



Q3

Interim report for the period from
1 January to 30 September 2014

 **KRONES**

Contents

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

Consolidated management report

- 6 Economic environment
- 7 Revenue
- 9 New orders and orders on hand
- 10 Earnings
- 13 Cash flow
- 14 Employees
- 15 Assets and capital structure
- 17 Report from the segments
- 19 Risk report
- 20 Report on expected developments

Consolidated interim financial statements for the period ended 30 September 2014

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

Notes to the consolidated financial statements of the KRONES Group

- 28 General disclosures
- 37 Shareholdings
- 38 Members of the Supervisory Board
and the Executive Board
- 39 Glossary
- 40 Financial calendar
- Publication credits
- Contact

Highlights and key figures

KRONES is right on target after the first three quarters.

- Revenue up 6.5% to €2,164.4 million at the end of nine months.
- KRONES further improves profitability. EBT margin climbs from 5.8% to 6.3%.
- KRONES streamlines KOSME Italy's portfolio.
- KRONES is optimistic about achieving its targets for 2014.

Key figures for 1 January – 30 September		1 Jan – 30 Sep 2014	1 Jan – 30 Sep 2013	Change
Revenue	€ million	2,164.4	2,032.9	+6.5%
New orders	€ million	2,197.8	2,103.8	+4.5%
Orders on hand at 30 September	€ million	1,025.8	1,070.2	-4.1%
EBITDA	€ million	196.7	175.8	+11.9%
EBIT	€ million	132.9	116.3	+14.3%
EBT	€ million	136.7	117.1	+16.7%
EBT margin	%	6.3	5.8	-
Net income	€ million	95.1	81.7	+16.4%
Earnings per share	€	3.01	2.64	+14.0%
Capital expenditure for PP&E and intangible assets	€ million	49.6	57.7	-€ million 8.1
Free cash flow	€ million	+30.4	-62.6	+€ million 93.0
Net cash and cash equivalents 30 September	€ million	207.1	121.8	+€ million 85.3
ROCE (liabilities side)	%	16.1	15.3	-
ROCE (assets side)	%	13.6	12.6	-
Employees at 30 September				
Worldwide		12,586	12,227	+359
Germany		9,264	9,078	+186
Outside Germany		3,322	3,149	+173

Key figures for Q3		1 Jul – 30 Sep 2014	1 Jul – 30 Sep 2013	Change
Revenue	€ million	728.9	655.4	+11.2%
New orders	€ million	735.9	721.0	+2.1%
EBITDA	€ million	68.9	59.0	+16.8%
EBIT	€ million	46.8	38.0	+23.2%
EBT	€ million	47.3	37.4	+26.5%
EBT margin	%	6.5	5.7	-
Net income	€ million	32.7	26.1	+25.3%
Earnings per share	€	1.03	0.83	+24.1%

Dear shareholders and friends of **KRONES**,

A year ago, we reported to you here about the very successful drinktec trade fair. The **KRONES** team has been able to ride the momentum from drinktec and our business figures after the first nine months are right on target for 2014.

KRONES' positive business development can be attributed to our Value strategy programme, which we are successfully implementing in collaboration with our staff. The more volatile the markets become, the more important the Value programme and its four pillars of *innovation*, *growth*, *profitability*, and *quality* are becoming. The present situation is a far cry from stable recovery. Geopolitical uncertainties in Ukraine and the Middle East are leaving their mark on the economy. The situation has prompted both the IMF and the VDMA to revise downward their 2014 forecasts for global economic growth and the machinery sector, respectively. The Ebola epidemic in Africa also still holds considerable potential risk, particularly since the continent has become an important growth driver – for **KRONES**, too.

Our strong international presence has enabled us to mitigate volatilities in individual markets. Our new corporate structure has also increased our internal flexibility considerably. In the medium and long terms, we benefit from rising demand for packaged beverages as a result of various megatrends, including the growing middle class and urbanisation.

But the markets are becoming increasingly demanding. To meet those demands, we have to do our homework – every day. The challenge spurs us on. The markets are without a doubt offering us an opportunity and together we intend to use it. For that reason, we are confident that we will achieve our goals for 2014 and continue to grow profitably in 2015.



Volker Kronseder
Chairman of the Executive Board

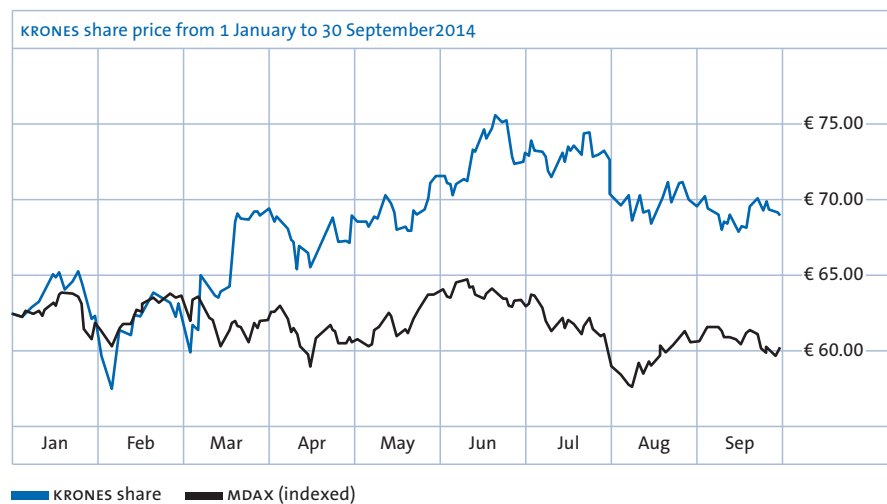
KRONES' share price rose 10.3% in the first three quarters.

Geopolitical tensions such as the crises in Ukraine and the Middle East and increasing bad news from the business world weighed on share prices on the German stock exchanges in the third quarter of 2014. The DAX lost 3.7% in the period from July to September, thus cancelling out all of the gains Germany's blue-chip index had accumulated in the first half. The DAX closed September at 9,474 points, down 0.8% from the start of the year. The MDAX fared even worse. The mid-cap index dropped 3.5% in the first nine months.

The world's major stock markets fared slightly better. In the USA, the progressive improvement of the economic environment supported share prices. The Dow rose 1.3% in the period from July to September. The index's gain for the first nine months of 2014 came to 2.8%. Japan's Nikkei index put in a strong quarter as a weak Yen bolstered the country's export business. The Nikkei gained 6.7% in the third quarter, almost making up for its first-half losses. At the end of the third quarter of 2014, the Euro Stoxx 50 index was up 3.8% from the start of the year.

The KRONES share followed the MDAX downward, shedding 4.9% in the third quarter. Thus, our share gave up a portion of the strong gains achieved in the first half. However, the bottom line at the end of nine months is very good. In the period from January to September 2014, KRONES' share price advanced 10.3% to €68.86. Including the dividend of €2.00 per share, the improvement came to 13.3%. With that, the KRONES share was among the top 10 performers in the MDAX. The share price reflects the company's strong operating performance.

On 17 September, KRONES hosted an analyst meeting at its Rosenheim plant. Some 20 financial market experts attended. The meeting's focus was on packing and palletising technology, which is expected to achieve higher-than-average growth. Aside from the theory portion, the analysts were given a tour of the plant, which afforded them a look into the individual production steps involved in packing and palletising.



The KRONES share far outperformed the MDAX in the period from January through September 2014.

Increasing risks for the world economy

The overall economic prospects for 2014 are still relatively good. However, according to the International Monetary Fund (IMF), the risks for the world economy have increased in recent months. The IMF therefore lowered its global growth forecast for 2014 from 3.4% to 3.3% in October. At the start of the year, the IMF was still predicting 3.7% growth. The threats that the experts are now warning about include geopolitical crises and overheating financial and capital markets. The spectre of a renewed euro crisis also looms.

That has prompted the IMF to take a sceptical view of euro zone prospects. The economists have lowered their 2014 forecast for GDP growth in the common currency area from 1.1% to 0.8%. The downward revision for the German economy was especially sharp. The IMF lowered its growth forecast for German GDP from 1.9% to 1.4%. On the other hand, experts have become far more optimistic about the US economy. The IMF expects the world's biggest economy to grow its GDP by 2.2% in 2014. In July, US growth was forecast at just 1.7%.

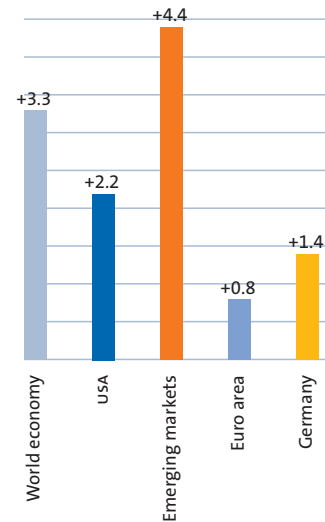
Prospects are looking considerably dimmer in the emerging markets, particularly in Latin America. By contrast, the assessment of the economic situation in Asia is largely unchanged. The IMF is still forecasting 7.4% GDP growth for China in 2014 and has raised its forecast for India's economy from 5.4% to 5.6%. Overall, IMF economists have lowered their 2014 growth forecast for the emerging markets slightly, from 4.5% to 4.4%.

Output in German machinery sector to increase only slightly

The latest new-orders figures in the German machinery sector were underwhelming. In August 2014, the value of incoming orders was stagnant year-on-year. While new domestic orders rose 19%, orders from abroad declined 9%. According to the VDMA (German Engineering Federation), both figures were influenced by the baseline figures from the previous years. A less volatile three-month comparison of the period from June to August 2014 shows a 3% increase in new orders year-on-year. Both domestic and export orders were up 3%.

Because orders intake is not really picking up and the overall economic risks have increased, the VDMA in August lowered its output forecast for the year 2014 as a whole. Instead of the previous 3%, the expectation is now that 2014 output will exceed the previous year by only one percent. The food and packaging machinery subsector, which is relevant for KRONES, is expected to develop better than the industry as a whole.

Economic growth in 2014
over previous year (%)
(IMF forecast)

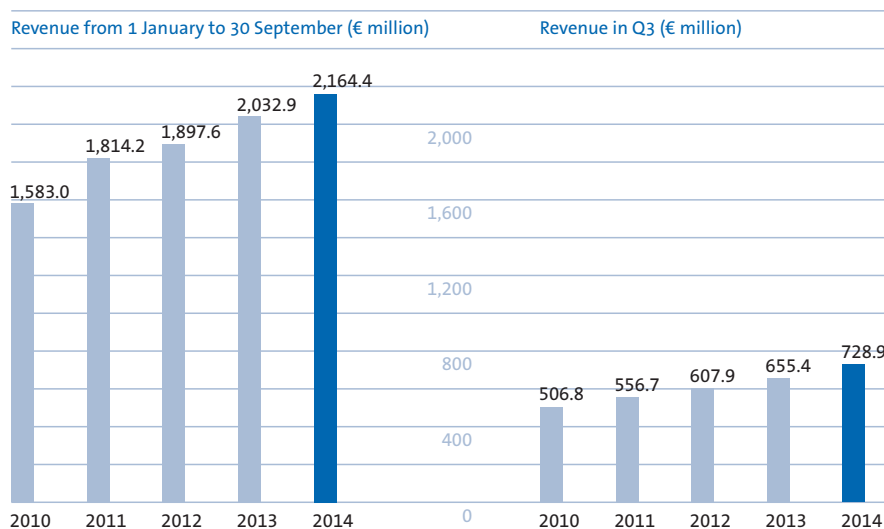


The German Engineering Federation (VDMA) has lowered its output forecast for 2014.

KRONES growing as planned

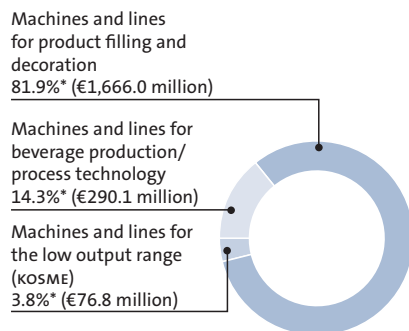
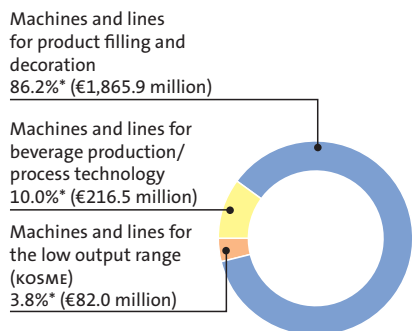
The general economic conditions continued to deteriorate in the third quarter of 2014. KRONES' business remained unaffected. Despite the competitive environment, the company increased revenue by 11.2% year-on-year in the period from July to September 2014, from €655.4million to €728.9 million. With that, growth was up over the first two quarters of 2014. The company benefited from its international diversification and its leading position on the emerging markets.

KRONES' growth in the third quarter of 2014 was up over the first two quarters.



KRONES' revenue for the first nine months of 2014 was up 6.5% year-on-year, from €2,032.9 million to €2,164.4 million. Revenue growth was particularly strong in the regions Asia-Pacific, South America/Mexico, and China. As a full-service supplier, we were able to offset temporary shifts in demand in parts of our new machinery business. Our service business developed well and contributed a large part of the company's growth. After the end of the first three quarters, we are confident that we will achieve our growth target of 4% for the year as a whole.

Revenue by segment from 1 Jan to 30 Sep 2014 Revenue by segment from 1 Jan to 30 Sep 2013



* Share of consolidated revenue of €2,164,4 million

* Share of consolidated revenue of €2,032.9 million

Revenue by region

Despite the very high year-earlier level, the decline in revenue in Germany was limited in the first nine months of 2014. Revenue in our home market was down 7.3% year-on-year to €189.2 million. Domestic revenue accounted for 8.7% of consolidated revenue in the reporting period (previous year: 10.0%).

Business in Europe (excluding Germany) developed well overall in the first three quarters of 2014. The highest percentage revenue growth was in Central Europe (Austria, Switzerland, and the Netherlands) and in Russia/CIS. Revenue was up 6.4% in Western Europe in the period from January to September thanks to a strong third quarter. Revenue in Eastern Europe was down slightly year-on-year. In all, revenue in Europe (excluding Germany) was up 14.2% year-on-year in the first nine months of 2014, from €515.4 million to €588.5 million. That corresponds to a 27.2% share of consolidated revenue (previous year: 25.4%).

After large revenue declines in the first and second quarters, business in the Middle East/Africa region picked up slightly in the third quarter. On a nine-month basis, revenue in the region was down 22.6% year-on-year to €272.6 million. As we expected, revenue in China increased further in the third quarter. In the first nine months of 2014, revenue in China increased by 17.1% overall, to €213.8 million. Revenue in the rest of the Asia-Pacific region was up a strong 46.4% to €409.8 million in the first three quarters. The improvement was due in part to strong demand for KRONES products and services in Japan. The company's revenue in the South America/Mexico region was up 16.0% year-on-year in the first nine months of 2014 to €302.8 million despite the difficult macroeconomic environment. In the North and Central America region contracted 21.1% to €187.7 million. We do not expect business there to pick up significantly until next year.

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

KRONES generated 62.4% of consolidated revenue in the emerging markets in the first three quarters (previous year: 59.0%).

KRONES Group revenue by region

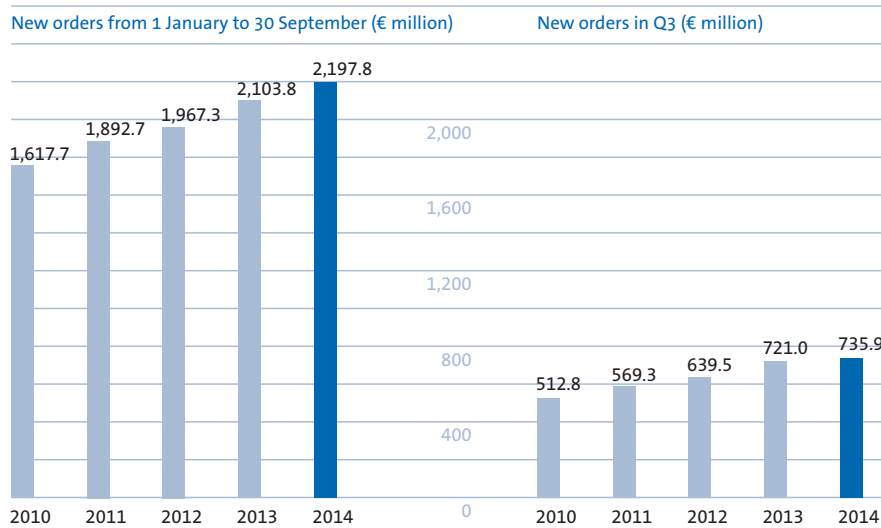
Share of consolidated revenue	30 September 2014		30 September 2013		Change
	€ million	%	€ million	%	
Germany	189.2	8.7	204.0	10.0	-7.3
Central Europe (excluding Germany)	70.5	3.3	47.5	2.3	+48.4
Western Europe	366.2	16.9	344.3	16.9	+6.4
Eastern Europe	62.0	2.9	63.9	3.1	-3.0
Russia, Central Asia (CIS)	89.8	4.1	59.7	2.9	+50.4
Middle East/Africa	272.6	12.6	352.0	17.5	-22.6
Asia-Pacific	409.8	18.9	279.9	13.8	+46.4
China	213.8	9.9	182.6	9.0	+17.1
South America/Mexico	302.8	14.0	261.0	12.8	+16.0
North and Central America	187.7	8.7	238.0	11.7	-21.1
Total	2,164.4	100.0	2,032.9	100.0	+6.5

New orders remain strong

In the period from July to September 2014, KRONES won new orders with a total contract value of €735.9 million. That is up 2.1% over the new orders volume achieved in the “drinktec-driven” previous year. The continued resurgence in demand for KRONES products and services in China in the third quarter had a positive impact here. Orders in the Middle East/Africa, Asia-Pacific, and Central Europe sales regions remained strong and stable.

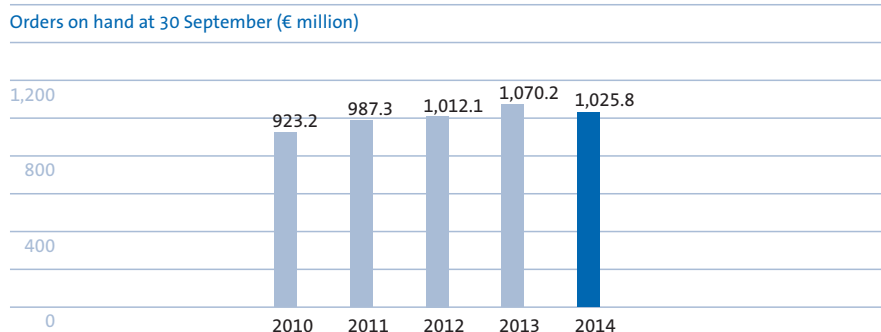
New orders at KRONES exceeded revenue after the first three quarters.

New orders in the first nine months of 2014 were up 4.5% year-on-year, from €2,103.8 million to €2,197.8 million. Overall, we achieved the strongest growth in the emerging markets in the nine-month period. New orders growth for the year 2014 as a whole will likely be on par with revenue growth.



Orders on hand still over the billion-euro mark

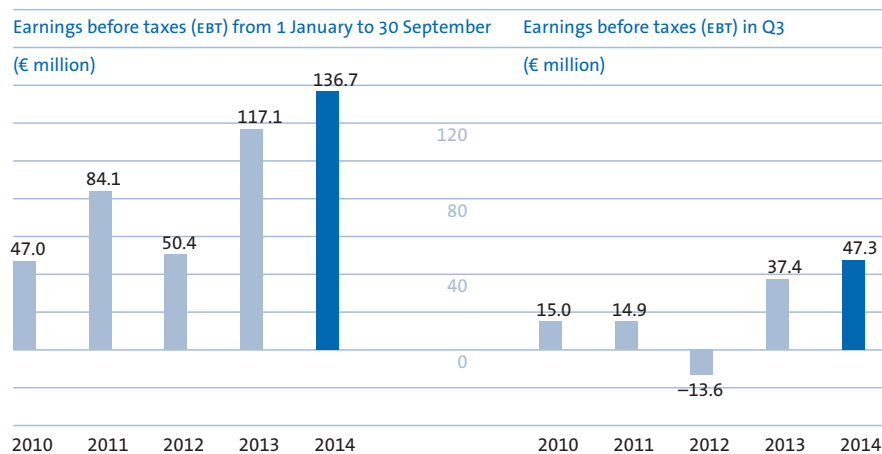
At the end of September 2014, orders on hand at KRONES totalled €1,025.8 million. That is down slightly from the year-earlier figure of €1,070.2 million but up from the end of the first half of 2014 (€1,018.8 million). In all, the comfortable orders backlog improves the company’s planning security and serves as a solid basis for balancing capacity utilisation in the months ahead.



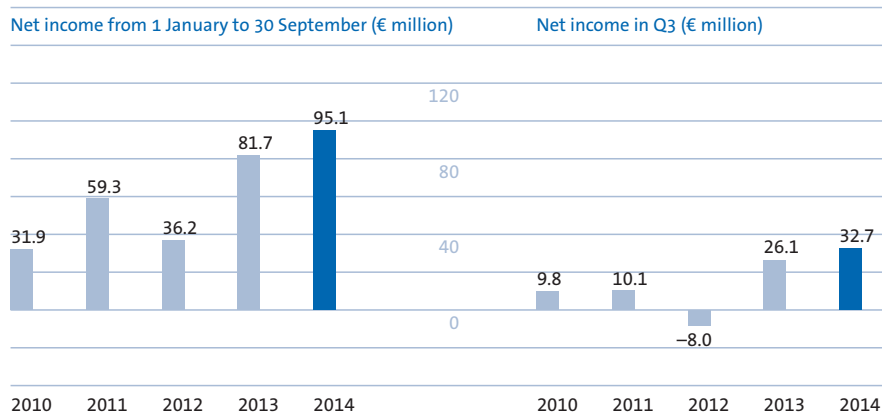
KRONES is increasing its profitability

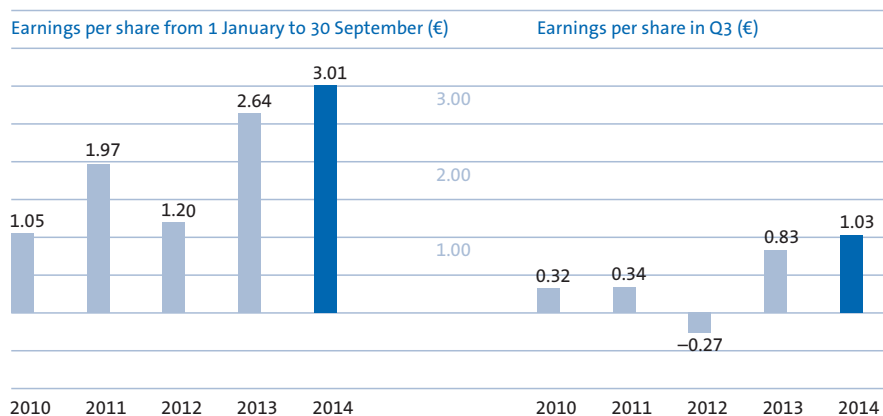
KRONES' earnings performance improved in the third quarter of 2014 as the measures of the Value strategy programme have increasingly taken hold. As expected, prices yielded no positive effects. In the period from July to September 2014, earnings before taxes (EBT) rose 26.5% year-on-year, from €37.4 million to €47.3 million. Third-quarter earnings were burdened by a provision in the mid-single digit millions of euros for the restructuring of KOSME Italy. EBT was positively impacted to roughly the same extent by the reversal of a provision for the now-concluded legal disputes in the USA. The EBT margin, the ratio of earnings before taxes to revenue, improved from 5.7% in the previous year to 6.5% in the third quarter of 2014.

KRONES further increased earnings performance in the third quarter thanks to actions taken under the Value programme.



Consolidated net income improved 25.3% year-on-year in the third quarter of 2014 to €32.7 million. That corresponds to earnings per share of €1.03 (previous year: €0.83).





EBT for the first three quarters of 2014 was up 16.7% year-on-year, from €117.1 million to €136.7 million. Thanks to the progress of the Value programme, the EBT margin improved from 5.8% to 6.3%. After taxes, net income for the period from January to September 2014 was up 16.4% on the year-earlier period to €95.1 million. Earnings per share rose from €2.64 to €3.01 in the nine-month period.

KRONES Group earnings structure

	2014 1 Jan–30 Sep	2013 1 Jan–30 Sep	Change
Revenue	2,164.4	2,032.9	+6.5%
Changes in inventories of finished goods and work in progress	-29.2	5.8	-
Total operating performance	2,135.2	2,038.7	+4.7%
Goods and services purchased	-1,046.1	-1,011.5	+3.4%
Personnel expenses	-647.0	-608.9	+6.3%
Other operating income (expenses) and own work capitalised	-245.4	-242.5	+1.2%
EBITDA	196.7	175.8	+11.9%
Depreciation and amortisation on non-current assets	-63.8	-59.5	+7.2%
EBIT	132.9	116.3	+14.3%
Financial income	3.8	0.8	-
EBT	136.7	117.1	+16.7%
Income tax	-41.6	-35.4	+17.5%
Consolidated net income	95.1	81.7	+16.4%

KRONES' total operating performance increased 4.7% over the year-earlier period in the first three quarters of 2014, to €2,135.2 million. That was slightly less than the increase in revenue (6.5%) because inventories of finished goods and work in progress were down by €29.2 million in the reporting period.

The company was able to further increase operating earnings as planned. Successful implementation of the Value strategy programme contributed a crucial part of the improvement. The actions taken include a shift toward increasingly local procurement and expansion of the modular design concept to a growing number of machines and systems. These changes had a positive impact on expenditure for goods and services purchased, which increased far less than revenue and total operating performance in the first nine months of 2014 (3.4% year-on-year to €1,046.1 million from €1,011.5 million in the previous year). The ratio of spending for goods and services purchased to total operating performance declined year-on-year from 49.6% to 49.0% in the reporting period.

Personnel expenses were up 6.3% in the first three quarters of 2014, from €608.9 million in the previous year to €647.0 million. While KRONES was able to reduce costs through more efficient production processes, the increase in pay rates in the metal industry had a negative impact on this expense item. A provision in the mid-single-digit millions range for staff reductions at KOSME Italy in the third quarter of 2014 also pushed personnel expenses higher. In all, the ratio of personnel expenses to total operating performance increased only slightly, from 29.9% in the year-earlier period to 30.3%, in the first nine months of 2014.

While the ratio of expenses for goods and services purchased to total operating performance was down, the ratio of personnel expenses to total operating performance was up slightly as a result of the increased pay rates.

The net of other operating income and expenses and own work capitalised increased less than proportionately, by 1.2% from –€242.5 million to –€245.4 million). The fact that KRONES was able to reverse the provision for the now-concluded legal disputes in the USA in the third quarter had a positive effect here. At €63.8 million, depreciation and amortisation of non-current assets in the first nine months of 2014 were up 7.2% on the year-earlier figure (€59.5 million). That reflects the high level of KRONES' capital expenditure in previous years.

Earnings before interest and taxes (EBIT) in the first three quarters improved by 14.3%, from €116.3 million in the previous year to €132.9 million. With financial income of €3.8 million, which is higher than in the previous year (€0.8 million), earnings before taxes (EBT) were up 16.7% to €136.7 million, a stronger increase than EBIT. The EBT margin, the ratio of earnings before taxes to revenue, improved from 5.8% in the previous year to 6.3% in the period from January to September 2014. At 30.4% KRONES' tax rate was largely unchanged year-on-year in the reporting period (previous year: 30.2%). As a result, consolidated net income in the first nine months of 2014 was up 16.4% to €95.1 million (previous year: €81.7 million), a rate of improvement similar to that of EBT.

KRONES Group consolidated cash flow

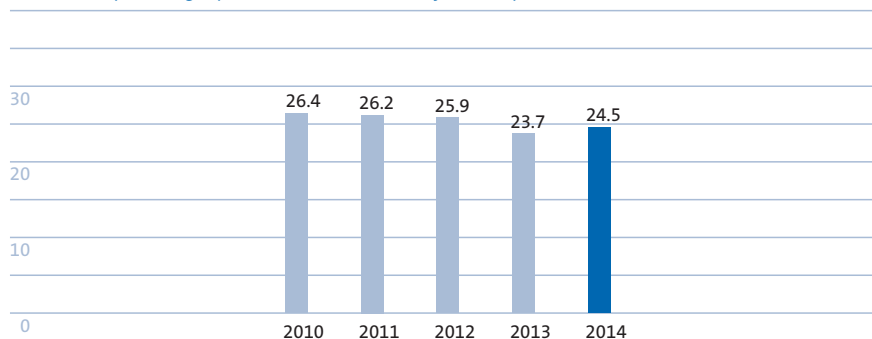
€ million	2014	2013	Change € million
	1 Jan–30 Sep	1 Jan–30 Sep	
Earnings before taxes	+136.7	+117.1	+19.6
Non-cash expenses and income	+128.9	+126.7	+2.2
Changes in working capital	–161.1	–229.7	+68.6
Other (primarily income taxes)	–24.6	–19.0	–5.6
Cash flow from operating activities	+79.9	–4.9	+84.8
Capital expenditure for intangible assets and property, plant and equipment	–49.6	–57.7	+8.1
Other	+0.1	±0	+0.1
Free cash flow	+30.4	–62.6	+93.0
Cash flow from financing activities	–63.4	+51.4	–114.8
Change in cash and cash equivalents arising from exchange rates	+0.2	+0.1	+0.1
Net change in cash and cash equivalents	–32.8	–11.1	–21.7
Cash and cash equivalents at the end of the period	207.1	121.8	+85.3

In the period from January to September 2014, KRONES' cash flow from operating activities improved by €84.8 million over the year-earlier period, from –€4.9 million to €79.9 million. That was due to the higher earnings before taxes and the development of working capital. While the company had built up €229.7 million in working capital in the previous year, working capital came to just €161.1 million in the reporting period. The ratio of average working capital for the past four quarters to revenue came to 24.5%, after 23.7% in the year-earlier period.

KRONES' free cash flow improved, from –€62.6 million in the year-earlier period to €30.4 million in the first three quarters of 2014.

KRONES invested €49.6 million in intangible assets and property, plant and equipment in the first nine months of the year (previous year: €57.7 million). That reflects the planned reduction in capital expenditure. KRONES' free cash flow (net cash generated from operating activities) improved by €93.0 million in the first three quarters of 2014, from –€62.6 million to €30.4 million. That puts us well on our way towards our target of generating free cash flow at roughly the same level as in 2013 (€67.0 million) for the year 2014 as a whole.

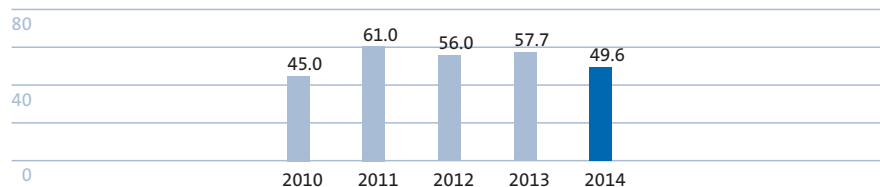
KRONES Group working capital to sales from 1 January to 30 September (%) (LTM)



The ratio of average working capital for the past four quarters to sales revenue was down from 23.7% in the previous year to 24.5%.

In all, cash flow from financing activities in the first nine months of 2014 decreased by €114.8 million to –€63.4 million, from €51.4 million in the year-earlier period. The main factors here were the exceptionally high dividend payout (including a “special dividend”) of €63.2 million that KRONES made in the reporting period (previous year: €23.7 million) and the €73.7 million in proceeds from the sale of treasury shares in the year-earlier period. All told, KRONES had cash and cash equivalents of €207.1 million at 30 September 2013 (previous year: €121.8 million).

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



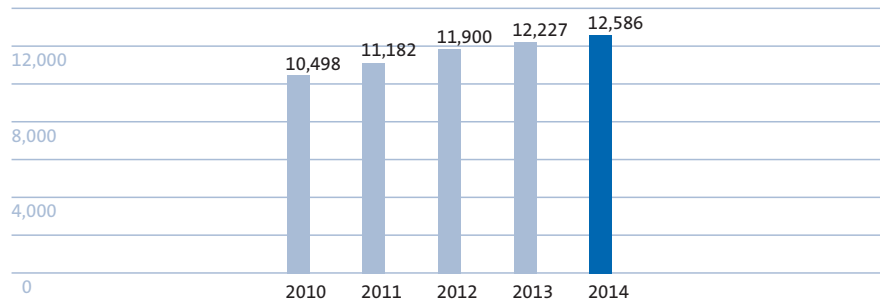
Employees

KRONES is growing its workforce in Germany and abroad

KRONES' growth is also reflected in our workforce. At the end of September 2014, the company employed 12,586 people, 359 more than in the previous year. The number of people employed outside Germany was up by 173 year-on-year, to 3,322. We have been expanding our workforce abroad in order to move closer to our customers worldwide and further improve our service. In Germany, our workforce grew by 186 to 9,264. In September, 150 young people stepped into career paths at KRONES. At the end of the third quarter, the total number of apprentices and trainees was 528.

In all, KRONES grew its workforce by 359 year-on-year.

KRONES employees worldwide at 30 September



KRONES Group asset and capital structure

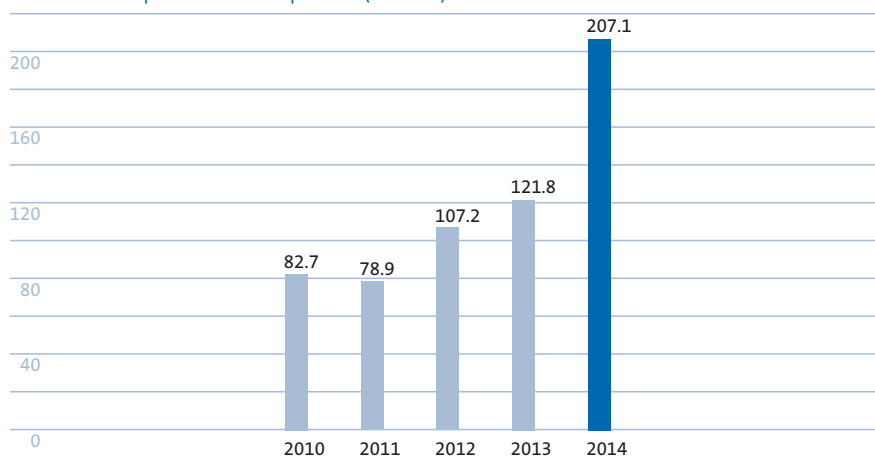
€ million	30 Sep 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011
Non-current assets	655	642	625	603
of which fixed assets	600	605	587	555
Current assets	1,664	1,596	1,445	1,443
of which cash and equivalents	207	240	133	125
Equity	960	954	798	763
Total debt	1,359	1,284	1,272	1,283
Non-current liabilities	247	213	193	162
Current liabilities	1,112	1,071	1,079	1,121
Total	2,319	2,238	2,070	2,046

Total assets came to €2,318.8 million at 30 September 2014, up 3.6% from the end of 2013 on higher business volume.

Trade receivables increased in the reporting period while inventories decreased slightly.

At the end of the first nine months, the company had non-current assets totalling €654.9 million (31 December 2013: €641.8 million). Within this figure, property, plant and equipment, intangible assets, and non-current financial assets (referred to collectively as “fixed assets” in this report) totalled €600.4 million (31 December 2013: €605.1 million), of which €463.8 million were property, plant and equipment. Intangible assets, which consist primarily of development costs that must be capitalised, were up to €134.5 million after the first three quarters (31 December 2013: €128.2 million).

Cash and cash equivalents at 30 September (€ million)



At the end of the reporting period, current assets totalled €1,663.9 million, which is 4.2% more than at 31 December 2013 (€1,596.3 million). While trade receivables increased from €610.9 million to €708.2 million, inventories decreased by €2.0 million to €639.0 million. Cash and cash equivalents decreased from €239.9 million to €207.1 million in the reporting period.

On the liabilities side, KRONES' non-current liabilities came to €246.9 million at 30 September 2014 (31 December 2013: €213.2 million). These consist largely of provisions for pensions. The company had no non-current bank debt at 30 September.

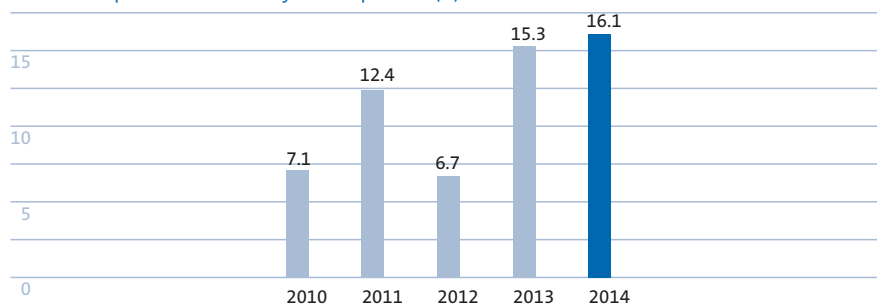
Current liabilities were up by €41.4 million compared with the end of the year 2013, to €1,112.1 million. KRONES had no current bank debt after the first three quarters. The company's net cash and cash equivalents (cash and cash equivalents less bank debt) amounted to €207.1 million at the end of September 2014.

Despite the positive consolidated earnings after nine months, equity improved only slightly in the reporting period, from €954.2 million to €959.8 million. The high dividend payout to shareholders, which included a one-time "special dividend", was the reason the increase was small. Our equity ratio was 41.4% at 30 September 2014 (31 December 2013: 42.6%). Thus, KRONES still has an extremely robust financial and capital structure overall.

ROCE improved to 16.1%

KRONES increased its return on capital employed (ROCE), that is the ratio of EBIT to average net tied-up capital, to 16.1% in the reporting period (previous year: 15.3%). The dramatic improvement in EBIT (+14.3%) was primarily responsible for the increase. We are confident that we will achieve our ROCE target of more than 16% for the year 2014 as a whole.

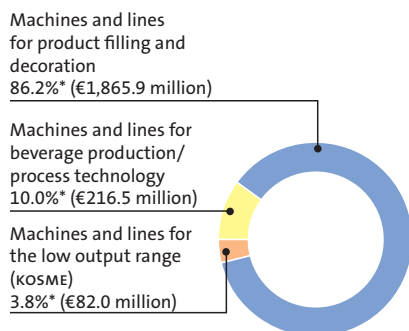
KRONES Group ROCE from 1 January to 30 September (%)



A comfortable liquidity cushion and a sound equity position give KRONES a high level of financial flexibility.

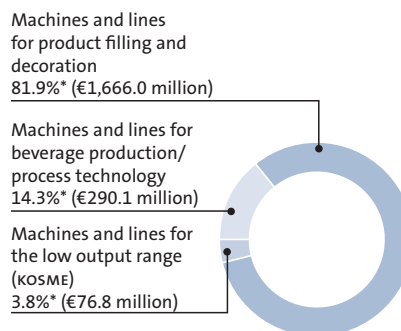
KRONES is right on track to achieve its ROCE target of more than 16% for the year 2014 as a whole.

Revenue by segment from 1 Jan to 30 Sep 2014



* Share of consolidated revenue of €2,164,4 million

Revenue by segment from 1 Jan to 30 Sep 2013



* Share of consolidated revenue of €2,032.9 million

Segment revenue

In the third quarter of 2014, revenue in our core segment, “machines and lines for product filling and decoration” was up 24.0% year-on-year to €657.0 million. Part of the high rate of growth can be attributed to the relatively low year-earlier figure. But even considering this baseline effect, the third quarter was strong. In the period from January to September 2014, revenue in our core segment increased 12.0% overall, from €1,666.0 million to €1,865.9 million. The segment contributed 86.2% of consolidated revenue in the first nine months of 2014 (previous year: 82.0%).

Due to an unsatisfactory third quarter, revenue in the “machines and lines for beverage production/process technology” segment was down 25.4%, to €216.5 million in the first nine months of 2014, from €290.1 million in the year-earlier period. KRONES will continue to press forward with efforts to recapture the lost revenue in the fourth quarter and bring revenue for the year 2014 as a whole back up to the strong year-earlier level. Process technology contributed 10.0% of consolidated revenue in the first nine months of 2014 (previous year: 14.3%).

Revenue in our smallest segment, “machines and lines for the low output range (KOSME)”, was up 6.8% in the first three quarters of 2014, from €76.8 million in the previous year to €82.0 million. The segment’s share of consolidated revenue remained unchanged from the previous year’s 3.8%.

At 12.0%, KRONES’ core segment achieved the highest growth in the first three quarters.

Segment earnings

As KRONES forecast, earnings improved in the company's largest segment, "machines and lines for product filling and decoration". The accomplishments made under the Value strategy programme and increased revenue were key to this improvement. In the period from January to September 2014, earnings before taxes (EBT) rose 20.7% year-on-year, from €116.8 million to €141.0 million. The EBT margin, the ratio of segment earnings before taxes to segment revenue, advanced from 7.0% to 7.6%.

The earnings situation in our "machines and lines for beverage production/process technology" segment worsened due to low revenue in the third quarter of 2014. In the period from July to September 2014, the segment was in the red with earnings before taxes (EBT) of –€1.1 million. However, the process technology segment generated a positive EBT of €1.2 million for the first nine months (previous year: €0.5 million). We expect the segment's earnings to be positive for the year as a whole as well.

KRONES streamlined KOSME Italy's portfolio in the third quarter. In future, only filling and labelling technology products will be manufactured at our site in Roverbella, Italy. The segment will no longer produce packing and palletising technology. However, KOSME will continue to offer complete lines. We recognised a provision in the mid-single digit millions of euros to cover the necessary reduction in capacity and staff. That affected KOSME's third-quarter earnings. As a result, earnings before taxes in the "machines and lines for the low output range (KOSME)" segment were down year-on-year from –€0.2 million in the previous year to –€5.5 million in the first three quarters of 2014. KOSME's operating earnings came close to breaking even in the reporting period.

Earnings performance in the core segment improved further. Earnings at KOSME were affected by a one-time expense.

Product filling and decoration		2014	2013
		1 Jan–30 Sep	1 Jan–30 Sep
EBT	€ million	141.0	116.8
EBT margin	%	7.6	7.0

Beverage production/process technology		2014	2013
		1 Jan–30 Sep	1 Jan–30 Sep
EBT	€ million	1.2	0.5
EBT margin	%	0.6	0.2

KOSME		2014	2013
		1 Jan–30 Sep	1 Jan–30 Sep
EBT	€ million	–5.5	–0.2
EBT margin	%	–6.7	–0.3

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 96 through 107 of our 2013 Annual Report. In the reporting period from 1 January to 30 September 2014, there were no material changes with respect to the statements made in the annual report regarding the company's key risks.

KRONES intends to grow profitably in 2014 despite uncertainties

KRONES is cautiously optimistic about the outlook for the global economy despite many geopolitical risks. The markets in which KRONES operates should be more stable in their development than the global economy and continue to offer good prospects for growth.

Earnings performance should increase in the company's two large segments

As part of the Value strategy, KRONES is focusing on growth and profitability in 2014. We will continue to make cost structures more flexible in the core segment, "machines and lines for product filling and decoration". In 2014, the core segment should post stronger revenue growth than in 2013 (+3.2%) and improve profitability slightly.

In our "process technology" segment, we will further strengthen our services business with components and software upgrades and grow our product portfolio. Revenue in 2014 is likely to be similar to the previous year's level. We also expect the segment to generate a positive earnings figure this year.

Due to the restructuring of KOSME Italy and the need to recognise a provision in the third quarter, the segment for the low output range will be in the red for the year 2014 as a whole. With the actions taken, KRONES intends to establish a basis on which KOSME will begin to operate profitably on a sustained basis from 2015 onwards.

On track to achieve 2014 targets

Overall, based on the development of the markets relevant to KRONES and the continuing uncertain political and economic outlook, we expect revenue to grow by 4% in 2014. KRONES does not expect any support from price levels.

Earnings performance, as measured by our EBT margin, should increase further. KRONES expects an EBT margin of around 6.2% (previous year: 6.0%). That is still below our medium-term target of 7%. For its third financial target, we intend to achieve a ROCE of over 16% this year. Our medium-term target is 20%.

KRONES is optimistic about achieving its growth and earnings targets for 2014.

	Forecast for 2014	Actual value 1 Jan – 30 Sep 2014
Revenue growth	+ 4%	+ 6.5%
EBT margin	approx. 6.2%	6.3%
ROCE	> 16%	16.1%



Assets € million	30 September 2014		31 December 2013	
Intangible assets	134.5		128.2	
Property, plant and equipment	463.8		475.1	
Non-current financial assets	2.1		1.8	
Fixed assets	600.4		605.1	
Deferred tax assets	19.5		17.3	
Trade receivables	29.6		12.7	
Income tax receivables	2.9		5.1	
Other assets	2.5		1.6	
Non-current assets		654.9		641.8
Inventories	639.0		641.0	
Trade receivables	708.2		610.9	
Current income tax receivables	1.7		7.5	
Other assets	107.9		97.0	
Cash and cash equivalents	207.1		239.9	
Current assets		1,663.9		1,596.3
Total		2,318.8		2,238.1

Equity and liabilities € million	30 September 2014	31 December 2013
Equity	959.8	954.2
Provisions for pensions	187.2	145.9
Deferred tax liabilities	12.6	22.3
Other provisions	44.5	39.1
Liabilities to banks	0.0	0.0
Trade payables	1.4	3.3
Other financial liabilities	0.0	1.7
Other liabilities	1.2	0.9
Non-current liabilities	246.9	213.2
Other provisions	158.7	154.7
Provisions for taxes	16.5	8.0
Liabilities to banks	0.0	0.0
Advances received	473.5	468.8
Trade payables	164.6	192.0
Current income tax liabilities	1.6	3.7
Other financial liabilities	9.2	9.5
Other liabilities and accruals	288.0	234.0
Current liabilities	1,112.1	1,070.7
Total	2,318.8	2,238.1

Separate income statement for the KRONES Group

€ million	2014 1 January– 30 September	2013 1 January– 30 September	Change %
Sales revenue	2,164.4	2,032.9	+ 6.5
Changes in inventories of finished goods and work in progress	–29.2	5.8	
Total operating performance	2,135.2	2,038.7	+ 4.7
Goods and services purchased	–1,046.1	–1,011.5	+ 3.4
Personnel expenses	–647.0	–608.9	+ 6.3
Other operating income (expenses) and own work capitalised	–245.4	–242.5	+ 1.2
Depreciation and amortisation on fixed assets	–63.8	–59.5	+ 7.2
EBIT	132.9	116.3	+ 14.3
Financial income/expense	3.8	0.8	
Earnings before taxes	136.7	117.1	+ 16.7
Income tax	–41.6	–35.4	+ 17.5
Consolidated net income	95.1	81.7	+ 16.4
Profit share of non-controlling interests	0.0	0.0	
Profit share of KRONES Group shareholders	95.1	81.7	
Earnings per share (diluted/basic) in €	3.01	2.64	

€ million	2014 Q3	2013 Q3	Change %
Sales revenue	728.9	655.4	+ 11.2
Changes in inventories of finished goods and work in progress	3.5	6.2	
Total operating performance	732.4	661.6	+ 10.7
Goods and services purchased	–374.9	–326.8	+ 14.7
Personnel expenses	–213.0	–194.8	+ 9.3
Other operating income (expenses) and own work capitalised	–75.6	–81.0	– 6.7
Depreciation and amortisation on fixed assets	–22.1	–21.0	+ 5.2
EBIT	46.8	38.0	+ 23.2
Financial income/expense	0.5	–0.6	
Earnings before taxes	47.3	37.4	+ 26.5
Income tax	–14.6	–11.3	+ 29.2
Consolidated net income	32.7	26.1	+ 25.3
Profit share of non-controlling interests	0.0	0.0	
Profit share of KRONES Group shareholders	32.7	26.1	
Earnings per share (diluted/basic) in €	1.03	0.83	

€ million	2014 1 January – 30 September	2013 1 January – 30 September
Earnings before taxes	136.7	117.1
Depreciation and amortisation (reversals)	63.8	59.5
Increase in provisions	66.6	75.4
Deferred tax item changes recognised in profit or loss	1.3	-9.5
Interest expenses and interest income	-2.0	0.8
Gains and losses from the disposal of fixed assets	-0.2	0.1
Other non-cash expenses and income	-0.6	0.4
Decrease (increase) in inventories, trade receivables, and other assets not attributable to investing or financing activities	-140.5	-30.3
Decrease in trade payables and other liabilities not attributable to investing or financing activities	-20.6	-199.4
Cash generated from operating activities	104.5	14.1
Interest paid	-0.8	-2.7
Income tax paid and refunds received	-23.8	-16.3
Cash flow from operating activities	79.9	-4.9
Cash payments to acquire intangible assets	-24.2	-28.4
Proceeds from the disposal of intangible assets	0.0	0.9
Cash payments to acquire property, plant and equipment	-25.4	-29.3
Proceeds from the disposal of property, plant and equipment	1.9	1.1
Cash payments to acquire non-current financial assets	-0.5	-0.7
Proceeds from the disposal of non-current financial assets	0.1	1.4
Cash payments to acquire shares in affiliated companies	-6.3	-5.0
Interest received	3.1	0.6
Dividends received	1.8	1.7
Cash flow from investing activities	-49.5	-57.7
Cash payments to company owners	-63.2	-23.7
Proceeds from the sale of treasury shares	0.0	73.7
Proceeds from the assumption of financial liabilities	0.0	1.4
Cash payments to service debt	-0.2	0.0
Cash flow from financing activities	-63.4	51.4
Net change in cash and cash equivalents	-33.0	-11.2
Change in cash and cash equivalents arising from exchange rates	0.2	0.1
Cash and cash equivalents at the beginning of the period	239.9	132.9
Cash and cash equivalents at the end of the period	207.1	121.8

Statement of changes in equity for the KRONES Group

€ million	Parent company							Non-controlling interests	Group equity
	Share capital	Capital reserves	Profit reserves	Currency differences in equity	Other reserves	Group retained earnings	Equity		
At 1 January 2013	40.0	66.8	365.2	3.6	-40.7	363.6	798.5	0.0	798.5
Dividend payment (€0.75 per share)							-23.7		-23.7
Consolidated net income 9 months 2013						81.7	81.7	0.0	81.7
Sale of treasury shares		74.9	-1.2				73.7		73.7
Currency differences				-17.1			-17.1		-17.1
Actuarial gains (losses) on pension plans					-1.3		-1.3		-1.3
Hedge accounting					1.6		1.6		1.6
At 30 September 2013	40.0	141.7	364.0	-13.5	-40.4	421.6	913.4	0.0	913.4
Consolidated net income Q4 2013						37.7	37.7	0.0	37.7
Allocation to profit reserves			0.2			-0.2	0.0		0.0
Allocation to capital reserves		0.0				0.0	0.0		0.0
Currency differences				2.0			2.0		2.0
Actuarial gains (losses) on pension plans					1.3		1.3		1.3
Hedge accounting					-0.2		-0.2		-0.2
At 31 December 2013	40.0	141.7	364.2	-11.5	-39.3	459.1	954.2	0.0	954.2
Dividend payment (€2.00 per share)							-63.2		-63.2
Consolidated net income 9 months 2014						95.1	95.1	0.0	95.1
Currency differences				3.2			3.2		3.2
Actuarial gains (losses) on pension plans					-27.4		-27.4		-27.4
Hedge accounting					-2.1		-2.1		-2.1
At 30 September 2014	40.0	141.7	364.2	-8.3	-68.8	491.0	959.8	0.0	959.8

€ million	2014 1 January – 30 September	2013 1 January – 30 September
Consolidated net income	95.1	81.7
Items that will not be reclassified subsequently to profit or loss		
Actuarial gains (losses) on defined benefit pension plans and similar obligations	-27.4	-1.3
	-27.4	-1.3
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation	3.2	-17.1
Derivative financial instruments	-2.1	1.6
	1.1	-15.5
Other comprehensive income	-26.3	-16.8
Total comprehensive income	68.8	64.9
of which attributable to non-controlling interests	0.0	0.0
of which attributable to KRONES Group shareholders	68.8	64.9

Segment reporting of the KRONES Group

	Machines and lines for product filling and decoration		Machines and lines for beverage production/ process technology		Machines and lines for the low output range (KOSME)		KRONES Group	
	2014 1 Jan – 30 Sep	2013 1 Jan – 30 Sep	2014 1 Jan – 30 Sep	2013 1 Jan – 30 Sep	2014 1 Jan – 30 Sep	2013 1 Jan – 30 Sep	2014 1 Jan – 30 Sep	2013 1 Jan – 30 Sep
Sales revenue	1,865.9	1,666.0	216.5	290.1	82.0	76.8	2,164.4	2,032.9
EBT	141.0	116.8	1.2	0.5	-5.5	-0.2	136.7	117.1
EBT margin	7.6%	7.0%	0.6%	0.2%	-6.7%	-0.3%	6.3%	5.8%
Employees at 30 Sep*	10,951	10,790	813	624	488	502	12,252	11,916

* Consolidated group

General disclosures

■ Legal basis

The consolidated financial statements of KRONES AG (“KRONES Group”) for the period ended 30 September 2014 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, applicable at the end of the reporting period, including the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) as adopted by the European Union. No early application was made of IFRSs that had not yet entered into force or their interpretations.

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

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

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

■ Consolidated group

Besides KRONES AG, the consolidated financial statements for the period ended 30 September 2014 include all material domestic and foreign subsidiaries in which KRONES AG holds more than 50% of the voting rights.

In the financial year 2014, HST Maschinenbau GmbH, Dassow, Germany, was acquired and acquisition accounting was done to include it in the consolidated group.

In addition, ALBATROS GmbH, Neutraubling, was established and renamed SYSKRON Holding GmbH, Neutraubling. KRONES Kazakhstan TOO, Almaty, Kazakhstan was also established. Acquisition accounting was done to include the companies in the consolidated group.

The first-time consolidation of the new companies was effected at the time of acquisition or establishment.

■ 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.

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

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

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

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

■ Currency translation

The functional currency for KRONES AG is the euro.

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

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

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

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

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

		Closing rate		Average rate	
		30 Sep 2014	31 Dec 2013	2014	2013
us dollar	USD	1.259	1.376	1.356	1.317
British Pound	GBP	0.778	0.836	0.812	0.852
Swiss franc	CHF	1.206	1.227	1.218	1.231
Danish krone	DKK	7.443	7.460	7.459	7.457
Canadian dollar	CAD	1.408	1.474	1.483	1.348
Japanese yen	JPY	138.160	144.750	139.578	127.268
Brazilian real	BRL	3.081	3.204	3.102	2.791
Chinese renminbi (yuan)	CNY	7.748	8.344	8.337	8.188
Mexican peso	MXN	16.995	18.000	17.780	16.692
Ukrainian hryvnia	UAH	16.309	11.190	15.151	10.713
South African rand	ZAR	14.192	14.460	14.530	12.476
Kenyan shilling	KES	112.525	118.900	118.354	113.511
Nigerian naira	NGN	206.320	215.620	220.479	209.755
Russian ruble	RUB	49.710	45.105	48.004	41.647
Thai baht	THB	40.838	45.150	43.946	40.027
Indonesian rupiah	IDR	15,345.500	16,787.000	15,882.957	13,217.304
Angolan kwanza	AOA	124.698	134.382	132.369	126.626
Turkish lira	TRY	2.872	2.940	2.932	2.456
Kazakh tenge	KZT	229.110	212.928	241.967	199.665

■ Accounting policies

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

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

■ Intangible assets

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

■ Research and development expenditure

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

■ Goodwill

There is no goodwill in these consolidated accounts.

■ Property, plant and equipment

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

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

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

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

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

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

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

■ Leases

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

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

■ Financial instruments

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

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

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

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

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

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

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

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

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

■ Non-current financial assets

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

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

■ Derivative financial instruments

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

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

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

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

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

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

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

■ Receivables and other assets

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

■ Inventories

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

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

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

■ Construction contracts for specific customers

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

■ Deferred tax items

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

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

■ Provisions for pensions

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

Actuarial gains and losses are recognised directly in the consolidated statement of financial position and resulted in an increase in provisions for pensions and similar obligations and a reduction in equity (in other comprehensive income, OCI). The separate income statement for the group is free of effects from actuarial gains and losses, which are recognised in other comprehensive income. Net interest on the net defined benefit liability (asset) is determined by multiplying the net defined benefit liability (asset) by the discount rate used to measure the defined benefit obligation at the start of the annual period. Because the net defined benefit liability is reduced by any plan assets, the same (discount) rate is used to calculate the returns on the plan assets.

■ Partial retirement benefit obligations

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

■ Other provisions

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

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

■ Financial liabilities

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

■ Revenue

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

Revenue is reported less reductions.

■ Segment reporting

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

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

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

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

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

Name and location of the company	Share in capital held by KRONES AG %*
neusped Neutraublinger Speditions-GmbH, Neutraubling, Germany	100.00
KIC KRONES Internationale Cooperations-Gesellschaft mbH, Neutraubling, Germany	100.00
ecomac Gebräuchtmachines GmbH, Neutraubling, Germany	100.00
EVOGUARD GmbH, Nittenau, Germany	100.00
MAINTEC Service GmbH, Collenberg/Main, Germany	100.00
HST Maschinenbau GmbH, Dassow, Germany	100.00
SYSKRON Holding 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
KRONES S.R.L., Garda (vr), Italy	100.00
KOSME S.R.L., Roverbella, Italy	100.00
KRONES Kazakhstan, 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
KRONES AG, Buttwil, Switzerland	100.00
KRONES Iberica, S.A., Barcelona, Spain	100.00
KRONES S.R.O., Prague, Czech Republic	100.00
KONPLAN S.R.O., Pilsen, Czech Republic	100.00
KRONES Makina Sanayi ve Tikaret Ltd. Sirketi, Istanbul, Turkey	100.00
KRONES Ukraine LLC, Kiev, Ukraine	100.00
KRONES Angola – Representacoes, Comercio e Industria, Lda., Luanda, Angola	100.00
KRONES Surlatina S.A., Buenos Aires, Argentina	100.00
KRONES do Brazil Ltda., São Paulo, Brazil	100.00
KRONES S.A., São Paulo, Brazil	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, Columbia	100.00
KRONES Korea Ltd., Seoul, Korea	100.00
KRONES Mex S.A. DE C.V., Mexico D.F., Mexico	100.00
KRONES LCS Center West Africa Limited, Lagos, Nigeria	100.00
KRONES Southern Africa (Prop.) Ltd., Johannesburg, South Africa	100.00
KRONES (Thailand) Co. Ltd., Bangkok, Thailand	100.00
KRONES, Inc., Franklin, Wisconsin, USA	100.00
Maquinarias KRONES de Venezuela S.A., Caracas, Venezuela	100.00

* Direct and indirect shareholdings

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

Supervisory Board

Ernst Baumann

Chairman of the Supervisory Board

* ZF FRIEDRICHSHAFEN AG

Werner Schrödl**

Chairman of the Central Works Council

Deputy Chairman of the Supervisory Board

* ADVISORY BOARD OF BAYERISCHE BETRIEBSKRANKENKASSEN

Klaus Gerlach**

Head of Central International Operations and Services

Dr. Klaus Heimann**

Director of the Youth, Training, and Qualification Policy Division of IG METALL (until 14 July 2014)

Dr. Jochen Klein

Managing director of I-Invest GmbH

(bis 25. Juni 2014)

* DÖHLER GMBH

* HOYER GMBH

* CONSORTIUM GASTRONOMIE GMBH

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

Dr. Alexander Nerz

Attorney

Dr. Verena Di Pasquale**

Deputy Chairman of the DGB Bayern

(since 14 Juli 2014)

*KLINIK HÖHENRIED GGMBH

Johann Robold**

Member of the Works Council

Petra Schadeberg-Herrmann

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

* COMMERZBANK AG

Jürgen Scholz**

1st authorised representative and treasurer of the IG METALL administrative office in Regensburg

* INFINEON TECHNOLOGIES AG

Hans-Jürgen Thaus

Former Deputy Chairman of the Executive Board of KRONES AG (since 25 June 2014)

* MASCHINENFABRIK RHEINHAUSEN GMBH

* KURTZ HOLDING GMBH & BETEILIGUNGS KG

* SCHULER AG

Josef Weitzer**

Deputy Chairman of the Central Works Council

* SPARKASSE REGENSBURG

Executive Board

Volker Kronseder

Chairman

Human Resources, Communications and Quality

Christoph Klenk

Finance, Controlling and Information Management

Rainulf Diepold

Sales and Marketing

Werner Frischholz

Plants and Components (until 31 August 2014)

Thomas Ricker

Bottling and Packaging Equipment

Markus Tischer

International Operations and Services (since 1 January 2014)

Ralf Goldbrunner

Plants and components (since 1 September 2014)

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

** Elected by the employees

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

Cash flow	All inflows and outflows of cash and cash equivalents during a period.
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.
Return on equity before taxes	Ratio of earnings before taxes to average equity.
ROCE (assets side)	Ratio of EBIT to the average sum of fixed assets and working capital.
ROCE (liabilities side)	Ratio of EBIT to average capital employed (total assets less interest-free liabilities and interest-free other provisions).
Statement of cash flows	Statement of inflows and outflows of cash that shows the sources and uses of funds within the financial year.
Total debt	Combined term for the provisions, liabilities, and deferred income stated on the liabilities side of the balance sheet.
Total operating performance	Referred to as “total operating revenue” in previous reports, this figure is the sum of “sales revenue” and “changes in inventories of finished goods and work in progress”.
Working capital	Calculated as follows: (trade receivables + inventories + prepayments) – (trade payables + advances received)



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Financial calendar

30 April 2015	Annual report 2014 Interim report for the period ended 31 March 2015
23 July 2015	Interim report for the period ended 30 June 2015
22 October 2015	Interim report for the period ended 30 September 2015

Publication Credits

Published by	KRONES AG Böhmerwaldstrasse 5 93073 Neutraubling Germany
Project lead	Roland Pokorny, Vice President Corporate Communications
Design	Büro Benseler
Text	KRONES AG, InvestorPress GmbH
Photography	KRONES AG

This English language report is a translation of the original German "Bericht über den Zeitraum vom 1. Januar bis 30. September 2014". In case of discrepancies the German text shall prevail.

 **KRONES**