



# AG 2010

Annual Report for KRONES AG

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##### OF KRONES AG

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### Dear shareholders and friends of KRONES,

After having posted a loss in the wake of the financial and economic crisis of 2009, KRONES embarked on the 2010 fiscal year with cautious optimism. Although the international beverage and packaging industry had recovered from its shock-induced paralysis at the end of 2009 and our markets were slowly improving, we at KRONES knew that it was no time for exuberance. Many economic risks still lurked. Our goal at the start of 2010 was to at least recoup the previous year's net loss within the consolidated group. And we did far better than that at the group level.

For this Annual Report for KRONES AG, the key figures are as follows: New orders at KRONES AG were up 18.0% to €1,903.1 million in 2010 and sales were up 18.1% to €1,882.4 million. KRONES AG generated a net loss for the year of €2.7 million (previous year: net loss of €81.6 million). The net loss at the parent company level resulted from extraordinary factors such as transition effects arising from the first-time application of Germany's Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG). The operating result (EBIT) was positive at €15.9 million (previous year: –€75.3 million).

This success did not simply fall into our laps. It was the result of much hard work. In 2010 we continued to implement »Conversion«, a raft of measures launched at the outset of the economic crisis. With that, we were able to further reduce costs. But KRONES has been careful not to cut back in the wrong places. Our decision not to lay off any of our employees despite the crisis-induced slump proved to be right on the money. Because we held on to our staff, we were able to easily meet last year's rising demand with the same high quality for which we are known.

Macroeconomic uncertainties make it difficult to predict whether 2010 marks the beginning of a long, sustained upswing in our industry. We do not expect the market to grow continuously. Instead, we expect demand for our products and services to fluctuate more sharply than it has in the past. For this reason, we continue our efforts to make KRONES more flexible in general so that we can better react to such shifts. In other words, we will expand our capacities with caution during this upswing. KRONES must be able to handle the growing volume of new orders within our existing structure. We made important progress toward this goal in 2010. For example, we expanded our employees' flextime accounts so that they can now accommodate a surplus or deficit of up to 300 hours depending on our orders situation. We are also simplifying our production processes. Instead of manufacturing myriad



*»The decision to keep our core workforce throughout the financial and economic crisis has already paid off in 2010.«*

*Volker Kronseder  
Chairman of the Executive Board*

*KRONES is becoming more flexible in every respect in order to cope with the challenges of the future.*

individual components, we are increasingly producing complete modules and assemblies. This reduces the number of interfaces in production and enables us to operate more efficiently. For example, last year we began assembling the entire blow-moulding station for the Contiform, the machine on which PET preforms are made into bottles, in our Nittenau plant. Previously, we had produced some parts of the station in Neutraubling. The new pipe machining centre in Neutraubling is also helping to make our production substantially more cost-effective.

As these examples show, much is happening at KRONES and we are untiring in our efforts to excel. There are great days ahead at KRONES, as we can see from our outstanding successes at major trade fairs like Brau Beviiale, K 2010, and China Brew & Beverage. At these fairs, we have observed that customers are once again craving innovation. As technology leaders, we are able to satisfy this desire better than any of our competitors. In another encouraging development, customers are now willing to pay more for machines and lines that give them real added value.

Our enviro programme puts us at least one step ahead of the competition. Machines and lines that bear the enviro label help our customers conserve energy and other resources. That helps to substantially lower the total cost of ownership, which includes ongoing operating costs alongside the initial price of acquiring the machines.

*KRONES' enviro programme is a success.*

The notion of added value must pervade our entire organisation. Not for nothing is our new strategy programme entitled »Value«. The programme's basic features are described in the strategy section of this report on pages 8 to 11. But even the most sophisticated strategy can only succeed if it is implemented by a qualified, highly motivated workforce. I firmly believe that our team is up to the task.

On behalf of the entire Executive Board, I would like to thank our employees for their outstanding work in 2010. For we know that our people are the true value of KRONES.

*Volker Kronseder  
Chairman of the Executive Board*

### Ladies and Gentlemen,

In 2010, the Supervisory Board of KRONES AG continuously oversaw the company's management as prescribed by the law and the articles of association. The Board regularly obtained information from the Executive Board about the progress of business, the company's financial position, and the company's risk management and strategy in the form of written and oral reports, both in and outside the regular Supervisory Board meetings.

The first of four regular meetings of the Supervisory Board in 2010 was held on 12 March. In this meeting, the Executive Board presented the preliminary consolidated financial statements for 2009 and provided explanations for the key figures. The Executive Board then commented on the current business situation and gave its outlook for the first half of 2010. After that, the Supervisory Board discussed the oversight duties specified by Germany's Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG). Under these rules, the Supervisory Board must monitor the accounting and financial reporting process, the audit of the financial statements, and the effectiveness of the internal control system, the risk management system, and the internal audit system. The Supervisory Board resolved to delegate these tasks to the Supervisory Board Committee. Also at its first meeting, the Supervisory Board unanimously agreed to renew the mandate of Executive Board Chairman Volker Kronseder through 31 December 2015.

The second meeting of the Supervisory Board was held on 26 April. Representatives from KRONES' auditing firm were present for a portion of the meeting. The auditors explained the annual and consolidated financial statements for 2009 and fielded questions from the Supervisory Board. After the auditors' detailed explanations, the Supervisory Board approved and thus adopted the 2009 annual financial statements and the 2009 consolidated financial statements along with the management report and consolidated management report for fiscal 2009. The Supervisory Board and the Executive Board also discussed the agenda for the annual shareholders' meeting, which would be held on 16 June 2010. The Supervisory Board and the Executive Board agreed that no dividend would be proposed to the annual shareholders' meeting since the company had posted a loss for fiscal 2009.

At the meeting on 22 September, the Executive Board informed the Supervisory Board about the current business situation and provided an outlook for the results of the first three quarters of 2010. According to the Executive Board report, new orders, sales, and earnings continued to develop favourably. The Executive Board presented to the Supervisory Board its current assessment of potential risks for the company as well as the most important product innovations.



*Ernst Baumann*  
Chairman of the Supervisory Board

The fourth and final meeting of the Supervisory Board for 2010 was held on 24 November. The main focus of this meeting was on planning for fiscal 2011. The Executive Board explained, among other things, its sales, production, and human resources planning. In order to ensure KRONES' competitiveness and catch up on capital investments that had been postponed during the crisis, the Executive Board requested that the capital spending budget be increased considerably over the previous year's. The Supervisory Board unanimously approved the capital expenditure planning for fiscal 2011 as put forward by the Executive Board.

### The Supervisory Board concurs with the audit result

The annual financial statements of KRONES AG, the consolidated financial statements, the management report for KRONES AG, and the consolidated management report prepared by the Executive Board for the period ended 31 December 2010 were examined by the auditors elected by the annual shareholders' meeting, KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, and each received an unqualified audit report. The audited annual financial statements and consolidated financial statements, the management report for KRONES AG, and the consolidated management report prepared for the period ended 31 December 2010 were submitted to all members of the Supervisory Board in good time for the members' own review. The audited financial statements and management reports were the subject of the Supervisory Board meeting held to ratify the financial statements on 21 April 2011. Representatives of the auditing firm also participated in the meeting and reported to the Supervisory Board on their findings and the areas on which their review focused.

The Supervisory Board noted and approved the audit result. The final results of the examination by the Supervisory Board prompted no objections. The Supervisory Board has approved the annual financial statements for KRONES AG and the consolidated financial statements as well as the Executive Board's proposal for the use of unappropriated profit. The annual financial statements for KRONES AG are thereby adopted.

The members of the Supervisory Board would like to thank the Executive Board and all employees for their excellent work in 2010.

Neutraubling, April 2011

*Ernst Baumann*  
Chairman of the Supervisory Board

**Plant planning**

- Planning and construction of complete filling and packaging plants
- Total cost of ownership calculations
- Expansion, updating

**Beverage production technology**

- Brewhouse and cellar systems

**Systems for filling and packaging**

- Product treatment
- Cleaning technology
- Plastics technology
- Inspection technology

- Filling technology
- Conveyor technology
- Labelling technology
- Packing and palletising technology

KRONES plans, develops, manufactures, and installs machinery and complete systems for filling and packaging and for beverage production. KRONES' customers include breweries, beverage producers, and companies from the food, chemical, pharmaceutical, and cosmetic industries.

KRONES offers all of the products and services they need from a single source – from constructing new beverage plants to getting the finished product out the door. Our worldwide service network is a key component of our unique portfolio.

Innovation, rapid, flexible development of products and services, and continuous improvement of our internal process flows are the cornerstones of our success.

**IT solutions**

- For plant planning and beverage production
- For internal logistics
- For product filling and packaging
- For Lifecycle Service

**Internal logistics**

- Warehousing systems
- Order-picking systems
- Conveyor systems

**Lifecycle Service**

- Producing
- Maintaining
- Optimising
- Training at the KRONES Academy



### Looking back on a successful past with »Impulse«

A look back over the past decade or so confirms that KRONES' decision to launch the »Impulse« programme back in 1999 was, literally, »right on the money«.

In the years from 1999 until the economic crisis hit in 2009, KRONES increased new orders, sales revenue, and profits from year to year. As a result, we were able to offer our customers innovative technology and the highest quality and give our workers attractive, secure employment. In nine consecutive years of record profits, KRONES rose to become the world's market leader and, for shareholders, increased the company's market capitalisation fivefold.

### »Conversion« preserved the gains made under »Impulse«

At the end of 2008, KRONES began to feel the impact of the financial and economic crisis. We reacted swiftly, launching »Conversion« to get the company ready to weather the storm. Our efforts paid off. In 2009, the comprehensive measures saved KRONES more than €140 million. Moreover, »Conversion« enabled us to preserve the successes that had been achieved under our »Impulse« growth programme.

### In this time of change, »Value« will carry us to a successful future

Now – in early 2011 – the global economic crisis appears to be over. But a sense of uncertainty remains. The crisis showed how illusory forecasts are and how susceptible the closely intertwined global economy is to shocks and trend reversals.

We have arrived at a critical juncture for KRONES' long-term success. The world and our markets have undergone a marked change. We can feel an increase in protectionism around the globe. The financial markets remain highly risky. Raw materials and energy prices are rising at an accelerating pace. And there seems to be no recipe for escaping the upward spiral of public and private debt. The unstable political situation in regions like Northern Africa and the Middle East also holds inestimable risks. All in all, the current situation really provides no solid ground for long-term business plans. History has shown us that the days of linear growth planning are over and we must now learn to deal with uncertainty, volatility, and trend reversals. In our quest for the right course for growth-driven, profitable development at KRONES, we have developed »Value«.

With our new strategy programme – entitled »Value« – we are addressing the changed circumstances worldwide and collaborating with our management-level employees to develop possible scenarios and formulate new goals for the years ahead.

Thus, »Value« is a new form of goal-oriented leadership that is capable of understanding complex system dynamics and causal relationships, bringing together the best minds from all of our divisions and departments, and working together to best master the new challenges KRONES faces, with creativity and commitment.



*With »Value«, KRONES aims to continue to grow profitably in the future.*

*Hans-Jürgen Thaus  
Deputy Chairman of the Executive Board*

### Long-term growth trends for KRONES generally secure

This strategy programme is based on a thorough analysis of the economy as a whole, our industry, our competitors and customers, and, not least, our own situation. Our business stands on a positive, stable base. Our market is experiencing long-term growth driven by megatrends like population growth and a rising standard of living in the emerging economies.

### Germany is uniquely qualified for producing highly complex technology

Although demand for our products and services will increasingly come from Asia and other emerging economies, KRONES remains committed to Germany as a business location. The pool of highly qualified personnel, outstanding capacities for innovation, and the quality of local suppliers combine to make manufacturing in Germany uniquely competitive. A recent publication from the World Economic Forum, Davos (January 2011) confirms our assessment, stating that Germany/Europe is uniquely qualified for the production of highly complex technology and the most competent technology cluster worldwide.

### With »Value«, KRONES intends to create value together

»Value« will promote internal cooperation and hold managers and employees more accountable for fostering a sustainable corporate culture of »creating value together«. We want to make KRONES even more attractive to customers, employees, and shareholders and optimise our resources. Moreover, we will further improve our capital structure, to ensure that we can remain profitable, on a healthy foundation, for the long term. And finally, we aim to enhance KRONES' strength by further developing our employees' expertise.

These topics are all subsumed under the following components of »Value«:

- Sales development
- Cost management
- Resource optimisation, and
- Leadership development.

**Value**  
create value  
together

### Sales development

Under »sales development«, we are looking at our innovation and technology-driven growth markets. In other words, this aspect of the programme is about our customers and innovative products.

Our strategic aim is to secure and expand our leadership on the global market and our leadership in innovation. We will address such questions as how we can best meet our customers' expectations and requirements and how we can, at the same time, increase our competitiveness and our earnings.

*The comprehensive measures that make up »Value« give KRONES a new strategic direction through 2015.*

#### Some of the main themes are:

- Expanding and strengthening our business model as a total system supplier
- Optimising and boosting sales and distribution performance
- Stepping up our innovation management
- Developing tomorrow's core expertise...and much more

### Cost management

The overarching goal here is to trim the entire KRONES Group to business excellence. Our strategic challenge here is: How can we boost our efficiency and productivity, optimise our costs, and substantially improve our profitability?

#### Examples of measures include:

- Improving the efficiency of all processes
- Expanding module production
- Reducing complexity and its follow-on effects
- Streamlining our organisation...and much more

### Resource optimisation

We want to make optimal use of limited resources, increase our attractiveness, further develop and improve our capabilities, utilise opportunities in a purposeful manner, and at the same time minimise and control risks.

#### Examples of measures include:

- Achieving structural excellence
- Increasing flexibility
- Safeguarding liquidity and optimising cash flow and working capital
- Quality assurance...and much more

### Leadership development – Success comes only when the best minds are put to the task

We are taking »value« literally and »creating value together«. But all of our ambitious goals can only be achieved through management working together with all KRONES employees.

KRONES needs the best people and leadership to meet the challenges of the future. Therefore, »Value« also looks at ways we can further improve our human resources management. KRONES must further enhance its employer branding in order to recruit the best people. We also need to take a target group-specific approach to recruiting. For instance, the best way for us to reach »Generation Y«, the technology-savvy young people who grew up with the Internet and mobile communications, is through social networking sites.

Promoting a healthy work-life balance will help us retain employees for the long term and keep employee turnover low. Attractive, international training and continuing education programmes will also score KRONES points among the best recruits. Recruits we urgently need.

#### »Creating value together« – employees and leadership are key

With »Value«, KRONES will get back on course for success and stay it well into the future. We know that our workforce is capable and committed to achieving these ambitious goals, even in a changed world.

We are proud of our company and we believe in our success. And we know that KRONES needs a strong team to continue »creating value together« in the future.

*Hans-Jürgen Thaus  
Deputy Chairman of the Executive Board*

**Christoph Klenk**  
\*1963  
Member of the Executive Board since 2003. Research and Development, Engineering, and Product Divisions.

**Rainulf Diepold**  
\*1955  
Member of the Executive Board since 1996. Sales and Marketing.

**Volker Kronseder**  
\*1953  
Member of the Executive Board since 1989. Chairman since 1996. Personnel Management and Social Affairs, Corporate Communications.

**Hans-Jürgen Thaus**  
\*1949  
Member and Deputy Chairman of the Executive Board since 1997. Finance and Accounting, Controlling, Information Management, and Process Management.

**Werner Frischholz**  
\*1951  
Member of the Executive Board since 2003. Materials Management, Assembly, Manufacturing, After-Sales Service, and Quality Assurance.



KRONES' founder, Dr.-Ing. E.h. Hermann Kronseder, died on 9 July 2010, at the age of 85. With his passing, we have lost one of the last great entrepreneurs of the post-war era, whose life and work were dedicated to KRONES AG.

Hermann Kronseder was a prolific inventor, with more than 630 patents to his name. He was known in the industry as the »powerhouse of beverage machinery design«. In 1951, at the age of 27, Kronseder set up a craft enterprise in Neutraubling for making electrically powered machines. He devised new solutions for semiautomatic and fully automatic labelling machines and success came swiftly. In its ninth year, the company was already employing 540 people. KRONES established its first foreign subsidiary in the USA in 1966. Many more subsidiaries followed, in all major industrialised countries and all of KRONES' key markets.

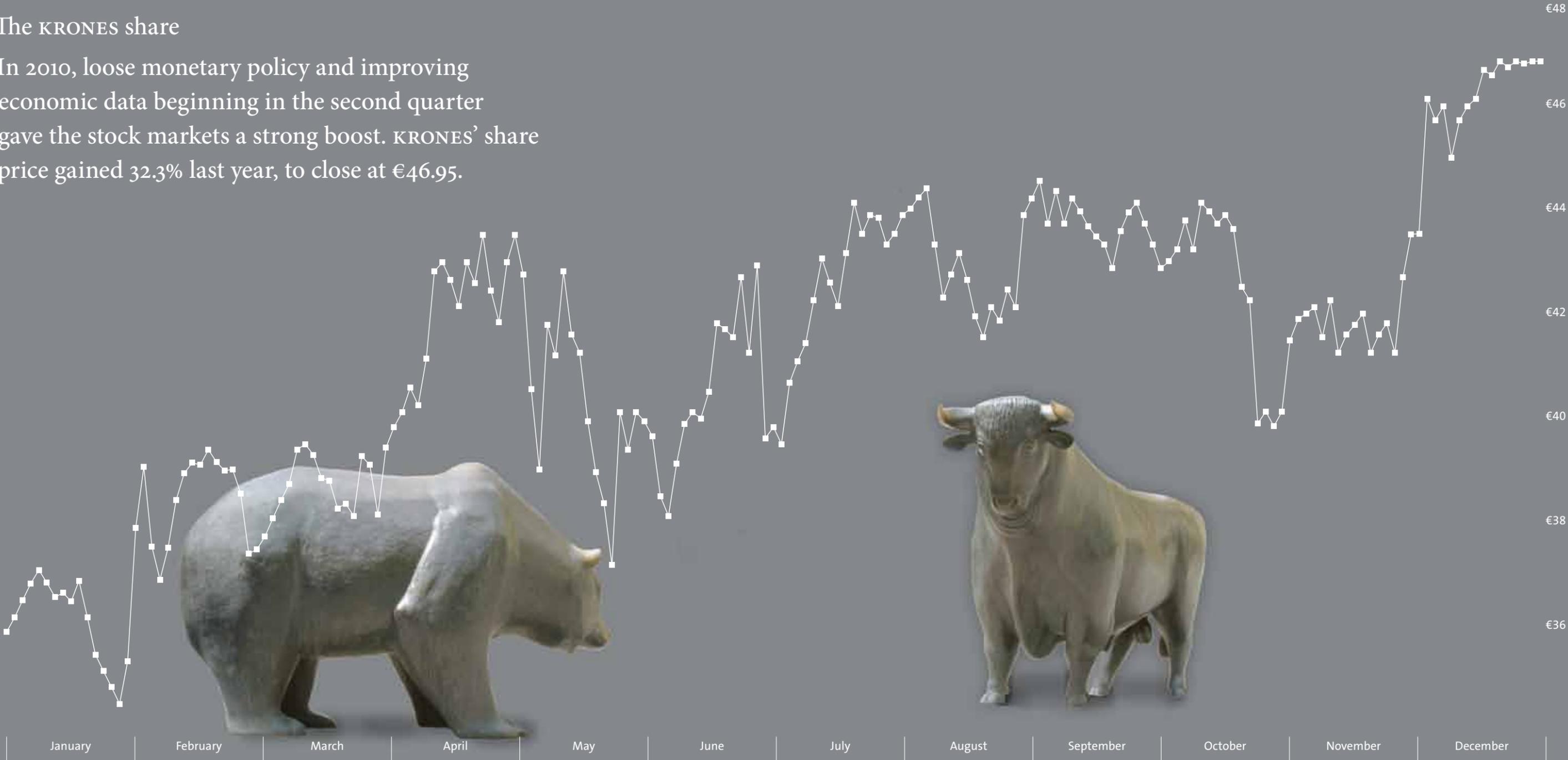
In 1980, Hermann Kronseder converted his company – which then had 2,300 employees and annual sales of around €90 million – into a stock corporation under German law (Aktiengesellschaft, or AG). The company went public in 1984. The ensuing years were marked by steady, rapid growth. Hermann Kronseder managed the company as Chairman of the Executive Board until 1995, when the group of companies generated more than €800 million in sales and employed around 7,800 people. Then he passed the baton to his son Volker, and thus to the next generation. It was not easy for him to withdraw from active management of the company's operations. But he had the perspicacity to realise that a competent team leading the company could accomplish more than one man, no matter how dedicated and innovative that one man might be. In recognising and opening the path for his company's future in this way, Hermann Kronseder once again demonstrated his exceptional entrepreneurial spirit. Hermann Kronseder stepped down from the Supervisory Board in 1997, but continued to visit the plant frequently – where he was respectfully addressed as »boss« – right up to his final days.

Apart from earning the highest honours in his home state of Bavaria, Hermann Kronseder also was awarded the Officer's Cross of the Order of Merit of the Federal Republic of Germany (Bundesverdienstkreuz 1. Klasse) and the 1990 Gold Diesel Medal from the German Institute for Inventions (Deutsche Institut für Erfindungswesen). With that, he joined the ranks of great inventors such as Wernher von Braun, Konrad Zuse, and Claudius Dornier. In 1993, he received an honorary doctorate from the Technical University of Munich in special recognition of his achievements. However, to Hermann Kronseder, far more important than any honour were his employees, who remain loyal to the »boss« in gratitude and respect even in death.



### The KRONES share

In 2010, loose monetary policy and improving economic data beginning in the second quarter gave the stock markets a strong boost. KRONES' share price gained 32.3% last year, to close at €46.95.



- Economic upturn and low interest rates boost stocks
- KRONES share price gains 32.3%
- Dividend of €0.40 planned

Share prices in Germany rose in 2010, with sharp ups and downs along the way. As the world economy recovered from its massive slump, cyclical stocks were especially popular. The KRONES share price climbed by nearly one-third, closing the year at €46.95.

### The stock markets in 2010

The euro crisis was one of the dominant themes on the stock markets last year. With states like Greece, Ireland, Portugal, and Spain struggling under the weight of massive budget deficits, the markets were beset by fears that the euro could break apart under the burden. In June, one euro cost 1.19 US dollars, almost one-fifth less than at start of 2010. Even the €750 billion rescue package developed by the European Union in cooperation with the International Monetary Fund did not substantially calm the foreign exchange markets. Nevertheless, the DAX posted considerable gains, especially in the second half. The global economic recovery was also reflected in rising corporate profits. Low interest rates also helped fuel the share price rally. Although Germany's DAX blue-chip index fluctuated sharply in 2010, it closed the year at 6,914 points, for a total gain of 16.1%. The DAX had hit its low of 5,434 points in February. In December, it surpassed the 7,000-point mark and climbed to a 7,077 point high for the year.

Other European stock markets did not fare as well. The EURO STOXX 50 lost 6% last year, dragged down by plummeting share prices of financial institutions based in the European countries most troubled by the euro crisis.

KRONES share price performance compared with the MDAX in 2010



»We are continually improving communication with our shareholders.«

Olaf Scholz  
Head of Investor Relations

KRONES' share price gained almost as much as the MDAX in 2010.



More of the latest information is available at [www.krones.com/en/investor-relations.htm](http://www.krones.com/en/investor-relations.htm)

Although economists in the USA worried about the country's economy and high rate of unemployment, the Dow Jones nevertheless gained 10% in 2010, due in part to the Fed's loose monetary policy. Japan's Nikkei index was down 3% at the end of 2010. The highly volatile Chinese stock market also came under pressure in 2010. The Shanghai Composite Index lost around 16%.

### KRONES share posts strong gains

During the economic recovery of 2010, Germany's MDAX benefited from high demand for cyclical stocks – shares of consumer goods manufacturers, automotive component suppliers, and machinery manufacturers. Because it contains a larger proportion of cyclical stocks, the mid-cap index climbed far more sharply than the DAX in 2010, gaining 34.9%.

The KRONES share also fared very well, gaining 32.3%. The share price made a robust recovery after hitting its low for the year of €34.35 on 28 January. Investors rewarded the fact that business at KRONES was picking up steadily and that the net loss posted amid the 2009 crisis was merely a one-time outlier. Accordingly, good company news and positive analyst commentaries accompanied the share price's climb. After many months of upward momentum, the share price hit resistance at around €44. The share suffered a few light losses before taking another run at €44. At the end of October, the KRONES share dropped almost 10% to around €40 on technical reasons. From there, the share kicked off a rally that gained speed at the end of the year. It broke through the resistance at €44 and then hit €47.05, its high for the year, on 27 December. The KRONES share closed 2010 at €46.95.

At the end of 2010, KRONES' share price was €46.95, almost one-third higher than at the start of the year.

Key figures for the KRONES share\*

At 31 December		2010	2009	2008
Number of shares	million	31.59	31.59	31.59
Gross cash flow per share**	€	3.70	1.24	4.98
Equity per share**	€	25.16	22.65	25.00
Earnings per share**	€	1.68	-1.13	3.39
High	€	47.05	38.83	59.79
Low	€	34.35	22.00	27.52
Year's closing price	€	46.95	35.50	31.07
Price/earnings ratio (P/E)		27.9	–	9
Dividend per ordinary share	€	0.40 ***	0.00	0.60

\* Reference: Group financials according to IFRSs

\*\* Based on the weighted average of shares in circulation

\*\*\* Figures as per proposal for use of unappropriated profit

### Portrait of the KRONES share

KRONES shares are no par value ordinary bearer shares. Each share carries one vote at the annual shareholders' meeting. The total number of shares is 31,593,072. The stock has been listed and available for trading on all German stock exchanges since 29 October 1984. In fiscal 2010, daily trading volume on the Frankfurt stock exchange and in Xetra trading averaged around 60,000 shares in total (previous year: just under 80,000). The lion's share (around 98%) of trading was done on the Xetra trading system. The KRONES share is included in the MDAX, Germany's mid-cap index.

#### Key data for the KRONES share

Ordinary shares	31,593,072
German securities identification number	WKN 633500
ISIN	DE0006335003
Ticker symbol	KRN

### Shareholder structure

The Kronseder family owns a majority stake in the company (53.71%). KRONES bought back a total of 1,425,421 treasury shares in 2009 and now holds 4.51% of the share capital. The free float is 41.78%.

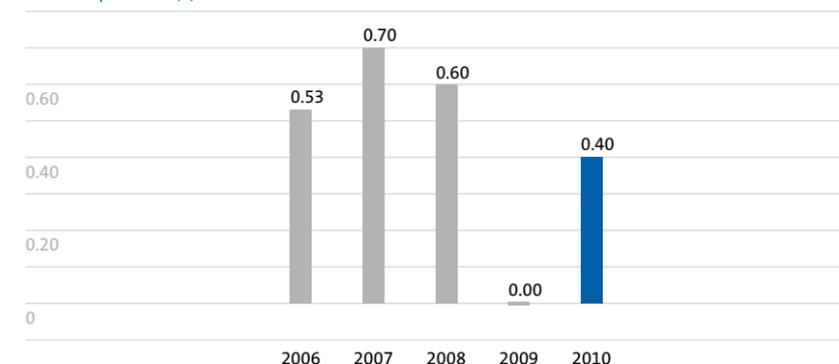
#### Shareholder structure (at 28 February 2011)



### Dividend of €0.40 per share planned

KRONES wishes to give its shareholders an appropriate share in the company's success. Our long-term dividend policy aim is to pay out 20% to 25% of profits in dividends. The Executive Board and the Supervisory Board of KRONES AG will propose to the annual shareholders' meeting on 15 June 2011 that a dividend of €0.40 per share be paid out for 2010. In 2009, KRONES had posted a net loss and therefore did not pay a dividend.

#### Dividend per share (€)



### Comprehensive investor relations activities

KRONES is included in Germany's MDAX index. For this reason, investors and analysts have high expectations of our investor relations activities. Our efforts are focused on informing all of our shareholders and stakeholders in an open and prompt manner. Most of our time is spent communicating with professional market participants, but we also provide immediate, in-depth responses to inquiries from individual investors.

In 2010, the Executive Board and representatives of the Investor Relations department participated in several investor conferences in Germany and abroad. We also visited investors and analysts and presented the company at numerous road shows in the world's financial centres. Interest in KRONES among investors in the US and the UK increased considerably during the reporting period. One topic that was important to investors was how KRONES intended to return to profitability after the losses of 2009. In response, we provided detailed information about our »Conversion« programme. Investors and analysts were also particularly interested in KRONES' strong position on the growing emerging markets.

*KRONES takes the interests of all of our shareholders very seriously and has an open information policy.*

The topic of sustainability is gaining importance among investors. In Europe alone, some €3,000 billion are being invested exclusively in shares of companies that meet the highest standards with respect to how they treat employees and the environment and what they give back to society. KRONES has for many years now placed great importance on ensuring that all of our company's activities are sustainable. Investors and analysts acknowledged the fact that the independent rating agency oekom research awarded KRONES Prime status in 2009.

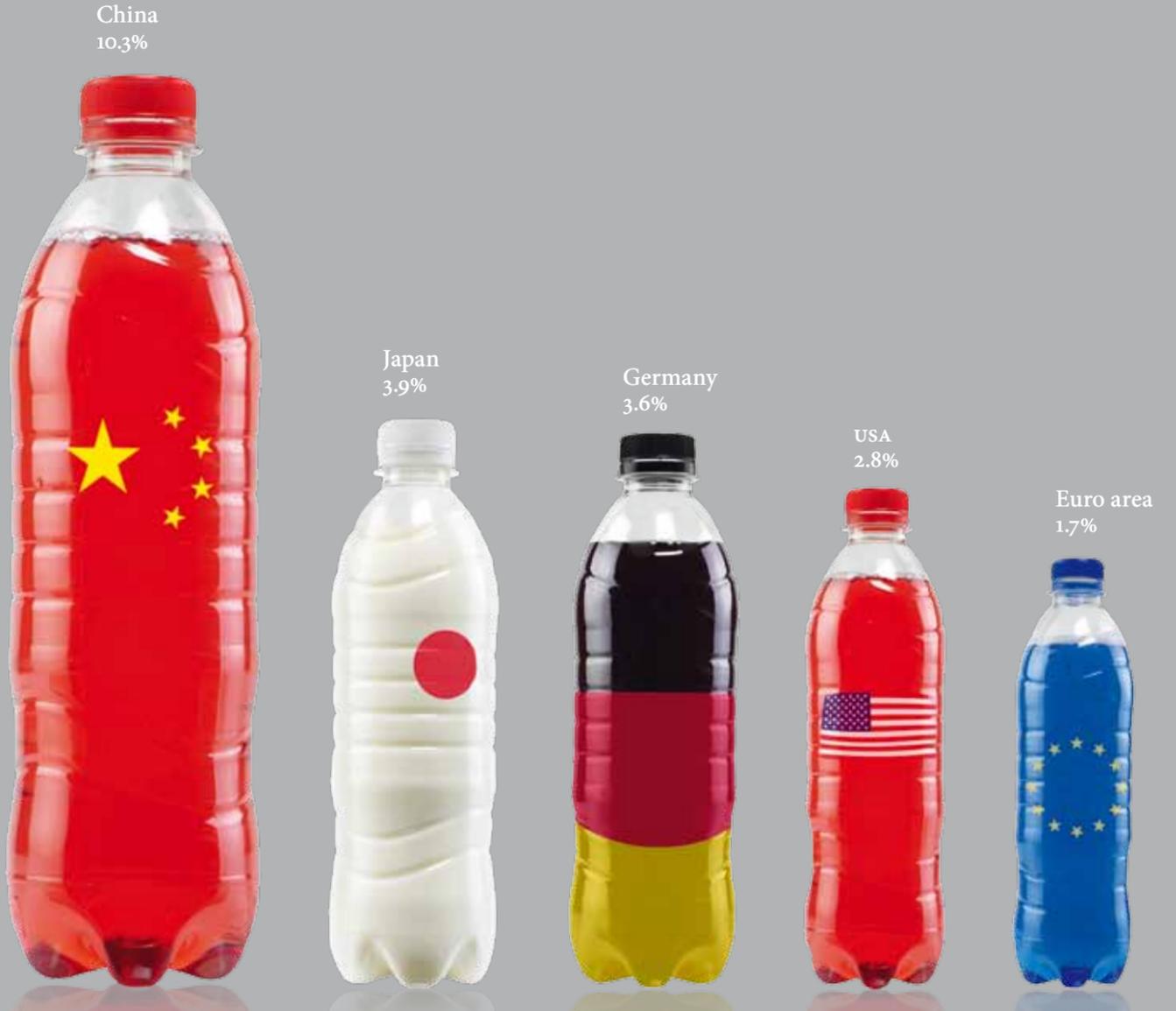
### Harmonious annual shareholders' meeting

The 30<sup>th</sup> annual shareholders' meeting of KRONES AG took place on 16 June 2010 in Neutraubling, Germany. Around 250 shareholders participated in the event. Although the shareholders received no dividend for fiscal 2009 due to the company's net loss, the shareholders' meeting was nevertheless a harmonious one as usual. All of the resolutions proposed were adopted by a large majority of the shareholders.

### Economic environment

The world's economy grew 5% in 2010. Two factors were largely responsible for the global economy's robust recovery after the 2009 slump: loose economic policy on the part of the world's most important central banks and massive government-funded economic stimulus programmes.

### GDP growth in 2010



- The global economy is making a strong recovery
- Germany is driving Europe's economy
- Machinery production is up 8.8%

### World's economy grows 5.0%

In 2010, high levels of government debt among the industrialised countries and the euro crisis plagued the global economy as constant elements of uncertainty. Most economists were surprised that the world economy nevertheless grew 5.0%. At the start of 2010, economists with the International Monetary Fund (IMF) had expected less than 4% growth. There are several reasons why economic performance was better than forecast. Europe's governments and the IMF worked together to thwart the euro crisis using all means, including a €750 billion rescue package. Although this effort did not solve the problem permanently, it did prevent the euro from collapsing. In addition, the European Central Bank maintained a monetary policy that was almost as loose as the US Fed's.

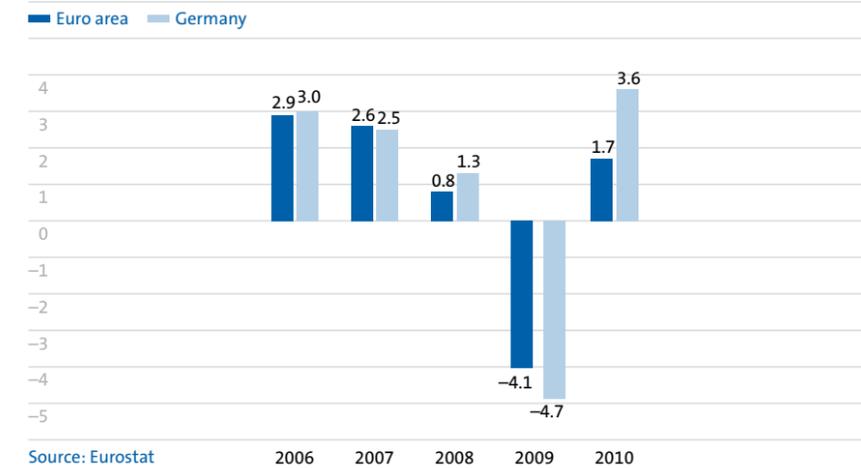
The Fed not only left key interest rates very low, it also bought back a large volume of US treasury bonds. With that, the central bank of the United States emphatically demonstrated its intention to prevent deflation and a double-dip recession. These moves did little to help the labour market and unemployment in the USA remained high in 2010. For this and other reasons, gross domestic product (GDP) growth remained subdued by US standards, at 2.8%.

Growth was considerably more robust in Asia. Although China's central bank raised interest rates and capped prices to keep the economy from overheating, the country's GDP nevertheless grew 10.3% in 2010. The economic engine was also humming in India (9% GDP growth) and many Latin American countries. Japan's GDP rose 3.9% last year, spurred by government-funded economic stimulus programmes.

The European economy weathered the euro crisis surprisingly well and outperformed mid-year expectations. Despite the deep recession in Greece and shrinking economic activity in countries like Spain and Ireland, euro area GDP grew 1.7% in 2010.

*Low interest rates gave global economic growth an added boost in 2010.*

Change in gross domestic product (%)



### German economy grows 3.6%

In 2009, the massive economic slump in Germany caused GDP to contract 4.7% and also dragged Europe down. But in 2010, Germany once again took up the role of economic locomotive. Capital spending on machinery and industrial equipment increased substantially, as did exports. Even private consumption provided some momentum for growth. Together, these factors pulled Germany's GDP up 3.6% in 2010. At mid-year, nobody had thought Germany capable of posting the highest growth of all euro area economies. At that time, IMF experts were forecasting only 1.4% GDP growth for Germany.

*Germany's economy transformed from laggard to locomotive in 2010.*

### Machinery sector makes great strides

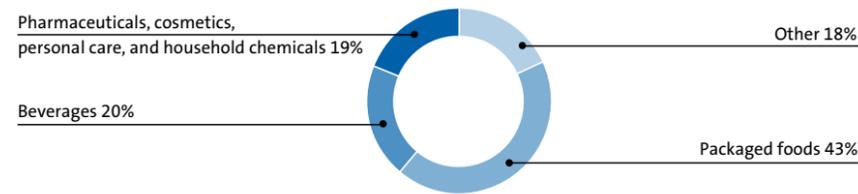
After the dramatic slump of 2009, in which the financial and economic crisis caused output in Germany's machinery and industrial equipment sector to fall by almost one-quarter, things were looking up again for the sector in 2010. The first half in particular saw surges in new orders from Germany and abroad. Although momentum then slowed, the sector still fared better overall than the German Engineering Federation (VDMA) had predicted at the start of the year. As late as April, the VDMA was still expecting output to stagnate. Over the course of the year, the VDMA revised its forecast upward, first to 3% and then as high as 6%. In the end, output was up 8.8% from the previous year.

### The market for packaging machinery

KRONES serves the global market for packaging machinery, which had a total revenue volume of around €21.5 billion in 2010. Beverage packaging lines make up around one-fifth of this volume and the lion's share of KRONES' sales. The greatest demand for packaging machinery comes from the food industry (43% of sales). The pharmaceutical, cosmetics, personal care, and household chemical industries combined account for around 20%, as do other industries such as tobacco and building materials.

Demand for packaging machinery has risen steadily as the world's population and prosperity continue to grow. With one exception: the year 2009. In the wake of the global financial and economic crisis, demand for packaging machinery dropped by around one-quarter. In 2010, the market recovered around 6%. Experts are predicting similarly high rates of growth for the years ahead. Demand from the beverage industry will likely grow faster than the packaging market as a whole. KRONES generated around 90% of its revenue through business with breweries, soft drink producers, and mineral springs in 2010. The other 10% of our revenue came from the sale of lines and services to companies in the food, chemical, pharmaceutical, and cosmetics industries.

The global market for packaging machinery by application



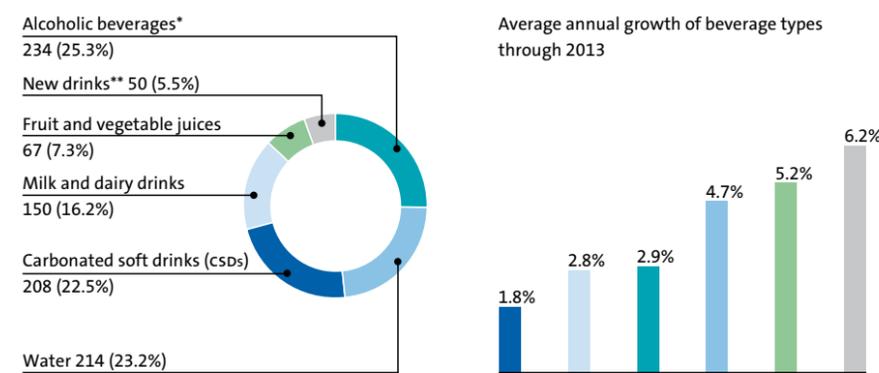
2010: €21.5 billion  
Sources: Euromonitor, own estimates

The global market for packaging machinery grew around 6% year-on-year in 2010.

### Water is the most popular beverage worldwide

According to Euromonitor estimates, global consumption of packaged beverages increased 3.7% over 2009 to 923.5 billion litres in 2010. With that, the years-long growth trend continued. Food and drink are basic human needs that must be met, almost completely independent of economic cycles. Market analysts expect consumption of industrially packaged beverages to continue to expand alongside burgeoning prosperity in the emerging markets. Demand for packaged beverages is likely to rise 3.4% on average each year from 2010 to 2013.

Global consumption of packaged beverages in 2010 (billion litres)



2010: 923 billion litres  
Sources: Euromonitor, own estimates

\* Beer, beer mixed drinks, wine, sparkling wine, spirits \*\* Energy drinks, sports drinks, tea and coffee

Global consumption of industrially packaged beverages is expanding by around 3% each year.

Water is the most popular thirst quencher. In 2010, people around the world drank some 214 billion litres of bottled water. That corresponds to 23.2% of total beverage consumption. Demand for functional water – that is, water that has been fortified with vitamins and minerals – and flavoured water is growing. Water consumption is expected to increase by 4.7% on average each year through 2013.

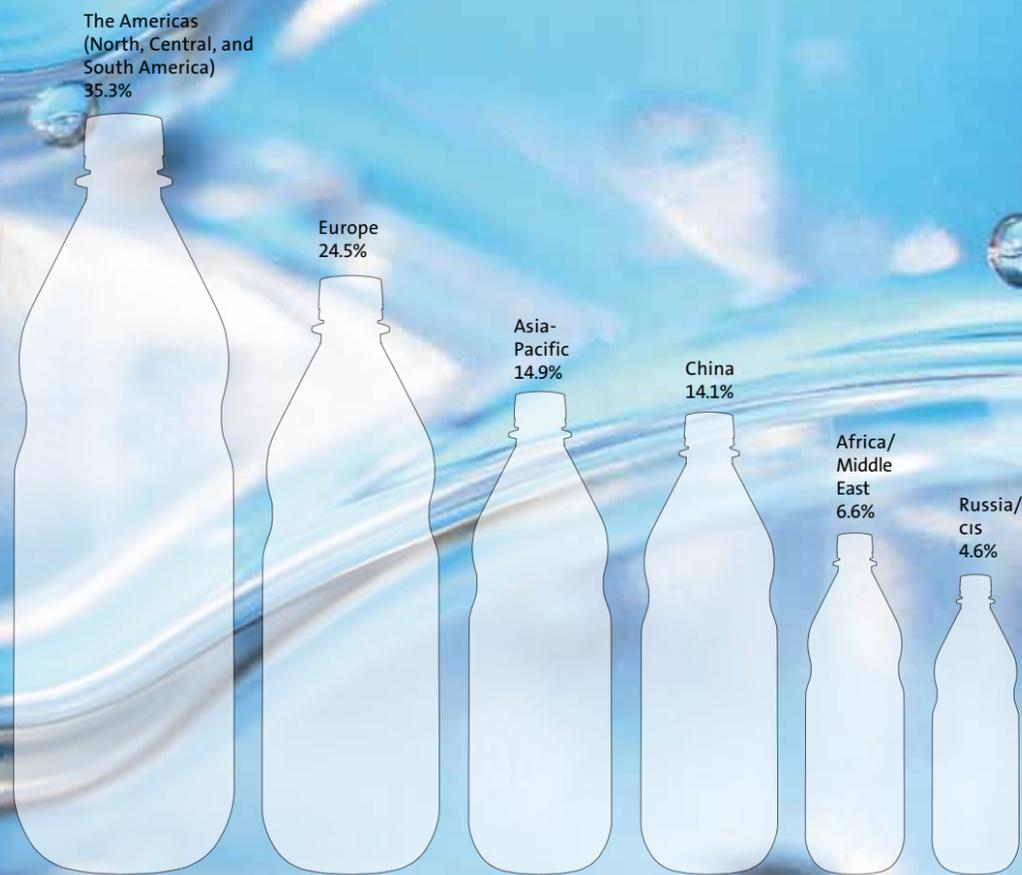
Because demand for carbonated soft drinks (CSDs) is almost saturated, particularly in the industrialised countries, CSD consumption is expected to rise only 1.8%. In 2010, people drank around 208 billion litres of CSDs worldwide, which corresponds to 22.5% of total beverage consumption.

Among alcoholic beverages, beer is the favourite. Last year, consumers quenched their thirst with more than 186 billion packaged litres of »the juice of the barley«. That puts beer's share of global beverage consumption at around one-fifth. While beer is rapidly gaining ground in Asia – especially China – demand in Europe and North America is growing only slowly. All told, beer consumption is likely to expand by around 3% on average per year through 2013. The world's citizens consumed around 125 billion litres of packaged milk in 2010 (share of total beverage consumption: 13.6%). Market analysts are forecasting about 2% annual growth for this, the fourth-largest, beverage segment.

### Thirst is a constant

Beverage consumption worldwide is growing at average rates of over 3%. Thirst doesn't follow economic cycles. Even during the global financial and economic crisis of 2009, demand for packaged beverages remained stable.

As prosperity increases in emerging markets such as China and Africa, these regions' share of global beverage consumption is also growing. More than one-third of all packaged beverages are consumed in the Americas.



Shares of global beverage consumption in 2010

Sources: Euromonitor, own estimates

### Beverage consumption by region

Packaged beverages	2010		2013		Annual growth %
	billion litres	%	billion litres	%	
Share of global consumption					
North America/Central America	183.3	19.8	185.5	18.2	0.4
South America	142.6	15.5	159.9	15.6	3.9
Asia-Pacific (incl. Japan)	137.3	14.9	156.6	15.3	4.5
Western Europe	136.7	14.8	141.9	13.9	1.2
China	130.3	14.1	166.0	16.2	8.4
Africa/Middle East	61.2	6.6	74.4	7.3	6.7
Central Europe	53.4	5.8	55.0	5.4	1.0
Russia/cis	42.8	4.6	45.7	4.5	2.2
Eastern Europe	35.9	3.9	37.2	3.6	1.2
<b>Worldwide</b>	<b>923.5</b>	<b>100.0</b>	<b>1,022.2</b>	<b>100.0</b>	<b>3.4</b>

Sources: Euromonitor, own estimates

*Demand for packaged beverages is rising only slowly in the established industrialised countries, but growth is high in markets like China and Africa.*

At just under 326 billion litres, more than one-third of all packaged beverages worldwide were consumed in the Americas in 2010. The world's largest regional beverage market is expected to expand by about 1.9% per year through 2013. While growth in North America will be slow, consumption of packaged beverages in South America is expected to increase by almost 4% annually.

Europeans consumed 226 billion litres of packaged beverages, almost a quarter of the worldwide total, in 2010. Consumption in Europe is expected to grow considerably more slowly than the global market, averaging 1.1%. The Chinese market promises the highest growth rates worldwide. China's booming economy is reflected in its burgeoning market for packaged beverages. Consumption of packaged beverages in China totalled around 130 billion litres in 2010 and is expected to exceed 166 billion litres in 2013. That corresponds to average annual growth rates of 8.4%. Experts are forecasting similarly rapid growth in demand for the Middle East and Africa. However, the beverage market there is only about half the size of China's.

### Demand for PET packaging is rising

The most commonly used materials for beverage packaging are plastic, glass, metal, and paperboard (cartons). KRONES produces machines and lines for handling plastic and glass bottles and metal cans. Machines for producing, filling, and packaging PET bottles account for the largest share of our sales revenue.

When deciding which materials to fill their products in, beverage producers are giving increasing weight to environmental considerations alongside economic factors. Because plastic packaging offers many advantages in both of these respects, there has for years been a trend toward containers made of polyethylene terephthalate (PET).

In beverage production, packaging is responsible for the lion's share of costs. Simply put: The lighter the container, the higher the return. Innovative production processes have made it possible to continually reduce the amount of granulate needed to produce plastic bottles. KRONES has designed a 0.33-litre PET bottle that weighs only 4.4 grams. PET bottles require considerably less fuel to transport than glass bottles, which makes for economic and environmental benefits. Recyclability is another positive environmental aspect of PET bottles. KRONES' bottle-to-bottle PET recycling system processes used bottles and transforms them into food grade granulate that can be used to make new bottles. PET also offers another advantage for beverage companies: Because plastic bottles can be produced in myriad shapes and sizes, bottlers can use their packaging to distinguish their products from the competition.

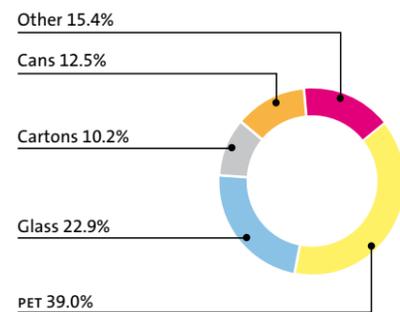
In 2010, 39% of all packaged beverages worldwide were bottled in PET. Plastic is an especially popular packaging choice for water and carbonated soft drinks. Thus, rising demand for water is an important force driving demand for PET packaging. The volume of beverages packaged in PET containers is expected to grow by 3.8% on average per year from 2010 to 2013. The second most popular packaging material based on packaged volume is glass (2010 share: 22.9%). Since consumption of beer, which is primarily bottled in glass, is likely to expand more slowly than the rest of the beverage market in the years ahead, expectations for growth in glass packaging are just 1.3%.

Metal cans took third place among packaging materials in 2010 (share: 12.5%). Since beer is increasingly being filled into metal cans instead of glass bottles, the volume of beverages packaged in cans is likely to expand by 3.7% on average per year through 2013.

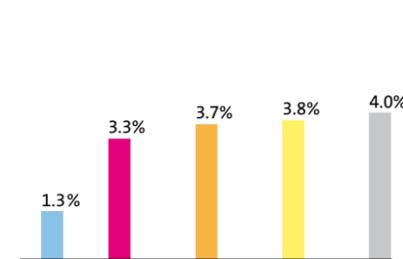
A good 10% of all packaged beverages went into paperboard cartons in 2010. Cartons benefited from rising demand for milk and milk-based drinks. In all, the volume of beverages packaged in cartons is expected to grow by 4% annually.

*The amount of PET material needed to produce one container is shrinking steadily and PET bottles are 100% recyclable.*

Global beverage market by packaging material in 2010



Average annual growth of packaging types through 2013



Sources: Euromonitor, own estimates

*PET is the leading packaging material worldwide.*

### Germans love fruit juice

Sixty years ago, average per capita consumption of fruit juices and fruit nectars in Germany was just less than 2 litres per year. Today, it is up to around 37 litres. Germans are now the world champions in terms of fruit juice consumption. The most popular choice is orange juice, which surpassed apple juice for the top spot last year.



Consumption of fruit and vegetable juices in 2010 (billion litres)

Sources: Euromonitor, own estimates



### Americans love carbonated soft drinks

Carbonated soft drinks are part of the American lifestyle. More than half of total CSD consumption worldwide falls to North and South America. Because demand in North America is almost saturated, the segment is growing much more slowly worldwide than the beverage market as a whole. The Middle East and Northern Africa are the only regions where demand for carbonated soft drinks is likely to rise substantially.

The Americas (North, Central, and South America) 109.0



Consumption of carbonated soft drinks in 2010 (billion litres)

Sources: Euromonitor, own estimates

### KRONES' sales regions

The following provides an overview of the popularity of beverages in each of our most important sales regions as well as a breakdown of each regional beverage market by packaging material. The information is based on packaged beverage volume in litres.

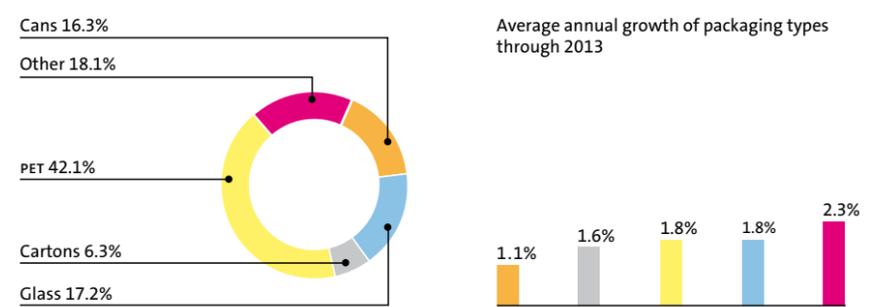
#### The Americas

##### North America

Carbonated soft drinks (CSDs) are the most popular thirst quencher in North America, accounting for around one-third of total beverage consumption. Because PET bottles and metal cans are the most common packaging material for CSDs, cans hold a greater share of the packaging market (23.8% in 2010) in North America than they do in the rest of the world. PET is the leading packaging material by far, with a market share of 46%. Water, North America's second most popular beverage, is also often packaged in PET. Glass containers and paperboard cartons, with shares of 10.6% and 3.4%, respectively, do not play a major role in North America.

*North Americans consume around 60 billion litres of carbonated soft drinks each year.*

Shares of the beverage packaging market in the Americas (North, Central and South America) in 2010



Sources: Euromonitor, own estimates

##### South America

CSDs are also the top beverage among South Americans, accounting for 34% of total consumption in 2010. Unlike in North America, CSDs are rarely packaged in cans in South America. The most common packaging material for CSDs here is PET, followed by glass. PET is also the overall leader among packaging materials in general in South America, with a share of 37%. Glass containers made up 25% of the market in 2010. Glass holds a considerably larger share of the market here than in North America because beer is most often bottled in glass in South America.

### The Czechs are world champions in beer drinking

While beer output is declining in the industrialised countries of the West, beer is booming in China. China is far and away the biggest beer market, followed by the USA. But when it comes to per capita consumption, the Czechs are way out in front. On average, Czechs drank 155 litres of beer per person in 2009. Austria and Germany ranked second and third, at 106 litres and 104 litres, respectively.



Beer consumption in 2010 (billion litres)

Sources: Euromonitor, own estimates

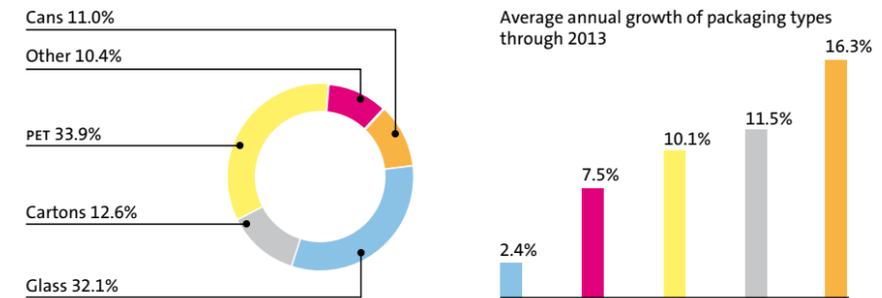
### China

Like China's entire economy, beverage consumption and therefore demand from the packaging industry is growing rapidly. The Chinese like beer. In 2010, beer made up more than one-third of all packaged beverages. The »juice of the barley« is packaged primarily in glass bottles. For this reason, glass holds a large share of the Chinese packaging market, 32.1%. But PET replaced glass as the leading packaging material last year, with a 33.9% share of the market. In China, as in the rest of the world, water is often bottled in PET. Plastic is also a preferred packaging material for tea as well as fruit and vegetable juices. Both of these beverage types are very popular in China, with consumption rising rapidly. Experts expect demand for PET packaging to grow 10% on average for the coming years.

*PET unseated glass as the leading packaging material in China in 2010.*

Because beer is increasingly being packaged in cans in China, the average growth rate for cans will likely be above 16%. At present, cans make up 11% of the Chinese beverage packaging market, which puts them behind PET, glass, and even paper-board cartons (12.6%).

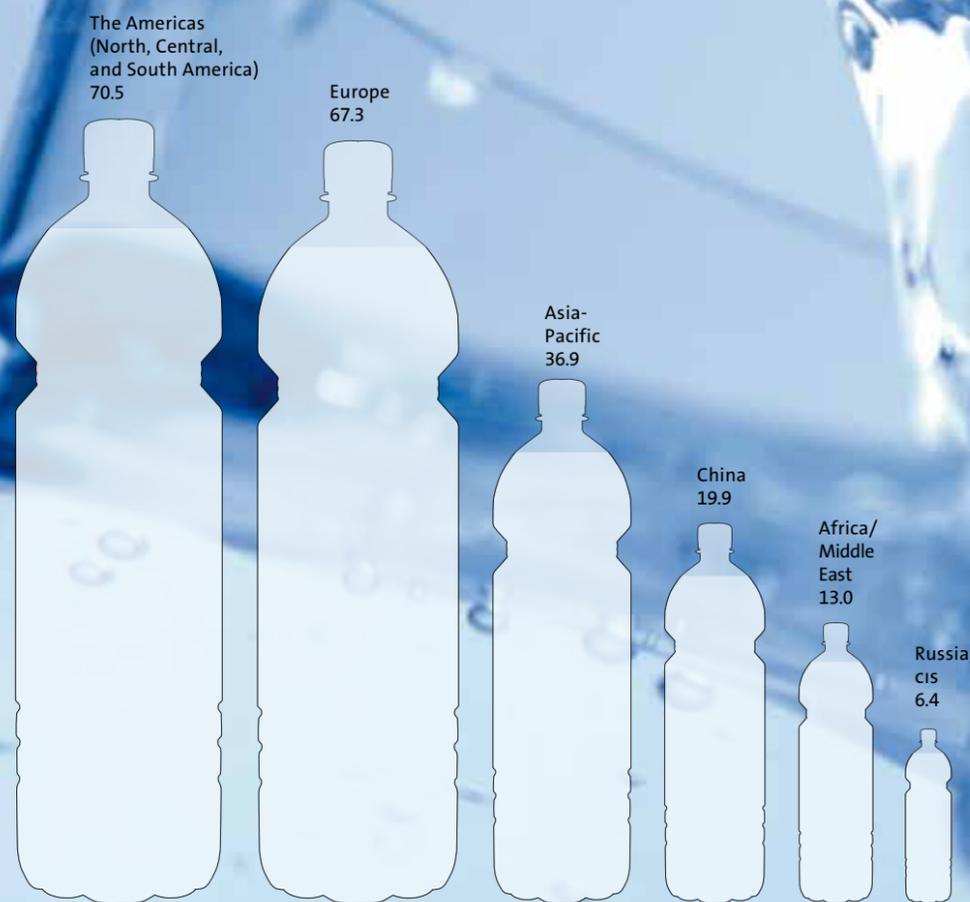
Shares of the beverage packaging market in China in 2010



Sources: Euromonitor, own estimates

### Still water is popular

Demand for bottled water has been booming for years. In the period from 2010 to 2013, alone, water consumption is expected to grow almost 5% annually. And it's no wonder. Water is the perfect thirst quencher – and it's very versatile. It is available in many forms: still or carbonated, plain or flavoured, and even as functional water – that is, water that has been enriched with vitamins, minerals, and/or oxygen. While still water was once considered boring, it now accounts for around 80% of global consumption.



Water consumption in 2010 (billion litres)

Sources: Euromonitor, own estimates

### Europe

#### Western Europe

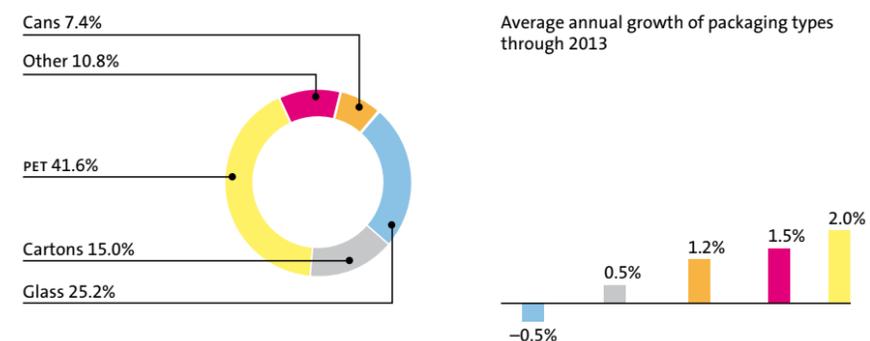
Bottled water makes up one-third of total beverage consumption in Western Europe. Around 80% of bottled water in the region is packaged in PET containers. Demand for milk is also high (market share: 19.7%). Western Europeans drink more milk than carbonated soft drinks (market share: 17.1%). On the packaging market, glass (20.3%) and paperboard cartons (14.6%) both trail far behind PET (42%). Glass and cartons are expected to lose even more ground in the years ahead as water consumption – and therefore demand for PET bottles – continues to rise.

*Western Europeans drink more milk than carbonated soft drinks.*

#### Central Europe

Water is also the most popular industrially packaged beverage in Central Europe. Of the total volume of beverages consumed in the region in 2010, bottled water accounted for around 25%. The popularity of beer is reflected in glass' large share of the regional packaging market (35.2%). PET is the leading packaging material in Central Europe, though, with a market share of 40.4%. Besides water, carbonated soft drinks are also primarily bottled in PET. Around 17% of all beverages, mostly milk and fruit and vegetable juices, were packaged in paperboard cartons in Central Europe in 2010.

Shares of the beverage packaging market in Western, Central, and Eastern Europe in 2010



Sources: Euromonitor, own estimates

#### Eastern Europe

With a 27% share of total beverage consumption, beer was the most popular thirst quencher among Eastern Europeans in 2010. Because beer consumption, unlike water consumption, is expected to increase only slightly in the future, water (2010 market share: 24.6%) will soon replace beer as the region's favourite beverage. This will further consolidate PET's lead among packaging materials in Eastern Europe. Last year nearly 42% of all beverages there were packaged in PET containers. Since beer is mostly bottled in glass in Eastern Europe, glass held a far larger share of the packaging market (28.7%) than paperboard cartons (13.5%) and cans (9.3%) in 2010.

### Milk – it does a body good and it keeps well

Milk is offered in many different varieties. It is easy for consumers to lose track of what is what. Basically, there are three types of milk: fresh milk, ESL milk, and UHT milk. The difference lies in how the raw milk is treated.

Fresh milk is pasteurised, that is, heated to between 72 and 75 degrees Celsius for 15 to 30 seconds. Milk loses about five percent of its vitamins in this process. Fresh milk will keep for up to 10 days in an unopened container.

Fresh milk is increasingly ceding market share to ESL milk. ESL stands for »extended shelf life«, which is achieved by briefly heating the raw milk to as high as 127 degrees Celsius in addition to regular pasteurisation. An alternative form of treatment is microfiltration, in which the skim milk is filtered separately from the cream and bacteria and spores removed. ESL milk has less vitamin content than fresh milk, but will keep at least twice as long.

UHT (or long-life) milk has been heated to 150 degrees Celsius and will keep for three months in an unopened container.

KRONES offers customised solutions for each treatment type.

The Americas  
(North, Central,  
and South America)  
42.8

Europe  
38.4

Asia-Pacific  
23.4

China  
8.2

Russia/  
CIS  
6.3

Africa/  
Middle  
East  
6.1



Milk consumption in 2010 (billion litres)

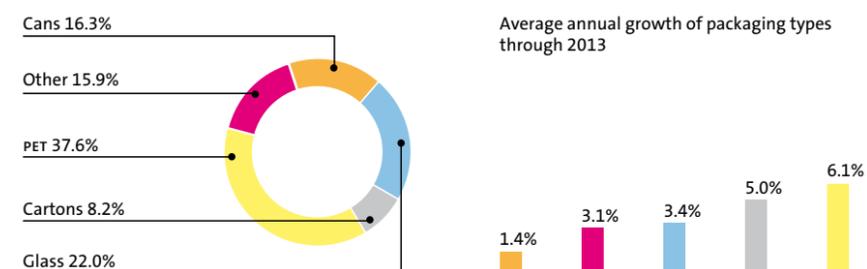
Sources: Euromonitor, own estimates

### Asia-Pacific

People are very health conscious in the Asia-Pacific region. They drink a lot of water and milk. Demand for bottled water is growing more than 7% annually. In 2010, water accounted for 26.9% of total beverage consumption. Consumers' strong preference for water is good for PET, already the number one packaging material in the region. Last year 37.6% of all beverages there were bottled in PET. The volume of beverages bottled in PET is expected to increase by around 6% each year from 2010 to 2013.

*The volume of beverages packaged in PET is rising by around 6% each year on average in the Asia-Pacific region.*

Shares of the beverage packaging market in Asia/Pacific in 2010

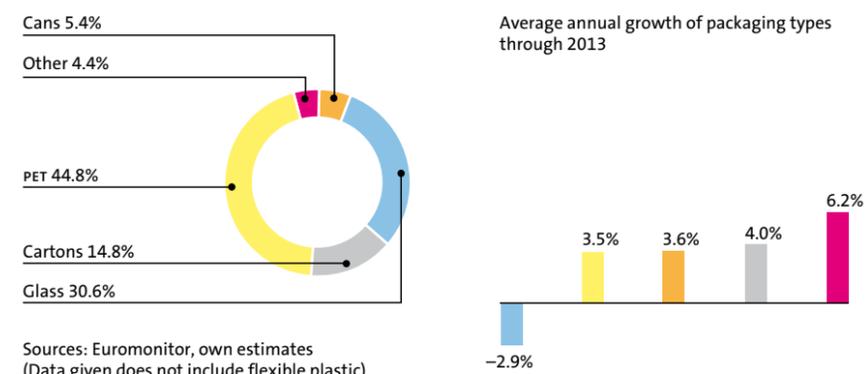


Sources: Euromonitor, own estimates  
(Data given does not include flexible plastic)

### Russia/CIS

In Russia and the countries of the former Soviet Union, unlike in other parts of the world, beer is often bottled in PET as well as water and carbonated soft drinks. Since beer is very popular in the region, accounting for 31.9% of total beverage consumption in 2010, PET's share of the beverage packaging market is also higher than average (44.8%). However, demand for beer is almost saturated. Consumption of bottled water is growing more than 5% annually. Water is currently the third most popular beverage in the region with 15.0% of the market, behind CSDs (16.3%). Use of glass bottles (2010 market share: 30.6%) will likely decline because the schnapps market is shrinking and beer is increasingly being filled into PET bottles and cans.

Shares of the beverage packaging market in Russia/CIS in 2010



Sources: Euromonitor, own estimates  
(Data given does not include flexible plastic)

KRONES AG in figures

Due to the economic crisis, KRONES posted the first-ever net loss in the company's history in 2009. KRONES AG substantially improved its business figures last year.

Sales were up 18.1% on the previous year, to €1,882.4 million. EBIT for 2010 was +€15.9 million (previous year: -€75.3 million). Due to extraordinary factors such as the first-time application of Germany's Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz - BilMoG), KRONES AG is posting a net loss for 2010 of €2.7 million (previous year: net loss of €81.6 million). At the end of 2010, KRONES AG had net cash and cash equivalents of €75.9 million and no bank debt.

KRONES AG sales 2006 - 2010 (€ million)



- Sales up sharply in 2010
- KRONES AG results improve substantially
- KRONES pays out dividend of €0.40 per share

**KRONES AG sales improve 18.1% to €1,882.4 million**

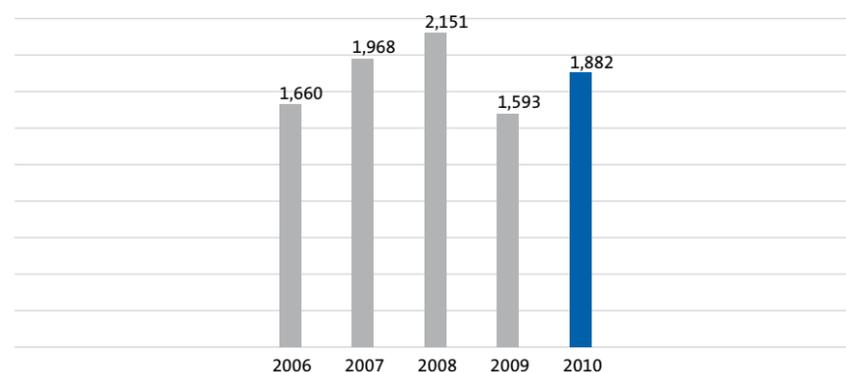
The global economic recovery in 2010 also benefited KRONES and the international packaging and beverage industries in general. The target market for our company's products and services grew by an estimated 6% last year. During the crisis of 2009, we remained steadfast in our belief that our markets would recover quickly. For this reason, we maintained our workforce and production capacities despite the short-term negative impact on earnings. As a result, KRONES was well prepared to handle the growth that came with recovery and was able to benefit more than proportionately from last year's surge in demand.

At €1,882.4 million, 2010 sales were up 18.1% on the previous year's figure of €1,593.3 million. Both our new machinery business and our services business, which we have expanded considerably in recent years, contributed to this improvement. The high rate of growth also reflects our strong position on the burgeoning Asian markets, particularly China. As the leading supplier of machines and lines for producing, filling, and packaging plastic (polyethylene terephthalate – PET) bottles, KRONES benefited from continued high demand for PET packaging. KRONES' position as a full-service supplier, delivering complete solutions as well as individual machines, also paid off last year.

*KRONES outpaced the market in 2010.*

*In 2010, sales at KRONES AG did not yet reach their pre-crisis level.*

KRONES AG sales (€ million)



**Sales by region**

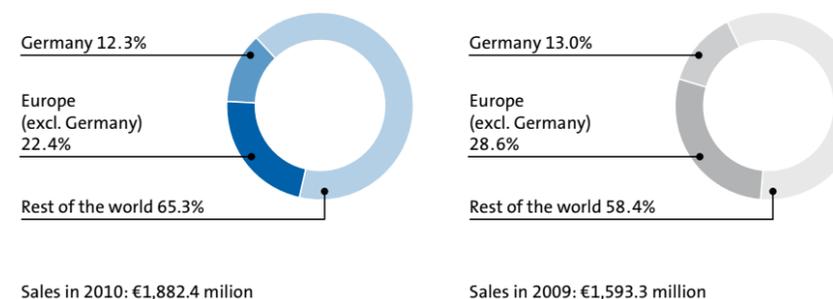
After a slow start to 2010, KRONES' business in Germany gathered momentum as the year progressed. In part, this reflects the strengthening of the German economy over the course of the year. All told, sales in Germany grew 11.6% year-on-year to €230.9 million (previous year: €207.0 million). The share of sales generated in Germany decreased from 13.0% to 12.3% in the reporting period.

Sales in the rest of Europe in 2010 fell short of the year-earlier level. The Eastern European markets had not yet recovered from the deep slump they had suffered during the economic crisis. At €422.5 million, sales in Europe (excluding Germany) were down 7.3% in 2010 from the previous year's €455.6 million. We are confident that the situation will improve this year. At the time this report went to press, we were seeing appreciable signs of recovery, particularly in Russia. Only 22.4% of total sales in 2010 were generated in the »Europe (excluding Germany)« sales region. In 2009, the figure was 28.6%.

Business was much better in the rest of the world during the reporting period, with demand from China, the rest of Asia, and South America up sharply from the previous year. KRONES AG's sales generated outside Europe rose 32.1%, from €930.7 million a year earlier to €1,229.0 million in 2010. That is the highest figure for sales generated outside Europe in KRONES' history. Continued weak business in North America prevented our sales growth from being even stronger. In 2010, KRONES generated 65.3% of total sales outside Europe (previous year: 58.4%).

*KRONES AG's ratio of exports to total sales was 87.7% in 2010.*

KRONES AG sales by region (%)



### Sales by industry

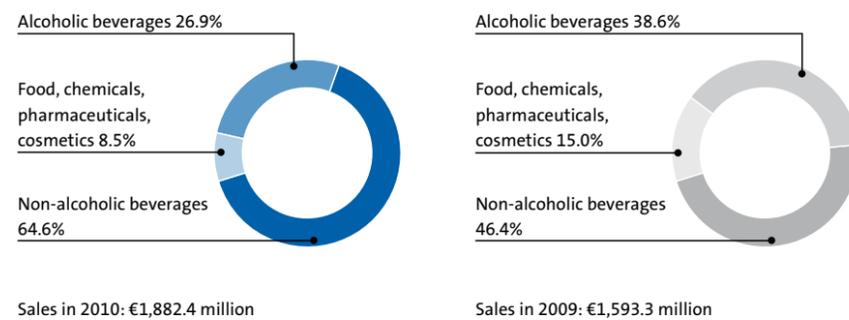
Sales to producers of soft drinks, bottled water, and juices increased 64.6% from €738.5 million in 2009 to €1,215.9 million in 2010. Demand from the bottled water industry picked up considerably in the reporting period. The »non-alcoholic beverages« sector accounted for 64.6% of sales in 2010, which is up from 46.4% in 2009.

Sales to companies in the »alcoholic beverages« sector declined 17.6% to €507.0 million (previous year: €615.6 million). Weak demand from Eastern Europe and Russia had a negative impact here. The sector's share of sales decreased from 38.6% to 26.9%.

In the non-beverage sectors (food, chemicals, pharmaceuticals, and cosmetics), KRONES includes sales to the growing dairy industry under »food«. KRONES' sales in this area declined by one-third to €159.5 million (previous year: €239.2 million) and accounted for 8.5% of total sales (previous year: 15.0%).

*KRONES generated 80% of its sales with companies in the beverage industry last year.*

KRONES AG sales by industry



### New orders and orders on hand

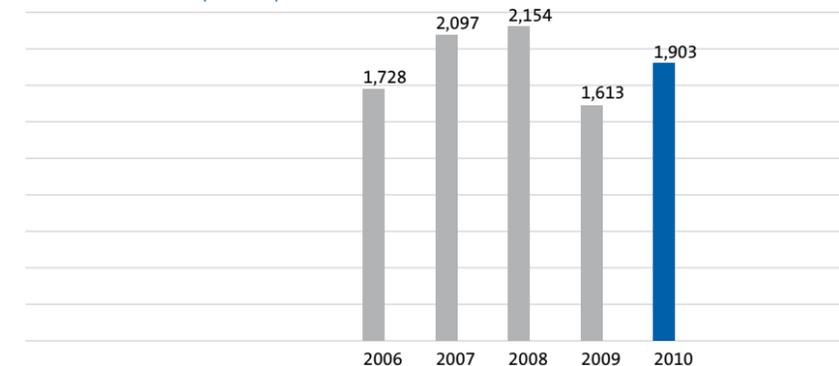
#### New orders up sharply

During the financial and economic crisis of 2009, fears of a lasting recession had our customers reluctant to make capital investments. The turning point that put our customers in a spending mood was the »drinktec« trade fair – the premier trade fair for our industry worldwide – which took place in September 2009 and was a great success for KRONES. The positive trend continued last year and demand for our products and services from companies in the international food and beverage industry grew steadily. In the fourth quarter of 2010, new orders even inched closer to their pre-crisis level. All told, new orders at KRONES were up 18.0% year-on-year from €1,613.4 million to €1,903.1 million. In particular, our energy and resource-saving machines and lines were increasingly well received.

*New orders at KRONES were up 18.0% to €1,903.1 million last year.*

KRONES had strong orders inflow from China last year. Demand for our products and services in the rest of Asia and in South America also rose sharply year-on-year. By contrast, the markets of Eastern Europe, which had slumped sharply in 2009, recovered very slowly. New orders in the United States also did not yet bounce back in 2010.

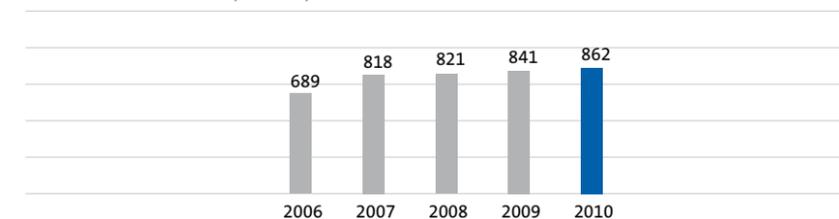
KRONES AG new orders (€ million)



#### Orders backlog at record level

At 31 December 2010, the company had orders on hand totalling €862.1 million (previous year: €841.4 million). That is the highest year-end orders backlog in our company's history. The comfortable orders cushion provides a good foundation on which to further build sales revenue in 2011.

KRONES AG orders on hand (€ million)



## KRONES AG posts operating profit for 2010

Amid the crisis of 2009, KRONES had posted the first-ever net loss in the company's history. The general recovery of our markets and resulting increase in sales revenue helped us return to operating profitability in 2010. Earnings before interest and taxes (EBIT) turned around, from –€75.3 million in the previous year to +€15.9 million. Earnings before taxes (EBT) also improved substantially year-on-year from –€80.8 million to –€4.2 million. One of the main reasons earnings before taxes (EBT) was negative (as opposed to EBIT, which was positive) was one-off effects from the transition to Germany's Accounting Law Modernisation Act (BilMoG), primarily in the form of additional expenses relating to pension provisions. In the interest of completeness, we have chosen not to exercise the option of spreading the transition effects (essentially, accounting for pension increases and a lower discount rate for pension provisions) over a maximum of 15 years and have instead recognised the full amount of these effects in 2010, under »extraordinary result«. All told, the one-time effects of the BilMoG transition resulted in an €11.7 million reduction in earnings before taxes. Write-downs of long-term financial assets (€16.1 million) also cut into EBT. The substantial savings achieved through our »Conversion« programme contributed to the substantial improvement in earnings overall. The tense price situation prevented us from achieving an even better result. Although prices on our markets did improve somewhat over 2009 as demand increased, earnings quality in 2010 was still unsatisfactory.

(€ million)	2010	2009	Change
Sales	1,882.4	1,593.3	18.1%
Changes in finished goods inventories and work in progress	30.0	1.4	
Total operating revenue	1,912.4	1,594.7	19.9%
Cost of materials	–1,057.7	–945.0	11.9%
Personnel expenses	–565.4	–510.4	10.8%
Net of other operating income (expenses) and own work capitalised	–230.8	–172.7	33.6%
EBITDA	58.5	–33.4	
Depreciation, amortisation, and write-downs of fixed assets	–42.6	–41.9	1.7%
EBIT	15.9	–75.3	
Net financial income (expense)	–8.4	–5.5	
Extraordinary result	–11.7		
EBT	–4.2	–80.8	
Taxes on income	2.5	0.1	
Other taxes	–1.0	–0.9	
Net loss for the financial year	–2.7	–81.6	

*KRONES AG improved its bottom line, from a net loss of €81.6 million in 2009 to a net loss of €2.7 million in 2010.*

KRONES AG's total operating revenue increased 19.9% year-on-year to €1,912.4 million in 2010. Analysis of the abridged income statement clearly shows how that affected earnings.

Cost of purchased services rose 29.1% year-on-year to €248.4 million in 2010. The increase was due primarily to the fact that KRONES hired more temporary workers to handle the large orders backlog in 2010. At €1,057.7 million, total cost of materials exceeded the year-earlier amount of €945.0 million by 11.9%. Because this increase is considerably less than the increase in total operating revenue, the ratio of cost of materials to total operating revenue decreased from 59.3% the previous year to 55.3%.

Personnel expenses rose 10.8% to €565.4 million during the reporting period. In 2010, KRONES benefited from more flexible working time models that were developed in cooperation with the Works Council. This was among the factors that helped to improve the ratio of personnel expenses to total operating revenue from 32.0% to 29.6%.

At €42.6 million in 2010, depreciation, amortisation, and write-downs of fixed assets were virtually unchanged from the previous year (€41.9 million). Other operating expenses – netted against other operating income – increased by around one-third on increased business activity.

Although KRONES AG had no bank debt at 31 December 2010, the company is posting a financial expense of €8.4 million (previous year: financial expense of €5.5 million). This is due to financial reporting changes under BilMoG, which requires that the interest portion of long-term provisions such as those for pensions be recognised as interest expense (previously: personnel expense). Write-downs of long-term financial assets also had a negative impact on the financial result.

The net loss for 2010 amounted to €2.7 million, after a net loss of €81.6 million the previous year.

## KRONES AG's financial position

As at the reporting date for the previous year, KRONES AG had no bank debt at 31 December 2010 despite financing a sharp increase in sales. KRONES achieved this comfortable position by making prepayment agreements, streamlining production processes, and further improving receivables management. Because KRONES had to finance dramatic sales growth in 2010, cash and cash equivalents were down year-on-year at the reporting date.

KRONES AG's cash flow (net income or loss for the year plus depreciation, amortisation, and write-downs) amounted to +€56.0 million in 2010 (previous year: –€21.6 million).

(€ million)	2010	2009
Fixed assets	431.7	429.9
Current assets and prepaid expenses	716.1	739.1
of which cash and cash equivalents	75.9	146.3
Equity	498.2	537.9
Total debt	649.6	631.1
Provisions	435.6	437.6
Liabilities	214.0	193.5
<b>Total</b>	<b>1,147.8</b>	<b>1,169.0</b>

Despite the increase in sales volume, KRONES AG's total assets at 31 December 2010 were down 1.8% year-on-year to €1,147.8 million.

At the end of 2010, KRONES had fixed assets totalling €431.7 million (previous year: €429.9 million). The increase was only slight because the company held back on capital spending in the year following the financial crisis. A detailed statement of changes in fixed assets can be found in the notes to the financial statements on page 86.

Despite the considerable increase in business volume, current assets decreased from €737.9 million to €714.9 million. The company's inventories and trade receivables both increased. Trade receivables were up a moderate 6.3% from €372.6 million to €396.1 million. The changed treatment of treasury shares under BilMoG affected the balance sheet. Instead of being measured at their purchase cost (€37.1 million) as they were in the previous year, the shares – which have performed positively – had to be treated as »cancelled« under BilMoG although nothing about their status had in fact changed.

At 31 December 2010, KRONES AG had cash and cash equivalents totalling €75.9 million.

KRONES AG's equity was down year-on-year from €537.9 million to €498.2 million in 2010. This is due essentially to the changed recognition of treasury shares under BilMoG. As a result, the equity ratio decreased from 46.0% to 43.4%, which is still well above the industry average.

Provisions changed only slightly, from €437.6 million to €435.6 million. Pension provisions were up considerably since, under BilMoG, future cost increases (pension increases) and a substantially lower market interest rate must be taken into account. In the interest of full disclosure of our assets and liabilities, we have opted to recognise the full transition effect in 2010 instead of spreading it out over several years as is also permissible under the new rules.

KRONES had no bank debt at the end of 2010. Thus, we were able to maintain our financial independence. Liabilities were up slightly, from €193.5 million to €214.0 million, due to the increase in business volume and due to technical reasons at the reporting date.

*At the end of 2010, KRONES AG had an equity ratio of 43.4% and net cash and cash equivalents totalling €76 million.*

*In all, KRONES AG stands on a very sound footing. The company had an equity ratio of 43.4% and no bank debt at 31 December 2010. Earnings in 2010 were affected by unsatisfactory earnings quality as well as the one-off effects described above.*

- enviro sustainability programme guides R&D activities
- Effective dialogue with customers and suppliers
- Many innovations added to KRONES product range
- KRONES AG invests 5%–6% of sales in R&D each year

We invest a great deal of energy and money in research and development in order to secure and expand our technological leadership. KRONES' R&D team is made up of more than 1,700 highly qualified people. Part of the team focuses on advancing strategic development efforts. The rest, the majority, of the team works to continually improve existing products and services and further increase the benefits they offer our customers. Ensuring line uptime and efficiency throughout the entire lifecycle is a major focus.

In our industry, it is important to protect innovations and knowhow under intellectual property law. In recent years, KRONES has implemented a very successful patent strategy, which is reflected in a steep increase in registered patents. At the end of the reporting period, KRONES had approximately 2,000 registered patents and utility models (previous year: around 1,600).

#### enviro is an integral part of research and development at KRONES

With the enviro sustainability programme, launched in 2008, KRONES established a standard of energy and media efficiency for machines and lines in the packaging industry. This standard has also helped shape our company's research and development efforts. Nowadays, environmental impacts and conservation of resources are considered right alongside traditional aspects such as technical performance data and machine reliability. All KRONES developments are now guided by the enviro programme, which earned TÜV SÜD certification in 2009.

We look at the entire beverage production and filling process and perform a detailed analysis of the machines' consumption data. Our engineers then work out intelligent solutions for minimising consumption. The result of this development work is lines that save our customers energy and other media such as water and compressed air over the long term. With that, we are able to offer our customers real added value and secure our own competitive advantage.

We involve our customers in the development process so that we can continually improve the products and services we offer. In events such as last year's Expert Dialogue at KRONES, we gather important information such as where operators want to see the biggest reductions in energy and media consumption.

KRONES also passes the demand for increased efficiency of all components on to its suppliers through our ongoing creative dialogue.

*KRONES invests substantially in R&D to continually develop new products and technologies.*

## Innovations in 2010

The fruit of our R&D labours can be seen in the large number of innovative machines and lines that KRONES takes to market. Below is a sampling of the innovations from 2010.

KRONES continues to set the standard in stretch blow-moulding through ongoing development and innovation of the Contiform. We have further increased blow-moulding speed while at the same time cutting consumption of energy and compressed air by as much as 25%. That increases the customer benefit tremendously. With the Contifeed preform feeder, which was developed in-house and includes automatic troubleshooting features, KRONES has boosted the Contiform's efficiency even further.

KRONES FlexWave is an innovative microwave heating technology for heating preforms. The concept is extremely energy efficient and flexible. The very short preform heating time significantly reduces the number preforms that are inside the oven at one time, which translates to extremely low preform losses in the event of an unplanned stop. In addition, no start-up times are needed for reheating the system. FlexWave allows for a great deal of process variability, independent of preform colour, the PET material used, or the amount of recycled material used. It is truly a unique selling point for KRONES. Even multicoloured preforms are no problem.

Demand for fruit juices containing fruit chunks, fibres, or pulp will increase substantially in the years ahead. For this product segment, KRONES has developed a fully integrated process that covers every step from product treatment to filling. The fruit bits and the juices undergo thermal treatment separately in the VarioFlash/VarioAsept and are then fed into the filler separately. They »meet« in the bottle.

ProShape is a process that KRONES developed for producing oval or asymmetrical plastic containers. With this innovative technology, KRONES is tapping considerable market potential outside the beverage industry.

KRONES' new PREDOSING filling technology offers decisive advantages. The design is simple and very flexible in terms of which products are handled. Short changeover times and precisely dosed materials ensure low operating costs. This innovative technology is available for hot filling and aseptic filling.

To complement our proven »wet sterilisation« aseptic filling process, PETAsept L, KRONES has developed a »dry sterilisation« portfolio that meets all customer needs for packaging beverages under aseptic conditions. It includes the PETAsept D and PETAsept D compact, which provide the utmost flexibility for an output range of up to 12,000 containers per hour.

We further improved the ErgoBloc L primary packaging system for bottling beverages in PET. The system has been very well received by the market. Apart from producing, labelling, filling, and capping the bottles it also includes a KRONES Contifeed and a KRONES Capcade, which feed preforms and closures into the system. It is a highly efficient and flexible overall solution with an extremely small footprint. With the ErgoBloc L, KRONES has set new standards for cost-effectiveness, sustainability, and ergonomics.



*The Contiform stretch blow-moulder is now even faster and more efficient.*



*FlexWave technology can handle multicoloured PET preforms.*



*ProShape is an innovative process for producing oval and asymmetrical plastic containers.*



*KRONES has expanded its product range for aseptic filling of PET bottles.*

## Lifecycle Service (LCS) KRONES' services business

- International Service Centres expanded
- LCS offers new service
- Academy trains more coaches

As a full-service supplier, KRONES makes services a top priority. Our customers around the globe need their machines and lines to run smoothly, without interruption, to produce consistently high quality products. More and more, they are entrusting critical segments of their value chains to KRONES. We offer continuous support to ensure smooth production at our customers' plants. We offer preventive services to avoid machinery downtimes as much as technically possible. If problems arise despite these measures, we resolve them quickly. To do so, we must have service specialists and spare parts available locally, around the globe. KRONES has vastly expanded its services business in the past several years in order to meet these requirements.

LCS employs more than 1,800 highly qualified people, all working to ensure that KRONES' customers receive a comprehensive range of top-quality products and services no matter when or where they need them. LCS covers all maintenance and repair services, spare parts and change parts, individual services, software tools, and training for all of our segments.

### KRONES LCS portfolio

#### LCS Services

- OnSite: Traditional maintenance and repair at the customer's plant.
- Productivity: We use state-of-the-art analysis methods to optimise lines and make them more cost-effective.
- Support: Rapid response in emergencies with 24/7 hotline and remote maintenance.
- Training: Customer-oriented training for line operating and maintenance personnel.
- Design: All-around service for designing new PET containers.

#### LCS Parts + Software

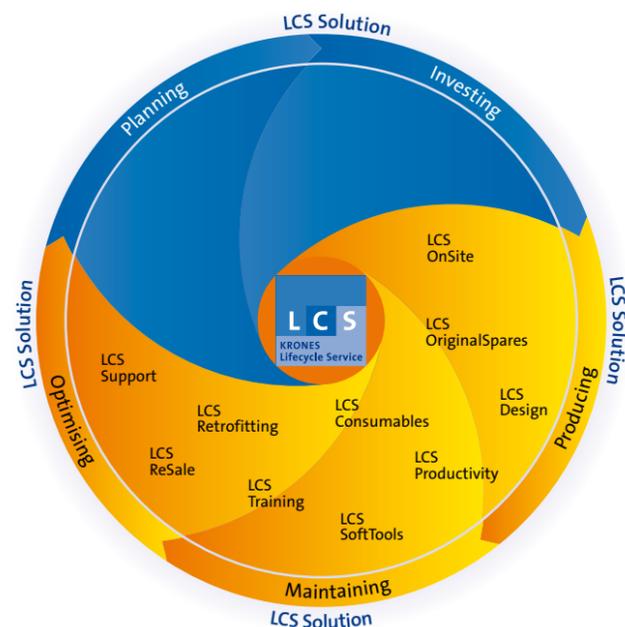
- OriginalSpares: We deliver original KRONES spare parts and spare parts refurbished by KRONES quickly and reliably and in the highest quality.
- Retrofitting: Fast, efficient retrofitting of lines. We also boost machine productivity by incorporating newly developed components or control programs.
- Consumables: High-quality materials that ensure optimum machine performance plus labelling adhesives, lubricants, and cleaning agents from KIC KRONES.
- SoftTools: Software that records and analyses a variety of machine data to ensure early detection of maintenance needs.



*More information is available at [www.krones.com/en/lcs.htm](http://www.krones.com/en/lcs.htm)*

*The LCS portfolio is a modular concept. Customers can pick and choose individual elements to create their own customised service programme.*

With this unique range of products and services, KRONES supports its customers throughout the entire lifecycle of their machines and lines. It begins in the planning and investment phase, in which we work with our customers to precisely define their requirements and then put the line into operation safely and securely. Once production begins, we do more than merely ensure that the line keeps running and maintains its value. We aim to continually improve the quality and cost-effectiveness of production through ongoing service and support.



*KRONES LCS offers a comprehensive range of products and services.*

KRONES never stops optimising its range of services. In early 2011, we began offering »LCS Support« to our customers in Europe. With this option, our customers receive over-the-phone troubleshooting support. We can also access machine data directly over an Ethernet connection in order to assist the operating and maintenance personnel. We plan to offer »LCS Support« in other regions in the future.

**KRONES invests heavily in its international Service Centres**

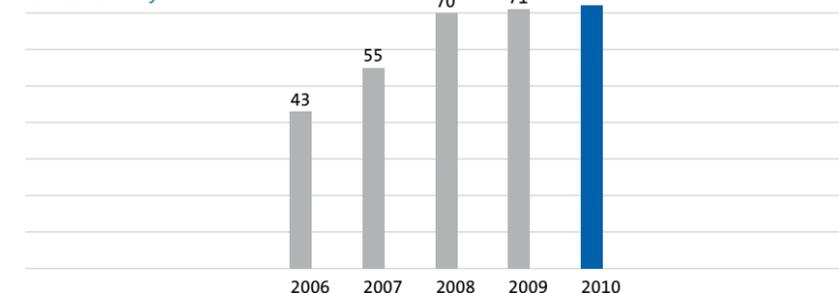
Customer responsiveness is a top priority for our services business. KRONES maintains more than 40 offices and subsidiaries worldwide that provide our customers with the complete range of LCS products and services. In addition, we have in recent years established seven Service Centres that are strategically located around the world to serve as decentralised support bases.

KRONES expanded its Service Centres for the China, Asia/Pacific, South America, and Africa sales regions substantially in 2010, hiring more than 100 new employees. Our Chinese Service Centre underwent the biggest expansion in 2010.

**KRONES Academy**

The KRONES Academy offers a broad range of practical training courses. More than 50 qualified trainers instruct operating personnel on the fundamentals of our machines, conduct special courses for specific jobs, and train management personnel at our Academy locations. All of our course offerings are aimed at ensuring that our customers have a perfect mastery of their KRONES machines and lines so that they can operate them safely and efficiently. Last year, 12,436 participants attended KRONES Academy events at our headquarters in Neutraubling and our international training centres. An important course offering is our »Train the Trainer« programme, which provides continuing education for KRONES' own coaches. The knowledge gained in these Academy courses enables our trainers to provide invaluable assistance to line operators on site. Our team of trainers grew steadily last year, numbering 72 at the end of 2010.

*KRONES Academy trainers*



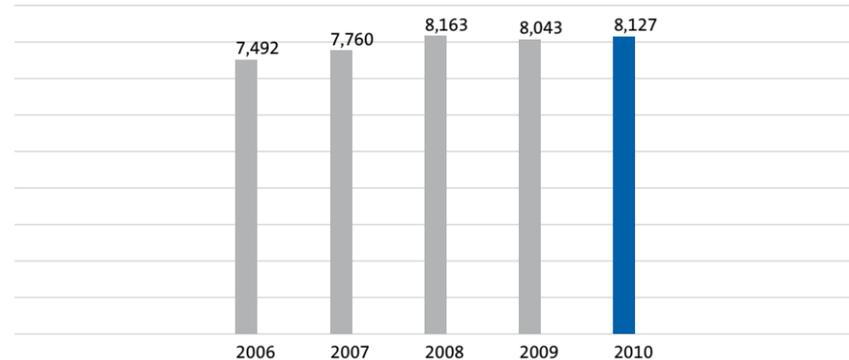
*KRONES' »Train the Trainer« courses offer continuing education to the coaches who instruct our customers.*

The KRONES Academy hosted an extremely successful »Expert Dialogue« event in Neutraubling in 2010. More than 50 experts from major bottling plants and various sectors of the beverage industry attended and shared their practical experiences from production and service. Most of the presentations were made by KRONES customers, who laid out strategies and solutional approaches. Symposium participants had opportunities to follow up on the various topics in discussion forums.

### Number of employees hits record high

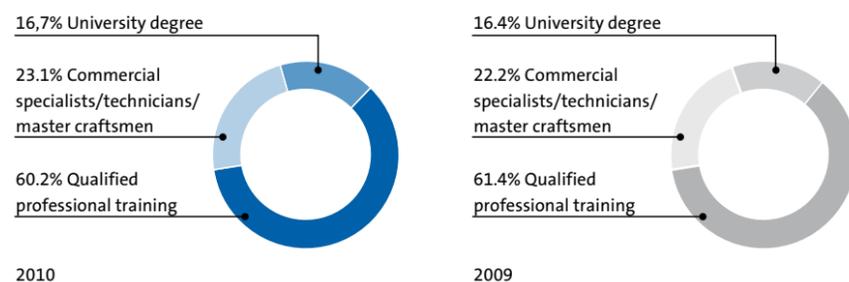
The decision to avoid lay-offs, even during the crisis of 2009, was essential to our positive business development in 2010. Without the dedication and excellent qualifications of our employees, we would not have been able to satisfy the strong demand for our products and services. We even hired additional core workers in 2010. At 31 December 2010, the number of employees at KRONES had grown to 8,127, from 8,043 the previous year.

Employees at KRONES AG at 31 December



A look at our employees' qualifications shows that our people are optimally prepared to handle the challenging tasks their work entails. Almost all of our employees in Germany possess recognised professional or vocational qualifications. The share of employees who hold a university degree grew again last year, to 16.7%.

Employee qualifications in Germany



*Our workforce is superbly trained.*

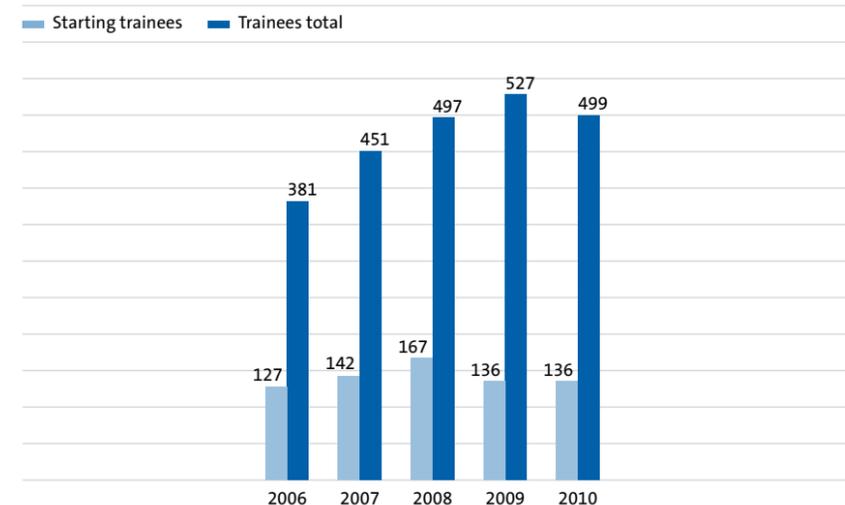
### Attractive employer for good recruits

Our employees' outstanding professional training is the foundation for KRONES' long-term commercial success. That is why KRONES offers attractive, challenging training opportunities to a large number of young people in 25 different fields every year – even in times of crisis. We invest around €70,000 in each of our young trainees.

*KRONES offers motivated young people training in 25 different careers.*

But we also hold our trainees to high standards. Of the 1,700 or so school leavers who applied to train with us in 2010, only 136 began training at KRONES in the fall of 2010 after a rigorous selection process. Approximately one-third of these trainees have a qualified school leaving certificate from a lower secondary school (Hauptschulabschluss), around 50% have a school leaving certificate from a mid-level secondary school (Mittlere Reife), and the rest have the university entrance qualification (Abitur).

Number of trainees starting at KRONES AG



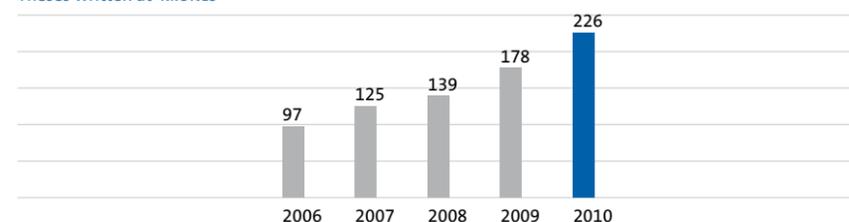
In all, KRONES was training 499 young people in Germany at the end of 2010. That puts our training rate at a very respectable 6.1%. Of our trainees, 441 were in industrial and technical fields and 58 were in commercial fields. In addition to the content prescribed by the respective training programmes, KRONES aims to give its trainees additional qualifications such as English language skills, presentation techniques, and international experience working at our subsidiaries and offices abroad.

KRONES honours the best of each »class« of trainees with a scholarship for subsequent university studies. Five young people were awarded KRONES scholarships in 2010.

### Close cooperation with universities and students

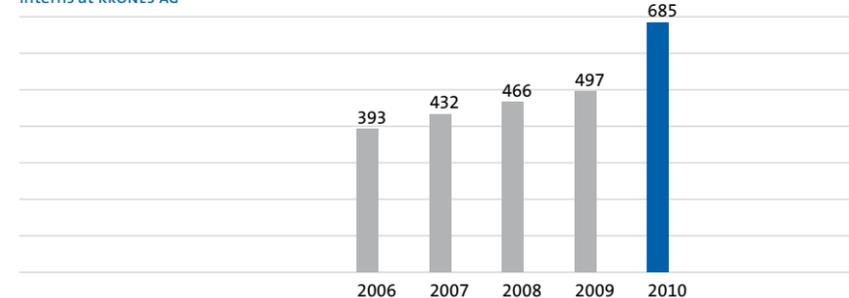
For years, KRONES has been working closely with universities to ensure early contact with university graduates. KRONES organises a range of events at which budding engineers and scholars can learn about the careers and opportunities we offer. Because KRONES has an excellent reputation as a good employer among university students, these events are very well attended.

Theses written at KRONES



Another example of our cooperation with educational institutions is our close, long-standing collaboration with the University of Applied Sciences in Regensburg and the University of Regensburg. Through this programme, KRONES gives numerous young scientists a chance to gain hands-on experience through practical semesters and thesis-writing opportunities. KRONES employees work closely with the students, who can also participate in a lecture series designed especially for them, to give them an in-depth look at the company. Each quarter, KRONES employees present three lectures for the young university students. Topics include container design, logistics systems, and the enviro sustainability programme. After the lectures, the KRONES experts field questions from the students.

Interns at KRONES AG



In 2010, we advised 226 students writing theses and 685 interns on a variety of projects with practical relevance. KRONES gains a large number of highly qualified employees from this pool each year.

More information on the topic of employees is in our 2010 Sustainability Report, which can be found online at [www.krones.com/en/company/sustainability.htm](http://www.krones.com/en/company/sustainability.htm).

Doing business in a sustainable, socially responsible manner has been an integral part of KRONES' corporate philosophy for decades. The overarching goal of our Corporate Social Responsibility (CSR) strategy is to be guided by fundamental values such as honesty, transparency, fairness, and authenticity. With our CSR strategy, we are integrating social and environmental considerations into our business processes and therefore helping to ensure our long-term success.

Besides being established as an overarching strategic goal, social responsibility is also integrated into our corporate values, policies, and codes.

### Seizing opportunities – reducing risks

Because the business environment is constantly changing, it is important to identify new challenges early. We systematically analyse and assess opportunities and risks relating to CSR topics in ongoing dialogue with our stakeholders. That helps us to identify potential weak points and new challenges early. And with that, we are minimising risks for the company, strengthening our stakeholders' trust in us, and safeguarding the company's reputation.

But KRONES also wants to take advantage of the opportunities that come with change and use them to acquire new business and employees. For example, we are developing particularly resource-saving products and services under our »enviro« label. And by investing heavily in Germany as a business location and maintaining an employee-friendly corporate culture, we are attracting qualified personnel – one of the key factors for KRONES' future success.

### Strategy 2015

In the future, we want to put our sustainability expertise to work in an even more targeted manner, to utilise opportunities that present themselves and reduce existing and potential risks. To this end, we have established clear, ambitious, traceable goals for the next five years. With these goals, we aim to further substantially improve our performance in all areas (economy, environment, citizenship) and thus underpin our market lead in terms of CSR as well.

More information on the topic of sustainability is in our Sustainability Report, which has been certified by TÜV SÜD and can be found online at [www.krones.com/en/company/sustainability.htm](http://www.krones.com/en/company/sustainability.htm).

*KRONES is ahead of the competition in CSR.*

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

### Risk management system is always evolving

KRONES is exposed to a variety of risks that are inextricably linked with doing business globally. We continuously monitor all significant business processes to identify risks early and to actively manage and limit them. An internal control system with which we record, analyse, and assess all relevant risks is an integral part of KRONES' risk management system. We monitor all material risks and any countermeasures already taken in a detailed, ongoing process that entails planning, information, and control. We are continually expanding and improving our risk management system on the basis of practical experience. The system consists of the following modules: risk analysis, risk monitoring, and risk planning and control.

#### Risk analysis

In order to identify risks early, we continuously monitor all business activities. We conduct a profitability analysis on all of our quotes before accepting any order. For orders that exceed a specified volume, we also conduct a multi-dimensional risk analysis. Apart from profitability, we also individually record and evaluate financing risks, technological risks, and scheduling and other contractual risks before accepting an order. Thus, risk management at KRONES begins before risks arise.

To manage risks that arise from changes in the market and competitive situation, we create detailed market and competition analyses for all segments and business areas on a regular basis. In addition, we conduct a comprehensive risk inventory every year for KRONES AG and all significant group companies. This risk inventory leads to corresponding measures and actions to reduce risk. The basic principles and process are documented in our risk policy. The risk management system serves not only the purpose mandated by law, of detecting early those risks that could jeopardize the company's survival, but also covers all risks that can have a significant negative impact on earnings.

*KRONES takes a proactive approach to managing risks. We use an internal system to continuously monitor and control all significant business processes.*

#### 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 in a timely manner. For high-volume projects, potential risks are examined and evaluated in regular meetings. Employees who identify risks pass their information on promptly through the company's internal reporting system.

#### Risk planning and control

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

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

#### Risk management organisation

At KRONES, risk management is formally part of Controlling. It is here that all relevant information comes together to be processed and converted into a management tool for the Executive Board. In addition, the various segments and business units also have risk management officers who are responsible for risk management. This includes identifying and reporting risks as well as introducing and implementing measures to actively control risks.

#### Risk controlling

We continually assess, discuss, and document operational and financial risks. The effectiveness of countermeasures that have been implemented is also monitored in controlling processes throughout the year. Apart from new orders, orders on hand, and sales, we also look at all types of expenditures in cash flow and material components of our current assets and the balance sheet. We use the figures to assess risks related to ongoing operations and options with respect to future projects.

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

KRONES has an internal control and risk management system for accounting and financial reporting processes to ensure that all business transactions are always correctly recorded, processed, accounted for, and recognised in the financial statements. KRONES' internal control and risk management system comprises all principles, methods, and measures to ensure that the company's accounting and financial reporting are effective, efficient, and proper and in compliance with all relevant regulations and standards.

The key features of KRONES' internal control and risk management system relating to accounting and financial reporting can be described as follows:

- KRONES has a clear management and corporate structure. Key duties that reach across various units are centrally managed.
- The duties of the units that are materially involved in accounting and financial reporting processes are explicitly segregated and responsibilities are clearly assigned.
- Regular reviews and audits are conducted within the various units, primarily by Controlling.
- Standard software is used for accounting and financial reporting as far as possible.
- Special security precautions protect the software and IT systems used for accounting and financial reporting against unauthorised access.
- Sufficient binding policies (e.g. for payments and travel expenses) are in place and updated on an ongoing basis.
- All of the departments involved in the accounting and financial reporting process have suitably qualified staff.
- Regular spot checks are used to continuously verify the completeness and accuracy of our accounting data. The software used also performs programmed plausibility checks.
- We use dual verification for all accounting-related processes.

## Financial risks

Because of regional and customer-related diversification, there is no material concentration of risk relating to the following risk categories.

### 1. Default risk

Default risk is the maximum risk potential arising from each individual position among the financial instruments at the reporting date. Any existing hedges are not taken into account.

#### 1.1 Trade receivables

Credit risk is the threat of economic loss arising from a customer's failure to fulfil its contractual payment obligations.

KRONES bases its management of credit risks from trade receivables on internal policies. A large portion of trade receivables is secured by various, sometimes country-specific hedges. The hedges include for instance retention of title, guarantees and sureties, and documentary credits. In order to prevent credit risk, we also run external credit checks on customers. In addition, there are processes in place for continually monitoring claims that may be at risk of default.

The theoretical maximum credit risk from trade receivables corresponds to the carrying amount.

#### 1.2 Derivative financial instruments

KRONES uses derivative financial instruments solely for risk management purposes. Not using derivative financial instruments would subject the company to greater financial risks. These instruments essentially cover the risks arising from changes in exchange rates between the euro and the US dollar, the New Zealand dollar, and the Canadian dollar.

#### 1.3 Other financial assets

The maximum credit risk position arising from other financial assets corresponds to the carrying amount of these instruments. KRONES is not subject to any material default risk arising from its other assets, all of which are current assets. The loan is to a corporation under public law and the risk of default is immaterial.

## 2. Liquidity risk

Liquidity risk is the threat of a company being unable to sufficiently fulfil its financial obligations.

KRONES generates most of its cash and cash equivalents through operating activities. These funds primarily serve to finance working capital and capital expenditures. KRONES manages its liquidity by reserving sufficient cash and cash equivalents and credit lines with banks in addition to the regular inflow of payments from operating activities. The company's liquidity management for operations consists of a cash management system, which is based in part on rolling monthly liquidity planning with a planning horizon of one year. This allows KRONES to be proactive about any possible liquidity bottlenecks. Apart from cash on hand, KRONES' cash and cash equivalents consist primarily of demand deposits. After exercising restraint during the financial crisis, KRONES AG plans to step up capital spending considerably in 2011. This has been taken into account in our current liquidity planning.

## 3. Market risks

Market risk is the risk of fluctuation in the fair value or future cash flows of a financial instrument due to changes in market prices.

### 3.1 Interest rate change risks

KRONES is not exposed to any material risks arising from possible fluctuations in market interest rates.

### 3.2 Currency risks

Because exports to countries outside the European monetary union make up a significant portion of total sales, we are exposed to currency risks. We use currency hedging tools to counter these risks as far as possible. We are also increasingly making purchasing and sales transactions in euros or the relevant functional currency.

### 3.3 Share price risks

KRONES is not exposed to any material risks arising from possible fluctuations in share prices.

### 3.4 Commodity price risks

KRONES is exposed to market price risk relating to its procurement of parts and raw materials for operations. The company mitigates these possible risks through targeted procurement management and long-term supply contracts to reduce material commodity price risks.

## 4. Legal risks

Legal risks exist as a part of doing business. KRONES currently does not anticipate any claims.

## Operational risks and opportunities

### 1. Price risks

KRONES operates in a highly competitive market in which some orders are generated by way of prices that do not cover costs. Fixed-price contracts with customers also entail price risks, as we must bear any additional costs that arise. KRONES has introduced a three-dimensional order analysis process to minimise this risk. Any inquiry or order that reaches or exceeds a predefined size is assessed on the basis of financial, technical/technological, and regional risks.

### 2. Procurement risks

KRONES uses targeted material and supplier risk management to counter procurement risks. With respect to suppliers, we face risks relating to products, deadlines, and quality. A specially designed process for supplier selection, monitoring, and management helps minimise these risks.

### 3. Cost risks

In order to continually improve our earnings situation, we must optimise our cost structures for the long term. Our primary focus is on making our traditional fixed costs as variable as possible by way of intelligent working time and value chain models in order to cope with sharp upward and downward changes in the markets.

### 4. Personnel risks

KRONES depends on highly qualified employees. We ensure early access to qualified employees through ongoing cooperation with colleges and universities. We regularly employ doctoral candidates and interns. We also use professional personnel consultants to help us locate employees.

The company agreement that entered into force on 1 January 2005 has enabled us to counter personnel cost pressures as our employees have agreed to work longer, more flexible hours in exchange for our promise to secure employment and the future of our German sites until the year 2012.

## Summary

Viewed from today's perspective, KRONES is not exposed to any risks that threaten the company's continued existence. We are adapting to the changed risk situation by having introduced comprehensive measures for preventing, reducing, and hedging risks.

We expect our markets to deliver growth opportunities again in the long term. Our products and services for the »food and drink« sector put us very close to consumers and enable us to benefit indirectly from global population growth and rising prosperity worldwide.

Our innovative power, our unique business model, and the quality of our products and services as well as ongoing process improvements will enable us to maintain and further expand our competitive advantage.

### Events after the reporting date

No events of material significance to KRONES have taken place since the close of fiscal 2010. Business development in the first two months of 2011 has confirmed the statements made in our »Outlook«.

### Outlook

- Global economy on course for continued growth
- Machinery sector also expects continued growth
- KRONES anticipates rise in sales and earnings

#### Economic outlook is good despite uncertainties

One of the big questions for 2011 is whether the global economy will continue to grow after the billions in economic stimulus funds dry up. Economists with the International Monetary Fund (IMF) expect the world economy to lose some momentum but to continue to grow at a rate of 4.4%. This forecast is based on the assumption that the USA, the world's largest economy, will continue to grow at a rate similar to last year, with GDP growth of 3.0% in 2011. Fears of the US economy falling back into recession have evaporated thanks to the Fed's loose monetary and interest rate policy.

In the European Union, the risk remains that the euro debt crisis could escalate further and, in the worst case scenario, monetary union could break apart. The repercussions would be disastrous for the European economy and would send new shock waves through the global financial system. The IMF does not expect this frightening scenario to play out, in part because of the massive rescue package that is in place for the euro. Instead, the euro area economy is likely to grow at a rate of 1.5% in 2011. The German economy will continue to be the force driving Europe's economy. Capital spending and private consumption are expected to pick up further. The IMF is forecasting 2.2% GDP growth for Germany.

The IMF also expects the BRIC nations (Brazil, Russia, India, and China) to lend momentum to global economic growth in 2011. Last year, the Chinese government intervened to prevent the economy from overheating. For this reason, GDP growth in China is unlikely to be in the double digits again in 2011. Japan could be a concern in Asia. The Japanese economy benefited more than proportionately from economic stimulus measures last year. Even before the devastation caused by the earthquake and tsunami, few economists believed Japan capable of a strong, self-sustaining recovery. It is difficult to estimate the impact the natural catastrophe will have on economic activity in 2011. However, this event has no direct material impact on KRONES AG.

*IMF economists expect the global economy to continue to grow in 2011 – likely by more than 4%.*

### Positive outlook for Germany's machinery sector

Business developed better than expected for Germany's machinery and industrial equipment manufacturers in 2010. As orders intake rose steadily, capacity utilisation also improved. The German Engineering Federation (VDMA) expects this upward trend to continue. After an 8.8% increase in output last year, the VDMA expects output in the sector to rise by around 10% in 2011.

### Sales and earnings at KRONES expected to increase substantially in 2011

Now – in early 2011 – the global economic crisis appears to be over. But a sense of uncertainty remains. The crisis showed how illusory forecasts are and how susceptible the closely intertwined global economy is to shocks and trend reversals. Recent history has taught us that the days of linear growth planning are over and we must now learn to deal with uncertainty, volatility, and trend reversals.

KRONES has got 2011 off to a good start and is currently enjoying a stable upward trend. From today's perspective, we expect consolidated sales revenue to grow between 7% and 10% in fiscal 2011. We are also confident that we will significantly improve earnings, with an EBIT target in the mid double-digit millions.

We also want to take a positive, proactive role in shaping KRONES' future beyond 2011. Our target and expectation is to bring our return on sales (ROS) back up to its pre-crisis level in 2012 – assuming, of course, that the global economic trend remains fundamentally positive. We also expect continued sales growth.

*KRONES expects earnings to rise significantly in 2011.*

With the strategic plan laid out under »Value«, we have formulated our vision for the future and our goals for the years ahead (please see the detailed report on pages 8 to 11). With this new strategic direction, we intend to unlock new profit potential for KRONES and generate even more upward momentum.

Pursuant to § 4 (1) of the articles of association, KRONES AG's share capital amounts to €40,000,000.00 and is divided into 31,593,072 ordinary bearer shares.

Under § 20 (1) of the articles of association, each share entitles its holder to one vote in the annual shareholders' meeting. Unless mandatory provisions of the law stipulate otherwise, resolutions of the annual shareholders' meeting are made with a simple majority of the votes cast or, in cases in which the law prescribes a majority of shares in addition to a majority of votes, with a simple majority of the share capital represented in the vote.

Pursuant to § 18 (1) of the articles of association, only those shareholders who register with the company in writing in German or English and provide proof of their shareholding prior to the annual shareholders' meeting are entitled to participate and vote in the annual shareholders' meeting. A special written document confirming the shareholding, issued in German or English by the institution with which the investment account is held, constitutes sufficient proof. This document must refer to the start of the twenty-first day prior to the annual shareholders' meeting.

Pursuant to § 18 (2) of the articles of association, voting rights can be exercised by proxy. Granting, revocation, and evidence of proxy authorisation must be submitted to the company in text form. The notice convening the shareholders' meeting may specify a relaxation of this requirement. § 135 of the German Stock Corporation Act (AktG) remains unaffected.

In the annual shareholders' meeting, the chairman of the meeting can set appropriate time limits for shareholders' questions and comments (§ 19 (3) of the articles of association).

The Executive Board of the company is not aware of any other restrictions relating to voting rights or the transfer of shares.

The company is aware of the following direct and indirect shareholdings in the company's capital that exceed 10% of the voting rights:

Name	Direct share of voting rights (%)
Beteiligungsgesellschaft Kronseder mbH	15.00
Volker Kronseder	12.02
Harald Kronseder	10.09

As of February 2011

Changes to the shareholdings listed above that are not required to be reported to the company may have occurred since the date given above (February 2011). Because the company's shares are bearer shares, the company is generally only aware of changes in shareholdings if these changes are subject to reporting requirements.

The appointment and dismissal of Executive Board members is governed by §§ 84 and 85 of the German Stock Corporation Act (AktG). Pursuant to § 6 (1) of the articles of association, the Executive Board consists of at least two members. Pursuant to § 6 (2) of the articles of association, determination of the number of Executive Board members, the appointment of regular and deputy members of the Executive Board, the execution of their employment contracts, and revocation of appointments are the responsibility of the Supervisory Board.

Amendments to the articles of association are subject to the provisions of §§ 179 et seq. of the German Stock Corporation Act. Such amendments are to be resolved by the annual shareholders' meeting (§ 119 (1) No.5 and § 179 (1) of the German Stock Corporation Act). The Supervisory Board is authorised to make amendments that affect only the wording of the articles of association (§ 13 of the articles of association).

Pursuant to § 4 (4) of the articles of association, the Executive Board may, with the approval of the Supervisory Board, increase the share capital by a total of up to €10 million (authorised capital) through the issuance once or repeatedly of ordinary bearer shares against cash contributions up to and including 31 May 2012.

Shareholders must be granted subscription rights to these shares. The Executive Board may exclude the subscription rights of shareholders for any fractional amounts that may arise.

The annual shareholders' meeting on 16 June 2010 passed a resolution authorising the company to buy treasury shares totalling up to 10% of the current share capital in compliance with statutory regulations and the provisions of the resolution by the annual shareholders' meeting up to and including 15 June 2015.

The annual shareholders' meeting on 16 June 2010 passed a resolution authorising the Executive Board to cancel treasury shares of KRONES AG acquired on the basis of the above authorisation without the cancellation or its execution requiring a further resolution by the annual shareholders' meeting.

KRONES AG has not made any material agreements containing special provisions relating to a change or acquisition of control following a takeover offer.

The company has not made any agreements with members of the Executive Board or company employees relating to compensation in the event of a takeover offer.

### Compensation of the Supervisory Board and the Executive Board

The compensation report summarises the principles used to determine the compensation of the Executive Board of KRONES AG and explains the amount and the structure of Executive Board remuneration.

The principles and the amount of Supervisory Board compensation are also set out in the report. The compensation report is an integral part of the consolidated management report for fiscal 2010 and can be found in the corporate governance report on page 79.

### Statement required by § 37y no. 1 of the German Securities Trading Act (WpHG) in conjunction with § 289 (1) sentence 5 of the German Commercial Code (HGB)

»To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of KRONES AG, and the management report for KRONES AG includes a fair review of the development and performance of the business and the position of KRONES AG, together with a description of the principal opportunities and risks associated with the company's expected development.«

Neutraubling, 29 March 2011

KRONES AG

The Executive Board



Volker Kronseder  
(Chairman)



Hans-Jürgen Thaus  
(Deputy Chairman)



Rainulf Diepold



Werner Frischholz



Christoph Klenk

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

#### KRONES recognises its responsibilities

For KRONES, the German Corporate Governance Code is an integral part of governance. The Code presents essential statutory regulations for the management and supervision (governance) of German listed companies and contains internationally and nationally recognised standards for good and responsible corporate governance. The management of KRONES takes the principles and rules of corporate governance into account in all business activities which are aimed at systematically increasing the company's value for the long term.

#### Declaration of compliance pursuant to § 161 of the German Stock Corporation Act

»The Executive Board and the Supervisory Board of KRONES AG declare that the recommendations of the »Government Commission German Corporate Governance Code« established by the German federal government regarding the management and supervision of German listed companies as amended on 26 May 2010 have been and are being complied with in accordance with the German Corporate Governance Code, which is published on the website of KRONES AG, with the following exceptions:

- A deductible is not included in the D&O policy for the Supervisory Board. (Item 3.8 of the Code)  
*No specific deductible has been set for this policy because the Supervisory Board always performs its duties properly regardless of the existence of a deductible.*
- The Executive Board shall be comprised of several persons and have a Chairman or Spokesman. By-laws shall govern the work of the Executive Board, in particular, the allocation of duties among individual Executive Board members, matters reserved for the Executive Board as a whole, and the required majority for Executive Board resolutions (unanimity or resolution by majority vote). (Item 4.2.1 of the Code)  
*The rules of procedure governing the Executive Board are set forth in the articles of association for KRONES AG, which already contain detailed rules for the work of the Executive Board. That is why there are no separate written by-laws.*
- In keeping with the resolution of the annual shareholders' meeting, total compensation of each member of the Executive Board, subdivided according to fixed, performance-related, and long-term incentive components, is not listed individually by each member's name. (Item 4.2.4 of the Code)  
*KRONES discloses the structure of Executive Board compensation. Details relating to fixed and variable, performance-related components of compensation are essential for assessing the appropriateness of the compensation structure and whether it results in an incentive effect for the Executive Board.*

We believe that disclosing each individual's remuneration would conflict with personal privacy rights. Thus, as resolved by the annual shareholders' meeting on 16 June 2010, detailed disclosure of each individual Executive Board member's compensation will not be made up to and including publication of the annual and consolidated financial statements for fiscal 2014, as provided for under § 286 (5) of the German Commercial Code.

- The Supervisory Board shall establish its own by-laws. (Item 5.1.3 of the Code)  
*The rules of procedure governing the Supervisory Board are set forth in the articles of association for KRONES AG, which already contain detailed rules for the work of the Supervisory Board. That is why there are no separate written by-laws.*
- There is currently no nominating committee at KRONES AG. (Item 5.3.3 of the Code)  
*Committees are primarily useful for larger bodies if they make that body's work more efficient. There are six shareholder representatives on the Supervisory Board of KRONES AG who suggest nominees. Therefore, we do not feel it is necessary to create a separate nominating committee.*
- The compensation of members of the Supervisory Board is currently not itemised. Other compensation for services provided individually, in particular advisory or agency services, is not currently reported. (Item 5.4.6 of the Code)  
*The total of compensation paid out to members of the Supervisory Board is given in the compensation report, broken down into its fixed and variable portions. We do not believe an individual listing of compensation would provide any additional information of relevance for the capital markets. The same applies to services provided by individual members of the Supervisory Board.*
- The shareholdings of members of the Executive Board and the Supervisory Board of KRONES AG are not disclosed in the corporate governance report. (Item 6.6 of the Code)  
*In order to safeguard the protection-worthy interests and privacy of the board members, we have opted not to make this disclosure in the corporate governance report. However, we do disclose the shareholdings of the Kronseder families holding seats on the Executive Board and the Supervisory Board in the annual report for KRONES AG.*
- We are not yet in compliance with the deadline for publication of the consolidated financial statements of KRONES AG within 90 days of the close of the fiscal year. (Item 7.1.2. of the Code)  
*The annual financial statements of KRONES AG are published within the statutory time period. Important figures for the past fiscal year that are relevant to the capital markets are published within the 90-day limit.«*

Neutraubling, den 30 March 2011

For the Executive Board

*Volker Kronseder  
Chairman*

For the Supervisory Board

*Ernst Baumann  
Chairman*

## Composition of the Supervisory Board

Pursuant to item 5.4.1. of the German Corporate Governance Code, the Supervisory Board must specify concrete objectives relating to its composition that, while considering the company's specific situation, take into account the company's international activities, potential conflicts of interest, an age limit to be specified for Supervisory Board members, and diversity. These concrete objectives are to stipulate an appropriate degree of female representation.

In keeping with item 5.4.1., the Supervisory Board of KRONES has specified the following objectives:

### a) Composition based on suitable knowledge, skills, and experience

The Supervisory Board of KRONES AG shall be composed in such a way that its members possess the knowledge, skills, and professional experience required to properly complete the tasks of a member of the Supervisory Board of an international corporation and to preserve the public reputation of KRONES AG.

Consideration of candidates should also take into account motivation, integrity, character, professionalism, and independence.

### b) Potential conflicts of interest (independence of the members)

The independence of the members of the Supervisory Board shall be ensured in order to prevent conflicts of interest. Potential candidates shall not serve as advisors to major competitors of KRONES AG and shall not hold management positions at companies that are customers, suppliers, or affiliates of KRONES AG. Moreover, the Supervisory Board shall contain no more than two former members of the Executive Board.

Each member of the Supervisory Board shall agree to submit a declaration to the Supervisory Board Chairman if any conflict of interest exists. If the conflict of interest persists over an extended period or is material, the Supervisory Board member in question must resign.

### c) Age limit

The age limit for members of the Supervisory Board is 70 years. A member's term in office shall end at the conclusion of the annual shareholders' meeting that follows his or her 70<sup>th</sup> birthday. Reasons must be given for any deviation from this rule.

### d) International experience

KRONES AG operates internationally and has subsidiaries and offices in many countries around the globe. Therefore, international experience must be taken into consideration when selecting members of the Supervisory Board.

International experience relates not only to knowledge of the English language but also to work experience in other international companies.

### e) Diversity

The Supervisory Board of KRONES AG shall take diversity into account and strive to achieve an appropriate degree of female representation when selecting its members. Female candidates are welcomed and shall be fairly considered in the selection of both shareholder and employee representatives.

Objectives a) through d) are already being implemented by the Supervisory Board of KRONES AG. With respect to the objective of diversity and appropriate female representation: Suitable female candidates shall also be sought for the open shareholder representative positions for the upcoming Supervisory Board elections. However, the Supervisory Board's election nominations will continue to be based on the available candidates' qualifications and the company's best interests and not merely on gender.

### Information on corporate governance practices

Corporate governance at KRONES is based on fairness and transparency. This principle applies both to the cooperation between the Executive Board and the Supervisory Board and to the way we deal with our employees, customers, suppliers, and the general public.

We review all strategic decisions for their long-term probability of success. Our aim is to optimise profits and cash flow in a sustainable manner.

To secure the company's long-term survival, we review all of our activities with respect to sustainability, factoring in not only our social and economic responsibilities but also the ecological conditions and consequences involved in the manufacture and use of our products. Our production operations are eco-friendly and we not only comply with statutory regulations but make every effort to remain as far below the prescribed limits as possible.

Our governance principles ensure that the welfare of the very people who contribute to our success is never subordinated to economic interests. In order to prevent accidents at the workplace and work-related illness, we create a safe environment that is conducive to the good health of our employees. All of our workflows are designed with the safety and health of our employees in mind, and we ensure that the workplace is ergonomic and free of hazards.

When choosing our suppliers, we look at their performance with respect to sustainable, socially responsible management. KRONES has developed a suppliers' code for this purpose. The code covers safety, health, the environment, quality, human rights, employee standards, and corruption prevention.

### Duties and activities of the Executive Board and the Supervisory Board

The Executive Board of KRONES AG consists of five members, each of whom is responsible for specific areas of the company (see page 104). In addition, each of the group companies is the responsibility of two members of the Executive Board. The Executive Board manages the company and its affairs. The members of the Executive Board meet daily. At these meetings, the Executive Board discusses current and strategic topics and makes decisions. For strategically important decisions, the Executive Board involves the Supervisory Board in the decision-making process in a timely manner.

The Supervisory Board oversees the Executive Board. In accordance with the articles of association, the Supervisory Board has twelve members. The Executive Board and the Supervisory Board communicate on a regular basis. The Executive Board informs the Supervisory Board in a timely manner about business development, the

company's financial situation, risk management, company planning, and strategy. In addition to regular oral reports, the members of the Supervisory Board receive written reports on the company's earnings and financial position from the Executive Board each month. KRONES' Supervisory Board can establish committees besides the Supervisory Board Committee but has not done so as yet.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board (see page 104 for a listing of the members). The Chairman or Deputy Chairman presides over the Supervisory Board's meetings. The Supervisory Board makes decisions either in its meetings or, in exceptional cases, in a procedure in which the relevant documents are circulated to each member. Members of the Executive Board participate in meetings of the Supervisory Board at the invitation of the Chairman or Deputy Chairman of the Supervisory Board. The Executive Board members give oral or written reports on the agenda items and respond to questions from the Supervisory Board.

Each year, the Chairman of the Supervisory Board describes the Board's activities in his report to shareholders in the annual report and at the annual shareholders' meeting.

### Composition, duties, and activities of the Supervisory Board Committee

In order to perform its work in the most efficient manner possible, the Supervisory Board has formed a Supervisory Board Committee that meets regularly.

The Committee consists of the Chairman of the Supervisory Board, Ernst Baumann, and Deputy Chairman Werner Schrödl as well as the following members of the Supervisory Board: Norman Kronseder, Graf Philipp von und zu Lerchenfeld, Josef Weitzer, and Johann Robold. The Supervisory Board Committee oversees the accounting and financial reporting process and the audit of the financial statements and prepares corresponding proposals for resolutions for the Supervisory Board. The Committee also prepares the Supervisory Board's review of the annual financial statements, the management report, and the auditor's report for the annual and consolidated financial statements and makes recommendations. In addition, the Supervisory Board Committee monitors the effectiveness of the internal control system, the risk management system, and the internal audit system.

### KRONES' corporate guidelines reflect our values

To be successful in the long term, you have to know your strengths and use them to your best advantage. For this reason, we have analysed our core strengths and formulated the following corporate values. KRONES is

- Securing value for a strong future
- Creating value with powerful solutions
- Respecting values in effective dialogue

All of our efforts, our daily endeavours serve one core goal: To create »added value«. For KRONES, our employees, our customers, and our shareholders.

*Our employees live and breathe our corporate values.*

KRONES' values are reflected in our corporate guidelines, in which we have committed to acting sustainably and responsibly. At KRONES, we don't merely put these corporate values to paper. Every one of our employees lives by them – every day.

### We go about our business in a sustainable, socially responsible manner

To secure the company's long-term survival, we review all of our activities with respect to sustainability, factoring in not only our social and economic responsibilities but also the ecological conditions and consequences involved in the manufacture and use of our products.

#### Securing value for a strong future

### We stand for excellent quality and technological leadership in our market

Our technology leadership, which is based on our intensive research and development work, is the reason why many customers choose us – and the reason why so many have maintained a long-standing relationship with KRONES. This, combined with the consistently high quality of our machines, lines, and services, underpins KRONES' global market lead.

#### Creating value with powerful solutions

### We owe our success to our workforce

Highly qualified people form the backbone of KRONES' success. As an employer, we have a very special responsibility for our more than 10,000 employees worldwide. We foster not only their technical and professional development but also their personal development. We are fully aware that our employees are the key to the company's future.

#### Respecting values in effective dialogue

### We are committed to using resources economically while always providing the highest quality

Conserving resources doesn't mean compromising on quality. Leaner production processes, technological innovations, and highly motivated, superbly trained employees enable KRONES to produce top quality goods with high value added.

#### Creating value with powerful solutions

### We safeguard the health and safety of our employees

Our corporate culture ensures that the welfare of the very people who contribute to our success is never subordinated to economic interests. In order to prevent accidents at the workplace and work-related illness, we create a safe environment that is conducive to the good health of our employees. All of our workflows are designed with the safety and health of our employees in mind, and we ensure that the workplace is ergonomic and free of hazards.

*A PDF version of our corporate guidelines is available online at <http://www.krones.com/en/company/mission-statement.htm>.*

#### Respecting values in effective dialogue

### Our production operations are eco-friendly

As far as is economically reasonable, we use all of the options available to make our production operations environmentally compatible. We not only comply with statutory regulations, we make every effort to remain as far below the prescribed limits as possible.

#### Securing value for a strong future

### We do business for the long term and we do it transparently

All strategic decisions within the KRONES Group are reviewed for their long-term probability of success. Short-term optimisation of profits or cash flow has no place in our business model. It is our intention to be a reliable partner for all of our stakeholders, and this includes a policy of maintaining open communications.

#### Respecting values in effective dialogue

## Suppliers' code

When choosing our business associates, we look at their performance with respect to sustainable, socially responsible management. KRONES has developed a suppliers' code for this purpose, which is available online at <http://www.krones.com/en/purchasing.htm>.

The code covers safety, health, the environment, quality, human rights, employee standards, and corruption prevention. In order to ensure compliance, our quality assurance team performs audits on site at the suppliers' facilities and then prescribes improvements where necessary.

In addition, KRONES seeks to use vendors that are independently certified.

## KRONES Code of Conduct

As the market leader, KRONES intends to be, and ultimately has to be, the standard-setter – and this includes our ethical behaviour. Sustainability has always been an important part of KRONES' corporate strategy. This places high demands on each and every one of us. We want to ensure that our actions are always irreproachable, correct, and exemplary.

For this reason, we have drafted a code of conduct on the basis of the shared values that are our corporate guidelines. The aim of this code of conduct is to ensure company-wide compliance with laws, standards, and guidelines in order to create a working environment of integrity, respect, fairness, and accountability. It is binding for all KRONES employees – including the Executive Board, management, and every member of our staff worldwide.

All employees are urged to not only comply with the guidelines in the code of conduct in a formal sense but to live and breathe their meaning and purpose. Only in this way can they serve as the basis of an open and vibrant culture of compliance. In the interest of all employees, violations of the code of conduct are systematically investigated and disciplinary action taken.

Of course, we want KRONES to be recognised as the market and technology leader. But we also want our customers, employees, suppliers, and shareholders as well as government agencies, institutions, and the general public to perceive us as a reputable, trustworthy, and dependable partner. That is key to retaining and expanding our position as the market leader.

The complete KRONES code of conduct is available online at <http://www.krones.com/en/company/sustainability.htm>.

*We rigorously ensure that all KRONES employees abide by all laws, standards, and policies.*

## Compensation report

### Executive Board compensation

The structure of the compensation system for the Executive Board was discussed in detail and determined by the Supervisory Board on the basis of the recommendations contained in the German Corporate Governance Code.

These recommendations for members of the executive boards of listed stock corporations contain the following compensation elements:

- Fixed elements
- Variable elements that are payable annually and based on business performance and
- Variable elements that serve as long-term incentives containing risk factors

The criteria for determining the appropriateness of the compensation include but are not limited to the tasks of the respective member of the Executive Board, his responsibilities, his personal performance and experience, and the economic situation, performance, and outlook of the enterprise, taking into account its peer companies.

- For fiscal 2010, the direct fixed remuneration of the five active members of the Executive Board was €2,520 thousand (previous year: €2,450 thousand). This fixed amount is the base pay stipulated in the members' contracts and is paid out in equal monthly amounts as a salary. This remuneration is generally reviewed as part of the negotiations relating to the extension of the members' contracts. In addition, the members of the Executive Board received fringe benefits in the form of non-cash benefits (company car) amounting to €89 thousand (previous year: €89 thousand).
- The variable compensation is based on the achievement of company performance targets. The reference figures are consolidated net income (the primary point of reference) and consolidated sales. The gradation of the targets is determined by the Supervisory Board each year. The variable compensation contains risk elements and is thus not guaranteed compensation. In 2010, the variable compensation amounted to €2,503 thousand (previous year: €0 thousand).
- In keeping with the recommendations of the Corporate Governance Code, the Supervisory Board adopted a long-term »performance incentive plan« containing risk elements at its meeting on 17 March 2005. Under this provision, each member of the Executive Board receives a performance incentive that is paid out after no less than ten years of service as a member of the Executive Board of KRONES AG at the earliest. Board members serving for less than ten years are not entitled to the performance incentive. In 2010, €2,275 thousand (previous year: €0 thousand) in such compensation came due for payment as scheduled following the 10-year waiting period.

- The performance incentive is calculated from the relevant Board member's fixed annual remuneration at the time of appointment to the Executive Board and the development of the enterprise value from the time of entry onto the Board to the time at which payment of the incentive comes due.
- EBIT, EBITDA, and consolidated sales are used as the basis for calculating enterprise value. If the current enterprise value is less than it was at the time the member joined the Executive Board, the respective member is not entitled to the performance incentive.
- Provisions of €689 thousand (previous year: €1,908 thousand) were recognised for the performance incentive.
- At KRONES AG there are and have been no stock-option plans or comparable securities-oriented long-term incentive components of remuneration for Executive Board members.
- Pension provisions of €5,238 thousand (previous year: €2,094 thousand) were recognised for active members of the Executive Board.
- Disclosure of the total compensation made to each board member by name as recommended under item 4.2.4 of the German Corporate Governance Code and under § 285 (1) No. 9a Sentences 5-9 and § 314 (1) No. 6a Sentences 5-9 of the German Commercial Code (HGB) is not being implemented. It is the belief of KRONES AG that such disclosure would conflict with personal privacy rights.
- Thus, as resolved by the annual shareholders' meeting on 16 June 2010, detailed disclosure of each individual board member's compensation will not be made before the end of fiscal 2014, as provided for under § 286 (5) of the German Commercial Code.
- On the other hand, details relating to the structure of the compensation are essential for assessing the appropriateness of the compensation structure and whether it results in an incentive effect for the Executive Board.
- For former members of the Executive Board and their surviving dependents, payments amounting to €697 thousand (previous year: €688 thousand) were made and pension provisions of €661 thousand (previous year: €848 thousand) were recognised.

### Supervisory Board compensation

Compensation of the members of the Supervisory Board is governed by the articles of association and resolved by the annual shareholders' meeting. For fiscal 2010, the articles of association as amended by the annual shareholders' meeting on 17 June 2009 apply.

The Supervisory Board's compensation consists of two components, an annual fixed remuneration of €10,000 and a variable compensation. The Chairman of the Supervisory Board receives twice the amount of the fixed remuneration and the Deputy Chairman of the Supervisory Board receives one and one half times the fixed remuneration amount. The variable compensation is based on consolidated net income per share. Each member of the Supervisory Board receives €2,000 for each €0.30 by which total consolidated net income per share exceeds €1.00.

For fiscal 2010, net income per share comes to €1.68. Thus, the variable compensation for each member of the Supervisory Board is €4,000.

Members of the Supervisory Board who belong to special committees within the Supervisory Board receive additional compensation of €10,000 annually as well as flat-rate reimbursement for expenses.

The total remuneration paid to members of the Supervisory Board amounted to €243 thousand (previous year: €175 thousand) including variable portions totalling €48 thousand (previous year: €0 thousand).

Moreover, the members of the Supervisory Board receive a flat €600 fee per meeting as reimbursement for their expenses unless they submit proof of having incurred higher expenses.

Members of the Supervisory Board who belonged to the board for only a portion of the fiscal year receive pro-rated compensation.

The company has no stock option plans or similar securities-oriented incentive systems. Thus, there are also no stock-option plans or similar long-term incentive components of remuneration for members of the Supervisory Board.

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		2010	2009
€ thousand	Notes		
1. Sales	16	1,882,404	1,593,267
2. Increase in finished goods inventories and work in progress		29,963	1,373
3. Other own work capitalised		7,388	5,104
4. Other operating income	17	55,646	97,152
		<b>1,975,401</b>	<b>1,696,896</b>
5. Cost of materials			
a) Cost of raw materials, consumables and supplies, and of purchased merchandise		-809,306	-752,604
b) Cost of purchased services		-248,360	-192,445
		<b>-1,057,666</b>	<b>-945,049</b>
6. Personnel expenses	18		
a) Wages and salaries		-470,611	-428,804
b) Social security, post-employment and other employee benefit costs		-94,852	-81,595
		<b>-565,463</b>	<b>-510,399</b>
7. Amortisation and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets	19	-42,572	-41,856
8. Other operating expenses	20	-293,824	-274,859
9. Income from long-term equity investments	21	10,572	10,756
10. Income from other securities and long-term loans	21	504	761
11. Other interest and similar income	21	3,919	4,394
12. Write-downs of long-term financial assets	21	-16,059	-18,188
13. Interest and similar expenses	21	-7,386	-3,300
		<b>7,426</b>	<b>-80,844</b>
<b>14. Result from ordinary activities</b>			
15. Extraordinary result	22	-11,657	0
16. Taxes on income	23	2,518	143
17. Other taxes	23	-956	-942
		<b>-2,669</b>	<b>-81,643</b>
<b>18. Net loss for the year</b>			
<b>19. Accumulated losses (retained profits) brought forward</b>		<b>-80,718</b>	<b>925</b>
<b>20. Withdrawal from revenue reserves, from other revenue reserves</b>		<b>100,000</b>	<b>0</b>
<b>21. Net retained profits (net accumulated losses)</b>		<b>16,613</b>	<b>-80,718</b>

Assets		31 Dec 2010	31 Dec 2009
€ thousand	Notes		
<b>A. Fixed assets</b>			
I. Intangible fixed assets			
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	1	13,568	12,272
II. Tangible fixed assets	2		
1. Land, including buildings on third-party land		208,421	208,533
2. Technical equipment and machinery		47,772	49,829
3. Other equipment, operating and office equipment		43,777	39,481
4. Prepayments and assets under construction		3,827	3,406
		303,797	301,249
III. Long-term financial assets	3		
1. Shares in affiliated companies		82,548	85,487
2. Loans to affiliated companies		30,509	29,502
3. Long-term securities		37	33
4. Other loans		1,271	1,316
		114,365	116,338
		<b>431,730</b>	<b>429,859</b>
<b>B. Current assets</b>			
I. Inventories	4		
1. Raw materials, consumables and supplies		120,597	102,369
2. Work in progress		162,275	165,387
3. Finished goods and merchandise		207,959	178,181
4. Prepayments		18,736	16,215
5. Payments received on account of orders		-391,662	-404,595
		117,905	57,557
II. Receivables and other assets	5		
1. Trade receivables		396,084	372,634
2. Receivables from affiliated companies		69,254	69,311
3. Other assets		55,735	54,968
		521,073	496,913
III. Securities	6		
Treasury shares		0	37,058
IV. Cash-in-hand, bank balances, and cheques	7		
		75,941	146,328
		<b>714,919</b>	<b>737,856</b>
<b>C. Prepaid expenses</b>		<b>1,139</b>	<b>1,296</b>
<b>Total assets</b>		<b>1,147,788</b>	<b>1,169,011</b>

Equity and liabilities		31 Dec 2010	31 Dec 2009
€ thousand	Notes		
<b>A. Equity</b>			
I. Subscribed capital	8		
1. Ordinary shares		40,000	40,000
Treasury shares, notional value		-1,805	
		38,195	40,000
II. Capital reserves		103,703	103,703
III. Revenue reserves			
1. Legal reserve		51	51
2. Reserve for treasury shares	9	0	37,058
3. Other revenue reserves	10	339,635	437,830
		339,686	474,939
IV. Net retained profits (net accumulated losses)	11		
1. Retained profits (accumulated losses) brought forward		-80,718	925
2. Net loss for the year		-2,669	-81,643
3. Withdrawals from other revenue reserves		100,000	0
		16,613	-80,718
		<b>498,197</b>	<b>537,924</b>
<b>B. Provisions</b>	12		
1. Provisions for pensions and similar obligations		87,326	70,497
2. Provisions for taxes		6,546	9,235
3. Other provisions		341,717	357,824
		<b>435,589</b>	<b>437,556</b>
<b>C. Liabilities</b>	13		
1. Trade payables		123,308	116,402
2. Liabilities to affiliated companies		52,660	53,938
3. Other liabilities		38,034	23,191
		<b>214,002</b>	<b>193,531</b>
<b>Total equity and liabilities</b>		<b>1,147,788</b>	<b>1,169,011</b>

	Cost			At 31 Dec 2010	Depreciation, amortisation, and write- downs At 31 Dec 2010	Carrying amounts	
	At 1 Jan 2010	(T) Transfers Additions	(T) Transfers Disposals			At 31 Dec 2010	At 31 Dec 2009
Intangible fixed assets							
1. Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	76,663	7,098	0	83,761	70,193	13,568	12,272
Tangible fixed assets							
1. Land, including buildings on third-party land	309,265	8,213	0	317,478	109,057	208,421	208,533
		U23					
2. Technical equipment and machinery	196,845	12,177	3,577	205,468	157,696	47,772	49,829
3. Other equipment, operating and office equipment	160,670	(T) 2,820 16,590	3,736 (T) 2,843	176,344	132,567	43,777	39,481
4. Prepayments and assets under construction	3,406	3,295 (T) 2,843	31 (T) 2,843	3,827	0	3,827	3,406
	670,186	40,275	7,344	703,117	399,320	303,797	301,249
Long-term financial assets							
1. Shares in affiliated companies	138,396	(T) 12,800 279	3,218 (T) 12,800	148,257	65,709	82,548	85,487
2. Loans to affiliated companies	29,502	18,000	4,193	30,509	0	30,509	29,502
3. Long-term securities	41	0	0	41	4	37	33
4. Other loans	1,316	9 (T) 12,800	54 (T) 12,800	1,271	0	1,271	1,316
	169,255	18,288	7,465	180,078	65,713	114,365	116,338
	916,104	(T) 15,643 65,661	(T) 15,643 14,809	966,956	535,226	431,730	429,859

## General disclosures

## ■ Legal basis

The annual financial statements of KRONES AG have been prepared in accordance with the provisions of the Third Book of the German Commercial Code (HGB) and the supplementary provisions of the German Stock Corporation Act (AktG), taking into consideration the first-time application in 2010 of rules amended by Germany's Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG).

The total cost (nature of expense) method has been used for the income statement.

## Transition to the new provisions under the German Accounting Law Modernisation Act (BilMoG)

The following reconciliation presents the material effects of the BilMoG transition:

	Extraordinary result	Revenue reserves
Treasury shares a)		-35,253
Currency translation b)	860	
Pensions and similar obligations c)	-14,308	
Personnel provisions d)	1,385	
Other provisions e)	406	
	<b>-11,657</b>	<b>-35,253</b>

## a) Recognition of treasury shares on the face of the balance sheet

Under the new version of § 272 (1a) of the German Commercial Code (HGB), effective 1 January 2010, the notional value of acquired treasury shares must be openly deducted from the item »subscribed capital«. The difference between the notional value and the purchase cost of the treasury shares had to be offset against distributable reserves and the reserve for treasury shares had to be released.

## b) Currency translation

Assets and liabilities denominated in foreign currencies are translated at the middle spot rate at the balance sheet date. Since insertion of § 256a HGB, §§ 253 (1) sentence 1 HGB and 252 (1) no. 4 half-sentence 2 HGB do not apply in the case of remaining maturities of one year or less. Thus, unrealised foreign currency translation gains can be recognised. Pursuant to the new version of § 254 HGB, financial instruments used to compensate changes in value or cash flows on assets and liabilities denominated in foreign currencies are to be recognised using hedge accounting.

## c) Pensions and similar obligations

KRONES AG has exercised the option under § 253 (2) sentence 2 HGB to use as the discount rate the average market interest rate calculated by the Deutsche Bundesbank based on an assumed remaining maturity of 15 years. For the measurement of provisions, future price and cost increases have been taken into account. The full amount of the expense arising from the BilMoG transition has been recognised in the current financial year under the item »extraordinary result«. No use was made of the option provided for under Art. 67 (1) sentence 1 of the Introductory Act to the German Commercial Code (EGHGB), to spread the resulting increase in pension provisions over a maximum of 15 years. Assets that are exempt from attachment by all other

creditors and serve exclusively to settle liabilities from post-employment benefit obligations («plan assets») have been offset against the corresponding liabilities pursuant to § 246 (2) Sentence 2 of the German Commercial Code (HGB).

#### d) Personnel provisions

For measurement of provisions for anniversary bonuses, as long-term obligations, KRONES AG has exercised the option under § 253 (2) sentence 2 HGB to use as the discount rate the average market interest rate calculated by the Deutsche Bundesbank based on an assumed remaining maturity of 15 years. For the measurement of provisions, future price and cost increases have been taken into account.

#### e) Other provisions

Provisions are to be measured at the settlement amount, taking into consideration price and cost increases. Provisions with a remaining maturity of more than one year are to be discounted at the average market interest rate for the past seven financial years corresponding to their remaining maturity, as calculated by the Deutsche Bundesbank. This rule applies to the provision for the legal obligation to retain documents and to the provision for anticipated losses from executory contracts.

#### ■ Prior-year figures

In accordance with the option provided for under Art. 67 (8) sentence 2 EGHGB, figures for the previous year have not been restated.

#### ■ Currency translation

Receivables in foreign currencies with a remaining maturity of one year or less are translated using the middle spot rate at the balance sheet date. All other receivables in foreign currencies are translated using the exchange rate applicable at the time of initial recognition or the middle spot rate at the balance sheet date, whichever is lower.

Liabilities in foreign currencies with a remaining maturity of one year or less are translated using the middle spot rate at the balance sheet date. All other liabilities in foreign currencies are translated using the exchange rate applicable at the time of initial recognition or the middle spot rate at the balance sheet date, whichever is higher.

KRONES AG uses forward exchange transactions to hedge future currency risks. If the requirements are met, these financial instruments are combined with the hedged item to form hedges. Changes in the value of the hedged items and the hedging instruments offset each other.

Accounting is done in accordance with the rules applicable to corporations. Accounting policies that were not changed by Germany's Accounting Law Modernisation Act (BilMoG) have been applied as in the previous year.

#### ■ Assets

Purchased intangible fixed assets are recognised at the cost that must be capitalised and are amortised on a scheduled straight-line basis over an estimated useful life of three to 20 years.

Tangible fixed assets are measured at cost less scheduled depreciation. The cost of internally generated plant and equipment includes all costs that are directly attributable to the production process as well as an appropriate portion of indirect material and labour costs.

Depreciation and write-downs of tangible fixed assets are carried out using the highest applicable rates under the law. The current German tax depreciation schedules were used for additions in Germany in 2010. Buildings and moveable items of fixed assets of KRONES AG are depreciated using the declining balance method wherever possible. All other fixed assets are depreciated using the straight-line method. For assets depreciated using the declining balance method, depreciation switches to the straight-line method if it results in higher depreciation. Since the declining balance method of depreciation is not compatible with BilMoG rules, all tangible fixed assets acquired on or after 1 January 2010 are depreciated using the straight-line method only.

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

Useful life	in years
Buildings	25–50
Machinery	5–20
Technical equipment	5–25
Operating and office equipment	3–20
Software and other rights	3–20

Assets of low value are fully depreciated in the year of acquisition and shown as a disposal the following year.

Shares in affiliated companies are recognised at amortised cost.

Securities and loans are recognised at the lower of nominal value and fair value; write-downs have been reversed as required.

Inventories are carried at the lower of cost and market value.

The cost of finished goods and work in progress includes direct material and labour costs as well as indirect material and indirect labour. The carrying amount of inventories is reduced in keeping with the lower-of-cost-or-market principle. This reduction takes into account all inventory risks arising from reduced marketability or obsolescence that were identifiable when the financial statements were prepared.

Receivables and other assets are recognised at cost. Identifiable risks are accounted for through specific valuation allowances. General credit and financing risks are accounted for by way of global valuation allowances. Delinquent accounts and non-interest-bearing items with longer terms are discounted based on the expected date of payment. Export receivables in foreign currencies are recognised using the middle spot rate at the transaction date or at the reporting date.

Effective 1 January 2010, assets that serve exclusively to settle pension obligations and are exempt from attachment by all other creditors (plan assets) are measured at fair value. Income and expenses from these assets are netted against the interest cost on the corresponding obligations and recognised in financial income (expense). Moreover, the assets themselves are offset against the corresponding liabilities. Any obligations in excess of the assets are recognised under the provisions. If the value of the assets exceeds the amount of the obligations, the difference is recognised as an asset under a separate heading, »excess of plan assets over post-employment benefit liability«.

Prepaid expenses are recognised to the extent permissible under commercial law.

#### ■ Equity and liabilities

The reported provisions for pensions and similar obligations are recognised at the settlement amount dictated by prudent business judgement. Future price and cost increases are taken into account in the measurement. The pension provisions for post-employment benefit obligations with a remaining maturity of more than one year are discounted at the average market interest rate corresponding to their remaining maturity, as calculated by the Deutsche Bundesbank. Instead of calculating individual discount rates for each individual liability, a single remaining maturity of 15 years is assumed across the board for all of these liabilities as permitted under § 253 (2) sentence 2 HGB.

Other provisions are recognised for obligations to third parties when an outflow is probable and there is uncertainty regarding the amount or timing of its utilisation. They are recognised at the amount dictated by prudent business judgement for all identifiable risks and uncertain obligations. Measurement is based on the settlement amount. Provisions with a remaining maturity of more than one year are discounted at the average market interest rate corresponding to their remaining maturity, as calculated by the Deutsche Bundesbank.

Provisions for anniversary bonuses are discounted at the average market interest rate calculated by the Deutsche Bundesbank based on an assumed remaining maturity of 15 years pursuant to § 253 (2) sentence 2 HGB.

Liabilities are carried at the settlement amount. Trade payables in a foreign currency that are not hedged are recognised as liabilities at the middle spot rate at the reporting date.

The value date for contingent liabilities on bills, guarantees, and warranties is the reporting date.

## Assets

### ■ Fixed assets

The fixed asset items stated on the balance sheet are presented in the statement of changes in fixed assets. The carrying amounts are presented gross on the basis of historical cost.

#### 1 Intangible assets

The addition relates primarily to software licenses (€6,247 thousand).

#### 2 Tangible fixed assets

The addition to land and buildings results primarily from the expansion of the Neutraubling site (€7,850 thousand). Capital expenditure for the remaining tangible fixed assets amounting to €32,062 thousand relates primarily to capacity expansion and updating at the production sites.

#### 3 Long-term financial assets

The additions to long-term financial assets relate primarily to the acquisition of shares in KONPLAN S.R.O., Pilsen, Czech Republic and the establishment of PT. KRONES Machinery Indonesia, Jakarta, Indonesia. A complete presentation of shareholdings is made public through the electronic Federal Gazette (elektronischer Bundesanzeiger).

#### 4 Inventories

The carrying amount of inventories is up 10.3% compared with the previous year. Around 76.9% of inventories were prefinanced through prepayments from customers.

#### 5 Receivables and other assets

€ thousand	31 Dec 2010	Amounts due in 1 year or later	31 Dec 2009	Amounts due in 1 year or later
Trade receivables	396,084	14,373	372,634	16,777
Receivables from affiliated companies	69,254		69,311	
Other assets	55,735	18,572	54,968	25,995
	<b>521,073</b>	<b>32,945</b>	<b>496,913</b>	<b>42,772</b>

Of the trade receivables, 13.4% are due from customers in Germany and 86.6% are due from customers outside Germany. The general credit risk is sufficiently accounted for by way of a global valuation allowance of 1% of the risky receivables. Delinquent accounts and non-interest-bearing items with longer terms are discounted at a rate of 3.9%.

The receivables from affiliated companies result from deliveries effected or services rendered between group companies.

#### 6 Securities within current assets

Unlike in previous years, when treasury shares were recognised gross on the assets side of the balance sheet, in 2010 treasury shares were recognised in equity (deducted from »subscribed capital«) in accordance with the rules changed under BilMoG (§ 272 (1a) HGB). No treasury shares were purchased during the reporting period.

#### 7 Cash-in-hand, bank balances

€ thousand	31 Dec 2010	31 Dec 2009
Cash-in-hand	11	9
Bank balances	75,930	146,319
	<b>75,941</b>	<b>146,328</b>

#### 8 Subscribed capital

The subscribed capital of KRONES AG amounts to €40,000,000.00. Under the new version of § 272 (1a) HGB, effective 1 January 2010 the notional value of acquired treasury shares (€1,804,726.05) must be openly deducted from the item »subscribed capital«.

At the reporting date, there were 31,593,072 ordinary bearer shares outstanding.

By resolution of the annual shareholders' meeting of 20 June 2007, a stock of authorised capital was established. With this authorised capital, the Executive Board may, with approval of the Supervisory Board, increase the share capital by a total of up to €10,000,000.00 through the issuance once or repeatedly of ordinary bearer shares against cash contributions up to and including 31 May 2012. Shareholders must be granted subscription rights to these shares.

The annual shareholders' meeting on 16 June 2010 passed a resolution authorising the company to buy treasury shares totalling up to 10% of the current share capital on its behalf up to and including 15 June 2015. The holdings of shares acquired for this purpose, combined with other treasury shares previously acquired and still held by the company, shall not exceed 10% of the share capital of KRONES AG. The acquisition may be carried out, at the discretion of the Executive Board, through a stock exchange, through a public tender offer, or through a public call for tenders.

If the shares are purchased through a stock exchange, the consideration paid per share shall not exceed by more than 10% and not fall short of by more than 10% the opening price in the XETRA trading system on the Frankfurt Stock Exchange on the trading day.

If the shares are purchased through a public tender offer or a public call for tenders, the tender price per share or the high and low ends of the price range per share shall not exceed by more than 20% and not fall short of by more than 20% the opening price in the XETRA trading system on the Frankfurt Stock Exchange on the third trading day prior to the public announcement of the tender offer or call for tenders.

By resolution of the shareholders' meeting on 16 June 2010, the Executive Board is authorised to use treasury shares of KRONES AG for any lawful purpose.

This authorisation can be exercised once or multiple times, in whole or in part.

## 9 Reserve for treasury shares

In keeping with the regulations in effect through 31 December 2009, a reserve for treasury shares was recognised pursuant to § 272 (4) sentence 1 HGB (old version) in the amount equal to the »treasury shares« item on the face of the balance sheet. Pursuant to § 272 (4) sentence 3 HGB (old version), the reserve was allocated from other revenue reserves. In 2010, the reserve for treasury shares was released back into other revenue reserves in accordance with the rules changed under BilMoG (§ 272 (1a) HGB).

## 10 Other revenue reserves

€ thousand	2010	2009
At 1 January	437,830	456,888
Appropriation from net income for the year by the annual shareholders' meeting on 17 June 2009	0	18,000
Release of the reserve for treasury shares	37,058	-37,058
Withdrawal allocated to net retained profits	-100,000	0
Difference between the notional value and the purchase cost of the treasury shares	-35,253	0
	<b>339,635</b>	<b>437,830</b>

## 11 Net retained profits (net accumulated losses)

€ thousand	2010	2009
Accumulated losses (retained profits) brought forward	-80,718	925
Net loss for the year	-2,669	-81,643
Withdrawals from other revenue reserves	100,000	0
	<b>16,613</b>	<b>-80,718</b>

## 12 Provisions

Under a pension scheme KRONES AG has committed to providing post-employment, permanent disability, and widow(er)'s pensions to all employees who started at KRONES AG prior to 1999. Recognition of the pension provisions is based on actuarial valuations. The following factors were taken into account in the actuarial calculation:

	2010	2009
Standard of measurement	Projected unit credit method	Entry age normal method
Basis of calculation	»2005G actuarial tables« from Klaus Heubeck	»2005G actuarial tables« from Klaus Heubeck
Discount rate	5.15%	5.50%
Projected increases in wages and salaries	0.00%	0.00%
Projected increase in state pensions	2.00%	2.00%
Employee turnover rate	Depending on age and gender	Depending on age and gender

Since the pension commitments are independent of future pay increases, the projected increase in wages and salaries was not taken into account for determining the corresponding pension provisions.

Offsetting the plan assets against the pension liability reduced the amount recognised for »other assets« at 31 December 2010 by €8,699 thousand. The settlement amount of the pension liabilities that was offset against the plan assets was €96,025 thousand. The offsetting had no impact on the »extraordinary result« or »revenue reserves«.

Direct pension obligations that are not covered by the assets of KRONES Unterstützungsfonds e.V. amount to €7,315 thousand.

The provisions for taxes take into account the expected payments of tax in arrears.

The other provisions cover all identifiable risks and other uncertain obligations. The long-term provisions were discounted at rates between 3.75% – 4.86% corresponding to their remaining maturity.

The provisions for anniversary bonuses were discounted at a rate of 5.15%.

The other provisions are essentially provisions for personnel obligations, including partial retirement (€101,692 thousand), and order-specific provisions (€198,118 thousand) that include, in particular, installation work not yet performed, warranties, anticipated losses, and outstanding supplier invoices.

## 13 Liabilities

€ thousand	31 Dec 2010	Amounts due in 1 year or earlier	31 Dec 2009	Amounts due in 1 year or earlier
Trade payables	123,308	123,308	116,402	116,402
Liabilities to affiliated companies	52,660	52,660	53,938	53,938
Other liabilities	38,034	37,056	23,191	22,118
	<b>214,002</b>	<b>213,024</b>	<b>193,531</b>	<b>192,458</b>

The liabilities to affiliated companies result from deliveries effected or services rendered between group companies.

The other liabilities contain tax liabilities amounting to €10,682 thousand (previous year: €5,574 thousand) and social security liabilities totalling €4,942 thousand (previous year: €968 thousand).

## 14 Contingent liabilities

€ thousand	31 Dec 2010	31 Dec 2009
Contingent liabilities from bill guarantees	15,610	7,900
Contingent liabilities from guarantees and warranties	0	4,236
	<b>15,610</b>	<b>12,136</b>

The contingent liabilities from bill guarantees result from the issuance and transfer of trade bills.

## 15 Other financial liabilities

€ thousand	31 Dec 2010	Amounts due in years 2–5	Amounts due after year 5	31 Dec 2009	Amounts due in years 2–5	Amounts due after year 5
Rental and lease agreements	30,098	16,421	0	27,898	14,429	0
Maintenance contracts	15,225	6,977	0	17,142	9,402	0
	<b>45,323</b>	<b>23,398</b>	<b>0</b>	<b>45,040</b>	<b>23,831</b>	<b>0</b>

The lease liabilities, of which €0 thousand are to affiliated companies, result primarily from a lease agreement containing a right of first refusal on a parcel of land with a production hall in Neutraubling.

The liabilities from maintenance contracts are related to IT (hardware and software) and office communication devices.

## 16 Sales

Breakdown by region	2010	2009
Germany	12.3%	13.0%
Rest of Europe	22.4%	28.6%
Other regions	65.3%	58.4%

## 17 Other operating income

€ thousand	2010	2009
Income from currency translation	12,364	12,077
Prior-period income	20,752	27,927
Income from disposal of fixed assets	298	111
Income from reversal of provisions	13,604	18,359
Income from reduction in specific and global valuation allowances on receivables	5,400	6,246
Income from reduction in the discounting of receivables	0	477
Income from derecognition of liabilities	421	2,304
Other prior-period income	1,029	430

## 18 Personnel expenses

€ thousand	2010	2009
Wages and salaries	470,611	428,804
Social security, post-employment and other employee benefit costs	94,852	81,595
of which for post-employment benefits	10,803	7,617
<b>Total</b>	<b>565,463</b>	<b>510,399</b>

Average number of employees for the year (excluding trainees)	2010	2009
Employees covered by collective agreements	5,756	5,805
White-collar employees exempt from collective agreements	1,835	1,765
<b>Total</b>	<b>7,591</b>	<b>7,570</b>

The company employed 465 trainees on average in 2010 (previous year: 478 trainees).

## 19 Depreciation, amortisation, and write-downs

Scheduled amortisation and write-downs of intangible fixed assets amounting to €5,802 thousand were taken on purchased concessions, industrial and similar rights and assets, and licenses in such assets.

Scheduled depreciation and write-downs of tangible fixed assets amounting to €36,770 thousand were taken on land and buildings (€8,325 thousand), technical equipment and machinery (€13,435 thousand), and other equipment, operating and office equipment (€15,010 thousand). No unscheduled depreciation, amortisation, or write-downs were taken.

## 20 Other operating expenses

€ thousand	2010	2009
Operating costs	84,530	77,342
Administrative expenses	44,150	40,808
of which losses from currency translation	18,138	15,152
Selling expenses	164,147	156,086
Prior-period expenses	997	622
of which losses on disposal of fixed assets	33	267
of which losses on receivables	828	340

## 21 Financial income (expense), net

€ thousand	2010	2009
Income from long-term equity investments		
Income from long-term equity investments in affiliated companies	10,572	10,756
Interest income (expense)		
Income from other securities and long-term loans	504	761
Other interest and similar income		
from affiliated companies	107	106
from other companies	3,778	4,288
from discounting	34	0
Interest and similar expenses		
to affiliated companies	-866	-1,116
to other companies	-1,724	-2,184
from discounting	-4,796	0
Net interest income (expense)	-2,963	1,855
Write-downs of long-term financial assets	-16,059	-18,188
<b>Net financial income (expense)</b>	<b>-8,450</b>	<b>-5,577</b>

Write-downs of long-term financial assets totalling €16,012 thousand were taken on shares in affiliated companies. Write-downs of €47 thousand were taken on loans to affiliated companies.

The interest expense arising from the discounting of long-term provisions results primarily from the discounting of provisions for pensions and similar obligations (€4,407 thousand) and the discounting of provisions for anniversary bonuses (€220 thousand).

## 22 Extraordinary result

The extraordinary result arises from the first-time application of BilMoG. It contains the differences arising from currency translation, the provision for pensions and similar obligations, the provision for anniversary bonuses, the provision for anticipated losses from executory contracts, and the provision for the retention of documents pursuant to Art. 67 EGHGB. The full amount of these differences has been recognised this year.

## 23 Income taxes and other taxes

The item »taxes on income« includes tax charges for the fiscal year. The income tax expense includes prior-period tax expenses of €91 thousand and prior-period tax income of €3,709 thousand.

The other taxes include property tax, motor vehicle tax, and other taxes.

## 24 Deferred taxes

Barring the effects of the BilMoG transition, the annual financial statements of KRONES AG would show deferred tax assets at 31 December 2010 totalling €35,221 thousand.

Temporary measurement differences on assets, liabilities, and items of prepaid expenses and deferred income resulted in deferred tax assets totalling €18,567 thousand. These relate to differences in »raw materials, consumables and supplies«, »provisions for pensions and similar obligations«, and »other provisions«.

Moreover, at 31 December 2010 deferred tax assets of €16,654 thousand result from tax loss carryforwards for corporate income tax and local business (trade) tax purposes.

The taxes are calculated on the basis of the tax rates that apply in Germany – that is, a corporate income tax rate of 15.0% plus the solidarity surcharge of 5.5% and a local business tax rate (Gewerbesteuerhebesatz) for KRONES AG that averages 328%.

The resulting total income tax rate is 27.3%.

Because the result is an excess of deferred tax assets, no use was made of the option for recognition provided for under § 274 (1) sentence 2 HGB.

## 25 Corporate Governance Code

Shareholders can view the declaration of the Executive Board and the Supervisory Board pursuant to § 161 of the German Stock Corporation Act concerning the Corporate Governance Code as amended on 31 March 2011 at KRONES AG's website. The exceptions are also listed there.

## 26 Notifications of shareholdings in KRONES AG

The company has been notified of the following shareholdings pursuant to §§ 21 et seq of the German Securities Trading Act (WpHG) of 9 July 2004:

Name of shareholder	Total share of voting rights	Of which attributable indirect voting rights under § 22 (2) WpHG
Mr. Volker Kronseder, Germany	54.04%	43.91%
Mr. Harald Kronseder, Switzerland	54.04%	43.92%
Mr. Norman Kronseder, Germany	54.04%	43.85%
Mr. Gunther Kronseder, Germany	54.04%	49.82%
Beteiligungsgesellschaft Kronseder mbH, Germany	54.04%	34.85%
Kronseder Holding GmbH, Germany	54.04%	53.84%

### Related parties

Due to the existence of a pooling agreement relating to voting rights, the persons and enterprises listed above have a controlling influence over KRONES AG.

## 27 Audit fees

Expenses of €398 thousand (previous year: €380 thousand) were incurred in fiscal 2010 for the legally mandated audits of the annual and consolidated financial statements. Expenses totalling €163 thousand (previous year: €158 thousand) were incurred for tax advisory services and €80 thousand (previous year: €0 thousand) for other services.

## 28 Derivative financial instruments

KRONES AG uses derivative financial instruments solely for the purpose of hedging currency risks in operations and therefore practices micro-hedging, in which changes in the value of the hedged items and the hedging instruments largely offset each other over the term of the hedge. KRONES AG does not use derivative financial instruments for speculative purposes. The derivative financial instruments, with a fair value of €310 thousand (previous year: €444 thousand), essentially cover the currency risks relating to the New Zealand dollar, the Canadian dollar, and the US dollar. The fair value includes the difference between the forward rate received from the relevant commercial bank and the rate at the reporting date as well as appropriate premiums or discounts for the expected price development through maturity. The financial instruments are essentially composed of forward exchange contracts at a secured volume of €52,478 thousand (previous year: €50,360 thousand).

## 29 Other

Since 2008, KRONES AG and other parties are defendants in various proceedings arising from the bankruptcy of a former customer. KRONES AG believes that it is too early to give a conclusive assessment, but considers the charges to be unfounded.

The basic structure of the compensation system for the members of the Executive Board and the compensation paid to the Executive Board and the Supervisory Board during the reporting period are explained in the compensation report. The compensation report supplements the corporate governance report and is part of the management report.

For fiscal 2010, the direct fixed remuneration of the five active members of the Executive Board was €2,520 thousand (previous year: €2,450 thousand). This fixed amount is the base pay stipulated in the members' contracts and is paid out in equal monthly amounts as a salary. In addition, the members of the Executive Board received fringe benefits in the form of non-cash benefits (company car) amounting to €89 thousand (previous year: €89 thousand). In 2010, the variable compensation amounted to €2,503 thousand (previous year: €0 thousand).

In keeping with the recommendations of the Corporate Governance Code, the Supervisory Board adopted a long-term »performance incentive plan« containing risk elements at its meeting on 17 March 2005. In 2010, €2,275 thousand (previous year: €0 thousand) in such compensation came due for payment as scheduled following the 10-year waiting period. Provisions of €689 thousand (previous year: €1,908 thousand) were recognised for the performance incentive.

Pension provisions of €5,238 thousand (previous year: €2,094 thousand) were recognised for active members of the Executive Board.

For former members of the Executive Board and their surviving dependents, payments amounting to €697 thousand (previous year: €688 thousand) were made and pension provisions of €661 thousand (previous year: €848 thousand) were recognised.

The total remuneration paid to members of the Supervisory Board amounted to €243 thousand (previous year: €175 thousand) including variable portions totalling €48 thousand (previous year: €0 thousand).

Moreover, the members of the Supervisory Board receive a flat €600 fee per meeting as reimbursement for their expenses unless they submit proof of having incurred higher expenses.

Members of the Supervisory Board who belonged to the board for only a portion of the fiscal year receive pro-rated compensation.

## Proposal for the appropriation of net retained profits

Net retained profits of KRONES AG amounted to €16,612,612.26 at 31 December 2010.

We propose to the annual shareholders' meeting on 15 June 2011 that this amount be used as follows:

Proposal for the appropriation of net retained profits	€
Dividend of €0.40* for 30,167,651 ordinary shares	12,067,060.40
Amount carried forward to new account	4,545,551.86

\*After deducting 1,425,421 treasury shares at 31 December 2010

Neutraubling, 30 March 2011



Volker Kronseder  
(Chairman)



Hans-Jürgen Thaus  
(Deputy Chairman)



Rainulf Diepold



Werner Frischholz



Christoph Klenk



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 no. 1 of the Codetermination Act.

#### Supervisory Board

Ernst Baumann  
Chairman of the Supervisory Board

Werner Schrödl\*\*  
Chairman of the Central Works  
Council  
Deputy Chairman of the  
Supervisory Board

Dr. Klaus Heimann\*\*  
Director of the Youth,  
Training and Qualification  
Policy Division of  
IG METALL

Dr. Jochen Klein  
Managing director of  
I-Invest GmbH  
\* DÖHLER GMBH  
HOYER GMBH

Prof. Dr. Ing. Erich Kohnhäuser

Norman Kronseder  
Farmer and forester  
\* BAYERISCHE FUTTERSATBAU  
GMBH

Philipp Graf  
von und zu Lerchenfeld  
Member of the Bavarian Landtag,  
Dipl.-Ing. agr., auditor and tax  
consultant

Dr. Alexander Nerz  
Attorney

Johann Robold\*\*  
Member of the Works Council

Anton Schindlbeck\*\*  
Head of sales for LCS

Jürgen Scholz\*\*  
1<sup>st</sup> authorised representative  
and treasurer of the  
IG METALL administrative office  
in Regensburg  
\* INFINEON TECHNOLOGIES AG

Josef Weitzer\*\*  
Deputy Chairman of the Works  
Council  
\* Sparkasse Regensburg

#### Executive Board

Volker Kronseder  
Chairman  
Group Communication,  
Personnel Management  
and Social Affairs  
\* KRONES INC., USA

Hans-Jürgen Thaus  
Deputy Chairman  
Finance, Controlling,  
Information Management  
and Process Management  
\* KURTZ GMBH  
KRONES INC., USA  
MASCHINENFABRIK REINHAUSEN  
GMBH

Rainulf Diepold  
Marketing and Sales

Werner Frischholz  
Materials Management  
and Production

Christoph Klenk  
Research and Development,  
Engineering, and Product Divisions  
\* WINKLER & DÜNNEBIER AG

\* 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.



We have audited the annual financial statements, comprising the balance sheet, the income statement, and the notes to the financial statements, together with the accounting records and the management report of KRONES Aktiengesellschaft, Neutraubling, for the financial year from 1 January to 31 December 2010. The accounting records and the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of the company's management. Our responsibility is to express an opinion on the annual financial statements together with the accounting records and on the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with the German generally accepted accounting principles and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the accounting records, the annual financial statements and the management report are examined primarily on the basis of samples within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the requirements of the law and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with German generally accepted accounting principles. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development.

Regensburg, 31 March 2011

KPMG Bayerische Treuhandgesellschaft  
Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft

Herr	Medick
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Affiliated companies	See subsidiaries
BilMoG	Germany's Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG). Passed by the German parliament on 26 March 2009, it is the most extensive reform of accounting law in Germany since the German Accounting Directives Act of 1985. The new law is the result of many years' discussion of the direction of German accounting law and harmonisation with international principles of financial reporting.
Cash flow	All inflows and outflows of cash and cash equivalents during a period.
Corporate governance	Responsible corporate management and supervision that is oriented toward long-term value creation.
DAX	Deutscher Aktienindex (DAX). Index containing the 30 biggest German companies (based on market capitalisation and trading volume).
EBITDA	Earnings before interest, taxes, depreciation and amortisation.
EBIT	Earnings before interest and taxes.
EBT	Earnings before taxes.
EGHGB	Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch)
Equity	Funds made available to the company by the owners by way of contribution and/or investment plus retained earnings (or losses).
Fixed assets	Assets which are intended to permanently serve the business operations.
Free float	Portion of the total number of shares outstanding that is available to the public for trading.
HGB	German Commercial Code (Handelsgesetzbuch)
Market capitalisation	The value of a company based on the market price of issued and outstanding ordinary shares. Calculated by multiplying the share price by the number of shares.
MDAX	Index that contains the 50 biggest German and non-German companies (based on market capitalisation and trading volume) in the traditional sectors after those included in the DAX.
Net cash and equivalents	Cash and highly liquid securities under current assets less liabilities to banks.
Price/earnings (PE) ratio	The PE ratio is an important ratio for evaluating shares. It is calculated by dividing the share price by earnings per share. The lower the PE ratio, the better the value.
Return on equity	Ratio of net income to equity.
Return on equity before taxes	Ratio of earnings before taxes to average equity.
ROCE	Ratio of EBIT to average capital employed (total assets less interest-free liabilities and other provisions).
ROI	Return on investment. Ratio of earnings before taxes to total capital.
ROS	Return on sales. Ratio of earnings before taxes to sales.
Subsidiaries	All companies that are controlled, directly or indirectly, by a parent company due to majority interest and/or common management.
Total debt	Combined term for the provisions, liabilities, and deferred income stated on the liabilities side of the balance sheet.
Working capital to sales	Working capital is calculated as current assets less cash and cash equivalents and less trade payables.
XETRA trading system	Electronic stock market trading system.

## Publication credits

Published by	KRONES AG Böhmerwaldstrasse 5 93073 Neutraubling
Project lead	Hermann Graf Castell, Head of corporate communications
Editing	Roland Pokorny, Art Director
Design Text	Büro Benseler KRONES AG, InvestorPress GmbH,
Translation Photography	Lisa Phillips KRONES AG, Jessica Pfeleiderer, Juliane Zitzlsperger, Uwe Moosburger

This English language report is a translation of the original German Geschäftsbericht der KRONES AG 2010. In case of discrepancies the German text shall prevail.



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