

AG 2011

Annual Report for KRONES AG

KRONES COMPACT

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Dear shareholders and friends of KRONES,

The sovereign debt crisis and the euro crisis were the dominant issues occupying policymakers, economists, and the media in 2011. Some experts feared that the fall-out for the global economy could be even worse than that of the Lehman bankruptcy in 2008. The grim outlook temporarily put the financial markets in an apocalyptic mood last year and caused share prices to fluctuate dramatically. KRONES did not get caught up in the stock market frenzy or the economic pessimism. On the contrary, in 2011, we took important steps to advance our »Value« strategy programme. (Read more about »Value« on pages 12 to 15).

From an outside perspective, the most visible change came in the form of new hiring. KRONES added more than 800 employees worldwide last year, bringing our international workforce up to 11,389. We permanently hired all of our graduating trainees as well as many of our highly qualified temporary workers. With our far-sighted human resources policy, which is based on long-term employment, we are avoiding the labour shortages that will soon affect many companies in Germany. Well-trained, highly motivated employees are increasingly hard to find. KRONES recognised this risk early on – as well as the many advantages that Germany offers our company as a business location. As ever, we firmly believe that Germany is the only place in the world where we can produce our highly sophisticated machines and lines in top quality. We are investing heavily in Germany to secure these locational advantages and steadily improve productivity. One example of this is the new »Centre for Logistics and Module Production for Packing and Palletising Technology« at our Rosenheim plant. We are expanding the plant there to make production even more flexible and more efficient and, in the spirit of our »Value« strategy programme, to create value.

We also continued to expand our profitable service business in 2011. Our customers have very high expectations when it comes to after-sales service. We must be able to deploy personnel to our customers' sites quickly – any time, any day, anywhere in the world. For this reason, we further expanded our KRONES LCS Centres in 2011. A portion of our investment in this area went into the LCS Centre in China, where KRONES also manufactures spare parts. The investment enables our service technicians to serve our customers in the region more quickly. By increasing the local content of our offerings, we are also able to avoid the effects of increasing protectionism in that market.



»KRONES continues to invest heavily in its production sites in Germany in order to secure the advantages that Germany offers as a business location.«

*Volker Kronseder
Chairman of the Executive Board*

Our Supervisory Board made several important decisions regarding the Executive Board in 2011. Having reached the age limit for serving on the Executive Board, Chief Financial Officer and Deputy Chairman of the Executive Board Hans-Jürgen Thaus retired at the end of 2011 after 15 extremely successful years with KRONES. The Supervisory Board tapped a suitable successor for Mr. Thaus in plenty of time to ensure a smooth transition. Christoph Klenk (48), formerly Chief Engineering, Research and Development Officer, took over the financial helm as of 1 January 2012. KRONES veteran Thomas Ricker (44) joined the Executive Board as Chief Engineering, Research and Development Officer. I am pleased that the Supervisory Board chose to fill these Executive Board posts from within KRONES. The combination of new energy and continuity is an important factor for successful leadership.

Business was satisfactory overall in an eventful year 2011. Sales at KRONES AG were up 9.8% year-on-year to €2,066.2 million. New orders were up 15.2% to €2,192.9 million in 2011. Although we were able to improve our earnings from operations, earnings before taxes, at €0.8 million, nevertheless fell short of our target.

One reason for this is that the KRONES Group's US company, KRONES Inc. Franklin/Wisconsin (USA), and KRONES AG, Neutraubling (Germany), have taken a first step toward resolving the legal disputes that have been ongoing since October 2008. At issue in the disputes are claims for damages asserted by several American financial firms, a group of hedge funds, and a bankruptcy trustee.

Several plaintiffs entered into a mediation process with KRONES in January 2012 to explore options for ending the proceedings. Although KRONES deems the opposing parties' claims to be unfounded, our US attorneys have advised us to continue to try to reach a settlement through mediation, due in part to special risks inherent to the American legal system.

These legal disputes have had a negative impact on KRONES AG's earnings for the period ended 31 December 2011.

Finally, I would like to recognise all of our employees for their excellent work. On behalf of the Executive Board, I would like to thank the entire KRONES team for their dedication and outstanding accomplishments in 2011. I firmly believe that with our motivated and much larger workforce we will indeed »create value together«.

*Volker Kronseder
Chairman of the Executive Board*

Seats on KRONES' Executive Board changed hands at the start of the year.

Our people once again did outstanding work in 2011.

Hans-Jürgen Thaus served as Chief Financial Officer and Deputy Chairman of the Executive Board of KRONES AG for 15 years. During his tenure, Mr. Thaus, together with his fellow Executive Board members, made important contributions to the company's success. Mr. Thaus stepped down effective 31 December 2011, having reached the prescribed age limit. On behalf of the entire KRONES staff, the Executive Board would like to thank Hans-Jürgen Thaus for his outstanding work over the past 15 years. We wish him all the best for the future.



Hans-Jürgen Thaus
*1949
Deputy Chairman of the Executive Board from 1997 through 2011.
Finance and Information Management.

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

Thomas Ricker
*1968
Member of the Executive Board since 2012.
Engineering, Research and Development.

Christoph Klenk
*1963
Member of the Executive Board since 2003.
Finance and Information Management.

Werner Frischholz
*1951
Member of the Executive Board since 2003.
Materials Management, Production, and Service.

Volker Kronseider
*1953
Member of the Executive Board since 1989.
Chairman since 1996.
Human Resources and Corporate Communications.



Ladies and Gentlemen,

In 2011, the Supervisory Board of KRONES AG continuously oversaw and advised 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. One focus of the Supervisory Board's activities in 2011 was on possible actions and strategies with which KRONES can respond to the changed circumstances worldwide. In this regard, the Supervisory Board provided ongoing support to the Executive Board in the development and implementation of the strategy programme »Value«.

The first of five Supervisory Board meetings in the reporting year was convened on 16 March 2011. The Executive Board presented the preliminary consolidated financial statements for 2010 and provided explanations for the key consolidated financial figures. The Supervisory Board and Executive Board then discussed the business situation in the first quarter of 2011. After that, the Executive Board presented KRONES' new strategy programme »Value« in detail to the Supervisory Board. In preparation for the upcoming Supervisory Board elections, which would be held at the annual shareholders' meeting on 15 June 2011, the tenures of the individual members of the Supervisory Board were discussed. The Board unanimously agreed to pay special heed to the recommendations of the German Corporate Governance Code on the topic of diversity in the new elections and to nominate a woman with specialist expertise.

Before the second Supervisory Board meeting, which took place on 21 April, the Supervisory Board Committee prepared the Supervisory Board's review of the annual financial statements, the management report, and the auditor's report on the single-entity and consolidated financial statements for 2010. Representatives from KRONES' auditing firm were present for a portion of the Supervisory Board meeting. The auditors explained the annual financial statements for 2010 to the Supervisory Board and provided a detailed overview of the areas on which their review focused. Following the auditors' comprehensive remarks, the Supervisory Board adopted the 2010 annual financial statements and the 2010 consolidated financial statements along with the management report for the financial year 2010. The Supervisory Board and Executive Board then discussed the agenda for the annual shareholders' meeting of KRONES AG, which would be held on 15 June 2011. The Boards agreed to propose to the annual shareholders' meeting that a dividend of €0.40 per share be paid out for 2010.

The Supervisory Board held its constitutive meeting on 15 June 2011, following the annual shareholders' meeting. Ernst Baumann was reelected Chairman of the Supervisory Board. The annual shareholders' meeting had elected Petra Schadeberg-Herrmann as a new member of the Supervisory Board, making her the first woman to sit on the Supervisory Board of KRONES AG. The remainder of the meeting was devoted to matters relating to the Executive Board. The Supervisory Board acknowledged that, with the close collaboration of the Supervisory Board Committee, a successor had been found to replace Deputy Chairman of the Executive Board and Chief Financial



Ernst Baumann
Chairman of the Supervisory Board

Officer Hans-Jürgen Thaus, who would be stepping down at the end of the year. Christoph Klenk, who was then serving as Chief Engineering, Research and Development Officer, was chosen to succeed Mr. Thaus. The Supervisory Board welcomed this choice. At the suggestion of the Supervisory Board Committee, the Supervisory Board unanimously appointed Thomas Ricker as the company's new Chief Engineering, Research and Development Officer effective 1 January 2012.

The current business situation was the focus of the fourth Supervisory Board meeting, which was held on 21 September. The Executive Board presented its outlook for the third quarter of 2011.

The fifth and final meeting of the Supervisory Board for 2011 was held on 23 November. The meeting's main focus was on the results for the third quarter of 2011 and planning for the financial year 2012. The Executive Board explained, among other things, its sales, production, and human resources planning. The Supervisory Board unanimously approved the capital expenditure planning for the financial year 2012 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 2011 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 2011 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 meeting held to ratify the financial statements on 23 April 2012. 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 appropriation of net retained profits. 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 2011.

Neutraubling, April 2012

The Supervisory Board

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



KRONES COMPACT

**Station 5
Packing and palletising**

Packaging options are almost limitless. So, packaging systems have to be extremely versatile. The various models of KRONES' fully automated Variopac Pro packer covers all the bases.

**Station 4
Conveyors**

On KRONES lines, containers are moved quickly and reliably from one stage of production to the next. Our conveyors are equipped with state-of-the-art control technology.

**Station 3
Labeller**

KRONES offers a broad range of labelling machines. The KRONES Controll has been setting the standards for reel-fed wrap-around labelling for many years now. Each labelling station on the machine's high-speed variant, the Controll HS, labels up to 66,000 containers per hour.

**Station 2
Filler**

A variety of filling processes are available to suit different beverages and different types and shapes of containers. The Volumetric vDM series of fillers offers the ideal solution for conductive products. In this system, the correct fill quantity is precisely determined by means of an inductive flow meter.

**Station 1
Stretch blow-moulder**

On this machine, PET preforms are blow-moulded into bottles. The new generation, the Contiform 3, is capable of producing up to 63,000 PET containers per hour.

A KRONES filling line is composed of innovative individual machines and systems that produce, fill, label, and pack bottles. Custom IT solutions from KRONES control and document all processes within the line.



KRONES COMPACT

Past successes with »Impulse« and »Conversion«

Over the past several years, KRONES has developed the future successfully with innovative technologies, top quality, and customer-oriented services. Our people have always been elemental to our innovation and to increasing productivity. The measures through which we achieved our goals were bundled into two strategy programmes, entitled »Impulse« and »Conversion«.

These programmes gave KRONES a dependable framework for meeting the needs and expectations of our customers, employees, and shareholders. This framework proved effective both during the period of strong growth from 1999 to 2008 (»Impulse«) and after the break that came with the global financial and economic crisis in 2009 (»Conversion«). Despite some turbulent times on the financial markets, our company's share price has increased roughly fivefold in the past 15 years.

KRONES' market is attractive

The markets in which KRONES operates have long-term stability, even in a volatile global economy. A study by Germany's Federal Statistical Office examining the revenue stability of various industries in the crisis year 2008/2009 confirms this. While some industries saw revenue drop as much as 50% during this period, the beverage industry stayed very close to pre-crisis levels, declining only about 5%.

However, the crisis hit vendors of beverage packaging machinery and lines – like KRONES – much harder than it hit their customers. That is because, dogged by uncertainty about the impact and duration of the financial crisis, beverage producers cut back on capital investment. However, we can see now that those bottlers who did invest during the crisis have come out the most successful because they have gained market share. By now, almost all market participants will have come to this realisation. As a result, we expect demand for our products and services to remain relatively stable in the future, even when the global economy does not.



»KRONES aims to continue to grow profitably in the future with »Value«.

Christoph Klenk
Chief Financial Officer

One important factor driving the rise in demand for KRONES' products for the food and beverage industry is the growth of the middle class in the world's emerging economies. Combined with increasing urbanisation in these countries, it creates enormous potential for KRONES.

But even the world's mature markets offer good opportunities in the medium and long terms as beverage producers find themselves needing to diversify at all levels. They are offering a growing variety of products in a broad range of packaging options. And they need innovative solutions from KRONES to ensure that they can offer their end customers excellent quality at appealing prices.

»Value« – the foundation for future profitability

»Value« is our response to the changed circumstances in which KRONES does business. Our markets and our customers' demands are also changing rapidly. For this reason, the Executive Board in collaboration with our international management team has developed a strategy programme that enables KRONES to react to each challenge with agility and flexibility.

With the measures that make up »Value«, we intend to further consolidate and expand our leadership on the market, even as global economic cycles become increasingly unpredictable. »Value« is sharply focused on the individual, local needs of markets and customers.

»Value« is about actively shaping our company's future and carrying on the successes of the past. With it, we will keep KRONES on course for sustainable, profitable growth.

KRONES targets average sales growth of 5%–7%

We have everything it takes to use the opportunities the market has to offer. KRONES has first-class products and services that can meet all of our customers' needs and expectations. We aim to achieve sustainable growth. In the years ahead, we intend to increase sales revenue by 5%–7% on average each year.

Our strategic focus is on innovative solutions and products and on further expanding our local service operations.

We will also be expanding and streamlining our machinery portfolio for the low and medium output ranges.

Focus on profitability

The individual measures implemented in years past have laid the foundation for future profitability. They have been aimed at different aspects of our business, but the primary focus has been on reducing complexity, increasing transparency, and maximising the value we generate from our markets. Today, these measures form an integral part of KRONES' »Value« programme. They will help us attain our medium-term target of a 7% return on sales for the group.

Our focus for 2012 will be on making cost structures in our **core business area, bottling and packaging machinery**, more efficient in order to achieve long-term profitability, even in price-sensitive markets. Moreover, we want to make our structures more flexible so that we can better react to future volatilities on the global markets. Our strategy is based on modularising assemblies and machines to reduce complexity.

In our quest to reduce our cost of materials, modularisation is crucial as it helps us tap new, less costly sources of supply.

Investments in logistics and paced assembly will boost productivity considerably and help us to leverage potential within working capital.

Process technology is highly important to KRONES from a strategic standpoint as customers want their beverage production and product filling technology to be linked as seamlessly as possible.

We have already taken important actions in the past to get in on the attractive components market and boost profitability in this business area. Expanding KRONES' valve technology activities is an important step here. With the development and implementation of KRONES' valves we are able to generate considerable positive effects in both new machinery and after-sales business.

Furthermore we will develop structural strategies to make our process technology segment more sustainable and more profitable.

»KOSME«, which provides machines and lines for the low output range, is important for KRONES as demand in this segment is expected to grow faster than the rest of the market in the future. Earnings at KOSME have developed poorly in recent years. Important steps toward improving the segment's profitability include a new sales structure that completely eliminates the use of agents, an extensively revised product portfolio, and the integration of after-sales service into KRONES structures.

Our HR policy has laid a solid foundation for future growth. With our current resources, we are in an excellent position to move easily through any medium-term bottlenecks for skilled workers. We are devoting special attention to purposefully expanding our resources abroad in order to unlock additional potential in our service business.

KRONES' global service structures are vital to securing and further growing our Life-cycle Services business. Our efforts here include further expanding our Service Centres and building local engineering resources so that we can match our local competitors' response times.

We are also working on measures aimed at further optimising our overhead costs.

»Value« – creating value together

Of course, the only way we can achieve our goals is by working together with all of our employees. They are the people putting the strategic measures into action in our day-to-day operations. All of their actions are informed by the values that KRONES stands for and that form an integral part of »Value«.

Value
create value
together

Christoph Klenk
Chief Financial Officer

The KRONES share

The sovereign debt and euro crises hobbled the stock markets in 2011. Germany's DAX blue chip index dropped nearly 15%. Financials and cyclical stocks were hit especially hard. In this negative environment, KRONES' share price fell 21.7% to €36.76.



- Debt crisis sends stocks tumbling
- KRONES share loses 21.7%
- Dividend of €0.60 per share planned

The sovereign debt crisis and the attendant euro crisis certainly spoiled investors' appetite in 2011. Rising fears of a recession in Europe also contributed to the stock market malaise. In this negative environment, KRONES' share price fell 21.7% to €36.76.

The stock markets in 2011

Several negative events came together to trouble the international equity markets in 2011. The devastation caused by the earthquake and tsunami in Japan dealt a heavy blow to stock prices in March. Share prices recovered from the shock relatively quickly as the economy developed well and central banks flooded the markets with liquidity. At the end of the first half, most major international share indices were higher than they had started the year.

The rest of 2011 did not go as well. The debt and euro crises dominated the markets. The wretched state of public budgets prompted a wave of sovereign downgrades across Europe. Even the US was not spared. In August, the rating agency Standard & Poor's stripped the US of its top AAA credit rating. As prices on bonds from countries like Greece, Italy, and Spain plummeted, bond yields rose. The euro lost considerable value against most currencies. The financial market crisis eventually began to bite the real economy. Over the course of the year more and more economists warned that Europe's economy was sliding toward a recession in 2012.

In this environment, investors balked at risk and sold off shares. Germany's DAX blue-chip index, which started 2011 at around 6,900 points, fell below the 5,000 point mark in September. The index recovered from this blow but still ended 2011 down 14.7% for the year, at 5,898 points. The EURO STOXX 50 gave up even more value – due in part to exceptionally large losses among European financial shares.

KRONES share price performance compared with the MDAX in 2011



»Transparent, prompt, and honest communications are a central aim of our investor relations activities.«

Olaf Scholz
Investor Relations

The KRONES share came under heavy pressure in the second half and suffered a bigger loss than the MDAX in 2011.



More of the latest information is available at www.krones.com/en/investor_relations.htm

All told, the EURO STOXX 50 dropped 17.0% in 2011. Japan's Nikkei index suffered a similar loss, 17.3%. The Dow Jones Industrial Average closed 2011 with a gain of 5.5%. The progressive improvement of the US economy and a slight brightening on the US labour market had a positive effect on share prices there.

KRONES share price down sharply

Germany's MDAX mid-cap index, which covers 50 companies including KRONES, fared somewhat better than the DAX in 2011. At 8,898 points, the MDAX was down 12.1% at the end of December compared with the start of 2011.

The KRONES share price trend resembled a roller coaster ride in 2011. After a slow start to 2011, the share price gathered strong momentum through the end of June, climbing 24.3% from the start of the year to €58.38. During this period, investors honoured KRONES' strong business performance and very sound financial structure, which became all the more important given the tight credit markets. On 13 July, our share closed at €59.06, its highest closing price for 2011. Soon after began a steep descent. Amid the general malaise on the stock markets, many investors sold off shares that had accumulated strong gains. In addition, growing concerns that major industrialised economies could slip into recession prompted a temporary sell-off of cyclical stocks, including those of automakers and machinery builders. And KRONES was no exception. Our figures for the first nine months of 2011 fell short of analysts' expectations, putting further downward pressure on our share price. On 23 November, the KRONES share hit its low for the year, €33.87. The share recovered slightly to close the year at €36.76, down 21.7% from the start of the year.

At just under €37, the KRONES share was down more than 20% for the year at the end of 2011.

Key figures for the KRONES share

At 31 December		2011	2010	2009
Number of shares	million	31.59	31.59	31.59
Gross cash flow per share*	€	3.78	3.70	1.24
Equity per share*	€	26.04	25.16	22.65
Earnings per share*	€	1.45	1.68	-1.13
Price/earnings ratio (P/E)		25.4	27.9	–
Dividend per share	€	0.60**	0.40	0.00
High	€	59.06	47.05	38.83
Low	€	33.87	34.35	22.00
Year's closing price	€	36.76	46.95	35.50

* Based on total number of shares less treasury shares

Reference: KRONES Group financials according to IFRS

** As per proposal for appropriation of net retained profits

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 the financial year 2011, daily trading volume on the Frankfurt stock exchange and in XETRA trading averaged just under 82,000 shares in total (previous year: around 60,000). Around 95% of trading was done on the XETRA electronic 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 (53.28%). KRONES bought back a total of 1,425,421 treasury shares in 2009 and continues to hold them. They correspond to 4.51% of the share capital. The free float is 42.21%.

Shareholder structure (at 29 February 2012)

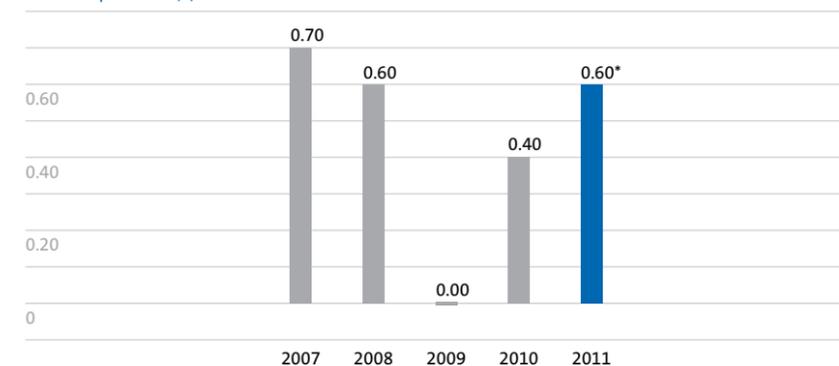


http://www.krones.com/en/investor_relations/shareholder-structure.htm

Dividend of €0.60 per share planned

KRONES' long-term dividend policy target is to pay out 20% to 25% of consolidated net income in dividends. With that, we wish to give our shareholders an appropriate share in the company's success. The Executive Board and the Supervisory Board will propose to the shareholders' meeting on 13 June 2012 that a dividend of €0.60 per share be paid for the financial year 2011 (previous year: €0.40 per share).

Dividend per share (€)



* as per proposal for appropriation of net retained profits«

KRONES steps up investor relations work

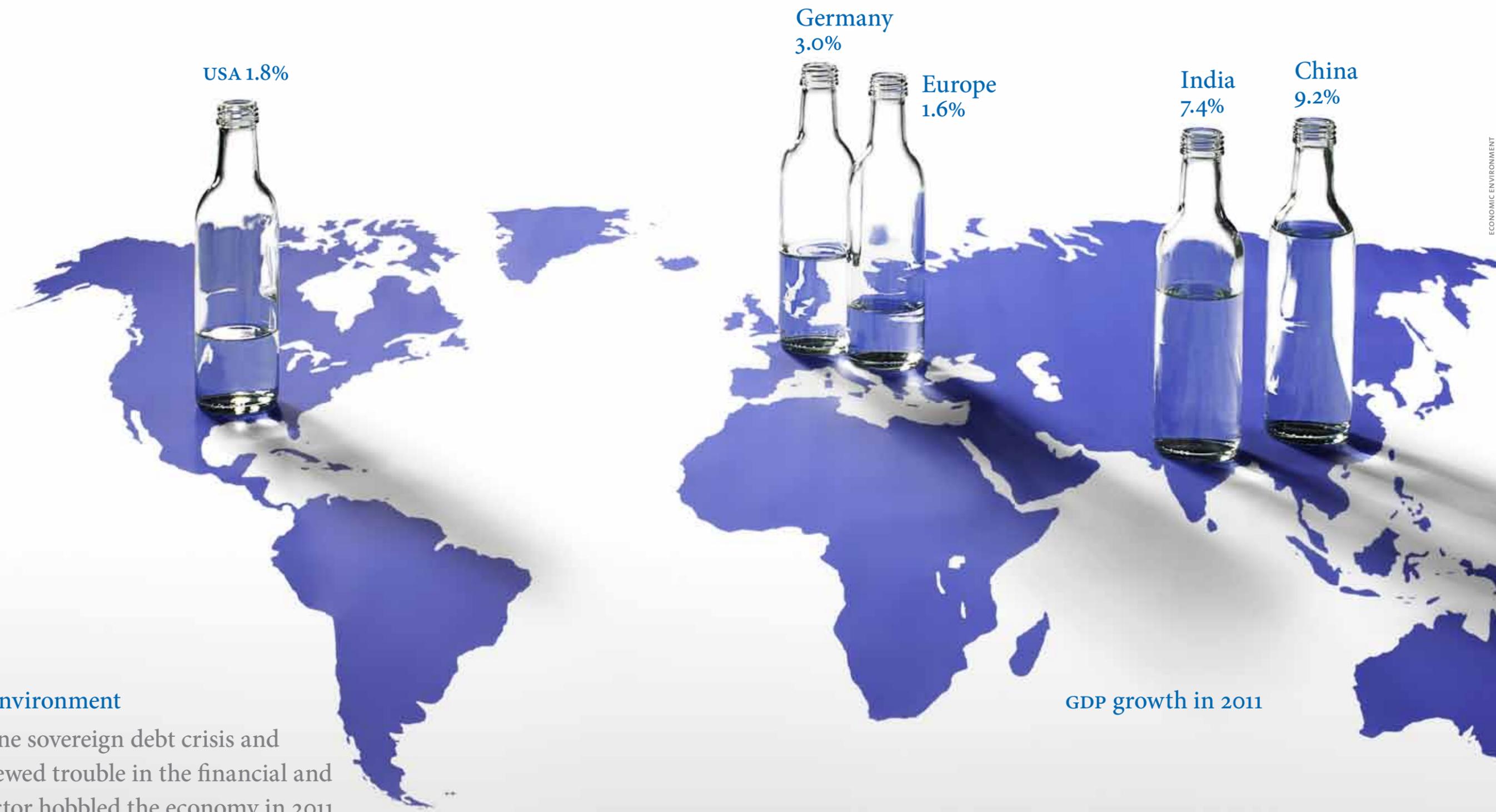
Transparent, prompt, and honest communications with all of our shareholders is a major aim of our investor relations activities. As a member of the MDAX share index, we are followed by international investors and analysts, who have high expectations of our financial communications. We are happy to meet these expectations – increasingly in person-to-person dialogue. We conducted more than a dozen road shows last year, visiting investors in international financial centres such as London, New York, Paris, Zurich, Frankfurt, and the Scandinavian capitals. These shows were attended by Executive Board members or the head of investor relations – or both – who fielded questions from the market professionals. KRONES also participated in numerous investor conferences in Germany and abroad in 2011.

Capital Market Day, which we hosted at our headquarters in Neutraubling, Germany, for the first time on 27 April 2011, was very well received. More than 40 analysts and investors attended. Executive Board Chairman Volker Kronseder and Deputy Chairman Hans-Jürgen Thaus explained business results released the same day and also presented the company's new strategy programme »Value« for the first time. In a tour of the production halls, participants had an opportunity to see for themselves that »Value« is more than words on paper and is, in fact, already being implemented within the company. Christoph Klenk (Chief Engineering, Research and Development Officer) explained our use of modular construction in manufacturing fillers. The new pipe machining centre was also a point of considerable interest during the tour.

Emotional shareholders' meeting

The 31st annual shareholders' meeting of KRONES AG was held in Neutraubling, Germany, on 15 June 2011. Shareholders remembered the company's founder Hermann Kronseder, who had passed away on 9 July 2010. The »farewell speech« of retiring Deputy Chairman of the Executive Board Hans-Jürgen Thaus also elicited an emotional response. Thaus would be leaving KRONES at the end of 2011 after 15 years with the company and therefore made his final presentation to KRONES shareholders at the meeting. All of the resolutions proposed were adopted with a large majority of the shareholders, including a dividend of €0.40 per share for the successful year 2010.

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



Economic environment

The euro zone sovereign debt crisis and fears of renewed trouble in the financial and banking sector hobbled the economy in 2011.

At 3.8%, year-on-year global economic growth was weaker than expected. The biggest contribution to growth came from the emerging markets.

GDP growth in 2011

- Debt and euro crises stifle the global economy
- German GDP up 3.0% in 2011
- Machinery sector output picks up

Global economy grows 3.8%

The world economy slowed progressively over the course of 2011. The main culprit was the sovereign debt crisis in the euro area. In addition, US budget woes gained attention in August when the rating agency Standard & Poor's stripped the USA of its AAA credit rating. Fears of a new crisis in the global finance and banking sector put increasing strain on the real economy. Losses on the international financial markets and the associated risks prompted experts at the International Monetary Fund (IMF) to lower their growth forecasts for 2011 twice. Initially, the IMF had predicted that the world economy would grow 4.4% in 2011 over the previous year. In the end, global economic growth amounted to just 3.8% (previous year: 5.2%). In the USA, Japan, and the euro area in particular, economic growth was weaker than had been expected at the start of the year.

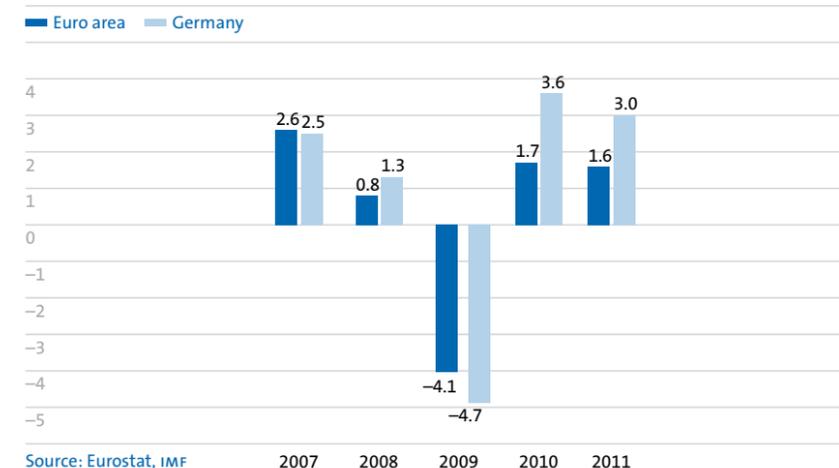
The world economy was weaker than expected in 2011.

The biggest gains in 2011 came from the burgeoning markets of Asia and Latin America. But China's GDP growth was no longer in the double digits in 2011. With exports to the faltering euro zone hampered and because the Chinese government used higher interest rates to fight inflation, the nation's GDP grew »only« 9.2%. India's GDP grew 7.4% year-on-year. Japan was the exception in Asia in 2011. The earthquake and tsunami in March and the devastation they caused crippled Japan's economy. GDP contracted by 0.9% in 2011 compared to the previous year.

In the USA, high unemployment made for weak private consumption – the most important component of the world's largest economy. When the situation on the US labour market improved in the second half of 2011, the economy also picked up somewhat. In all, US GDP grew 1.8% in the reporting period.

The euro crisis is reflected in euro area growth figures. Greece and Portugal slid into a deep recession and GDP growth was weak in Italy, Spain, and France. In all, economic growth in the euro area amounted to 1.6% in 2011.

Change in gross domestic product (%)



German economy strong

To the surprise of many experts, the German economy largely resisted the negative influence of the European debt crisis in 2011. Only in the final quarter of the year did it falter slightly, with GDP contracting by 0.2% on the third quarter. But for the year 2011 as a whole, German GDP was up 3.0% year-on-year. That is only slightly less than the previous year's gain of 3.6%.

Germany's economy was not hit as hard by the debt and euro crises as the rest of Europe.

German machinery sector grows less than expected

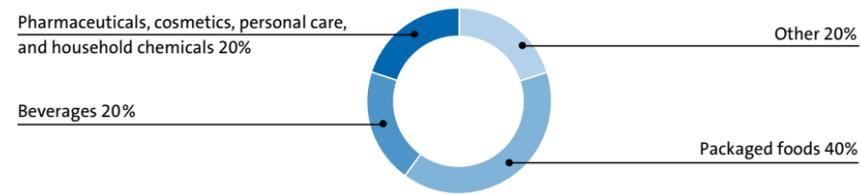
German machinery manufacturers saw new orders increase by more than one-third in the first months of 2011. Growth slowed perceptibly over the remainder of the year. From October to December 2011, new orders were even down compared with the year-earlier period. The sector did not reach the 14% target for output growth set by the German Engineering Federation (VDMA) for 2011. German machinery manufacturers produced goods with a total value of around €187 billion last year. That is up 12.1% from the previous year. At the end of 2011, Germany's machinery sector employed 948,000 people, 35,000 more than at the start of the year.

Megatrends benefit packaging machinery market

The market for packaging machinery is growing faster than the economy as a whole in the medium and long term. The entire industry is benefiting from steady global population growth and increasing prosperity in the emerging markets. Demand from the beverage industry in particular is expected to increase even faster than the packaging market as a whole as the rise in demand for clean, bottled water continues undiminished and the variety of beverages and beverage packaging continues to grow.

The greatest demand for packaging machinery comes from the food industry (40% of sales). The pharmaceutical, cosmetics, personal care, and household chemical industries combined account for 20%, as do other industries such as tobacco and building materials. The beverage industry also accounts for 20% of demand for packaging machinery. KRONES generates the lion's share of its sales revenue with customers in the beverage industry. In 2011, around 91.9% of our revenue came from business with breweries, soft drink producers, and mineral springs. The other 8.1% 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



Source: VDMA

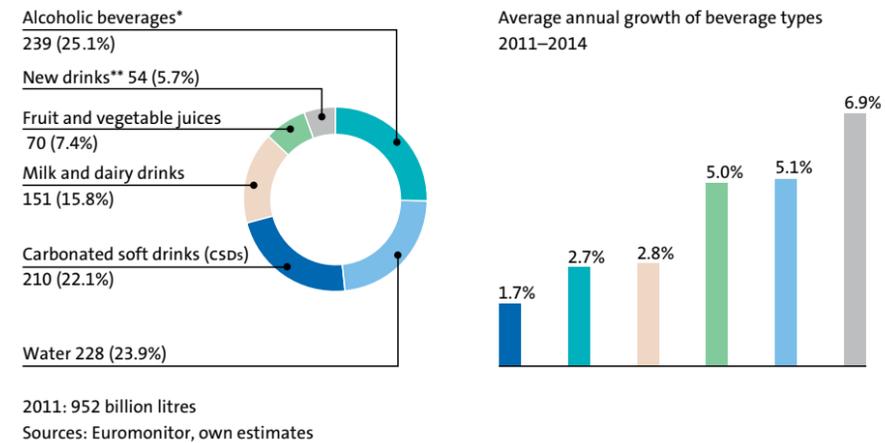
Consumption of packaged beverages is growing steadily

Food and drink are basic human needs that must be met virtually independent of economic cycles. As the world population continues to grow, so too does consumption of industrially packaged beverages. This growth trend continued in 2011. Market researchers from Euromonitor estimate that global consumption of packaged beverages increased 3.1% year-on-year to 951.8 billion litres in 2011. The same researchers expect that figure to grow by around 4.0% annually, on average, through 2014.

Demand for packaged water, the world's most popular beverage, increased more than any other beverage. In 2011 people consumed around 228 billion litres of packaged water, a good 6% more than in 2010. That corresponds to 23.9% of total beverage consumption worldwide. Demand for flavoured water and functional water – that is, water that has been fortified with vitamins and minerals – is growing. No end to this growth is in sight. Water consumption is expected to increase by 5.1% on average each year from 2011 through 2014.

Global demand for packaging machinery grew roughly 10% in 2011.

Global consumption of packaged beverages in 2011 (billion litres)



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

Global consumption of industrially packaged beverages is growing at around 4.0% each year.

Consumption of carbonated soft drinks (CSDs) is growing more slowly. With 210.3 billion litres, this segment accounted for 22.1% of total beverage consumption in 2011. The volume of CSDs consumed is up 1.1% over 2010. Market researchers expect consumption of CSDs to increase by 1.7% on average each year through 2014.

People around the world consumed 239 billion litres of packaged alcoholic beverages in 2011. Of that, some 190 billion litres were beer. Because the biggest markets in Europe and North America are saturated, demand for beer has been growing more slowly than the beverage market as a whole for several years. All told, consumption of alcoholic beverages is expected to increase by 2.7% per year on average over the next three years. Market researchers expect only slightly faster growth (2.8%) in the fourth-largest segment, milk and dairy drinks (15.8% of total beverage consumption in 2011).

Beverage consumption by region

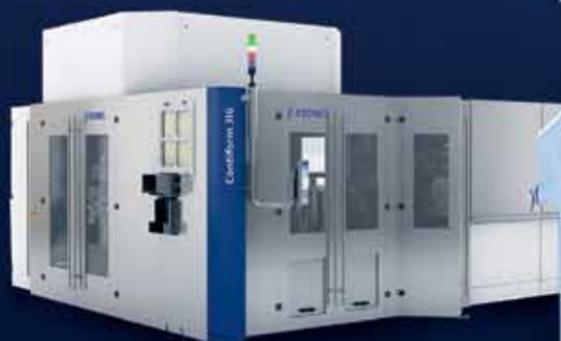
Growth in demand for packaged beverages varies widely from region to region. Growth rates are low in Western Europe (average annual growth 2011 to 2014: 0.9%) and North and Central America (average annual growth 2011 to 2014: 0.5%). By contrast, consumption of packaged beverages in China is expected to increase by 8.2% on average each year over the same period. Demand in our Asia-Pacific and Africa/Middle East sales regions is also expected to increase far more than the market as a whole (average annual growth: 5.6% and 5.7%, respectively).

Full circle

KRONES' expertise and technology accompanies bottles made of PET plastic through their entire life cycle. It begins with container design. To save costs, beverage producers want their bottles to be as light as possible. KRONES' »lightweighting« design process keeps material consumption to a minimum.

The KRONES Contiform stretch blow-moulder uses very little energy to transform PET preforms into ready-to-fill bottles.

KRONES' PET recycling system helps conserve resources by converting used PET bottles into food grade recycled material – that is, raw material for new bottles.



Packaged beverages Share of global consumption	2011		2014		Average annual growth 2011–2014 %
	billion litres	%	billion litres	%	
North America/Central America	183.4	19.3	186.3	17.6	0.5
South America	147.9	15.5	165.4	15.7	3.8
China	143.6	15.1	181.8	17.2	8.2
Asia-Pacific (incl. Japan)	142.0	14.9	167.1	15.8	5.6
Western Europe	138.1	14.5	141.8	13.4	0.9
Russia/cis/Eastern Europe	83.2	8.7	89.2	8.4	2.4
Africa/Middle East	60.5	6.4	71.4	6.8	5.7
Central Europe	53.1	5.6	53.6	5.1	0.3
Worldwide	951.8	100.0	1,056.6	100.0	3.5

Sources: Euromonitor, own estimates

In 2011, around 331 billion litres of beverages were consumed in the Americas, accounting for one-third of total global consumption. People in China consumed around 144 billion litres in 2011, surpassing the residents of Western Europe (138 billion litres) for the first time. China accounted for 15.1% of global consumption last year. The beverage market in the Asia-Pacific region made up a similar share of global consumption. There, people drank 142 billion litres or 14.9% of the world's packaged beverages.

Beverage packaging materials

Most beverages are packaged in containers made of PET plastic (polyethylene terephthalate), glass, metal (cans), or cartons. Around 85% of the global volume of packaged beverages went into one of these packaging types in 2011. The remaining 15% largely went into containers made of other plastics such as HDPE. 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.

PET packaging offers many advantages

The different packaging materials' shares of the market have shifted dramatically over the past several years. Glass was the long-time leader among packaging materials. But PET took over the lead many years ago and has retained it ever since. The strong trend toward PET bottles is driven primarily by economic factors. In beverage production, packaging is responsible for the lion's share of costs. For beverage producers, 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.

Demand for packaged beverages is booming in China and the Asia-Pacific region. Other major markets such as North and Central America and Western Europe are growing more slowly than the industry as a whole.

PET bottles are

- *Inexpensive to produce*
- *Lightweight*
- *Recyclable*
- *Versatile in design*

There are also good environmental reasons for choosing PET. Transporting PET bottles uses considerably less fuel than transporting the same volume of heavy glass bottles. That also makes economic sense. PET bottles are recyclable. The food grade material produced by KRONES' PET recycling system serves as the raw material for new bottles. That is good for the environment and conserves valuable resources.

Because PET bottles can be produced in an almost infinite variety of shapes and sizes, they give beverage producers an excellent means with which to differentiate their products from the competition in a fiercely contested market. KRONES also provides comprehensive support when it comes to bottle design.

The packaging market by material

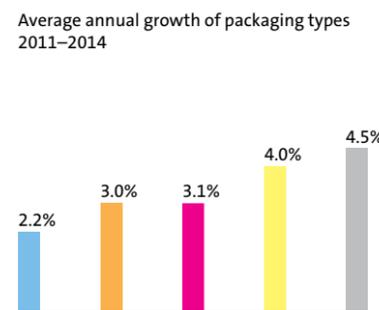
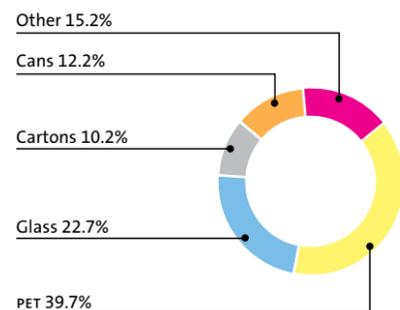
In 2011, almost 40% of the total volume of beverages packaged worldwide went into PET containers. PET bottles are an especially popular packaging choice for water and carbonated soft drinks. Because almost three-quarters of all packaged water worldwide are bottled in PET, the steady rise in water consumption is an important factor driving this packaging material's growth. Market researchers expect the volume of beverages packaged in PET containers to grow by 4% on average each year from 2011 through 2014.

With a 22.7% share of the packaged beverage volume worldwide, glass was the second most common packaging choice in 2011. Alcoholic beverages, beer in particular, are often bottled in glass. Beer consumption is growing slower than the market as a whole worldwide. This is one reason why glass packaging is expected to grow only 2.2% on average each year.

Cans, which took third place among packaging materials in 2011 (12.2% of the market), are primarily used for beer and carbonated soft drinks. Cans are expected to gain favour among beer producers, at the expense of glass bottles. That is the main reason why the volume of beverages packaged in cans is expected to grow by 3.0% per year on average through 2014.

Milk and dairy drinks and fruit and vegetable juices are often packaged in cartons. Last year, 10.2% of the total beverage volume was packaged in cartons.

Global beverage market by packaging material in 2011 (Based on beverage volume)



Sources: Euromonitor, own estimates

The most popular choice for beverage packaging is PET.



Naturally refreshing, without additives

Non-alcoholic beverages such as juices, sparkling juice drinks, and dairy drinks are sensitive from a microbiological standpoint. If no preservatives are to be used, the beverages must be bottled in an aseptic (germ-free) system. KRONES is the only company in our industry to offer both of the established processes for sterilising PET bottles: wet sterilisation of bottles and caps using peracetic acid (KRONES PET-Asept L) and dry sterilisation using gaseous hydrogen peroxide (KRONES PET-Asept D).



Microbreweries – good things come in small packages

»Microbreweries« have taken the us by storm. As a result, demand for technology that is specifically designed to suit the needs of the small brewery is increasing rapidly. KRONES is well positioned to meet this demand. For example, our CombiCube B offers a compact brewhouse for breweries with annual output of between 50,000 and 150,000 hectolitres. CombiCube B is designed for 50 to 100 hectolitre batches. That makes it possible to brew a variety of specialty beers cost-effectively and in top quality.



KRONES' markets

The following is 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.

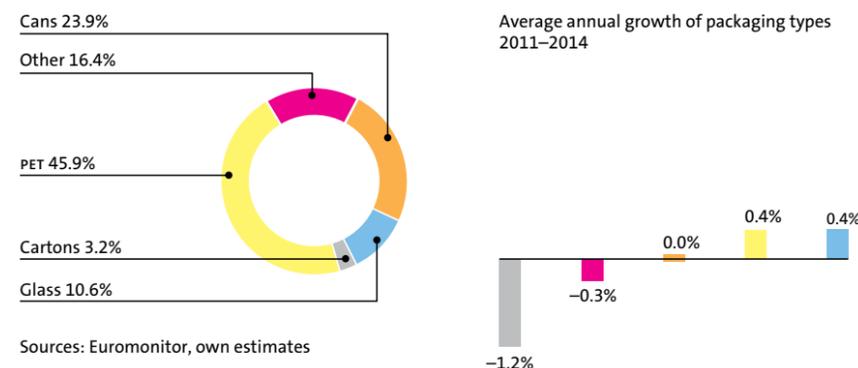
The Americas

North and Central America

People in North and Central America love carbonated soft drinks (CSDs). They drank some 60 billion litres of them last year. That is around one-third of total regional consumption of packaged beverages. Water is the second most popular thirst quencher (share: 20.2%). Water and CSDs are primarily packaged in PET bottles in North and Central America. For this reason, PET holds a very large share of the packaging market there, around 46%. Cans (23.9% market share) benefit from the high consumption of CSDs since cans are the second most common choice for these beverages after PET. Cartons do not play a significant role in the region, accounting for only 3.2 % of the market.

Carbonated soft drinks like cola and sodas are the favourite thirst quencher in North and Central America.

Shares of the beverage packaging market in North and Central America in 2011



South America

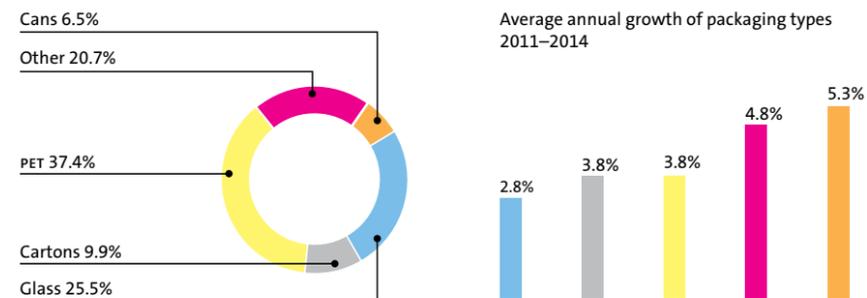
Carbonated soft drinks (share of total consumption in 2011: 33.7%) are also very popular in South America. Unlike in North America, however, they are rarely packaged in cans. With a share of 37%, PET is the leading packaging material in South America. At around 25%, glass bottles held a much larger market share in South America in 2011 than they did in North America. That is because beer is primarily packaged in glass in South America.

Juice is gaining popularity in China

According to Euromonitor statistics, the Chinese consumed around 16 billion litres of packaged fruit and vegetable juices in 2011. That gives this beverage type a strong 11% share of total consumption in China. This figure is likely to increase considerably in the years ahead. That is because rising prosperity in China is reflected in consumer preferences and benefits premium products such as fruit juices. Market researchers expect consumption of packaged fruit and vegetable juices to grow by around 12% per year on average over the next five years.



Shares of the beverage packaging market in South America in 2011



Sources: Euromonitor, own estimates

China

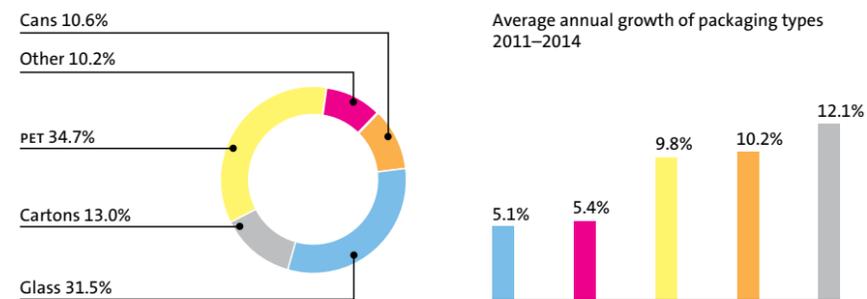
Consumption of packaged beverages is increasing rapidly in China. Beer is very popular there. During the reporting year, the Chinese population consumed some 48 billion litres of beer. That is around one-third of total packaged beverage consumption in China. No end to beer's popularity in China is in sight. Market researchers expect annual growth rates of more than 5%. The »juice of the barley« is packaged primarily in glass bottles in China. That is why, at 31.5%, the market share of glass packaging was considerably higher in China than in other regions in 2011.

Because beer is very popular in China, glass holds a large share of the Chinese packaging market.

PET accounted for an even larger share of the market. In 2011, 34.7% of the total volume of packaged beverages in China went into PET containers. Water, the second most popular thirst quencher in China after beer, is primarily bottled in PET. The same is true for teas and fruit and vegetable juices, all of which are gaining popularity in China. From 2011 through 2014, average annual growth in demand for PET packaging in China is expected to be nearly 10%.

Cartons and cans, which assume third and fourth place among packaging materials in China, are experiencing similarly strong growth. While cartons are benefiting from the surging popularity of milk and dairy drinks, cans are coming into increasing use for beer.

Shares of the beverage packaging market in China in 2011



Sources: Euromonitor, own estimates

Water boom continues

Demand for bottled water has increased dramatically in recent years. And the trend will continue into the foreseeable future. According to Euromonitor statistics, nearly 230 billion litres of bottled water were consumed in 2011. Market researchers expect average annual growth rates of around 5% for the years ahead. It's no wonder since water is the perfect thirst quencher. It is healthful and available in many different varieties. A recent trend has gourmet restaurants offering select, premium-priced mineral water in elegant bottles.

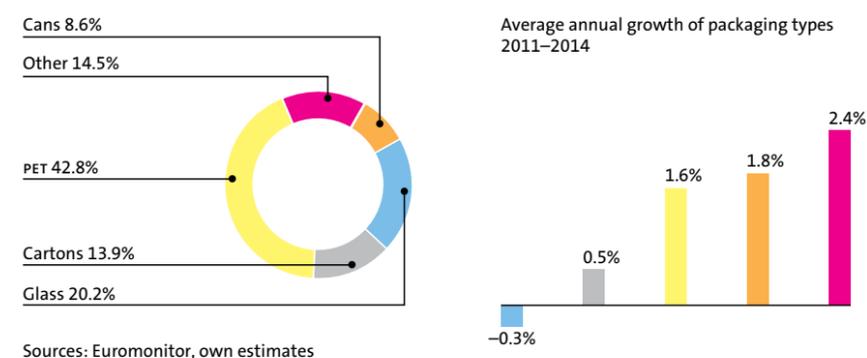
Europe

Western Europe

Water is the favourite packaged beverage in Western Europe. Last year, bottled water accounted for one-third of total packaged beverage consumption in the region. Around 80% of this volume was bottled in PET. The lightweight packaging material is the leader in Western Europe, with a share of 42.8%. Water consumption in Western Europe – and therefore demand for PET bottles is likely to grow more rapidly than the market as a whole in the years ahead. Western Europeans also like to drink milk (share of total consumption in 2011: 19.5%), which is primarily packaged in cartons. Last year Western Europeans consumed more milk than carbonated soft drinks (market share: 17.1%). Alcohol consumption is down slightly among Western Europeans. Because beer, wine, and spirits are primarily bottled in glass here, this packaging material's market share is shrinking. Last year, glass accounted for around 20% of the market, followed by cartons with almost 14%.

Most water is bottled in PET in Western Europe.

Shares of the beverage packaging market in Western Europe in 2011



Central Europe (Germany, Austria, the Netherlands, Switzerland)

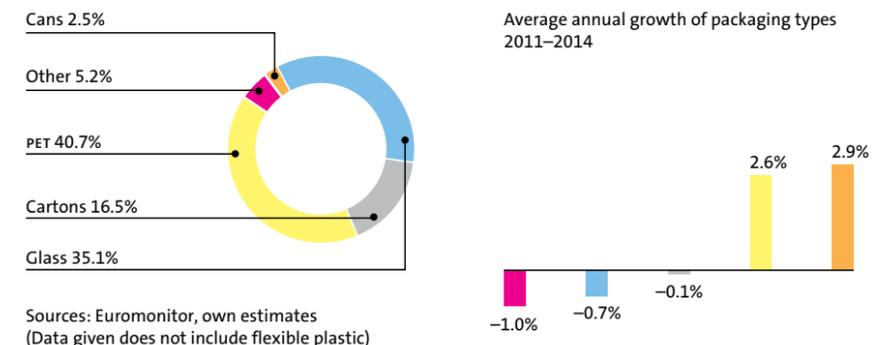
The packaging market breaks down quite differently in Central Europe. The share of glass packaging is strikingly large (2011: 35.1%). That is because beer (2011 share: 20.9%) is the second most popular beverage in the region after water (25.2%) and 90% of all beer in the region is bottled in glass. Unlike in Western Europe, beer is rarely packaged in cans in Central Europe. Cans occupied only 2.5% of the beverage packaging market in 2011. PET is the leading packaging material in the region (40.7% share). Besides water, carbonated soft drinks are also primarily bottled in PET in Central Europe. Consumption of both of these beverage types is expected to grow faster than the overall market in the years ahead, further benefiting PET. Cartons, used primarily for fruit and vegetable juices and milk, accounted for 16.5% of the beverage packaging market in Central Europe last year.



Italy's pioneering spirit

Unlike in the rest of Europe, most fresh milk is sold in PET bottles in Italy. Italian dairies are the first to make extensive use of the benefits PET has to offer over other packaging types such as cartons. For instance, a PET bottling line from KRONES can fill more volume of milk than a carton packaging machine in the same amount of time.

Shares of the beverage packaging market in Central Europe in 2011



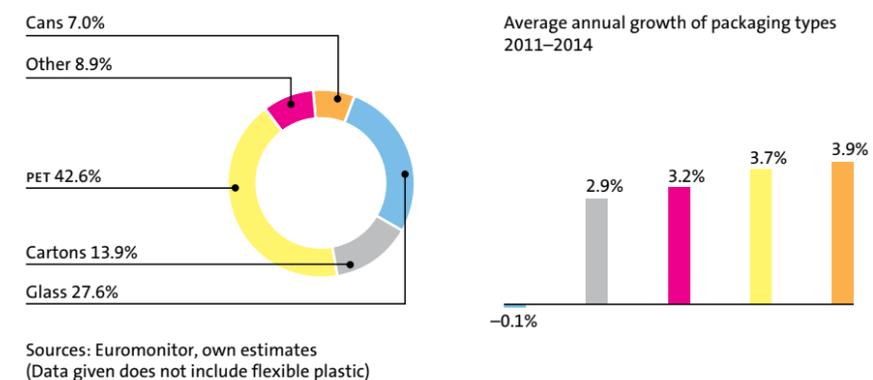
The growth trend in PET packaging continues unabated in Central Europe.

Eastern Europe (including Russia and CIS)

Beer is the thirst quencher of choice in this region, accounting for 30% of total packaged beverage consumption. However, beer consumption is growing only slowly. Around one-quarter of the beer volume in Russia and the countries of the former Soviet Union (CIS) is bottled in PET. In the rest of the world, plastic is rarely used for beer. Last year 42.6% of the total volume of packaged beverages consumed went into PET containers. A significant portion of that volume was water. Bottled water accounted for one-fifth of total beverage consumption in 2011. Bottled water is increasingly popular in Eastern Europe, with consumption rising by an average of 4.5% each year. Water's gains are reflected in the growth rate for PET packaging, which is expected to average 3.7% each year from 2011 through 2014.

Demand for glass, which is used primarily for alcoholic beverages, is expected to shrink slightly in the years ahead (2011 share: 27.6%). Glass is gradually losing some of its share of the beer market to PET bottles and metal cans. Cartons (2011 share: 13.9%) are benefiting from the fact that Eastern Europeans are drinking more fruit and vegetable juices and milk. Cans are used almost exclusively for beer in the region. Therefore, their share of the market in 2011 was only 7%.

Shares of the beverage packaging market in Eastern Europe/Russia/CIS 2011



Vietnam's burgeoning beverage market

Consumption of packaged, non-alcoholic beverages is still a relatively new phenomenon in Vietnam. But in the years ahead, it is expected to increase dramatically. Market researchers at Euromonitor expect demand for ready-to-drink teas to grow by an average of 19% each year from 2011 through 2015. Consumption of packaged water, which came to around 550 million litres in Vietnam in 2011, is expected to grow to almost one billion litres by 2015. That corresponds to an average annual increase of around 16%.



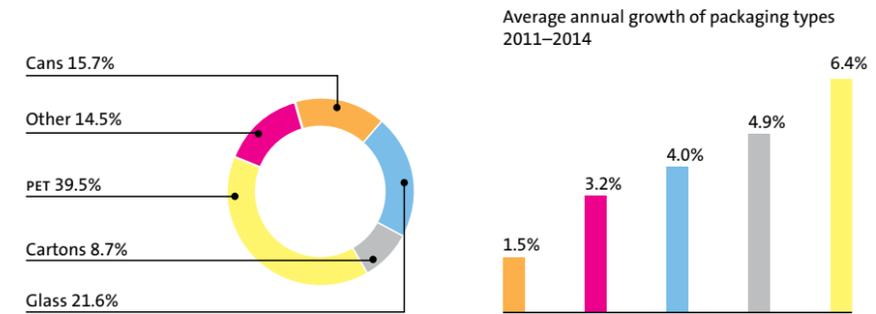
Asia-Pacific

People in the Asia-Pacific region are very health conscious, a fact that is reflected in their beverage choices. Water accounted for 28.3% of total beverage consumption in 2011 and milk for 17.1%. Demand for packaged water is expected to grow by more than 10% annually on average. Beer and carbonated soft drinks are also popular – each held a 14.2% share of the market in 2011 – but are expected to grow far more slowly, just 3%.

Water and milk benefit from Asians' health consciousness.

PET dominates the packaging market with a share of 39.5%. With average annual rates of 6.4%, PET bottles are also ahead of the rest in terms of expected growth. The booming water market is the main force driving this growth. The second most popular packaging choice in 2011 was glass (21.6% share), followed by cans (15.7%).

Shares of the beverage packaging market in Asia-Pacific in 2011



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

KRONES AG in figures

KRONES continued its growth trend in 2011 despite the difficult economic environment overall. Sales improved 9.8% to €2,066.2 million. Net income was down, to –€6.3 million (previous year: –€2.7 million), due to a non-recurring item. Nevertheless, KRONES plans to pay shareholders a dividend of €0.60 per share.



Sales by region
KRONES AG 2011

- Sales up nearly 10% in 2011
- Earnings before taxes only +€0.8 million due to non-recurring item
- KRONES plans dividend of €0.60 per share

Sales up 9.8% from €1,882.4 million to €2,066.2 million

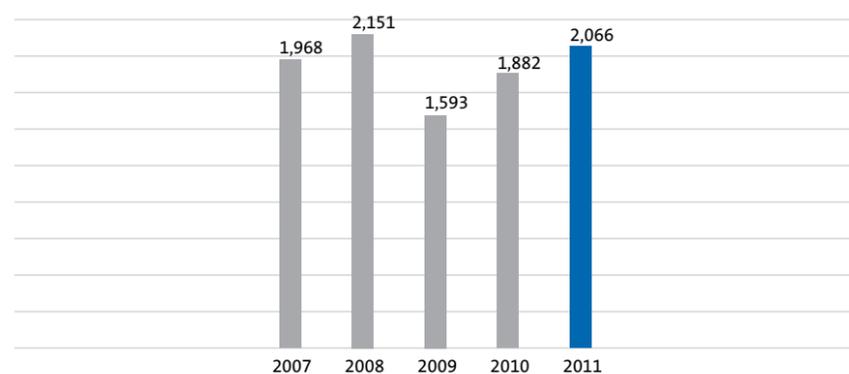
KRONES' sales improved by almost 10% in 2011. With that, the company has continued the strong growth trend from 2010. Sales rose 9.8% year-on-year from €1,882.4 million to €2,066.2 million.

KRONES continued to grow in 2011.

The emerging markets of Asia and Latin America are booming, as is Russia's economy. KRONES is well positioned in all of these regions. International food and beverage companies continue to invest heavily in filling and packaging technology there. KRONES won a number of orders because we are able to offer customers not »only« machines and lines but complete solutions to meet all of their needs. These solutions also include customised IT and logistics packages.

Demand remained high for our machines and lines for producing, filling, and packing bottles made of PET plastic. KRONES further consolidated its lead in this growth-driven market segment with new, innovative products. Our service business, which we are systematically expanding, made a significant contribution to our company's growth in 2011.

KRONES AG sales (€ million)



Sales by region

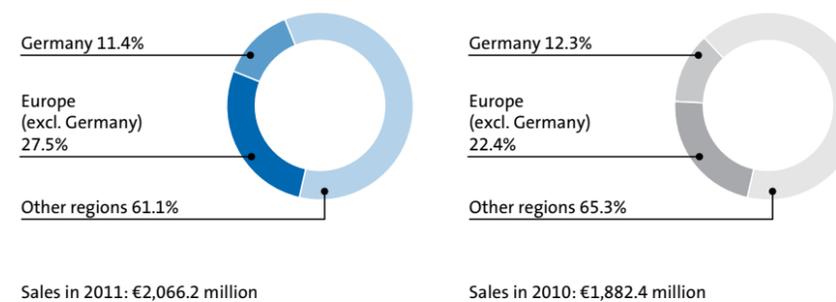
Despite the positive economic situation in Germany in 2011, domestic sales increased only slightly. Sales revenue in our home market was up 1.8% to €235.1 million during the reporting period (previous year: €230.9 million). Sales in Germany accounted for 11.4% of total consolidated sales in 2011 (2010: 12.3%).

Within Europe, KRONES made the biggest improvement in sales in Russia, Eastern Europe, and Central Europe in 2011. All told, revenue in Europe (excluding Germany) increased 34.5% year-on-year from €422.5 million in 2010 to €568.4 million in 2011. This sales region accounted for 27.5% of sales (2010: 22.4%).

KRONES AG's ratio of exports to total sales was 88.6% in 2011.

Sales outside Europe improved 2.7% year-on-year to €1,262.7 million in 2011 (previous year: €1,229.0 million). In South America and Asia (excluding China), business picked up more dramatically than elsewhere. The share of sales that KRONES generated outside Europe decreased overall, from 65.3% in 2010 to 61.1% in 2011.

KRONES AG sales by region



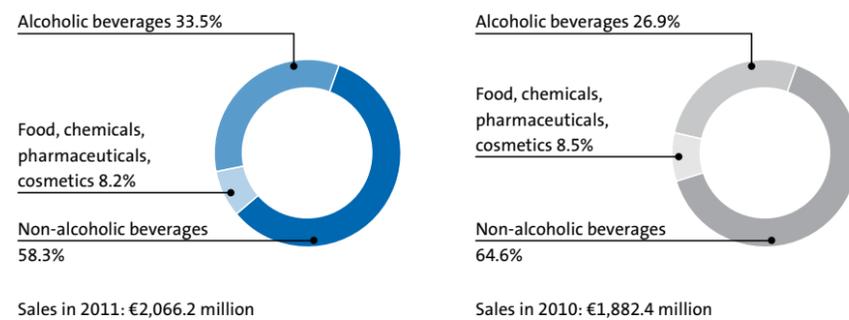
Sales by industry

Sales to producers of soft drinks, bottled water, and juices decreased by 1.0% from €1,215.9 million in 2010 to €1,204.0 million in 2011. The »non-alcoholic beverages« sector accounted for 58.3% of sales in 2011, which is down from 64.6% in 2010.

Sales of machinery and lines for producing and packaging alcoholic beverages increased 36.4% to €691.8 million in 2011 (previous year: €507.0 million). Stronger demand from Eastern Europe and Russia as well as from South America had a positive impact here. This sector's share of total sales increased to 33.5% (previous year: 26.9%).

In the non-beverage sectors (food, chemicals, pharmaceuticals, and cosmetics), KRONES also includes sales to the growing dairy industry under »food«. KRONES' sales in this area increased 6.8% to €170.4 million (previous year: €159.5 million) and accounted for 8.2% of total sales (previous year: 8.5%).

KRONES AG sales by industry



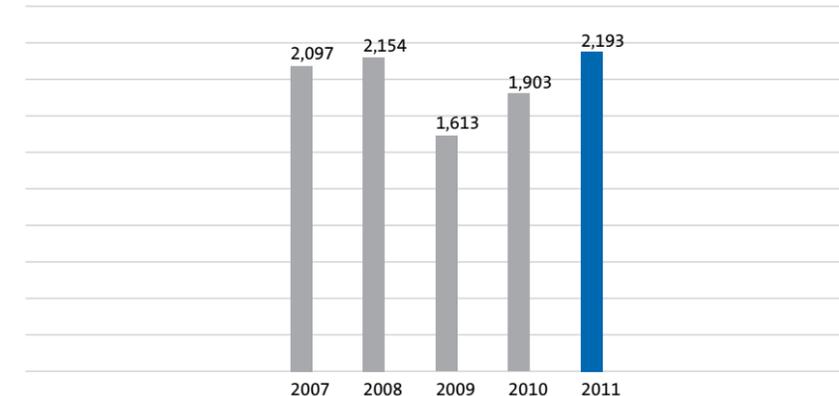
New orders up 15.2%

Demand for our products and services was exceptionally high in the first two quarters of the financial year 2011. We had all hands on deck in order to deliver on time and in top quality. As expected, demand settled back to a normal level over the remainder of the year and the rate of orders growth decreased. All told, new orders were up 15.2% year-on-year from €1,903.1 million to €2,192.9 million in 2011. Demand picked up across wide parts of KRONES' product range. Complete filling lines were in high demand but orders for individual machines also exceeded the previous year. Service orders made up a larger share of total new orders in 2011.

Demand for KRONES products and services was high in 2011

New orders were up year-on-year in most of KRONES' sales regions in 2011. The sharpest increases came in our Africa/Middle East sales region and in Eastern Europe and the Commonwealth of Independent States (CIS). Orders did not develop as well in those areas of Europe that were heavily affected by the sovereign debt and euro crises. The highest absolute volume of orders came from China.

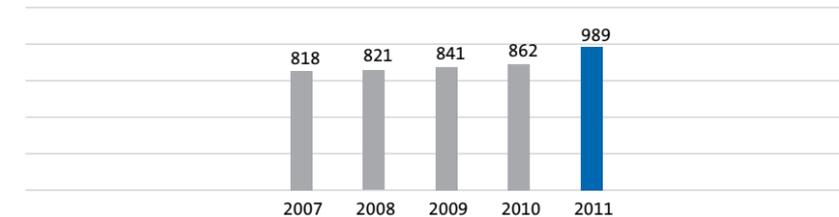
KRONES AG new orders (€ million)



KRONES' order books are full

KRONES went into the financial year 2011 with an orders backlog of €862.1 million. Given the high volume of new orders, this backlog had expanded to €988.8 million at 31 December 2011 despite the considerable increase in revenue. Our solid orders backlog increases our planning security for the financial year 2012.

KRONES AG orders on hand (€ million)



Earnings affected by non-recurring item

KRONES AG's earnings in 2011 were negatively affected by a provision that the company recognised in its 2011 financial statements to cover a possible settlement arising from the Le-Nature's lawsuits. (See page 68 for more on this topic). For this reason, earnings before taxes came to only +€0.8 million in 2011 (previous year: -€4.2 million). KRONES was able to strengthen earnings from operations – that is, earnings before accounting for the non-recurring item – last year despite the challenging economic environment. This fact demonstrates that our new strategy programme »Value« is beginning to bear fruit.

Charges resulting from a regular tax audit have resulted in a net loss of €6.3 million (previous year: net loss of €2.7 million).

(€ million)	2011	2010	Change
Sales	2,066.2	1,882.4	+9.8%
Changes in finished goods inventories and work in progress	70.5	30.0	+135.0%
Total operating performance	2,136.7	1,912.4	+11.7%
Cost of materials	-1,223.1	-1,057.7	+15.6%
Personnel expenses	-605.4	-565.4	+7.1%
Net of other operating income (expenses) and own work capitalised	-254.0	-230.8	+10.1%
EBITDA	54.2	58.5	
Depreciation, amortisation, and write-downs of fixed assets	-46.8	-42.6	+9.9%
EBIT	7.4	15.9	-53.5%
Net financial income (expense)	-6.6	-8.4	
Extraordinary result	-0.0	-11.7	
EBT	0.8	-4.2	
Taxes on income	-6.0	2.5	
Other taxes	-1.1	-1.0	
Net loss for the financial year	-6.3	-2.7	

KRONES AG's bottom line worsened from a net loss of €2.7 million in 2010 to a net loss of €6.3 million in 2011.

KRONES' total operating performance increased 11.7% year-on-year from €1,912.4 million to €2,136.7 million in 2011. The value of goods and services purchased from third parties (cost of materials) also increased in keeping with the increase in business volume. Expenses for temporary workers, who totalled nearly 1,000 at the highest point in 2011, are included in the cost of materials. In all, this line item increased more than proportionately to total operating performance in 2011. At €1,223.1 million, it was up 15.6% from the year-earlier figure of €1,057.7 million. The ratio of cost of materials to total operating performance grew to 55.3% (previous year: 57.2%). As we

continued to optimise our production structures under our »Value« strategy programme, we were able to limit the increase in cost of materials. Generally high demand in an environment of rising prices for important input materials that KRONES buys prevented us from achieving an even better figure. Electronic components are one example of such input materials.

Personnel expenses were up 7.1% year-on-year from €565.4 million to €605.4 million in 2011. We grew our workforce by 388 people on average last year (+5.1%).

Because new employees are initially not as productive as seasoned ones, the ratio of personnel expenses to total operating performance increased temporarily in 2011. Thanks to our high output in the fourth quarter, the ratio of personnel expenses to total operating performance for the year as a whole was down slightly from 29.6% to 28.3%. Our larger workforce enabled us to reduce provisions for overtime and extra work at the end of the year.

The net of other operating income and expenses and own work capitalised increased from -€230.8 million in 2010 to -€254.0 million in 2011.

Depreciation and amortisation of fixed assets were up 9.9% year-on-year to €46.8 million (previous year: €42.6 million). The ratio of depreciation and amortisation to sales revenue remained unchanged at 2.3%.

Although KRONES has a very solid financial base, the company is posting a financial expense of €6.6 million for 2011 (previous year: financial expense of €8.4 million). Expenses arising from the discounting of long-term provisions are one reason for this. Write-downs of long-term financial assets also had a negative impact on the financial result.

After income taxes and other taxes, KRONES AG has a net loss of €6.3 million for 2011 (previous year: net loss of €2.7 million).

KRONES AG's financial position

As at the reporting date for the previous year, KRONES AG had no bank debt at 31 December 2011 despite financing a sharp increase in sales. KRONES was able to achieve this sound position by making prepayment agreements, further streamlining production processes, and further improving our management of receivables and working capital. The decrease in cash and cash equivalents at the reporting date, from €75.9 million to €53.5 million, can be attributed to the financing of sales growth. KRONES AG's cash flow (net income or loss for the year plus depreciation and amortisation) amounted to +€52.5 million in 2011 (previous year: +€56.0 million).

(€ million)	2011	2010
Fixed assets	447.2	431.7
Current assets and prepaid expenses	771.0	716.1
of which cash and cash equivalents	53.5	75.9
Equity	479.8	498.2
Total debt	738.4	649.6
Provisions	458.8	435.6
Liabilities	279.6	214.0
Total	1,218.2	1,147.8

Total assets grew 6.1% to €1,218.2 million. That increase is less than sales, which were up 9.8%.

Fixed assets were up slightly, by 3.6%, to €447.2 million. Our capital expenditure was focused primarily on new production machinery, IT, the construction of training centres in Rosenheim and Neutraubling, and the new Centre for Logistics and Module Production in Rosenheim. A detailed statement of changes in fixed assets can be found in the notes to the annual financial statements on page 92. As a result of the increase in business volume, current assets increased 7.7% to €771.0 million. The increase was primarily inventories. In fact, trade receivables were down slightly.

At 31 December 2011, KRONES AG had cash and cash equivalents totalling €53.5 million.

KRONES AG's equity was down by €18.4 million year-on-year at the reporting date. This is due to the slightly negative earnings figure as well as the mid-year dividend payout to shareholders. At 39.4%, our equity ratio is still well above the industry average.

Provisions increased 5.3% to €458.8 million. As reported in our ad-hoc press release, this includes special charges relating to the »Le-Nature's, USA« lawsuit as well as provisions for back taxes resulting from a regular tax audit.

Liabilities increased by €65.6 million to €279.6 million. The increase resulted primarily from liabilities to affiliated companies which are largely due to technical reasons at the reporting date. We are pleased to note that KRONES closed the year with no bank debt once again in 2011.

At the end of 2011, KRONES AG had an equity ratio of 39.4% and net cash and cash equivalents totalling approximately €53.5 million. Before accounting for the non-recurring item relating to Le-Nature's, KRONES AG's earnings from operations were up considerably year-on-year.

- Innovations focus on creating added value for customers
- KRONES launches new ideas management system
- Contiform 3 features higher performance, lower energy consumption

Intensive dialogue with our customers, new technological possibilities, and megatrends inspire innovation at KRONES. In our product development processes, we also draw upon the expertise of our very capable suppliers and partners.

KRONES develops innovative, dependable, resource-friendly machines and lines.

We are systematically expanding our research and development (R&D) resources. Our R&D team currently consists of more than 1,750 people conducting fundamental research, developing production-ready technologies, and continually improving existing products. Figures can be found in the notes to the financial statements.

We only pursue R&D projects that promise to generate added value for our customers. There is a direct benefit to customers when machine uptime increases and energy and media consumption decrease. For this reason, KRONES has numerous development projects underway aimed at reducing make-ready times, automating troubleshooting, and minimising cleaning and maintenance times. The resulting products must be innovative and dependable and conserve resources. In addition, all new developments are aligned with the criteria of our »enviro« sustainability programme, which forms an integral part of our corporate strategy. With »enviro«, KRONES has established a standard of energy and media efficiency for machines and lines in the packaging industry.

Another gain for customers and KRONES alike comes from our efforts to reduce commissioning times. These include thorough testing of complete systems like the ErgoBloc L at our plant. Streamlined machine designs also help to speed the commissioning process.

New ideas management system and many new patents for KRONES

A new and professional ideas management system enables us to better track and process the many valuable suggestions that our employees have to offer. The state-of-the-art platform makes it possible to integrate new ideas from employees and customers into the development of innovative solutions.

Securing our innovations with patents is extremely important. In 2011, the number of patents and utility models held by KRONES grew to more than 2,200. The number of patent applications was up by around 30%. Patents in KRONES' core technology areas – such as filling, labelling, plastics, packing, and palletising – increased sharply. We were also able to protect many system-related developments with patents last year.

Selected innovations

Contiform 3

With the third generation of the Contiform stretch blow-moulder, KRONES is setting new standards for the production of plastic (PET) containers. One highlight of the Contiform 3 is a redesigned blowing module, which boosts the machine's output from 2,000 containers per hour per blowing station to 2,250. We also cut compressed air consumption by around one-third. Innovative technologies like an electromagnetically controlled stretch system and a compressed-air recycling system play an important role here. More big benefits for KRONES Contiform 3 customers include a 15% reduction in the energy consumed during preform heating, increased user-friendliness, improved hygienic design, and faster moulding cavity changeovers.



The Contiform 3 is faster, more efficient, and easier to operate and maintain than its predecessor.

Modulfill

KRONES' latest generation of fillers, dubbed Modulfill, features a comprehensive modular design. Modulfill is highly versatile, handling a wide variety of products, while using a minimal variety of parts. Modulfill also offers low total cost of ownership. With Modulfill, KRONES is setting new standards for energy and media efficiency in the area of filling technology. Modulfill effectively balances economic and ecological considerations. Its versatility and low operating costs make it a secure investment in the future.



The filler's modular design makes it easy to synchronise into a bloc arrangement with other machines.

Sleevematic ES

Stretch sleeves – which are made of highly elastic material that is pulled over containers – allow for extraordinary flexibility in bottle design. The new Sleevematic ES labeller handles stretch sleeves made of LDPE plastic, which has an exceptionally high stretch rate of 55%. The smaller, lower-density Triple S sleeves make for a 50% reduction in material consumption. Moreover, stretch sleeves eliminate the need for a shrink tunnel, significantly reducing the amount of energy consumed. That can mean a 75% reduction in CO₂ emissions (g/sleeve) compared to conventional PET shrinkable film sleeves and cost savings of as much as 40%. Because the LDPE sleeves can be removed from used bottles with no residue, they are also fully compatible with recycling industry requirements.



The new Sleevematic ES labeller handles highly elastic film sleeves.

Variostick

The new Variostick handle applicator is a modular machine concept for applying carry handles to shrink packs at a rate of up to 80 cycles per minute. Variostick's optimised interfaces make for efficient, flexible dry-end solutions within complete lines. The criteria of our enviro sustainability programme guided Variostick's development from the very beginning.

In addition to the stand-alone handle applicator, we have developed a solution that can be integrated into the Variopac Pro packer for non-returnable containers and used in systems like the dry-end ErgoBloc D. This simplifies line layout and improves accessibility. Because it uses less conveyor track, it also lowers acquisition costs for our customers.

Both of these innovations round out KRONES' dry-end portfolio and offer integrated packing and palletising solutions.

EvoLite + LitePac

In LitePac, KRONES launched a new type of secondary packaging that uses a minimal amount of material and energy and serves as an alternative to shrink-wrapped packs. LitePac consists of two straps: one that encircles the pack horizontally and a second, vertical, one that serves as the handle. The easy-open concept allows consumers to open a LitePac without tools.

The associated EvoLite machine was developed in parallel with the LitePac. The EvoLite + LitePac concept reduces packaging costs by more than 65% compared with shrink packs. Since no shrink tunnel is needed, energy consumption is cut by more than 90%. EvoLite and LitePac are yet another example of how consistent application of our enviro concept produces direct benefits for our customers.



KRONES Variostick applies carry handles to shrink packs.



The packaging concept of the future – LitePac and the EvoLite machine.

- Decentralised LCS strategy undergoes further expansion
- New products and services offer customers added value
- KRONES Academy offers excellent range of training courses

Lifecycle Service (LCS) bundles all aspects of KRONES' service business and employs more than 1,800 highly qualified people. LCS covers all maintenance and repair services, spare parts and change parts, individual services, software tools, and training.



More information is available at www.krones.com/en/lcs.htm

The LCS portfolio at a glance

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.

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

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 programmes.
- *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.

With this comprehensive 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 ensure that the line keeps running reliably, minimise service-related down times, and preserve the value of the production line. We also strive to continually improve the quality and cost-effectiveness of our customers' lines.

For instance, we retrofit older stretch blow-moulders, which produce PET bottles, with optimised heaters to significantly reduce their energy consumption. Other updates enable customers to handle even lighter PET bottles with shorter screw caps on their existing machinery. This is true added value as it saves on packaging materials, a significant cost factor.

In addition, KRONES never stops optimising its own range of services and products. As part of this effort, we are stepping up the dialogue with our customers. In joint project teams, we define and pursue goals and measures that further improve the service we provide. Last year, we developed a new method that enabled us to give our customers valuable assistance in improving their spare parts inventories. It involves systematically examining various aspects of machine parts, such as the likelihood that they could suddenly require replacement. We now can use a cost-benefit analysis to define special, customer-specific spare parts packages that line operators should keep on hand.

KRONES invests heavily in decentralised service business

Our customers around the globe need their machines and lines to run without interruption and produce consistently high quality products. We offer continuous support to ensure smooth production at our customers' plants. To do so, we must have service specialists and spare parts available locally worldwide. KRONES maintains more than 40 subsidiaries and offices around the world. In addition, we have in recent years established Service Centres at strategic locations to serve as decentralised support bases.

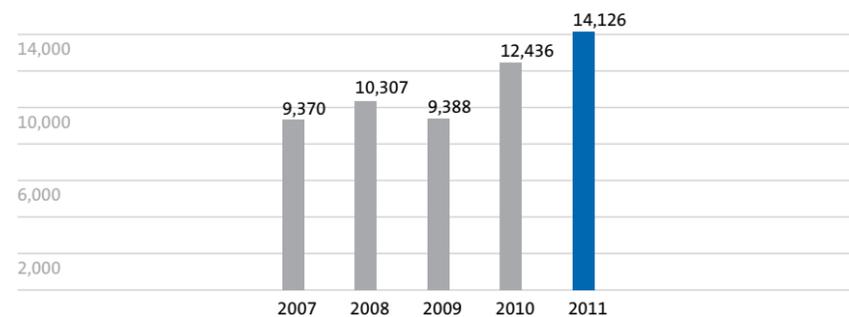
KRONES offers customers the best service – around the world and around the clock.

We further expanded these Service Centres in 2011. As in years past, a large portion of our investment here went into our Chinese service base in Taicang. Last year KRONES hired around 300 new employees in our various service offices. We attach great importance to ensuring that our employees speak our customers' language and understand their culture. By improving the availability of parts in our decentralised warehouses, we were able to further enhance the level of service offered by our international Service Centres in 2011.

KRONES Academy

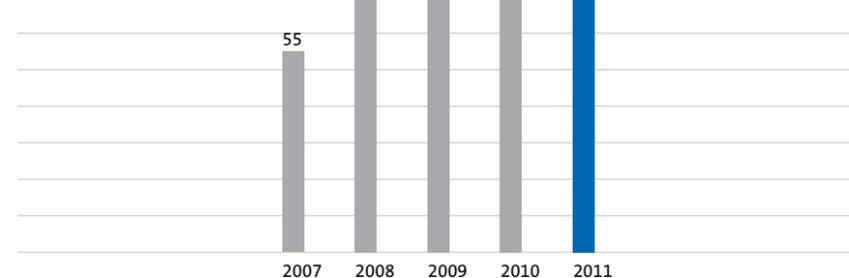
The KRONES Academy is an important component of KRONES Lifecycle Service. It offers a broad range of practical training courses that we are constantly improving. More than 50 qualified trainers instruct operating personnel on the fundamentals of our machines and lines, conduct special courses for individual jobs, and train management personnel. 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, the number of participants increased considerably. In 2011, a total of 14,126 people (previous year: 12,436) attended KRONES Academy events at our headquarters in Neutraubling and at our international training centres, which are located within KRONES' Service Centres.

KRONES Academy participants



An important Academy 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 support line operators on site. The number of trainers employed by the Academy remained unchanged at 72. However, their services were called upon more frequently in 2011 than in 2010.

KRONES Academy trainers



The number of participants in KRONES Academy courses increased dramatically in 2011.

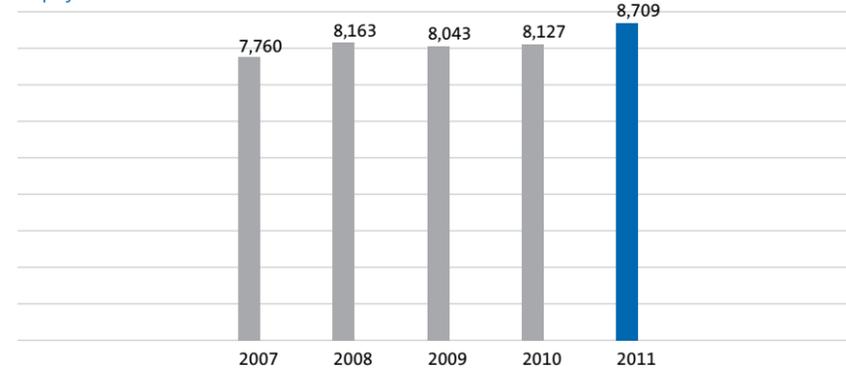


KRONES AG employs almost 600 more people

We invested heavily in expanding our core workforce in 2011. KRONES' team grew to 8,709, the biggest it has ever been, at 31 December 2011 (31 December 2010: 8,127). This investment in highly skilled employees is necessary in the medium term in order to support the growth planned under the »Value« strategy programme. We believe good people are not a cost factor but a critical factor for our success.

KRONES invests heavily in recruiting and in training and continuing education for employees.

Employees at KRONES AG at 31 December

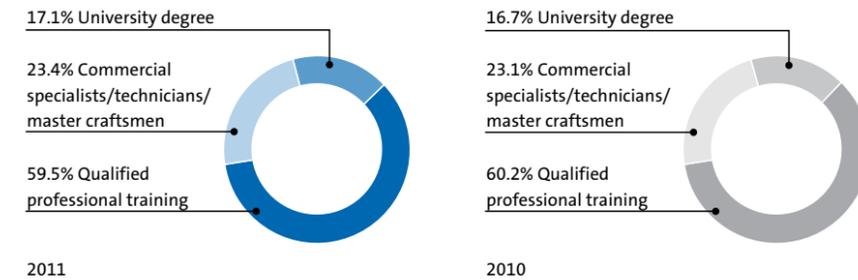


KRONES holds employees to high standards

Demographic change in the industrialised countries of the West presents one of KRONES' greatest challenges with respect to human resources policy. For this reason, one of our most important tasks is to ensure a lasting supply of qualified young recruits and to further improve our existing employees' qualifications – even our older employees'. With more than 10,000 job applications received in 2011 alone, KRONES remains a popular, reputable employer. Our goal is to further build and enhance KRONES' international employer branding in the years ahead.

A look at our employees' qualifications shows that our people are optimally prepared to handle the challenging tasks their work involves. Almost all of our employees in Germany possess recognised professional or vocational qualifications. The portion of university graduates in our workforce is now 17.1%. Commercial specialists, technicians, and master craftsmen make up 23.4% of our workforce.

Employee qualifications in Germany



We have a highly skilled workforce.

KRONES grows its own talent

Our employees' outstanding professional training is the foundation for KRONES' long-term commercial success. KRONES offers attractive, challenging training opportunities to a large number of young people in 20 different fields every year. After a long and rigorous selection process, 147 young people began their training with KRONES in the fall of 2011.

In all, KRONES was training 491 young people in Germany at the end of 2011. Of these, 432 were in industrial and technical fields and 59 were in commercial fields.

We permanently hired all trainees who successfully completed their training in 2011 (52 in the winter and 98 in the summer).

KRONES is building a bigger training centre

In September 2011, KRONES began construction on a larger training centre. The company is investing around €2.2 million to add around one-third more training space.

The 1,400 square metre centre provides a bright, friendly atmosphere for our trainees to work in. Since the new building also includes our service technician training centre and the KRONES Academy, the end result is a sort of training campus that benefits all of our young recruits.

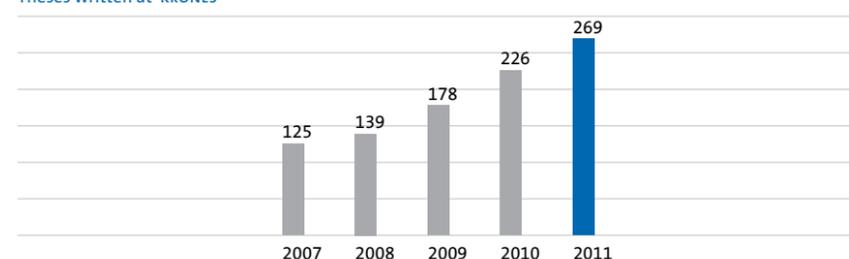
The new training centre makes training at KRONES even more appealing.

Close collaboration with colleges and universities

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. In addition to participating in job fairs at universities and colleges, KRONES uses plant tours, collaborative projects with academic departments, presentations, and visits to customer plants to expose students to the company and the diverse range of careers we offer. Because KRONES has an excellent reputation among university students, these events are very well attended.

»KRONES has interesting products and is a well-known employer. And Regensburg is actually a more attractive location for many students than Munich.«
Martina Heim, Career Service at Deggendorf University of Applied Sciences

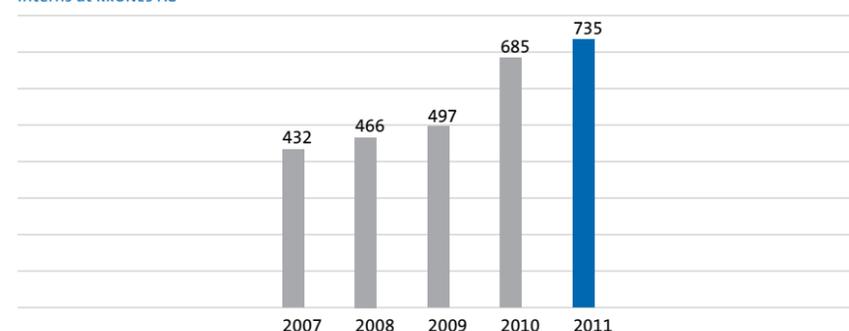
Theses written at KRONES



Our close, long-standing collaboration with the University of Applied Sciences in Regensburg and the University of Regensburg is another example of our cooperation with educational institutions. Through this programme, KRONES gives numerous young scientists a chance to gain valuable hands-on experience through practical semesters and thesis-writing opportunities.

In 2011, we advised 269 students writing theses and 735 interns on a variety of projects with practical relevance. KRONES gains a large number of highly qualified employees from this pool each year.

Interns at KRONES AG



More information on the topic of employees is in our 2010 Sustainability Report, which can be found online at www.krones.com.

Doing business in a sustainable, socially responsible manner is an integral part of KRONES' corporate philosophy. 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.

Fundamental principles that guide our employees in thinking and acting sustainably are integrated into our corporate values, rules of conduct, and codes.

Dialogue with all stakeholders

As the circumstances under which companies do business are changing more and more rapidly, we have to identify new challenges quickly. In ongoing dialogue with our stakeholders (customers, suppliers, shareholders, employees, policymakers, trade associations, academia, and others), we systematically analyse and assess opportunities and risks relating to CSR topics. That helps us to identify potential weak points and new challenges early. And with that, we are minimising risks for the company and strengthening our partners' trust in us.

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.

KRONES' CSR strategy

The CSR strategy we communicated last year has now been embedded in the overarching corporate strategy programme »Value«. Along with our CSR targets, we also want to strengthen our brand values

Our CSR strategy is an integral part of »Value«.

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

and create »added value« for our company, our employees, our customers, our suppliers, our investors, and society as a whole.

Further interesting information on the topic of sustainability can be found in our 2010 Sustainability Report, which has been certified by TÜV SÜD. It is available online at www.krones.com.

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

Risk management system is being implemented and 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 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 receivables 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 British pound, 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.

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. For a discussion of the legal risk arising from the Le-Nature's lawsuit, please refer to page 68. KRONES does not expect the suit to result in a payout.

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 multi-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, tax, legal, 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 continue to deliver growth opportunities 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.

The US company of the KRONES Group, KRONES Inc., Franklin/Wisconsin (USA), and KRONES AG, Neutraubling (Germany) have taken a first step towards resolving the legal disputes that have been ongoing since October 2008, triggered by claims for damages by several American financial service providers, a group of hedge funds and a liquidation trustee.

The lawsuits are related to the financial scandal involving the bankruptcy of the US company Le-Nature's, whose former directors have meanwhile been convicted of fraud. In 2005/2006, KRONES produced, delivered and successfully commissioned filling lines representing a contract volume of approximately 100 million US dollars for the Le-Nature's facility in Phoenix/Arizona (USA).

Several plaintiffs entered into a mediation process with KRONES in January 2012 to explore options for ending the proceedings. Although in KRONES' view the opposing parties' demands are unfounded, KRONES' US attorneys have advised to continue to try to reach a settlement through mediation, also with regard to the special risks entailed by the American legal system.

These legal disputes have had a negative impact on results in KRONES' consolidated financial statements for the year ended 31 December 2011. We do not provide further information on these disputes and the associated risk for the Group, especially with regard to the measures taken in this context, in order not to impair the outcome of the proceedings.

Apart from this issue, business development in the first two months of 2012 has confirmed the statements made in our outlook.

- Flat global economy
- Flat machinery output in Germany
- KRONES aims to boost earnings performance

Slow global economic growth expected

The outlook for the world economy in 2012 is mixed. Europe remains the biggest source of worry. Experts from the International Monetary Fund (IMF) expect the euro area to slide into recession as a result of the continuing sovereign debt and euro crises. They are forecasting a 0.5% year-on-year contraction of the euro area economy. The Japanese economy is still suffering the aftershocks of last year's catastrophic earthquake and tsunami and is troubled by the strong yen. As a result, Japan's gross domestic product (GDP) is expected to grow only 1.7% in 2012 over a very weak 2011. Thus, two major economic regions will be encumbering the global economy. The IMF is forecasting global economic growth of only 3.3% for 2012 (2011: 3.8%).

IMF experts are predicting a euro area recession in 2012.

The US, the world's largest economy, has improved progressively in recent months. The feared US recession never materialised. Nevertheless, at 1.8%, predictions for US GDP growth for 2012 are far below their long-term level. The IMF is forecasting German GDP growth of 0.3% for this year. This is considerably more pessimistic than the German government's prediction of 0.7% growth.

The IMF expects the world's emerging and developing economies to contribute the largest part of the global economy once again in 2012. But growth rates are declining there, too. In China, where GDP growth amounted to 9.2% in 2011, the IMF is expecting only 8.2% growth this year. India's GDP growth is expected to slow from 7.4% to 7.0%.

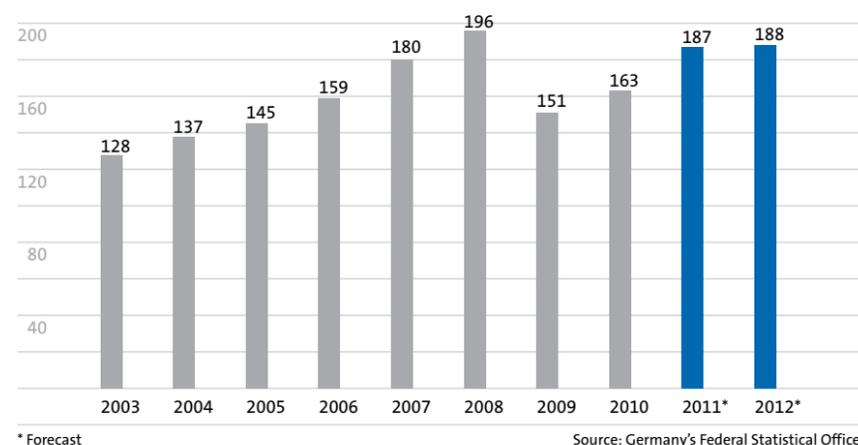
Experience has shown that the ordering behaviour of KRONES' customers is affected not only by economic growth but also by unemployment rates and inflation. The lower these latter two figures are, the stronger private consumption is. That in turn results in increased demand at our customers' plants and makes them more willing to invest in new technology. We expect unemployment and inflation rates in our key sales markets to have no negative impact on business at KRONES.

German machinery sector expects output to stagnate

After a long period of growth, German machinery and industrial equipment manufacturers saw business slow at the end of 2011. Orders intake was decreasing in the fourth quarter. While orders intake from within Germany held steady, orders from abroad are below the previous year. Continuing uncertainties, particularly in Europe, and a flattening Chinese economy have prompted the German Engineering Federation (VDMA) to revise its output forecast for 2012 downward. The VDMA now predicts that output in the sector will stagnate at the previous year's level instead of growing by four percent as originally forecast.

The VDMA expects the »food processing and packaging machinery« segment to fare better than the machinery sector as a whole.

Output in the German machinery sector (€ billion)



KRONES targets strong earnings growth in 2012

The long-term economic environment for KRONES is good. Our market will continue to grow. With our global presence, our innovative products, the know-how of our people, and our healthy financial structure, KRONES stands on a rock solid foundation.

We are cautiously optimistic about the economic outlook for 2012. The markets in Asia, South America, Africa, and the Middle East continue to offer good prospects for growth. KRONES has a strong market position in those regions and will participate in this growth. The North American market, which recovered moderately in 2011, is expected to contribute a similar part to KRONES' business in 2012 as it did last year.

By contrast, the euro area markets are showing considerable capital expenditure restraint due to the euro and sovereign debt crises.

At KRONES, our focus for 2012 will be on making our cost structures more efficient in order to achieve long-term profitability, even in price-sensitive markets. We also intend to make our structures more flexible so that we can better react to future volatilities on the global markets. We will not be focusing on increasing sales volume at the expense of profitability. For this reason, we expect only moderate sales growth of about 5% in 2012. Process technology is highly important to KRONES from a strategic standpoint as customers demand that beverage production and product filling be linked as seamlessly as possible. Furthermore we will develop structural strategies to make this business area more sustainable and more profitable.

We expect to further expand our profitable after-sales service business in all of our markets in 2012. In all, we are confident that we will generate an EBIT in the mid double-digit millions in 2012. Our particular investment focus will be on replacement items and KRONES' global supply chain.

KRONES AG earnings to rise in 2012.

According to forecasts by leading economic research institutions, the overall economic picture should improve in 2013. With this in mind and from today's perspective, we expect to return to our target growth corridor of 5% to 7% on average. Given these positive conditions, we plan to further increase our earnings in 2013.

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 March 2012

Changes to the shareholdings listed above that are not required to be reported to the company may have occurred since the date given above (28 February 2012). 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 15 June 2016.

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 Executive Board and Supervisory 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 the financial year 2011 and can be found in the corporate governance report on pages 85 to 87.

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, 30 March 2012

KRONES AG

The Executive Board



Volker Kronseder
Chairman



Christoph Klenk



Rainulf Diepold



Werner Frischholz



Thomas Ricker

The statement on corporate governance is also available online at 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 the financial year 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 financial 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 financial year that are relevant to the capital markets are published within the 90-day limit.«

Neutraubling, 30 March 2012

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 70th 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) were already being implemented by the Supervisory Board in years past. On 15 June 2011, the annual shareholders' meeting of KRONES elected Ms. Petra Schadeberg-Herrmann to the Supervisory Board of KRONES AG. With that, the Supervisory Board of KRONES AG is now in compliance with all of the objectives listed under a) through e).

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 pages 5 and 109). 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 109 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 11,000 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 the financial year 2011, the direct fixed remuneration of the five active members of the Executive Board was €2,912 thousand (previous year: €2,520 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 €91 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), consolidated sales, and consolidated new orders. The graduation of the targets is determined by the Supervisory Board each year. The variable compensation contains risk elements and is thus not guaranteed compensation. In 2011, the variable compensation amounted to €2,167 thousand (previous year: €2,503 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. Board members serving for less than ten years are not entitled to the performance incentive. In 2011, no such compensation came due for payment as scheduled following the 10-year waiting period (previous year: €2,275 thousand).

- 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 for the performance incentive amounted to €1,022 thousand at the end of the year (previous year: €689 thousand).
- 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 €1,350 thousand (previous year: €5,238 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 the financial year 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 €510 thousand (previous year: €697 thousand) were made and pension provisions of €644 thousand (previous year: €661 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 the financial year 2011, the articles of association as amended by the annual shareholders' meeting on 15 June 2011 apply.

The Supervisory Board's compensation consists of two components, an annual fixed remuneration of €20,000 and a variable compensation. The Chairman of the Supervisory Board receives three times 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. The variable compensation of each member of the Supervisory Board is limited to a maximum of €14,000 per financial year.

On this basis, the variable compensation for each member of the Supervisory Board is €2,000 for the financial year 2011.

Members of the Supervisory Board who belong to special committees within the Supervisory Board receive additional compensation of €7,000 annually as well as a €1,000 flat-rate reimbursement for expenses.

The total remuneration paid to members of the Supervisory Board amounted to €356 thousand (previous year: €243 thousand) including variable portions totalling €24 thousand (previous year: €48 thousand).

Moreover, the members of the Supervisory Board receive a flat €1,000 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 financial 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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Income statement

		2011	2010
€ thousand	Notes		
1. Sales	14	2,066,247	1,882,404
2. Increase in finished goods inventories and work in progress		70,498	29,963
3. Other own work capitalised		9,338	7,388
4. Other operating income	15	85,536	55,646
		2,231,619	1,975,401
5. Cost of materials			
a) Cost of raw materials, consumables and supplies, and of purchased merchandise		-940,051	-809,306
b) Cost of purchased services		-283,005	-248,360
		-1,223,056	-1,057,666
6. Personnel expenses	16		
a) Wages and salaries		-513,442	-470,611
b) Social security, post-employment and other employee benefit costs		-91,951	-94,852
		-605,393	-565,463
7. Depreciation and amortisation of tangible and intangible fixed assets	17	-46,803	-42,572
8. Other operating expenses	18	-348,888	-293,824
9. Income from long-term equity investments	19	10,288	10,572
10. Income from other securities and long-term loans	19	893	504
11. Other interest and similar income	19	1,908	3,919
12. Write-downs of long-term financial assets	19	-12,003	-16,059
13. Interest and similar expenses	19	-7,718	-7,386
		847	7,426
14. Result from ordinary activities			
15. Extraordinary result		0	-11,657
16. Taxes on income	20	-6,066	2,518
17. Other taxes	20	-1,122	-956
		-6,341	-2,669
18. Net loss for the year			
19. Retained profits (accumulated losses) brought forward		4,545	-80,718
20. Withdrawal from revenue reserves, from other revenue reserves		25,000	100,000
21. Net retained profits		23,204	16,613

Assets		31 Dec 2011	31 Dec 2010
€ thousand	Notes		
A, Fixed assets			
I. Intangible fixed assets	1		
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets		16,021	13,568
II. Tangible fixed assets	2		
1. Land, including buildings on third-party land		212,915	208,421
2. Technical equipment and machinery		52,956	47,772
3. Other equipment, operating and office equipment		49,457	43,777
4. Prepayments and assets under construction		9,708	3,827
		325,036	303,797
III. Long-term financial assets	3		
1. Shares in affiliated companies		87,409	82,548
2. Loans to affiliated companies		17,348	30,509
3. Long-term securities		34	37
4. Other loans		1,351	1,271
		106,142	114,365
		447,199	431,730
B. Current assets			
I. Inventories			
1. Raw materials, consumables and supplies		156,965	120,597
2. Work in progress		181,964	162,275
3. Finished goods and merchandise		260,836	207,959
4. Prepayments		14,759	18,736
5. Payments received on account of orders		-426,412	-391,662
		188,112	117,905
II. Receivables and other assets	5		
1. Trade receivables		387,310	396,084
2. Receivables from affiliated companies		79,166	69,254
3. Other assets		60,710	55,735
		527,186	521,073
III. Cash-in-hand, bank balances, and cheques	6		
		53,548	75,941
		768,846	714,919
C. Prepaid expenses		2,145	1,139
Total assets		1,218,190	1,147,788

Equity and liabilities		31 Dec 2011	31 Dec 2010
€ thousand	Notes		
A, Equity			
I. Subscribed capital	7		
1. Ordinary shares		40,000	40,000
2. Treasury shares, notional value		-1,805	-1,805
		38,195	38,195
II. Capital reserves		103,703	103,703
III. Revenue reserves			
1. Legal reserve		51	51
2. Other revenue reserves	8	314,635	339,635
		314,686	339,686
IV. Net retained profits (net accumulated losses)	9		
1. Retained profits (accumulated losses) brought forward		4,545	-80,718
2. Net loss for the year		-6,341	-2,669
3. Withdrawals from other revenue reserves		25,000	100,000
		23,204	16,613
		479,788	498,197
B. Provisions	10		
1. Provisions for pensions and similar obligations		89,487	87,326
2. Provisions for taxes		11,254	6,546
3. Other provisions		358,069	341,717
		458,810	435,589
C. Liabilities	11		
1. Trade payables		144,734	123,308
2. Liabilities to affiliated companies		92,106	52,660
3. Other liabilities		42,752	38,034
		279,592	214,002
Total equity and liabilities		1,218,190	1,147,788

€ thousand	Cost				At 31 Dec 2011	Depreciation, amortisation, and write- downs At 31 Dec 2011	Carrying amounts	
	At 1 Jan 2011	(T) Transfers Additions	Subsequent costs added	(T) Transfers Disposals			At 31 Dec 2011	At 31 Dec 2010
Intangible fixed assets								
1. Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	83,761	10,097	0	3,795	90,063	74,042	16,021	13,568
Tangible fixed assets								
1. Land, including buildings on third-party land	317,478	(T) 1,687 10,697	572	(T) 65 279	330,090	117,175	212,915	208,421
2. Technical equipment and machinery	205,468	(T) 56 18,118	0	8,428	215,214	162,258	52,956	47,772
3. Other equipment, operating and office equipment	176,344	(T) 90 23,286	56	33,508	166,268	116,811	49,457	43,777
4. Prepayments and assets under construction	3,827	7,649	0	(T) 1,768 0	9,708	0	9,708	3,827
	703,117	(T) 1,833 59,750	628	(T) 1,833 42,215	721,280	396,244	325,036	303,797
Long-term financial assets								
1. Shares in affiliated companies	148,257	(T) 16,007 853	0	0	165,117	77,708	87,409	82,548
2. Loans to affiliated companies	30,509	(T) 389 2,850	0	(T) 16,000 400	17,348	0	17,348	30,509
3. Long-term securities	41	0	0	0	41	7	34	37
4. Other loans	1,271	477	0	(T) 396 1	1,351	0	1,351	1,271
	180,078	(T) 16,396 4,180	0	(T) 16,396 401	183,857	77,715	106,142	114,365
	966,956	(T) 18,229 74,027	628	(T) 18,229 46,411	995,200	548,001	447,199	431,730

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.

■ 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. The same accounting policies 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. Internally generated intangible fixed assets are not capitalised. Therefore, research and development costs are immediately expensed in their full amount.

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 2011. 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

Moveable items of fixed assets with a cost of €150 or less that can be used independently and are subject to wear and tear are immediately expensed. Additions with a cost of more than €150 but not more than €410 are capitalised and fully depreciated in the year of acquisition and recognised 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.

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 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.

For measurement of the provision for partial retirement, the legal claim to partial reimbursement of additional contributions has been taken into account and recognised as a reduction in provisions.

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 (€10,085 thousand).

2 Tangible fixed assets

The addition to land and buildings results primarily from the expansion of the Neutraubling (€8,877 thousand) and Freising (€1,808 thousand) sites. Capital expenditure for the remaining tangible fixed assets amounting to €49,109 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 MAINTEC Service GmbH, Collenberg/Main, Germany, and loans to KOSME S.R.L., Roverbella, Italy, and KONPLAN S.R.O., Pilsen, Czech Republic. A complete presentation of shareholdings is made public through the electronic Federal Gazette (elektronischer Bundesanzeiger).

4 Inventories

The carrying amount of inventories is up 20.6% compared with the previous year. Around 69.4% of inventories were prefinanced through prepayments from customers.

5 Receivables and other assets

€ thousand	31 Dec 2011	Amounts due in 1 year or later	31 Dec 2010	Amounts due in 1 year or later
Trade receivables	387,310	10,320	396,084	14,373
Receivables from affiliated companies	79,166		69,254	
Other assets	60,710	18,054	55,735	18,572
	527,186	28,374	521,073	32,945

Of the trade receivables, 10.9% are due from customers in Germany and 89.1% 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 3.94%.

The receivables from affiliated companies, totalling €77,951 thousand, result from deliveries effected or services rendered between group companies.

6 Cash-in-hand, bank balances

€ thousand	31 Dec 2011	31 Dec 2010
Cash-in-hand	11	11
Bank balances	53,537	75,930
	53,548	75,941

7 Subscribed capital

The subscribed capital of KRONES AG amounts to €40,000,000.00.

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

KRONES AG held 1,425,421 treasury shares at the reporting date. No further treasury shares were acquired in 2011. The notional value of the acquired treasury shares, which had to be deducted from the item »subscribed capital«, was €1,804,726.05.

By resolution of the annual shareholders' meeting of 15 June 2011, 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 15 June 2016. 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.

8 Other revenue reserves

€ thousand	2011	2010
At 1 January	339,635	437,830
Release of the reserve for treasury shares	0	37,058
Withdrawal allocated to net retained profits	-25,000	-100,000
Difference between the notional value and the purchase cost of the treasury shares	0	-35,253
	314,635	339,635

9 Net retained profits

€ thousand	2011	2010
Retained profits (accumulated losses) brought forward	4,545	-80,718
Net loss for the year	-6,341	-2,669
Withdrawals from other revenue reserves	25,000	100,000
	23,204	16,613

10 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:

	2011	2010
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	5.14%	5.15%
Projected increases		
in wages and salaries	0.00%	0.00%
Projected increase		
in state pensions	2.00%	2.00%
Employee turnover rate	2.00%	Varies by 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.

The settlement amount of the pension liabilities that was offset against the plan assets was €104,286 thousand. The fair value of the plan assets, which serve exclusively to cover post-employment benefit obligations and are exempt from attachment by all other creditors, was €14,798 thousand. The income and expenses that are netted against the interest cost on the corresponding obligations amounted to €1,090 thousand and €4,906 thousand, respectively.

Direct pension obligations that are not covered by the assets of KRONES Unterstützungsfonds e.V. amount to €7,452 thousand.

The provisions for taxes take into account the expected payments of tax in arrears. The increase over the previous year resulted primarily from a tax audit that was conducted during the reporting period.

The other provisions cover all identifiable risks and other uncertain obligations. The long-term provisions were discounted at rates between 3.94% – 4.93% corresponding to their remaining maturity.

The provisions for anniversary bonuses were discounted at a rate of 5.14%.

The other provisions are essentially provisions for personnel obligations, including partial retirement (€104,804 thousand), and order-specific provisions (€229,647 thousand) that include, in particular, installation work not yet performed, warranties, claims for damages, anticipated losses, and outstanding supplier invoices.

11 Liabilities

€ thousand	31 Dec 2011	Amounts due in 1 year or earlier	31 Dec 2010	Amounts due in 1 year or earlier
Trade payables	144,734	144,734	123,308	123,308
Liabilities to affiliated companies	92,106	92,106	52,660	52,660
Other liabilities	42,752	41,651	38,034	37,056
	279,592	278,491	214,002	213,024

The liabilities to affiliated companies, totalling €32,393, result from deliveries effected or services rendered between group companies.

The other liabilities contain tax liabilities amounting to €10,999 thousand (previous year: €10,682 thousand) and social security liabilities totalling €4,305 thousand (previous year: €4,942 thousand).

12 Contingent liabilities

€ thousand	31 Dec 2011	31 Dec 2010
Contingent liabilities from bill guarantees	41,957	15,610
Contingent liabilities from guarantees and warranties	2,720	0
	44,677	15,610

The contingent liabilities from bill guarantees result from the issuance and transfer of trade bills. The risks relating to guarantees and warranties, of which €2,720 thousand relate to affiliated companies, stem from a binding letter of comfort (Patronatserklärung).

Taking into account what was known at the time this report was prepared, KRONES AG expects that the principal obligors will be able to fulfil the obligations underlying the contingent liabilities and therefore deems the risk of payout to be unlikely.

13 Other financial liabilities

€ thousand	31 Dec 2011	Amounts due in years 2–5	Amounts due in years after year 5	31 Dec 2010	Amounts due in years 2–5	Amounts due in years after year 5
Rental and lease agreements	28,338	13,436	0	30,098	16,421	0
Maintenance contracts	19,229	9,000	0	15,225	6,977	0
	47,567	22,436	0	45,323	23,398	0

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.

14 Sales

Breakdown by region	2011	2010
Germany	11.4%	12.3%
Rest of Europe	27.5%	22.4%
Other regions	61.1%	65.3%

15 Other operating income

€ thousand	2011	2010
Income from currency translation	13,948	12,364
Prior-period income	36,409	20,752
Income from disposal of fixed assets	1,464	298
Income from reversal of provisions	25,621	13,604
Income from reduction in specific and global valuation allowances on receivables	5,507	5,400
Income from reduction in the discounting of receivables	110	0
Income from derecognition of liabilities	2,215	421
Income from adjustments arising from tax audits	871	0
Other prior-period income	621	1,029

16 Personnel expenses

€ thousand	2011	2010
Wages and salaries	513,442	470,611
Social security, post-employment and other employee benefit costs	91,951	94,852
of which for post-employment benefits	6,855	10,803
Total	605,393	565,463

Average number of employees for the year (excluding trainees)	2011	2010
Employees covered by collective agreements	6,005	5,756
White-collar employees exempt from collective agreements	1,974	1,835
Total	7,979	7,591

The company employed 463 trainees on average in 2011 (previous year: 465 trainees).

17 Depreciation, amortisation, and write-downs

Scheduled amortisation of intangible fixed assets amounting to €7,644 thousand was taken on purchased concessions, industrial and similar rights and assets, and licenses in such assets.

Scheduled depreciation of tangible fixed assets amounting to €39,007 thousand was taken on land and buildings (€8,476 thousand), technical equipment and machinery (€12,947 thousand), and other equipment, operating and office equipment (€17,584 thousand). Unscheduled depreciation on buildings totalled €151 thousand.

18 Other operating expenses

€ thousand	2011	2010
Operating costs	120,577	84,530
Administrative expenses	43,235	44,150
of which losses from currency translation	15,401	18,138
Selling expenses	183,970	164,147
Prior-period expenses	1,106	997
of which losses on disposal of fixed assets	21	33
of which losses on receivables	594	828

19 Financial income (expense), net

€ thousand	2011	2010
Income from long-term equity investments		
Income from long-term equity investments in affiliated companies	10,288	10,572
Interest income (expense)		
Income from other securities and long-term loans	893	504
Other interest and similar income		
from affiliated companies	21	107
from other companies	1,842	3,778
from discounting	45	34
Interest and similar expenses		
to affiliated companies	-868	-866
to other companies	-2,002	-1,724
from discounting	-4,848	-4,796
Net interest income (expense)	-4,917	-2,963
Write-downs of long-term financial assets	-12,003	-16,059
Net financial income (expense)	-6,632	-8,450

Write-downs of long-term financial assets consisted of €12,000 thousand on shares of affiliated companies and €3 thousand on long-term securities.

The interest expense arising from the discounting of long-term provisions results primarily from the discounting of provisions for pensions and similar obligations (€3,816 thousand), the discounting of provisions for partial retirement (€673 thousand), and the discounting of provisions for anniversary bonuses (€225 thousand).

20 Income taxes and other taxes

The item »taxes on income« includes tax charges for the financial year. The income tax expense includes prior-period tax expenses of €7,100 thousand and prior-period tax income of €2,472 thousand.

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

21 Deferred taxes

The single-entity financial statements of KRONES AG would show deferred tax assets at 31 December 2011 totalling €40,437 thousand.

Temporary measurement differences on assets, liabilities, and items of prepaid expenses and deferred income resulted in deferred tax assets totalling €14,809 thousand. These relate to differences in »raw materials, consumables and supplies«, »trade receivables«, »provisions for pensions and similar obligations«, »other provisions«, and »other liabilities«.

Moreover, at 31 December 2011 deferred tax assets of €25,628 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.

Other disclosures

22 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 [AktG] concerning the Corporate Governance Code as amended on 30 March 2012 at KRONES AG's website. The exceptions are also listed there.

23 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 pursuant to § 22 (2) of the Securities Trading Act
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 in the notification pursuant to § 21 et seq of the German Securities Trading Act above have a controlling influence over KRONES AG.

24 Audit fees

Expenses of €465 thousand were incurred in the financial year 2011 for the legally mandated audits of the annual and consolidated financial statements. Expenses of €153 thousand were incurred for tax advisory services.

25 Derivative financial instruments

KRONES AG uses derivative financial instruments solely for the purpose of hedging currency risks in operations and therefore practices micro-hedging. Changes in the value of the hedged items and the hedging instrument largely offset each other over the term of the hedge since the material details of the contract (term, amount) are largely identical for the hedged item and the hedging instrument. KRONES AG does not use derivative financial instruments for speculative purposes. The derivative financial instruments, with a fair value of -€5,218 thousand (previous year: €310 thousand), essentially cover the currency risks relating to the British pound, 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 €164,688 thousand (previous year: €52,478 thousand).

26 KRONES in mediation with American financial services companies

The US company of the KRONES Group, KRONES Inc., Franklin/Wisconsin (USA), and KRONES AG, Neutraubling (Germany) have taken a first step towards resolving the legal disputes that have been ongoing since October 2008, triggered by claims for damages by several American financial service providers, a group of hedge funds and a liquidation trustee.

The lawsuits are related to the financial scandal involving the bankruptcy of the US company Le-Nature's, whose former directors have meanwhile been convicted of fraud. In 2005/2006, KRONES produced, delivered and successfully commissioned filling lines representing a contract volume of approximately 100 million US dollars for the Le-Nature's facility in Phoenix/Arizona (USA).

Several plaintiffs entered into a mediation process with KRONES in January 2012 to explore options for ending the proceedings. Although in KRONES' view the opposing parties' demands are unfounded, KRONES' US attorneys have advised to continue to try to reach a settlement through mediation, also with regard to the special risks entailed by the American legal system.

These legal disputes have had a negative impact on results in KRONES' consolidated financial statements for the year ended 31 December 2011. We do not provide further information on these disputes and the associated risk for the Group, especially with regard to the measures taken in this context, in order not to impair the outcome of the proceedings.

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 the financial year 2011, the direct fixed remuneration of the five active members of the Executive Board was €2,912 thousand (previous year: €2,520 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 €91 thousand (previous year: €89 thousand). In 2011, the variable compensation amounted to €2,167 thousand (previous year: €2,503 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 2011, no such compensation came due for payment as scheduled following the 10-year waiting period (previous year: €2,275 thousand). Provisions of €1,022 thousand (previous year: €689 thousand) were recognised for the performance incentive.

Pension provisions of €1,350 thousand (previous year: €5,238 thousand) were recognised for active members of the Executive Board.

For former members of the Executive Board and their surviving dependents, payments amounting to €510 thousand (previous year: €697 thousand) were made and pension provisions of €644 thousand (previous year: €661 thousand) were recognised.

The total remuneration paid to members of the Supervisory Board amounted to €356 thousand (previous year: €243 thousand) including variable portions totalling €24 thousand (previous year: €48 thousand).

Moreover, the members of the Supervisory Board receive a flat €1,000 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 financial year receive pro-rated compensation.

Net retained profits of KRONES AG amounted to €23,204,187.63 at 31 December 2011. We propose to the annual shareholders' meeting on 13 June 2012 that this amount be used as follows:

Proposal for the appropriation of net retained profits	€
Dividend of €0.60* for 30,167,651 ordinary shares	18,100,590.60
Amount carried forward to new account	5,103,597.03

*After deducting 1,425,421 treasury shares at 31 December 2011

Neutraubling, 30 March 2012



Volker Kronseder
(Chairman)



Christoph Klenk



Rainulf Diepold



Werner Frischholz



Thomas Ricker

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
(until 15 June 2011)

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

Petra Schadeberg-Herrmann
Managing partner at Krombacher
Finance GmbH, Schawei GmbH,
Diversum Holding GmbH & Co. KG
(since 15 June 2011)

Anton Schindlbeck**
Head of sales for LCS

Jürgen Scholz**
1st authorised representative
and treasurer of the IG METALL ad-
ministrative office in Regensburg
* INFINEON TECHNOLOGIES AG

Josef Weitzer**
Deputy Chairman of the Central
Works Council
* SPARKASSE REGENSBURG

Vorstand

Volker Kronseder
Chairman
Human Resources and
Group Communication

Hans-Jürgen Thaus
Deputy Chairman
Finance and Information
Management
(until 31 December 2011)

* KURTZ GMBH
MASCHINENFABRIK
REINHAUSEN GMBH

Rainulf Diepold
Marketing and Sales

Werner Frischholz
Materials Management,
Production, and Service

Christoph Klenk
Finance and Information
Management

Thomas Ricker
Engineering, Research
and Development
(since 1 January 2012)

* 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 2011. 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, 30 March 2012

KPMG Bayerische Treuhandgesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Herr
(German Public Auditor)

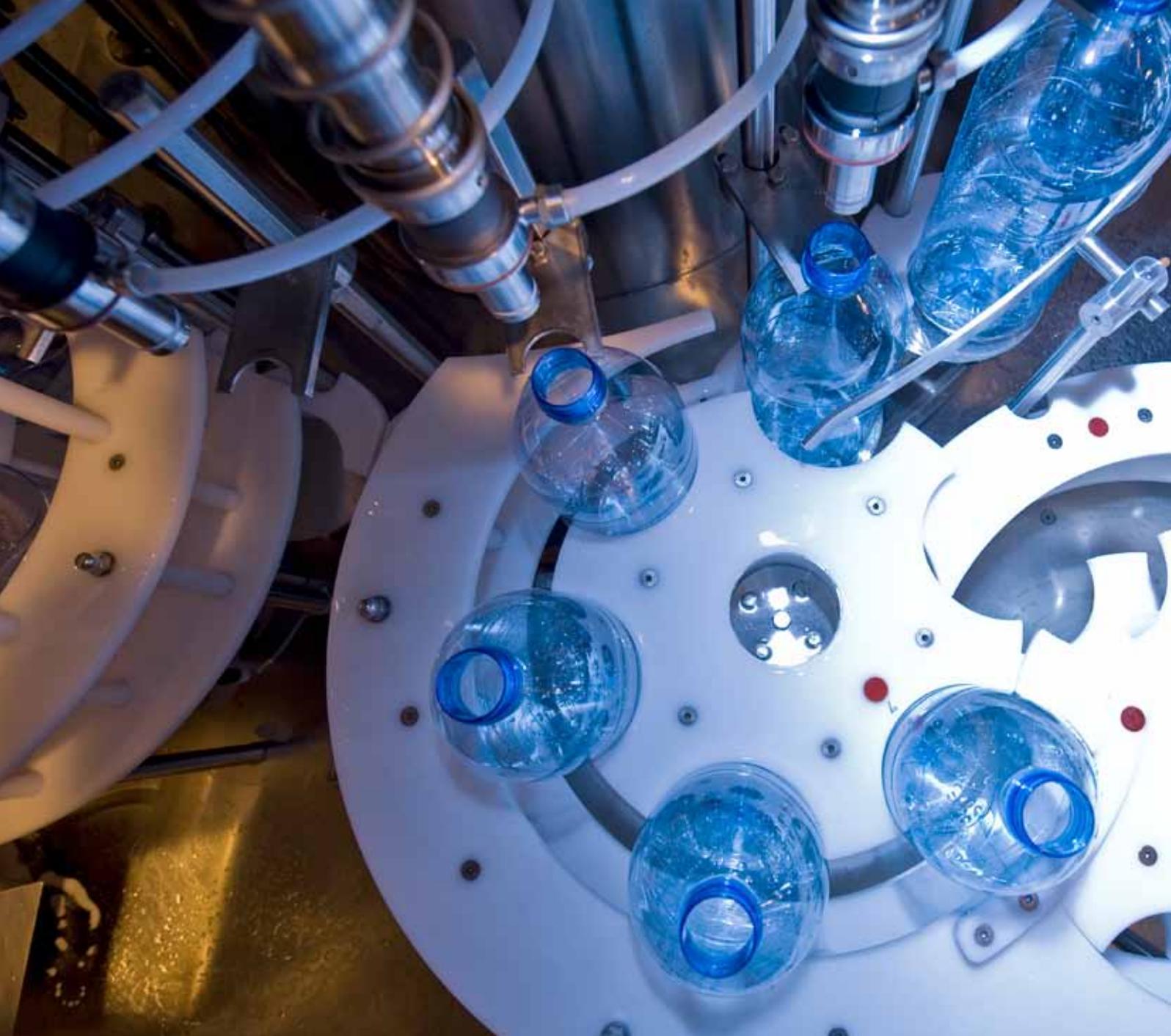
Medick
(German Public Auditor)

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).
EBIT	Earnings before interest and taxes.
EBITDA	Earnings before interest, taxes, depreciation and amortisation.
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.
Fixed assets	Assets intended to serve the company's business operations for the long term. In the context of this report, they include tangible and intangible fixed assets as well as non-current financial assets.
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 (P/E) ratio	The PE ratio is an important ratio for evaluating shares. It is calculated by dividing the share price by earnings per share. Shares with a lower PE ratio are a better 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 interest-free 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	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

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This English language report is a translation of the original German Geschäftsbericht der KRONES AG 2011. In case of discrepancies the German text shall prevail.



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