

A close-up, slightly blurred photograph of a row of beer taps. Several glasses are positioned under the taps, with beer being dispensed into them. The beer is a golden color with a thick head of white foam. The background is dark, making the metallic taps and the light-colored beer stand out.

Q2

Interim report for the period
from 1 January to 30 June 2017

 **KRONES**

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Highlights and key figures

KRONES continues stable growth in the first half of 2017

- Revenue and order intake increased 13.8% and 11.0%, respectively, in the first half.
- Earnings before taxes (EBT) improved by 12.8% in the period from January to June. EBT margin is 6.8%.
- Ratio of working capital to revenue comes to 26.3% (previous year: 25.5%).
- Executive Board keeps forecast for 2017 unchanged. KRONES expects 4% revenue growth and an EBT margin of 7.0%, excluding effects from acquisitions.

Key figures for H1 2017		1 Jan–30 Jun 2017	1 Jan–30 Jun 2016	Change
Revenue	€ million	1,775.2	1,560.3	+13.8%
Order intake	€ million	1,779.3	1,602.4	+11.0%
Orders on hand at 30 June	€ million	1,148.8	1,136.7	+1.1%
EBITDA	€ million	164.4	147.2	+11.7%
EBIT	€ million	117.1	103.3	+13.4%
EBT	€ million	121.0	107.3	+12.8%
EBT margin	%	6.8	6.9	–
Net income	€ million	82.4	74.4	+10.8%
Earnings per share	€	2.64	2.37	+11.4%
Capital expenditure for PP&E and intangible assets	€ million	46.1	34.1	+€12.0 million
Free cash flow	€ million	–159.5	–169.2	+€9.7 million
Net cash and cash equivalents at 30 June*	€ million	160.4	149.6	+€10.8 million
Working capital to revenue**	%	26.3	25.5	–
ROCE	%	16.3	15.6	–
Employees at 30 June				
Worldwide		14,794	13,742	+1,052
Germany		10,106	9,734	+372
Outside Germany		4,688	4,008	+680

* Cash and cash equivalents less debt ** Average of last 4 quarters

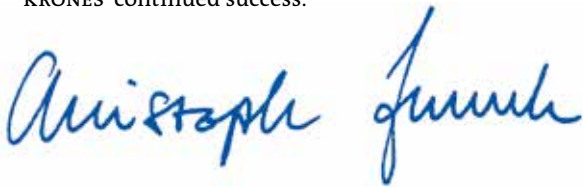
Key figures for Q2 2017		1 Apr–30 Jun 2017	1 Apr–30 Jun 2016	Change
Revenue	€ million	875.8	788.2	+11.1%
Order intake	€ million	903.8	780.2	+15.8%
EBITDA	€ million	77.2	71.2	+8.4%
EBIT	€ million	53.1	49.1	+8.1%
EBT	€ million	55.0	52.2	+5.4%
EBT margin	%	6.3	6.6	–
Net income	€ million	38.7	36.0	+7.5%
Earnings per share	€	1.24	1.15	+7.8%

Dear shareholders and friends of **KRONES**,

KRONES had a successful first half of 2017 overall. Revenue and earnings increased further year-on-year. We are confident that we will achieve our targets for the year as a whole. A major industry event that will contribute to KRONES' profitable growth well beyond the current year is only a few weeks away.

The "drinktec" trade fair will take place in Munich from 11 to 15 September. Held every four years, drinktec is the world's leading trade fair for the international packaging industry and serves as a meeting place for everybody who's anybody in the industry. Customers from around the world will be there, learning about trends and innovations and deciding on future investments. KRONES will present a number of innovative machines and lines from various parts of our portfolio at drinktec.

Of course, digitalisation will play a starring role at KRONES' booth. The merger of mechanical engineering and process technology with clouds and data is resulting in deeper, closer integration of all processes along the entire value chain. Factories are getting smart. And we intend to be the industry leader in this area as well. At drinktec, KRONES will present solutions for the beverage plant of the future. Our aim is to further boost the efficiency of our customers' factories. I am certain that our innovations in engineering and IT will be well received by drinktec visitors and help drive KRONES' continued success.



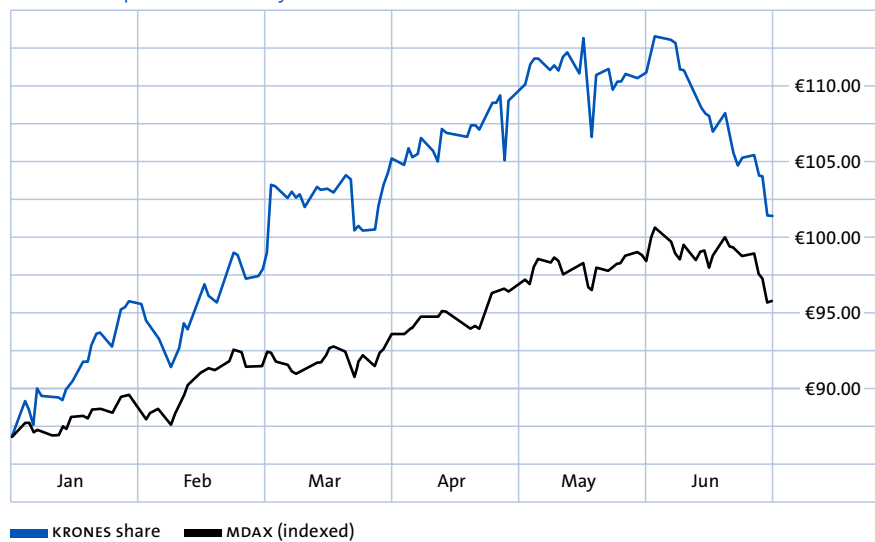
Christoph Klenk
CEO

Positive environment for shares

The world's equity markets trended mostly upwards in the period from January to June 2017. An optimistic economic forecast and continued low interest rates put investors in a buying mood. Germany's DAX blue-chip index climbed 7.4% in the first half of 2017 to 12,325 points. The DAX hit its record high of around 12,950 points on 20 June. One reason for the subsequent price decline at the end of June was a speech by ECB President Mario Draghi, in which he cautiously hinted that the days of extremely low interest rates could be drawing to a close.

Although hopes of additional economic stimulus from the Trump administration are fading, the leading US share index, the Dow Jones, nevertheless gained 8.0% and thus outperformed the DAX. Tech stocks were in especially high demand. The Euro Stoxx 50 index of the euro area's 50 biggest companies was hampered by substantial losses among oil company shares and thus advanced only 4.6%, less than the DAX and the Dow. Japan's Nikkei index moved into positive territory in the second quarter after having posted a loss for the first three months. At the end of June 2017, the Nikkei was up 4.8% from the start of the year.

KRONES share price from 1 January to 30 June 2016



KRONES' share price performed well in the first half, gaining far more sharply than the MDAX.

KRONES share outperforms the MDAX

In the first half of 2017, KRONES' share price benefited from a generally favourable investment climate, strong business results, and a positive forecast for the year 2017 as a whole. From January to June, our share price rose 16.7%, from €86.90 to €101.40. Including the dividend of €1.55 per share, the share's performance for the first half comes to 18.5%. Thus, the KRONES share outperformed the MDAX by a significant margin. The mid-cap index gained 10.2% in the first half of 2017. Our share price hit its high for the period, €114.50, on 6 June. The mood on Germany's equity markets then soured and KRONES' share price was also affected.

Growth outlook for the world economy has improved slightly

The global economy will likely post somewhat stronger growth in 2017 than had been expected at the start of the year. At the end of April, the International Monetary Fund (IMF) raised its forecast for global economic growth to 3.5%. In January 2017, the IMF had forecast 3.4% growth worldwide after 3.1% growth in 2016. Although the IMF certainly sees potential for growth to exceed its forecast in the short term, several risk factors limit the medium-term outlook. These include increasing protectionism and faster-than-expected interest rate hikes in the USA.

The global economy has good momentum going. Thanks to positive developments in the industrialised countries, the International Monetary Fund is forecasting global economic growth of 3.5%.

The expectation of stronger growth in the advanced economies was the main force driving the slight forecast upgrade. The IMF expects GDP in the advanced economies to grow by 2.0% overall in 2017. In January, the experts had forecast 1.9% growth to follow the previous year's 1.7%. The US economy, the world's largest, is expected to post relatively strong growth. With GDP growth there expected to be 2.3%, the USA is the main force driving growth among the industrialised countries. Strong exports prompted economists to revise their forecast for Japanese GDP growth upwards by 0.4% this spring to 1.2%. The IMF also raised its forecast for the euro area slightly (+0.1%). The euro area economy is now expected to grow 1.7% in 2017, as in the previous year. The IMF raised its forecast for GDP growth in Germany by 0.1% in April and then by another 0.2% in early July to 1.8% (previous year: 1.8%).

For the emerging markets, the IMF left its economic growth forecast unchanged at 4.5%. With that, these economies will once again contribute more than proportionately to global economic growth in 2017. The biggest part of this growth will be in Asia, primarily China (+6.6%) and India (+7.2%). Commodity-exporting countries like Russia (+1.4%) and Brazil (+0.2%) are expected to stabilise at a low level. The IMF expects GDP growth in the Middle East/Northern Africa region to be just 2.6% after 3.9% in the previous year due to political uncertainties there.

German Engineering Federation (VDMA) raises output forecast for 2017

After a 17% increase in new orders in May, the German Engineering Federation (VDMA) raised its forecast for real machinery output in Germany for the year from +1% to +3%. Another reason for the upgrade was the justified hope that orders from within Germany and from China would grow more than previously expected.

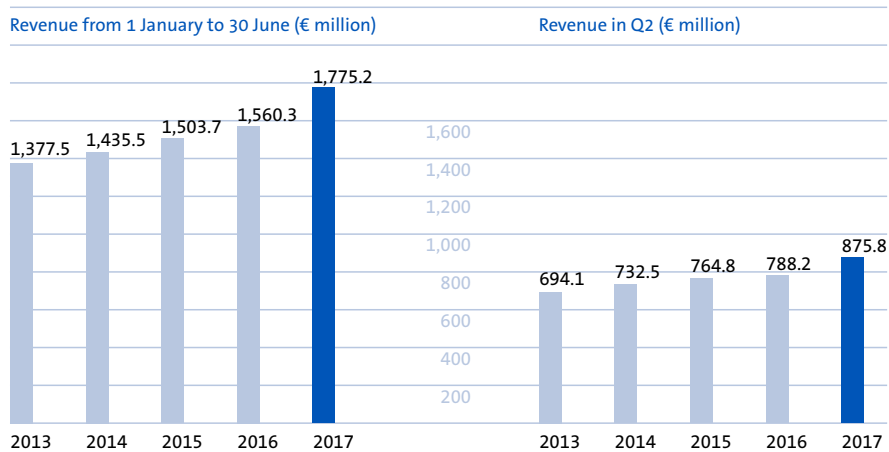
In the less volatile three-month comparison of the period from March through May 2017, order intake in the German machinery sector was up 4% year-on-year. Orders from abroad also increased 4%, with orders from euro partner countries up 23% and those from non-euro countries down 1%. Domestic orders rose 2%.

The food and packaging machinery subsector, which is relevant for KRONES, is expected to develop better than the industry as a whole in 2017.

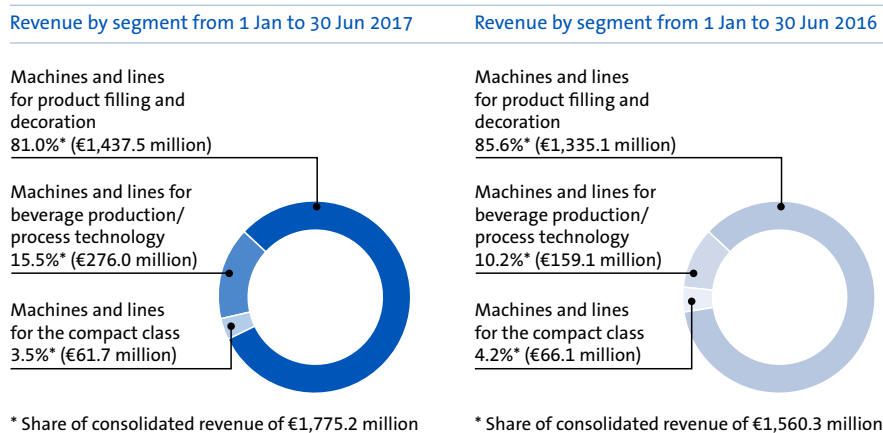
KRONES continues to grow

Although some projects that were slated for invoicing in the second quarter of 2017 had already yielded revenue in the first quarter, KRONES' revenue nevertheless increased 11.1% year-on-year in the period from April to June 2017 to €875.8 million. This improvement was driven by strong growth in new machinery and service sales as well as acquisitions. Adjusted for the approximately €30 million in revenue that resulted from the acquisition of SYSTEM LOGISTICS and TRANS-MARKET, second quarter growth came to 7.3%.

KRONES posted continued strong growth in the first two quarters of 2017.



Consolidated revenue for the first six months of 2017 was up 13.8% year-on-year, from €1,560.3 million to €1,775.2 million. Around €55 million of that came from acquisitions. Adjusted for acquisitions, KRONES' first-half revenue was up 10.2% year-on-year. Despite the sharp increase in revenue in the first half, which resulted partly from a relatively low baseline of sales in the first half of 2016, KRONES still expects growth (excluding acquisitions) for the year 2017 to come in at 4%. The company benefited from its broad international diversification and its entire portfolio of products and services in the reporting period.



Revenue by region

After a somewhat quieter first quarter of 2017, business in Germany picked up again considerably in the second quarter. In all, revenue in Germany improved 14.7% year-on-year in the first six months of 2017, to €206.4 million. Domestic revenue's share of consolidated revenue rose to 11.6% (previous year: 11.5%).

KRONES' business in Europe (excluding Germany) developed well in the first half of 2017. Revenue in the large Western Europe sales region increased 22.6% year-on-year in the period from January to June 2017 to €306.1 million. A low baseline and acquisitions both played a role in the sharp increase. At €89.8 million, first-half revenue in Central Europe in 2017 did not quite match the high year-earlier level (-6.4%). A generally improved economic environment in Eastern Europe benefited revenue in that region (+22.6%). Business in the Russia/CIS sales region stabilised at a low level. At €37.5 million, revenue there was down 6.3% in the first half of 2017. Overall, KRONES' revenue in Europe (excluding Germany) improved 13.7% year-on-year in the period from January to June 2017, from €442.5 million to €503.3 million. The share of consolidated revenue coming from Europe (excluding Germany) was unchanged at 28.4%.

KRONES' revenue in the Middle East/Africa sales region stabilised at a high level. Revenue in the region decreased only slightly, 3.7% year-on-year, in the first half of 2017 to €252.3 million. Revenue in China was low in the second quarter, as expected. As a result, overall revenue for the period from January to June was down 7.7% year-on-year to €112.0 million. By contrast, revenue was up considerably in the rest of the Asia-Pacific region. At €234.7 million, it exceeded the year-earlier figure by 22.2%.

As expected, the strong uptrend in the North and Central America sales region continued in the reporting period. Revenue there rose 28.8% year-on-year in the period from January to June 2017, to €269.9 million. The company generated nearly identical revenue growth in the South America/Mexico region. At €196.6 million, revenue there was up 28.7% on the year-earlier period.

KRONES Group revenue by region

Share of consolidated revenue	1 Jan to 30 June 2017		1 Jan to 30 June 2016		Change
	€ million	%	€ million	%	
Germany	206.4	11.6	179.9	11.5	+14.7
Central Europe (excluding Germany)	89.8	5.1	95.9	6.1	-6.4
Western Europe	306.1	17.3	249.6	16.0	+22.6
Eastern Europe	69.9	3.9	57.0	3.7	+22.6
Russia, Central Asia (CIS)	37.5	2.1	40.0	2.6	-6.3
Middle East/Africa	252.3	14.2	262.1	16.8	-3.7
Asia-Pacific	234.7	13.2	192.0	12.3	+22.2
China	112.0	6.3	121.4	7.8	-7.7
South America/Mexico	196.6	11.1	152.8	9.8	+28.7
North and Central America	269.9	15.2	209.6	13.4	+28.8
Total	1,775.2	100.0	1,560.3	100.0	+13.8

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

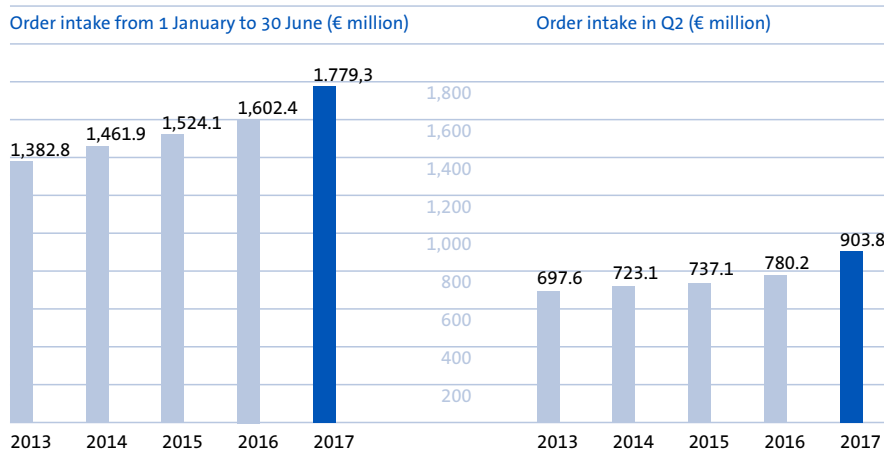
KRONES' revenue remains well balanced internationally in both the established and emerging markets. All told, the company generated 50.8% of consolidated revenue in the emerging markets in the first half of 2017 (previous year: 53.0%).

Increasing demand for KRONES products and services

Our customers' ordering activity was satisfactory overall in the second quarter of 2017. In the period from April to June, order intake at KRONES was up 15.8% year-on-year to €903.8 million. Adjusted for acquisitions, the increase was 6.0%. In the first half of 2017, overall order intake rose by 11.0% year-on-year, from €1,602.4 million to €1,779.3 million. Around €100 million of this increase resulted from acquisitions. Adjusted for this effect, order intake in the period from January to June 2017 was up 4.7% year-on-year.

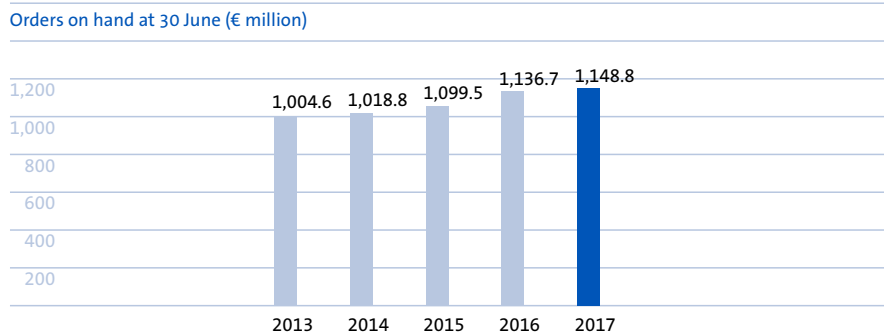
Adjusted for acquisitions, order intake improved 4.7% in the first half of 2017.

Orders growth in Western Europe and Latin America was higher than overall orders growth. Order intake in China was lower. In the Asia-Pacific, North America, and Middle East/Africa sales regions, order intake was stable.



Orders on hand slightly higher than previous year

At €1,148.8 million, orders on hand at KRONES were up 1.1% at the end of June 2017 over the year-earlier period (€1,136.7 million). That gives the company a solid basis for balancing capacity utilisation over the rest of the year and achieving the revenue growth forecast for 2017.



KRONES improves earnings before taxes by 12.8% in the first half

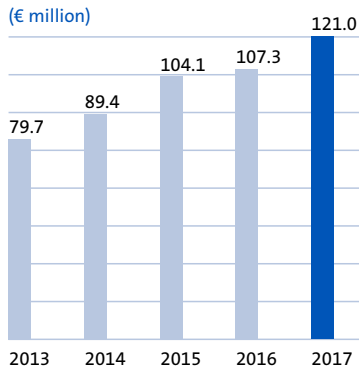
KRONES increased earnings before taxes (EBT) by 12.8% year-on-year in the first half of 2017, from €107.3 million to €121.0 million despite a highly competitive market situation. As expected, market prices provided no support. By contrast, the Value strategy programme, with which KRONES is increasing efficiency throughout the company, had a positive impact. At 6.8%, the EBT margin for the first six months of 2017 was nearly unchanged year-on-year (previous year: 6.9%). We still expect to achieve an EBT margin of 7.0% for the year as a whole. After taxes, net income was up 10.8% to €82.4 million. Earnings per share rose to €2.64 (previous year: €2.37).

In the period from April to June 2017, KRONES' earnings before taxes (EBT) were up 5.4% to €55.0 million. The EBT margin was down from 6.6% in the year-earlier period to 6.3% because the acquisitions still had not yet contributed to earnings in the second quarter due to seasonal factors. Excluding revenue from acquisitions, KRONES generated roughly the same EBT margin in the second quarter as in the year-earlier period.

Net income improved 7.5% year-on-year in the second quarter of 2017 to €38.7 million. Earnings per share improved from €1.15 in the previous year to €1.24.

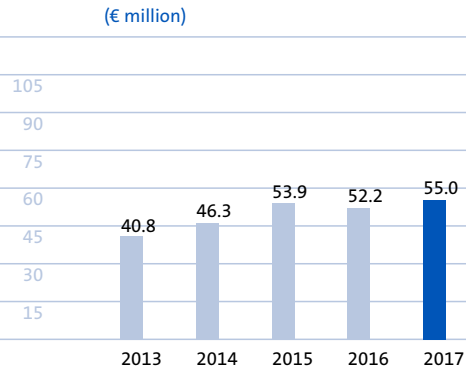
Earnings before taxes (EBT) from 1 January to 30 June

(€ million)

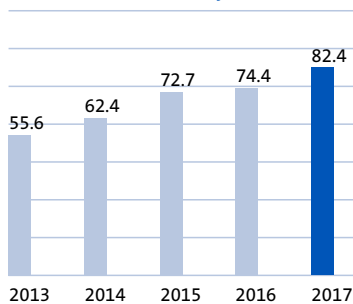


Earnings before taxes (EBT) in Q2

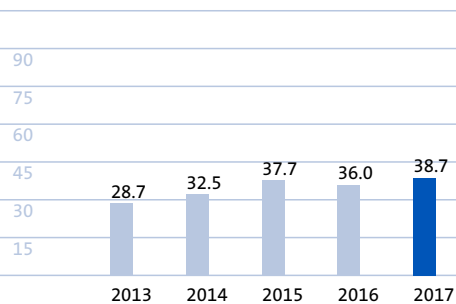
(€ million)



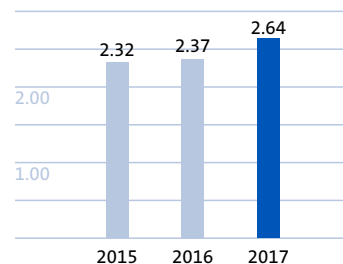
Net income from 1 January to 30 June (€ million)



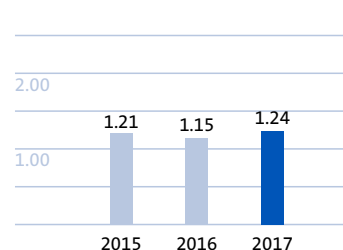
Net income in Q2 (€ million)



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



Earnings per share in Q2 (€)



KRONES' EBT margin for the first half was 6.8%. The forecast for 2017 is unchanged at 7.0%.

KRONES Group earnings structure

€ million	2017 1 Jan–30 Jun	2016 1 Jan–30 Jun	Change
Revenue	1,775.2	1,560.3	+13.8%
Changes in inventories of finished goods and work in progress	–59.3	+0.5	–
Total operating performance	1,715.9	1,560.8	+9.9%
Goods and services purchased	–826.2	–749.4	+10.2%
Personnel expenses	–540.1	–496.0	+8.9%
Other operating income (expenses) and own work capitalised	–185.2	–168.2	+10.1%
EBITDA	164.4	147.2	+11.7%
Depreciation and amortisation on fixed assets	–47.3	–43.9	+7.7%
EBIT	117.1	103.3	+13.4%
Financial income	+4.3	+4.0	–
Income from equity-accounted associates	–0.4	–	–
EBT	121.0	107.3	+12.8%
Income tax	–38.6	–32.9	+17.3%
Consolidated net income	82.4	74.4	+10.8%

In the period from January to June 2017, revenue increased 13.8% year-on-year to €1,775.2 million, more sharply than total operating performance, which increased 9.9% to €1,715.9 million. That is because KRONES reduced its inventories of finished goods and work in progress by €59.3 million in the reporting period.

While expenses for goods and services purchased had increased far more than operating performance in the first quarter of 2017, the opposite was true in the period from April to June. In all, goods and services purchased increased 10.2% to €826.6 million in the first six months of 2017. The ratio of goods and services purchased to total operating performance rose only slightly year-on-year, from 48.0% to 48.2%.

Personnel expenses grew less than proportionately to total operating performance in the first half of 2017. At €540.1 million, they were 8.9% higher than in the year-earlier period. However, the ratio of personnel expenses to total operating performance declined only slightly, from 31.8% in the year-earlier period to 31.5%.

The net of other operating income and expenses and own work capitalised changed from –€168.2 million in the previous year to –€185.2 million in the reporting period. The ratio of this figure to total operating performance declined slightly from 10.8% to 10.7%. Depreciation, amortisation, and write-downs of fixed assets increased 7.7% year-on-year to €47.3 million.

KRONES improved earnings before interest and taxes (EBIT) by 13.4% to €117.1 million in the first half of 2017. Financial income came to €4.3 million (previous year: €4.0 million). Associates that are accounted for using the equity method had a negative impact of €0.4 million on earnings. Thus, earnings before taxes (EBT) for the first half of 2017 came to €121.0 million (+12.8%).

The most important expenditure items, goods and services purchased and personnel, both developed as forecast in the first half of 2017.

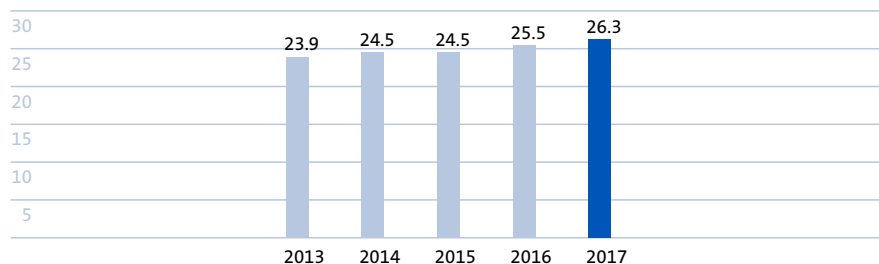
Because the tax rate increased from 30.7% to 31.9% in the first half, the improvement in consolidated net income, by 10.8% to €82.4 million, did not quite match the improvement in EBT.

KRONES Group cash flow

	2017 1 Jan – 30 June	2016 1 Jan – 30 June
Earnings before taxes	121.0	107.3
Other non-cash expenses and income	+22.8	+70.6
Changes in working capital	–151.9	–201.9
Changes in other assets and liabilities	–76.8	–98.4
Cash flow from operating activities	–84.9	–122.4
Capital expenditure for PP&E and intangible assets	–46.1	–34.1
M&A activities	–32.8	–13.7
Other	+4.3	+1.0
Free cash flow	–159.5	–169.2
Cash flow from financing activities	–19.0	+19.2
Other	0.0	0.0
Net change in cash and cash equivalents	–178.5	–150.0
Cash and cash equivalents at the end of the period	190.4	214.6

KRONES improved cash flow from operating activities by €37.5 million in the first half of 2017, from –€122.4 million in the previous year to –€84.9 million. The improvement was thanks in part to a smaller year-on-year increase in working capital (by €50.0 million). In the reporting period, KRONES' working capital grew by €151.9 million, considerably less than in the previous year (€201.9 million). The ratio of average working capital for the past four quarters to revenue came to 26.3%, after 25.5% in the year-earlier period. However, it moved in the right direction with respect to the 26.8% ratio from the first quarter of 2017.

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



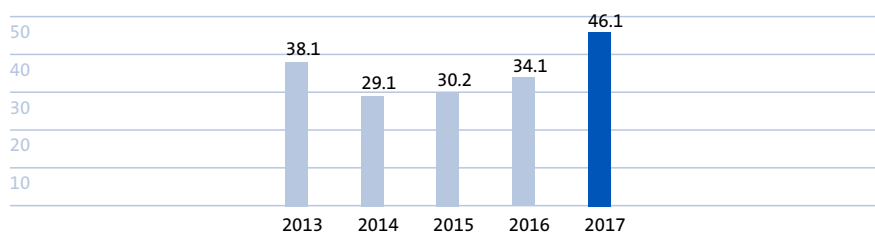
Average working capital for the past four quarters to revenue came to 26.3%. That puts us on track to achieve our target of 27% for the year as a whole.

KRONES invested €46.1 million in intangible assets and property, plant and equipment in the reporting period (previous year: €34.1 million). KRONES' free cash flow (net cash generated from operating activities) improved to –€159.5 million in the period from January to June 2017 (previous year: –€169.2 million). Adjusted for acquisitions, operating free cash flow improved from –€155.5 million a year earlier to –€126.7 million. In our business, it is not unusual for free cash flow to be negative at various points throughout the year.

KRONES improved free cash flow slightly in the first half of 2017. The fact that it was negative at mid-year is due to seasonal factors.

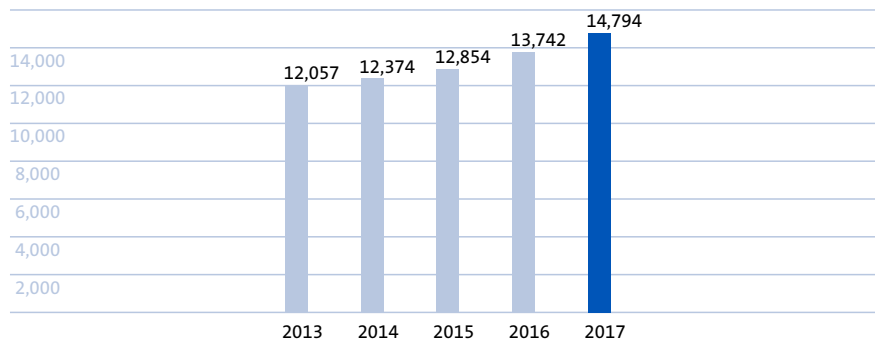
Cash flow from financing activities was negative at –€19.0 million (previous year: –€19.2 million). This item includes the dividend payout of €49.0 million (previous year: €45.8 million) as well as €30.0 million in proceeds from new borrowing (previous year: €65.0 million). All told, KRONES had cash and cash equivalents totalling €190.4 million at 30 June 2017 (previous year: €214.6 million).

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



Employees

KRONES employees worldwide at 30 June



KRONES has 14,794 employees worldwide

At the end of June 2017, KRONES' workforce had grown by 1,052 or 7.7% year-on-year to 14,794. A large part of the increase was in our international workforce. That reflects our strategy of increasing our local presence in the regions. The number of people employed outside Germany at the end of June 2017 totalled 4,688, which is 680 more than a year earlier. Of the new team members abroad, 132 came to KRONES through the acquisition of TRANS-MARKET, PROCESS AND DATA AUTOMATION, and JAVLYN PROCESS SYSTEMS. The company's workforce in Germany grew by 372 to 10,106 in the reporting period.

We are continuing to grow our workforce abroad in order to move even closer to our customers worldwide.

KRONES Group asset and capital structure

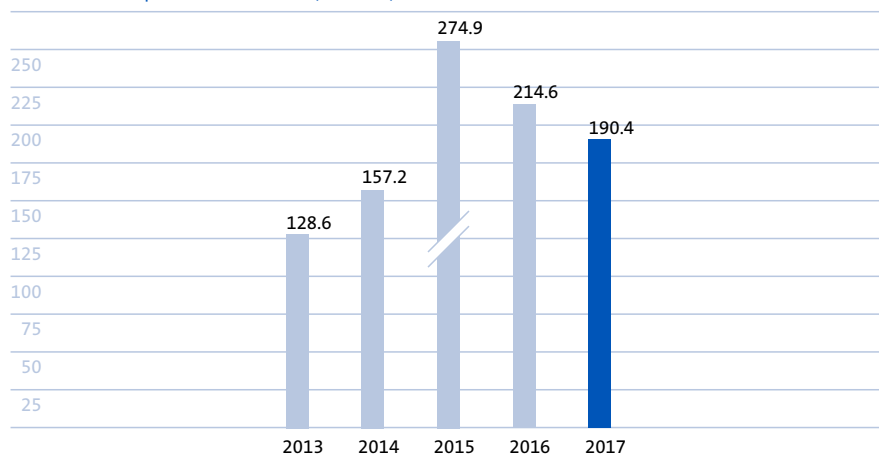
€ million	30 Jun 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014
Non-current assets	844	799	697	672
of which fixed assets	757	726	646	624
Current assets	2,077	2,272	2,010	1,756
of which cash and equivalents	190	369	365	336
Equity	1,241	1,226	1,111	989
Total debt	1,680	1,845	1,596	1,439
Non-current liabilities	307	308	278	275
Current liabilities	1,373	1,537	1,318	1,164
Total	2,921	3,071	2,707	2,428

Despite considerably higher business volume, KRONES' total assets were down slightly at 30 June 2017 compared with 31 December 2016, by 4.9% from €3,070.8 million to €2,920.8 million.

The reason was the development of current assets, which amounted to €2,077.3 million at the end of the reporting period, 8.6% less than at 31 December 2016. Cash and cash equivalents were the main factor responsible for the decrease. They decreased in the reporting period, from €368.9 million to €190.4 million, because the dividend payout was made in June and because free cash flow was negative. While inventories could be reduced by €55.7 million to €672.7 million in the first half, trade receivables were up by €39.5 million to €1,076.4 million in the same period.

Non-current assets increased by €45.0 million to €843.5 million in the first half (31 December 2016: €798.5 million). The increase in fixed assets to €757.3 million (31 December 2016: €725.5 million) resulted primarily from the fact that KRONES reported "investment accounted for using the equity method" for the first time in the reporting period (€28.2 million). While property, plant and equipment decreased slightly to €472.3 million (31 December 2016: €481.3 million), intangible assets, consisting primarily of development costs that must be capitalised, were up to €250.9 million at 30 June (31 December 2016: €238.3 million).

Cash and cash equivalents at 30 June (€ million)



KRONES' total assets were lower despite higher business volume. That was due primarily to a seasonal reduction in cash and cash equivalents at mid-year. Nevertheless, cash and cash equivalents were still at a very comfortable €190.4 million.

KRONES' non-current liabilities, consisting largely of provisions for pensions and other personnel provisions, decreased very slightly to €307.2 million at 30 June 2017 (31 December 2016: €308.0 million). The company had no non-current bank debt at 30 June 2017.

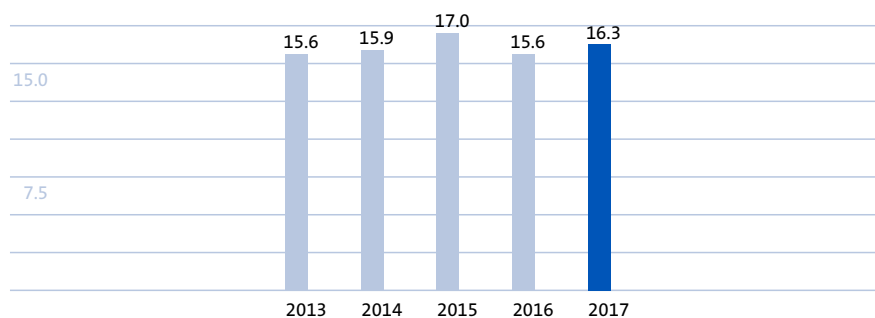
Current liabilities were down by €164.5 million compared with the end of the year 2016 to €1,372.8 million. That was due primarily to the reduction in trade payables, which decreased from €323.8 million to €211.4 million. At 30 June 2017, KRONES had current bank debt totalling €30.0 million.

Equity improved from €1,225.5 million at the reporting date for 2016 to €1,240.8 million. The equity ratio thus rose to 42.5% at 30 June (31 December 2016: 39.9%). With net cash and cash equivalents (cash and cash equivalents less bank debt) of €160.4 million, KRONES still has a robust financial and capital structure.

ROCE climbs from 15.6% to 16.3%

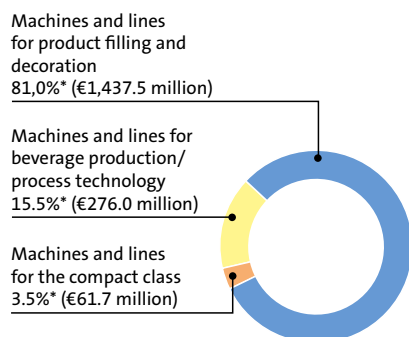
KRONES' improved its return on capital employed (ROCE), that is the ratio of EBIT to average net tied-up capital, to 16.3% in the first half of 2017 (previous year: 15.6%) on higher earnings.

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



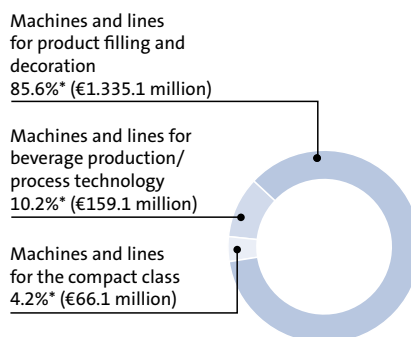
ROCE once again rose above 16% in the first half of 2017.

Revenue by segment from 1 Jan to 30 Jun 2017



* Share of consolidated revenue of €1,775.2 million

Revenue by segment from 1 Jan to 30 Jun 2016



* Share of consolidated revenue of €1,560.3 million

Segment revenue

KRONES' core segment, machines and lines for product filling and decoration, posted stronger growth in the first half of 2017 than had been expected. That was due in part to invoice timing. In the six-month period from January to June, revenue was up 7.7% year-on-year from €1,335.1 million to €1,437.5 million. New machinery and services business contributed more or less equally to this growth. The core segment's share of consolidated first-half revenue decreased from 85.6% in the previous year to 81.0%.

Revenue in the machines and lines for beverage production/process technology segment rose far more than proportionately to consolidated revenue in the reporting period. At €276.0 million, segment revenue after the first two quarters of 2017 was 73.5% higher than in the previous year. Revenue contributed by the acquisitions SYSTEM LOGISTICS and TRANS-MARKET was one reason for the high growth rate. Adjusted for the acquisitions, growth comes to 38.9%. The segment contributed 15.5% of consolidated revenue in the first half (previous year: 10.2%).

After a weak first quarter of 2017, in which revenue declined by 21.9%, revenue in our smallest segment, machines and lines for the compact class, picked up again in the period from April to June. At €61.7 million, segment revenue for the first six months of 2017 was down only 6.7% on the year-earlier period's €66.1 million. We will have to work very hard to achieve our growth target of around 5% for the year 2017 as a whole. The segment's share of consolidated revenue decreased year-on-year, from 4.2% to 3.5%.

Revenue in KRONES' core segment grew robustly in the reporting period. The process technology segment posted dramatic revenue growth, due primarily to acquisitions. Revenue in the compact class segment did not quite match the year-earlier level.

Segment earnings

Earnings in our machines and lines for product filling and decoration segment rose in the first half of 2017 despite the lack of improvement in market prices. Thanks to high capacity utilisation overall and cost savings, earnings before taxes (EBT) rose 12.0% year-on-year, from €105.4 million to €118.1 million. The segment's EBT margin increased from 7.9% a year earlier to 8.2%. We expect the margin for 2017 as a whole to be more or less unchanged from 2016, at around 8%.

KRONES improved profitability in its high-revenue core segment in the first half of 2017.

After posting positive earnings in the first quarter, the machines and lines for beverage production/process technology segment moved into the red in the second quarter of 2017. This was due mostly to the product mix. The acquisition is expected to contribute positive earnings in the year 2017 as a whole. In the period from January to June 2017, earnings before taxes in the process technology segment amounted to –€0.1 million (previous year: –€1.4 million). We still expect the EBT margin for the year 2017 as a whole to be positive at 2% to 3%.

With revenue up in the second quarter, earnings in the machines and lines for the compact class segment also improved over the first quarter. However, second-quarter earnings did not quite make up the large deficit in comparison with the year-earlier period. From January to June 2017, earnings before taxes (EBT) were down 9.1% year-on-year, from €3.3 million to €3.0 million. The EBT margin decreased slightly, from 5.0% to 4.9%. For the year as a whole, the segment's EBT margin is expected to be around 5%.

Product filling and decoration		2017	2016
		1 Jan–30 Jun	1 Jan–30 Jun
EBT	€ million	118.1	105.4
EBT margin	%	8.2	7.9

Beverage production/process technology		2017	2016
		1 Jan–30 Jun	1 Jan–30 Jun
EBT	€ million	–0.1	–1.4
EBT margin	%	0.0	–0.9

Compact class		2017	2016
		1 Jan–30 Jun	1 Jan–30 Jun
EBT	€ million	3.0	3.3
EBT margin	%	4.9	5.0

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 and forecasting.

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 118 through 129 of our 2016 Annual Report. In the period from 1 January to 30 June 2017, there were no material changes with respect to the statements made in the annual report regarding the company's key risks.

Events after the reporting period

No events occurred after the end of the first half that would have impacted our statement of financial position.

KRONES remains confident about the year 2017 as a whole

Despite many political and economic uncertainties, KRONES remains optimistic about the 2017 financial year. The packaging machinery market is growing at a relatively stable pace. Driving this growth are megatrends such as the steady growth of the middle class and increasing urbanisation in the emerging economies. Moreover, food and beverage producers increasingly must rely on innovative packaging solutions to distinguish themselves from the competition.

KRONES intends to improve revenue and earnings in all three segments

Given the competitive nature of our markets, KRONES does not expect prices to improve this year. Launching new products and services and further reducing costs remain important factors in our effort to grow further and increase earnings before taxes in all three segments in 2017. Moreover, KRONES intends to considerably increase its presence worldwide and move even closer to customers.

In our core segment, machines and lines for product filling and decoration, KRONES will reduce costs in 2017. We will expand our international service structures and LCS Centres in the interest of further growth. We are also strengthening our mid-range business – that is, less complex lines with high performance. There is high demand for these lines in the emerging markets. KRONES is projecting slightly lower-than-average revenue growth of 3% in 2017 for our core segment because we are intentionally forgoing low-margin orders. The EBT margin should be around 8%, as in the previous year.

In our process technology segment, we will continue to implement the measures developed in late 2015. This year, we intend to seize upon the considerable growth opportunities in intralogistics, which are also part of the process technology segment. In all, we expect the process technology segment to achieve revenue growth of around 10% and an EBT margin of 2% to 3% this year.

We expect the machines and lines for the compact class segment to achieve revenue growth of around 5% and an EBT margin of at least 5% in 2017.

Outlook for 2017 as a whole affirmed

Because of the strong results achieved in the first half, KRONES' forecast for the year 2017 as a whole remains unchanged. Based on the current macroeconomic prospects and development of the markets relevant to KRONES, we are still targeting consolidated revenue growth of 4% (excluding acquisitions) in 2017. The company's profitability should be stable this year. KRONES expects to achieve an EBT margin of 7.0% in 2017. Our forecast for our third financial performance target, working capital to revenue, is 27% for the current financial year.

After the first half, KRONES is confident it will achieve its targets for 2017.

	Forecast for 2017*	Actual value H1 2017
Revenue growth	+4%	+13.8%
EBT margin	7.0%	6.8%
Working capital to revenue (%) (LTM)	27%	26.3%

* Excluding acquisitions



€ million	2017 1 January – 30 June	2016 1 January – 30 June	Change %
Revenue	1,775.2	1,560.3	+13.8
Changes in inventories of finished goods and work in progress	–59.3	0.5	
Total operating performance	1,715.9	1,560.8	+9.9
Goods and services purchased	–826.2	–749.4	+10.2
Personnel expenses	–540.1	–496.0	+8.9
Other operating income/expenses and own work capitalised	–185.2	–168.2	+10.1
Depreciation and amortisation on fixed assets	–47.3	–43.9	+7.7
EBIT	117.1	103.3	+13.4
Financial income/expense	4.3	4.0	
Profit or loss shares attributable to associates that are accounted for using the equity method	–0.4	–	
Earnings before taxes	121.0	107.3	+12.8
Income tax	–38.6	–32.9	+17.3
Consolidated net income	82.4	74.4	+10.8
Profit attributable to non-controlling interests	–0.9	–0.6	
Profit attributable to KRONES Group shareholders	83.3	75.0	
Earnings per share (diluted/basic) in €	2.64	2.37	
€ million	2017 1 April – 30 June	2016 1 April – 30 June	Change %
Revenue	875.8	788.2	+11.1
Changes in inventories of finished goods and work in progress	–67.7	–5.3	
Total operating performance	808.1	782.9	+3.2
Goods and services purchased	–376.4	–375.0	+0.4
Personnel expenses	–268.6	–253.3	+6.0
Other operating income/expenses and own work capitalised	–85.9	–83.4	+3.0
Depreciation and amortisation on fixed assets	–24.1	–22.1	+9.0
EBIT	53.1	49.1	+8.1
Financial income/expense	2.3	3.1	
Profit or loss shares attributable to associates that are accounted for using the equity method	–0.4	–	
Earnings before taxes	55.0	52.2	+5.4
Income tax	–16.3	–16.2	+0.6
Consolidated net income	38.7	36.0	+7.5
Profit attributable to non-controlling interests	–0.5	–0.2	
Profit attributable to KRONES Group shareholders	39.2	36.2	
Earnings per share (diluted/basic) in €	1.24	1.15	

Condensed consolidated statement of financial position

Assets € million	30 June 2017	31 December 2016
Intangible assets	250.9	238.3
Property, plant and equipment	472.3	481.3
Non-current financial assets	5.9	5.9
Investment accounted for using the equity method	28.2	–
Fixed assets	757.3	725.5
Deferred tax assets	20.6	24.7
Trade receivables	60.9	44.1
Income tax receivables	1.5	1.1
Other assets	3.2	3.1
Non-current assets	843.5	798.5
Inventories	672.7	728.4
Trade receivables	1,076.4	1,036.9
Current income tax receivables	4.7	3.8
Other assets	133.1	134.3
Cash and cash equivalents	190.4	368.9
Current assets	2,077.3	2,272.3
Total	2,920.8	3,070.8

Equity and liabilities € million	30 June 2017	31 December 2016
Equity	1,240.8	1,225.5
Provisions for pensions	219.1	219.1
Deferred tax liabilities	2.3	2.9
Other provisions	50.2	51.7
Provisions for taxes	5.1	5.3
Liabilities to banks	0.0	0.0
Other financial obligations	24.4	26.1
Other liabilities	6.1	2.9
Non-current liabilities	307.2	308.0
Other provisions	180.8	157.8
Provisions for taxes	18.6	21.2
Liabilities to banks	30.0	0.0
Advances received	611.2	615.2
Trade payables	211.4	323.8
Current tax liabilities	0.3	5.3
Other financial obligations	5.5	56.0
Other liabilities and accruals	315.0	358.0
Current liabilities	1,372.8	1,537.3
Total	2,920.8	3,070.8

Condensed consolidated statement of cash flows

€ million	2017 1 January– 30 June	2016 1 January– 30 June
Earnings before taxes	121.0	107.3
Depreciation and amortisation (reversals)	47.3	43.9
Increase (previous year: decrease) in provisions	–19.1	24.2
Deferred tax item changes recognised in profit or loss	–3.5	5.7
Interest expenses and interest income	–2.4	–2.5
Gains and losses from the disposal of fixed assets	–0.1	–0.1
Other non-cash expenses and income	0.6	–0.6
Increase in inventories, trade receivables, and other assets not attributable to investing or financing activities	–24.0	–50.1
Decrease in trade payables and other liabilities not attributable to investing or financing activities	–182.3	–208.8
Cash generated from operating activities	–62.5	–81.0
Interest paid	–0.2	–0.3
Income tax paid and refunds received	–22.2	–41.1
Cash flow from operating activities	–84.9	–122.4
Cash payments to acquire intangible assets	–23.4	–17.0
Cash payments to acquire property, plant and equipment	–22.7	–17.1
Proceeds from the disposal of property, plant and equipment	0.8	0.8
Cash payments to acquire non-current financial assets	–24.7	–3.3
Proceeds from the disposal of non-current financial assets	0.1	0.2
Cash payments to acquire subsidiaries and equity interests	–8.1	–13.7
Interest received	1.5	1.8
Dividends received	1.9	1.5
Cash flow from investing activities	–74.6	–46.8
Cash payments to company owners	–49.0	–45.8
Proceeds from new borrowing	30.0	65.0
Cash flow from financing activities	–19.0	19.2
Net change in cash and cash equivalents	–178.5	–150.0
Change in cash and cash equivalents arising from exchange rates	0.0	0.0
Cash and cash equivalents at the beginning of the period	368.9	364.6
Cash and cash equivalents at the end of the period	190.4	214.6

€ 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	
At 31 December 2015	40.0	141.7	364.5	-7.1	-77.4	649.4	1,111.1	-0.4	1,110.7
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
Remeasurement of defined benefit plans					-0.4		-0.4		-0.4
Hedge accounting incl. AfS					1.2		1.2		1.2
At 30 June 2016	40.0	141.7	364.5	-16.5	-76.6	678.6	1,131.7	-0.1	1,131.6
Consolidated net income H2 2016						95.8	95.8	-1.1	94.7
Allocation to profit reserves			0.5			-0.5	0.0		0.0
Currency differences				19.3			19.3		19.3
Changes in the consolidated group							0.0	-0.9	-0.9
Remeasurement of defined benefit plans					-15.1		-15.1		-15.1
Puttable instruments					-0.8		-0.8		-0.8
Hedge accounting incl. AfS					-3.3		-3.3		-3.3
At 31 December 2016	40.0	141.7	365.0	2.8	-95.8	773.9	1,227.6	-2.1	1,225.5
Dividend payment (€1.55 per share)						-49.0	-49.0		-49.0
Consolidated net income H1 2017						83.3	83.3	-0.9	82.4
Currency differences				-24.0			-24.0		-24.0
Changes in the consolidated group							0.0		0.0
Remeasurement of defined benefit plans					0.2		0.2		0.2
Hedge accounting incl. AfS					5.7		5.7		5.7
At 30 June 2017	40.0	141.7	365.0	-21.2	-89.9	808.2	1,243.8	-3.0	1,240.8

Condensed consolidated interim statement of comprehensive income

€ million	2017 1 January – 30 June	2016 1 January – 30 June
Consolidated net income	82.4	74.4
Items that will not be reclassified subsequently to profit or loss		
Actuarial gains and losses on pensions and similar obligations	0.2	–0.4
	0.2	–0.4
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation	–24.0	–9.4
Derivative financial instruments	5.7	1.2
	–18.3	–8.2
Other comprehensive income	–18.1	–8.6
Total comprehensive income	64.3	65.8
of which attributable to non-controlling interests	–0.9	–0.6
of which attributable to KRONES Group shareholders	65.2	66.4

Notes to the consolidated interim financial statements

Consolidated 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	
	2017 1 Jan –30 June	2016 1 Jan –30 June	2017 1 Jan –30 June	2016 1 Jan –30 June	2017 1 Jan –30 June	2016 1 Jan –30 June	2017 1 Jan –30 June	2016 1 Jan –30 June
Revenue	1,437.5	1,335.1	276.0	159.1	61.7	66.1	1,775.2	1,560.3
EBT	118.1	105.4	–0.1	–1.4	3.0	3.3	121.0	107.3
EBT margin	8.2%	7.9%	0,0%	–0.9%	4.9%	5.0%	6.8%	6.9%
Employees at 30 June*	12,195	11,658	1,553	1,241	530	508	14,278	13,407

* Consolidated group

■ Legal basis

The consolidated interim financial statements of KRONES AG (“KRONES Group”) for the period ended 30 June 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, applicable at the end of the reporting period, including the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) as adopted by the European Union. The consolidated interim financial statements have been prepared in accordance with IAS 34 and are condensed. No early application was made of IFRSs that had not yet entered into force or their interpretations. The consolidated interim financial statements for the period ended 30 June 2017 are unaudited.

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 statement of profit or loss 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.

Where 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 consolidated statement of financial position, the consolidated statement of profit or loss and consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows.

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

■ Consolidated group

Besides KRONES AG, the consolidated interim financial statements for the period ended 30 June 2017 include all material domestic and foreign subsidiaries over which KRONES AG has direct or indirect control.

In 2017, KRONES acquired a 40% direct and indirect stake in Integrated Packaging Systems of Dubai, United Arab Emirates. The company is accounted for using the equity method. KRONES also acquired 100% of ASIA FOOD AND BEVERAGE CONSULTING GROUP, PTE. LTD, and KRONES-IZUMI PROCESSING, PTE. LTD., Singapore, Republic of Singapore.

In addition, PROCESS AND DATA AUTOMATION LLC, Erie, USA, JAVLYN PROCESS SYSTEMS LLC, Rochester, New York, USA, KRONES MYANMAR LTD., Sanchaung, Republic of the Union of Myanmar, and KRONES BANGLADESH LIMITED, Dhaka, Bangladesh were established and acquisition accounting was done to include them in the consolidated group. In 2017, KRONES acquired 100% of the business operations of PROCESS AND DATA AUTOMATION INC., ERIE, USA, and JAVLYN PROCESS SYSTEMS INC., ROCHESTER, NEW YORK, USA, in asset deals. Initial accounting of the acquired equity interest was done as of the acquisition date.

Initial accounting was done as of the acquisition date.

■ Consolidation principles

The separate financial statements of the companies included in the consolidated interim 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 interim financial statements.

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

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

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

Companies over which KRONES has the ability to exercise significant influence, that is, to participate in operating and financial policy decisions (generally by indirectly or directly holding between 20% and 50% of the voting shares), are accounted for using the equity method and initially recognised at cost. Any excess of the cost of the investment over KRONES’ share of the net fair value of the associate’s identifiable assets and liabilities is adjusted on a fair-value basis and the remaining amount is recognised as goodwill. Goodwill relating to the 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 made 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 interim financial statements, assets and liabilities are therefore translated at the closing rate as at the end of the reporting period, while income and expenses from the financial statements of subsidiaries are translated at average annual rates.

Any exchange differences resulting from translation using these different rates in the statement of financial position and the statement of profit or loss 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 2017	31 Dec 2016	2017	2016
us dollar	USD	1.140	1.056	1.082	1.116
British Pound	GBP	0.879	0.859	0.860	0.778
Swiss franc	CHF	1.093	1.075	1.076	1.096
Danish krone	DKK	7.436	7.435	7.437	7.450
Canadian dollar	CAD	1.480	1.422	1.445	1.486
Japanese yen	JPY	127.720	123.510	121.654	124.679
Brazilian real	BRL	3.768	3.437	3.441	4.136
Chinese renminbi (yuan)	CNY	7.725	7.325	7.441	7.294
Mexican peso	MXN	20.583	21.842	21.025	20.151
Ukrainian hryvnia	UAH	29.739	28.617	28.971	28.409
South African rand	ZAR	14.897	14.469	14.300	17.205
Kenyan shilling	KES	118.304	108.289	111.852	113.264
Nigerian naira	NGN	358.900	321.750	340.961	266.215
Russian ruble	RUB	67.538	64.682	62.732	78.216
Thai baht	THB	38.717	37.797	37.573	39.575
Indonesian rupiah	IDR	15,197.100	14,226.500	14,426.277	14,977.574
Angolan kwanza	AOA	189.190	175.028	179.558	178.888
Turkish lira	TRY	4.010	3.727	3.934	3.260
Kazakhstan tenge	KZT	367.270	352.360	344.988	385.514
Australian dollar	AUD	1.484	1.461	1.436	1.492
New Zealand dollar	NZD	1.556	1.516	1.530	1.649
Swedish krona	SEK	9.643	9.567	9.598	9.300
Vietnamese Dong	VND	25,920.000	24,045.000	24,562.792	24,932.498
Philippine peso	PHP	57.556	52.272	54.019	52.329
Bangladeshi taka	BDT	91.901	81.072	87.066	87.578
Singapore dollar	SGD	1.569	1.523	1.520	1.541
Myanmar kyat	MMK	1,557.620	1,411.330	1,474.603	1,358.463
United Arab Emirates dirham	AED	4.188	3.869	3.975	4.099

■ 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 consolidated interim financial statements are the same as those used for the financial statements prepared for the period ended 31 December 2016.

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

■ Intangible assets

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

■ Research and development expenditure

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

■ Goodwill

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

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

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

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

■ Property, plant and equipment

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

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

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

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

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

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

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

■ Leases

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

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

■ Financial instruments

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

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

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

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

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

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

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

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

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

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

■ Non-current financial assets

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

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

■ Derivative financial instruments

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

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

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

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

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

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

They are derecognised/reclassified when the corresponding hedged items are recognised in the statement of financial position.

■ Receivables and other assets

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

■ Inventories

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

Selling costs and general administrative costs are not 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 and for software projects corresponds to the ratio of contract costs incurred up to the end of the reporting period to the total costs calculated for the assembly and installation portion or software project. Construction contracts that are ongoing at the end of the reporting period are recognised under trade receivables.

■ Income tax

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

eration 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 consolidated other comprehensive income, OCI). The statement of profit or loss 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. 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.

■ Transactions with related parties

Transactions with related parties have no material impact on the earnings, cash flows, assets and liabilities in these consolidated interim financial statements.

“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 2017



Christoph Klenk
CEO



Michael Andersen
CFO



Rainulf Diepold



Thomas Ricker



Markus Tischer



Ralf Goldbrunner

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
TILL GmbH, Hofheim, Germany	50.97
GERNEP GmbH Etikettiertechnik, Barbing, Germany	100.00
MILKRON GmbH, Laatzen, Germany (formerly KPC-PROCESSING GMBH, Neutraubling)	100.00
KRONES Beteiligungsgesellschaft mbH, Neutraubling, Germany	100.00
S.A. KRONES N.V., Louvain-la-Neuve, Belgium	100.00
MAINTEC Service eood, Sofia, Bulgaria	100.00
KRONES Nordic ApS, Holte, Denmark	100.00
KRONES S.A.R.L., Lyon, 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, 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., Barcelona, Spain	100.00
SYSTEM LOGISTICS SPAIN SL, Castellon, Spain	60.00
KRONES S.R.O., Prague, Czech Republic	100.00
KONPLAN Immobiliengesellschaft s.r.o., Pilsen, Czech Republic	100.00
KONPLAN S.R.O., Pilsen, Czech Republic	100.00
KRONES Makina Sanayi ve Tikaret Ltd. Sirketi, Istanbul, Turkey	100.00
KRONES Ukraine LLC, Kiev, Ukraine	100.00

Name and location of the company	Share in capital held by KRONES AG (%*)
KRONES Angola – Representacoes, Comercio e Industria, Lda., Luanda, Angola	100.00
KRONES Surlatina s. A., Buenos Aires, Argentina	100.00
KRONES PACIFIC PTY LIMITED, Sydney, Australia	100.00
KRONES BANGLADESH LIMITED, Dhaka, Bangladesh	100.00
KRONES do Brazil Ltda., São Paulo, Brazil	100.00
KRONES s. A., São Paulo, Brazil	100.00
KRONES CHILE SpA., Santiago de Chile, Chile	100.00
KRONES Sales (Beijing) Co. Ltd., Beijing, China	100.00
KRONES Machinery (Taicang) Co. Ltd., Taicang, China	100.00
KRONES Trading (Taicang) Co. Ltd., Taicang, China	100.00
KRONES Asia Ltd., 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
SYSTEMLOG DE MEXICO S.A. DE C.V., Nuevo Leon, Mexico	60.00
KRONES MYANMAR LTD., Sanchaung Township, Republic of the Union Myanmar	100.00
KRONES New Zealand Limited, Auckland, New Zealand	100.00
KRONES LCS Center West Africa Limited, Lagos, Nigeria	100.00
KRONES Filipinas Inc., Taguig City, the Philippines	100.00
KRONES SINGAPUR LTD., Singapore, Republic of Singapore (formerly Asia Food and Beverage Consulting Group PTE Ltd.)	100.00
KRONES-IZUMI PROCESSING PTE. LTD., Singapore, Republic of Singapore	59.80
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
TRANS-MARKET LLC, Tampa, USA	80.00
PROCESS AND DATA AUTOMATION, LLC, Erie, USA	100.00
JAVLYN PROCESS SYSTEMS LLC, Rochester, USA	100.00
MAQUINARIAS KRONES de Venezuela s. A., Caracas, Venezuela	100.00
INTEGRATED PACKAGING SYSTEMS (IPS) FZCO, Dubai, United Arab Emirates	40.00
KRONES Vietnam Co. Ltd., Ho Chi Minh City, Vietnam	100.00

*Direct and indirect shareholdings

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

Members of the Supervisory Board and the Executive Board

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

Volker Kronseder

Chairman of the Supervisory Board

* UNIVERSITY CLINIC
REGENSBURG

* BAYERNLB ECONOMIC
ADVISORY COUNCIL

Werner Schrödl**

Chairman of the Group Works
Council

Chairman of the Central Works
Council

Deputy Chairman of the
Supervisory Board

* ADVISORY BOARD OF BAYERISCHE
BETRIEBSKRANKENKASSEN

Klaus Gerlach**

Head of Central International
Operations and Services

Norman Kronseder

Farmer and forester

* BAYERISCHE FUTTERSAATBAU
GMBH

Philipp Graf

von und zu Lerchenfeld

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

Professor Dr. jur. Susanne Nonnast

Professor at Regensburg University
of Applied Sciences

Dr. Verena Di Pasquale**

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

Beate Eva Maria Pöpperl**

Member of the Works Council
since 20 June 2017

Johann Robold**

Member of the Works Council
until 20 June 2017

Petra Schadeberg-Herrmann

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

* CHOCOLADEFABRIKEN LINDT &
SPRÜNGLI AG

Jürgen Scholz**

1st authorised representative of the
IG METALL office in Regensburg

* INFINEON TECHNOLOGIES AG

Hans-Jürgen Thaus

* HAWE HYDRAULIK SE

* MASCHINENFABRIK RHEINHAUSEN
GMBH

* KURTZ HOLDING GMBH &
BETEILIGUNGS KG

Josef Weitzer**

Deputy Chairman of the
Group Works Council

Deputy Chairman of the
Central Works Council

Chairman of the Works
Council in Neutraubling

* SPARKASSE REGENSBURG

Executive Board

Christoph Klenk

CEO

Human Resources,
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.

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.
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.
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)

Financial calendar

25 October 2017 Quarterly statement for the
period ended 30 September 2017

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 **KRONES**