousand)

Name	Position	Base compensation	Additional compensation for committee work	Meeting attendance fee	Total remuneration in 2018
Volker Kronseder	Chairman of the Supervisory Board	87.5	7.0	15.0	109.5
Werner Schrödl <sup>*,**</sup>	Deputy Chairman of the Supervisory Board	52.5	7.0	13.5	73.0
Robert Friedmann	Regular member	17.5		4.5	22.0
Klaus Gerlach <sup>*</sup>	Regular member	35.0		6.0	41.0
Oliver Grober <sup>*,**</sup>	Regular member	17.5		4.5	22.0
Thomas Hiltl <sup>*,**</sup>	Regular member	17.5		4.5	22.0
Norman Kronseder	Regular member	35.0	7.0	15.0	57.0
Prof. Dr. jur. Susanne Nonnast	Regular member	35.0		4.5	39.5
Dr. phil. Verena Di Pasquale <sup>*,**</sup>	Regular member	35.0		6.0	41.0
Beate Eva Maria Pöpperl <sup>*,**</sup>	Regular member	35.0		4.5	39.5
Norbert Samhammer	Regular member	17.5		4.5	22.0
Petra Schadeberg-Herrmann	Regular member	35.0		4.5	39.5
Jürgen Scholz <sup>*,**</sup>	Regular member	35.0	7.0	10.5	52.5
Hans-Jürgen Thaus	Regular member	35.0	7.0	10.5	52.5
Josef Weitzer <sup>*,**</sup>	Regular member	35.0	7.0	15.0	57.0
Matthias Winkler	Regular member	17.5		4.5	22.0

\* Employee representative

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

## Remuneration 2017 pursuant to GAS 17 (€ thousand)

Name	Position	Base compensation	Additional compensation for committee work	Meeting attendance fee	Total remuneration in 2017
Volker Kronseder	Chairman of the Supervisory Board	87.5	7.0	9.0	103.5
Werner Schrödl <sup>*,**</sup>	Deputy Chairman of the Supervisory Board	52.5	7.0	13.5	73.0
Klaus Gerlach <sup>*</sup>	Regular member	35.0		6.0	41.0
Norman Kronseder	Regular member	35.0	7.0	13.5	55.5
Philipp Graf von und zu Lerchenfeld <sup>***</sup>	Regular member	35.0	7.0	4.5	46.5
Prof. Dr. jur. Susanne Nonnast	Regular member	35.0		6.0	41.0
Dr. phil. Verena Di Pasquale <sup>*,**</sup>	Regular member	35.0		6.0	41.0
Johann Robold <sup>*,***</sup>	Regular member	17.5	3.5	3.0	24.0
Beate Eva Maria Pöpperl <sup>*,***</sup>	Regular member	17.5		4.5	22.0
Petra Schadeberg-Herrmann	Regular member	35.0		6.0	41.0
Jürgen Scholz <sup>*,**</sup>	Regular member	35.0	3.5	7.5	46.0
Hans-Jürgen Thaus	Regular member	35.0		6.0	41.0
Josef Weitzer <sup>*,**</sup>	Regular member	35.0	7.0	13.5	55.5

\* Employee representative \*\* A share of remuneration is donated in accordance with the current rules of the Hans-Böckler-Stiftung \*\*\* Deceased 1 December 2017

## Report on Gender Equality and Equal Pay – Annex to the Management Report of KRONES AG

KRONES reports in the following on gender equality and equal pay as required under Section 21 of the Transparency in Wage Structures Act (Entgelttransparenzgesetz).

### 1) Measures to promote equality between women and men and the impact of such measures

#### Initiatives to improve the reconciliation of work and family life

KRONES aims for continuous improvement in working conditions for all employees. Measures to contribute to a positive working environment have been implemented by means of various initiatives and workplace policies.

In-company agreements have been negotiated on areas such as sabbaticals, flexible working and mobile working. KRONES provides various options for part-time working to address employees' wishes with regard to work-life balance. These options are largely taken up by women in the workforce.

A child daycare centre, Kroki Neutraubling e.V., has provided year-round childcare for over 40 children since 1 September 2008. Two crèche and two preschool groups admit children from families connected with KRONES at ages between four months and six years.

All KRONES AG locations take part in the Germany-wide Girls' Day to encourage more female school students consider the many technical training occupations at KRONES.

#### Recruitment

Job advertisements for vacancies at KRONES are gender-neutral.

### 2) Measures to create equal pay for women and men

#### Pay-scale employees

KRONES AG applies the collective agreements of the Bavarian metals and electrical industry at its operating locations by way of an accession agreement.

Employees are assigned to collective agreement pay scales on a gender-neutral basis in accordance with their specific job requirements.

#### Non-pay-scale employees

Job evaluation at KRONES for non-pay-scale employees is performed using proven standard methods by assigning job types to salary bands.

In performance agreements, target attainment is assessed on uniform and hence gender-neutral criteria.

KRONES continuously reviews pay structures and makes adjustments as needed.

#### Statistical data pursuant to Section 21 (2) of the Transparency in Wage Structures Act<sup>1</sup>

Gender	Full-time	Part-time	Employees
Female	860	371	1,231
Male	7,537	110	7,647
<b>Total</b>	<b>8,397</b>	<b>481</b>	<b>8,878</b>

<sup>1</sup> Full-time and part-time employees of KRONES AG in Germany, including BKK – as of 31 December 2016



## 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, 20 March 2019

KRONES AG

Der Vorstand



Christoph Klenk  
CEO



Michael Andersen  
CFO



Thomas Ricker



Markus Tischer



Ralf Goldbrunner