



# Q2

Interim report for the period  
from 1 January to 30 June 2016

 **KRONES**

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## Highlights and key figures

### KRONES increased revenue and earnings in the first half of 2016

- Revenue in the period from January to June 2016 grew 3.8% to €1,560.3 million.
- New orders improved 5.1% to €1,602.4 million.
- Earnings before taxes (EBT) climbed 3.1%. The EBT margin was stable at 6.9%.
- KRONES is standing by its forecast for 2016 as a whole, predicting 3% revenue growth and an EBT margin of 7.0%.

Key figures for H1 2016		1 Jan–30 Jun 2016	1 Jan–30 Jun 2015	Change
Revenue	€ million	1,560.3	1,503.7	+3.8%
New orders	€ million	1,602.4	1,524.1	+5.1%
Orders on hand at 30 June	€ million	1,136.7	1,099.5	+3.4%
EBITDA	€ million	147.2	144.1	+2.2%
EBIT	€ million	103.3	101.2	+2.1%
EBT	€ million	107.3	104.1	+3.1%
EBT margin	%	6.9	6.9	–
Net income	€ million	74.4	72.7	+2.3%
Earnings per share	€	2.37	2.32	+2.2%
Capital expenditure for PP&E and intangible assets	€ million	34.1	30.2	+€3.9 million
Free cash flow	€ million	–169.2	–22.0	–€147.2 million
Net cash and cash equivalents at 30 June*	€ million	149.6	274.9	–€125.3 million
ROCE (liabilities side)	%	15.6	17.0	–
ROCE (assets side)	%	14.2	15.0	–
Employees at 30 June				
Worldwide		13,742	12,854	+888
Germany		9,734	9,458	+276
Outside Germany		4,008	3,396	+612

\* Cash and cash equivalents less debt

Key figures for Q2 2016		1 Apr–30 Jun 2016	1 Apr–30 Jun 2015	Change
Revenue	€ million	788.2	764.8	+3.1%
New orders	€ million	780.2	737.1	+5.8%
EBITDA	€ million	71.2	73.6	–3.3%
EBIT	€ million	49.1	52.0	–5.6%
EBT	€ million	52.2	53.9	–3.2%
EBT margin	%	6.6	7.0	–
Net income	€ million	36.0	37.7	–4.5%
Earnings per share	€	1.15	1.21	–5.0%

**Dear shareholders and friends of KRONES,**

The world economy is still on a weak footing. The UK's Brexit vote has caused additional uncertainty, which will likely impact Europe's economy. Experts with the International Monetary Fund recently lowered their growth forecasts for the world economy again slightly.

In such turbulent times, the continuity assured by the election of Volker Kronseder as Chairman of the Supervisory Board of KRONES takes on even greater importance. The Executive Board would like to thank outgoing Supervisory Board Chairman Ernst Baumann for his contributions to KRONES' success and looks forward to working with Volker Kronseder. As Chairman of the Supervisory Board, he will bring his decades of experience to bear for the good of the company and our shareholders.

The fact that KRONES has remained on track worldwide despite the challenging economic environment can be attributed to our own market's steady growth and to the Value strategy programme. After the positive start to the year, the second quarter at KRONES also developed as forecast. In the period from January through June, revenue and new orders were up 3.8% and 5.1% percent, respectively, year-on-year. Earnings before taxes (EBT) increased 3.1% to €107.3 million. Thus, we are making good progress towards our targets for 2016.

Competition remains stiff and our customers are still highly price sensitive. Reducing costs, launching new products and services, and further improving quality remain important topics under our Value programme. In addition, we will continue to position ourselves in rapidly growing, attractive markets. Examples of these efforts include our acquisition of a majority stake in the Italian intralogistics specialist SYSTEM LOGISTICS and the continued expansion of our own components business under EVOGUARD. The entire KRONES team will continue to work hard every day to make our company even more flexible and even better prepared for whatever the future brings. So that we can continue to provide our customers with the best solutions.



Christoph Klenk  
CEO

## Stock markets in turmoil

Most of the world's stock markets were down at the end of the first half of 2016. Negative economic news from China and other emerging markets and plummeting oil prices put downward pressure on share prices at the start of the year. Shares then rallied through mid-April, bolstered by central banks' extremely loose monetary policy. The markets then underwent a series of sharp ups and downs, trending sideways overall, until the Brexit vote on 23 June. Share prices tumbled following the UK's referendum to leave the European Union. The DAX had even lost more than 10% at one point. However, the indices were able to recover a large portion of their Brexit losses in the last trading days of June.

Apart from gains on the US markets – the Dow Jones picked up 2.9% – most of the stock markets closed the turbulent first half of 2016 in the red. The DAX was down 9.9% in the period from January to June and the Euro Stoxx 50 had dropped 12.3%. Japan's Nikkei index fared even worse, falling 18%. Ineffective monetary policy and a strong yen weighed heavily on Japanese share prices.

KRONES share price from 1 January to 30 June 2016



*The MDAX lost less than the Krones share since the heavily weighted real estate shares' strong performance buffered the index from Brexit's impact.*

## KRONES share lost 14% in the first half

After a very strong performance in 2015, KRONES' share gave up some ground in the first half of 2016. At the end of June 2016, the share price was €94.80, down 14.1% from the start of the year. After factoring in the dividend of €1.45 per share, which was paid out in the second quarter, the share's loss comes to 12.7%. With that, KRONES lost more ground than Germany's MDAX mid-cap index, which slipped "only" 4.5% in the first half. While the MDAX's manufacturing shares were hit hard by the Brexit vote, heavily weighted real estate shares supported the index. Our share hit its low for the first half of 2016 on 8 February, at around €91. The high for the period, €108.60, was reached on 31 May.

#### Growth outlook for the world economy dimmer in Brexit's wake

The global economy will likely grow less in 2016 than had been expected at the start of the year. In the July 2016 edition of its World Economic Outlook (WEO), the International Monetary Fund (IMF) lowered its forecast for global economic growth to 3.1%. That was the second downward revision this year. In January, the IMF had forecast 3.4% growth worldwide. The IMF cites uncertainties resulting from the Brexit, growing risks to the financial markets, and problems in the emerging and developing markets as grounds for concern.

Nevertheless, the emerging markets will continue to contribute a larger-than-average share of economic growth in 2016, with an expected 4.1%. Most of that will come from China. Although the rate of expansion there has slowed, the Chinese economy is still growing and China's GDP is expected to increase by 6.6%. India's GDP is expected to gain 7.4% in 2016. The IMF expects the Middle East/Northern Africa region to post solid GDP growth of 3.4%. The Russian and Brazilian economies are grappling with considerable difficulties. Both countries are in deep recession. Russia's GDP is expected to contract by 1.2% in 2016, Brazil's by 3.3%.

The IMF says GDP in the advanced economies will likely grow 1.8% in 2016. The USA, the world's largest economy, is expanding at a weaker rate than expected. Nevertheless, with GDP growth forecast to be 2.2%, the USA is the main force driving growth among the industrialised countries. Japan is most definitely not, with GDP growth predicted to be 0.3%. While strong consumer spending is driving US economic growth, Japanese consumers are holding their economy back. Euro area growth will likely be only moderate this year, though the Brexit presents a new risk factor. IMF experts predict that the common currency area's GDP will rise by 1.6% in 2016. The growth forecast for the German economy is likewise 1.6%.

#### More orders for German machinery manufacturers

In the less volatile three-month comparison of the period from March through May 2016, new orders in the German machinery sector were up 6% year-on-year. According to the German Engineering Federation (VDMA), orders from abroad increased 7% while domestic orders rose 5%. Although it is not possible to precisely predict the Brexit's impact, the VDMA has expressed its concern that the resulting uncertainty will have a negative impact on capital investment. Nevertheless, the VDMA is standing by its forecast that output will remain flat year-on-year in 2016.

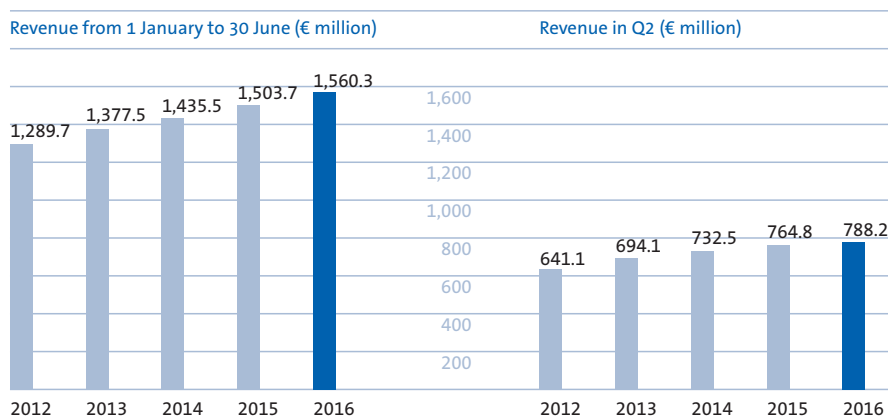
The food and packaging machinery subsector, which is relevant for KRONES, is expected to develop better than the industry as a whole, with 3% growth.

*Growth is slowing amid rising concerns. The International Monetary Fund is forecasting 3.1% growth for 2016.*

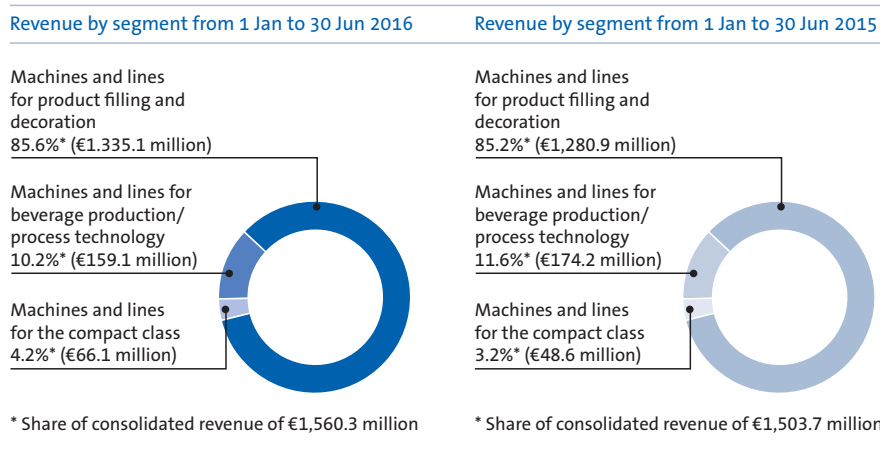
### KRONES revenue increased 3.8% in the first half of 2016

KRONES has a very robust business model and operates in markets with stable growth. Despite growing macroeconomic uncertainties and intense competition, revenue for the period from April to June 2016 was up 3.1% year-on-year from €764.8 million to €788.2 million. With that, growth slowed only slightly compared with the first quarter of the year (+4.5%). The company benefits from its position as a full-service supplier and its very broad international diversification.

*In the first half, KRONES established a good basis for achieving its 3% growth target for 2016.*



In the first half of 2016, the company's revenue rose 3.8%, from €1,503.7 million in the previous year to €1,560.3 million. KRONES' growth in the Middle East/Africa, Central and Eastern Europe, and North and Central America regions was stronger than overall growth in the period from January to June 2016. After a weak start to the year, revenue in China picked up in the second quarter of 2016. Revenue was down in the Russia/CIS sales region. That is due primarily to the poor overall economic situation in Russia. The biggest percentage increase in sales revenue in the reporting period came in the compact class segment (+36%).



## Revenue by region

KRONES' business in Germany developed very well in the first half of 2016. Growth accelerated in the period from April to June. In all, revenue in Germany was up 21.5% year-on-year in the first six months of 2016, to €179.9 million. The domestic share of revenue grew to 11.5% (previous year: 9.8%). Overall, business in Europe (excluding Germany) was stable in the period from January to June 2016. As expected, revenue in the large Western Europe sales region did not match the high year-earlier level. At €249.6 million, it was down 12.2% year-on-year. Conversely, revenue in Central Europe (Austria, Switzerland, and the Netherlands) was up 33.0% to €95.9 million. Sales in Eastern Europe recovered considerably in the first half of 2016 (+41.4%). By contrast, no improvement is in sight for the Russia/CIS region, which is still in crisis. Revenue there was down 20.2% year-on-year in the first half of 2016. All-in-all, KRONES' revenue in Europe (excluding Germany) in the first half of 2016 was down slightly (0.9%) from €446.7 million to €442.5 million. The share of consolidated revenue decreased to 28.4% (previous year: 29.7%).

In the Middle East/Africa, a very important growth region for KRONES, revenue rose further in the reporting period despite the high baseline from the previous year. Revenue there grew 14.7% from €228.6 million in the previous year to €262.1 million in the period from January to June 2016. After a slow start to the year, business in China picked up considerably in the second quarter of 2016. At €121.4 million, revenue there in the first six months of 2016 was only 6.0% lower than in the year-earlier period. In the first quarter, revenue was down 28.5% on the previous year. First-half revenue was down slightly in the rest of the Asia-Pacific region, dropping 6.3% year-on-year to €192.0 million.

We are satisfied with revenue development in the North and Central America region, where KRONES has seen a substantial increase in business. Revenue was up 9.3% year-on-year in the period from January to June 2016, to €209.6 million. Revenue in the South America/Mexico region has stabilised although some countries there are burdened with economic problems. Revenue in the region was down slightly, 1.1%, to €152.8 million in the reporting period.

### KRONES Group revenue by region

Share of consolidated revenue	30 June 2016		30 June 2015		Change
	€ million	%	€ million	%	
Germany	179.9	11.5	148.1	9.8	+21.5
Central Europe (excluding Germany)	95.9	6.1	72.1	4.8	+33.0
Western Europe	249.6	16.0	284.2	18.9	-12.2
Eastern Europe	57.0	3.7	40.3	2.7	+41.4
Russia, Central Asia (CIS)	40.0	2.6	50.1	3.3	-20.2
Middle East/Africa	262.1	16.8	228.6	15.2	+14.7
Asia-Pacific	192.0	12.3	204.8	13.6	-6.3
China	121.4	7.8	129.2	8.6	-6.0
South America/Mexico	152.8	9.8	154.5	10.3	-1.1
North and Central America	209.6	13.4	191.8	12.8	+9.3
<b>Total</b>	<b>1,560.3</b>	<b>100.0</b>	<b>1,503.7</b>	<b>100.0</b>	<b>+3.8</b>

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

*All told, KRONES generated 53.0% of consolidated revenue in the emerging markets in the first half of 2016 (previous year: 53.7%). Thus, KRONES' revenue is well balanced internationally.*

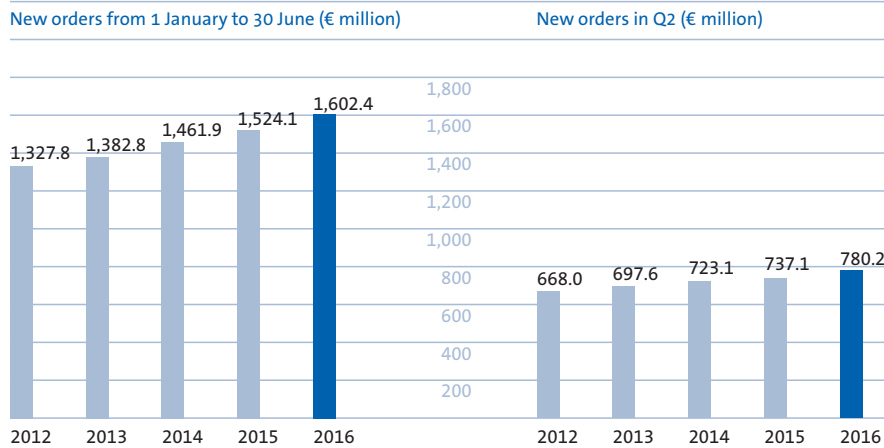


### New orders grew more steeply than revenue

After satisfactory orders intake overall in the first quarter of 2016, orders tapered off noticeably in April and May. However, they picked up again considerably in June. The contract value of orders was up 5.8% year-on-year, to €780.2 million, in the second quarter of 2016. For the period from January to June 2016, new orders at KRONES were up 5.1% from €1,524.1 million in the previous year to €1,602.4 million. Thus, new orders growth in the reporting period was even stronger than revenue growth (+3.8%).

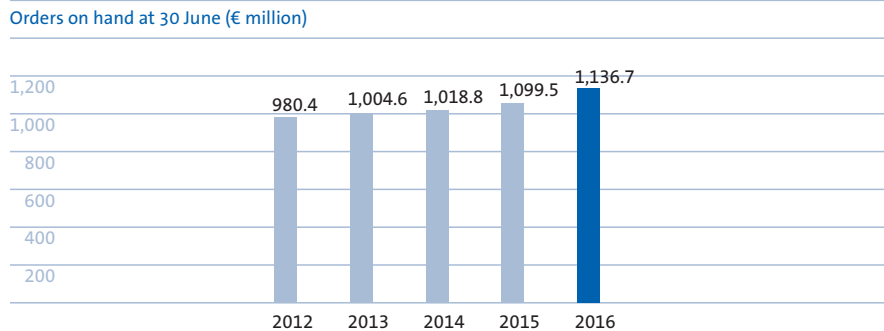
*The weak orders inflow at the start of the second quarter was only temporary. In all, first-half orders were up 5.1% year-on-year.*

The strongest orders growth in the first six months of 2016 came from Europe. Customers in North America and China were also investing heavily. In South America and Russia/CIS, new orders were down as expected as these regions are in deep recession.



### KRONES' order books are well-filled

At €1,136.7 million, orders on hand at KRONES at the end of June 2016 exceeded the previous year's figure of €1,099.5 million by 3.4%. That gives the company a solid orders cushion, which serves as a strong basis for achieving our growth target for the year 2016 as a whole.

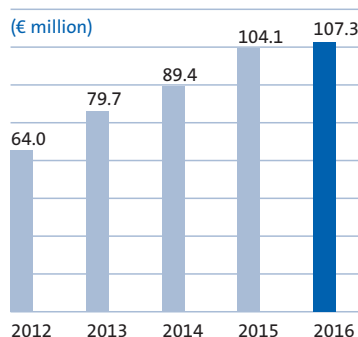


## KRONES kept profit margin stable on highly competitive markets

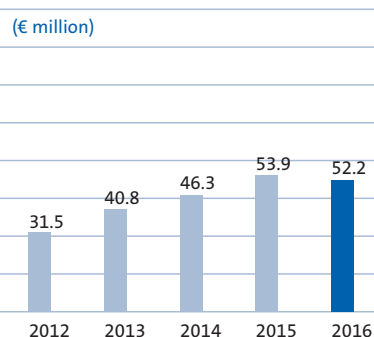
As expected, KRONES' earnings received no support from prices in the first half of 2016. The 3.1% year-on-year improvement in earnings before taxes (EBT) in the period from January to June 2016, from €104.1 million to €107.3 million, resulted entirely from the successful implementation of our Value strategy programme. We were able to keep our EBT margin steady at 6.9% in the first half. After taxes, net income was up 2.3% year-on-year, from €72.7 million to €74.4 million. Earnings per share rose to €2.37 (previous year: €2.32).

*KRONES was able to hold its own in an increasingly competitive environment in the first half of 2016. The EBT margin held steady at 6.9%.*

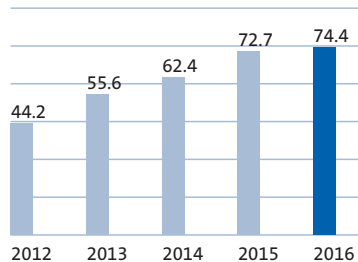
Earnings before taxes (EBT) from 1 January to 30 June



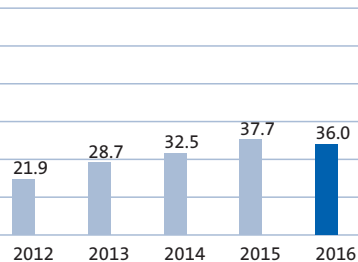
Earnings before taxes (EBT) in Q2



Net income from 1 January to 30 June (€ million)



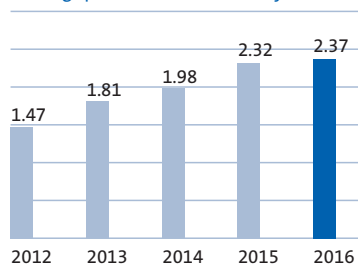
Net income in Q2 (€ million)



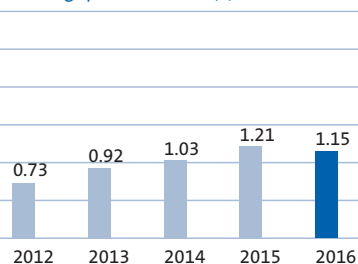
The intensity of competition on our markets picked up in the second quarter. For this reason, earnings before taxes for the period (€52.2 million) were 3.2% lower than the year-earlier figure (€53.9 million). The EBT margin was down from 7.1% in the year-earlier period to 6.6%. KRONES responded to the market's challenges with additional measures to further increase the company's efficiency. For that reason, we are confident that we will achieve our EBT margin target of 7.0% for the year 2016 as a whole.

Net income for the period from April to June 2016 was down 4.5% year-on-year to €36.0 million. That corresponds to earnings per share of €1.15 (previous year: €1.21).

Earnings per share from 1 January to 30 June (€)



Earnings per share in Q2 (€)



## KRONES Group earnings structure

	2016 1 Jan–30 Jun	2015 1 Jan–30 Jun	Change
<b>Revenue</b>	<b>1,560.3</b>	<b>1,503.7</b>	<b>+3.8%</b>
Changes in inventories of finished goods and work in progress	0.5	24.5	–
<b>Total operating performance</b>	<b>1,560.8</b>	<b>1,528.2</b>	<b>+2.1%</b>
Goods and services purchased	–749.4	–725.5	+3.3%
Personnel expenses	–496.0	–468.9	+5.8%
Other operating income (expenses) and own work capitalised	–168.2	–189.7	–11.3%
EBITDA	147.2	144.1	+2.1%
Depreciation and amortisation on non-current assets	–43.9	–42.9	+2.3%
<b>EBIT</b>	<b>103.3</b>	<b>101.2</b>	<b>+2.1%</b>
Financial income	4.0	2.9	–
<b>EBT</b>	<b>107.3</b>	<b>104.1</b>	<b>+3.1%</b>
Income tax	–32.9	–31.4	+4.8%
<b>Consolidated net income</b>	<b>74.4</b>	<b>72.7</b>	<b>+2.3%</b>

In the period from January to June 2016, KRONES grew revenue 3.8% to €1,560.3 million. Because inventories of finished goods and work in progress increased less than in the previous year, total operating performance improved by 2.1% (less than revenue) to €1,560.8 million in the first half of 2016. Overall, KRONES' earnings performance remained stable in the reporting period. Whereas the two biggest expense items, goods and services purchased and personnel expenses, rose more sharply than total operating performance, the net of other operating income and expenses and own work capitalised was down year-on-year.

Goods and services purchased increased 3.3% in the reporting period to €749.4 million. Thus, the ratio of goods and services purchased to total operating performance increased slightly in the period from January to June 2016 from 47.5% in the year-earlier period to 48.0%. At 5.8% the increase in personnel expenses in the reporting period (to €496.0 million) was also greater than the increase in total operating performance. As a result, the ratio of personnel expenses to total operating performance rose from 30.7% in the year-earlier period to 31.8%.

The net of other operating income and expenses and own work capitalised decreased by 11.3% to –€168.2 million (previous year: –€189.7 million). Depreciation and amortisation of fixed assets increased slightly, by 2.3%, to €43.9 million (previous year: €42.9 million).

Earnings before interest and taxes (EBIT) thus amount to €103.3 million (up 2.1%). The positive financial result of €4.0 million (previous year: €+2.9 million) pushed earnings before taxes (EBT) up 3.1% to €107.3 million. Thus, earnings performance, as measured by our EBT margin, held steady at 6.9% in the first half of 2016. Consolidated net income was up 2.3% to €74.4 million.

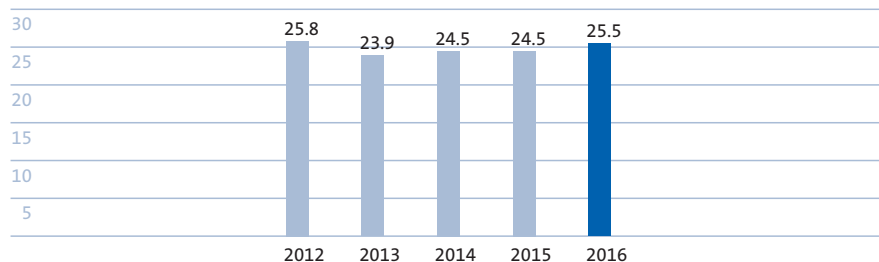
*The lower net of other operating income and expenses and own work capitalised offset the higher ratios of personnel expenses and goods and services purchased to total operating performance. As a result, KRONES' earnings performance remained stable in the first half.*

## KRONES Group cash flow

€ million	2016	2015	Change
	1 Jan–30 Jun	1 Jan–30 Jun	
<b>Earnings before taxes</b>	<b>107.3</b>	<b>104.1</b>	<b>+3.2</b>
Non-cash expenses and income	+70.6	+53.2	+17.4
Changes in working capital	–258.9	–112.8	–146.1
Other (primarily income taxes)	–41.4	–21.1	–20.3
<b>Cash flow from operating activities</b>	<b>–122.4</b>	<b>+23.4</b>	<b>–145.8</b>
Capital expenditure for intangible assets and property, plant and equipment	–34.1	–30.2	–3.9
Other	–12.7	–15.2	+2.5
<b>Free cash flow</b>	<b>–169.2</b>	<b>–22.0</b>	<b>–147.2</b>
Cash flow from financing activities	19.2	–39.5	+58.7
Change in cash and cash equivalents arising from exchange rates	±0	±0	–
<b>Net change in cash and cash equivalents</b>	<b>–150.0</b>	<b>–61.5</b>	<b>–88.5</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>214.6</b>	<b>274.9</b>	<b>–60.3</b>

KRONES' cash flow from operating activities was –€122.4 million in the first half of 2016 after +€23.4 million in the previous year. The sharp decrease can be attributed to an exceptionally large increase in working capital. In the reporting period, KRONES' working capital grew by €258.9 million, considerably more than in the previous year (€112.8 million). The higher working capital resulted primarily from paying down a total of €208.8 million in trade payables and other liabilities. Higher receivables and inventories as well as other assets also contributed €50.1 million to the increase in working capital. The ratio of average working capital for the past four quarters to revenue increased to 25.5% (previous year: 24.5%). The high first-quarter figure could not quite be offset in the second quarter of 2016.

KRONES Group working capital to sales from 1 January to 30 June (%) (LTM)



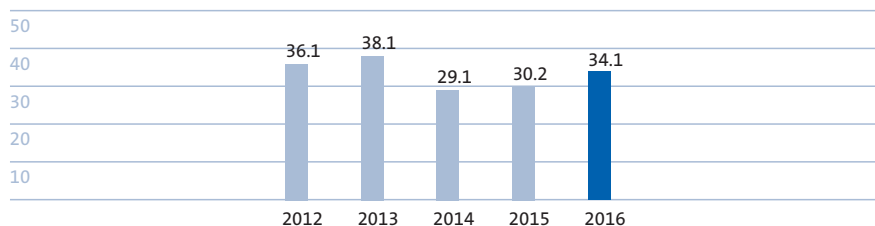
*Average working capital for the past four quarters to revenue came to 25.5%.*

KRONES invested €34.1 million in intangible assets and property, plant and equipment in the reporting period (previous year: €30.2 million). KRONES' free cash flow (net cash generated from operating activities) decreased to –€169.2 million in the period from January to June 2016 (previous year: –€22.0 million). We are not satisfied with this development. However, in our business, it is not unusual for free cash flow to be negative at various points throughout the year.

*Free cash flow was down considerably in the first half of 2016 as we sharply reduced trade payables and other liabilities.*

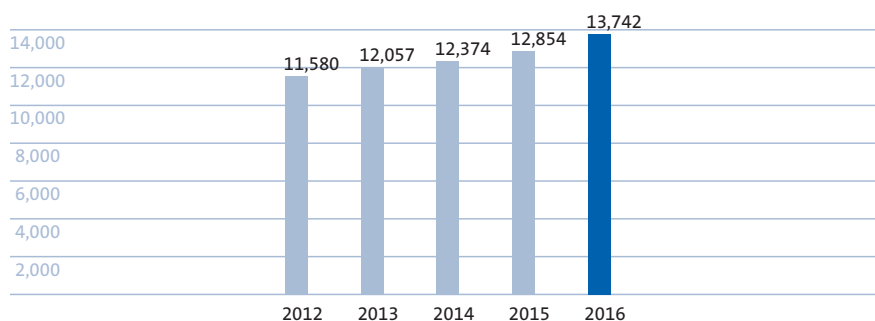
Cash flow from financing activities increased to €19.2 million from –€39.5 million in the previous year. This item includes the dividend payout of €45.8 million as well as €65.0 million in proceeds from new borrowing. All told, KRONES had cash and cash equivalents totalling €214.6 million at 30 June 2016 (previous year: €274.9 million).

Capital expenditure for PP&E and intangible assets from 1 January to 30 June (€ million)



## Employees

KRONES employees worldwide at 30 June



### KRONES employs 13,742 people worldwide

Our international business growth is also reflected in our workforce. At the end of June 2016, KRONES employed 4,008 people outside Germany (previous year: 3,396). A large share of the increase relates to the acquisition of a majority stake in the Italian logistics firm, SYSTEM LOGISTICS. Our workforce in Germany grew from 9,458 to 9,734. In all, KRONES employed 13,742 people at the end of the first half (previous year: 12,854).

*KRONES' workforce grew by 888 year-on-year in the first half of 2016.*

## KRONES Group asset and capital structure

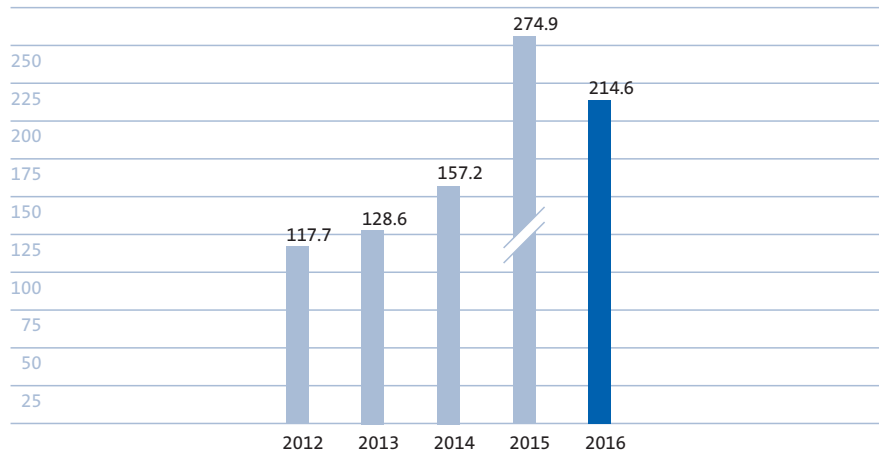
€ million	30 Jun 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013
Non-current assets	749	697	672	642
of which fixed assets	664	646	624	605
Current assets	1,953	2,010	1,756	1,596
of which cash and equivalents	215	365	336	240
Equity	1,132	1,111	989	954
Total debt	1,570	1,596	1,439	1,284
Non-current liabilities	279	278	275	213
Current liabilities	1,291	1,318	1,164	1,071
<b>Total</b>	<b>2,702</b>	<b>2,707</b>	<b>2,428</b>	<b>2,238</b>

At 30 June 2016, KRONES' total assets had decreased slightly compared with 31 December 2015, from €2,706.6 million to €2,701.7 million.

Non-current assets increased by €51.3 million to €748.5 million in the first half (31 December 2015: €697.2 million). Property, plant and equipment, intangible assets, and non-current financial assets (referred to collectively as "fixed assets" here) increased to €663.6 million (31 December 2015: €646.2 million). While property, plant and equipment decreased slightly to €471.6 million (31 December 2015: €481.5 million), intangible assets, consisting primarily of development costs that must be capitalised, were up to €186.8 million at 30 June (31 December 2015: €163.2 million).

Current assets amounted to €1,953.2 million at the end of the reporting period, which is 2.8% less than at 31 December 2015. Cash and cash equivalents were the main factor responsible for the decrease. They declined from €364.6 million to €214.6 million in the first half because free cash flow was negative and the dividend payout was made in June. Inventories increased by €63.4 million to €787.9 million in the first half. Trade receivables increased by €5.1 million to €801.9 million.

Cash and cash equivalents at 30 June (€ million)



*KRONES accumulated inventories and receivables in the first half of 2016. Cash and cash equivalents, on the other hand, were down at mid-year. However, they were still at a very comfortable €214.6 million.*

KRONES' non-current liabilities, consisting largely of provisions for pensions and other personnel provisions, increased slightly to €279.2 million at 30 June 2016 (31 December 2015: €278.5 million). The company had no non-current bank debt at 30 June 2016.

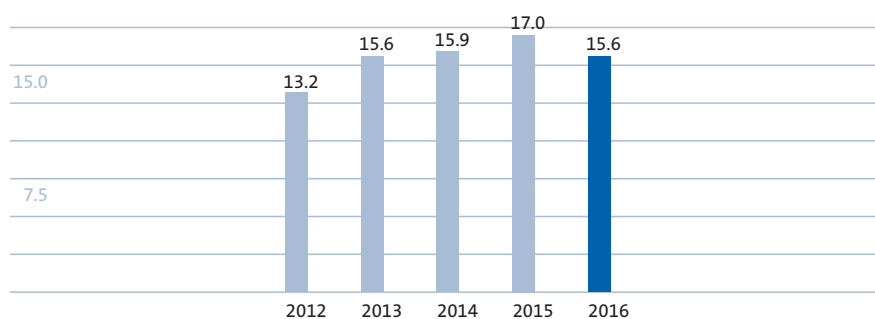
Current liabilities were down by €26.5 million compared with the end of the year 2015 to €1,290.9 million. That was due primarily to the reduction in trade payables. At 30 June 2016, KRONES had current bank debt totalling €65.0 million.

Equity improved from €1,110.7 million at the reporting date for 2015 to €1,131.6 million. As a result, our equity ratio was 41.9% at 30 June 2016 (31 December 2015: 41.0%). With net cash and cash equivalents (cash and cash equivalents less bank debt) of €149.6 million, KRONES still has an extremely robust financial and capital structure.

### ROCE at 15.6% in the first half of 2016

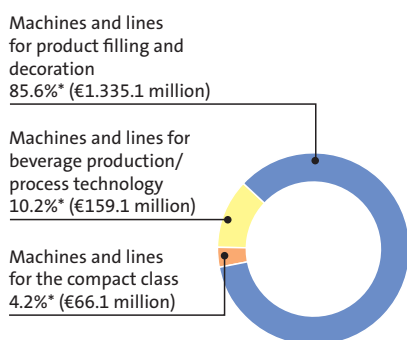
KRONES' return on capital employed (ROCE), that is the ratio of EBIT to average net tied-up capital, came to 15.6% in the first half (previous year: 17.0%). Nevertheless, we are confident that we will achieve our ROCE target of 18% for the year 2016 as a whole.

KRONES Group ROCE from 1 January to 30 June (%)



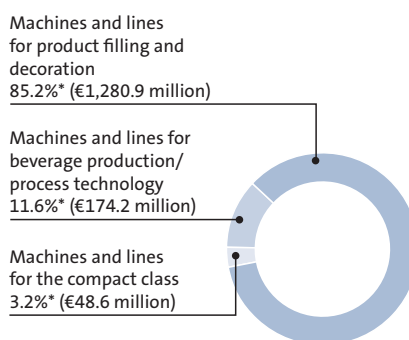
*ROCE decreased slightly in the first half of 2016.*

Revenue by segment from 1 Jan to 30 Jun 2016



\* Share of consolidated revenue of €1,560.3 million

Revenue by segment from 1 Jan to 30 Jun 2015



\* Share of consolidated revenue of €1,503.7 million

## Segment revenue

Growth in our core segment, machines and lines for product filling and decoration, accelerated somewhat in the second quarter of 2016. In all, segment revenue for the period from January to June 2016 was up 4.2% year-on-year to €1,335.1 million. Both new machinery and services business contributed to this growth. The core segment's share of consolidated revenue in the first six months of 2016 rose somewhat from 85.2% a year earlier to 85.6%.

Revenue in our machines and lines for beverage production/process technology segment was up in the period from April to June 2016 after the year's weak start. Nevertheless, at €159.1 million, segment revenue in the first six months of 2016 was still 8.7% lower than in the year-earlier period. Plant construction revenue fluctuates sharply throughout the year due to long project lead times. We still expect segment revenue to grow by around 10% in 2016. The segment contributed 10.2% of consolidated revenue in the first half (previous year: 11.6%).

Business was good in the reporting period in the smallest segment, machines and lines for the compact class, which covers KOSME and GERNEP. The two subsidiaries address the needs of small and mid-sized customers. The segment benefited from strong demand on the European markets in the first half of 2016, increasing revenue 36.0% year-on-year to €66.1 million. The segment grew its share of consolidated revenue to 4.2% (previous year: 3.2%).

*Revenue in all three of KRONES' segments developed largely as expected in the first half of 2016.*



## Segment earnings

In our core segment, machines and lines for product filling and decoration, competition intensified in the first half of 2016. Thanks to the successes of the Value strategy programme, the segment's earnings before taxes (EBT) nevertheless increased 7.1% year-on-year to €105.4 million in the reporting period. The EBT margin improved from 7.7% to 7.9%. KRONES has already taken measures to ensure that not even continued price pressures can jeopardise the margin target of around 8% for the year 2016 as a whole.

*KRONES improved the EBT margin in both its core segment and its smallest segment in the first half of 2016. Process technology was in the red as expected.*

As expected, the machines and lines for beverage production and process technology segment closed the first half of 2016 in the red. Earnings before taxes (EBT) worsened from +€3.6 million in the previous year to –€1.4 million. Implementation of measures aimed at strengthening the segment's profitability for the long term is progressing as planned. Therefore, we still expect the segment's earnings to be slightly positive for the year 2016 as a whole.

Earnings in the machines and lines for the compact class segment increased considerably in the reporting period. Earnings before taxes (EBT) rose from €2.1 million in the previous year to €3.3 million in the first half of 2016. Both GERNEP and KOSME delivered positive earnings. The segment's EBT margin improved from 4.3% to 5.0%. We expect the margin to be similar for the year 2016 as a whole.

Product filling and decoration		2016	2015
		1 Jan – 30 Jun	1 Jan – 30 Jun
EBT	€ million	105.4	98.4
EBT margin	%	7.9	7.7

Beverage production/process technology		2016	2015
		1 Jan – 30 Jun	1 Jan – 30 Jun
EBT	€ million	–1.4	3.6
EBT margin	%	–0.9	2.1

Compact class		2016	2015
		1 Jan – 30 Jun	1 Jan – 30 Jun
EBT	€ million	3.3	2.1
EBT margin	%	5.0	4.3

## 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 116 through 127 of our 2015 Annual Report. In the period from 1 January to 30 June 2016, there were no material changes with respect to the statements made in the annual report regarding the company's key risks.

### KRONES remains cautiously optimistic about the year 2016 as a whole

Despite the many economic and political uncertainties, KRONES remains cautiously optimistic about the business outlook for 2016. Growth in the packaging machinery market is stronger and more stable than the global economy. The regional distribution of revenue in 2016 is likely to be little changed from the previous year.

### KRONES intends to improve earnings in all three segments

KRONES expects no support from prices in 2016. Reducing costs, launching new products and services, and further improving quality remain important topics under our Value programme this year for all three segments, so that we can grow profitably.

In the core segment, machines and lines for product filling and decoration, KRONES will expand its international service structures and LCS Centres. The company will also offer even more local products and do more purchasing, manufacturing, and assembly locally. For example, the company is expanding capacities in China considerably for this purpose. In addition, we must further increase efficiency and tap into new revenue potential with innovative products and services. After the segment's higher-than-average growth in the last two years, KRONES is projecting revenue growth of 3% for 2016. The EBT margin is expected to match its high year-earlier level of around 8%.

In the process technology segment, the focus this year will be on implementing the action package that was adopted at the end of 2015 with the aim of improving the segment's profitability for the long term. In addition, at the end of the first quarter, KRONES optimally complemented its own intralogistics activities through the purchase of the Italian company SYSTEM LOGISTICS. We will also further expand our components business (EVOGUARD) in 2016. In all, we are forecasting revenue growth of around 10% and slightly positive earnings (EBT margin: 1%) for the process technology segment for 2016. In the medium term, we intend to achieve an EBT margin of at least 4% in process technology.

We expect the machines and lines for the compact class segment to generate an EBT margin of 4% to 5% in 2016 on stable year-on-year revenue.

### Solid first half affirms outlook for 2016 as a whole

Based on the current macroeconomic prospects and developments on the markets relevant to KRONES, we expect consolidated revenue to grow by 3% in 2016. The company's earnings are set to improve yet again this year. KRONES is forecasting an EBT margin of 7.0% for 2016. We want to increase our third strategy target, ROCE, to 18% this year.

*After the first half, KRONES is confident it will achieve its growth and earnings targets for 2016.*

	Forecast for 2016	Actual value H1 2016
Revenue growth	+3%	+3.8%
EBT margin	7.0%	6.9%
ROCE	18%	15.6%





€ million	2016 1 January – 30 June	2016 1 January – 30 June	Change %
<b>Revenue</b>	<b>1,560.3</b>	<b>1,503.7</b>	<b>+3.8</b>
Changes in inventories of finished goods and work in progress	0.5	24.5	
<b>Total operating performance</b>	<b>1,560.8</b>	<b>1,528.2</b>	<b>+2.1</b>
Goods and services purchased	– 749.4	– 725.5	+3.3
Personnel expenses	– 496.0	– 468.9	+5.8
Other operating income/expenses and own work capitalised	– 168.2	– 189.7	– 11.3
Depreciation and amortisation on fixed assets	– 43.9	– 42.9	+2.3
<b>EBIT</b>	<b>103.3</b>	<b>101.2</b>	<b>+2.1</b>
Financial income/expense	4.0	2.9	
<b>Earnings before taxes</b>	<b>107.3</b>	<b>104.1</b>	<b>+3.1</b>
Income tax	– 32.9	– 31.4	+4.8
<b>Consolidated net income</b>	<b>74.4</b>	<b>72.7</b>	<b>+2.3</b>
Profit share of non-controlling interests	– 0.6	– 0.5	
Profit share of KRONES Group shareholders	75.0	73.2	
Earnings per share (diluted/basic) in €	2.37	2.32	

€ million	2016 1 April – 30 June	2015 1 April – 30 June	Change %
<b>Revenue</b>	<b>788.2</b>	<b>764.8</b>	<b>+ 3.1</b>
Changes in inventories of finished goods and work in progress	– 5.3	– 28.6	
<b>Total operating performance</b>	<b>782.9</b>	<b>736.2</b>	<b>+ 6.3</b>
Goods and services purchased	– 375.0	– 340.2	+ 10.2
Personnel expenses	– 253.3	– 236.7	+ 7.0
Other operating income/expenses and own work capitalised	– 83.4	– 85.7	– 2.7
Depreciation and amortisation on fixed assets	– 22.1	– 21.6	+ 2.3
<b>EBIT</b>	<b>49.1</b>	<b>52.0</b>	<b>– 5.6</b>
Financial income/expense	3.1	1.9	
<b>Earnings before taxes</b>	<b>52.2</b>	<b>53.9</b>	<b>– 3.2</b>
Income tax	– 16.2	– 16.2	± 0.0
<b>Consolidated net income</b>	<b>36.0</b>	<b>37.7</b>	<b>– 4.5</b>
Profit share of non-controlling interests	– 0.2	– 0.3	
Profit share of KRONES Group shareholders	36.2	38.0	
Earnings per share (diluted/basic) in €	1.15	1.21	

## Statement of financial position

Assets € million	30 June 2016		31 December 2015	
Intangible assets	186.8		163.2	
Property, plant and equipment	471.6		481.5	
Non-current financial assets	5.2		1.5	
<b>Fixed assets</b>	<b>663.6</b>		<b>646.2</b>	
Deferred tax assets	21.3		22.0	
Trade receivables	58.6		23.8	
Income tax receivables	1.7		1.7	
Other assets	3.3		3.5	
<b>Non-current assets</b>		<b>748.5</b>		<b>697.2</b>
Inventories	787.9		724.5	
Trade receivables	801.9		796.8	
Current income tax receivables	15.1		15.0	
Other assets	133.7		108.5	
Cash and cash equivalents	214.6		364.6	
<b>Current assets</b>		<b>1,953.2</b>		<b>2,009.4</b>
<b>Total</b>		<b>2,701.7</b>		<b>2,706.6</b>

<b>Equity and liabilities</b> € million	30 June 2016	31 December 2015
<b>Equity</b>	<b>1,131.6</b>	<b>1,110.7</b>
Provisions for pensions	198.1	196.9
Deferred tax liabilities	12.3	17.3
Other provisions	58.1	50.1
Liabilities to banks	0.0	0.0
Other financial liabilities	8.7	12.6
Other liabilities	2.0	1.6
<b>Non-current liabilities</b>	<b>279.2</b>	<b>278.5</b>
Other provisions	165.5	147.0
Provisions for taxes	23.7	9.5
Liabilities to banks	65.0	0.0
Advances received	527.7	545.7
Trade payables	187.1	247.9
Current tax liabilities	1.3	17.4
Other financial liabilities	18.2	56.3
Other liabilities and accruals	302.4	293.6
<b>Current liabilities</b>	<b>1,290.9</b>	<b>1,317.4</b>
<b>Total</b>	<b>2,701.7</b>	<b>2,706.6</b>

## Statement of cash flows

€ million	2016 1 January– 30 June	2015 1 January– 30 June
Earnings before taxes	107.3	104.1
Depreciation and amortisation (reversals)	43.9	42.9
Increase in provisions	24.2	12.9
Deferred tax item changes recognised in profit or loss	5.7	0.1
Interest expenses and interest income	–2.5	–1.8
Proceeds and losses from the disposal of fixed assets	–0.1	0.0
Other non-cash expenses and income	–0.6	–0.9
Increase in inventories, trade receivables, and other assets not attributable to investing or financing activities	–50.1	–119.1
Decrease (previous year: increase) in trade payables and other liabilities not attributable to investing or financing activities	–208.8	6.3
<b>Cash generated from operating activities</b>	<b>–81.0</b>	<b>44.5</b>
Interest paid	–0.3	–0.2
Income tax paid and refunds received	–41.1	–20.9
<b>Cash flow from operating activities</b>	<b>–122.4</b>	<b>23.4</b>
Cash payments to acquire intangible assets	–17.0	–16.4
Cash payments to acquire property, plant and equipment	–17.1	–13.8
Proceeds from the disposal of property, plant and equipment	0.8	0.4
Cash payments to acquire non-current financial assets	–3.3	0.0
Proceeds from the disposal of non-current financial assets	0.2	0.2
Cash payments to acquire shares in affiliated companies	–13.7	–18.3
Interest received	1.8	1.4
Dividends received	1.5	1.1
<b>Cash flow from investing activities</b>	<b>–46.8</b>	<b>–45.4</b>
Cash payments to company owners	–45.8	–39.5
Proceeds from new borrowing	65.0	0.0
Cash payments to service debt	0.0	0.0
<b>Cash flow from financing activities</b>	<b>19.2</b>	<b>–39.5</b>
<b>Net change in cash and cash equivalents</b>	<b>–150.0</b>	<b>–61.5</b>
Change in cash and cash equivalents arising from exchange rates	0.0	0.0
Cash and cash equivalents at the beginning of the period	364.6	336.4
<b>Cash and cash equivalents at the end of the period</b>	<b>214.6</b>	<b>274.9</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	Equity	
<b>At 31 December 2014</b>	<b>40.0</b>	<b>141.7</b>	<b>364.2</b>	<b>-0.5</b>	<b>-89.5</b>	<b>531.8</b>	<b>987.7</b>	<b>0.8</b>	<b>988.5</b>
Dividend payment (€1.25 per share)						-39.5	-39.5		-39.5
Consolidated net income H1 2015						73.2	73.2	-0.5	72.7
Currency differences				7.5			7.5		7.5
Actuarial gains (losses) on pension plans					0.2		0.2		0.2
Hedge accounting					-0.4		-0.4		-0.4
<b>At 30 June 2015</b>	<b>40.0</b>	<b>141.7</b>	<b>364.2</b>	<b>7.0</b>	<b>-89.7</b>	<b>565.5</b>	<b>1,028.7</b>	<b>0.3</b>	<b>1,029.0</b>
Consolidated net income H2 2015						84.2	84.2	-0.7	83.5
Allocation to profit reserves			0.3			-0.3	0.0		0.0
Currency differences				-14.1			-14.1		-14.1
Actuarial gains (losses) on pension plans					12.1		12.1		12.1
Hedge accounting					0.2		0.2		0.2
<b>At 31 December 2015</b>	<b>40.0</b>	<b>141.7</b>	<b>364.5</b>	<b>-7.1</b>	<b>-77.4</b>	<b>649.4</b>	<b>1,111.1</b>	<b>-0.4</b>	<b>1,110.7</b>
Dividend payment (€1.45 per share)						-45.8	-45.8		-45.8
Consolidated net income H1 2016						75.0	75.0	-0.6	74.4
Currency differences				-9.4			-9.4		-9.4
Changes in the consolidated group							0.0	0.9	0.9
Actuarial gains (losses) on pension plans					-0.4		-0.4		-0.4
Hedge accounting					1.2		1.2		1.2
<b>At 30 June 2016</b>	<b>40.0</b>	<b>141.7</b>	<b>364.5</b>	<b>-16.5</b>	<b>-76.6</b>	<b>678.6</b>	<b>1,131.7</b>	<b>-0.1</b>	<b>1,131.6</b>

## Statement of comprehensive income

€ million	2016 1 January – 30 June	2015 1 January – 30 June
<b>Consolidated net income</b>	<b>74.4</b>	<b>72.7</b>
<b>Items that will not be reclassified subsequently to profit or loss</b>		
Actuarial gains and losses on pensions and similar obligations	–0.4	0.2
	–0.4	0.2
<b>Items that may be reclassified subsequently to profit or loss</b>		
Exchange differences on translation	–9.4	7.5
Derivative financial instruments	1.2	–0.4
	–8.2	7.1
<b>Other comprehensive income</b>	<b>–8.6</b>	<b>7.3</b>
<b>Total comprehensive income</b>	<b>65.8</b>	<b>80.0</b>
of which attributable to non-controlling interests	–0.6	–0.5
of which attributable to KRONES Group shareholders	66.4	80.5

## Notes to the consolidated financial statements

### Segment reporting

€ million	Machines and lines for product filling and decoration		Machines and lines for beverage production/ process technology		Machines and lines for the compact class		KRONES Group	
	2016 1 Jan –30 June	2015 1 Jan –30 June	2016 1 Jan –30 June	2015 1 Jan –30 June	2016 1 Jan –30 June	2015 1 Jan –30 June	2016 1 Jan –30 June	2015 1 Jan –30 June
Revenue	1,335.1	1,280.9	159.1	174.2	66.1	48.6	1,560.3	1,503.7
EBT	105.4	98.4	–1.4	3.6	3.3	2.1	107.3	104.1
EBT margin	7.9%	7.7%	–0.9%	2.1%	5.0%	4.3%	6.9%	6.9%
Employees at 30 June*	11,658	11,093	1,241	894	508	484	13,407	12,471

\* Consolidated group

#### ■ Legal basis

The consolidated financial statements of KRONES AG (“KRONES Group”) for the period ended 30 June 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, applicable at the end of the reporting period, including the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) as adopted by the European Union. No early application was made of or audit conducted on IFRSs that had not yet entered into force or their interpretations.

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

Non-controlling interests have been added to the statement of changes in equity. The following explanatory notes comprise disclosures and remarks that, under IFRSs, must be included as notes to the consolidated financial statements in addition to the statement of financial position, 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 30 June 2016 include all material domestic and foreign subsidiaries over which KRONES AG has direct or indirect control.

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

In addition, the following companies were established: KPC-Processing GmbH, Neutraubling, Germany, KRONES CHILE SpA., Santiago de Chile, Chile, KRONES SALES (Beijing) Co. Ltd., Beijing, China, and KRONES PACIFIC Pty Limited, Sydney, Australia.

First-time consolidation 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 “acquisition method” of accounting, whereby the acquired assets and liabilities are to be recognised at fair value.

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

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

Companies over which KRONES has the ability to exercise significant influence, that is, to participate in operating and financial policy decisions (generally by indirectly or directly holding between 20% and 50% of the voting shares), are accounted for using the equity method and initially recognised at cost. Any excess of 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 at the end of the reporting period. Non-monetary items in foreign currencies are stated at historical cost.

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

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

		Closing rate		Average rate	
		30 June 2016	31 Dec 2015	2016	2015
us dollar	USD	1.114	1.089	1.116	1.117
British Pound	GBP	0.826	0.735	0.778	0.733
Swiss franc	CHF	1.087	1.082	1.096	1.058
Danish krone	DKK	7.439	7.462	7.450	7.456
Canadian dollar	CAD	1.441	1.513	1.486	1.378
Japanese yen	JPY	114.570	131.120	124.679	134.326
Brazilian real	BRL	3.617	4.314	4.136	3.311
Chinese renminbi (yuan)	CNY	7.389	7.073	7.294	6.844
Mexican peso	MXN	20.671	18.923	20.151	16.901
Ukrainian hryvnia	UAH	27.652	26.171	28.409	23.704
South African rand	ZAR	16.497	16.988	17.205	13.314
Kenyan shilling	KES	112.624	111.424	113.264	104.596
Nigerian naira	NGN	314.520	216.690	266.215	219.651
Russian ruble	RUB	71.498	80.536	78.216	64.597
Thai baht	THB	39.154	39.254	39.575	36.810
Indonesian rupiah	IDR	14,723.000	15,017.200	14,977.574	14,480.172
Angolan kwanza	AOA	184.682	147.384	178.888	120.775
Turkish lira	TRY	3.213	3.183	3.260	2.861
Kazakhstan tenge	KZT	377.890	370.980	385.514	207.032
Indian rupee	INR	75.203	72.067	74.979	71.020
Australian dollar	AUD	1.495	1.514	1.492	1.456

#### ■ Accounting policies

The separate financial statements of KRONES AG and its domestic and foreign subsidiaries have been prepared using uniform accounting policies, in accordance with IFRS 10. The accounting policies used in these interim financial statements are the same as those used for the financial statements prepared for the period ended 31 December 2015.

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

#### ■ Intangible assets

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

#### ■ Research and development expenditure

Development expenditure of the KRONES Group is capitalised at cost to the extent that costs can be allocated clearly and the technical feasibility and a future economic benefit as a result of their use are probable. According to IAS 38, research expenditure cannot be capitalised and is, therefore, recognised as an expense directly in profit or loss. Borrowing costs are capitalised as cost at a capitalisation rate of 0.25%.

#### ■ Goodwill

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

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

For impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit or group of cash-generating units that are expected to benefit from the synergies of the business combination. If the carrying amount of the cash-generating unit or group of cash-generating units to which the goodwill is allocated exceeds the recoverable amount, an impairment loss is recognised for the goodwill to which the cash-generating unit or group of cash-generating units are allocated. The recoverable amount is either the fair value

less costs of disposal or the value in use, whichever is higher, of the cash-generating unit or group of cash-generating units. If one of these amounts exceeds the carrying amount, it is not always necessary to determine both values. These values are based on discounted cash flow measurements. Even if the recoverable amount of the cash-generating unit or group of cash-generating units to which the goodwill is allocated exceeds the carrying amount in subsequent periods, impairment losses on that goodwill are not reversed.

#### ■ Property, plant and equipment

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

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

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

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

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

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

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

#### ■ Leases

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

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

## ■ Financial instruments

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

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

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

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

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

For Level 3 inputs under IFRS 13.72, the fair values are the same as the carrying amounts. Measurement is based on estimates from forecasts of future development.

Transactions against cash settlement are accounted for 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 as well as construction contracts with amounts due and derivatives for which hedge accounting is applied in addition to the categories listed above.

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

## ■ Non-current financial assets

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

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

## ■ Derivative financial instruments

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

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



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

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

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

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

They are derecognised 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 interest are discounted. Impairments are recognised to take account for all identifiable risks. The indicators used for this are the ageing of the receivables and the customer’s economic position.

#### ■ Inventories

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

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

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

#### ■ Construction contracts for specific customers

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

physical completion of the lines and machines at the end of the reporting period. The percentage of completion for the assembly and installation portion 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 “liability method”, which is based on the statement of financial position and involves recognising deferred tax items for all temporary differences between the tax base of an asset or liability and its carrying amount on the statement of financial position under IFRSs and for consolidation procedures recognised in profit or loss.

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

#### ■ Provisions for pensions

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

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

#### ■ Partial retirement benefit obligations

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

#### ■ Other provisions

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

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

#### ■ Financial liabilities

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

#### ■ Revenue

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

Revenue is reported less reductions.

#### ■ Segment reporting

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

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

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

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

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

Name and location of the company	Share in capital held by KRONES AG %*
neusped Neutraublinger Speditions-GmbH, Neutraubling, Germany	100.00
KIC KRONES Internationale Cooperations-Gesellschaft mbH, Neutraubling, Germany	100.00
ecomac Gebrauchtmaschinen GmbH, Neutraubling, Germany	100.00
EVOGUARD GmbH, Nittenau, Germany	100.00
MAINTEC Service GmbH, Collenberg/Main, Germany	100.00
KLUG GmbH Integrierte Systeme, Teunz, Germany	26.00
SYSKRON Holding GmbH, Wackersdorf, Germany	100.00
SYSKRON GmbH, Wackersdorf, Germany	100.00
TRIACOS Consulting & Engineering GmbH, Altenstadt an der Waldnaab, Germany	100.00
HST Maschinenbau GmbH, Dassow, Germany	100.00
SCHAEFER Förderanlagen- und Maschinenbau GmbH, Rosenheim, Germany	100.00
TILL GmbH, Hofheim, Germany	50.97
GERNEP GmbH Etikettiertechnik, Barbing, Germany	100.00
KPC-Processing GmbH, Neutraubling, Germany	100.00
S.A. KRONES N.V., Louvain-la-Neuve, Belgium	100.00
MAINTEC Service eood, Sofia, Bulgaria	100.00
KRONES Nordic ApS, Holte, Denmark	100.00
KRONES S.A.R.L., Viviers-du-Lac, France	100.00
KRONES UK Ltd., Bolton, UK	100.00
SYSTEM Ltd., London, UK	60.00
KRONES S.R.L., Garda (vr), Italy	100.00
KOSME S.R.L., Roverbella, Italy	100.00
SYSTEM LOGISTICS S.p.A., Fiorano, Italy	60.00
KRONES Kazakhstan Too, Almaty, Kazakhstan	100.00
KRONES Nederland B.v., Bodegraven, Netherlands	100.00
KOSME Gesellschaft mbH, Sollenau, Austria	100.00
KRONES 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
SYSTEM NORTHERN EUROPE AB, Malmö, Sweden	60.00
KRONES AG, Buttwil, Switzerland	100.00
KRONES Iberica, s.a.u., Barcelona, Spain	100.00
SYSTEM LOGISTICS SPAIN SL, Castellon, Spain	60.00
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 PACIFIC PTY LIMITED, Sydney, Australia	100.00
KRONES do Brazil Ltda., São Paulo, Brazil	100.00
KRONES S. A., São Paulo, Brazil	100.00
KRONES Chile SpA., Santiago de Chile, Chile	100.00
KRONES Sales (Beijing) Co. Ltd., Beijing, China	100.00
KRONES Machinery (Taicang) Co. Ltd., Taicang, China	100.00
KRONES Trading (Taicang) Co. Ltd., Taicang, China	100.00
KRONES Asia Ltd., Hongkong, China	100.00
KRONES India Pvt. Ltd., Bangalore, India	100.00
PT. KRONES Machinery Indonesia, Jakarta, Indonesia	100.00
KRONES Japan Co. Ltd., Tokyo, Japan	100.00
KRONES Machinery Co. Ltd., Mississauga, Ontario, Canada	100.00
KRONES LCS Center East Africa Ltd., Nairobi, Kenya	100.00
KRONES Andina Ltda., Bogotá, Colombia	100.00
KRONES Korea Ltd., Seoul, Korea	100.00
KRONES Mex s. a. de c. v., Mexico d. f., Mexico	100.00
SYSTEMLOG DE MEXICO S.A. DE C.V., Nuevo Leon, Mexico	60.00
KRONES LCS Center West Africa Ltd., Lagos, Nigeria	100.00
KRONES Southern Africa (Prop.) Ltd., Johannesburg, South Africa	100.00
KRONES (Thailand) Co. Ltd., Bangkok, Thailand	100.00
SYSTEM LOGISTICS ASIA CO. Ltd., Bangkok, Thailand	60.00
KRONES INC., Franklin, Wisconsin, USA	100.00
SYSTEM LOGISTICS CORPORATION, Delaware, USA	60.00
Maquinarias KRONES de Venezuela S.A., Caracas, Venezuela	100.00

\*Direct and indirect shareholdings.

Pursuant to Section 8 (1) of the articles of association, six members are elected by the shareholders in accordance with the German Stock Corporation Act (Sections 96 (1) and 101). Six members are elected by the employees pursuant to Sections 1 (1) and 7 (1) Sentence 1 Number 1 of the Codetermination Act.

### Supervisory Board

#### Ernst Baumann

Chairman of the Supervisory Board  
until 15 June 2016

\* ZF FRIEDRICHSHAFEN AG

#### Volker Kronseder

Chairman of the Supervisory Board  
since 15 June 2016

\* UNIVERSITÄTSKLINIKUM  
REGENSBURG

\* ECONOMIC ADVISORY COUNCIL  
BAYERISCHE LANDESBANK

#### Werner Schrödl\*\*

Chairman of the Group Works  
Council

Chairman of the Central Works  
Council

Deputy Chairman of the  
Supervisory Board

\* ADVISORY BOARD OF BAYERISCHE  
BETRIEBSKRANKENKASSEN

#### Klaus Gerlach\*\*

Head of Central International  
Operations and Services

#### Norman Kronseder

Farmer and forester

\* BAYERISCHE FUTTERSAATBAU  
GMBH

#### Graf Philipp von und zu Lerchenfeld

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

#### Dr. Alexander Nerz

Attorney  
deceased 30 May 2016

#### Professor Dr. jur. Susanne Nonnast

Professor at OTH Regensburg  
since 15 June 2016

#### Dr. Verena Di Pasquale\*\*

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

#### Johann Robold\*\*

Member of the Works Council

#### Petra Schadeberg-Herrmann

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

\* CHOCOLADEFABRIKEN LINDT &  
SPRÜNGLI AG

#### Jürgen Scholz\*\*

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

\* INFINEON TECHNOLOGIES AG

#### Hans-Jürgen Thaus

Former deputy chairman  
of KRONES AG

\* HAWE HYDRAULIK SE

\* MASCHINENFABRIK REINHAUSEN  
GMBH

\* KURTZ HOLDING GMBH &  
BETEILIGUNGS KG

\* SCHULER AG

#### Josef Weitzer\*\*

Deputy Chairman of the  
Group Works Council

Deputy Chairman of the  
Central Works Council

Chairman of the Works  
Council in Neutraubling

\* SPARKASSE REGENSBURG

### Executive Board

#### Christoph Klenk

CEO

Human Resources,  
Communication, Quality,  
Information Management

#### Michael Andersen

CFO

Finance, Controlling,  
Strategic Purchasing

#### Rainulf Diepold

Sales and Marketing

#### Thomas Ricker

Bottling and Packaging  
Equipment

#### Markus Tischer

International Operations  
and Services

#### Ralf Goldbrunner

Plants and Components

\* Other Supervisory Board seats held, pursuant to Section 125 (1) Sentence 5 of the German Stock Corporation Act

\*\* Elected by the employees

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

“To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the group, and the interim 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 over the remainder of the financial year.”

Neutraubling, July 2016



Christoph Klenk  
CEO



Michael Andersen  
CFO



Rainulf Diepold



Thomas Ricker



Markus Tischer



Ralf Goldbrunner

# Glossary

Cash flow	All inflows and outflows of cash and cash equivalents during a period.
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.
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.
IFRSS	International Financial Reporting Standards. Accounting standards issued by the International Accounting Standards Board (IASB) that are harmonised and applied internationally.
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.
ROCE (assets side)	Ratio of EBIT to the average sum of fixed assets and working capital.
ROCE (liabilities side)	Ratio of EBIT to average capital employed (total assets less interest-free liabilities and interest-free other provisions).
Statement of cash flows	Statement of inflows and outflows of cash that shows the sources and uses of funds within the financial year.
Total debt	Combined term for the provisions, liabilities, and deferred income stated on the liabilities side of the balance sheet.
Working capital	Calculated as follows: (trade receivables + inventories + prepayments) – (trade payables + advances received)



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 **KRONES**