

A photograph of several brown glass beer bottles lined up on a white tray in a restaurant. The bottles are filled with beer and have a thick head of white foam. The background is softly blurred, showing more tables and chairs.

# Q1

Interim report for the period  
from 1 January to 31 March 2014

 **KRONES**

# Contents

- 3 Highlights and key figures
- 4 Letter from the Executive Board
- 5 The KRONES share

## **Consolidated management report**

- 6 Economic environment
- 7 KRONES in figures
- 16 Report from the segments
- 18 Risk and opportunity report
- 19 Report on expected developments

## **Interim consolidated financial statements for the period ended 31 March 2014**

- 21 Separate income statement
- 22 Statement of financial position
- 24 Statement of cash flows
- 25 Statement of changes in equity
- 26 Statement of comprehensive income

## **Notes to the consolidated financial statements of the KRONES Group**

- 26 Segment reporting
- 27 General disclosures
- 36 Shareholdings
- 37 Members of the Supervisory Board  
and the Executive Board
- 38 Glossary
- 39 Financial calendar
- 39 Publication credits
- Contact

## Highlights and key figures

**KRONES is right on schedule after the first quarter.**

- Revenue improved 2.9% to €703.0 million in the period from January to March 2014.
- New orders were up 7.8% to €738.8 million.
- Earnings performance increased further. EBT margin widened from 5.7% to 6.1%.
- KRONES is standing by its earnings target for 2014 as a whole.

		1 Jan – 31 Mar 2014	1 Jan – 31 Mar 2013	Change
Revenue	€ million	703.0	683.4	+2.9%
New orders	€ million	738.8	685.2	+7.8%
Orders on hand at 31 March	€ million	1,028.2	1,001.1	+2.7%
EBITDA	€ million	63.1	57.4	+9.9%
EBIT	€ million	42.2	38.4	+9.9%
EBT	€ million	43.1	38.9	+10.8%
Net income	€ million	29.9	26.9	+11.2%
Earnings per share	€	0.95	0.89	+6.7%
Capital expenditure for PP&E and intangible assets	€ million	12.4	18.7	–€6.3 m
Free cash flow	€ million	–40.2	–82.1	+€41.9 m
Net cash and cash equivalents	€ million	199.8	50.8	+€149.0 m
ROCE (liabilities side)	%	15.4	15.1	–
ROCE (assets side)	%	13.3	12.7	–
Employees at 31 March				
Worldwide		12,353	12,026	+ 327
Germany		9,100	9,052	+48
Outside Germany		3,253	2,974	+279

Dear shareholders and friends of **KRONES**,

KRONES has got 2014 off to a good start. And we are cautiously optimistic about the year as a whole. We intend to increase revenue by 4% and further boost profitability. After the first quarter, we are on target. From January to March, revenue and new orders were up 2.9% and 7.8%, respectively, year-on-year. Earnings before taxes improved 10.8% to €43.1 million.

We expect the economy to provide a light tailwind. Experts are forecasting global economic growth of 3.6% in 2014, after 3.0% in the previous year. But these predictions are subject to various risks. At the end of the first quarter, geopolitical and economic uncertainties increased sharply. The Ukraine crisis (Crimea) has fuelled fears of a new conflict between East and West. In addition, higher interest rates in the USA could cause an outflow of capital from the emerging markets. The euro area economy has stabilised but is not yet steady on its feet.

KRONES is well prepared to meet the volatilities of the general economic environment. Our Value programme enables us to react quickly and flexibly to changes and therefore defend our market and technology leadership for the long term. That is why we are continuing to implement our Value strategy programme and its four pillars of innovation, growth, profitability, and quality with undiminished vigour. Our new corporate structure has been bolstering this effort since the start of the year. Thanks to our highly motivated employees, the new structure is already well established within the company. It will take the commitment of our entire KRONES team to continue to become even better each day and remain successful on the market for the long term.



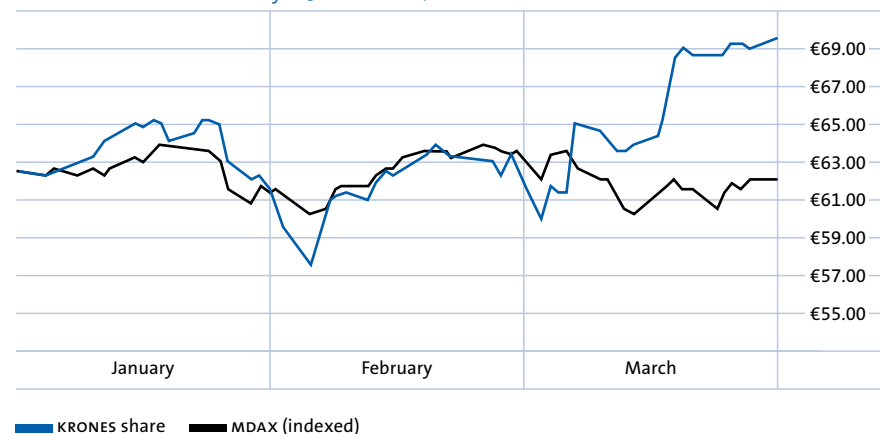
Volker Kronseder  
Chairman of the Executive Board

## KRONES share performs well

After the explosive year-end rally in 2013, many share indexes took a breather in the first quarter of 2014. In particular, the political uncertainties in the Ukraine and fears of interest rate hikes in the USA dampened the mood on the stock markets in the first three months of 2014. It was not until the Crimea crisis abated in March that the markets began to recover. While the Dow Jones index in the US was able to recoup nearly all of its year-to-date losses (-0.7%), Japan's Nikkei index closed the first quarter down 9.0%. After the previous year's sharp gains, investors in Japan returned their focus to the risks entailed by Japan's extremely loose monetary policy. European shares benefited from the economic recovery in the euro area. Altogether, the EURO STOXX 50 index gained 1.7% in the reporting period. Germany's DAX index closed the first quarter almost unchanged from the start of the year.

After advancing 39.1% in the previous year, Germany's MDAX mid-cap index started the first quarter of 2014 in reverse gear. By the end of the quarter, though, it had recovered nearly all of those losses and closed the quarter down just 0.7%.

The KRONES share from 1 January to 31 March 2014



*The KRONES share outperformed the MDAX considerably in the period from January through March 2014.*

Despite its strong performance in 2013 (+32.8%), the KRONES share showed no signs of slowing down and continued its substantial gains in the first quarter of 2014. After hitting a low of €57.16 in early February, the share proved its strength relative to Germany's big indexes by the end of the quarter. Our shares outperformed in March in particular. Our preliminary revenue and earnings figures for the 2013 financial year certainly contributed to this development. The share reached a new historic high of €71.10 on 26 March. At the end of the quarter, the share was still at €69.32 and closed the first quarter of 2014 as one of the MDAX's top performers (+11.0%).

#### World economy recovering gradually

Economists with the International Monetary Fund (IMF) are optimistic for 2014. The latest forecasts have growth gaining momentum over 2013 and the global economy picking up 3.6% in 2014 (previous year: 3.0%). According to the IMF, the advanced industrialised countries will increasingly drive the world economy in 2014. The IMF expects gross domestic product (GDP) in the USA to gain 2.8% year-on-year. The IMF believes the euro area is now on track to achieve slight growth after last year's recession. Euro area GDP is projected to increase 1.2% in 2014 (previous year: -0.5%). The economists are forecasting better-than-average GDP growth of 1.7% for Germany.

*World economy to gain momentum in 2014. The IMF expects 3.6% growth after 3.0% in the previous year but also warns of risks.*

After slackening a bit last year, the emerging and developing economies are expected to gain momentum again in 2014. The strongest growth engines within the emerging markets are projected to be China, with GDP expected to grow by +7.5%, India (+5.4%), and sub-Saharan Africa (+5.4%). In all, the IMF is forecasting 4.9% economic growth for the emerging and developing economies for 2014, after 4.7% in the previous year.

However, the IMF also warns of threats to the global economy. The economists cite as the biggest risk the possibility that central banks – particularly the Federal Reserve in the USA – will end their expansive monetary policy prematurely and raise interest rates. That would hit the emerging and developing economies especially hard as international investors could increasingly move their money out of these less-stable markets. An extended period of low inflation poses another risk. Geopolitical uncertainties like the recent crisis in the Ukraine can also have a negative impact on the global economy.

#### Slow start to the year in Germany's machinery sector

New orders in the German machinery sector were four percent lower in February 2014 than in the year-earlier period. Domestic orders were down six percent while export orders were down three percent year-on-year. A less volatile three-month comparison of the period from December 2013 to February 2014 reveals a one percent year-on-year decrease in new orders.

*Despite the slow start to the year, the VDMA expects new orders and output to increase in 2014 as a whole.*

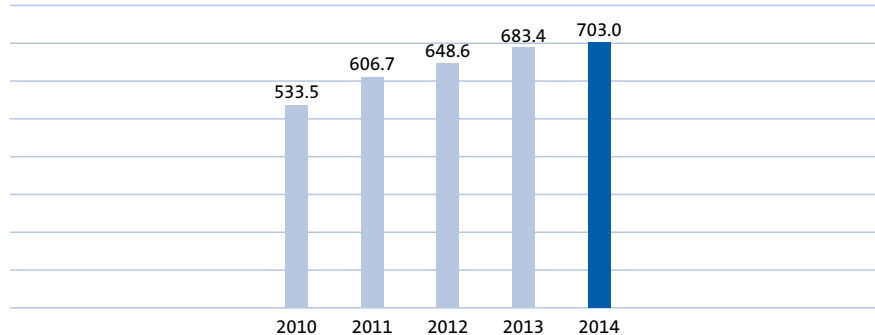
Despite the year getting off to a weak start for Germany's machinery sector, the German Engineering Federation (VDMA) expects 2014 to see new orders increase and output for the year as a whole rise 3% over 2013. The food and packaging machinery subsector, which is relevant for KRONES, is likely to develop better than the industry as a whole. New orders in the food and packaging industry rose 12% year-on-year in the three-month period from December 2013 to February 2014.

### KRONES continues to grow in the first quarter of 2014

Volatile markets and a competitive environment that remains challenging defined the first quarter of 2014. Despite these difficult circumstances overall, KRONES was able to continue to grow in the reporting period. Revenue was up 2.9% year-on-year in the period from January to March 2014, to €703.0 million (previous year: €683.4 million). That puts the revenue gain within our seasonal planning. After the first quarter, KRONES is confident that it will achieve its 4% growth target for 2014 as a whole.

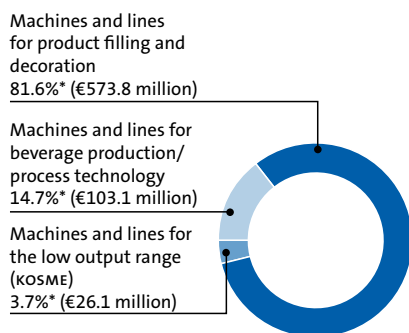
*At 2.9%, revenue growth in the first quarter of 2014 was within our target range.*

Revenue from 1 January to 31 March (€ million)



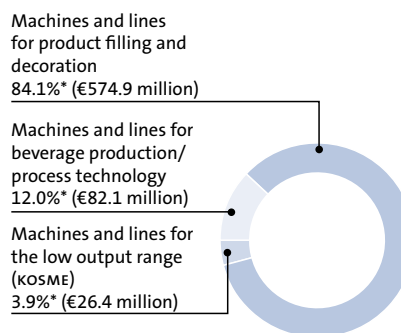
Customer response to KRONES' presence at the drinktec trade fair in September 2013 had a positive effect in the first quarter of 2014. In addition, the company benefited from its broad international base, which enabled it to more than compensate for temporary shifts in demand in individual regions. Our comprehensive range of products and services also once again proved beneficial for growth.

Segment revenue from 1 Jan to 31 Mar 2014



\* Share of consolidated revenue of €703.0 million

Segment revenue from 1 Jan to 31 Mar 2013



\* Share of consolidated revenue of €683.4 million

## Revenue by region

KRONES' revenue on its home market increased further in the first quarter of 2014. At €89.5 million, domestic revenue exceeded the previous year's figure of €85.1 million by 5.2%. KRONES' growth in this market was supported by the generally good outlook for the German economy. Domestic revenue accounted for 12.7% of consolidated revenue in the first quarter of 2014 (previous year: 12.5%).

KRONES' business development in Europe (excluding Germany) was a mixed picture in the first quarter. While revenue was up sharply in Central Europe (Austria, Switzerland, Netherlands) and in the Russia/CIS region, it was down considerably in Western and Eastern Europe. Overall, revenue in Europe (excluding Germany) increased 12.0% over the year-earlier period in the first quarter, from €209.3 million to €234.4 million. That corresponds to a 33.4% share of consolidated revenue (previous year: 30.6%).

After posting high growth rates in the past, business in the Middle East/Africa region slowed temporarily in the reporting period. Revenue in the region was down 52.6% year-on-year to €47.6 million. But KRONES does not see a trend developing and expects revenue here to pick up again in the coming quarters. The same is true of the Chinese market. Revenue there was down 41.8% in the first quarter of 2014 to €37.3 million. KRONES' revenue in the rest of the Asia-Pacific region was up 29.8% to €112.9 million in the reporting period.

In the South America/Mexico sales region, KRONES achieved extremely high growth rates that cannot be extrapolated to the year as a whole. Revenue there was up 93.0% to €129.5 million in the first quarter. Quarterly revenue in the North and Central America region contracted 26.3% to €51.8 million. All told, KRONES generated 53.9% (previous year: 56.9%) of consolidated revenue outside Europe in the first quarter.

The share of revenue KRONES generated in the emerging markets came to 59.4% in the first quarter (previous year: 54.8%).

## KRONES Group revenue by region

Share of consolidated revenue	31 March 2014		31 March 2013		Change
	€ million	%	€ million	%	
Germany	89.5	12.7	85.1	12.5	+5.2
Central Europe (excluding Germany)	28.0	4.0	18.3	2.7	+53.0
Western Europe	116.4	16.6	135.3	19.8	-14.0
Eastern Europe	31.6	4.5	35.4	5.2	-10.7
Russia, Central Asia (CIS)	58.4	8.3	20.3	3.0	+187.7
Middle East/Africa	47.6	6.8	100.5	14.7	-52.6
Asia-Pacific	112.9	16.1	87.0	12.7	+29.8
China	37.3	5.3	64.1	9.4	-41.8
South America/Mexico	129.5	18.4	67.1	9.8	+93.0
North and Central America	51.8	7.4	70.3	10.3	-26.3
<b>Total</b>	<b>703.0</b>	<b>100.0</b>	<b>683.4</b>	<b>100.0</b>	<b>+2.9</b>

*Quarterly revenue figures for the various regions are not very telling because ordering activity and revenue can fluctuate considerably from quarter to quarter.*



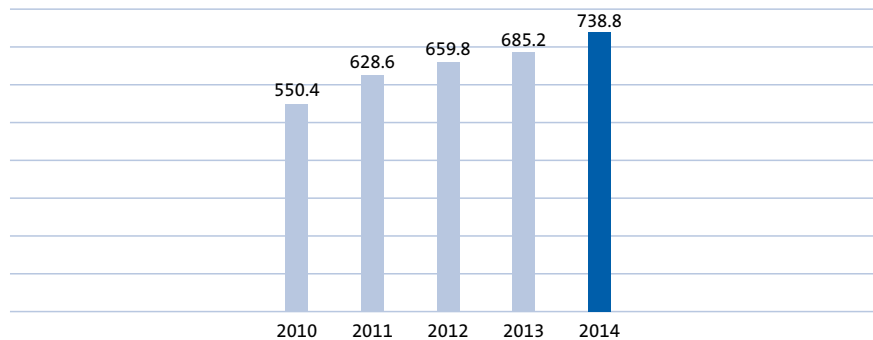
### Increased demand for KRONES products and services

After a slightly weaker orders intake in the fourth quarter of 2013, demand was up again considerably at the start of 2014. In all, new orders in the first quarter of 2014 totalled €738.8 million. In the fourth quarter of 2013, KRONES had received new orders totalling €705.0 million. Compared with the first quarter of the previous year, new orders were up 7.8% in the first three months of 2014.

*As expected, new orders were up considerably, 7.8% year-on-year, in the first quarter.*

In regional terms, demand in the Africa/Middle East and Asia-Pacific regions was up considerably. In China, new orders were down slightly from the high year-earlier level but stabilising. In Western Europe and North America, demand was stable.

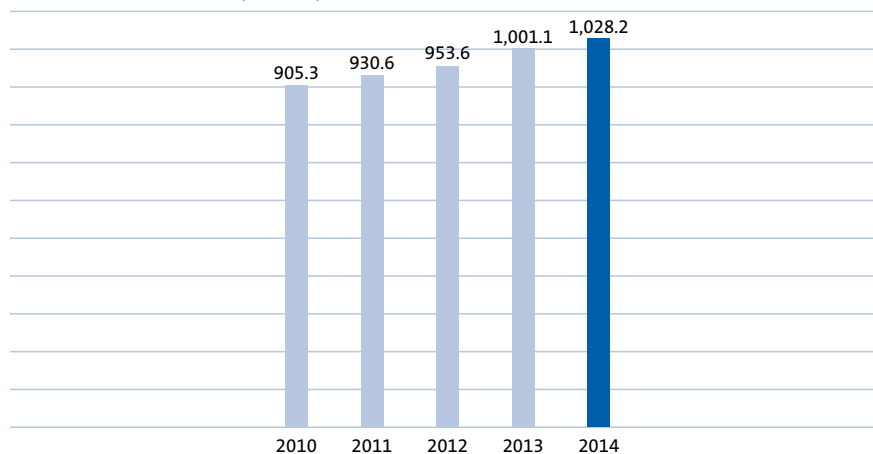
New orders from 1 January to 31 March (€ million)



### Comfortable orders backlog increases planning security

KRONES started 2014 with an orders backlog of €992.4 million. The high new orders volume in the first quarter of 2014 caused the orders backlog to grow to €1,028.2 million at 31 March (previous year: €1,001.1 million). That will ensure balanced capacity utilisation over the months ahead. The large orders cushion also provides a solid basis from which to achieve the company's growth target for 2014.

Orders on hand at 31 March (€ million)

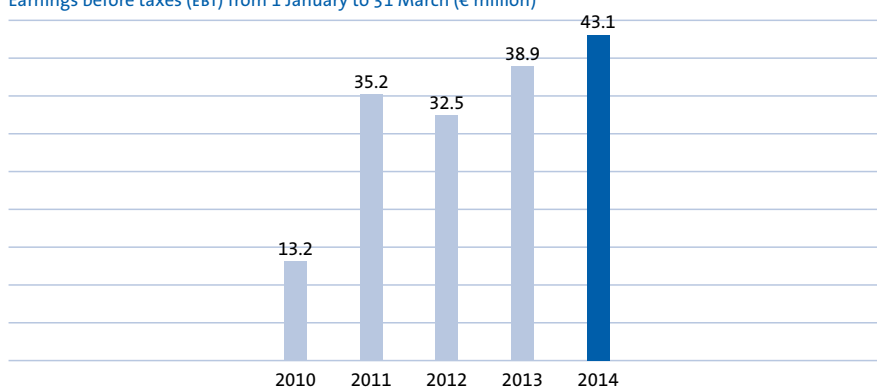


## Double-digit EBT growth

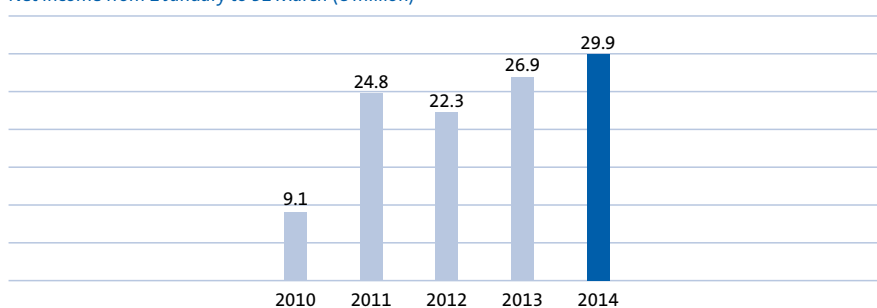
KRONES improved earnings performance as planned in the first quarter of 2014. Key here were the measures taken to increase the company's efficiency under the Value programme. There was no support from price levels. Earnings before taxes (EBT) increased more sharply than revenue in the period from January to March 2014, by 10.8% from €38.9 million in the year-earlier period to €43.1 million. The EBT margin, the ratio of earnings before taxes to segment revenue, advanced from 5.7% to 6.1% year-on-year. After the first quarter, we are confident that we will be able to achieve our target EBT margin of 6.2% for the year 2014.

*Thanks to measures taken under Value, earnings before taxes increased 10.8%, a sharper gain than revenue, in the period from January to March 2014.*

Earnings before taxes (EBT) from 1 January to 31 March (€ million)



Net income from 1 January to 31 March (€ million)



After taxes, consolidated net income at KRONES was up 11.2% in the first three months of 2014 from €26.9 million in the previous year to €29.9 million. Earnings per share improved from €0.89 to €0.95 in the first quarter of 2014. The smaller earnings per share growth compared to consolidated net income is due to the fact that KRONES still held treasury shares in the first quarter of 2013, which are not included in the calculation of earnings per share.

Earnings per share from 1 January to 31 March (€)



## KRONES Group earnings structure

€ million	2014	2013	Change
	1 Jan–31 Mar	1 Jan–31 Mar	
<b>Sales revenue</b>	<b>703.0</b>	<b>683.4</b>	<b>+ 2.9%</b>
Changes in inventories of finished goods and work in progress	-13.6	-2.9	-
<b>Total operating performance</b>	<b>689.4</b>	<b>680.5</b>	<b>+ 1.3%</b>
Goods and services purchased	-330.9	-340.5	-2.8%
Personnel expenses	-220.0	-210.6	+4.5%
Other operating income (expenses) and own work capitalised	-75.4	-72.0	+4.7%
EBITDA	63.1	57.4	+9.9%
Depreciation and amortisation on fixed assets	-20.9	-19.0	+10.0%
<b>EBIT</b>	<b>42.2</b>	<b>38.4</b>	<b>+ 9.9%</b>
Financial income/expense	0.9	0.5	-
<b>EBT</b>	<b>43.1</b>	<b>38.9</b>	<b>+ 10.8%</b>
Income tax	-13.2	-12.0	+10.0%
<b>Consolidated net income</b>	<b>29.9</b>	<b>26.9</b>	<b>+ 11.2%</b>

KRONES' total operating performance, which takes into consideration changes in inventories of finished goods and work in progress as well as revenue, increased 1.3% over the year-earlier period in the first quarter of 2014. That was slightly less than the increase in revenue (+2.9%). Savings in goods and services purchased strengthened KRONES' earnings performance in the reporting period.

Despite the higher total operating performance, spending for goods and services purchased was down from €340.5 million in the previous year to €330.9 million. That is due to the successes of the Value programme as well as changes to the product mix. The ratio of goods and services purchased to total operating performance decreased from 50.0% in the year-earlier period to 48.0% in the first quarter of 2014.

Personnel expenses were up 4.5% from €210.6 million in the previous year to €220.0 million in the reporting period. The ratio of personnel expenses to total operating performance was at a satisfactory 31.9% in the first quarter of 2014 (previous year: 31.0%).

The net of other operating income and expenses and own work capitalised increased to -€75.4 million (previous year: -€72.0 million). The ratio of this figure to total operating performance was 10.9% (previous year: 10.6%). As a result of KRONES' considerable capital expenditure, depreciation and amortisation of fixed assets increased from €19.0 million in the previous year to €20.9 million in 2014.

Earnings before interest and taxes (EBIT) amount to €42.2 million for the first quarter of 2014 (previous year: €38.4 million). Earnings before taxes increased a bit more than EBIT, 10.8% to €43.1 million, thanks to the slight improvement in financial income. The tax rate was down slightly from 30.9% to 30.6%. As a result, consolidated net income was up 11.2% in the first quarter of 2014, from €26.9 million to €29.9 million.

*While the ratio of goods and services purchased to total operating performance decreased by two percent, the ratio of personnel expenses to total operating performance increased by 0.9 percent.*

## KRONES Group cash flow

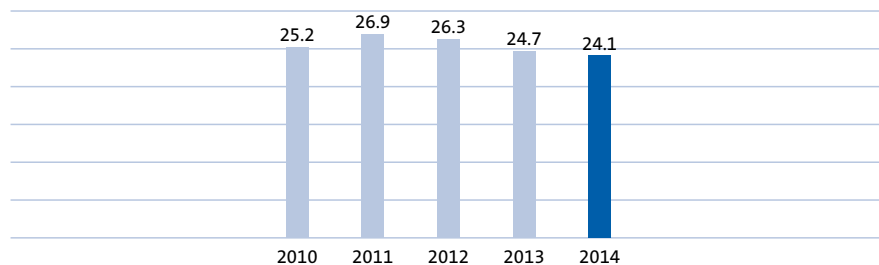
€ million	2014	2013	Change
	1 Jan–31 Mar	1 Jan–31 Mar	
<b>Earnings before taxes</b>	<b>+43.1</b>	<b>38.9</b>	<b>+4.2</b>
Other non-cash expenses and income	+76.1	+64.6	+11.5
Changes in working capital	–135.9	–162.4	+26.5
Other (primarily income taxes)	–10.9	–6.2	–4.7
<b>Cash flow from operating activities</b>	<b>–27.6</b>	<b>–65.1</b>	<b>+37.5</b>
Capital expenditure for intangible assets and property, plant and equipment	–12.4	–18.7	+6.3
Other	–0.2	+1.7	–1.9
<b>Free cash flow</b>	<b>–40.2</b>	<b>–82.1</b>	<b>+41.9</b>
Cash flow from financing activities	0	+61.1	–61.1
Change in cash and cash equivalents arising from exchange rates	+0.1	0	+0.1
<b>Net change in cash and cash equivalents</b>	<b>–40.1</b>	<b>–21.0</b>	<b>–19.1</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>199.8</b>	<b>111.9</b>	<b>+87.9</b>

KRONES' cash flow from operating activities improved to –€27.6 million in the first quarter of 2014 (previous year: –€65.1 million). The improvement can be attributed to higher earnings as well as a smaller increase in working capital. Working capital grew by €135.9 million in the first three months of the year (previous year: +€162.4 million). Receivables, inventories, and other assets increased considerably in the first quarter, by €114.0 million (previous year: €17.4 million), while liabilities decreased by €21.9 million (previous year: €145.0 million).

The ratio of average working capital for the past four quarters to revenue improved year-on-year from 24.7% to 24.1% in the first quarter. The ratio of working capital to revenue at the end of the reporting period was 25.0% (previous year: 25.7%).

*KRONES improved free cash flow by €41.9 million year-on-year in the first quarter of 2014.*

KRONES Group working capital to revenue (% , average at 31 March)

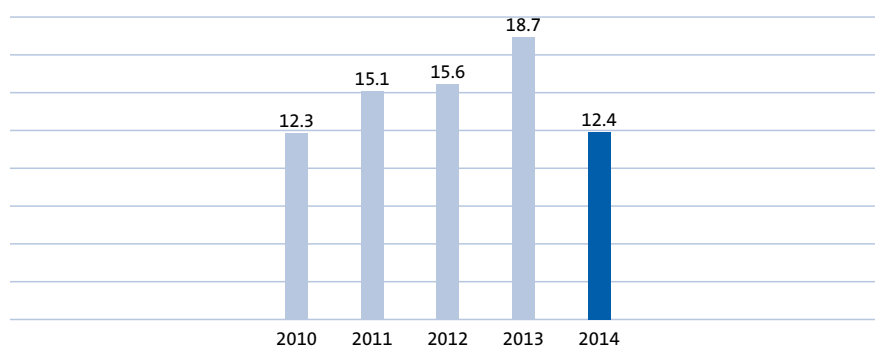


*KRONES improved its ratio of average working capital for the past four quarters to revenue to 24.1% in the first quarter*

KRONES invested €12.4 million in intangible assets and property, plant and equipment in the reporting period (previous year: €18.7 million). KRONES' free cash flow (net cash generated from operating activities) improved by €41.9 million to –40.2 million (previous year: –€82.1 million). In our business, it is not unusual for free cash flow to be negative at various points throughout the year.

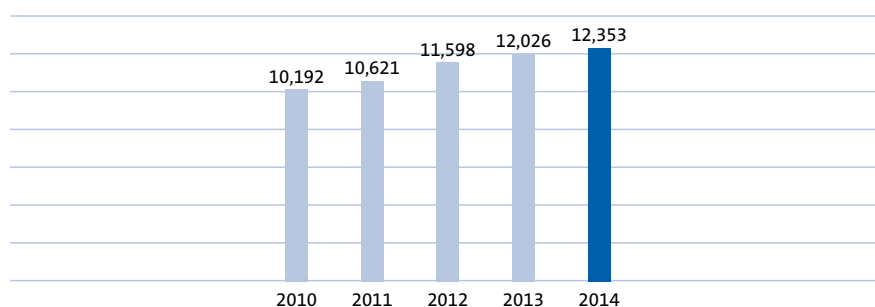
Because the company took out no bank debt in the first quarter, the company also had no cash flow from financing activities (previous year: €61.1 million). At 31 March 2014, KRONES had cash and cash equivalents totalling €199.8 million (previous year: €111.9 million).

Capital expenditure for PP&E and intangible assets from 1 January to 31 March (€ million)



## Employees

Workforce at 31 March



### KRONES employs 12,353 worldwide

As part of our internationalisation strategy, KRONES grew its workforce outside Germany by 279 to 3,253 over the past twelve months. In Germany, too, the number of employees increased to 9,100 at the end of the reporting period (previous year: 9,052). In all, the company's workforce grew to 12,353 (previous year: 12,026). Of these, 481 were trainees (previous year: 473).

*As part of our internationalisation strategy, the expansion of our workforce is taking place primarily outside Germany.*

## KRONES Group asset and capital structure

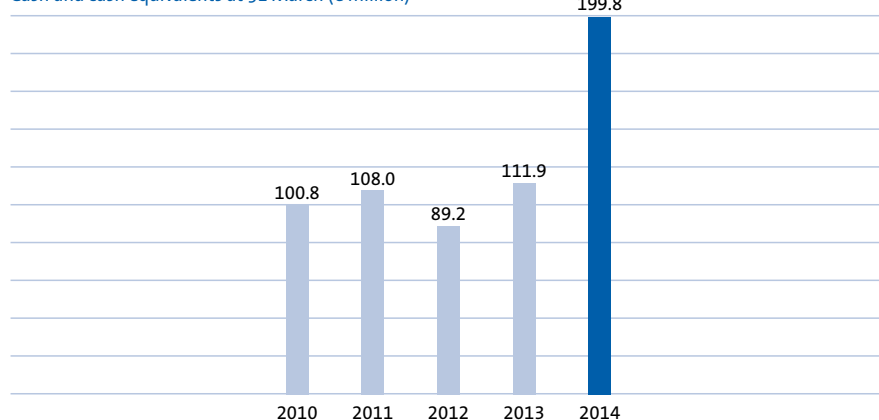
€ million	31 Mar 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011
Non-current assets	650	642	625	603
of which fixed assets	598	605	587	555
Current assets	1,647	1,596	1,445	1,443
of which cash and equivalents	200	240	133	125
Equity	978	954	798	763
Total debt	1,319	1,284	1,272	1,283
Non-current liabilities	218	213	193	162
Current liabilities	1,101	1,071	1,079	1,121
<b>Total</b>	<b>2,297</b>	<b>2,238</b>	<b>2,070</b>	<b>2,046</b>

Due to the higher business volume in the first quarter, KRONES' total assets at 31 March 2014 were up 2.6% from the end of 2013 to €2,297 million.

Non-current assets were up slightly in the first quarter, totalling €650.0 million at 31 March 2014 (31 December 2013: €641.8 million). Property, plant and equipment, intangible assets, and non-current financial assets (referred to collectively as "fixed assets" in this report) were down slightly to €598.2 million (31 December 2013: €605.1 million). Of this, €466.3 million were property, plant and equipment (31 December 2013: €475.1 million). The intangible assets, which amounted to €129.6 million at the end of the first quarter (31 December 2013: €128.2 million), are primarily development costs that must be capitalised.

*KRONES' good equity and liquidity position give the company sufficient leeway to seize investment opportunities.*

Cash and cash equivalents at 31 March (€ million)



At the end of the reporting period, current assets totalled €1,646.9 million, which is 3.2% more than at 31 December 2013. In the period from January to March 2014, KRONES reduced inventories by €23.3 million to €617.7 million while trade receivables increased from €610.9 million to €722.8 million due to the higher business volume. Cash and cash equivalents decreased from €239.9 million to €199.8 million in the reporting period (31 March 2013: €111.9 million).

Current liabilities were up to €1,100.5 million from the end of 2013 (€1,070.7 million). Higher other liabilities and accruals were responsible for this increase. KRONES had no current bank debt at the end of the first quarter of 2014 (31 March 2013: €61.1 million).

KRONES' non-current liabilities, consisting largely of provisions for pensions and other personnel provisions, rose slightly to €218.5 million at 31 March 2014 (31 December 2013: €213.2 million). As in the previous year, the company had no non-current bank debt at the end of the quarter.

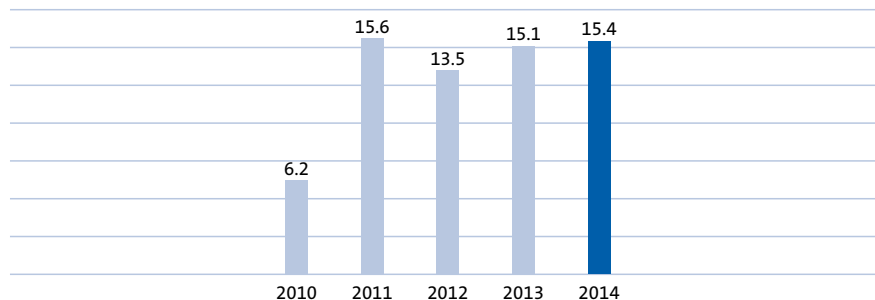
Due to the positive quarterly earnings figure, equity was up from €954.2 million at the end of 2013 to €977.9 million. As a result, our equity ratio was 42.6% at 31 March 2014 (31 December 2013: 42.6%). With net cash and cash equivalents (cash and cash equivalents less bank debt) of €199.8 million at the end of the reporting period (31 March 2013: €50.8 million), KRONES therefore still has an extremely robust financial and capital structure.

### ROCE up to 15.4%

KRONES increased its return on capital employed (ROCE), that is the ratio of EBIT to average net tied-up capital, to 15.4% thanks in large part to improved earnings (previous year: 15.1%). That puts us right on track to achieve our target of more than 16% for the year 2014 as a whole (previous year: 16.7%).

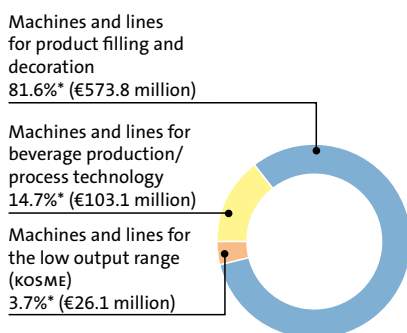
*The company had no current or non-current bank debt at the end of the reporting period.*

KRONES Group ROCE from 1 January to 31 March (%)



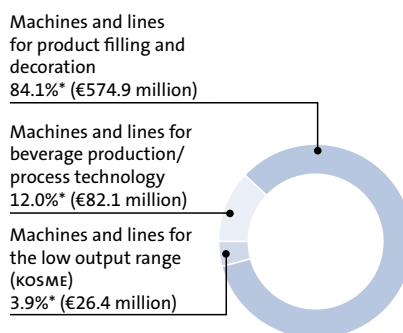
*ROCE is up slightly from year-earlier period in the first quarter. That puts us on track to achieve our ROCE target of more than 16% for the year as a whole.*

Revenue by segment from 1 Jan to 31 Mar 2014



\* Share of consolidated revenue of €703.0 million

Revenue by segment from 1 Jan to 31 Mar 2013



\* Share of consolidated revenue of €683.4 million

## Segment revenue

In the first quarter of 2014 revenue in the “machines and lines for product filling and decoration” segment declined slightly, from €574.9 million in the year-earlier period to €573.8 million. We expect growth in KRONES’ core segment to accelerate over the subsequent quarters. In all, the segment’s revenue growth in 2014 will likely be stronger than in 2013 (+3.2%). The core segment’s share of consolidated revenue decreased year-on-year from 84.1% to 81.6% in the first quarter of 2014.

Revenue in the “machines and lines for beverage production/process technology” segment rose 25.5% from €82.1 million in the previous year to €103.1 million in the period from January to March 2014. A major reason for the strong growth is that large brewery and beverage plant projects were invoiced and yielded revenue in the reporting period. We expect this growth rate to slow considerably in the quarters ahead. The segment contributed 14.7% of consolidated revenue in the first quarter of 2014 (previous year: 12.0%).

As expected, revenue in the company’s smallest segment, “machines and lines for the low output range (KOSME)” were down slightly in the reporting period. KOSME’s revenue declined 1.3% from €26.4 million in the previous year to to €26.1 million. We expect revenue development to be similar for the financial year as a whole. The segment’s share of consolidated revenue decreased to 3.7% in the first quarter of 2014 (previous year: 3.9%).

*Growth in KRONES’ core segment is likely to accelerate over the subsequent quarters.*



## Segment earnings

Earnings in the “machines and lines for product filling and decoration” segment in the first quarter of 2014 were up despite the lower revenue figure. That is due to the successes of the Value programme. There was no support from price levels. Optimised cost structures resulted in a 4.6% improvement in earnings before taxes (EBT), from €39.6 million in the previous year to €41.4 million. The EBT margin, the ratio of earnings before taxes to segment revenue, advanced from 6.9% to 7.2%.

*KRONES improved earnings in all three segments.*

KRONES achieved a turnaround in the “machines and lines for beverage production/process technology” segment in the period from January through March 2014. Earnings before taxes improved from –€0.5 million in the first quarter of 2013 to +€1.8 million. Thus, the segment generated an EBT margin of 1.7%. After many years in the red, these first-quarter figures put us right on schedule to generate positive earnings in process technology in 2014.

The “machines and lines for the low output range (KOSME)” segment did not quite make it into the black in the first quarter of 2014. Segment earnings before taxes came to –€0.1 million (previous year: –€0.2 million), only slightly negative thanks to stable capacity utilisation in the first quarter. KRONES will need to work hard and implement further measures in order to get KOSME to break even in terms of operating earnings in 2014.

Product filling and decoration		2014	2013
		1 Jan – 31 Mar	1 Jan – 31 Mar
EBT	€ million	41.4	39.6
EBT margin	%	7.2	6.9

Beverage production/process technology		2014	2013
		1 Jan – 31 Mar	1 Jan – 31 Mar
EBT	€ million	1.8	–0.5
EBT margin	%	1.7	–0.6

KOSME		2014	2013
		1 Jan – 31 Mar	1 Jan – 31 Mar
EBT	€ million	–0.1	–0.2
EBT margin	%	–0.4	–0.8

### **KRONES' risk management system**

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.

Our risk management system consists of the following modules: risk analysis, risk monitoring, and risk planning and management.

#### **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. For orders that exceed a specified volume, we conduct a multi-dimensional risk analysis. Apart from profitability, we also individually record and evaluate financing risks, technological risks, and scheduling and other contractual risks before accepting an order.

We conduct a comprehensive risk inventory once each year for KRONES AG and all significant group companies. The results of the risk inventory and mitigating actions are used in our annual planning.

#### **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.

#### **Risk planning and control**

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

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

#### **Threats**

Viewed from today's perspective, KRONES is not exposed to any risks that threaten the company's continued existence. A detailed discussion of the risks faced by the company and a detailed description of our risk management can be found in the consolidated management report on pages 96 through 107 of our 2013 Annual Report. In the reporting period from 1 January to 31 March 2013, there were no material changes with respect to the statements made in the annual report regarding the company's key risks.

### KRONES intends to continue to grow profitably in 2014

KRONES is cautiously optimistic about the outlook for the global economy in 2014 despite many uncertainties. The markets in which KRONES operates continue to offer good prospects for growth. The company intends to expand its strong position in the emerging markets and grow its profitable after-sales business. We expect business to hold steady in the established markets of North America and Europe in 2014. If the political situation in Ukraine does not escalate further, we do not expect the crisis in the region to have a significant impact on our business.

### KRONES to improve earnings in all three segments

In order to achieve its Value target of 7/7/20 in the medium term, KRONES will once again focus on growth and profitability in 2014. In our core segment, machines and lines for product filling and decoration, we intend to further improve cost structures and make them more flexible in 2014. Expanding our international service structures and LCS Centres is important for profitable growth. KRONES also laid the foundation for future growth with the successful innovations presented at the drinktec trade fair. In 2014, the core segment should post stronger revenue growth than in 2013 and improve profitability slightly.

In our process technology segment, we will further expand our services business to include components and software upgrades and grow our product portfolio this year. KRONES also intends to take on more small, profitable orders and increasingly fill them within favourable local structures. These measures, combined with higher capacity utilisation, should enable the segment to generate positive earnings in 2014. Revenue is likely to be similar to the previous year's high level.

KOSME, our segment for the low output range, is also expected to break even in terms of operating earnings in 2014. To accomplish this, we will introduce measures that make cost structures significantly more flexible in order to better offset fluctuations in demand in this segment. With a lower break-even point and more stable capacity utilisation, KRONES intends to achieve its earnings targets in 2014 on slightly lower revenue.

### On track to achieve 2014 targets

Overall, based on the development of the markets relevant to KRONES and the continuing uncertain economic outlook, we expect revenue to grow by 4% in 2014. KRONES expects only little support from price levels.

*KRONES is on track to achieve its growth and earnings targets for 2014.*

Earnings performance should increase further. KRONES expects the EBT margin (earnings before taxes to revenue) to be around 6.2% in 2014. That is still below our medium-term target of 7%. We want to increase our third strategy target, ROCE, to more than 16% this year. Our medium- to long-term target is 20%.

	Forecast for 2014	Actual value Q1 2014
Revenue growth	+ 4%	+ 2.9%
EBT margin	about 6.2%	6.1%
ROCE	> 16%	15.4%



€ million	2014 1 January– 31 March	2013 1 January– 31 March	Change %
<b>Sales revenue</b>	<b>703.0</b>	<b>683.4</b>	<b>+ 2.9</b>
Changes in inventories of finished goods and work in progress	-13.6	-2.9	
<b>Total operating performance</b>	<b>689.4</b>	<b>680.5</b>	<b>+ 1.3</b>
Goods and services purchased	-330.9	-340.5	-2.8
Personnel expenses	-220.0	-210.6	+ 4.5
Other operating income (expenses) and own work capitalised	-75.4	-72.0	+ 4.7
Depreciation and amortisation on fixed assets	-20.9	-19.0	+ 10.0
<b>EBIT</b>	<b>42.2</b>	<b>38.4</b>	<b>+ 9.9</b>
Financial income/expense	0.9	0.5	
<b>Earnings before taxes</b>	<b>43.1</b>	<b>38.9</b>	<b>+ 10.8</b>
Income tax	-13.2	-12.0	+ 10.0
<b>Consolidated net income</b>	<b>29.9</b>	<b>26.9</b>	<b>+ 11.2</b>
Profit share of non-controlling interests	0.0	0.0	
Profit share of KRONES Group shareholders	29.9	26.9	
Earnings per share (diluted/basic) in €	0.95	0.89	



## Statement of financial position of the KRONES Group

Assets € million	31 March 2014	31 December 2013
Intangible assets	129.6	128.2
Property, plant and equipment	466.3	475.1
Non-current financial assets	2.3	1.8
<b>Fixed assets</b>	<b>598.2</b>	<b>605.1</b>
Deferred tax assets	19.1	17.3
Trade receivables	25.2	12.7
Income tax receivables	5.1	5.1
Other assets	2.4	1.6
<b>Non-current assets</b>	<b>650.0</b>	<b>641.8</b>
Inventories	617.7	641.0
Trade receivables	722.8	610.9
Current income tax receivables	6.4	7.5
Other assets	100.2	97.0
Cash and cash equivalents	199.8	239.9
<b>Current assets</b>	<b>1,646.9</b>	<b>1,596.3</b>
<b>Total</b>	<b>2,296.9</b>	<b>2,238.1</b>

<b>Equity and liabilities</b> € million	31 March 2014	31 December 2013
<b>Equity</b>	<b>977.9</b>	<b>954.2</b>
Provisions for pensions	146.9	145.9
Deferred tax liabilities	26.0	22.3
Other provisions	40.8	39.1
Liabilities to banks	0.0	0.0
Trade payables	2.7	3.3
Other financial liabilities	0.9	1.7
Other liabilities	1.2	0.9
<b>Non-current liabilities</b>	<b>218.5</b>	<b>213.2</b>
Other provisions	160.0	154.7
Provisions for taxes	9.9	8.0
Liabilities to banks	0.0	0.0
Advances received	461.3	468.8
Trade payables	197.6	192.0
Current tax liabilities	0.8	3.7
Other financial liabilities	5.6	9.5
Other liabilities and accruals	265.3	234.0
<b>Current liabilities</b>	<b>1,100.5</b>	<b>1,070.7</b>
<b>Total</b>	<b>2,296.9</b>	<b>2,238.1</b>

## Statement of cash flows of the KRONES Group

€ million	2014 1 January – 31 March	2013 1 January – 31 March
Earnings before taxes	43.1	38.9
Depreciation and amortisation (reversals)	20.9	19.0
Increase in provisions	58.1	49.7
Deferred tax item changes recognised in profit or loss	-1.9	-3.7
Interest expenses and interest income	-0.9	-0.5
Proceeds and losses from the disposal of fixed assets	0.0	-0.1
Other non-cash expenses and income	-0.1	0.2
Increase in inventories, trade receivables, and other assets not attributable to investing or financing activities	-114.0	-17.4
Decrease in trade payables and other liabilities not attributable to investing or financing activities	-21.9	-145.0
<b>Cash generated from operating activities</b>	<b>-16.7</b>	<b>-58.9</b>
Interest paid	-0.1	-0.2
Income tax paid and refunds received	-10.8	-6.0
<b>Cash flow from operating activities</b>	<b>-27.6</b>	<b>-65.1</b>
Cash payments to acquire intangible assets	-7.5	-9.1
Proceeds from the disposal of intangible assets	0.0	0.1
Cash payments to acquire property, plant and equipment	-4.9	-9.6
Proceeds from the disposal of property, plant and equipment	0.1	0.1
Cash payments to acquire non-current financial assets	-0.5	0.0
Proceeds from the disposal of non-current financial assets	0.0	1.3
Interest received	0.2	0.2
<b>Cash flow from investing activities</b>	<b>-12.6</b>	<b>-17.0</b>
Proceeds from new borrowing	0.0	61.1
<b>Cash flow from financing activities</b>	<b>0.0</b>	<b>61.1</b>
<b>Net change in cash and cash equivalents</b>	<b>-40.2</b>	<b>-21.0</b>
Change in cash and cash equivalents arising from exchange rates	0.1	0.0
Cash and cash equivalents at the beginning of the period	239.9	132.9
<b>Cash and cash equivalents at the end of the period</b>	<b>199.8</b>	<b>111.9</b>



€ million	Parent company							Non-controlling interests	Group equity
	Share capital	Capital reserves	Profit reserves	Currency differences in equity	Other reserves	Group retained earnings	Equity		
<b>At 1 January 2013</b>	<b>40.0</b>	<b>66.8</b>	<b>365.2</b>	<b>3.6</b>	<b>-40.7</b>	<b>363.6</b>	<b>798.5</b>	<b>0.0</b>	<b>798.5</b>
Consolidated net income 3 months 2013						26.9	26.9	0.0	26.9
Currency differences				5.8			5.8		5.8
Actuarial gains and losses on pensions					-0.1		-0.1		-0.1
Hedge accounting, incl. AFS					-1.5		-1.5		-1.5
<b>At 31 March 2013</b>	<b>40.0</b>	<b>66.8</b>	<b>365.2</b>	<b>9.4</b>	<b>-42.1</b>	<b>390.5</b>	<b>829.6</b>	<b>0.0</b>	<b>829.6</b>
Dividend payment (€0.75 per share)						-23.7	-23.7		-23.7
Consolidated net income 9 months 2013						92.5	92.5	0.0	92.5
Sale of treasury shares		74.9	-1.2				73.7		73.7
Allocation to profit reserves			0.2			-0.2	0.0		0.0
Allocation to capital reserves		0.0				0.0	0.0		0.0
Currency differences				-20.9			-20.9		-20.9
Actuarial gains and losses on pensions					0.1		0.1		0.1
Hedge accounting, incl. AFS					2.9		2.9		2.9
<b>At 31 December 2013</b>	<b>40.0</b>	<b>141.7</b>	<b>364.2</b>	<b>-11.5</b>	<b>-39.3</b>	<b>459.1</b>	<b>954.2</b>	<b>0.0</b>	<b>954.2</b>
Consolidated net income 3 months 2014						29.9	29.9	0.0	29.9
Currency differences				-5.9			-5.9		-5.9
Actuarial gains and losses on pensions					-0.5		-0.5		-0.5
Hedge accounting, incl. AFS					0.2		0.2		0.2
<b>At 31 March 2014</b>	<b>40.0</b>	<b>141.7</b>	<b>364.2</b>	<b>-17.4</b>	<b>-39.6</b>	<b>489.0</b>	<b>977.9</b>	<b>0.0</b>	<b>977.9</b>

## Statement of comprehensive income of the KRONES Group

€ million	2014 1 January – 31 March	2013 1 January – 31 March
<b>Consolidated net income</b>	<b>29.9</b>	<b>26.9</b>
<b>Items that will not be reclassified subsequently to profit or loss</b>		
Actuarial gains and losses on pensions and similar obligations	–0.5	–0.1
	–0.5	–0.1
<b>Items that may be reclassified subsequently to profit or loss</b>		
Exchange differences on translation	–5.9	5.8
Derivative financial instruments	0.2	–1.5
	–5.7	4.3
<b>Other comprehensive income</b>	<b>–6.2</b>	<b>4.2</b>
<b>Total comprehensive income</b>	<b>23.7</b>	<b>31.1</b>
of which attributable to non-controlling interests	0.0	0.0
of which attributable to KRONES Group shareholders	23.7	31.1

## Segment reporting of the KRONES Group

	Machines and lines for product filling and decoration		Machines and lines for beverage production/ process technology		Machines and lines for the low output range (KOSME)		KRONES Group	
	2014 1 Jan – 31 Mar	2013 1 Jan – 31 Mar	2014 1 Jan – 31 Mar	2013 1 Jan – 31 Mar	2014 1 Jan – 31 Mar	2013 1 Jan – 31 Mar	2014 1 Jan – 31 Mar	2013 1 Jan – 31 Mar
Sales revenue	573.8	574.9	103.1	82.1	26.1	26.4	703.0	683.4
EBT	41.4	39.6	1.8	–0.5	–0.1	–0.2	43.1	38.9
EBT margin	7.2%	6.9%	1.7%	–0.6%	–0.4%	–0.8%	6.1%	5.7%
Employees at 31 March*	10,753	10,567	775	661	502	498	12,030	11,726

\* Consolidated group

## General disclosures

### ■ Legal basis

The consolidated financial statements of KRONES AG (“KRONES Group”) for the period ended 31 March 2014 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, applicable at the end of the reporting period, including the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) as adopted by the European Union. No early application was made of IFRSs that had not yet entered into force or their interpretations.

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

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

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

### ■ Consolidated group

Besides KRONES AG, the consolidated financial statements for the period ended 31 March 2014 include all material domestic and foreign subsidiaries in which KRONES AG holds more than 50% of the voting rights.

In the financial year 2014, HST Maschinenbau GmbH, Dassow, Germany, was acquired and acquisition accounting was done to include it in the consolidated group. The first-time consolidation of the new company was effected at the time of acquisition.

### ■ Consolidation principles

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

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

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

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

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

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

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

#### ■ Currency translation

The functional currency for KRONES AG is the euro.

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

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

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

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

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

		Closing rate		Average rate	
		31 Mar 2014	31 Dec 2013	2014	2013
us dollar	USD	1.380	1.376	1.370	1.321
British Pound	GBP	0.829	0.836	0.828	0.851
Swiss franc	CHF	1.219	1.227	1.223	1.228
Danish krone	DKK	7.466	7.460	7.462	7.459
Canadian dollar	CAD	1.526	1.474	1.510	1.331
Japanese yen	JPY	142.400	144.750	140.921	121.762
Brazilian real	BRL	3.123	3.204	3.238	2.640
Chinese renminbi (yuan)	CNY	8.579	8.344	8.384	8.296
Mexican peso	MXN	18.010	18.000	18.131	16.701
Ukrainian hryvnia	UAH	15.696	11.190	12.441	10.724
South African rand	ZAR	14.609	14.460	14.878	11.808
Kenyan shilling	KES	119.219	118.900	118.348	114.491
Nigerian naira	NGN	227.550	215.620	223.158	208.016
Russian ruble	RUB	48.835	45.105	47.982	40.153
Thai baht	THB	44.749	45.150	44.750	39.391
Indonesian rupiah	IDR	15,633.700	16,787.000	16,127.636	12,792.191
Angolan kwanza	AOA	134.241	134.382	133.757	126.678
Turkish lira	TRY	2.967	2.940	3.035	2.357

#### ■ Accounting policies

The separate financial statements of KRONES AG and its domestic and foreign subsidiaries have been prepared using uniform accounting policies, in accordance with IAS 27.

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

#### ■ Intangible assets

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

#### ■ Research and development expenditure

Development expenditure of the KRONES Group is capitalised at cost to the extent that costs can be allocated clearly and the technical feasibility and a future economic benefit as a result of their use are probable. According to IAS 38, research expenditure cannot be capitalised and is, therefore, recognised as an expense directly in profit or loss. Borrowing costs are capitalised as cost at a capitalisation rate of 0.43%.

#### ■ Goodwill

There is no goodwill in these consolidated accounts.

#### ■ Property, plant and equipment

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

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

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

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

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

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

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

## ■ Leases

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

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

## ■ Financial instruments

Financial instruments under IAS 39 used by KRONES consist of the following non-current financial assets:

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

For the measurement categories, the carrying amounts correspond to the fair values.

The non-current financial assets are not traded on the market and are therefore recognised at amortised cost.

The fair values and carrying amounts are based on customary market rates and observable ongoing market transactions (Level 2 under IFRS 13.72).

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

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

Pursuant to IAS 39, the classes under IFRS 7 also include cash proceeds and liabilities from finance leases in addition to the categories listed above.

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

## ■ Non-current financial assets

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

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

#### ■ Derivative financial instruments

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

The primary category of currency risk at KRONES is transaction risk arising from exchange rates and cash flows in foreign currencies. The currencies materially affected by this are the US dollar, Australian dollar, Canadian dollar, and British pound.

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

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

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

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

They are derecognised only when substantially all risks and rewards of ownership are transferred.

#### ■ Receivables and other assets

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

#### ■ Inventories

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



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

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

■ **Construction contracts for specific customers**

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

■ **Deferred tax items**

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

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

■ **Provisions for pensions**

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

Actuarial gains and losses are recognised directly in the consolidated statement of financial position and resulted in an increase in provisions for pensions and similar obligations and a reduction in equity (in other comprehensive income, OCI). The separate income statement for the group is free of effects from actuarial gains and losses, which are recognised in other com-

prehensive income. Net interest on the net defined benefit liability (asset) is determined by multiplying the net defined benefit liability (asset) by the discount rate used to measure the defined benefit obligation at the start of the annual period. Because the net defined benefit liability is reduced by any plan assets, the same (discount) rate is used to calculate the returns on the plan assets.

#### ■ Partial retirement benefit obligations

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

#### ■ Other provisions

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

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

#### ■ Financial liabilities

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

#### ■ Revenue

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

Revenue is reported less reductions.

#### ■ Segment reporting

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

Segment 1 comprises machines and lines for product filling and decoration. Segment 2 comprises machines and lines for beverage production and process technology. Segment 3 comprises machines and lines for the low output range.

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

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

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

Name and location of the company	Share in capital held by KRONES AG %*
neusped Neutraublinger Speditions-GmbH, Neutraubling, Germany	100.00
KIC KRONES Internationale Cooperations-Gesellschaft mbH, Neutraubling, Germany	100.00
ecomac Gebrauchtmachines GmbH, Neutraubling, Germany	100.00
EVOGUARD GmbH, Nittenau, Germany	100.00
MAINTEC Service GmbH, Collenberg/Main, Germany	100.00
HST Maschinenbau GmbH, Dassow, Germany	100.00
KLUG GmbH Integrierte Systeme, Teunz, Germany	26.00
S.A. KRONES N.V., Louvain-la-Neuve, Belgium	100.00
MAINTEC Service eood, Sofia, Bulgaria	100.00
KRONES Nordic ApS, Holte, Denmark	100.00
KRONES s.A.R.L., Viviers du Lac, France	100.00
KRONES UK Ltd., Bolton, UK	100.00
KRONES S.R.L., Garda (vr), Italy	100.00
KOSME S.R.L., Roverbella, Italy	100.00
KRONES Nederland B.V., Bodegraven, Netherlands	100.00
KOSME Gesellschaft mbH, Sollenau, Austria	100.00
KRONES Spółka z.o.o., Warsaw, Poland	100.00
KRONES Portugal Equipamentos Industriais Lda., Barcarena, Portugal	100.00
KRONES o.o.o., Moscow, Russian Federation	100.00
KRONES Romania Prod. S.R.L., Bucharest, Romania	100.00
KRONES AG, Buttwil, Switzerland	100.00
KRONES Iberica, S.A., Barcelona, Spain	100.00
KRONES S.R.O., Prague, Czech Republic	100.00
KONPLAN S.R.O., Pilsen, Czech Republic	100.00
KRONES Makina Sanayi ve Tikaret Ltd. Sirketi, Istanbul, Turkey	100.00
KRONES Ukraine LLC, Kiev, Ukraine	100.00
KRONES Angola – Representacoes, Comercio e Industria, Lda., Luanda, Angola	100.00
KRONES Surlatina S.A., Buenos Aires, Argentina	100.00
KRONES do Brazil Ltda., São Paulo, Brasil	100.00
KRONES S.A., São Paulo, Brasil	100.00
KRONES Machinery (Taicang) Co. Ltd., Taicang, China	100.00
KRONES Trading (Taicang) Co. Ltd., Taicang, China	100.00
KRONES Asia Ltd., Hong Kong, China	100.00
KRONES India Pvt. Ltd., Bangalore, India	100.00
PT. KRONES Machinery Indonesia, Jakarta, Indonesia	100.00
KRONES Japan Co. Ltd., Tokyo, Japan	100.00
KRONES Machinery Co. Ltd., Mississauga, Ontario, Canada	100.00
KRONES LCS Center East Africa Limited, Nairobi, Kenya	100.00
KRONES Andina Ltda., Bogotá, Colombia	100.00
KRONES Korea Ltd., Seoul, Korea	100.00
KRONES Mex S.A. DE C.V., Mexico D.F., Mexico	100.00
KRONES LCS Center West Africa Limited, Lagos, Nigeria	100.00
KRONES Southern Africa (Prop.) Ltd., Johannesburg, South Africa	100.00
KRONES (Thailand) Co. Ltd., Bangkok, Thailand	100.00
KRONES, Inc., Franklin, Wisconsin, USA	100.00
Maquinarias KRONES de Venezuela S.A., Caracas, Venezuela	100.00

\* Direct and indirect shareholdings.

Following fulfilment of the requirements for application of the German Codetermination Act [Mitbestimmungsgesetz] of 1976 in 1987, the Supervisory Board was extended from six to twelve members. Pursuant to § 8 (1) of the articles of association, six members are elected by the shareholders in accordance with the German Stock Corporation Act (§ 96 (1) and § 101). Six members are elected by the employees pursuant to § 1 (1) and § 7 (1) Sentence 1 Number 1 of the Codetermination Act.

### Supervisory Board

#### Ernst Baumann

Chairman of the Supervisory Board

\* ZF FRIEDRICHSHAFEN AG

#### Werner Schrödl\*\*

Chairman of the Central Works Council

Deputy Chairman of the Supervisory Board

\* ADVISORY BOARD OF BAYERISCHE BETRIEBSKRANKENKASSEN

#### Klaus Gerlach\*\*

Head of Central International Operations and Services

#### Dr. Klaus Heimann\*\*

Director of the Youth, Training, and Qualification Policy Division of IG METALL

#### Dr. Jochen Klein

Managing director of I-Invest GmbH

\* DÖHLER GMBH

\* HOYER GMBH

\* CONSORTIUM GASTRONOMIE GMBH

#### Norman Kronseder

Farmer and forester

\* BAYERISCHE FUTTERSAAATBAU GMBH

#### Philipp Graf

von und zu Lerchenfeld

Member of the German Bundestag, Dipl.-Ing. agr., auditor and tax consultant

#### Dr. Alexander Nerz

Attorney

#### Johann Robold\*\*

Member of the Works Council

#### Petra Schadeberg-Herrmann

Managing partner at KROMBACHER FINANCE GMBH, SCHAWEI GMBH, DIVERSUM HOLDING GMBH & CO. KG

\* COMMERZBANK AG

#### Jürgen Scholz\*\*

1<sup>st</sup> authorised representative and treasurer of the IG METALL administrative office in Regensburg

\* INFINEON TECHNOLOGIES AG

#### Josef Weitzer\*\*

Deputy Chairman of the Central Works Council

\* SPARKASSE REGENSBURG

### Executive Board

#### Volker Kronseder

Chairman

Human Resources, Communications and Quality

#### Christoph Klenk

Finance, Controlling and Information Management

#### Rainulf Diepold

Sales and Marketing

#### Werner Frischholz

Plants and Components

#### Thomas Ricker

Bottling and Packaging Equipment

#### Markus Tischer

International Operations and Services (since 1 January 2014)

\* Other Supervisory Board seats held, pursuant to § 125 (1) Sentence 3 of the German Stock Corporation Act

\*\* Elected by the employees

In addition, each of the group companies is the responsibility of two members of the Executive Board.

Cash flow	All inflows and outflows of cash and cash equivalents during a period.
Corporate governance	Framework for responsible corporate management and supervision that is oriented toward sustainability.
DAX	Deutscher Aktienindex (DAX). Index containing the 30 biggest German companies (based on market capitalisation and trading volume).
EBIT	Earnings before interest and taxes.
EBITDA	Earnings before interest, taxes, depreciation and amortisation.
EBT	Earnings before taxes.
EBT margin	Ratio of earnings before taxes to sales. (Return on sales).
Equity	Funds made available to the company by the owners by way of contribution and/or investment plus retained earnings.
Fixed assets	Subset of non-current assets. In the context of this report, fixed assets include property, plant and equipment, intangible assets, and non-current financial assets.
Free cash flow	Measure of financial performance calculated as the cash flow from operating activities minus cash flow from investing activities. It is the cash available to pay dividends, reduce debt, or to be retained.
Free float	Portion of the total number of shares outstanding that is available to the public for trading (i.e. not held by big investors).
IFRSs	International Financial Reporting Standards. Accounting standards issued by the International Accounting Standards Board (IASB) that are harmonised and applied internationally.
Market capitalisation	The value of a company based on the market price of issued and outstanding ordinary shares. Calculated by multiplying the share price by the number of shares.
MDAX	Index that contains the 50 biggest German and non-German companies (based on market capitalisation and trading volume) in the traditional sectors after those included in the DAX.
Net cash and equivalents	Cash and highly liquid securities under current assets less liabilities to banks.
Return on equity before taxes	Ratio of earnings before taxes to average equity.
ROCE (assets side)	Ratio of EBIT to the average sum of fixed assets and working capital.
ROCE (liabilities side)	Ratio of EBIT to average capital employed (total assets less interest-free liabilities and interest-free other provisions).
Statement of cash flows	Statement of inflows and outflows of cash that shows the sources and uses of funds within the financial year.
Total Cost of Ownership (TCO)	The total cost associated with an investment over its entire useful life.
Total debt	Combined term for the provisions, liabilities, and deferred income stated on the liabilities side of the balance sheet.
Total operating performance	Referred to as »total operating revenue« in previous reports, this figure is the sum of »sales revenue« and »changes in inventories of finished goods and work in progress«.
Working capital	Calculated as follows: (trade receivables + inventories + prepayments) – (trade payables + advances received)
XETRA trading system	Deutsche Börse AG's electronic stock market trading system.

## Financial calendar

25 June 2014	Annual shareholders' meeting 2014
24 July 2014	Interim report for the period ended 30 June 2014
23 October 2014	Interim report for the period ended 30 September 2014

## Publication Credits

Published by	KRONES AG Böhmerwaldstrasse 5 93073 Neutraubling Germany
Project lead	Roland Pokorny, Vice President Corporate Communications
Design	Büro Benseler
Text	KRONES AG, InvestorPress GmbH
Photography	KRONES AG
Printing & litho	Mediahaus Biering GmbH
Paper	PhoeniXmotion

This English language report is a translation of the original German "Bericht über den Zeitraum vom 1. Januar bis 31. March 2014". In case of discrepancies the German text shall prevail.



KRONES AG  
Investor Relations  
Olaf Scholz  
Phone +49 9401 70-1169  
Fax +49 9401 70-911169  
E-mail [olaf.scholz@krones.com](mailto:olaf.scholz@krones.com)  
Böhmerwaldstrasse 5  
93073 Neutraubling  
Germany

 **KRONES**