KRONES Group Annual Report 2018

Investment in the **future**

KRONES

2018 highlights

- KRONES' revenue grew 4.4% to €3.85 billion. Order intake increased by 4.5% to €3.96 billion.
- KRONES substantially improved free cash flow to €120.7 million.
- EBT margin of 5.3% in 2018 due to rising material and labour costs together with €42 million expenses for reorganisation and acquisitions.
- KRONES plans to hold the dividend stable relative to the previous year with a dividend of €1.70 per share.

		2018	2017	Change
Revenue	€ million	3,854.0	3,691.4	+4.4%
Order intake	€ million	3,957.3	3,786.8	+4.5%
Orders on hand at 31 December	€ million	1,261.1	1,240.1	+1.7%
EBITDA	€ million	305.9	340.2	−10.1%
EBITDA margin	%	7.9	9.2	−1.3 PP*
EBIT	€ million	203.2	245.5	−17.2%
EBT	€ million	204.3	258.8	−21.1%
EBT margin	%	5.3	7.0	−1.7 PP*
Consolidated net income	€ million	150.6	187.1	−19.5%
Earnings per share	€	4.78	5.97	−20.0%
Dividend per share	€	1.70**	1.70	±0%
Capital expenditure for PP&E and intangible assets	€ million	179.1	133.5	+€45.6 million
Free cash flow	€ million	120.7	−150.7	+€271.4 million
Net cash at 31 December***	€ million	215.1	157.4	+€57.7 million
Working capital to revenue****	%	27.3	27.3	±0 PP*
ROCE	%	12.8	16.6	−3.8 PP*
Employees at 31 December				
Worldwide		16,545	15,299	+1,246
Germany		10,887	10,366	+521
Outside Germany		5,658	4,933	+725

*Percentage points **As per proposal for the appropriation of earnings available for distribution ***Cash and cash equivalents less debt
****Average of last 4 quarters

1 TO OUR SHAREHOLDERS

2 CONSOLIDATED MANAGEMENT REPORT

3 CORPORATE GOVERNANCE

4 CONSOLIDATED FINANCIAL STATEMENTS

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 OTHER INFORMATION

1

TO OUR SHAREHOLDERS

Investment in the future 5
Letter from the Executive Board 23
The Executive Board 25
Report of the Supervisory Board 26
The Supervisory Board 29
The KRONES share 31

Investment in the **future**

Globalisation, digitalisation, rising costs and demographic change present businesses with diverse challenges. Successfully shaping the future of KRONES needs foresighted action and courage.

The opportunities are huge. Exploiting them KRONES has to invest significant in all areas. We will invest substantially in expanding our global footprint, but we will also strengthen our base in Germany. At the same time, we are going to continue the development of innovative products and services. This involves substantial investment in the digitalisation of beverage plants. Most of all, however, we will continue to invest in employee training and development, because our workforce is the foundation of our business.

All investments by KRONES have a single goal: satisfied customers.

Investments require capital. This makes it all the more important for KRONES to attain its medium-term financial targets. Self-generated funding increases the headroom for capital expenditure and enables us to be independent of lenders. The KRONES team can shape its own future.

Innovation drives customer satisfaction: **250th Ergo Bloc L shipped to Mexico**

KRONES unveiled a groundbreaking innovation at drinktec in 2009: A system that made it possible to produce, label and fill PET bottles on a single line. ErgoBloc L was a rapid hit with the beverage industry. Now, about nine years later, KRONES has shipped the 250th machine in the series to Niagara Bottling in Mexico.

Niagara found the system compelling from the outset and bought the first such machine back in 2011. In the meantime it has ordered dozens. This ErgoBloc L is the first ever to produce all formats from 0.236 to 1.5 litres with a capacity of up to 84,000 containers per hour. That makes it the fastest PET line of its kind in the world.

Innovation drives customer satisfaction: **Success in the craft beer scene**

Craft beer is beer made by traditional methods in small breweries, and demand is booming. KRONES identified the trend early on and developed innovative products for this market segment. Like our Craftmate can filler, launched in autumn 2015. With a capacity of 4,800 to 19,200 cans per hour, Craftmate is specially adapted to the needs of smaller brewers.

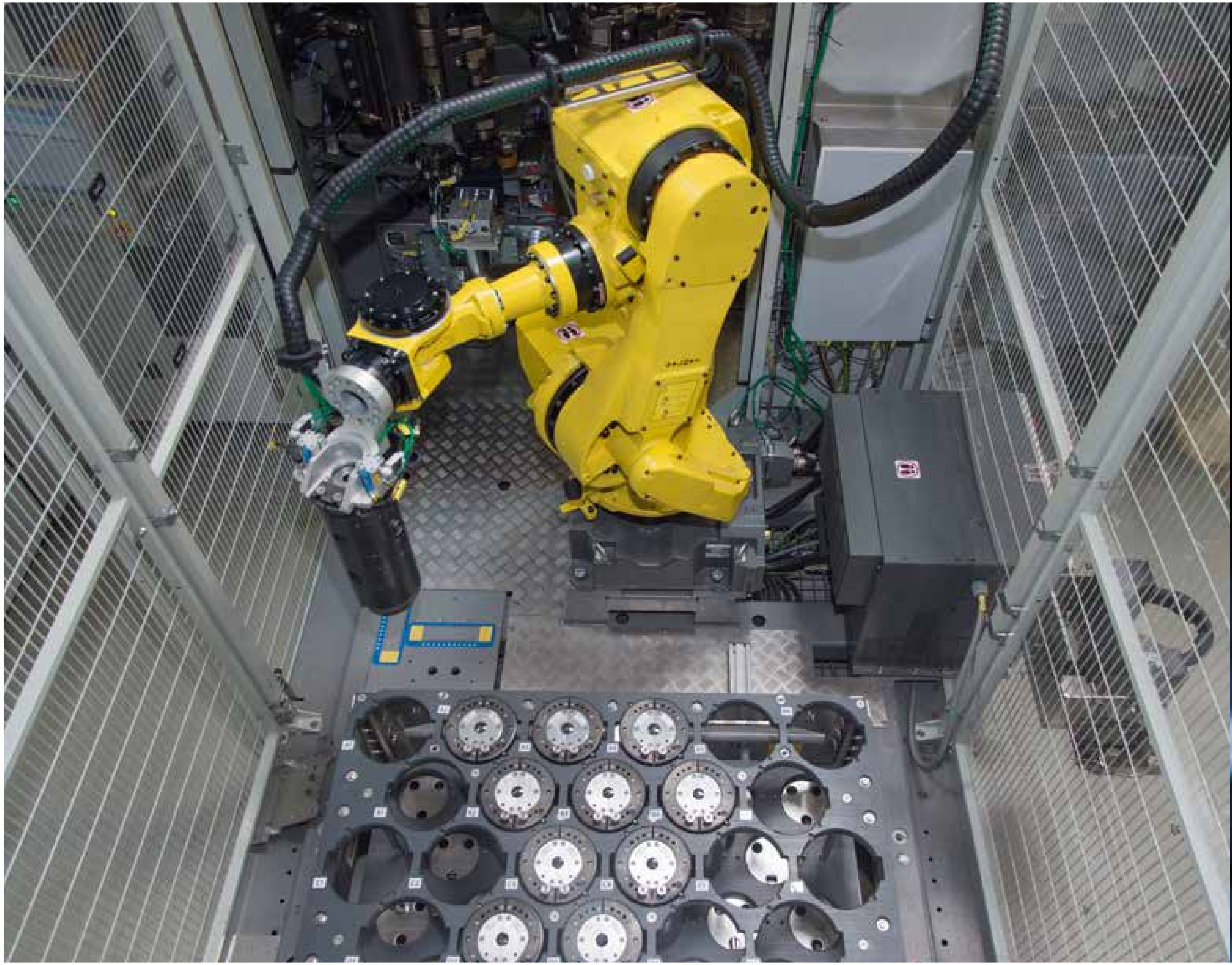
It is highly versatile, filling cans from 0.25 to 1.0 litres. The machine has a compact form and offers rapid changeover times. And Craftmate does not compromise on quality and hygiene compared with bigger machines in the Modulfill family. Our customers appreciate its many advantages. KRONES has already sold its 50th Craftmate, just three years after market launch.

Investment drives customer satisfaction: PET capabilities expanded

In the fourth quarter of 2018, KRONES acquired MHT HOLDING AG. Based in Hochheim am Main, Germany and employing 125 people, MHT HOLDING supplies preform moulds and services for the PET industry. With this investment, we filled a gap in our product and service portfolio for PET applications.

KRONES is now able to close the entire PET cycle, providing integrated PET solutions for customers in the beverage industry. Our portfolio includes bottle design services, injection moulding tools for the manufacture of PET preforms and machinery to blow preforms into bottles. We also provide recycling systems that process used PET bottles into bottle-grade resin.

Innovation drives customer satisfaction: **Rapid changeover, maximum customer benefit**



Frankenmarkt in Upper Austria is home to one of the most advanced PET filling lines in the world, which we built for Starzinger, a tradition-rich company from the region. As well as the high quality of the filling line, our longstanding customer is particularly pleased with the line's great flexibility. Its distinguishing feature is that it is the first to be fully integrated with the KRONES LineXpress system.

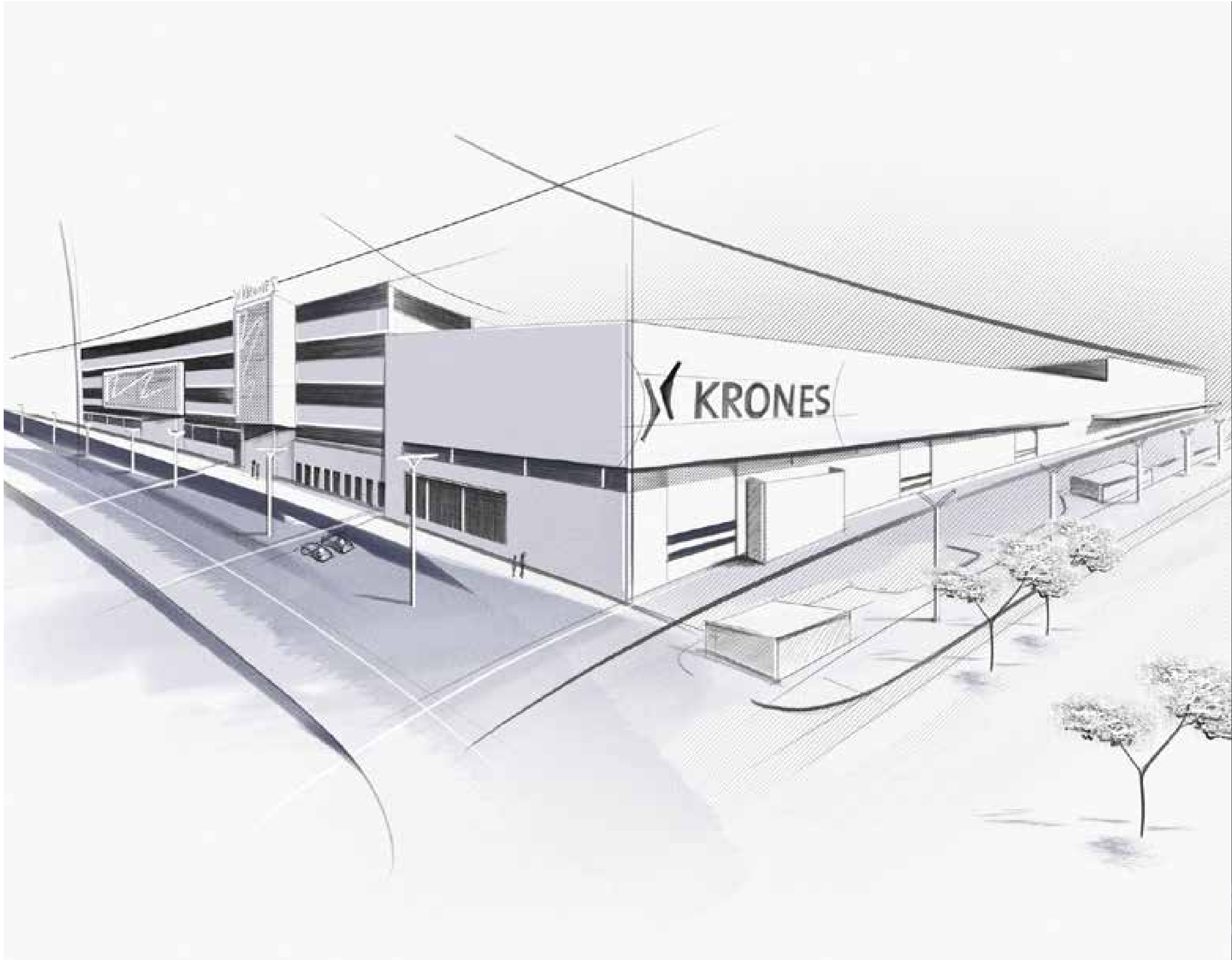
LineXpress is a range of individual automation components that enable very fast automated changeover. This is a crucial feature for Starzinger, which has a broad product range and sometimes has to produce in small batches. Consequently, the line frequently has to be switched over to different beverages or bottle shapes and sizes. LineXpress significantly cuts downtime and overall system productivity is about 20% higher than with manual changeovers.

Innovation drives customer satisfaction: **PET recycling – tomorrow's technology today**

Used PET bottles are not waste plastic, they are a valuable raw material. We have developed the innovative MetaPure recycling system, which processes used PET bottles into food-grade recycled resin – the raw material for new plastic bottles. This is an investment we are certain will pay off. KRONES systems are already in operation in Europe, Asia and Africa.

In California, US company rPlanet Earth has installed one of North America's largest plants for recycling used PET bottles. This will enable the production of some 36,000 tons of new preforms, containers and extruded film per year. The technology for washing and decontaminating the flakes obtained from used bottles that forms the heart of the system was supplied by KRONES. This was the largest PET recycling project in our corporate history to date.

Investment drives customer satisfaction: **Expanding our global footprint**

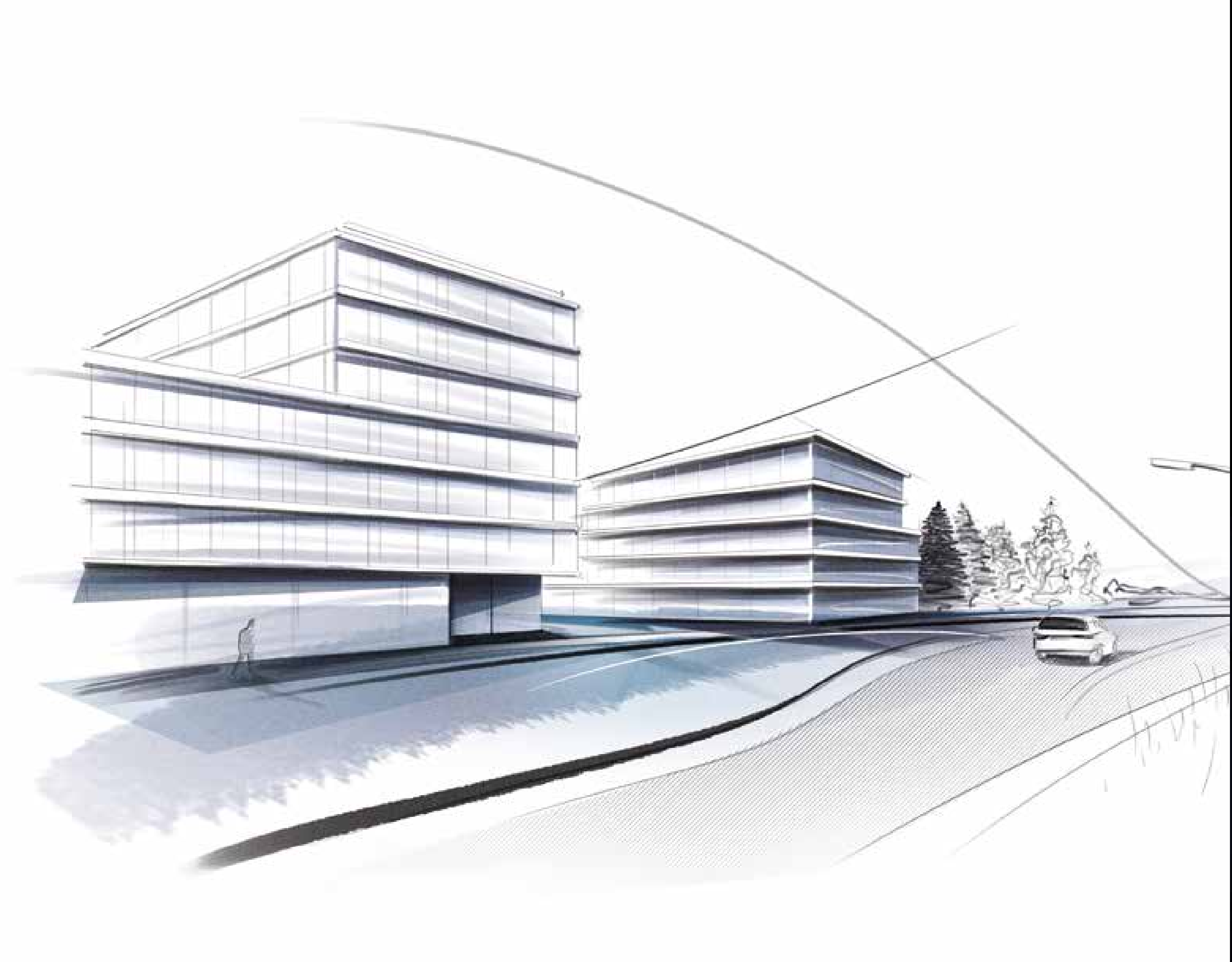


We are expanding our global footprint and increasing international value creation.

A key step in this is the investment in our new production location in Debrecen, Hungary. At this new production plant, KRONES will employ some 500 people. The focus in the decision in favour of the Debrecen location was not only on outstanding connections for logistics and up-to-date infrastructure, but also on access to a skilled workforce. We train future employees and prepare them for their specific task areas before they start work. They will make a valuable contribution in further enhancing customer satisfaction.

We are investing heavily in capacity expansion in China, notably at our Taicang location. Our aim is to serve Chinese customers increasingly with products assembled and in some cases also manufactured in China.

Investment in innovation: **KRONES launches innovation network at TechCampus Regensburg**



KRONES plans to set up an innovation network on the TechCampus in Regensburg, Germany and will be having a new building erected there for the purpose in 2019. The aim is to develop market-ready digitalisation, IT and IoT solutions for the beverage industry. Product innovations are no longer created in isolation inside development departments, but in open networks incorporating expertise from other industries and disciplines.

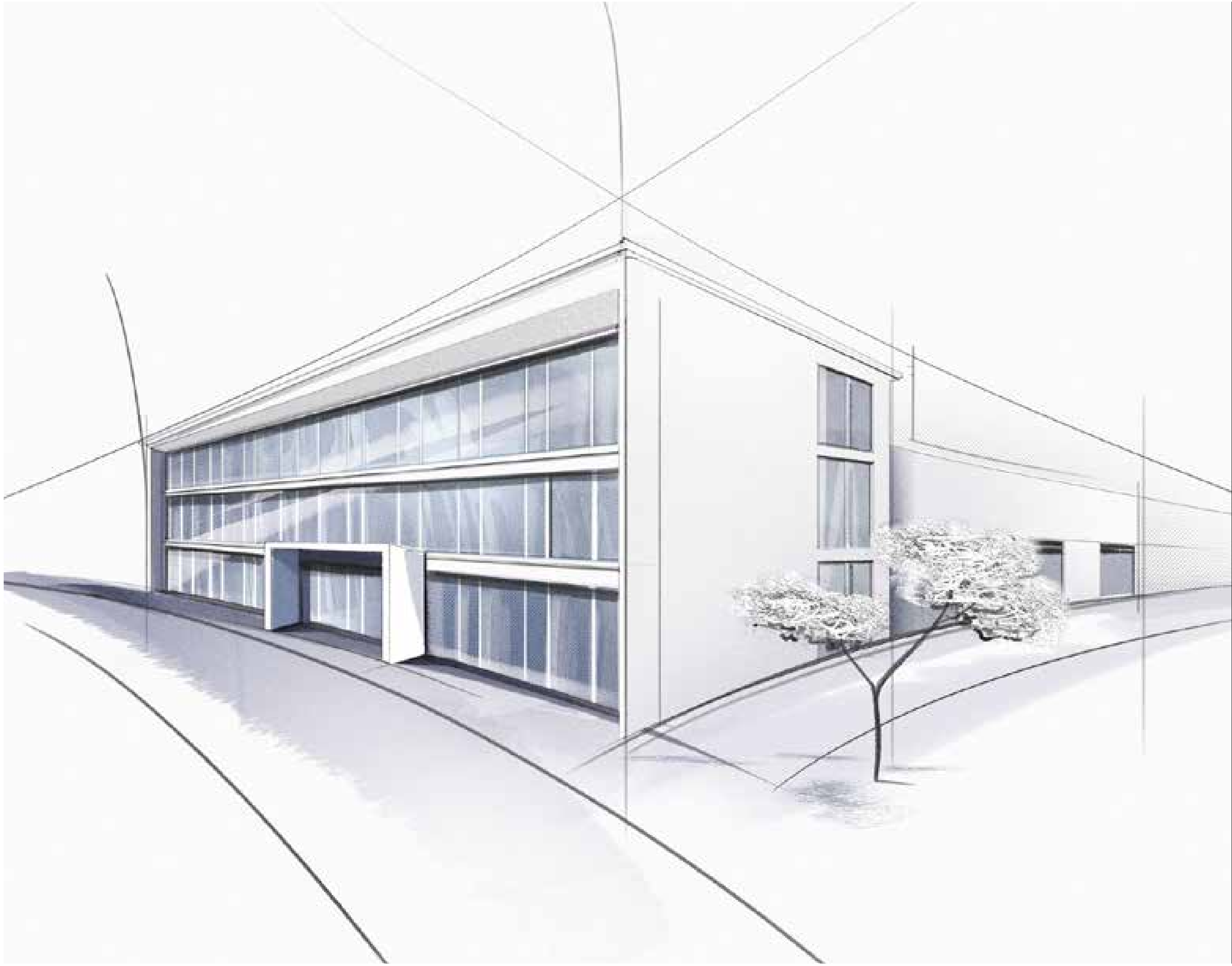
KRONES intends to make greater use of this type of collaboration in future. We already pursue this approach with our Innovation Lab, which is likewise located on the TechCampus. Digitalisation and IT will have a major impact on business outcomes for our customers going forward. This is why we are systematically investing in these areas through our subsidiary SYSKRON.

Investment in innovation: **Investment in KRONES' own research brewery**

At its STEINECKER facility in Freising, KRONES inaugurated the STEINECKER Brew Center on 19 June 2018. This research brewery incorporates KRONES' entire process technology knowhow. In liaison with subsidiary SYSKRON – the Group's IT and digitalisation specialists – KRONES has created the world's most sophisticated research brewery.

With a capacity of five hectolitres, the brewhouse is relatively small but has a lot to offer. In the STEINECKER Brew Center, customers can experience digitalisation in the brewing process first-hand. The system is highly flexible. It can be used to reproduce a wide range of internationally deployed brewing methods. Customers from all over the world work with KRONES at STEINECKER Brew Center on testing new technologies, produce special beers and train employees – an invaluable service.

Investment in knowledge: Expanding training capacity at KRONES



KRONES invests heavily in infrastructure at existing locations in order to exploit growth opportunities in our market. At our headquarters in Neutraubling, for example, we are investing some €5 million in the expansion of the **KRONES Academy**. The Academy keeps customers and our workforce up to date with the latest technology.

To serve the **North America** region better than ever, we continue to develop our US subsidiary KRONES Inc. The company is currently building a 3,700 square metre training and technology centre straight across the road from its headquarters in Franklin, Wisconsin. The new centre includes training rooms for customers and employees together with plastics laboratories.

Investment in knowledge: **New development and design building for KONPLAN**

KONPLAN has provided engineering services since 2007, focusing on mechanical and electrical design, software development and rollout. The company has a philosophy of providing a modern working environment with plenty of scope for creativity, and professional development for employees.
As part of ongoing activities for this purpose, KONPLAN is now constructing a new development and design building in the immediate vicinity of the University of West Bohemia, Pilsen, Czech Republic.

Investment drives customer satisfaction: **SPRINKMAN acquisition strengthens KRONES in US process technology**

In process technology, a local presence with proximity to customer projects is a key success factor. KRONES made a substantial addition to its process technology business in North America with the acquisition of US-based W.M. SPRINKMAN in 2018. SPRINKMAN's 125-strong workforce manufacture food and beverage processing equipment. The focus is on the dairy and brewing industries.

KRONES' US acquisition has a broad customer base ranging from microbreweries to large multi-national food and beverage producers. Sprinkman is an ideal addition to our House of KRONES product portfolio in North America. Together with our own activities and earlier acquisitions such as TRANS-MARKET and JAVLYN, SPRINKMAN plays a major part in enabling us to deliver customer projects in North America cost-efficiently, reliably and to KRONES' accustomed high quality standards.

Investment drives customer satisfaction: **Major step forward for KRONES in China**

With effect from 1 September 2018, KRONES acquired the business activities and assets of Shanghai Xiantong Equipment Installation. We have been fabricating and installing process technology equipment together with Xiantong for 20 years. Among other things, Xiantong fabricated and assembled the first MicroCube compact brewhouse. For KRONES, the acquisition of this long-standing partner was a logical step in its internationalization strategy for the process technology business.

In consequence, KRONES now has a production location of its own for brewery equipment and other process technology products in China. The acquisition supports KRONES in serving the growing demand for customer-specific solutions. With a total workforce of some 170 employees, we are now able to cover the entire value chain locally, from engineering and fabrication to installation and commissioning.

KRONES now has a base in the south of Shanghai.

Collaboration drives customer satisfaction: New dairy draws on wide range of KRONES capabilities

TINE SA is Norway's biggest producer and exporter of dairy products. The company has over 30 production locations across Norway. KRONES secured the contract to design and supply the entire process technology for a new dairy. The factory in Bergen will produce fresh milk, cream and fruit juices. It is dimensioned for an average throughput of 150,000 litres of fresh milk per day.

MILKRON, a KRONES subsidiary, is the vendor responsible for supplying the technology, which includes all systems from milk reception and treatment to storage of the finished products and supplying fillers. KRONES is also providing the dairy's energy supply. State-of-the-art technologies like heat pumps make for highly energy-efficient dairy operation The dairy's entire control equipment is being handled by KRONES subsidiary SYSKRON. In this way, the customer benefits from a team effort involving multiple KRONES units.

Digitalisation for future success: **First Tech Day a resounding success**

KRONES subsidiary SYSKRON staged its first Tech Day in Munich at the end of June. Some 100 guests from the beverage and IT industries took up the invitation and were richly rewarded with new input on topics such as value chain digitalisation, artificial intelligence and cloud security. Participants attended practice-focused presentations by experts in their field.

The main focus of the Tech Day, however, is as an opportunity for everyone to exchange views. We aim to bring together specialists from the beverage and IT industries to collectively address the challenges of digitalisation. With this successful kick-off event, Syskron has taken the first step towards building a tech community. We will continue to build and extend this network in the years ahead.

Digitalisation for future success: **Direct printing under a single roof**

Digital direct printing has huge potential. It has the great advantage of being far more flexible than conventional labelling techniques. With small batches especially, direct printing is much more economical than, say, paper labels. Using digital printing, each individual bottle can feature a different design. KRONES has already invested heavily and attained initial successes with the technology.

In 2014, we took a majority stake in digital printing technology provider TILL. We have acquired the remaining ownership interests in 2018. To further enhance our impact in digital direct printing, KRONES has brought its entire digital printing activities under TILL and renamed the company DEKRON GmbH. Dekron now combines, under a single roof, the largest pool of expertise in digital printing technology in the industry.

Collaboration drives customer satisfaction: **Side by side with global partners at Hanover Industrial Fair**

April saw KRONES at Hanover Industrial Fair, the global hotspot for Industry 4.0. Rather than on a booth of our own, we presented KRONES in partnership with digitalisation pioneers AMAZON and SAP. The centrepiece of the booth presented by software giant SAP was Bottling on Demand, a proof of concept study by KRONES. Based on this digitalised and highly flexible solution, KRONES and SAP jointly demonstrated what the future could look like for the beverage industry: profitable production with a batch size of just one single unit.

The Amazon Web Services (AWS) booth featured SYSKRON X, with our subsidiary SYSKRON presenting its ReadyKit product. Using ReadyKit, machines can be linked into a central data acquisition system, thus laying the basis for digital processes such as predictive maintenance. The presentation at the AWS trade fair booth was a great opportunity for SYSKRON X to show this innovative solution to a large audience.

Investment in sustainability: **Ten years of enviro**

Operating sustainably and delivering on our corporate social responsibility have always been very important to KRONES. Our customers, too, aim to produce cost-efficiently while setting themselves demanding sustainability targets, which our high-quality, sustainable machines and services enable them to attain even more rapidly and effectively.

KRONES made the decision to introduce the enviro sustainability programme as early as 2008. This puts the spotlight on the eco-efficiency of the KRONES product portfolio. A TÜV SÜD-certified management system, enviro is an integral part of the product development process at KRONES. It is this which enables us to meet our own ambition of providing the food and beverage industry with trailblazing technology for year upon year of high-output yet resource-efficient production.

Letter from the **Executive Board**

"KRONES will continue to invest for sustained profitable growth."

Christoph Klenk
CEO

Dear shareholders and friends of KRONES,

KRONES again invested heavily in 2018 to secure the company's successful future. Our markets continue to offer good growth opportunities. At the same time, we also have to manage challenges on the costs side. Both require measures that will temporarily affect our profitability. The focus at KRONES, however, is on sustained profitable performance.

KRONES holds growth course in 2018

The overall economic outlook worsened increasingly during 2018. This was mainly due to the trade conflict between China, the USA and Europe. The threat of a no-deal Brexit also clouded the business climate. Demand in our markets – the international beverage and packaging industry – was nonetheless satisfactory. KRONES was able to take advantage of this. Revenue went up by 4.4% year-on-year, from €3.69 billion to €3.85 billion. We thus attained the revised forecast of 4% revenue growth announced in autumn 2018.

Expenses for reorganisation and acquisitions

We are satisfied with our revenue performance in 2018. The same cannot be said for profitability. Earnings before taxes (EBT) went down from €259 million to €204 million. The EBT margin dropped from 7.0% to 5.3%. Aside from rising material and labour costs, the fall in earnings was also due to expenses for reorganisation and acquisitions in the amount of some €42 million. Had these expenses not been incurred in 2018, the EBT margin would have been 6.4%.

Strengthening profitability by expansion of our global footprint

For sustained profitable growth, we will continue to expand our global footprint. In 2018, for example, we added new capacity at our plants in the USA and China. Also, we invested heavily in establishing the new plant in Hungary, which is to go into production in the second half of 2019. We additionally made several acquisitions last year. In process technology, we strengthened our capabilities with W.M. SPRINKMAN in the USA and SHANGHAI XIATONG EQUIPMENT in China. Establishing a supply chain in China and Hungary will enable us to reduce personnel and material costs in the medium term.

Strong investment secures KRONES' future growth and innovation

As well as expanding our global footprint, we are also strengthening our position in Germany. We have supplemented our PET capabilities in the core segment with a domestic acquisition, MHT HOLDING AG. KRONES also intends to invest some €190 million at its German locations in the next few years. At our headquarters in Neutraubling, we plan for example to build the factory of the future. We are also establishing an innovation network to develop innovative products and solutions for the beverage industry in collaboration with universities, research institutes and start-ups. Overall, we will continue to invest heavily in product development and improvement in order to further add to our innovative capacity – because innovation secures KRONES' future.

Service secures customer satisfaction and stable sales

We aim to achieve sustained improvements in profitability and customer satisfaction by expanding our service activities. Proximity to customers is a key to success in our lifecycle service (LCS) business. We therefore plan to further reinforce our global service network. The trend towards the digital beverage plant also holds huge opportunities specifically for LCS. We are consequently upgrading existing machines and equipment for digital communication. With digital data from the production process, we are developing new, attractive products and services for the after-sales business. The LCS business also benefits from our customers' steadily growing installed base. Recent significant increases in market share for aseptic systems, which require more service, also support the service side in the medium term.

Ambitious targets for 2019

Despite the general economic challenges and the ongoing high level of investment, KRONES has set ambitious growth and earnings targets for 2019. We expect revenue to increase by 3%. The EBT margin is expected to improve to around 6%. For our third performance target, working capital to revenue, we expect to attain 26% in 2019.

Workforce pivotal to KRONES' success

The Executive Board is confident that, working as a team at KRONES, we will meet the challenges and seize the opportunities that lie ahead. To achieve this, we must make even better use of the knowledge and connections possessed by our workforce worldwide. We know that KRONES' past and future success depends solely on our employees. That is why, on behalf of the entire Executive Board, I would like to extend my sincere thanks to the entire KRONES team for contributing their commitment and skill, and I look forward to their ongoing dedicated support.

Christoph Klenk
CEO

The **Executive Board**

Michael Andersen, CFO
Finance, Controlling, Process Technology, Strategic Purchasing

Thomas Ricker
Sales and Marketing

Christoph Klenk, CEO
Human Resources, Intralogistics, Digitalisation, Communication, Quality, Information Management

Markus Tischer
International Operations and Services

Ralf Goldbrunner
Bottling and Packaging Equipment

Report of the **Supervisory Board**

Volker Kronseder
Chairman of the Supervisory Board

Ladies and Gentlemen,

Since the end of the Annual General Meeting on 13 June 2018, the KRONES Supervisory Board has consisted no longer of twelve, but of 16 members. This is due to the fact that KRONES AG, as the parent of the KRONES Group, has more than 10,000 employees. The Supervisory Board has not only grown numerically, however: The new members also bring with them additional competences.

The 2018 financial year was a challenging year for KRONES. We are convinced, however, that KRONES has the right strategy to exploit the good medium and long-term market growth opportunities. The Supervisory Board will continue to work closely and constructively with the Executive Board and contribute to the successful future of KRONES.

Advice and oversight

The Supervisory Board of KRONES AG continuously oversaw and advised the Executive Board during the 2018 financial year, as prescribed by the German Stock Corporation Act and the company's articles of association. Focuses of the Supervisory Board's work in 2018 were market and competition issues, corporate strategy, profitability and target achievement. The Executive Board regularly informed the Supervisory Board about the company's business and financial situation and risk management in written and oral reports both during and outside of Supervisory Board meetings.

In total, five regular Supervisory Board meetings were held in 2018. The Supervisory Board convened on 14 March for its first meeting of the 2018 financial year. Representatives from KRONES' auditing firm were present for a portion of the meeting. They gave the Supervisory Board a detailed explanation of their audit engagement together with the key audit matters of their audit of the 2017 annual financial statements and provided a detailed overview of the audit. The Supervisory Board then ratified the annual financial statements and management report of KRONES AG and approved the consolidated financial statements and consolidated management report. On the same occasion, the Supervisory Board approved the agenda for the 2018 annual general meeting. Matters relating to the Supervisory Board and Executive Board were a further item on the agenda. At the recommendation of the Standing Committee, the Supervisory Board resolved to extend the Executive Board contract for Michael Andersen by five years to 31 December 2023.

On 13 June, the Supervisory Board held its second meeting for 2018, which was also its constitutive meeting directly following the KRONES annual general meeting. Volker Kronseder congratulated the Supervisory Board members on their election. The Supervisory Board then elected Volker Kronseder as Chairman of the Supervisory Board and Werner Schrödl as his deputy. Subsequently, the newly constituted Supervisory Board turned to the appointment of members to the Standing Committee and to the Audit and Risk Management Committee.

The Supervisory Board convened for its third meeting of 2018 on 25 July. Reporting on the business situation, the Executive Board informed the Supervisory Board about the up-to-date figures for the second quarter of 2018 and the outlook for the year as a whole. The Executive Board members additionally gave a current status report on the business areas within their respective portfolios. Other major topics at the third Supervisory Board meeting comprised KRONES' market and competition together with basic policy on external growth opportunities.

The fourth meeting of the Supervisory Board in 2018 took place on 26 September at the STEINECKER plant in Freising. One item on the agenda consisted of Supervisory Board and Executive Board matters. Among other things, this included the main issues related to the Supervisory Board's efficiency review. The Executive Board then informed the Supervisory Board about the current order situation, production capacity utilisation and the business situation of the company and its segments. In addition, the Executive Board provided a status report on construction of the new plant in Debrecen, Hungary. A further focus of the meeting was the company's medium-term planning. Among other matters, the Executive Board reported on planning with regard to capital expenditure, finances and human resources. The Executive Board then provided the Supervisory Board with a detailed explanation of KRONES' strategy.

On 28 November, the Supervisory Board held its fifth meeting for 2018, at which it adopted the rules of procedure for the Executive Board. Another item on the meeting's agenda was the report of the Audit and Risk Management Committee addressing the topics of risk management, internal auditing and compliance. The Executive Board then informed the Supervisory Board about the figures for the third quarter and the outlook for the final quarter of 2018. This also included an explanation of the overall economic situation and how that could affect business for KRONES looking ahead. In addition, the Executive Board informed the Supervisory Board about strategic issues. The Executive Board's forecasts and planning for the 2019 financial year were a further item on the agenda at the Supervisory Board's final meeting of 2018.

The work of the Audit and Risk Management Committee

The Audit and Risk Management Committee consists of Supervisory Board Chairman Volker Kronseder, his deputy Werner Schrödl and Supervisory Board members Norman Kronseder, Hans-Jürgen Thaus, Josef Weitzer and Jürgen Scholz. Its Chairman is Hans-Jürgen Thaus. The Audit and Risk Management Committee oversees the company's accounting and financial reporting, the audit of the financial statements and other reporting, and prepares related proposals for Supervisory Board resolutions. In addition, the committee prepares the Supervisory Board's review of the annual financial statements, the management report and the auditor's report for the separate and consolidated financial statements, and makes recommendations. Furthermore, the Audit and Risk Management Committee monitors the effectiveness of the internal control system, the risk management system and the compliance system.

The Audit and Risk Management Committee met four times in 2018. On 13 March, the committee prepared the Supervisory Board meeting held to ratify the financial statements. Based on the remarks of the auditor and information from the auditor's report, the members of the Audit and Risk Management Committee agreed to recommend that the Supervisory Board ratify the annual financial statements and management report of KRONES AG for the 2017 financial year and approve the consolidated financial statements and consolidated management report for 2017.

At the second meeting of the Audit and Risk Management Committee, on April 13, KPMG AG Wirtschaftsprüfungsgesellschaft presented the results of its review of the 2017 consolidated non-financial report. The Audit and Risk Management Committee approved the audit findings and had no objections. The committee members decided to recommend that the Supervisory Board ratify the consolidated non-financial report.

The committee had two items on its agenda at its third meeting on 13 June. Firstly, Hans-Jürgen Thaus was elected Chairman and Werner Schrödl Deputy Chairman of the Audit and Risk Management Committee. Secondly, the members resolved to put the audit of the annual and consolidated financial statements for the 2019 financial year out to public tender and asked CFO Michael Andersen to look into the legal framework for doing so.

At the fourth meeting of the Audit and Risk Management Committee on 21 November, the company's heads of Controlling, Internal Audit and Compliance informed the members of the committee about the current risk situation, internal audit and compliance management at KRONES. Committee Chairman Hans-Jürgen Thaus then presented the steps involved in the tender procedure for the audit of the annual consolidated financial statements and informed the committee about the current status of the procedure.

The work of the Standing Committee

The Standing Committee consists of Werner Schrödl, Norman Kronseder, Josef Weitzer and Volker Kronseder. It is chaired by Volker Kronseder. The committee generally deals with all other topics that are outside the remit of the Audit and Risk Management Committee. These include, for example, human resources strategy and Executive Board and Supervisory Board remuneration. The Standing Committee met three times in 2018.

At its March 8 meeting, the committee addressed the extension of the contract with CFO Michael Andersen. The members of the Standing Committee resolved to recommend that the Supervisory Board adopt the resolution to extend the contract with Michael Andersen by five years to 31 December 2023. At the same meeting, the committee also reviewed the existing remuneration system for members of the Executive Board and presented a new overall policy for Executive Board remuneration.

The Standing Committee's second meeting took place on 11 July. Major topics comprised the business figures and forecasts for 2018, the competitive situation and the expansion of the company's global footprint. The main point of focus was construction of the new plant in Hungary.

The August 13 meeting was convened to discuss the acquisition of W. M. SPRINKMAN in the United States. The members of the Standing Committee resolved to recommend that the Supervisory Board approve the acquisition.

Supervisory Board concurs with audit findings

The annual financial statements of KRONES Aktiengesellschaft prepared by the Executive Board, the consolidated financial statements, the management report for KRONES AG and the group management report for the period ended 31 December 2018 were examined by the auditors elected by the annual general meeting, KPMG AG Wirtschaftsprüfungsgesellschaft, and each issued with an unqualified audit report. The audited annual financial statements and consolidated financial statements, the management report for KRONES AG and the consolidated management report for the period ended 31 December 2018 were duly submitted to all members of the Supervisory Board for review. The audited financial statements and management reports were the subject of the Supervisory Board meeting held to ratify the financial statements on 20 March 2019. Representatives of the auditing firm also participated in the meeting and reported to the Supervisory Board on their audit findings and the focal points of their audit.

The Supervisory Board noted and approved the audit findings. Following the final review by the Supervisory Board, no objections were raised. The Supervisory Board has ratified the annual financial statements for KRONES AG and approved the consolidated financial statements as well as the Executive Board's proposal for the appropriation of earnings available for distribution. The 2018 annual financial statements for KRONES AG are thus ratified.

The members of the Supervisory Board would like to thank the Executive Board and all of the company's employees for their dedication and wholly successful work in the 2018 financial year.

Neutraubling, March 2019
The Supervisory Board

Volker Kronseder
Chairman of the Supervisory Board

The **Supervisory Board**

Volker Kronseder

Chairman of the Supervisory Board

* University Hospital Regensburg
* Economic Advisory Board, Bayerische Landesbank

Werner Schrödl**

Group Employees' Council Chairman
Composite Employees' Council Chairman
Chairman of the Supervisory Board

* Executive Board member of the Bavarian Company Health Insurance Funds Confederation

Dr. phil. Verena Di Pasquale**

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

Robert Friedmann

Spokesman for the central managing board of the Würth Group

* ZF Friedrichshafen AG

Klaus Gerlach**

Head of Central International Operations and Services

Oliver Grober**

Chairman of the Employees' Council, Rosenheim

Thomas Hiltl**

Chairman of the Employees' Council, Nittenau

Norman Kronseder
Farmer and forester

* Bayerische Futtersaatbau GmbH

* Other Supervisory Board seats held, pursuant to Section 125 (1) sentence 5 of the German Stock Corporation Act ** Elected by the employees

Prof. Dr. jur. Susanne Nonnast

Professor at Ostbayerische Technische Hochschule (OTH) Regensburg

Beate Eva Maria Pöpperl **

Independent Member of the Employees' Council

Norbert Samhammer

Chief executive of Samhammer AG

Petra Schadeberg-Herrmann

Managing partner
Krombacher Brauerei
Bernhard Schadeberg GmbH & Co. KG,
Krombacher Finance GmbH, Schawei GmbH,
Diversum Holding GmbH & Co. KG

Jürgen Scholz**

First authorised representative IG Metall administrative office in Regensburg

* Infineon Technologies AG

Hans-Jürgen Thaus

* Hawe Hydraulik SE
* Maschinenfabrik Reinhausen GmbH
* Kurtz Holding Gmbh & Beteiligungs KG

Josef Weitzer**

Deputy Group Employees' Council Chairman
Deputy Composite Employees' Council Chairman
Employees' Council Chairman, Neutraubling

* Sparkasse Regensburg

Matthias Winkler

Managing partner at
WW+ KN Steuerberatungsgesellschaft mbH

* Other Supervisory Board seats held, pursuant to Section 125 (1) sentence 5 of the German Stock Corporation Act ** Elected by the employees

The KRONES **share**

"2018 was not a good year for the stock markets. KRONES shares fell disproportionately to the market."

Olaf Scholz
Head of Investor Relations

- Stock markets held back by international trade disputes
- KRONES share price down 41.0% in 2018
- Shareholders to receive €1.70 per share dividend for 2018

Major losses on international stock markets

Stock markets started relatively friendly in 2018. The good investor sentiment did not hold up for long, however. There were various reasons for the reversal, including current geopolitical developments and the dispute over the Italian national budget. The main cause of the fraught stock market climate, however, consisted of international trade disputes, notably between the USA and China. At worst, the trade disputes could slide the world economy into recession. Driven by fears of this, stock markets fell repeatedly and virtually collapsed in the fourth quarter of 2018.

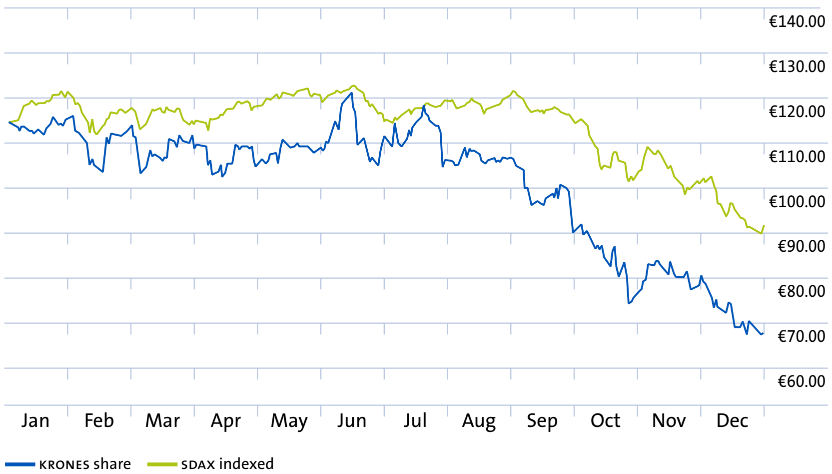
The best-known German stock market index, the DAX, was hit especially hard. After setting a new all-time high of just under 13,600 points on 23 January 2018, the index fell steeply. At 10,559 points as of the year-end, the DAX was 18.3% down on the beginning of 2018. The EURO STOXX 50 did not perform much better. Made up of the 50 largest companies in the euro area, this index lost 14.4% last year. US equities were able to escape the negative trend for much of the year. Towards the year-end, however, Wall Street was hit by a sell-off. The Dow Jones index closed 5.6% lower at the end of 2018 than at the beginning of the year. Share prices on the Japanese stock exchange also came under massive pressure in the fourth quarter of 2018. The Nikkei index ended the year with losses of 12.4%.

KRONES shares sharply down in 2018

The KRONES share price fell sharply in the second half of 2018 and performed worse than the SDAX over the year as a whole.

The general weakness of the stock markets also brought down the KRONES share price. In the first half of the year, the losses remained within reasonable bounds. Our share price even rallied briefly at the end of May, reaching its high for the year at €122.80 on 11 June. KRONES shares ended the first half of 2018 at €110.70, 3.3% lower than at the beginning of the year

KRONES share price performance compared with the SDAX 2018



The share price then fell sharply in July because our half-year figures did not fully meet analysts' high expectations. Interim recoveries apart, the KRONES share price subsequently remained on a downward trend. On October 24, we lowered our growth and profitability target for 2018. This further increased the downward momentum in the share price. The end of October brought a strong uptick. Thereafter, our shares were caught in the general downward spiral on the stock markets. The KRONES share price set its low for the year at €66.10 on 20 December. It closed 2018 at €67.50. KRONES shares thus lost 41.0% in value in 2018. Including the €1.70 per share dividend, the annual performance was minus 39.6%. The SDAX – of which KRONES has been a member since June 2018 – fell by 20.0% last year, which is less than the decrease in the KRONES share price.

KRONES once again took part in numerous international investor conferences in 2018. We also held one-on-one meetings with investors and analysts. On 18 September, we organised a Capital Market Day at our plant in Freising. We provided analysts there with information about new developments in process technology and about KRONES' digitalisation strategy.

Key figures for the KRONES share

at 31 December		2018	2017	2016
Earnings per share	€	4.78	5.97	5.40
Equity per share	€	45.36	42.10	38.79
Free cash flow per share	€	3.82	−4.77	1.56
Price/earning (P/E) ratio based on closing price for the year		14.1	19.2	16.1
Dividend per share	€	1.70*	1.70	1.55
High	€	122.80	121.25	108.60
Low	€	66.10	87.28	80.54
Year's closing price	€	67.50	114.50	86.90

* As per proposal for the appropriation of earnings available for distribution

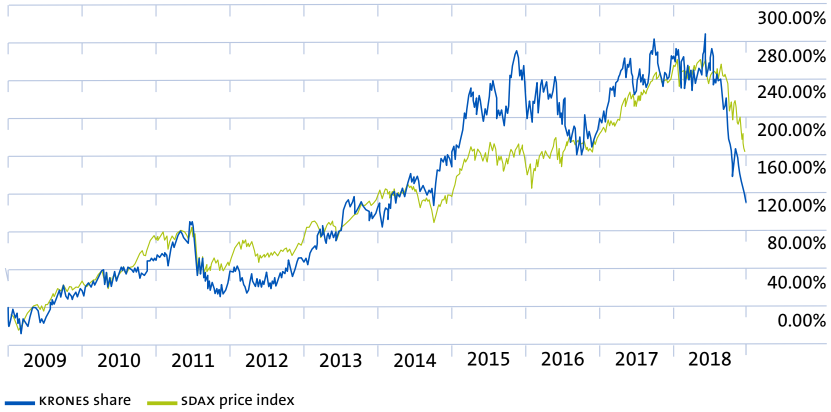
KRONES share offers high long-term returns

Our share price has increased 117% over the past ten years from 2009 to 2018.

The KRONES share price has risen by an average of 8.1% a year over the last ten years.

KRONES' average annual share price gain in this period comes to 8.1%. That is less than the SDAX price index (+10.6%), meaning the SDAX excluding dividends. Including dividends, and assuming reinvestment of the dividends in KRONES shares, the average annual return for the last ten years is 9.6%. The comparable SDAX performance index gained 13.0% annually.

KRONES share price performance compared with the SDAX, 2009 – 2018



KRONES holds strong position in the SDAX index

While we regret exiting the MDAX in June 2018, the SDAX is also an attractive index. KRONES is among the larger companies of the 70 listed in the SDAX.

KRONES shares have been listed and available for trading on all German stock exchanges since 29 October 1984. Our shares are no par value ordinary bearer shares. Each share carries one vote in the annual general meeting. The total number of KRONES shares is 31,593,072.

Our shares were a member of the MDAX, the German stock exchange's mid-cap index, ever since its inception in 1996. As a result of the fast entry rule, DEUTSCHE BÖRSE AG resolved on 5 June 2018 that KRONES should switch from the MDAX to the SDAX with effect from 18 June 2018. The decisive factor in KRONES' move to the SDAX was the low volume of trading in our shares.

The SDAX is the German stock exchange index containing the 70 companies that succeed those listed in the DAX and the MDAX in market capitalisation and revenue. At the end of 2018, KRONES ranked 13th among SDAX companies by market capitalisation and 23rd by revenue. This makes our shares one of the larger of the 70 SDAX components.

In the 2018 financial year, total daily trading volume in XETRA trading and on Frankfurt stock exchange averaged around 40,000 KRONES shares (previous year: 49,000 shares). Also on alternative trading platforms, which primarily handle orders from institutional investors, a smaller amount of KRONES shares changed hands. Average daily trading volume there came to around 63,000 shares (previous year: around 81,000).

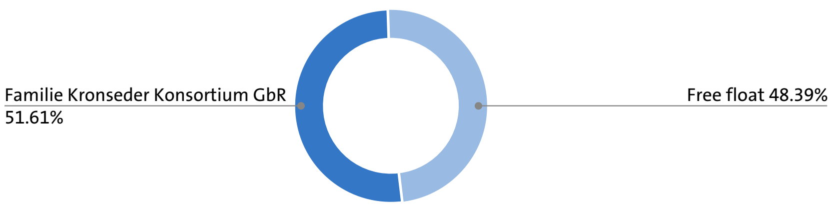
Key data for the KRONES share

Number of shares	31,593,072
German securities identification number (WKN)	633500
ISIN	DE 0006335003
XETRA ticker symbol	KRN

Shareholder structure

There were no significant changes to KRONES' shareholder base in the reporting period. At 31 December 2018, Familie Kronseder Konsortium GbR held the majority of KRONES AG's shares, with 51.61%. The family intends to remain a stable majority shareholder of KRONES AG. The free float (those shares not held by the family) came to 48.39% at the end of 2018.

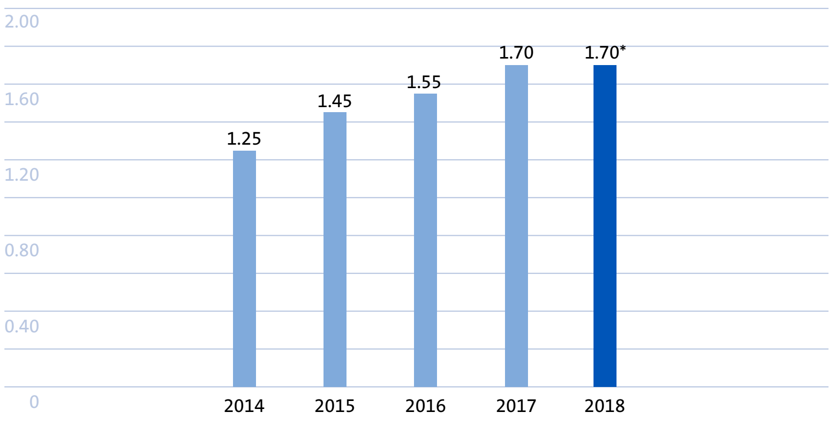
Shareholder structure as of December 2018



KRONES plans to pay a dividend of €1.70 per share for 2018

The company's long-term dividend policy is to pay out 25% to 30% of consolidated profit to shareholders. At the Annual General Meeting on 5 June 2019, the Executive Board and Supervisory Board will be proposing a dividend of €1.70 per share for the 2018 financial year. The dividend thus remains stable relative to the previous year despite the decrease in earnings. The dividend for 2018 corresponds to 35.7% of consolidated net income.

Dividend per share (€)



* As per proposal for the appropriation of earnings available for distribution

2

CONSOLIDATED MANAGEMENT REPORT

Fundamental information about the group

- KRONES at a glance 36
- 2018 in review 39
- Systems and lifecycle service – performance matters 43
- Strategy and management system 45
- Research and development (R&D) 53

Report on economic position

- Economic environment 58
- KRONES in figures 66
- Report from the segments 79
- Overall assessment of economic position 83
- Employees 84
- Sustainability at KRONES 85

Risk and opportunity report 86

Events after the reporting period 97

Report on expected developments 98

Disclosures required under Sections § 315 a (1) and 289 a (1) of the German Commercial Code (HGB) 101

Dependency report 103

Remuneration report 104

Transparency in Wage Structures Act Sections 21 and 22 113

Responsibility statement 114

KRONES at a glance

Business model, business areas, and organisational structure

KRONES offers machinery and systems for bottling and packaging and for beverage production. Innovative digitalisation and intralogistics solutions complete our portfolio. KRONES customers include breweries, beverage producers and companies from the food, chemical, pharmaceutical, and cosmetic industries. Services are an important part of KRONES' business model. The company maintains service centres and offices around the world.

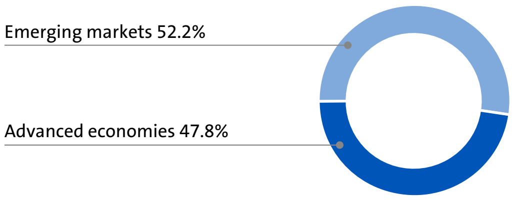
KRONES reports on two segments: **Machines and Lines for Product Filling and Decoration** and **Machines and Lines for Beverage Production/Process Technology**. The Machines and Lines for the Compact Class segment, which was reported on separately until 2017, was made part of KRONES' core segment **Machines and Lines for Product Filling and Decoration** with effect from 1 January 2018.

Major markets and competitive position

Customers in the beverage industry account for most of KRONES' revenue. The remaining revenue comes from business in non-beverage sectors (food, dairy, chemicals, pharmaceuticals and cosmetics).

KRONES is heavily export-oriented, generating around 90% of consolidated revenue outside Germany. The regional breakdown of revenue is well balanced overall. KRONES generated around 47.8% of its revenue in industrialised countries and around 52.2% in the rapidly growing emerging markets in 2018.

KRONES group share of consolidated revenue 2018



Apart from a few large companies that are part of a corporate group, KRONES competes with a number of companies that offer only individual bottling and packaging products. Most of our main competitors are based in the euro area. Chinese manufacturers primarily compete against KRONES for orders on their home market.

As a full-service provider, KRONES is able to distinguish itself from most of its competitors. Our global service portfolio, which enables us to provide fast service to customers on-site, is a crucial advantage. Overall, KRONES is the world's leading manufacturer of bottling and packaging equipment.

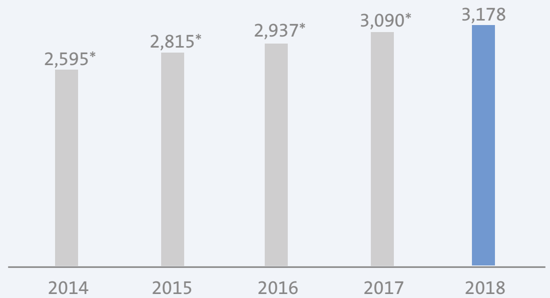
Machines and Lines for Product Filling and Decoration

This is by far KRONES' largest segment. It offers machines, lines, and solutions for filling, labelling, packaging, and conveying products. Machines for producing PET containers and converting used plastic bottles into food-grade recycled material (PET recycling systems) are also part of this segment.

- Product treatment technology
- Systems engineering
- Labelling technology
- Inspection technology
- Filling technology
- Cleaning technology
- Plastics technology
- Packing and palletising technology
- Conveyor technology

See also Segment report, pages 79 and 130.

Revenue (€ million)



	2018	2017*
EBT (€ million)	223.3	263.3
EBT margin (%)	7.0	8.5
Employees**	13,986	13,237

* incl. Machines and Lines for the Compact Class
** Consolidated group

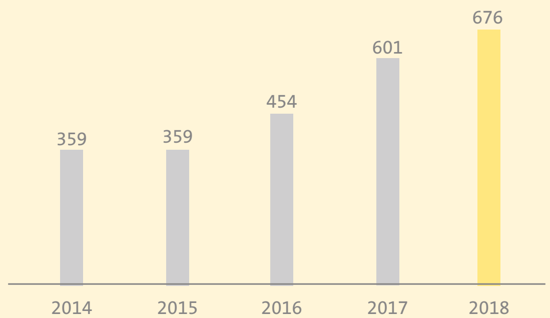
Machines and Lines for Beverage Production/Process technology

This KRONES segment supplies customers with machines, lines, and digitalisation solutions for producing and processing beer, soft drinks, fruit juices, milk, and dairy drinks. Beverage Production/Process Technology also includes intralogistics products and services offered by the subsidiaries SYSTEM LOGISTICS, SYSKRON and TRIACOS as well as EVOGUARD brand components.

- Brewhouse and filtration technology
- Digitalisation
- Information technology
- Intralogistics

See also Segment report, pages 81 and 130.

Revenue (€ million)



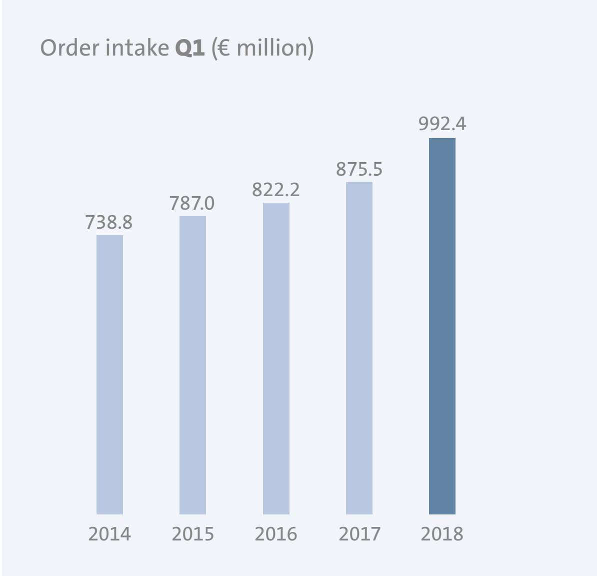
	2018	2017
EBT (€ million)	−19.0	−4.5
EBT margin (%)	−2.8	−0.7
Employees**	1,990	1,512

*Consolidated group

First quarter 2018

The figures for the first quarter of 2018 were good overall. Revenue was down 0.9% year-on-year, to €891.7 million. Order intake climbed 13.4% to €992.4 million. Earnings before taxes decreased 14.8% to €56.2 million due to a one-time effect within personnel expenses.

Prices on the stock exchanges were volatile in the first quarter. After a strong start of the year, fears of rising interest rates and a trade war were responsible for a period of volatility on the markets. Between January and March the KRONES share price developed much like the market as a whole. Overall, our share price declined by 4.5% during the first quarter.



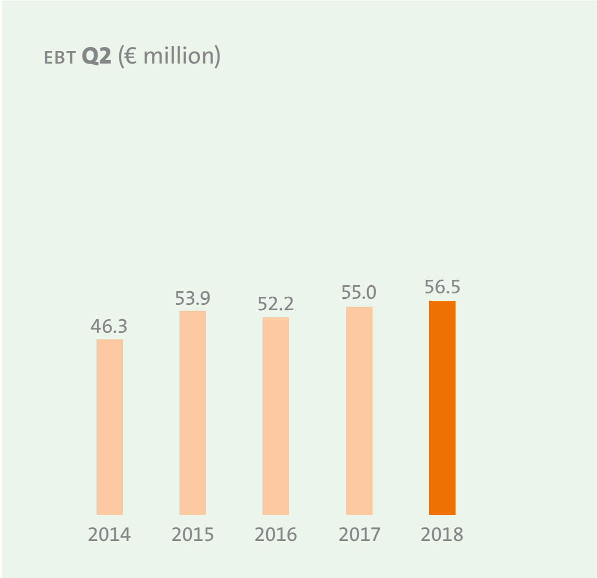
Second quarter 2018

At the end of April, KRONES announced a price increase for all bottling and packaging equipment and for process technology by an average of 4.5% with effect from 1 May. The price increases were necessary in order to continue providing customers with innovative products and services at top quality despite rising material and labour costs.

The KRONES Annual General Meeting was held in Neutraubling on 13 June. An important item on the agenda was the re-election of the Supervisory Board, which now consists of 16 members instead of the previous 12. The shareholders elected the eight shareholder candidates for nomination to the Supervisory Board by a large majority.

With effect from 18 June, KRONES switched from the MDAX index to the SDAX. This was due to a low volume of trading in our shares. The change of index did not have a lasting impact on our share price. In total, the KRONES share price rose between April and June by 1.2% to €110.70.

Second-quarter business performance was in line with expectations. Revenue increased between April and June by 2.7% compared with the previous year to €899.1 million, while order intake went up by 13.1% to €1,022.4 million. Earnings before taxes grew 2.7% to €56.5 million.



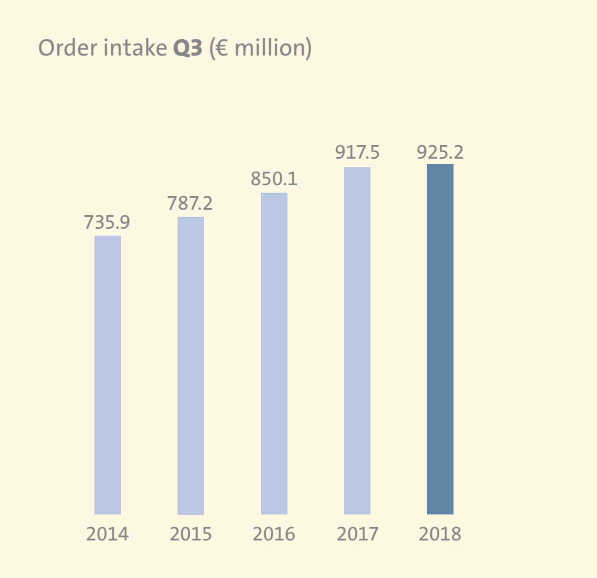
Third quarter 2018

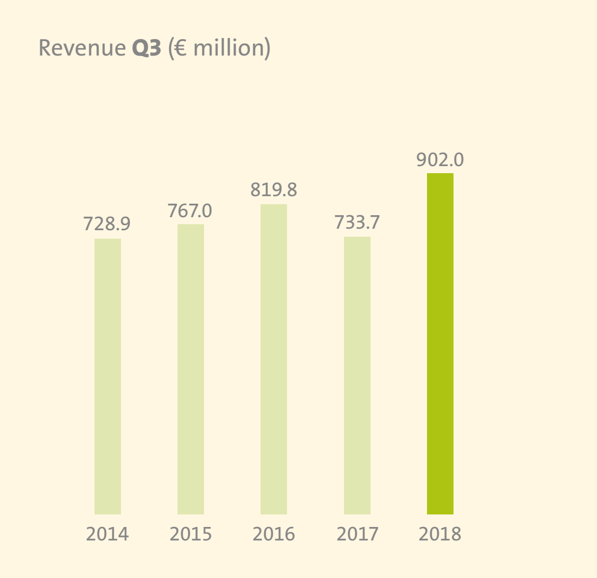
On September 3, CEO Christoph Klenk welcomed 97 young people who were beginning their training at the Neutraubling plant. A further 44 trainees started their careers on the same day at the four other KRONES locations across Germany.

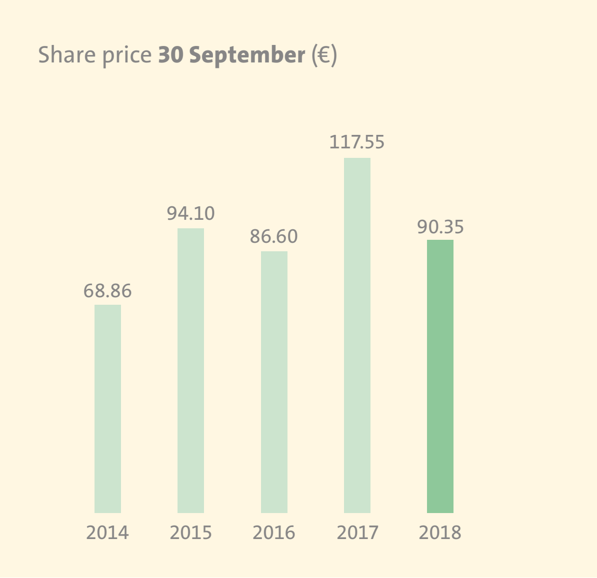
On 18 September, KRONES held a Capital Market Day at the STEINECKER plant in Freising. We provided analysts with information about new developments in process engineering and about our digitalisation strategy.

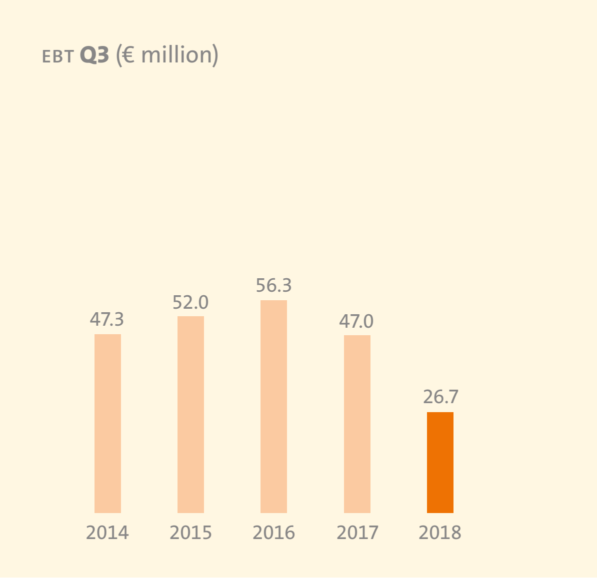
KRONES' revenue from July to September went up by 22.9% on the prior-year figure – which was low due to timing – to €902.0 million. Order intake increased by a slight 0.8% to €925.2 million. Earnings before taxes decreased 43.2% to €26.7 million due to expenses for reorganisation.

Our share price performed poorly in the third quarter, falling by 18.4% between July and September. One reason for this was a general aversion among investors towards shares in the mechanical engineering sector.







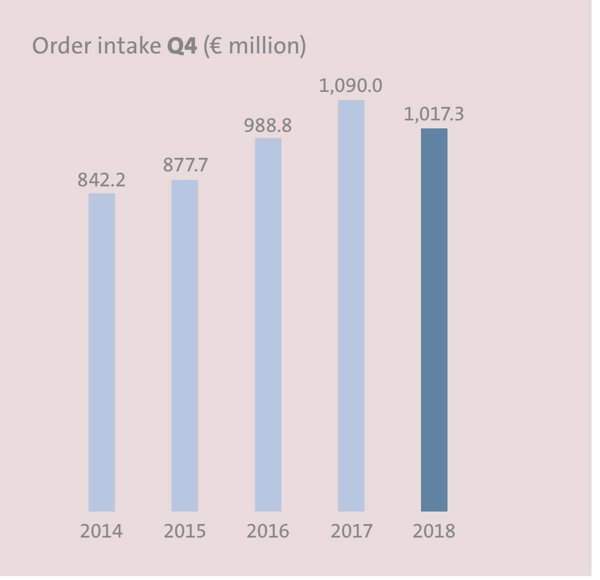


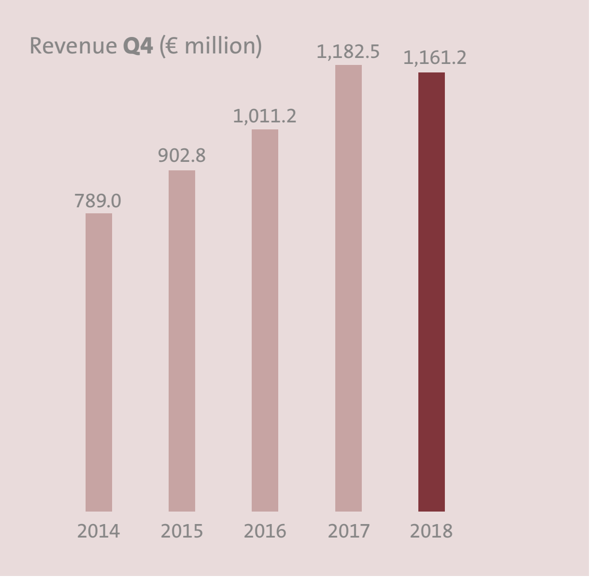
Fourth quarter 2018

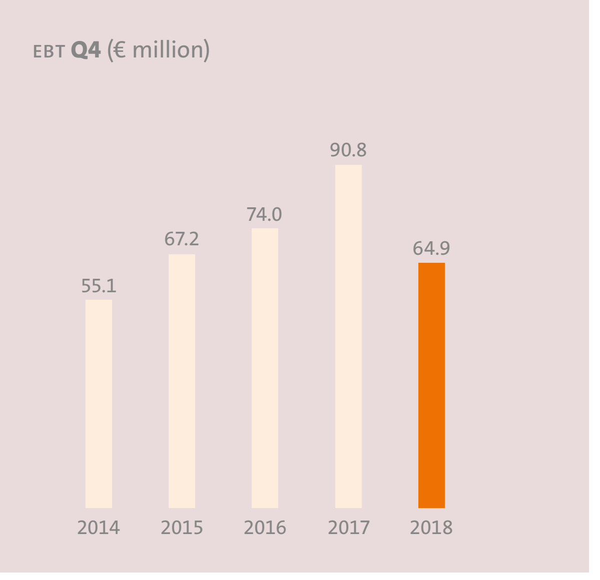
KRONES took part in a number of major international trade fairs during the autumn. From 6 to 8 November, the company exhibited at Gulfood, Dubai, one of the most important trade fairs for the food and beverage industry in the Middle East. BrauBeviale, the most important capital goods exhibition for the beverage industry, took place in Nuremberg from 13 to 15 November. KRONES presented innovations from its product and service range.

On 24 October, KRONES lowered its revenue and earnings targets for 2018. In addition, the company announced that its medium-term targets would be achieved later than expected. This news had a negative impact on the KRONES share price. Our shares lost 25.3% in value over the fourth quarter.

As expected, order intake and revenue in the fourth quarter of 2018 did not quite match the high levels recorded in the previous year. KRONES generated EBT of €64.9 million from October to December 2018 (previous year: €90.8 million).







Systems and Lifecycle Service – **performance matters**

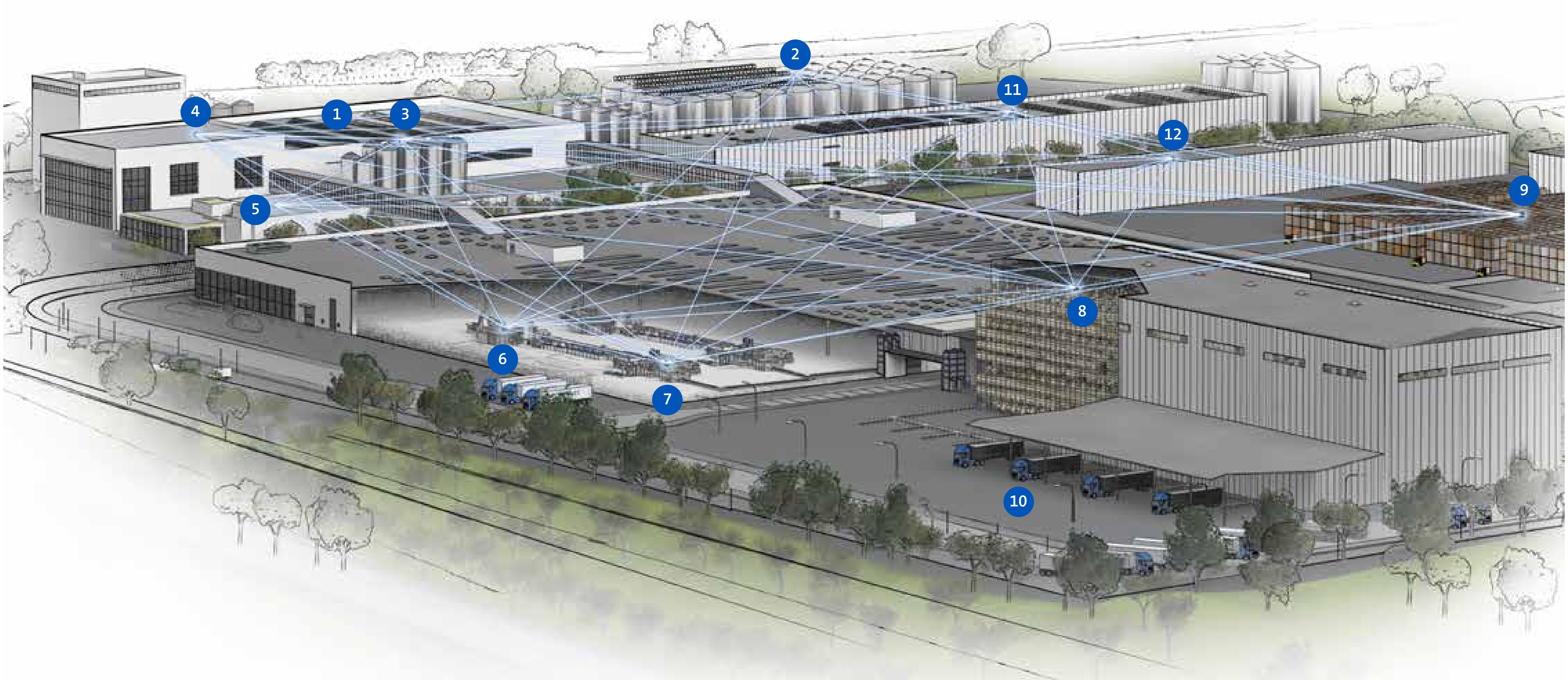
KRONES delivers turnkey plants to the beverage and liquid food industry. We use our unique mix of expertise to keep our customers' investment and operating costs low. Also important is that we enable customers to produce reliably and at the highest level of quality.

We deliver all machines and lines needed for producing, filling and packaging beverages. We also provide complete logistics systems, supply and disposal systems, and custom IT and digitalisation solutions that manage and document all production processes.

In addition, we support our customers with excellent, 24/7 after-sales service. This is crucial to ensuring that beverage plants deliver consistently high performance. KRONES' lifecycle service (LCS) experts are not just service providers – they are partners to our customers. Together, we find the best solutions for achieving production that is efficient, secure, reliable and cost-effective. Our LCS team provides optimum maintenance and retrofitting as well as expert consulting as a Partner for Performance.

The following model of a complete beverage plant provides a brief overview of our portfolio.

LCS Partner for Performance



1. Brewhouse (malt silo, mash tun, lauter tun, wort kettle, whirlpool, and wort chiller)
2. Fermentation and conditioning tanks and filters
3. Conditioning and production tanks
4. Administration
5. Laboratories
6. Bottling hall
7. Packing and palletising machines
8. Fully automated high-bay warehouses
9. Manual warehousing system
10. Order-picking and distribution
11. Heat, cooling, compressed air and energy supplies
12. Disposal systems

Strategy and management system

"We are in a challenging market. This was plain to see last year. It is also a market with huge opportunities. This is why we are sticking to our medium-term goals, even if they are ambitious."

Christoph Klenk
CEO

KRONES' markets show relatively stable growth. Long-term, growth rates are expected to be above global GDP growth. Besides our big competitors, a number of smaller providers also contend for orders. However, most of these competitors offer products relating to subsegments of beverage production, filling and packaging, or are only focused on specific regions.

KRONES is very well positioned with its full global portfolio of products and services. We provide customers from the liquid food industry with everything they need from a single source, from beverage production to filling to packaging. Intralogistics solutions, information technology and high-level after-sales service complete the portfolio. KRONES aims to defend its strong market position in the core bottling and packaging equipment segment and to significantly improve its position in process technology/beverage production.

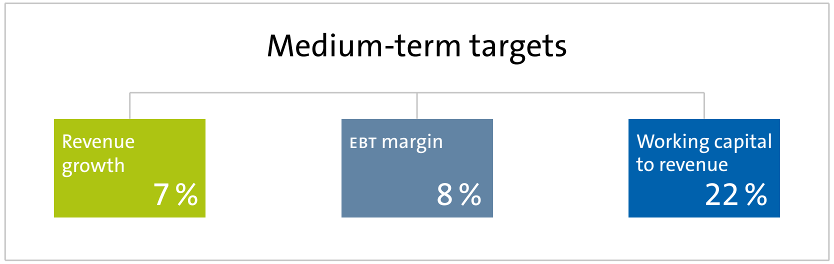
Just as the market harbours opportunities, KRONES also faces major challenges. Political uncertainties, trade conflicts and economic crises in individual countries and regions create for unpredictability. Competition for orders will remain intense, as competitive pressures are not easing. On the customers' side, mergers and acquisitions result in enhanced buying power and sometimes delay investment.

The ongoing digitalisation and integration of production are also increasingly changing our market and business models and requires investments.

7/8/22 medium-term target unchanged

KRONES has set itself ambitious medium-term financial targets to consolidate its market position. 7/8/22 stands for:

- 7% average revenue growth per year
- 8% EBT margin
- 22% working capital to revenue ratio



Due to various challenges, however, such as continuously rising material and labour costs and ongoing heavy investment in the future of the business, it will take longer for the medium-term targets to be attained.

The medium-term targets are unaltered. However, KRONES will take longer to attain them.

Leveraging market opportunities

KRONES will make targeted use of its market opportunities.

For KRONES to grow at a faster pace in the medium term than the global economy, which on IMF estimates is expected to show growth of about 3.5% in 2019 and 2020, we must make targeted use of market opportunities. KRONES is therefore expanding in markets where beverage consumption shows above-average growth – most of all in Africa and Asia. A further growth driver is rapidly growing product diversity. Both beverage products and packaging are becoming increasingly diverse. Customers demand versatile machines and lines in response. KRONES aims to profit from this attractive market segment with its technologically sophisticated products.

Alongside internal initiatives, acquisitions will also continue to contribute to growth. We made a number of further acquisitions last year, primarily in process technology. Just as important as acquiring companies is their rapid integration. We aim to step up the further development of acquisitions in the KRONES Group in order to promote 'bought-in' internal growth. In the medium term, around 2% of annual revenue growth is planned to come from acquisitions.

Innovation secures future growth

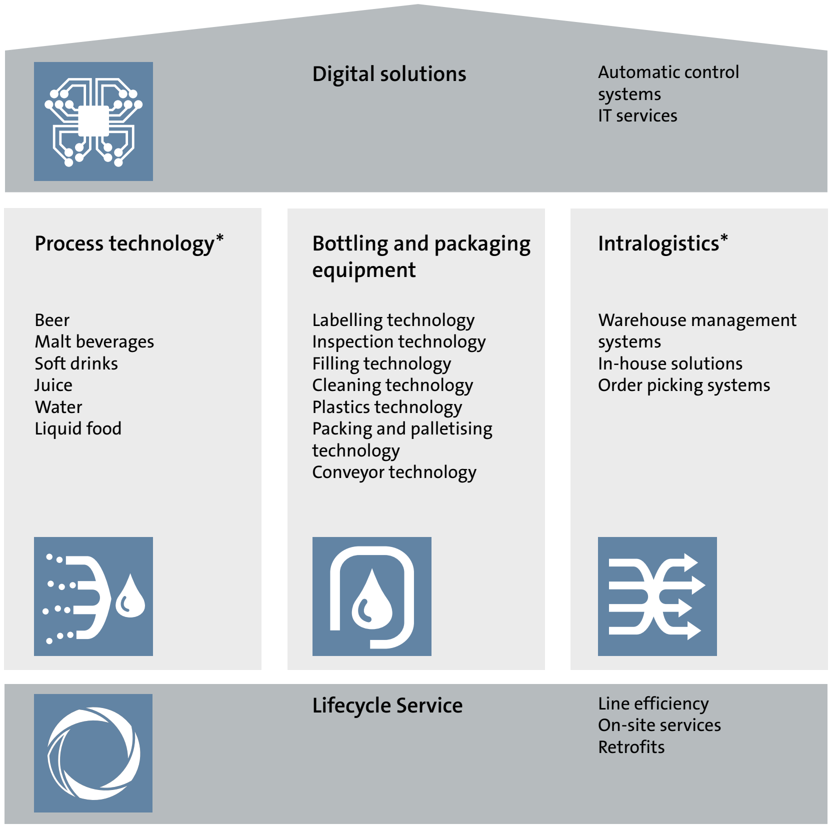
Innovation is the foundation for sustainable growth at KRONES. Our customers are a source of ideas for new products and services. Equally, our workforce are known for their innovativeness. For KRONES, customer benefit takes first priority in all innovation (*see R&D, p. 53*). Not only do we seek to score with new products in the three key areas of process technology/beverage production, filling/packaging and intralogistics, we also aim to harness innovative after-sales service together with IT and digitalisation solutions for our growth targets.

One of our strengths lies in the long-term orientation of our innovation strategy. It frequently takes several years for our products to become established and capture the market. This requires persistence. But persistence pays, as plenty of examples demonstrate. An example is our extremely space-saving, high-performance ErgoBloc L, which we first presented at drinktec in 2011 and which, after a certain lead time, ultimately became a best seller. We already shipped our 250th ErgoBloc L in 2018. Our aseptic portfolio, which we have been building with new developments for several years, is now likewise gaining momentum. This is exemplified by the Contiform AseptBloc, which major customers are increasingly ordering and which we intend to position in the Asian and US markets this year.

Another key element of KRONES' innovation strategy is the establishment of an innovation network. Working in close cooperation with universities, research institutes and start-ups, we aim to develop products and solutions for the digitalisation of the beverage industry. Product innovations are no longer created in isolation inside development departments, but in open networks incorporating expertise from other industries and disciplines.

Expanding our global footprint in the House of KRONES

With the "House of KRONES", KRONES has tailored its business model to customer needs and to the state-of-the-art beverage plant.



We aim to further strengthen our core **bottling and packaging equipment** segment. For this, we are going to expand our global footprint and increase international value creation. A key step in this is our new production location in Debrecen, Hungary. There, we plan to assemble components, primarily for conveyor technology, with a 500-strong workforce from the second half of 2019.

*The two pillars Process Technology and Intralogistics comprise the Machines and Lines for Process Technology segment

We will rapidly bring the capacity added at our facility in Taicang, China, to full utilization in the coming years. This will increasingly enable us to supply the Chinese and Asian markets from the region.

Bottling and packaging equipment, as the highest-revenue pillar in the House of KRONES, is expected to grow further and will benefit from the increasingly demanding of customer requirements. These primarily relate to high system efficiency and flexibility. KRONES is well positioned here with its technologically advanced products.

KRONES takes the debate about plastic packaging very seriously. We have consequently provided lines for high-quality PET recycling for many years. We have ten systems already in operation at customers, and we continue to expect brisk demand. As well as being a pioneer in PET recycling lines, KRONES also leads in the economical utilisation of plastics in the bottle production and the packaging technology.

The **process technology** pillar of our business is set to grow further in the medium term with significantly improved profitability. We intend to improve order quality and hence profitability in the high-revenue breweries business. Expanding local capacity will enable us to respond even better to market needs. A further key to this segment's long-term success lies in expanding its regional structure and establishing international hubs. Medium-sized and smaller orders in particular – which we plan to focus even more in the future – can be met more quickly and more cost-effectively from a regional base. This extends all the way from quotation, purchasing and engineering through to assembly and management. We plan to establish all of these capabilities in our hubs around the world. The acquisitions of W.M. SPRINKMAN CORP., TRANS-MARKET and JAVLYN in the USA give us a strong presence in this segment in North America. We are well positioned in process technology in China following the acquisition of SHANGHAI XIATONG EQUIPMENT. In the medium term, we also plan acquisitions to strengthen our presence in other regions.

Innovations that create added value for customers are the basis for sustained profitable growth.

The **intralogistics** part is a further key pillar in the House of KRONES and an important element of the digital beverage plant. This is an important area for our customers because it allows them to control better the complexity in their products and optimise material flow management. Intralogistics also helps to manage and distribute the increasing number of different packaging variants.

KRONES is well positioned in intralogistics with SYSTEM LOGISTICS and our in-house specialist for sophisticated intralogistics projects. In order to exploit the market's strong growth opportunities, KRONES intends to further expand both its international reach and its product portfolio in this area.

Actively shaping the digitalisation of the beverage plant

The digitalisation of beverage plants offers huge opportunities in the medium to long term. KRONES is in a very strong position as a full-service supplier, as we are able to capture the material and data flows along a customer's entire production process. The captured data can be used to develop new LCS products and services that create sustained added value for customers. An example is predictive maintenance of machines and systems using sophisticated data analysis. This avoids customers expensive downtime, as production data analysis enables problems with components to be detected at an early stage.

We pool our digitalisation capabilities in our subsidiary SYSKRON. This now has a workforce of some 180 employees, who use the latest technologies to develop digitalisation solutions for the beverage industry that create measurable added value for customers. Connected Line is an excellent example.

KRONES is forging ahead with digitalisation. Share2Act and Connected Line are prime examples.

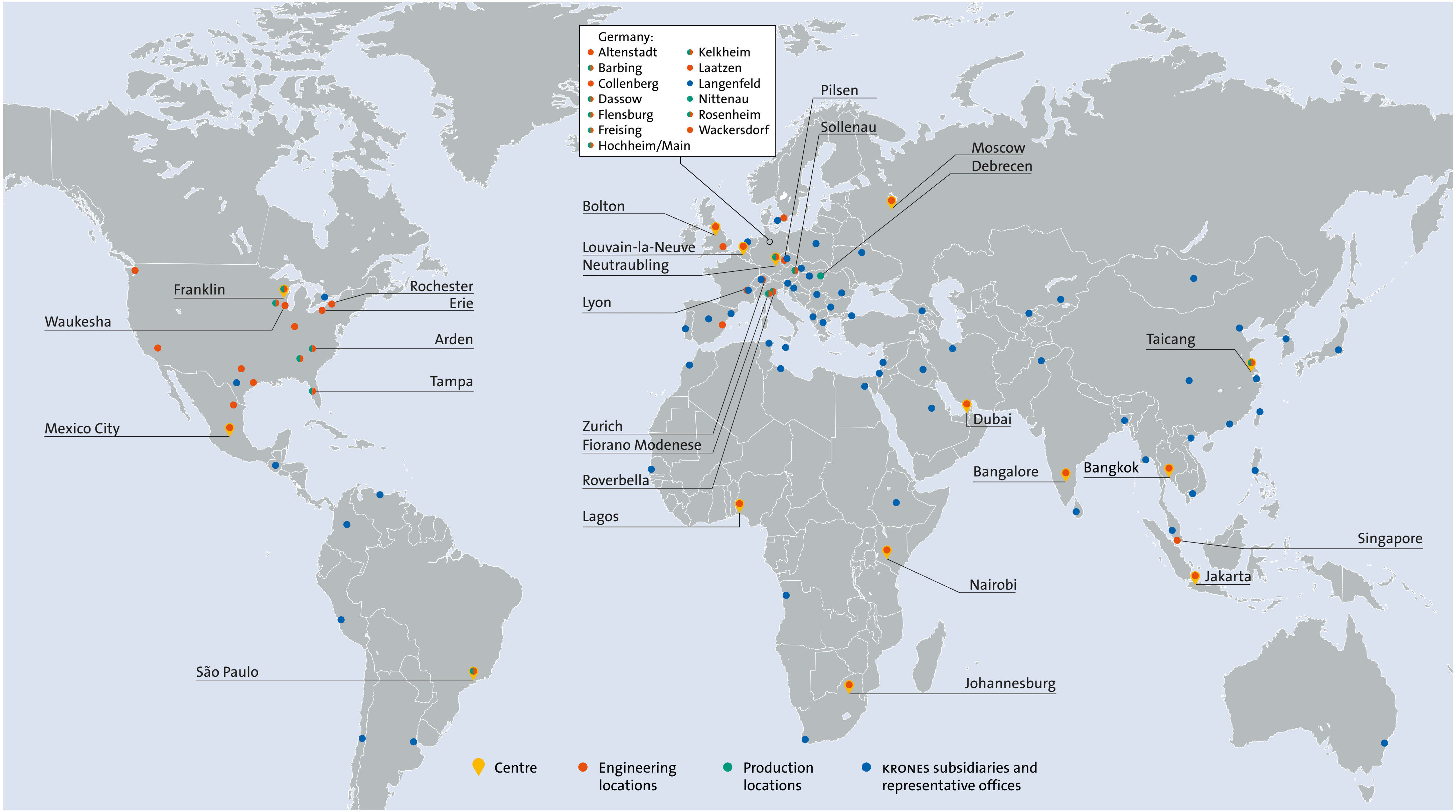
The digitalised line provides both operators and KRONES with valuable information round the clock, thus enabling improvements in system efficiency. Our Share2Act platform – a network linking all employees, machines and IT systems involved in production – helps streamline customer processes, shorten lines of communication and reduce downtime.

The company will maintain its high level of investment in digitalisation going forward. SYSKRON and its agile subsidiaries will continue to develop attractive software solutions and viable digital business models and establish them as quickly as possible in the food and beverage industry.

Price increases and expansion of the company's global footprint to enhance profitability

We did not achieve our profitability targets in 2018. The main reason for this was the more rapid increase in personnel and material expenses. Expenses for reorganisation and acquisitions also had a negative impact on earnings. Cost of materials went up because the booming economy enabled suppliers to push through substantial price rises. At the same time, selling prices in the markets served by KRONES have remained stable for years. To continue delivering innovative products and services at top quality despite increasing material and labour costs, Krones raised the prices for all bottling and packaging machinery and for process technology by an average of 4.5% as of 1 May 2018. These price rises are necessary in order to partially offset the cost increases.

KRONES' global footprint



Expansion of our global footprint is essential for KRONES to deliver sustained improvements in profitability.

Despite the setback in 2018, KRONES plans to raise profitability in the years ahead. Also expanding our global presence in bottling and packaging equipment is an important part of this process. We currently generate a small share of added value outside Germany, even though almost 90% of revenue comes from abroad. Establishing a supply chain in China and Hungary will enable us to reduce personnel and material costs in the medium term.

With the next stage in modularising the products in our core segment we want to reduce the substantial rise in the prices we pay for materials. Firstly, we will further increase modularisation and thus reduce the complexity of our machines and lines. That should result in a lower material cost input. Secondly, we will simplify the design of our modules so that local suppliers will also be capable of meeting our requirements in the medium term. That will increase competition and should lead to more attractive purchase prices.

Our service business is important to the profitability of KRONES. Nearness to customers is the key success factor here. We will therefore further reinforce our global network of service and sales offices. The challenge for KRONES here is recruiting and retaining enough well-qualified people from local regions. KRONES is consequently investing significantly in training and development for local employees in order to counter the relatively high employee turnover rates in emerging markets.

Strong growth investment in Germany and internationally

KRONES will continue to invest substantially in its operations at home and in its global footprint.

To remain competitive for the long term, KRONES must invest – both in its German locations and in its global footprint. In Germany, we intend to invest around €190 million in the next few years. We plan to digitalise and automate internal production operations, processes, organisation and logistics as far as possible for substantial gains in productivity and efficiency. As the high level of investment in Germany shows, Germany remains KRONES' central location for the development of innovative machines, lines and services.

However, we also plan substantial investment abroad. In addition to the new factory in Hungary, which has already been mentioned, we also continue to expand our international service centres and engineering hubs.

Security from healthy financial and capital structure

KRONES continues to have a sound financial and capital structure, with net cash and cash equivalents totalling €215 million and an equity ratio of 43.2%. The company has sufficient capital and financial headroom to finance growth investment and potential acquisitions and to provide shareholders with their share of the company's success in the form of dividends. Our dividend strategy is to pay out 25% to 30% of consolidated net income to shareholders.

Improved working capital management

KRONES is not satisfied with performance towards our third target, working capital as a percentage of revenue. This came to 27.3% in 2018, which in short of our 22% target. We consequently aim for progress in working capital in the years ahead and have defined short and medium-term measures for this purpose. This comprises larger customer downpayments, faster completion of on-site assembly and optimised inventory management. All this is for reducing the ratio of working capital to revenue. Less capital tied up in the operating business means more capital for investment. For each percentage point by which we improve this ratio, our liquidity improves by around €40 million.

Workforce the foundation of lasting success

Our workforce is the key for the success of KRONES. They are responsible for customers' satisfaction with our products and services.

KRONES consequently invests significant in training and employee development. But we also need to make even more efficient use of the knowledge and the networks that are already there within the KRONES Group. Every decision that is delayed and every piece of information that is lost costs valuable time. By using direct communication channels, we succeed in keeping up with rapid change in globalised and digitalised markets.

KRONES will continue to expand the international workforce in the coming years in order to use market growth opportunities. We specifically plan to step up recruitment for KRONES in the emerging markets. With our training centres in Africa, China and South America, we already have a good basis in this regard. The more people we recruit for our international locations from local regions, the closer we are to our customers and markets. This allows us to identify trends and developments at an early stage and so increase customer satisfaction.

Employees in the emerging markets 2013 – 2018

Year	South America	Africa	Asia-Pacific	CIS/Eastern Europe	China	**Total**
2013	485	339	400	132	325	**1,681**
2014	501	363	453	136	385	**1,838**
2015	519	376	502	147	451	**1,995**
2016	549	386	602	155	508	**2,200**
2017	581	393	734	172	608	**2,488**
2018	637	452	830	213	716	**2,848**

KRONES will also continue to invest in the workforce in Germany and Western Europe. Workforce growth in this region will be at a lower rate, however.

KRONES' management system

KRONES' management primarily uses the following financial performance indicators to steer the group and its two segments:

- Revenue
- EBT margin (earnings before taxes in relation to revenue)
- Ratio of working capital to revenue

In order to strengthen our market position and utilise economies of scale, we aim to achieve revenue growth above the market average.

Earnings before taxes (EBT) are an important earnings indicator. Out of EBT, the group pays taxes and dividends and makes investments and capital expenditures. Profitability, measured as the **EBT margin**, is among our key targets and parameters. The EBT margin indicates the company's profitability in relation to revenue. For the group, we calculate the target margin as the weighted average of the two segments.

Our third major performance indicator is **working capital to revenue**, which is calculated at group level. Working capital is calculated as follows: (inventories + trade receivables + prepayments) – (trade payables + advances received). The result indicates how much capital is needed to finance the generation of revenue. The lower the number, the less capital is tied up in operations and, thus, the more financial possibility the company has to use its cash and cash equivalents for other purposes.

Other financial key performance figures

In addition to the above, a further important performance indicator for KRONES is **EBITDA**, which is earnings before interest, taxes, depreciation and amortisation. We take further guidance from the development of **free cash flow** (cash flow from operating activities less cash flow from investing activities) and **ROCE** (return on capital employed, the ratio of EBIT to average capital employed).

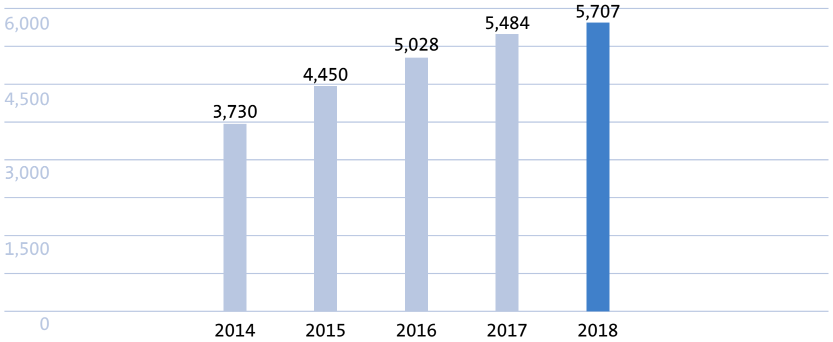
Research and development (R&D)

- 4.6% of revenue invested in R&D
- Focus on customer benefit
- Digitalisation a key priority
- Attractive products reflect KRONES' innovative capacity

Innovative products that create added value for customers are the basis of our future business success. Some 2,300 highly qualified people at KRONES keep the pipeline filled with new and evolving machines, systems and services. The portfolio of registered patents and utility models grew from 5,484 in the previous year to 5,707 at the end of 2018. This underscores the innovative capacity of the KRONES team. A total of €179 million (previous year: €172 million) was invested in research and development in the reporting period. That corresponds to 4.6% of consolidated revenue. Of this total, €38.5 million was capitalised as development costs in 2018 (previous year: €39.8 million).

KRONES invested approximately 4.6 % of consolidated revenue in research and development in 2018.

Registered patents and utility models – KRONES Group



Innovation focused on customer benefit

When developing new products, our prime focus is on market needs. Our sales force and engineers have excellent contacts with customers. We consequently have very good knowledge of customer requirements. Our House of KRONES also provides us with a 360-degree view of customers' needs and expectations. We feed this knowledge into the innovation process in order to identify suitable development projects. Employees from a wide variety of disciplines then follow these through as swiftly as possible.

The market essentially demands machines and lines that:

- Cut operating costs
- Increase output
- Improve flexibility
- Simplify operation.

Low operating costs on machines will continue to be an important issue for customers. Efficient machine block arrangements play a major role in this regard. Combining machine functions permits us to make our lines more compact. That saves customers space and time. The LinaFlex Compact pasteuriser is a good example.

A key parameter in achieving higher output is low downtime. New digital technologies allow us to provide services such as predictive maintenance. This enables us to increase line availability and hence performance.

With the increasing diversity of products and packaging forms, flexibility is another important decision criterion. Many customers want to be able to process the greatest possible variety of beverages and packaging forms on a single line. That requires flexible machines and lines that can be changed over quickly.

Our LineXpress system largely automates product changeover during filling. Smaller and smaller batch sizes are being produced on a single line with a single beverage before changing over. KRONES has pushed the envelope as far as it can go here by reducing the smallest possible batch to a single unit. Our bottling on demand proof-of-concept study presented at drinktec in 2017 continues to generate strong customer interest. The ultra-flexible line can fill and directly print various PET containers – each with a different product, size, and design – at the push of a button or by way of an app-based ordering system.

Ease of operation is increasingly important to our customers. In the future, our systems will therefore have to feature technologies that massively simplify operation, maintenance and care. Ultimately, digital technologies will make for systems that are self-integrating, self-diagnosing and self-repairing.

Huge opportunities in digitalisation

New technologies make it possible to create a digital simulation of an entire beverage plant. This enables us to more fully unlock potential along the entire value chain and create measurable added value for customers in the food and beverage industries.

Transforming existing technologies for the digital age

KRONES has a very strong portfolio of products and services. In order to further build on our high standards, we must think ahead and complete the transformation to the digital age as soon as possible. To this end, we are combining the know-how of our workforce with new technologies such as cloud computing, big data and the Internet of Things (IoT). This results in innovative products that provide significant added value for customers – such as Share2Act, our dynamic software platform.

Innovation networks accelerate product development

Product innovations are no longer created in isolation inside development departments, but in open networks incorporating expertise from other industries and disciplines. By collaboration between various corporate units and customers, suppliers and research institutes, we aim to minimise the time needed to develop and launch innovative products.

For this purpose, KRONES is setting up an innovation network on the TechCampus in Regensburg. The aim here is to collaborate with the University of Regensburg, Regensburg University of Applied Sciences and other innovation partners on the development and implementation of solutions for the beverage industry, primarily in the fields of digitalisation, information technology and IoT. We already pursue this approach with our InnovationLab, which is also located on the TechCampus. Through our subsidiary SYSKRON, we implement targeted investment in these areas.

Commitment to sustainability: Ten years of enviro

KRONES made the decision to introduce the enviro sustainability programme in 2008. A TÜV-certified management system, enviro is an integral part of the product development process at KRONES. An objective of all KRONES innovations is to reduce energy and media consumption on our machines and lines. As a result, all new KRONES machines are state-of-the-art in terms of efficiency and environmental performance.

On the following pages, we present a selection of innovations in greater detail. After drinktec 2017, where KRONES showcased an above-average range of new products and services, the focus in the follow-up year has been on implementation.

Contiform 3 Speed

The new Contiform 3 Speed further enhances added value for KRONES customers. Unlike on a conventional stretch blow-moulding machine, where the two mould halves are held together during the stretch blow-moulding process by a pressure pad in the mould carrier, the same task is performed on the Contiform 3 Speed by a redesigned locking mechanism. Eliminating the pressure pad means that larger bottles can be produced without increasing the dimensions of the blow module and the machine.

KRONES has combined the advantages of a smaller blowing wheel and machine size with further improvements. This makes for substantial gains in machine output. The Contiform 3 Speed can produce up to 2,750 containers per station per hour – about 10% more than comparable machines – while consuming less energy.

MetaPure washing module for polyolefins

The KRONES MetaPure PET recycling line is well-established on the market. Now we have developed MetaPure W-PO, a special washing module for polyolefins. The main polyolefins are polypropylene and polyethylene. These account for about 50% of the market in plastic packaging. To put that in context, PET has a market share of about 2.5%. This underscores the huge potential in recycling polyolefins.

The washing process is always key to the quality of recyclate obtained from a recycling process. As polyolefins have very different physical properties to PET, we had to adapt the process with regard to washing. However, the overall concept continues to be based on our extensive experience in PET washing technology.

LineXpress

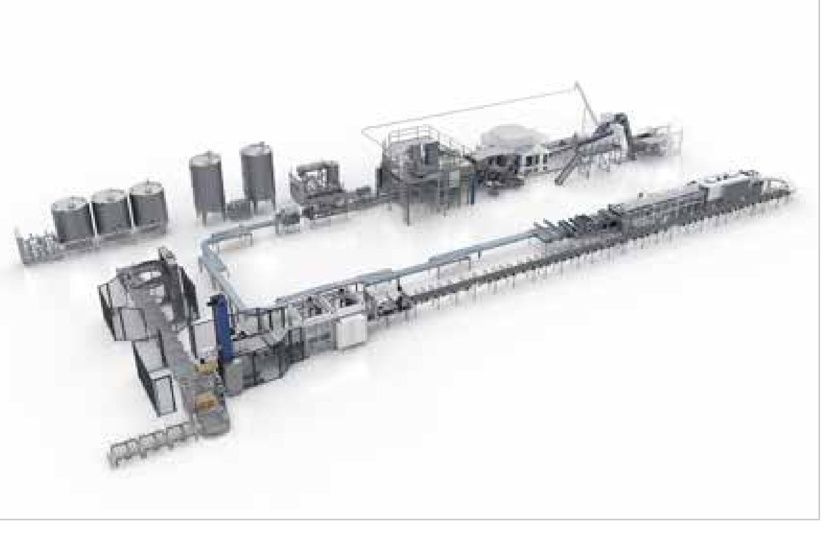
Fast product changeover is critically important for customers. LineXpress enables PET bottle fillers to change their line over to other products, grades, formats and containers extremely quickly. The range consists of a selection of automation components. Together with the machines on the filling line, these control the changeover process and assist the line operator.

Automation components from KRONES' LineXpress range are available for packers, fillers and blow moulds. Switching out blow moulds, for example, is the job of the MouldXpress Robot module. This changes over the blow moulds on the Contiform 3 Pro almost fully automatically in less than 15 minutes. The outcome is reduced downtime and increased system output.

LinaFlex Compact

LinaFlex Compact supplements the KRONES pasteurisation portfolio at the lower end of the output range. This pasteuriser is delivered completely pre-installed in one piece and offers easy plug-and-play setup. Connection to an existing line and all media together with commissioning are completed in a matter of days.

Technically, the LinaFlex Compact is based on the proven KRONES pasteuriser technology. It is contained in a compact machine housing. That saves customers valuable space. The machine also features a newly developed spray nozzle system that requires less pumping power and so reduces energy consumption.



Aseptic bloc for the lower output range

Beverage manufacturers all over the world use KRONES aseptic lines for bottling sensitive beverages. Our customers value the flexibility, reliability and performance of our aseptic systems portfolio.

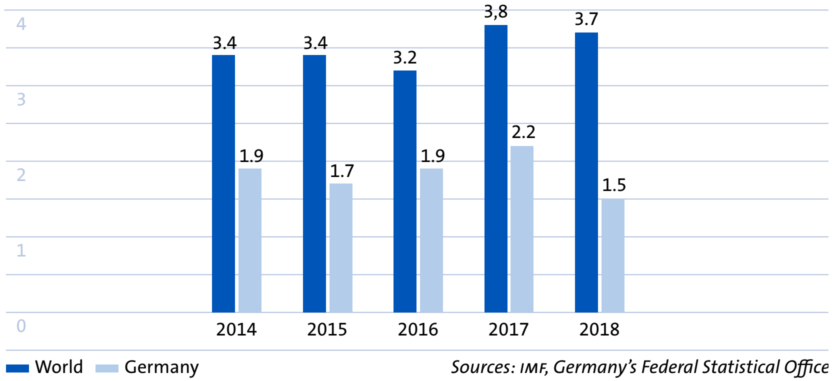
The lower output range, with filling capacities of less than 24,000 bottles per hour (bph), has so far been handled with bottle sterilisation, which is a tried and tested process. Thanks to various adaptations, we are now able to serve the large market for aseptic filling systems in this performance range with innovative preform sterilisation technology. This means that an end-to-end bloc solution from blow-moulder to filler – as KRONES has successfully offered for years in the larger output range – can be provided for capacities as small as 12,000 bph.

With this innovative approach, KRONES has closed the gap between the smaller and larger output range in aseptic filling systems, and at attractive prices.

Economic environment

- Global economic growth weaker than expected
- German mechanical engineering production up 2% year-on-year in 2018
- Rising global demand for packaged beverages

GDP growth (%)



Sources: IMF, Germany's Federal Statistical Office

Trade conflicts slow global economic growth

The pace of global economic growth slowed slightly in 2018 compared with the previous year. According to data released by the International Monetary Fund (IMF) in January 2019, global gross domestic product (GDP) grew by 3.7% in the reporting period (2017: 3.8%). The IMF had originally forecast growth of 3.9% for 2018. World trade and growth were slowed down in the momentum by the trade conflict between the USA and China. Fears of a No deal Brexit and the problems of the automotive industry in Germany additionally had a negative impact on the overall economy in Europe.

GDP growth in emerging and developing economies continued to outpace other markets in 2018 but was nonetheless weaker than anticipated at 4.6% (2017: plus 4.7%). Chinese economic growth was particularly disappointing. GDP there rose 6.6% in 2018 (previous year: plus 6.9%). That was the weakest growth in China for nearly 30 years. Economic activity in Latin America also lost momentum. There, GDP gained only 1.1% (previous year: plus 1.3%). Growth in the Middle East/North Africa (MENA) region accelerated in the reporting period to 2.4% (previous year: plus 2.2%).

GDP in mature industrialised economies improved by a total of 2.3% in 2018 compared with 2017 (previous year: plus 2.4%). Economic growth in the euro area slowed disproportionately to 1.8% (previous year: plus 2.4%). Despite the trade dispute with China, the US economy performed significantly better in the reporting period. One reason for this was lower taxes. US GDP rose by 2.9% in 2018 (previous year: plus 2.2%). In Japan, by contrast, GDP improved by just 0.9% (previous year: plus 1.9%).

German GDP grows 1.5% in 2018

According to preliminary figures from Germany's Federal Statistical Office, German GDP was 1.5% higher in 2018 than in the previous year. That made it the ninth consecutive year of GDP growth. The pace of growth was lower, however. In 2017, GDP growth had been 2.2%. The strongest momentum for growth in 2018 came from private consumer spending and business capital expenditure.

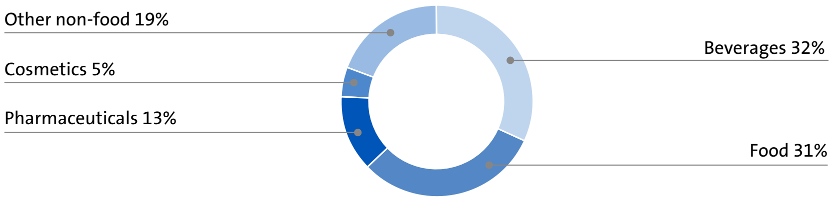
German machinery output growth weaker than expected

German machinery and industrial equipment manufacturers saw output decrease slightly towards the end of 2018. Output for the full year 2018 consequently fell significantly short of the Mechanical Engineering Industry Association (VDMA) forecast. On preliminary figures, production did not grow by 5% as predicted for 2018, but by just 2%. One reason for the weak fourth-quarter performance according to the VDMA consisted of capacity bottlenecks relating to material and labour.

According to preliminary figures, production in the food and packaging machinery subsector relevant to KRONES rose by around 6% year-on-year in 2018.

Demand for packaging machinery on the rise

Global market for packaging machinery by application in 2016



Source: VDMA estimate for 2016

Around two-thirds of the global demand for packaging machines comes from the food and beverage industry.

According to the VDMA, the global market for packaging machinery had a volume of €35.3 billion in 2016 (2015: €34.0 billion). Figures for 2017 and 2018 were not yet available for preparation of this 2018 annual report. However, VDMA forecasts suggest that demand for packaging machinery is likely to have continued to grow worldwide. In terms of total products packaged, the beverage industry is the largest single market for packaging machinery, with a share of 32%.

KRONES has conducted an analysis on the potential effects of Britain's withdrawal from the European Union (Brexit). Due to the fact that the KRONES Group does not produce in the United Kingdom, we foresee no material impact on our business model, financial position or earnings.

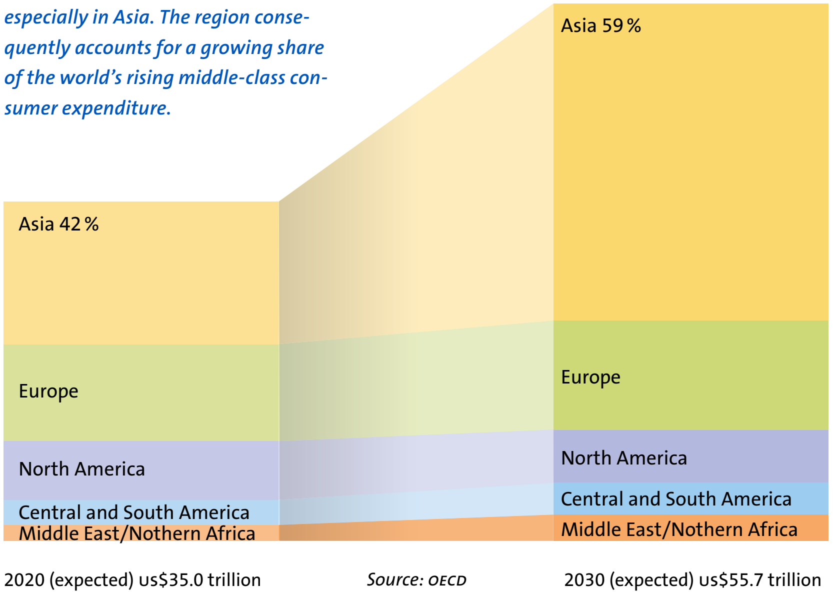
Megatrends ensure stable market growth

KRONES operates in a market exhibiting stable long-term growth. The average annual growth rate is higher than that of the world economy as a whole. Several megatrends are driving this stronger demand for food and beverage packaging machinery.

The overarching megatrend is global population growth. At the end of 2018, more than 7.6 billion people inhabited the earth. According to United Nations forecasts, that number is growing at a rate of more than 80 million each year. Population growth is especially strong in Africa and Asia. The world's population is expected to reach about 8.5 billion by 2030. All those people will need to eat and drink. And, increasingly, they are opting for packaged beverages and foods.

Asia's share of global middle class consumption is growing rapidly

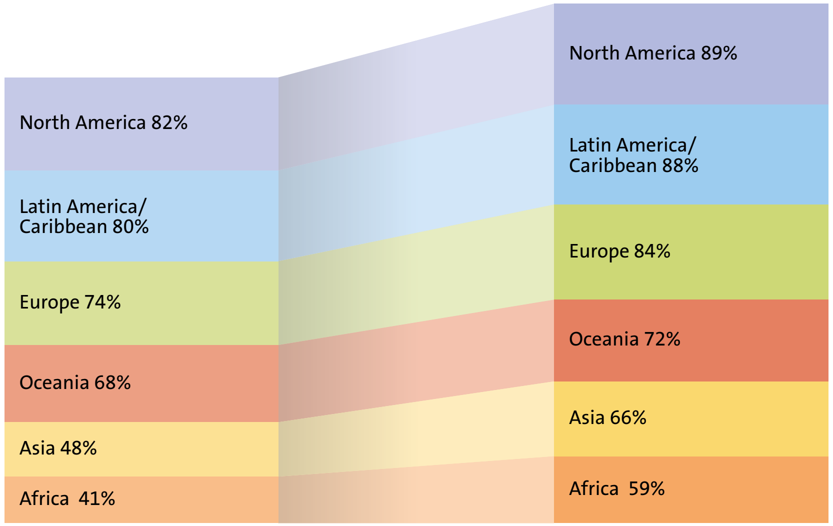
Rapidly increasing numbers of people are moving up into the middle classes, especially in Asia. The region consequently accounts for a growing share of the world's rising middle-class consumer expenditure.



Source: OECD

Urban population in 2015 and 2050 (% of total)

The trend towards urbanisation is strongest in Africa and Asia.



Source: United Nations, (World Urbanization Prospects, The 2018 Revision)

Growing middle class increases consumer spending

More and more people in the emerging market and developing countries are escaping poverty and rising into the middle class. According to forecasts by the OECD, the middle class worldwide will grow from 3.2 billion people to 4.9 billion in the period from 2020 to 2030. As incomes rise, so too does consumer spending – and that includes spending for packaged beverages and foods. Asia accounts for a large share of the growth of the middle class and the corresponding increase in buying power worldwide. The OECD predicts that Asia's share of total middle class consumer spending worldwide will be 42% by 2020. By 2030, that figure is expected to rise to 59%. The total of consumer spending by the global middle class is likely to increase from US$35 trillion to US$55.7 trillion in that time.

Urbanisation is driving growth

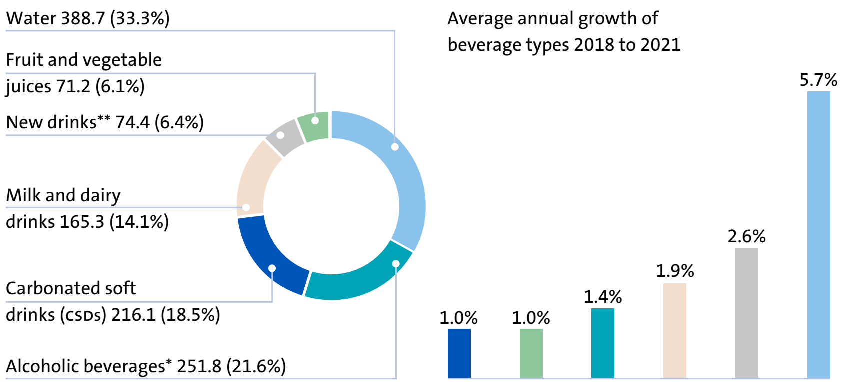
Increasing urbanisation, the migration of people from rural areas to cities, also promotes demand for packaged food and beverages. That is because city-dwellers generally consume more packaged products than people who live in the countryside.

The United Nations forecasts that two out of three of the earth's inhabitants will live in cities by 2050. At present, only about half of the world's population lives in cities. The strongest influx of people into cities is in the developing and emerging market countries of Africa and Asia.

Consumption of packaged beverages steadily increasing

According to preliminary data from market research institute Euromonitor, the world population consumed 1,168 billion litres of packaged beverages in 2018. Global consumption was thus 2.6% higher than in the previous year. Consumption of packaged beverages has been steadily growing for many years. This stable growth is likely to continue due to the megatrends mentioned above. Euromonitor expects global consumption of packaged beverages to rise by an average of 2.9% a year from 2018 to 2021.

Global consumption of packaged beverages in 2018 (billion litres)



2018: 1,167.5 billion litres

*Beer, wine, and spirits
** Energy drinks, sports drinks, and ready-to-drink tea and coffee

Sources: Euromonitor, own estimates

The consumption of bottled **water** is expected to increase significantly more rapidly between 2018 and 2021 than the market as a whole. Euromonitor projects a 5.7% average annual growth rate for this market segment. A key growth driver is rising demand for clean bottled drinking water in emerging and developing countries. In addition, the trend towards healthy eating is supporting demand for bottled water in industrialised economies. Bottled water is already by far the largest segment of the global beverage market. In 2018, people around the world drank some 390 billion litres of bottled water. That is one third of all packaged beverage consumption.

Consumption of bottled water is rising sharply. This is mainly due to strong demand in emerging and developing countries.

Alcoholic beverages are the second largest segment, with a 21.6% share in 2018. This corresponds to consumption of some 252 billion litres. The biggest share of that (nearly 80%) was beer. Aside from growing demand for craft beers – speciality beers from smaller breweries – demand for beer in many industrialised countries is saturated. As a result, consumption of alcoholic beverages will grow at a slower rate than the overall market. Market researchers expect annual growth rates averaging 1.4% for the years 2018 to 2021.

Another large market is **carbonated soft drinks (CSDs)**. The world population consumed some 216 billion litres of packaged CSDs in 2018 (share of total beverage consumption: 18.5%). With expected average growth rates of 1.0%, however, demand for CSDs is expected to rise only slowly in the period 2018 to 2021. A major reason for this is spreading consumer health consciousness. Consumers are increasingly replacing mostly sugary soft drinks, such as cola and lemonades, with water.

Within the **milk and dairy drinks** segment (share of global beverage consumption in 2018: 14.1%), Euromonitor expects high growth rates for niche products such as yoghurt smoothies (+6.7%) and soy milk (+3.8%). However, consumption of plain milk, which accounts for nearly 80% of the market segment, is likely to grow by just 1.8%. Overall, the experts project average annual growth rates of 1.9% for the milk and dairy drinks segment from 2018 to 2021.

New drinks (share of total beverage consumption in 2018: 6.4%) and **fruit and vegetable juices** (share: 6.1%) are the two smaller segments of the global beverage market. The new drinks category includes ready-to-drink tea and coffee together with sports and energy drinks. From 2018 to 2021, new drinks are expected to show significantly higher average growth rates (+2.6%) than fruit and vegetable juices (+1.0%).

Booming demand for packaged beverages in emerging market countries

KRONES is benefiting from population growth in emerging and developing economies. The growing diversity of beverage products and increasingly varied packaging are boosting demand in mature industrial countries.

The megatrends – global population growth, a burgeoning middle class and urbanisation – mainly play out in emerging and developing countries. These are consequently the strongest source of growth in demand for packaged beverages.

Consumption is likely to climb most rapidly in the Africa/Middle East region. There, Euromonitor expects average annual growth rates of 5.9% from 2018 to 2021. Similarly strong (5.7%) demand growth for packaged beverages is anticipated in the Asia/Pacific region.

In the mature markets of Europe and North and Central America, population and hence beverage consumption show only marginal growth. KRONES' growth opportunities in these markets relate not to rising beverage consumption, but to the increasing diversity of packaging variants.

Worldwide consumption of packaged beverages

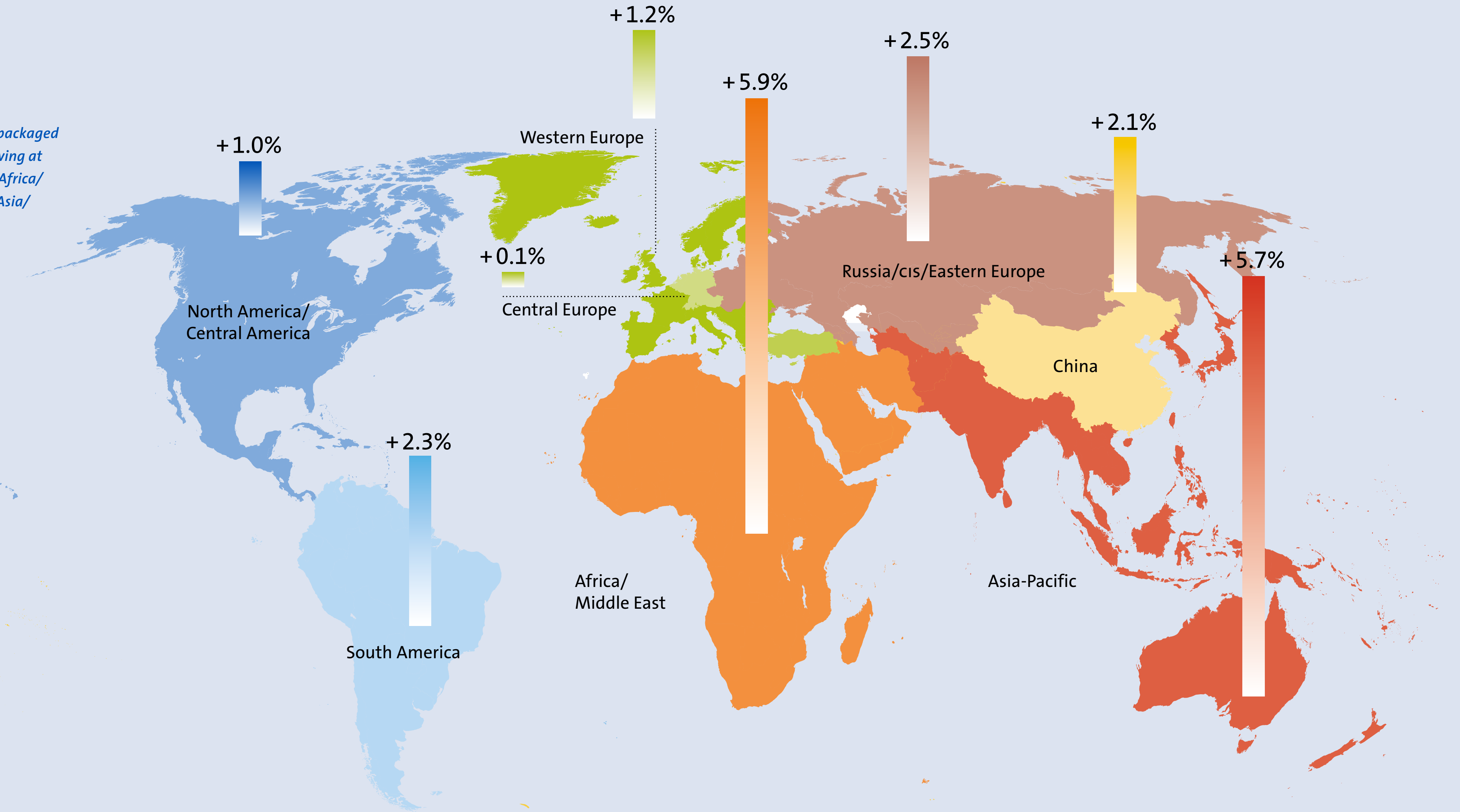
	2018 (e)		2021 (e)		Average annual growth (%)
	Billion litres	%*	Billion litres	%*	2018–2021
North America/Central America	201.2	17.3	207.4	16.3	1.0
Asia-Pacific	197.6	16.9	233.3	18.4	5.7
China	177.2	15.2	188.8	14.9	2.1
South America	158.0	13.5	169.3	13.3	2.3
Africa/Middle East	148.5	12.7	176.6	13.9	5.9
Western Europe	144.5	12.4	149.8	11.8	1.2
Russia/CIS/Eastern Europe	86.2	7.4	92.8	7.3	2.5
Central Europe	53.1	4.6	53.2	4.2	0.1
Worldwide	**1,166.3**	**100**	**1,271.2**	**100**	**2.9**

*Share of global consumption

Sources: Euromonitor and own estimates

Global consumption of packaged beverages by region: annual growth **in percent***

Consumption of packaged beverages is growing at high rates in the Africa/ Middle East and Asia/ Pacific regions.

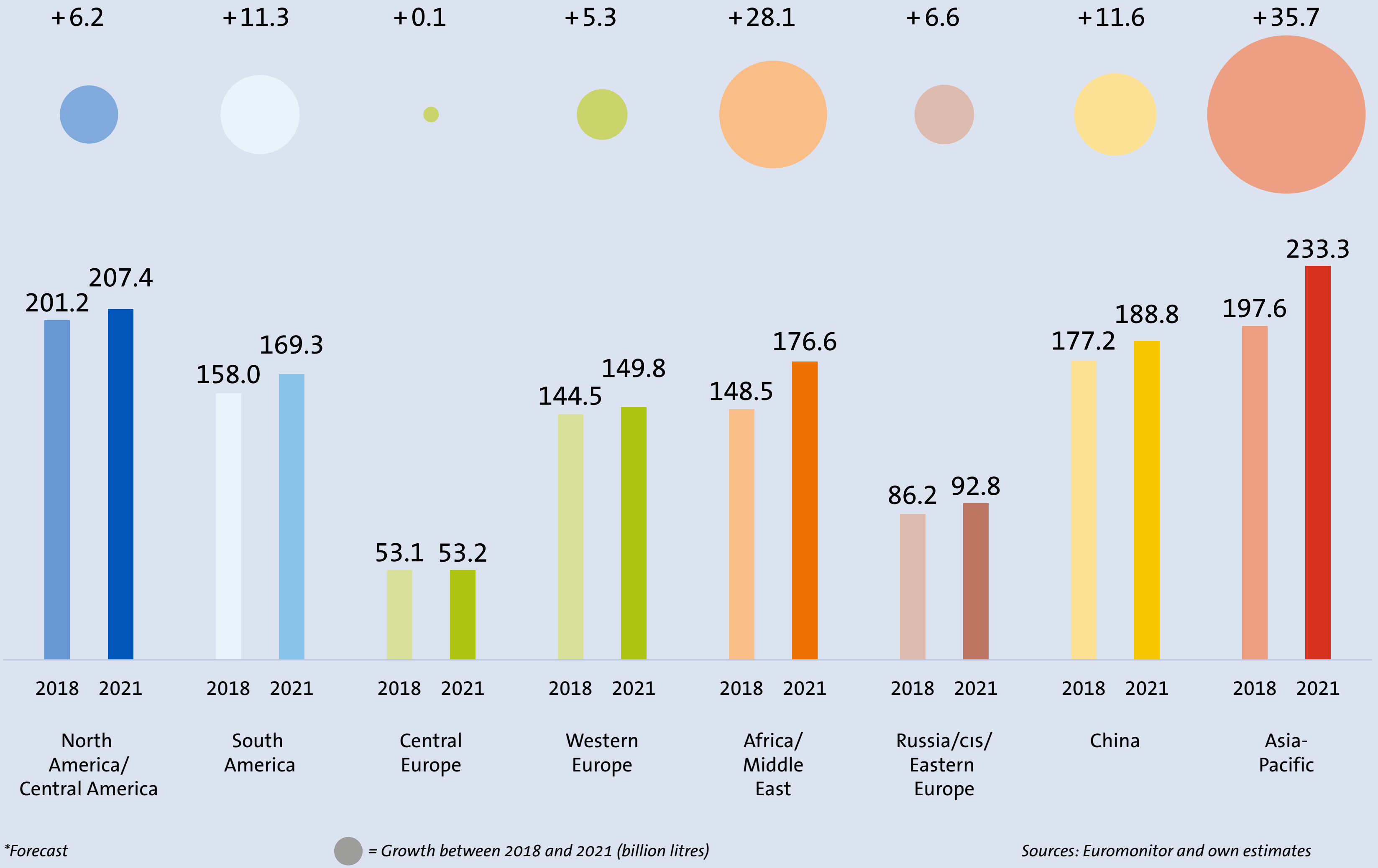


*2018 – 2021 (forecast)

Sources: Euromonitor and own estimates

Global consumption of packaged beverages by region: **billion litres***

In the Asia/Pacific region, consumption of packaged beverages is expected to be 35.7 billion litres higher in 2021 than in 2018. Consumption is also growing rapidly in the Africa/Middle East region and in China.



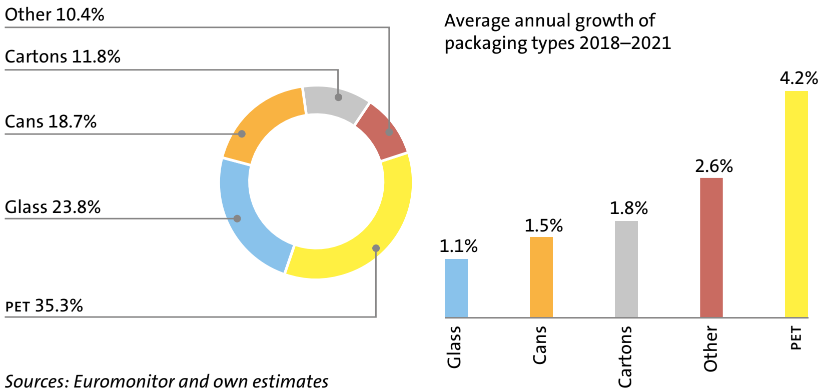
*Forecast

Sources: Euromonitor and own estimates

PET plastic the preferred packaging material for beverages

According to preliminary figures from Euromonitor, some 1,650 billion containers will be filled with beverages worldwide in 2018. That number is growing steadily with rising beverage consumption and is expected to increase by 2.5% per year on average to 1,780 billion by 2021. The most popular beverage container types are plastic bottles, glass bottles, metal cans, and paper-based cartons.

Global beverage market by packaging material in 2018 (based on units filled)



Sources: Euromonitor and own estimates

The strongest growth is in demand for PET beverage packaging.

By far the most frequent packaging material for beverages is **polyethylene terephthalate (PET)**. According to the figures from Euromonitor, more than a third (35.3%) of all beverage containers were made of PET in 2018. The quantity of PET beverage containers is expected to increase by 4.2% per year on average through to 2021, and thus more rapidly than for other container materials. The main growth driver is increasing demand for bottled water. PET is the predominant choice of material for this worldwide.

Glass is the second most popular packaging material for beverages, accounting for 23.8% of the total number of beverage containers in 2018. Glass bottles are primarily used for beer and other alcoholic beverages – that is, beverages for which demand is growing disproportionately slowly relative to the overall market. Accordingly, the number of beverage containers made of glass is expected to see annual average growth of just 1.1% from 2018 to 2021.

18.7% of beverage containers last year were **metal cans**. These are consequently the third most common packaging material. Cans are frequently used for beer and carbonated soft drinks (CSDs). The number of cans used for beverage packaging is likely to increase by an average of 1.5% per year through to 2021.

A further significant packaging material comprises **paper-based cartons**. Cartons are mainly used to package milk and dairy drinks and fruit and vegetable juices. The number of paper-based cartons (share of beverage packaging in 2018: 11.8%) is expected to grow by an average of 1.8% per year through to 2021.

As the leading provider of machines and lines for the production, filling, and packaging of PET containers, KRONES benefits from the continued growth in PET packaging. The company also has a strong market position in lines for filling and packaging beverages in glass bottles and cans. KRONES does not provide solutions for carton packaging.

KRONES in figures

- 2018 was a challenging year overall for KRONES
- Revenue grew 4.4% to €3.85 billion. Expenses for reorganisation and acquisitions impacted profitability
- Shareholders to receive stable dividend of €1.70 per share

	Forecast 2018	Actual 2018
Revenue growth (excluding acquisitions)	6%	4.4%
EBT margin	7.0%	5.3%
Working capital/revenue	26%	27.3%

KRONES increases revenue by 4.4% to €3,854.0 million

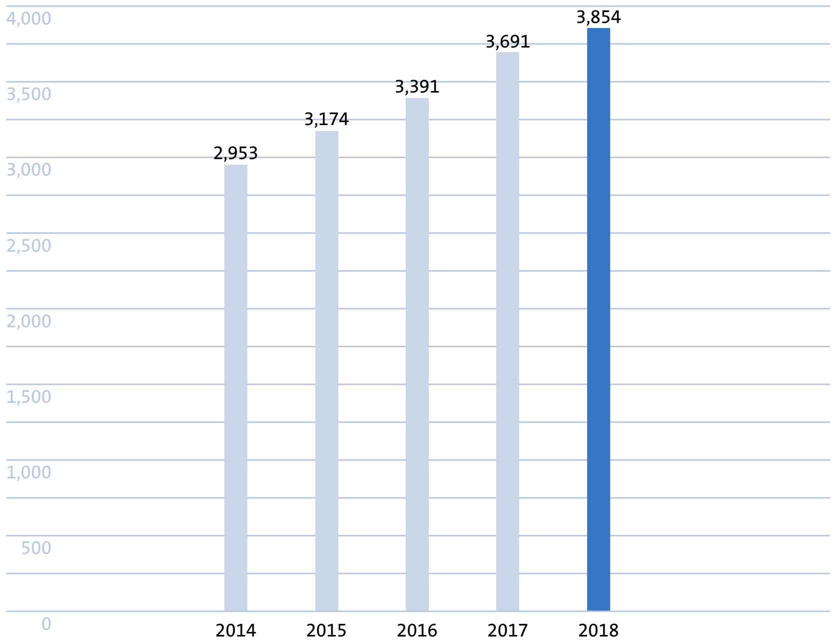
KRONES continued to grow in 2018 despite a difficult overall economic environment.

Despite difficult conditions, KRONES continued to grow in 2018. Revenue went up by 4.4% year-on-year, from €3,691.4 million to €3,854.0 million. The company benefited as a full-service provider from its extensive product and service range and broad international footprint. Currency effects impacted revenue in 2018 by an amount in the mid-double-digit millions of euros. Adjusted for currency and acquisition effects, the revenue increase in 2018 was around 5%.

KRONES' entire product range contributed to revenue growth. Overall, revenue from sales of new machinery grew more strongly than service revenue. New machinery revenue increased in both segments across a large cross-section of the product range. In the core segment, Machines and Lines for Product Filling and Decoration, the large installed base had a positive effect on service revenue.

Altogether in the reporting period, KRONES achieved the revised, 4% revenue growth target announced in autumn 2018. Due to negative currency effects and project postponements, however, growth fell slightly below our original 6% target.

KRONES Group revenue (€ million)

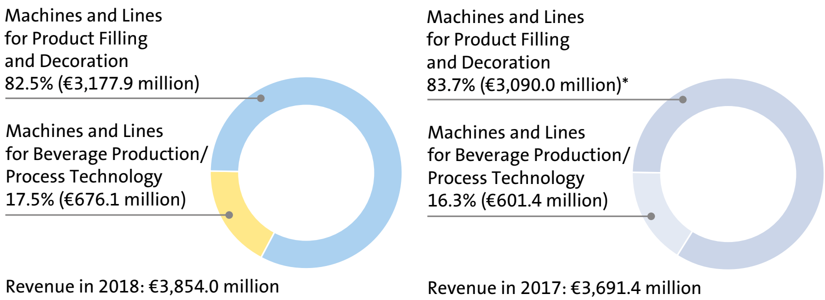


Revenue by segment

The Compact Class segment, the third and smallest corporate segment until 2017, has been part of the core segment since 1 January 2018.

Revenue in the core segment, Machines and Lines for Product Filling and Decoration, rose by 2.8% year-on-year from €3,090.0 million to €3,177.9 million in 2018. The segment's share of consolidated revenue decreased from 83.7% in the previous year to 82.5%.

Share of consolidated revenue



* Incl. Machines and Lines for the Compact Class

Revenue in the Machines and Lines for Beverage Production/Process Technology segment improved by 12.4%, from €601.4 million to €676.1 million. The segment contributed 17.5% of consolidated revenue (previous year: 16.3%).

Further information can be found in the section "Report from the segments" beginning on page 79 and under "Segment reporting" in the notes to the consolidated financial statements on page 130.

Revenue by region

KRONES is strongly export-oriented. Some 90% of revenue was generated internationally in 2018.

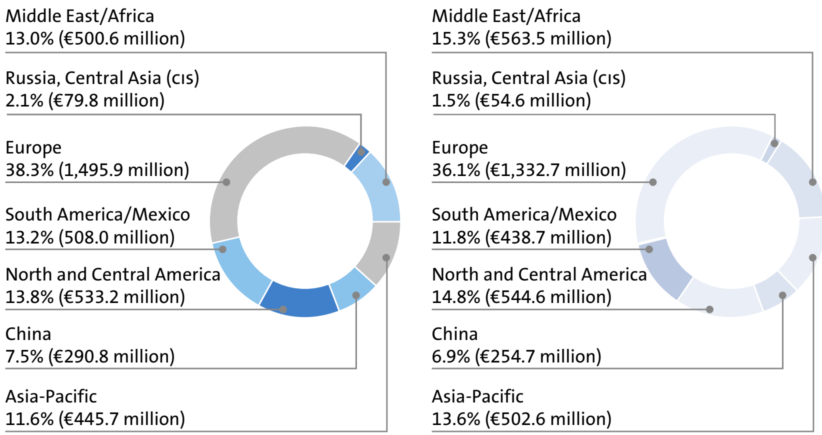
KRONES' revenue in Germany was slightly down in the reporting period. In total, domestic revenue in the period January to December 2018 decreased by 6.6% year-on-year to €362.3 million. Business in Germany accounted for 9.4% of consolidated revenue, down from 10.5% a year earlier.

In Europe (excluding Germany), KRONES generated strong revenue growth in 2018. This is largely due to sustained strong demand in Western Europe. Despite the already high prior-year figure, revenue there climbed by 14.5% to €721.6 million. In Central Europe (Austria, Switzerland and the Netherlands), KRONES increased revenue by 17.6% in 2018 to €224.6 million. The disproportionately large increase is partly due to the base effect. In Eastern Europe, KRONES benefited in reporting period from the general economic upswing in the region. Revenue improved by 51.6% to €187.4 million. The Russia/CIS region also picked up rapidly in 2018 after a cyclical downturn. There, revenue went up by 46.2% to €79.8 million.

In all, KRONES improved revenue in Europe (excluding Germany) in 2018 by 21.4%, from €999.4 million to €1,213.4 million. The share of consolidated revenue in the reporting period accounted for Europe (excluding Germany) increased to 31.5% (previous year: 27.1%).

Share of consolidated revenue	2018		2017		Change
	€ million	%	€ million	%	%
Germany	362.3	9.4	387.9	10.5	–6.6
Central Europe (excluding Germany)	224.6	5.8	191.0	5.2	+17.6
Western Europe	721.6	18.7	630.2	17.1	+14.5
Eastern Europe	187.4	4.9	123.6	3.3	+51.6
Russia, Central Asia (CIS)	79.8	2.1	54.6	1.5	+46.2
Middle East/Africa	500.6	13.0	563.5	15.3	–11.2
Asia-Pacific	445.7	11.6	502.6	13.6	–11.3
China	290.8	7.5	254.7	6.9	+14.2
North and Central America	533.2	13.8	544.6	14.8	–2.1
South America/Mexico	508.0	13.2	438.7	11.9	+15.8
Total	**3,854.0**	**100.0**	3,691.4	100.0	**+4.4**

Share of consolidated revenue



Revenue 2018: €3,854.0 million

Revenue 2017: €3.691,4 million

After in part strong growth in previous years, revenue in the Middle East/Africa region decreased in 2018 by 11.2% to €500.6 million due to a slight calm down in the market. KRONES nonetheless continues to have good medium and long-term growth prospects in the region. Revenue in China increased after a weak prior year by 14.2% to €290.8 million. It thus accounted for 7.5% of consolidated revenue. We are confident that business in China will continue to recover. By contrast, KRONES' revenue in the rest of the Asia/Pacific region fell as a result of a slight decrease in local demand by 11.3% to € 445.7 million.

The good revenue growth in the South America/Mexico region continued. At €508.0 million, revenue in 2018 exceeded the already high prior-year figure by 15.8%. In addition to stabilisation effects, this is partly due to economic recovery in some countries in the region. Revenue in North and Central America was slightly down in the reporting period. The decrease, which was partly due to currency effects, was by 2.1% to €533.2 million. This is still satisfactory, however, in light of the high prior-year figure.

Overall, KRONES' revenue remains well balanced internationally in established and emerging markets. The company generated a total of 52.2% of consolidated revenue in emerging markets in 2018 (previous year: 52.5%). Mature industrialised economies accounted for 47.8% (previous year: 47.5%) of KRONES' revenue.

KRONES generated slightly higher revenue growth in industrialised economies in 2018 than in emerging markets. This was mainly due to the good performance in Europe.

Order intake and orders on hand

Strong demand for KRONES products and services

KRONES' order intake improved by 4.5% year-on-year in 2018.

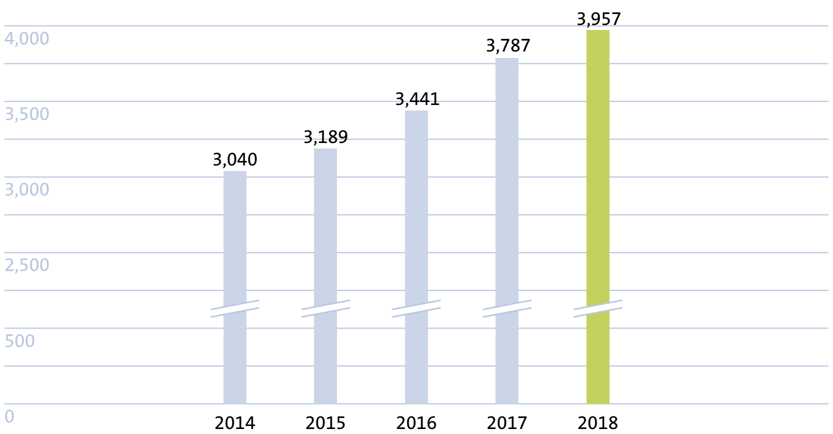
On the demand side, 2018 was a good year for KRONES. Our customers' investment confidence was satisfactory throughout the year. Despite the high prior-year order intake and the price rises as of 1 May 2018, KRONES' order intake increased year-on-year. The contract value of orders from January and December 2018 was 4.5% higher than the previous year, rising from €3,786.8 million to €3,957.3 million. Acquisitions did not have any noticeable impact on order intake. Our pricing policy on orders had a particularly noticeable effect on orders in the fourth quarter of 2018. Order intake in this quarter was down on the previous year.

Growth in KRONES' order intake during 2018 was above average in Western and Eastern Europe and in China. The level of new orders in 2018 was stable overall in the Middle East/Africa, North America and South America. Order intake was down in the Asia/Pacific region.

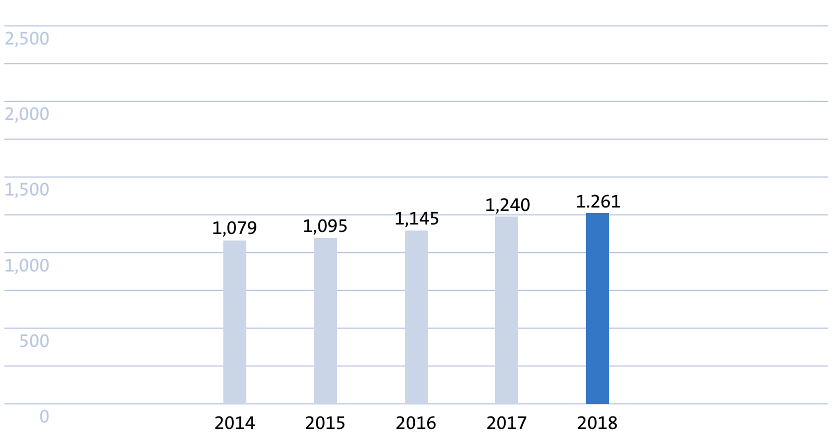
KRONES has a large orders backlog

KRONES had orders on hand totalling €1,261.1 million at 31 December 2018. The orders backlog thus showed an increase of 1.7% on the figure of €1,240.1 million a year earlier. All in all, the comfortable orders backlog provides KRONES with enhanced planning certainty and a solid foundation for further revenue growth.

KRONES Group order intake (€ million)



KRONES Group orders on hand at 31 December (€ million)



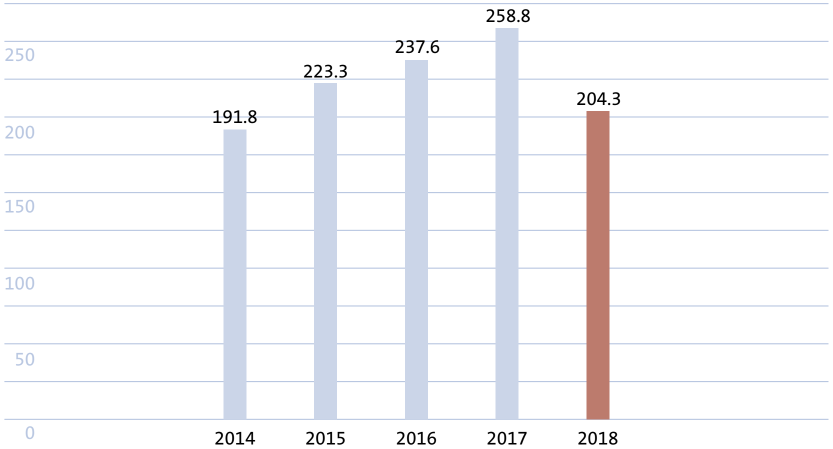
KRONES Group earnings

Expenses for reorganisation and acquisitions impact profitability

The EBT margin decreased from 7.0% in the previous year to 5.3% in 2018.

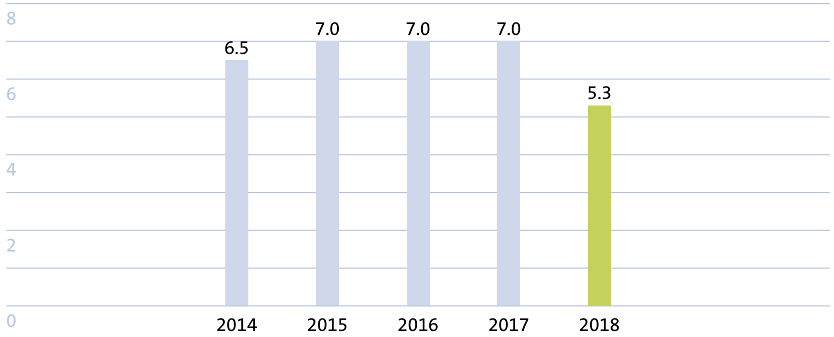
KRONES' earnings were significantly impacted by higher material and labour costs in 2018. The company's profitability was also affected by approximately €42 million in expenses for reorganisation and in connection with acquisitions. Costs of measures in connection with the production site in Hungary account for the largest share of this amount. In total, earnings before taxes (EBT) in 2018 were down by 21.1% or €54.5 million year-on-year to €204.3 million.

KRONES Group EBT (€ million)

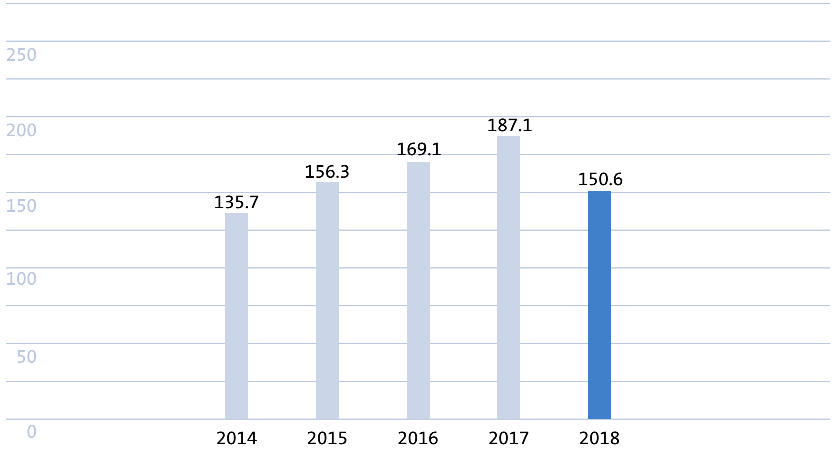


Due to long project durations, the price increases – an average of 4.5% on all bottling and packaging equipment and process technology as of 1 May 2018 – were not yet reflected in earnings.

KRONES Group EBT margin (%)

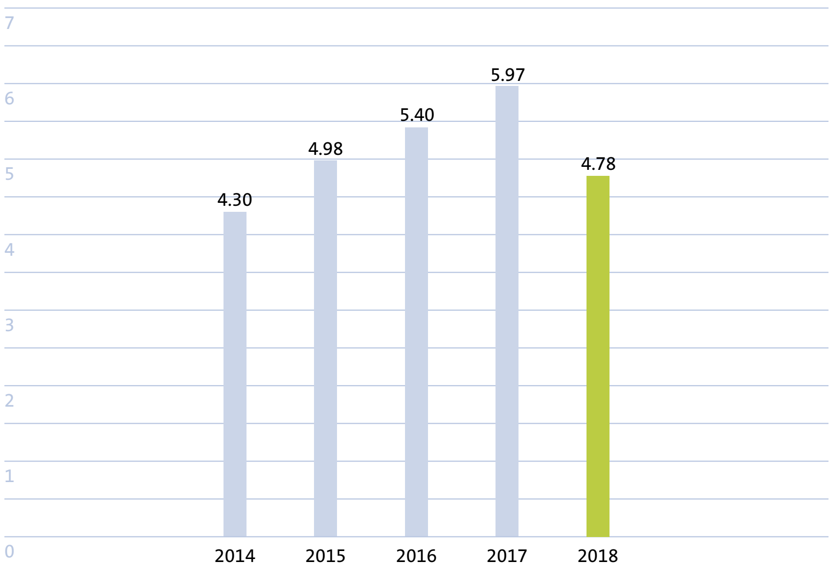


KRONES Group net income (€ million)

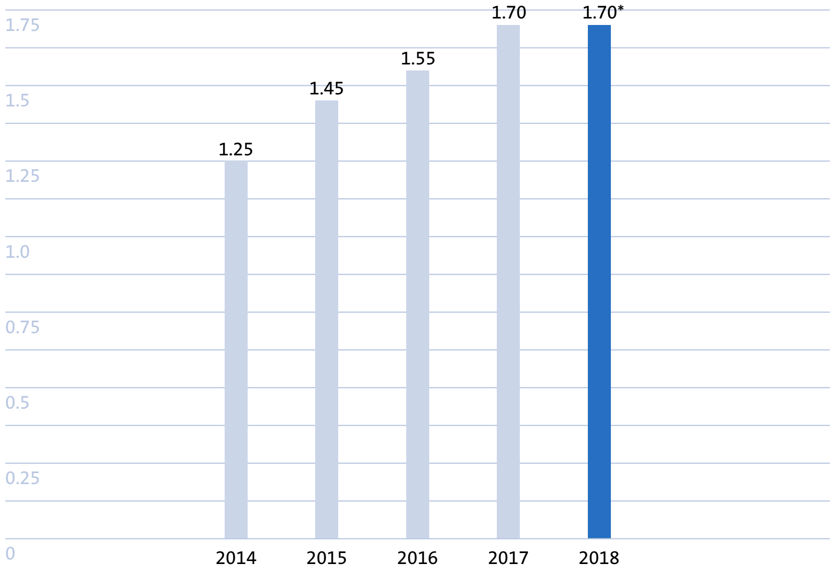


The EBT margin dropped from 7.0% in the previous year to 5.3%. Had there been no expenses for reorganisation and acquisitions in 2018, the EBT margin would have been 6.4%.

KRONES Group earnings per share (€)



KRONES Group Dividend per share (€)



* As per proposal for the appropriation of retained earnings available for distribution

KRONES' tax rate was reduced, due to local tax concessions, from 27.7% in the previous year to 26.3% in 2018. As a result, the decrease in consolidated net income in the reporting period was not quite as large as the decrease in EBT. With consolidated net income of €150.6 million, KRONES earned 19.5% less in 2018 than in the previous year. Earnings per share fell from €5.97 in the previous year to €4.78 in 2018.

KRONES plans to pay out a dividend of €1.70 per share for 2018

In order to share the company's success with shareholders, KRONES' policy is to pay out 25% to 30% of consolidated profit in the form of dividends. At the Annual General Meeting on 5 June 2019, the Executive Board and Supervisory Board will be proposing a dividend of €1.70 per share for the financial year 2018. The proposed dividend is stable relative to the previous year. This is because a large part of the decrease in earnings in 2018 is attributable to expenses for reorganisation and acquisitions. The planned payout is 35.7% of consolidated net income.

KRONES Group earnings structure

€ million	2018	2017	Change.
Revenue	3,854.0	3.691.4	+4.4%
Changes in inventories of finished goods and work in progress	1.1	−36.4	–
Total operating performance	3,855.1	3,654.9	+5.5%
Other own work capitalised	+49.6	+48.2	+3.0%
Other operating income	+114.5	+112.5	+1.8%
Goods and services purchased	−2,032.0	−1,859.4	+9.3%
Personnel expenses	−1,137.3	−1,061.4	+7.2%
Other operating expenses	−544.0	−554.6	−1.9%
EBITDA	305.9	340.2	−10.1%
Depreciation and amortisation on fixed assets	−102.7	−94.7	+8.5%
EBIT	203.2	245.5	−17.2%
Financial income/expense	+1.1	+13.3	−91.8%
EBT	204.3	258.8	−21.1%
Income tax	−53.7	−71.7	−25.1%
Consolidated net income	150.6	187.1	−19.5%

For further information, please see the full statement of profit and loss on p. 123.

KRONES improved total operating performance by 5.5% in 2018 to €3,855.1 million. This was greater than the growth in revenue (which was up 4.4%) because the company increased inventories of finished goods and work in progress by €1.1 million in the reporting period, in contrast to the previous year when these decreased by €36.4 million.

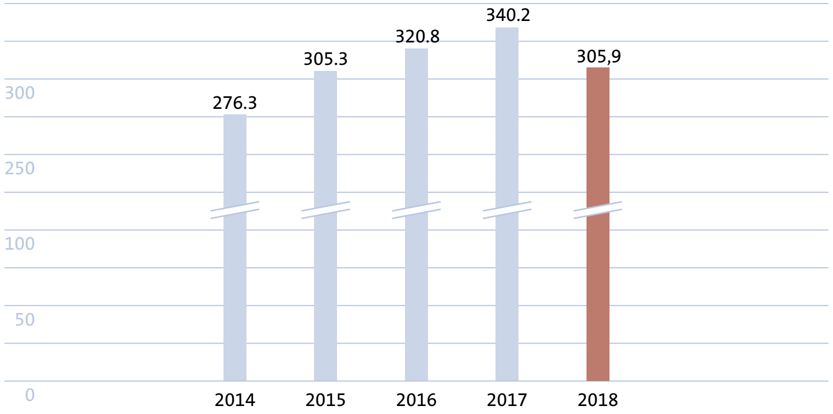
Expenses for reorganisation and acquisitions and the sharp rise in goods and services purchased reduced KRONES' profitability in 2018.

A major factor impacting KRONES' profitability comprised goods and services purchased. These went up by 9.3% in the reporting period to €2,032.0 million. The ratio of goods and services purchased to total operating performance went up from 50.9% in the previous year to 52.7%. Material purchase prices increased due to the booming economy. Additional factors contributing to the high ratio included disproportionately strong sales growth in process technology – where costs of material account for a larger share – and strong new machinery sales in our core segment.

Personnel expenses increased by slightly more than total operating performance. These went up by 7.2% to €1,137.3 million. KRONES was unable to compensate for collective pay increases, growth in the workforce and the costs of reorganisation – most of which were incurred within personnel expenses – with further optimisation of internal resources. The ratio of personnel expenses to total operating performance went up from 29.0% in the previous year to 29.5% in 2018.

General savings across all major cost areas meant that other operating expenses decreased slightly despite the higher total operating performance. The reduction was by 1.9% to €544.0 million. Other operating income increased from €112.5 million to €114.5 million. Other own work capitalised went up in the financial year from €48.2 million to €49.6 million. The net balance of other operating income and expenses and own work capitalised changed by 3.6% from –€393.9 million to –€379.9 million. As a percentage of total operating performance, this represented a slight decrease from 10.8% to 9.9%.

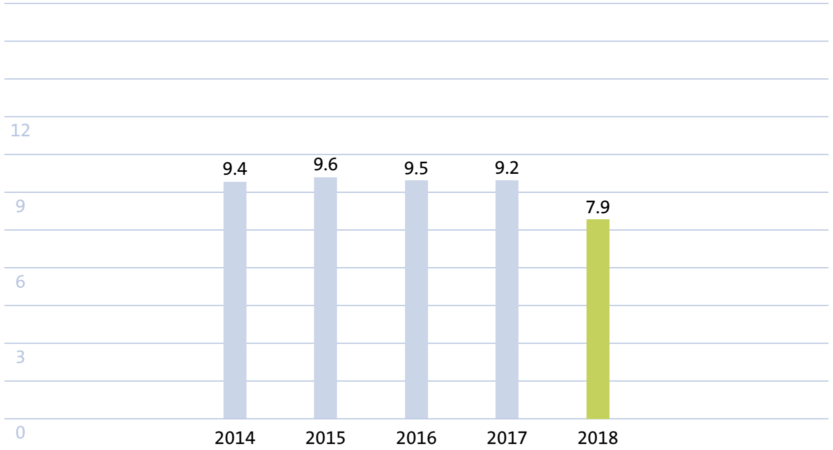
KRONES Group EBITDA (in € million)



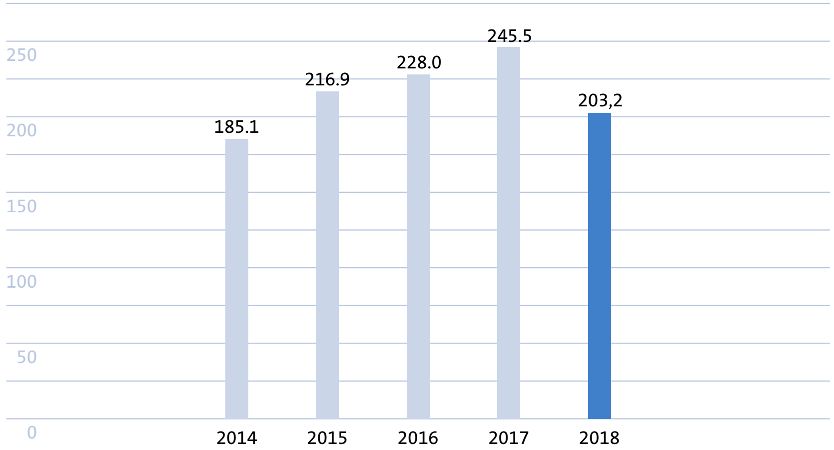
EBITDA (earnings before interest, taxes, depreciation and amortisation) consequently amounted to €305.9 million, which is 10.1% below the prior-year figure of €340.2 million. The EBITDA margin dropped from 9.2% to 7.9%. After depreciation and amortisation, which increased slightly as a result of investing activity to €102.7 million (previous year: €94.7 million), EBIT was €203.2 million (–17.2%). Net financial income/expense went down from €13.3 million to €1.1 million. The main factor here is an increase in interest and similar expenses from €8.3 million to €14.6 million. This includes an €11.2 million increase in the obligation relating to put options as a result of an acquisition. Investment income relating to non-consolidated companies went down from €11.9 million to €8.8 million. Interest and similar income was also down. This decreased from €10.1 million to €6.1 million because the prior-year figure included an additional €4.6 million from the reversal of earn-out obligations.

Earnings before taxes (EBT) went down from €258.8 million to €204.3 million. This results in an EBT margin of 5.3% (previous year: 7.0%). KRONES' tax rate decreased from 27.7% in the previous year to 26.3% in 2018. Consolidated net income was down 19.5% to €150.6 million (previous year: €187.1 million).

KRONES Group EBITDA margin (%)



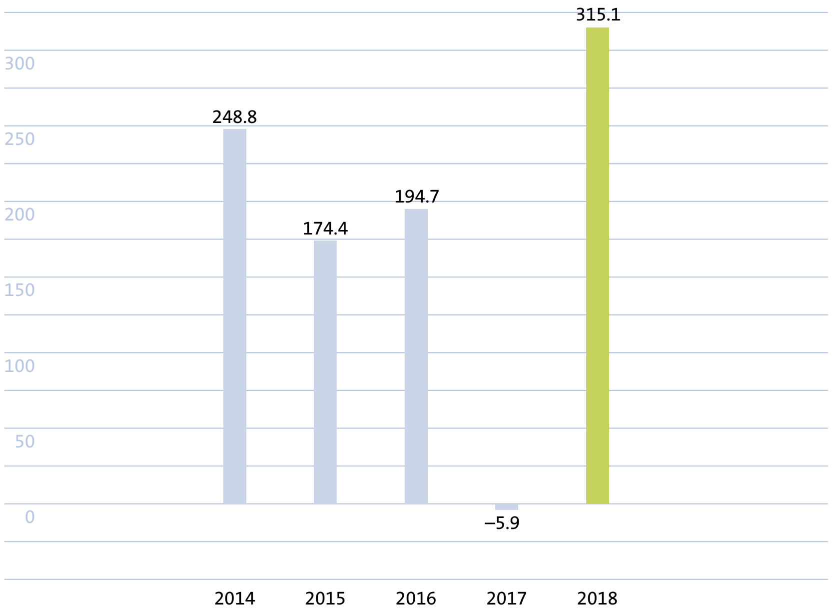
KRONES Group EBIT (€ million)



Consolidated cash flow

€ million	2018	2017
Earnings before taxes	**204.3**	**258.8**
Other non-cash changes	+18.6	+46.4
Changes in working capital	+178.9	–188.6
Changes in other assets and liabilities	–86.7	–122.5
Cash flow from operating activities	**+315.1**	**–5.9**
Capital expenditure for intangible assets and property, plant and equipment	–179.1	–133.5
M&A activities	–28.3	–32.5
Other	+13.0	+21.2
Free cash flow	**+120.7**	**–150.7**
Cash flow from financing activities	–77.9	–24.7
Other	–6.0	–11.5
Net change in cash and cash equivalents	**+36.8**	**–186.9**
Cash and cash equivalents at the end of the period	**218.8**	**182.0**

KRONES Group cash flow from operating activities (€ million)

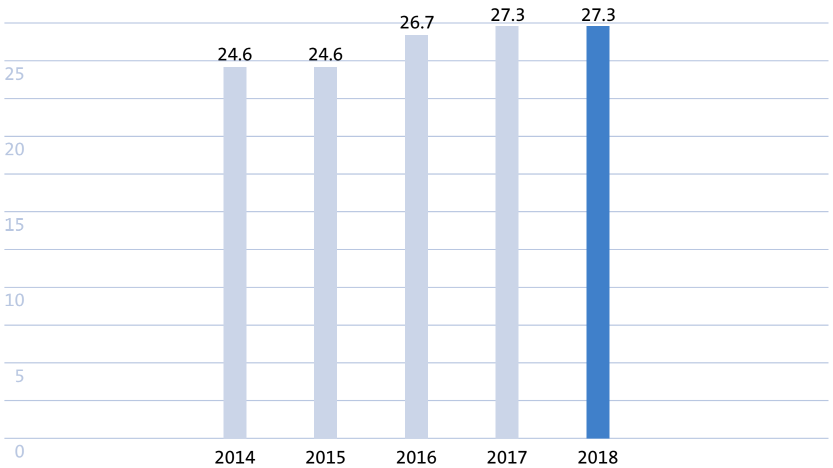


Cash flow from operating activities increased, despite lower earnings, from –€5.9 million in the previous year to €315.1 million. This was mainly due to a substantial reduction in working capital.

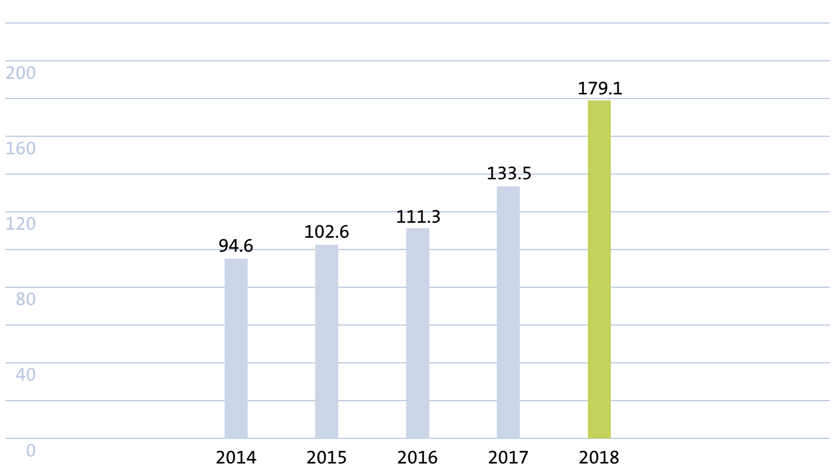
After a weak prior year, KRONES' cash flow performance was strongly positive in 2018. The company increased cash flow from operating activities by €321.0 million to €315.1 million (previous year: –€5.9 million). This strong growth was mainly due to the positive trend in working capital. KRONES reduced working capital by €178.9 million in the reporting period; this contrasts with the previous year, when working capital increased by €188.6 million and resulted in a reduction in cash flow from operating activities. In addition to a decrease in receivables and inventories, working capital was primarily affected in the reporting period by the rise in trade payables.

For further information, please see the full cash flow statement on p 127.

KRONES Group working capital to revenue (%, average over four quarters)



KRONES Group capital expenditure for PP&E and intangible assets (€ million)



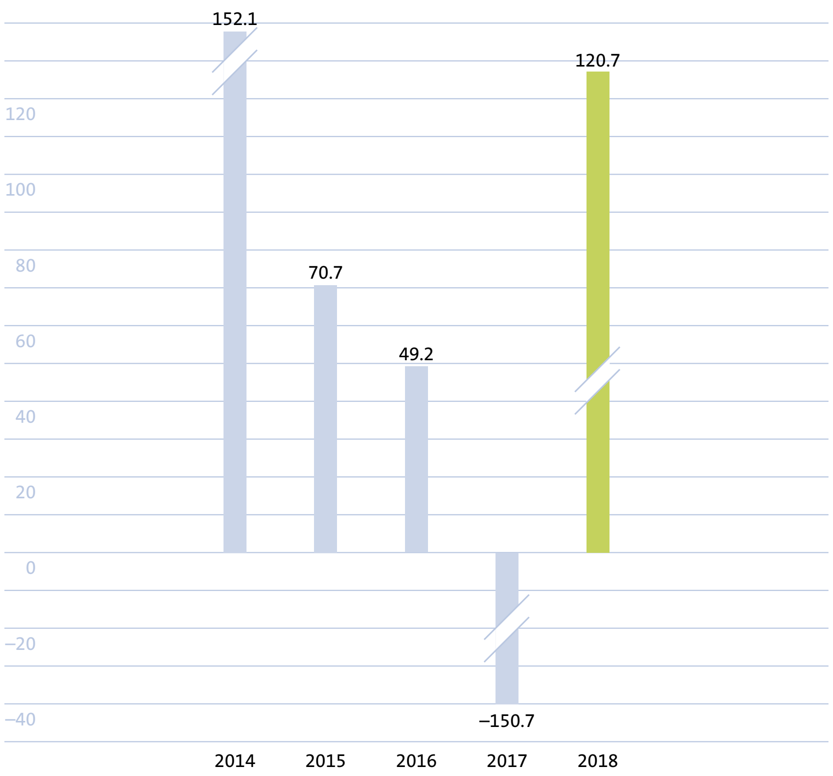
Ratio of working capital to revenue stable at 27.3%

KRONES was able to hold stable the ratio of average working capital over the past four quarters to revenue at 27.3%, the same figure as in the previous year. This means we did slightly better than the revised target announced in summer 2018 of 28% for 2018 as a whole. We intend to improve this to 26% this year by more intensive working capital management.

KRONES improved free cash flow in 2018 by €271.4 million to €120.7 million.

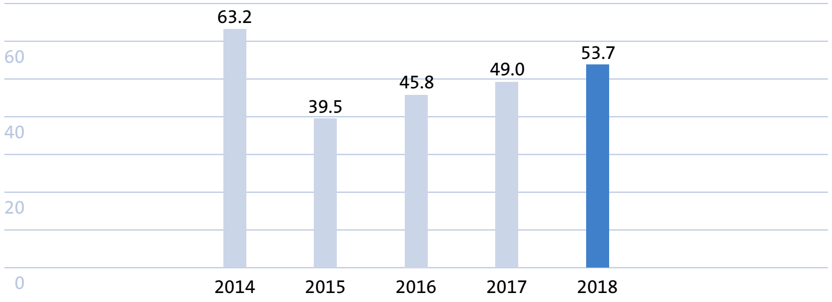
KRONES spent €179.1 million on property, plant and equipment and intangible assets in 2018 (previous year: €133.5 million). Capital expenditure on property, plant, and equipment increased particularly sharply to €121.5 million (previous year: €78.3 million). This mainly related to the establishment of the Hungarian production location and to expansion at our German locations. As a result, the ratio of capital expenditure to depreciation and amortisation once again substantially increased in 2018, from 1.41 in the previous year to 1.74. *Capital expenditure in the individual segments is discussed in the report from the* *segments (page 130).*

KRONES Group free cash flow (€ million)



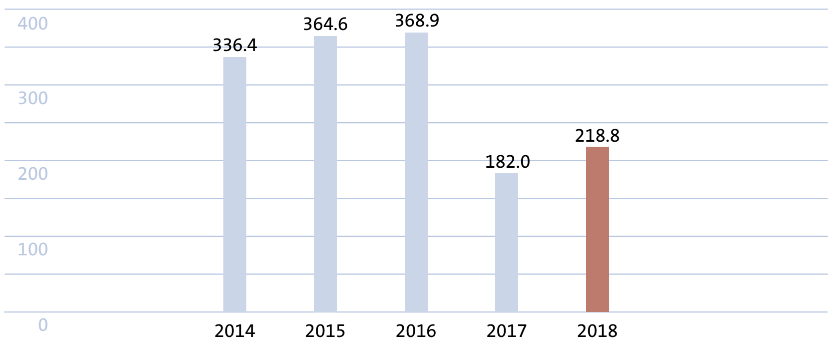
KRONES improved free cash flow (net cash from operating activities) in the reporting period by €271.4 million to €120.7 million (previous year: minus €150.7 million). Operating free cash flow, which is adjusted for acquisitions, came to €149.0 million, also substantially above the previous year's figure of minus €118.2 million.

KRONES Group dividend payout (€ million)



At €77.9 million in 2018, the cash outflow from financing activities was €53.2 million larger than the previous year's €24.7 million. This was due to the repayment of short-term bank borrowings in the amount of €24.6 million, which were shown in the previous year in the same amount. KRONES distributed €53.7 million to shareholders during reporting period (previous year: €49.0 million). Changes arising from exchange rates decreased cash and cash equivalents by €6.4 million due to exchange rate movements in local currencies at our subsidiaries (previous year: minus €11.5 million). In total, cash and cash equivalents increased in 2018 by €36.8 million to €218.8 million.

KRONES Group cash and cash equivalents at 31 December (€ million)



Assets and capital structure

€ million at 31 December	2018	2017	2016
Non-current assets	1,010	882	799
of which fixed assets	936	797	725
Current assets	2,312	2,158	2,272
of which cash and equivalents	219	182	369
Equity	1,433	1,330	1,226
Total debt	1,888	1,710	1,845
Non-current liabilities	359	314	308
Current liabilities	1,529	1,396	1,537
Total	**3,321**	**3,040**	**3,071**

For further information, please see the full statement of financial position on p. 125 to 126.

After a slight decrease (by 1.0%) in the previous year, KRONES' total assets increased relative to the 2017 year-end, mostly due to the larger volume of business and capital expenditure on fixed assets, by 9.3% to €3,321.4 million as of 31 December 2018.

The company's non-current assets totalled €1,009.8 million at the end of 2018, up 14.5% on the previous year (€882.2 million). Fixed assets were up 17.6% to €936.4 million (previous year: €796.6 million). A large part of this related to property, plant and equipment, which increased by €69.2 million to €570.8 million as a result of capital expenditure at our locations. KRONES' intangible assets, mainly comprising capitalised development expenditure, grew from €263.6 million in the previous year to €328.2 million. Most of the increase related to additions to goodwill due to acquisitions in the reporting period.

KRONES' current assets also increased. At the end of 2018, the company had current assets totalling €2,311.6 million. That is an increase of 7.1% or €154.0 million relative to the 2017 year-end. At the end of 2018, KRONES' inventories were substantially down, at €320.7 million (31 December 2017: €611.8 million), while trade receivables had decreased to €955.4 million (31 December 2017: €1,225.3 million).

KRONES retains a comfortable liquidity cushion and a solid equity base. This provides KRONES with sufficient financial headroom for investment out of its own resources.

A large part of the decrease in this balance sheet item can be attributed to the new IFRS 15 financial reporting standard. Added to trade receivables are claims against customers, which from 2018 are accounted for under the new contract assets item. This is included in the statement of financial position for the first time and totalled €647.1 million at 31 December 2018. Cash and cash equivalents increased by €36.8 million to €218.8 million in the reporting period.

On the equity and liabilities side, KRONES' non-current liabilities increased in the reporting period to €358.8 million (31 December 2017: €314.0 million). This related to increases in deferred tax liabilities, in other provisions and in other financial liabilities. Provisions for pensions were virtually unchanged at €220.6 million (31 December 2017: €220.2 million). KRONES had non-current bank debt totalling €3.2 million at the end of 2018 (previous year: nil).

Current liabilities went up relative to the end of 2017, from €1,395.7 million to €1,529.4 million. While KRONES increased trade payables to €491.6 million (31 December 2017: €376.5 million), current bank debt decreased to €0.6 million (31 December 2017: €24.6 million). Other financial liabilities rose significantly

The equity ratio decreased slightly from 43.8% to 43.2% in 2018 despite the positive net income. This reflects a larger increase in total assets.

to €106.7 million (previous year: €7.0 million). The new contract liabilities item (under IFRS 15), mainly comprising delivery obligations, came to €547.2 million at the 2018 year-end.

KRONES improved net cash (cash and cash equivalents less bank debt) to €215.1 million at the 2018 reporting date (previous year: €157.4 million). In addition, the group has around €323 million in unused lines of credit. A backup facility of €250 million is also available. KRONES thus further advanced its primary financial management objective, which is to safeguard the company's strong financial resources and independence.

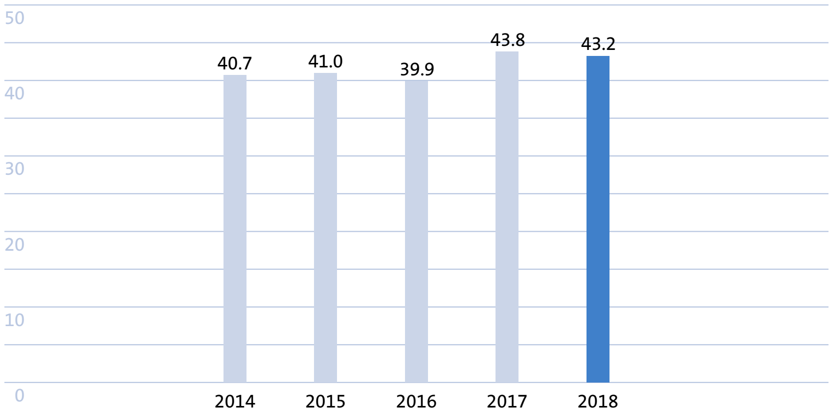
Due to the positive consolidated net income, equity increased in 2018 by 7.8% from €1,330.1 million to €1,433.2 million. The larger increase in total assets results in a slight drop in the equity ratio from 43.8% to 43.2%. Overall, KRONES continues to possess an exceptionally robust financial and capital structure.

Return on capital employed (ROCE) down from 16.6% to 12.8%

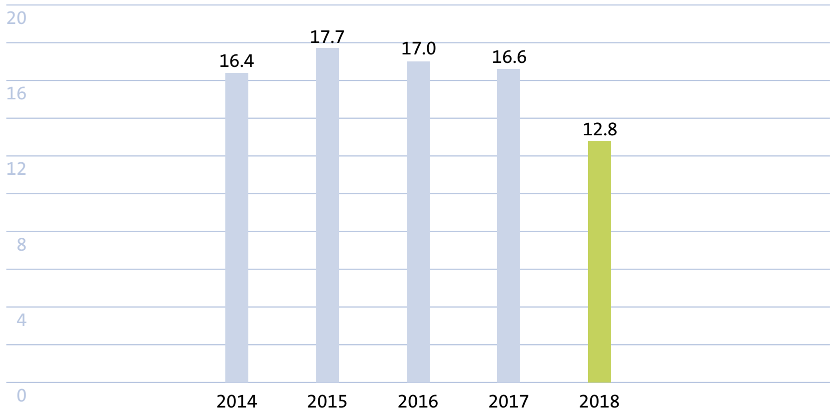
Return on capital employed (ROCE) – the ratio of EBIT to average net capital employed – decreased from 16.6% in the previous year to 12.8% in the reporting period. This was mainly due to the lower EBIT.

KRONES' ROCE went down from 16.6% to 12.8% in 2018.

KRONES Group equity ratio (%)



KRONES Group ROCE (%)



Report from the **segments**

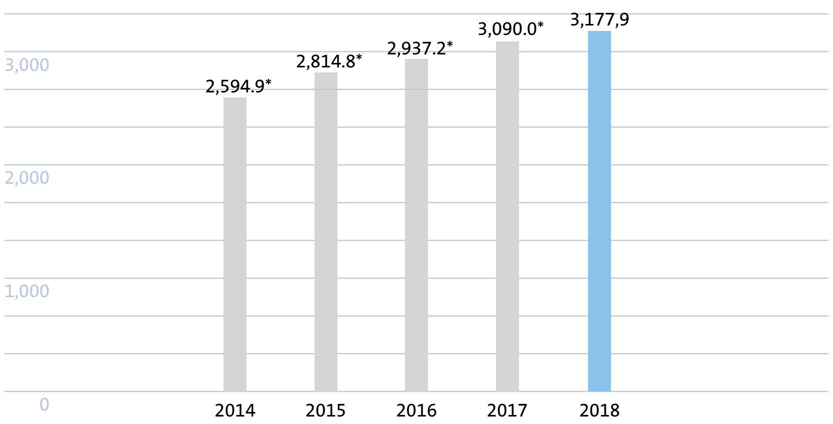
Machines and Lines for Product Filling and Decoration

Segment revenue

Revenue in the newly established core segment climbed in 2018 by 2.8% to €3,178 million.

From 1 January 2018, the core segment – Machines and Lines for Product Filling and Decoration – additionally includes the activities of GERNEP and KOSME. Until the end of 2017, these were shown in the Machines and Lines for the Compact Class segment. Revenue in the newly established core segment grew slightly more slowly than expected in 2018, partly due to currency effects. In total, revenue increased by 2.8% year-on-year, from €3,090.0 million to €3,177.9 million. The core segment's share of consolidated revenue decreased from 83.7% in the previous year to 82.5% in 2018.

Segment revenue (€ million)



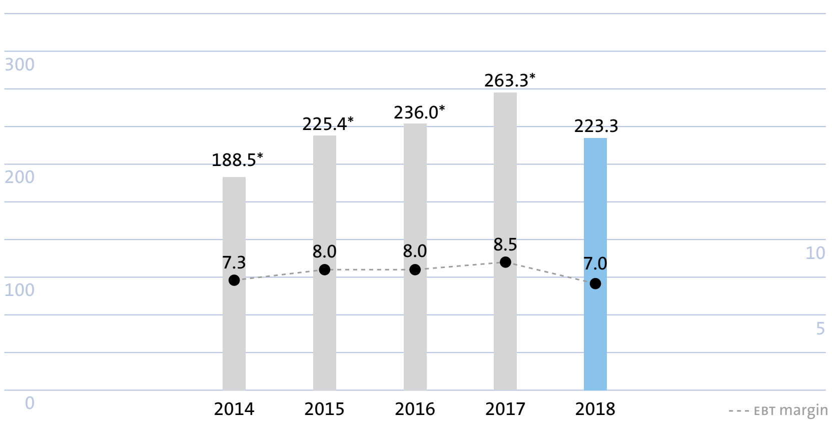
* incl. Machines and lines for the Compact Class segment

Segment earnings

Core segment profitability was affected in 2018 by around €25 million in expenses for reorganisation. The EBT margin went down from 8.5% to 7.0%

In addition to higher material and labour costs, core segment earnings were also impacted by expenses for reorganisation. These mainly related to expenses in connection with measures for the production location in Hungary. The expenses for reorganisation in the core segment in 2018 came in total to around €25 million. Earnings before taxes (EBT) decreased by 15.2% year-on-year from €263.3 million to €223.2 million in 2018. The EBT margin went down from 8.5% in the previous year to 7.0%.

Segment EBT (€ million) and EBT margin (%)



* incl. Machines and lines for the Compact Class segment

Machines and Lines for Product Filling and Decoration

Machines and Lines for Beverage Production/Process Technology

Segment revenue

Revenue in the Machines and Lines for Beverage Production/Process Technology segment increased 12.4% year-on-year in 2018.

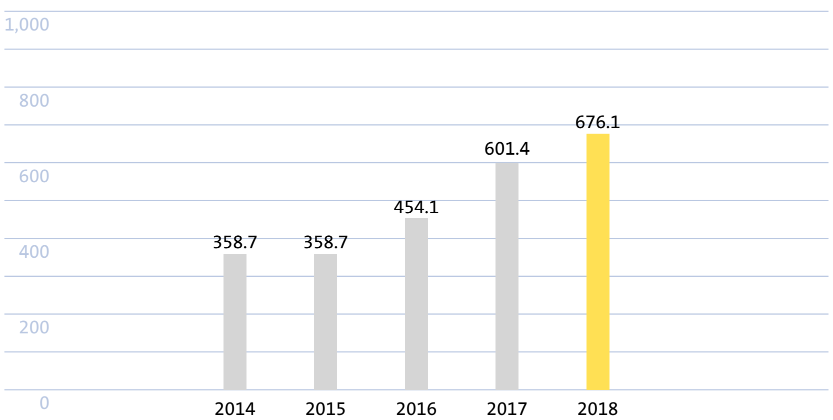
Revenue in the Machines and Lines for Beverage Production/Process Technology segment was up 12.4% year-on-year from €601.4 million to €676.1 million in 2018. KRONES focused more on price quality in the reporting period. This prevented stronger growth. The intralogistics business that forms part of the segment performed very well in 2018. The percentage of consolidated revenue accounted for by the Machines and Lines for Beverage Production/Process Technology segment increased to 17.5% in 2018 (previous year: 16.3%).

Segment earnings

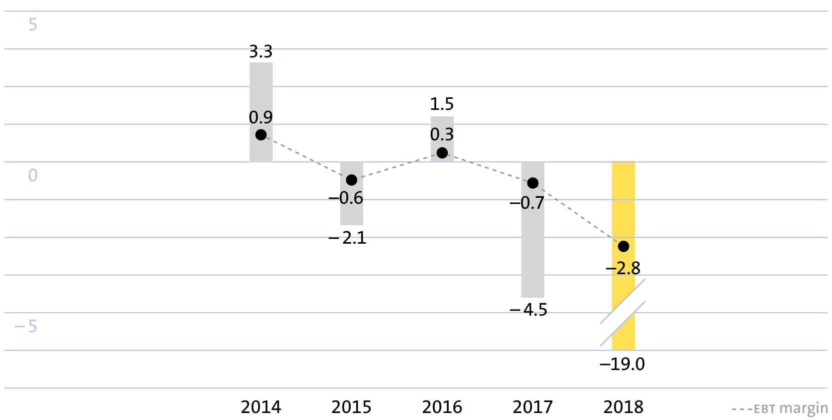
The Machines and Lines for Beverage Production/Process Technology segment made a loss in 2018.

The segment's profitability was weaker than expected in 2018. Earnings before taxes (EBT) decreased from −€4.5 million in the previous year to −€19.0 million. This mainly related to a total of around €17 million in expenses for reorganisation and acquisitions. Most of this was a result of higher variable purchase price obligations on an acquisition in 2018. In addition, there were expenses for measures for a sustained improvement in future earnings. Expenses relating to digitalisation activities, which are not yet profitable, are also reflected in segment earnings. The EBT margin was −2.8% in 2018 (previous year: −0.7%).

Segment revenue (€ million)



Segment EBT (€ million) and EBT margin (%)



Machines and Lines for Beverage Production/Process Technology

Overall assessment of **economic position**

At the time that this Annual Report went to press, the Executive Board finds that KRONES' economic position is satisfactory overall. Although overall economic conditions have deteriorated, KRONES' markets, i.e. the international beverage and packaging industry, show stable growth.

KRONES continued to growth in 2018. The company benefited from its broad global footprint and its full range of products and services. KRONES' profitability was primarily affected by higher material and labour costs and by expenses for reorganisation and acquisitions.

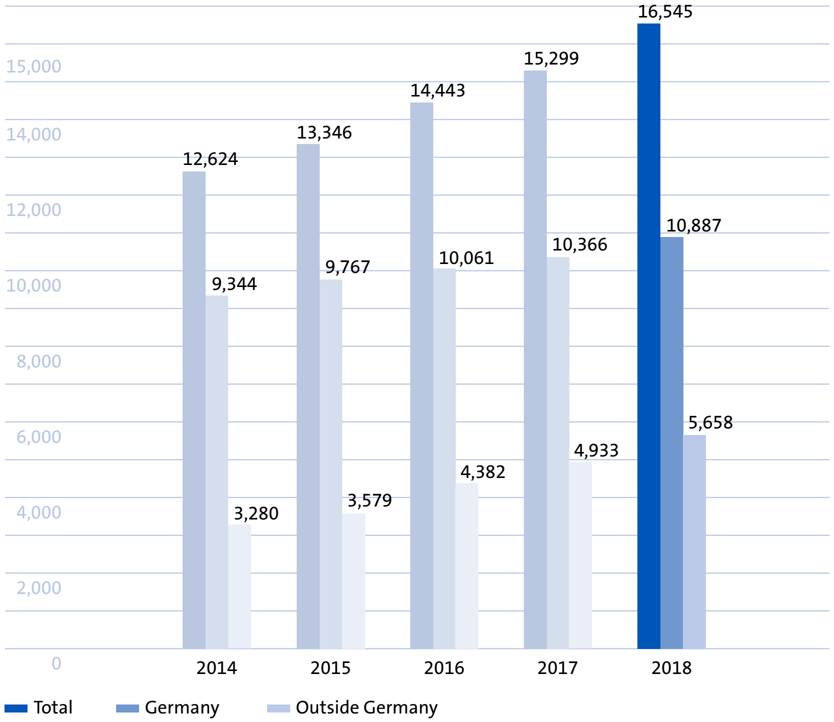
Revenue rose by 4.4% year-on-year to €3,854.0 million in 2018. Adjusted for currency and acquisition effects, revenue growth was around 5%. Overall, the company attained the revised 4% growth target announced in autumn 2018. Revenue increased in both segments. Conversely, profitability was down both in the core segment – Machines and Lines for Product Filling and Decoration – and in the Machines and Lines for Beverage Production/Process Technology segment. The EBT margin went down in the core segment from 8.5% to 7.0%. In process technology, EBT deteriorated from –€4.5 million year to –€19.0 million.

For the KRONES Group as a whole, earnings before taxes (EBT) decreased by 21.1% year-on-year from €258.8 million to €204.3 million in 2018. This includes around €42 million in expenses for reorganisation and acquisitions. Including these expenses, the company generated an EBT margin of 5.3% in 2018 (previous year: 7.0%). KRONES' third target ratio – working capital to revenue – held stable compared with the previous year, at 27.3% in 2018.

The company's financial and capital structure remains very sound. At the end of 2018, it had cash and cash equivalents of €218.8 million. Net cash and cash equivalents (cash and cash equivalents less bank debt) came to €215.1 million. Due to the increase in total assets, the equity ratio decreased slightly to 43.2% (previous year: 43.8%). KRONES continues to have a good overall basis for profitable growth.

Employees

Employees by region



Number of employees up 8.1% to 16,545

In order to exploit the opportunities our market offers, KRONES invests heavily not only in training and employee development, but also in new employees. The company further expanded its workforce in 2018, especially in our customers' markets abroad. The company employed 16,545 people worldwide at the end of 2018, which is 1,246 employees or 8.1% more than in the previous year. In Germany, the number employed went up by 521 to 10,887. The workforce outside Germany expanded by 725 to 5,658 people. The share of employees outside Germany rose from 32.2% to 34.2% at the end of 2018.

Employees in the emerging markets 2014–2018

Year	South America	Africa	Asia-Pacific	CIS/Eastern Europe	China	**Total**
2014	501	363	453	136	385	**1,838**
2015	519	376	502	147	451	**1,995**
2016	549	386	602	155	508	**2,200**
2017	581	393	734	172	608	**2,488**
2018	637	452	830	213	716	**2,848**

Half of the workforce outside of Germany is now employed in emerging markets. The company plans to continue rapid growth in such markets, where KRONES has for years generated more than 50% of consolidated revenue. In the reporting period, KRONES added 360 new employees in emerging regions, for an increase of 14.5% to 2,848 people.

To counteract the international shortage of skilled labour, one of the top human resources priorities is to attract young and qualified recruits to KRONES. For this reason, KRONES invests heavily in training and continuing education for personnel worldwide. In addition to the good training activities at our German locations, we also train our own employees locally in countries such as Kenya and China.

More information on our labour practices can be found in our Non-financial Report. This is available online at https://www.krones.com/en/company/responsibility/downloads.php.

Sustainability at KRONES

For KRONES, corporate social responsibility (CSR) is about sustainability in business. By actively managing CSR, the KRONES Group contributes to sustainable development. In order to identify potential risks at an early stage, reduce our environmental footprint and continuously enhance our positive impact on the community, sustainability must be incorporated in all major decisions. We are aware of our responsibility in the KRONES Group, not only for our business performance, but also for the effects of our business activities on the environment, employees, society and future generations.

Non-financial report for 2018

Under the CSR Directive Implementation Act, which entered into force in Germany in 2017, we disclose the policies we followed in the last financial year with respect to the non-financial aspects that are material to KRONES. The non-financial report for 2018 , which does not form part of the Group Management Report is simultaneously the combined separate consolidated non-financial report for the KRONES Group and KRONES AG for the 2018 financial year, within the meaning of Sections 315b and 315c read in conjunction with Sections 289c to 289e of the German Commercial Code (HGB).

The Non-financial Report is published online at https://www.krones.com/en/company/responsibility/downloads.php.

Risk and opportunity report

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

KRONES' risk management system

KRONES actively addresses potential risks. All key business processes are constantly subject to an internal control and management system.

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. Within our corporate strategy, we also identify, analyse, and unlock opportunities. However, unlike risks, business opportunities are not documented within our risk management system.

In essence, risks are defined as potential negative deviations from our earnings forecast for the 2019 financial year. Opportunities are potential positive deviations from our earnings forecast for the 2019 financial year. Because they share the same sales and procurement markets, the same risks and opportunities also apply to both of the KRONES Group's operating segments.

KRONES' risk management system consists of an internal control system with which we record, analyse, and assess all relevant risks. We monitor all material risks and any countermeasures already taken in a detailed, ongoing process that entails planning, information, and control.

We assess risks on the basis of the likelihood of an event and its potential financial impact. Earnings before interest and taxes (EBIT) serve as the measure for potential financial impact. Starting with gross risk, we determine the net risk, which takes into account any mitigating actions taken.

KRONES presents risks using a three-column approach, which covers the maximum loss associated with a risk, the likelihood of an event, and the financial impact – the latter being the product of the first two factors. Each factor is categorised as low, medium, or high.

The categories are defined as follows:

Maximum loss* (€ million)		Likelihood of an event (%)		Potential financial impact* (€ million)	
low	1.0 to 10.0	low	0 to 20	low	1.0 to 10.0
medium	10.1 to 50.0	medium	21 to 49	medium	10.1 to 50.0
high	> 50.0	high	50 to 100	high	> 50.0

*Based on EBIT

Multi-stage risk management system

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. Material project-related risks are reduced or avoided before an order is accepted. We conduct a profitability analysis of all quotes prior to order acceptance. 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 tax risks as well as scheduling and other contractual risks before accepting an order.

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 annually for KRONES AG and all significant group companies. The results of the risk inventory and mitigating actions are used in our annual planning and forecasting. 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 may have a significant negative impact on earnings.

Risk monitoring

We use a variety of interlinked controlling processes to monitor risks within the KRONES Group. Regular comprehensive reports from the individual business units keep the Executive Board and other decision-makers apprised of all possible risks and deviations from company planning and of the status of mitigating actions in a timely manner. For projects with a high contract value, 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 primarily 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

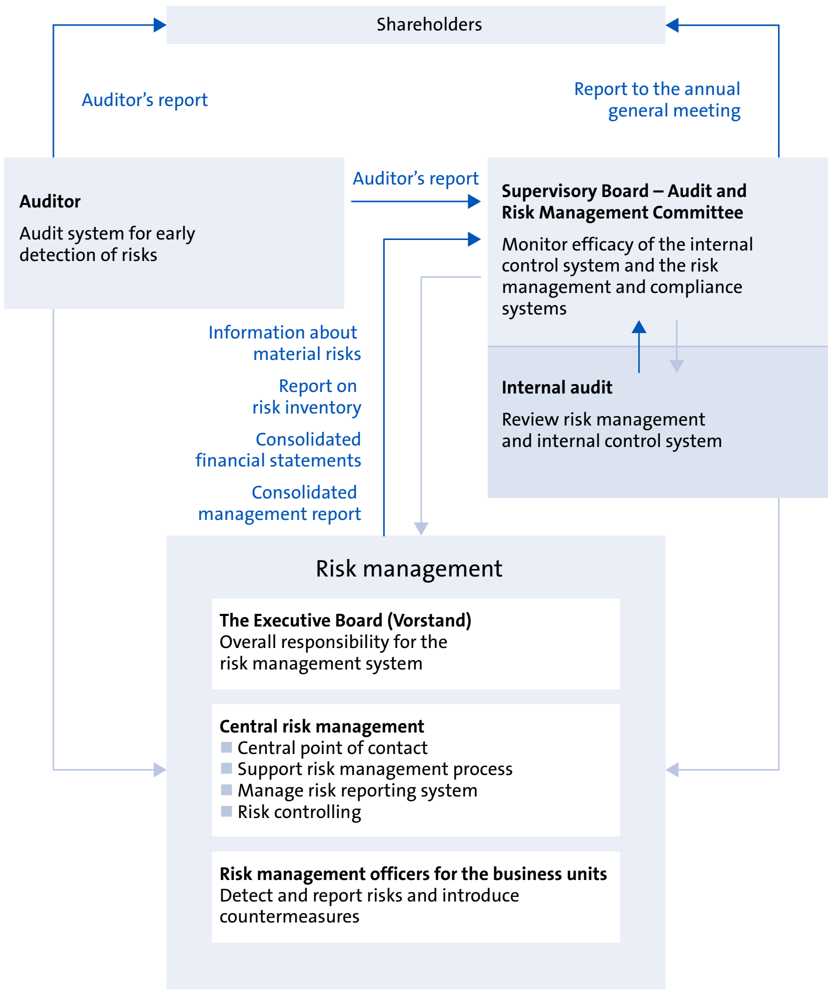
Risk management organisation

KRONES' risk management system is continuously monitored and reviewed. This is governed by clear areas of responsibility and accountability.

At KRONES, risk management is part of Controlling. The risk management system is reviewed by our Internal Audit team.

In our Controlling department, 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 management organisation at KRONES



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

The internal control and risk management system ensures that all business transactions are correctly recorded, processed, recognised and included in 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, recognised and included in financial reporting. 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 (group) accounting and financial reporting can be described as follows:

The KRONES Group has a clear management and corporate structure. Cross-cutting key functions are centrally managed.

- The duties of the units that are materially involved in accounting and financial reporting processes are explicitly segregated and responsibilities 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 in accounting performs programmed plausibility checks.
- We use dual verification for all accounting-related processes.

Overview and description of material risks

Risk categories	Maximum loss	Likelihood of event	Potential financial impact
General business environment and industry-specific risks			
General economic risks	high	medium	medium
Industry-specific risks	high	low	medium
Financial risks			
Default risks	high	low	medium
Liquidity risk	low	low	low
Interest rate risk	low	low	low
Currency risk	medium	medium	low
Operational risks			
Price risk	high	medium	medium
Procurement risks	low	low	low
Cost risk	high	low	medium
Personnel risk	low	low	low
Legal risks	high	medium	medium
Environmental and safety risks	high	low	low
IT risks	low	medium	low

KRONES classifies the maximum loss, the likelihood of an event and the potential financial impact of material risks into the three risk categories low, medium, and high. Definitions are provided below on page 86.

General business environment and industry-specific risks

General economic risks

As a provider of products and services for the food and beverage industries, KRONES is less dependent on economic cycles than other machinery manufacturers. However, the company cannot escape the influence of the general economic situation entirely. Our direct impact from international trade conflicts is minor. If, however, global economic growth were to be considerably weaker than expected, for example due to sustained trade conflicts, this would have a negative impact on KRONES' revenue and earnings. Economic conditions deteriorated due to currency volatility in a number of emerging markets in 2018. If the number of emerging markets affected continues to increase and the crisis proves not to be merely temporary, there could be a fall in investment confidence among our customers in such markets. A global financial crisis could likewise have a negative impact on investment in machines and lines from KRONES because financing options would worsen in general. The company's broad international base puts KRONES in a position to at least attenuate any decline in business in individual regions.

Impact of general economic risks: We rate the maximum loss as high, the likelihood of an event as medium, and the financial impact as medium.

Industry-specific risks

KRONES is exposed to industry-specific risks primarily through the development of the global packaging market and the actions of competitors. The competitive environment could intensify if KRONES' competitors resort to price dumping in an effort to win orders and thus more fully utilise their production capacities. We are addressing the risk of loss of market share by further expanding our technology leadership. KRONES' strong focus on service also sets the company apart from the competition.

Impact of industry-specific risks: We rate the maximum loss as high, the likelihood of an event as low, and the financial impact as medium.

Financial risks

The financial risks to which KRONES is exposed are default risks, liquidity risks, interest rate risks, and currency risks. Our description of these risks and suitable actions below is in keeping with the disclosure requirements under IFRS 7 on the reporting of risks relating to financial instruments. Because of regional and customer-related diversification, there is no material concentration of risk.

1. Default risk

Default risk is the maximum potential risk arising from each individual position at the reporting date. Any counter-exposures are not taken into account.

1.1 Trade receivables

Credit risk is the risk of economic loss arising from a customer's failure to fulfil contractual payment obligations. KRONES manages credit risk on trade receivables on the basis of internal policies. Most trade receivables are backed by various, sometimes country-specific, forms of security. These include retention of title, guarantees 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. Write-downs on bad debt (non-recoverable trade receivables) are taken on an individual basis. The very low volume of actual defaults, as measured against the total volume of receivables, attests to the effectiveness of the measures taken.

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

€ thousand			Of which overdue by the following number of days at the reporting date			
	Carrying amount	Of which not overdue at the reporting date	up to 90 days	between 90 and 180 days	between 180 and 360 days	more than 360 days
31 Dec 2018 Trade receivables and contract assets	1,635,059	1,460,726	116,017	21,212	24,337	12,767
31 Dec 2017 Trade receivables and contract assets	1,277,358	998,659	171,991	42,825	34,363	29,520

1.2 Derivative financial instruments

KRONES uses derivative financial instruments on the basis of individual contracts solely for risk management purposes. Not using derivative financial instruments would expose 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 Australian dollar, the Canadian dollar, and the pound sterling. The material contractual details (amount, term) of the underlying and hedge transactions are largely identical. The risk of default relating to derivative financial instruments is limited to the balance of the positive fair values in the event of a contracting party's default. More information on this topic is provided in the notes to the consolidated financial statements.

1.3 Other financial assets

The maximum credit risk position arising from other financial assets corresponds to the carrying amount of the instruments. KRONES is not exposed to any material default risk arising from its other assets, all of which are current assets.

Impact of default risks: We rate the maximum loss as high, the likelihood of an event as low, and the financial impact as medium.

2. Liquidity risk

Liquidity risk is the risk 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 that is based in part on rolling monthly liquidity planning with a planning horizon of one year. This enables KRONES to be proactive about any possible liquidity bottlenecks. Apart from cash on hand, KRONES' cash and cash equivalents consist primarily of demand deposits. The following overview of maturities shows how the undiscounted cash flows relating to liabilities as of 31 December 2018 influence the company's liquidity situation.

€ thousand	Carrying amount at 31 Dec 2018	Cash flow for 2019		Cash flow for 2020–2023		Cash flow for 2023 or later	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Derivative financial instruments	1,982	0	1,980	0	2	0	0
Liabilities to banks	3,724	0	555	680	3,169	0	0
Liabilities from leases	295	6	118	15	177	0	0
Discounted trade bills	106,670	0	106,670	0	0	0	0
Other financial liabilities	41,302	0		44	41,302	0	0
	153,973	**6**	**109,323**	**739**	**44,650**	**0**	**0**

€ thousand	Carrying amount at 31 Dec 2017	Cash flow for 2018		Cash flow for 2019–2022		Cash flow for 2022 or later	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Derivative financial instruments	513	0	340	0	173	0	0
Liabilities to banks	24,620	0	24,620	0	0	0	0
Liabilities from leases	102	4	92	0	6	0	0
Discounted trade bills	6,979	0	6,979	0	0	0	0
Other financial liabilities	27,811	0		42	27,811	0	0
	60,025	**4**	**32,031**	**42**	**27,990**	**0**	**0**

Impact of liquidity risk: We rate the maximum loss as low, the likelihood of an event as low, and the financial impact as low.

3. Interest rate risk

KRONES is exposed to risk arising from possible fluctuations in market interest rates. KRONES had very little bank debt at the end of the 2018 reporting period.

Impact of interest rate risk: We rate the maximum loss as low, the likelihood of an event as low, and the financial impact as low.

4. Currency risk

Because exports to countries outside the European monetary union make up a significant portion of total revenue, we are exposed in principle to currency risk. We use exchange rate hedges to counter such risk as far as possible. In addition, we make most purchasing and sales transactions in euros or the relevant functional currency.

Material items denominated in foreign currencies by IFRS 7 classes:

€ thousand	Currency USD	Currency NOK	Currency CAD	Currency CNY	Currency GBP
Cash and cash equivalents	395	0	132	56	0
Trade receivables	907	0	5,239	0	0
Other financial receivables	0	635	34	0	0
Derivatives at positive market values	194	284	269	0	45
Loans	0	0	0	0	0
Total assets	**1,496**	**919**	**5,673**	**56**	**45**
Liabilities					
Trade payables	−2,114	0	0	−1,082	−39
Due to banks	0	0	0	0	0
From finance leases	0	0	0	0	0
Other liabilities	−856	−14,217	−2,543	0	−4,007
Derivatives at negative market values	−1,100	−11	−7	−589	0
Financial liabilities at amortised cost	0	0	0	0	0
Total liabilities	**−4,070**	**−14,228**	**−2,550**	**−1,671**	**−4,046**
Balance of assets and liabilities	**−2,574**	**−13,309**	**3,123**	**−1,615**	**−4,001**
Net exposure at 31 Dec 2018	**−2,574**	**−13,309**	**3,123**	**−1,615**	**−4,001**

A 10% change in the closing rate at the end of the reporting period would have the following effects on consolidated net income:

€ thousand	Currency USD	Currency NOK	Currency CAD	Currency CNY	Currency GBP
Consolidated statement of profit and loss	−116	1,254	−87	68	567
Consolidated equity	3,022	1,254	553	214	671

Impact of currency risk: We rate the maximum loss as medium, the likelihood of an event as medium, and the financial impact as low.

Operational risks

1. Price risk

KRONES operates in a highly competitive market in which some orders are generated by way of prices that do not cover costs. We cannot rule out the possibility of a deterioration in the prices we are able to attain for our products and services. Fixed-price contracts with customers also entail price risks as KRONES must bear any additional costs that arise. KRONES has introduced a multidimensional order analysis process to minimise this risk. Any enquiry or order that reaches or exceeds a predefined size is assessed on the basis of financial, technical/technological, tax, legal, and regional risks.

Impact of price risk: We rate the maximum loss as high, the likelihood of an event as medium, and the financial impact as medium.

2. Procurement risks

KRONES is exposed to market price risk relating to its procurement of parts and raw materials for operations. Geopolitical and macroeconomic developments are the primary factors influencing raw materials prices. Essentially, the risk is that raw material prices will develop to our disadvantage. The company mitigates this risk through targeted procurement management and long-term supply contracts to reduce material commodity price risks. With respect to suppliers, we also face risks relating to products, deadlines, and quality. A specially designed process for supplier selection, monitoring and management helps minimise these risks.

Impact of procurement risks: We rate the maximum loss as low, the likelihood of an event as low, and the financial impact as low.

3. Cost risk

Apart from increasing revenue, our earnings forecast is based on the fact that we expect to reduce costs. We are also optimising cost structures along our entire value chain for the long term as part of the Value programme. Our primary focus here is on making our traditional fixed costs as flexible as possible in order to cope with sharp upward and downward changes in the markets. KRONES is exposed to the risk that these cost savings will be less than expected. We mitigate this risk by continually monitoring the projects underway across the company.

Impact of cost risk: We rate the maximum loss as high, the likelihood of an event as low, and the financial impact as medium.

4. Personnel risk

KRONES plans to continue to increase its business volume and intends to step up growth, in particular in the services business. For that purpose we need highly qualified employees in Germany and abroad. There is a risk that the company will not find enough suitable employees. We aim to ensure early access to qualified employees through ongoing cooperation with colleges and universities. We regularly employ students pursuing their bachelor's and master's degrees. We also use professional HR consultants.

Impact of personnel risk: We rate the maximum loss as low, the likelihood of an event as low, and the financial impact as low.

Legal risks

KRONES is exposed to the risks arising from operating activities in connection with possible legal disputes. KRONES addresses legal risks with its rules of conduct, codes and an internal compliance structure. In addition, the company has taken out insurance policies that are customary for our sector.

Impact of legal risks: We rate the maximum loss as high, the likelihood of an event as medium, and the financial impact as medium.

Environmental and safety risks

As a manufacturing company, KRONES is exposed to risks relating to the environment and safety that could lead to possible harm to persons, goods or the company's reputation. Any harm caused by technical or human error in production can have a direct impact on our financial position. Such an event and any resulting fines, claims for damages or harm to our reputation can also have an indirect financial impact. KRONES mitigates environmental and safety risks with high technical standards in production, training, rules of conduct, and insurance policies customary in our industry.

Impact of environmental and safety risks: We rate the maximum loss as high, the likelihood of an event as low, and the financial impact as low.

IT risks

All of KRONES' material business processes are based on functioning IT systems. The risks here are a failure or malfunction of or unauthorised access to critical systems. Such events could result in the loss of important confidential data. KRONES uses internationally recognised IT security measures to protect against these risks. We have redundant IT systems in place for critical business processes.

Impact of IT risks: We rate the maximum loss as low, the likelihood of an event as medium, and the financial impact as low.

Overview and description of material opportunities

Material opportunities

KRONES does not record business opportunities within the risk management system. For this reason, we do not report in the following on likelihood of event or possible financial impact. We describe opportunities in general below.

General economic opportunities

General economic opportunities arise for KRONES as a result of the company's good international positioning. In particular, KRONES has considerably strengthened its market position in the emerging markets in the Asia-Pacific region and in Africa and the Middle East in recent years. The International Monetary Fund forecasts that growth in emerging and developing economies will slow in 2019. If this forecast does not materialise, and growth in emerging markets even accelerates, then KRONES would stand to benefit. We would benefit more than proportionately from accelerated growth in the emerging markets. Better-than-expected economic growth in the euro area and in the USA could also result in earnings above our forecast.

Industry-specific opportunities

Beverage and food producers are increasingly focused on conserving energy and other resources. There is a chance of trend intensifying and customers being more willing to accept higher prices. That would open additional selling and revenue opportunities for KRONES due to the company's competitive advantages in this area. With enviro, our certified management system, we have established the basis for ensuring that KRONES machines and lines feature especially low energy and media consumption. The company has also developed a competitive advantage here.

Opportunities arising from acquisitions

The company's sound financial position and capital structure enable KRONES to seize opportunities for external growth. As part of our strategy, we keep a purposeful eye out for suitable acquisitions. Acquisitions are not included in our earnings forecasts. External growth could open up opportunities for KRONES.

Operational opportunities

1. **Selling prices**
   KRONES aims to achieve its target for earnings improvement by way of a better cost base. Additionally, we anticipate that the price increases on all bottling and packaging equipment and for process technology with effect from 1 May 2018 will have an increasingly positive effect in the 2019 financial year. If market prices should develop better than expected, this would yield opportunities for the company.

2. **Procurement prices**
   The company increasingly buys same parts and complete assemblies from suppliers. In addition, KRONES increasingly procures materials locally at the company's locations worldwide. The opportunity exists that we might save more in this way than forecast. Additional opportunities arise if commodity prices are generally lower than expected.

3. **Costs**
   The company is also optimising its cost structures as part of the Value strategy programme. Opportunities arise for KRONES if specific measures have greater or more rapid effect than planned.

Summary of risks and opportunities

Viewed from today's perspective, KRONES is not exposed to any risks that threaten the company's continued existence. Compared with the previous year, our assessment of the risks and opportunities has not materially changed. The main risks remain in the general business environment and in industry-specific and financial risks.

Events after the reporting period

After the end of the reporting period, no significant events took place.

Report on **expected developments**

- Global economic outlook slightly weaker
- Good growth opportunities for KRONES overall
- Executive Board expects increases in revenue and earnings before taxes in 2019

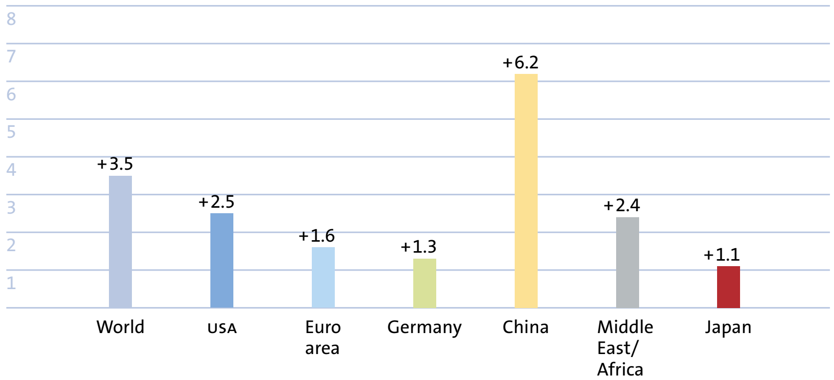
Global economic growth for 2019 estimated at 3.5%

In January 2019, the International Monetary Fund (IMF) lowered its forecast for global economic growth in the full year 2019 from 3.7% to 3.5%. The main reasons for this were the trade conflict between the USA and China and weakening growth rates in a number of countries, including France, Germany and China. At the same time, the IMF experts pointed out that risks are tilted to the downside. This includes volatility on financial markets and rising interest rates in the USA. However, the IMF does not believe that the global economy is headed for recession.

The International Monetary Fund has slightly lowered its growth forecast for 2019.

In emerging and developing economies, the pace of growth is likely to be a little slower in 2019 than in the previous year. This is mainly due to the Chinese economy. The IMF expects that China's gross domestic product (GDP) will grow by only 6.2% in 2019 (previous year: 6.6%), partly due to tariff disputes with the USA. For the Middle East/Africa region, the IMF anticipates GDP growth of 2.4% in 2019 (previous year: 2.4%). In Latin America, the growth rate is expected to accelerate, with GDP growth of 2.0% relative to 2018 (previous year: 1.1%). In total, the IMF is forecasting 4.5% economic growth for the emerging and developing economies in 2019 (previous year: 4.6%).

Percentage GDP growth in 2019 (forecast)



Source: IMF

The IMF expects economic problems in a number of industrialised economies in 2019, most of all in the euro area. Its experts lowered their growth forecast most sharply for Germany, which is labouring under production difficulties in the automotive industry and lower export demand. German GDP is expected to grow by just 1.3% in 2019 (previous year: 1.5%). For the euro area, the IMF anticipates GDP growth of 1.6% in 2019 (previous year: 1.8%). The IMF's economists are more optimistic about the outlook for the US economy. With the positive effect of fiscal incentives, the world's largest economy is expected to increase GDP by 2.5% in 2019 (previous year: 2.9%). For Japan, the IMF is forecasting 1.1% GDP growth (previous year: 0.9%). In total, the IMF forecasts 2.0% GDP growth for industrialised economies in 2019 (previous year: 2.3%).

Strong employment and moderate inflation rates support consumer spending

Consumer spending is a key factor determining the propensity of KRONES' customers to make capital expenditures and, consequently, the level of demand for beverage filling and packaging equipment. Low unemployment and inflation rates have a positive effect on consumer purchasing power and therefore support demand for packaged food and beverages. Thus, unemployment and inflation rates indirectly impact demand for KRONES' products and services. We do not expect either of these factors to have any negative effect on KRONES' business overall in 2019.

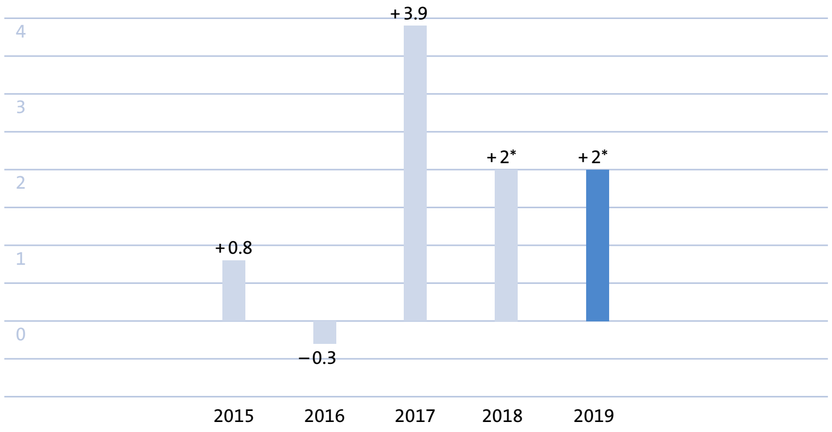
German machinery and industrial equipment manufacturers expected to slightly increase production

The German Mechanical Engineering Industry Association (VDMA) expects growth for the industry in 2019.

Germany's Mechanical Engineering Industry Association (VDMA) expects that the economic growth slowdown in 2019 will also affect demand for capital goods. It also highlights unknowns such as Brexit and the trade disputes. Overall, the VDMA expects machinery and industrial equipment output to rise in value by 2% in 2019 (previous year: plus 2%).

The VDMA likewise projects 2% output growth in 2019 for the food and packaging machinery subsector to which KRONES belongs.

Change in output in the German machinery sector year-on-year (%)



* Forecast

Source: Germany's Federal Statistical Office, VDMA

KRONES moderately optimistic going into 2019

With the year's economic forecasts still positive overall, KRONES is moderately optimistic going into the 2019 financial year despite political and economic uncertainties. The packaging machinery market is growing at a relatively stable pace because demand for packaged beverages and foods is rising on the back of multiple megatrends. Despite the positive environment, our market remains challenging. Competition for orders is intense, and customers are tending to gain in purchasing power due to mergers and acquisitions. Material and labour costs are not expected to ease in 2019.

Revenue and profitability to increase in both segments in 2019

The key to profitable growth for KRONES lies in expanding our global footprint. Establishing a cost-optimised supplier network in the various regions plays a major part here. In addition, launching new products and services and further reducing costs remain important factors in order to grow further and improve profitability in both segments in 2019.

In the core segment, Machines and Lines for Product Filling and Decoration, KRONES will further expand its global footprint in 2019. An important step here is the start of production at our new plant in Hungary in the second half of 2019. Innovation will also contribute to growth. To further offset the rising cost of material, we will continue to press ahead with modularisation. That enables us to secure better procurement terms and increase efficiency within the company.

For the core segment, KRONES expects sales growth of around 3% in 2019, which is temporarily below the market growth rate due to the price increases. The EBT margin is expected to be around 7%.

The Process Technology Segment is expected to continue growing in 2019.

In the Machines and Lines for Beverage Production/Process Technology segment, the focus is likewise on expanding our global footprint. By establishing additional international hubs, we aim to fulfil orders from within the various regions faster and more cost-efficiently. We plan to increase order quality and hence profitability in the high-revenue brewery business. Rapid integration of the 2018 acquisitions in this segment will enable us to unlock additional revenue and earnings potential.

The intralogistics business, which is part of the Process Technology segment, is once again expected to harness the good market growth opportunities and make a positive contribution to earnings this year. Intralogistics is becoming ever more important to our customers as it helps them properly manage and distribute the increasing diversity of packaging types and forms. It is also a major element of the digital beverage plant.

For the Process Technology segment in 2019, we are forecasting revenue growth by 5% and an EBT margin of approximately 1%.

Based on the prevailing macroeconomic outlook and the current expected development of the markets relevant to KRONES, the company expects consolidated revenue growth of 3% in 2019.

KRONES aims to increase revenue and the EBT margin in 2019.

In order to attain its medium-term corporate goals, KRONES will continue in 2019 to work towards a future-ready global structure. The company does not expect any noticeable fall in material procurement prices in 2019; the same applies to labour costs. KRONES' price increases on all bottling and packaging equipment and for process technology with effect from 1 May 2018 are likely to have a slight positive effect on earnings in the 2019 financial year. Overall, KRONES expects an EBT margin of around 6% for 2019.

Above all due to the focus on increases in the price level, in the current economic and geopolitical climate, KRONES sees the management of its targets for 2019 subject to greater uncertainties than in the past.

For its third performance target, working capital to revenue, KRONES expects a figure of 26% in 2019. We intend to reach this target by more intensive working capital management.

	Forecast 2019	Actual 2018
Revenue growth	3%	4.4%
EBT margin	6%	5.3%
Working capital to revenue	26%	27.3%

Disclosures required under Sections 315 a (1) and 289 a (1) of the German Commercial Code (HGB)

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

Under Section 20 (1) of the articles of association, each share entitles its holder to one vote in the annual general meeting. Unless mandatory provisions of law stipulate otherwise, resolutions of the annual general meeting are made with a simple majority of 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 Section 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 general meeting are entitled to participate and vote in the annual general meeting. Special verification of the shareholding in text form, issued in German or English by the institution with which the custody account is held, shall constitute sufficient evidence of the shareholding. The evidence of shareholding must relate to the start of the twenty-first day prior to the annual general meeting.

Pursuant to Section 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 annual general meeting may specify a relaxation of this requirement without prejudice to Section 135 of the German Stock Corporation Act (AktG).

In the annual general meeting, the chair of the meeting can set appropriate time limits for shareholders' questions and comments (Section 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 of shareholder	Total share of voting rights	Of which: indirect voting rights attributable pursuant to Section 34 (2) of the Securities Trading Act
Familie Kronseder Konsortium GbR, Neutraubling, Germany	51.61%	51.61%

Changes to the shareholdings listed above that are not required to be reported to the company may have occurred since the specified date (January 2019). Because the company's shares are bearer shares, the company is generally only aware of changes in shareholdings if the changes are subject to reporting requirements.

The appointment and dismissal of Executive Board members is governed by Sections 84 and 85 of the German Stock Corporation Act (AktG). Pursuant to Section 6 (1) of the articles of association, the Executive Board consists of at least two members. Pursuant to Section 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 Sections 179 et seq. of the German Stock Corporation Act. Such amendments are to be adopted by resolution of the annual general meeting (Section 119 (1) No. 5 and Section 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 (Section 13 of the articles of association).

Pursuant to Section 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) by issuing ordinary bearer shares against cash contributions on one or more occasions up to and including 15 June 2021. Shareholders must normally be granted subscription rights to such shares. The Executive Board may exclude shareholders' subscription rights, with the approval of the Supervisory Board, for any fractional amounts that may arise.

By resolution of the annual general meeting of 13 June 2018, the Executive Board is authorised, up to and including 12 June 2023, with the approval of the Supervisory Board, to buy treasury shares totalling up to 10% of the company's share capital at the time that the resolution was adopted or, if smaller, at the time that the authorisation is exercised.

By resolution of the annual general meeting of 13 June 2018, the Executive Board is authorised to use any treasury shares bought pursuant to the aforementioned authorisation in accordance with Section 71 (1) No. 8 of the Stock Corporation Act, besides for sale on the stock exchange or by offer to all shareholders, for any permissible purpose, and in particular as follows:

1) The shares may be cancelled, without the cancellation or its execution requiring a further resolution by the annual general meeting.

2) The shares may be offered and transferred to third parties in return for non-cash contributions, in particular in connection with business combinations or on the acquisition of companies, businesses, parts of companies or equity interests. In addition, the shares may also be used for the termination or settlement of shareholder actions at affiliates of the company.

3) The shares may be sold to third parties against cash payment if the price at which the shares in the company are sold is not significantly lower, within the meaning of sections 71 (1) no. 8 sentence 5 and 186 (3) sentence 4 of the Stock Corporation Act, than the stock exchange price of a company share at the time of sale.

4) The shares may be used to service obligations or rights to purchase shares in the company arising from and in connection with convertible bonds or bonds with warrants, or profit-sharing rights with conversion rights or warrants, issued by the company or any of its group companies.

Shareholders' statutory subscription rights to such shares are excluded to the extent that the shares are used in exercise of the authorisations set out above under 2) to 4) inclusive or, in the case of sales of treasury shares to all shareholders, to the extent necessary to avoid fractional amounts.

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.

Dependecy report

Pursuant to Section 17 of the German Stock Corporation Act (AktG), Familie Kronseder Konsortium GbR, Neutraubling, has a controlling influence over KRONES AG. Thus, in keeping with Section 312 AktG, the Executive Board has prepared a report which contains the following final declaration:

For every transaction made between KRONES AG and the owners of Familie Kronseder Konsortium GbR and affiliated companies in the reporting period, KRONES AG made arrangements for appropriate consideration within the meaning of Section 312 AktG and – to the extent that it was to be fulfilled in the reporting period – also received said consideration.

The remuneration report presents the basic features, structure, and amounts of Executive Board and Supervisory Board remuneration at KRONES AG. In the interest of clarity and transparency, the disclosures on individual remuneration and the description of the basic features of the remuneration system have been combined in the following remuneration report, which forms part of the consolidated management report. As such, it covers the disclosures required under Section 314 (1) No. 6a of the German Commercial Code (HGB).

The statement on corporate governance is also available online at www.krones.com.

Remuneration report

The remuneration report presents the basic features, structure, and amounts of Executive Board and Supervisory Board remuneration at KRONES AG. In the interest of clarity and transparency, the disclosures on individual remuneration and the description of the basic features of the remuneration system have been combined in the following remuneration report, which forms part of the consolidated management report. As such, it covers the disclosures required under Sections 314 (1) No. 6a of the German Commercial Code (HGB).

Executive Board remuneration

Basic features of Executive Board remuneration

Determining the total remuneration of the individual Executive Board members is the purview of the Supervisory Board's plenary meetings. The Standing Committee prepares the Supervisory Board resolutions relating to remuneration and makes recommendations.

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

The Supervisory Board reviews the appropriateness of the system on a regular basis using external benchmarks and comparisons with senior management and the entire workforce.

The current remuneration system for the Executive Board was last revised in 2017.

In this connection, the previous five-year Long-Term Incentive (LTI) was replaced by a new three-year Long-Term Incentive arrangement awarded on a revolving basis.

A transitional phase beginning 1 January 2018 was agreed to ensure neutrality in allocation.

This new arrangement was adopted by resolution of the Supervisory Board on 29 November 2017 and approved by the Annual General Meeting on 13 June 2018.

Remuneration components

The system for Executive Board remuneration consists of the following components:

- Fixed components (base salary and fringe benefits)
- Variable components that are payable annually and based on business performance (short-term incentives) and thus contain risk factors
- Variable components that serve as long-term incentives containing risk factors, with a measurement period of 3 years
- Post-employment benefits

All in all, the remuneration structure breaks down as follows: 59% fixed remuneration and 41% variable remuneration. In sum, the remuneration system is designed to create an incentive for successful long-term management. Thus, the long-term components of variable remuneration account for 64% of the total variable remuneration. Moreover, the variable remuneration is subject to caps and requirements that must be met for payment to occur.

Fixed components (base salary and fringe benefits)
The fixed amount is the base salary stipulated in the members' contracts and is paid out in equal monthly amounts. It is reviewed on a regular basis. For the financial year 2018, the base salaries of the five members of the Executive Board who were active in 2018 totalled €2,930 thousand (previous year: €3,220 thousand/six members).

In addition, the members received fringe benefits which are essentially the cost or non-cash benefit of customary insurance premiums, housing expenses, school fees, and the use of a company car. These benefits are taxed in accordance with applicable tax rules. For the 2018 financial year, the members of the Executive Board received fringe benefits totalling €280 thousand (previous year: €345 thousand).

Variable components
The variable remuneration contains risk elements and is thus not guaranteed remuneration. The incentive package for the Executive Board consists of the following since 2017:

- Short-term incentive (STI, measurement period: 1 year)
  - Awarded annually
  - Target bonus: 3 months' salary per annum (at 100% performance target level)
  - Reference figures: EBT margin (primary), order intake, consolidated revenue, and since 2017 net working capital
  - Capped at 200% (max. 6 months' salary)
  - No payment if EBT is negative

STI payment for the financial year 2018 amounts to €220 thousand in 2019 (previous year: €1.127 thousand). In addition, the Supervisory Board can, at its equitable discretion, pay out a special bonus if extraordinary events or exceptional performance warrant it. No special bonuses were paid out for the 2018 financial year.

- Medium-term incentive (MTI, measurement period: 3 years)
  - Replaced by three-year LTI and therefore last awarded in 2017
  - Target bonus: 3 months' salary per annum (at 100% performance target level)
  - Reference figures: through 2016 ROCE (primary), revenue, EBT margin, and quality costs; since 2017 net working capital, revenue, EBT margin, and quality costs
  - Capped at 200% (max. 6 months' salary)
  - No payment if EBT is negative on average

The provision for the medium-term incentive amounted to €807 thousand at the end of the financial year (previous year: €1,138 thousand), of which €398 thousand relates to remuneration for 2018 (prior year: €520 thousand).

- Long-term incentive (LTI, measurement period: 3 years)
  - Awarded annually (on a revolving basis)
  - Target bonus: 5.4 months' salary per annum (at 100% performance target level)
  - Reference figures: enterprise value on three-year average (EBT times 9, EBIT times 7, sales times 1) for start and end value plus net cash and less pension provisions
  - Capped at 200% (max. 6 months' salary)
  - No payment if EBT is negative on average

The provision for the long-term incentive for the transitional phase (2018–2020) amounted to €238 thousand at the end of the financial year.

The transitional LTI pays out as of at the end of the 2020 financial year provided that the reference figures have been attained or exceeded. If an Executive Board member leaves before the end of the measurement period, payment is pro-rated.

- Long-term incentive (LTI, measurement period: 5 years)
- Replace by three-year LTI.

The provision for the long-term incentive amounted to €3,379 thousand at the end of the financial year (previous year: €4,035 thousand), of which €2.651 thousand relates to remuneration for 2018. The LTI pays out as of the end of the 2018 financial year provided that the reference figures have been attained or exceeded and the entitlement is due. If an Executive Board member leaves before the end of the measurement period, payment is pro-rated.

Total Executive Board remuneration amounted to €6,479 thousand (previous year: €6,405 thousand).

There are and have been no stock-option plans or comparable share-based long-term incentive components of remuneration for Executive Board members at KRONES AG.

Post-employment benefits

The company has made post-employment benefit commitments to members of the Executive Board.

For Executive Board members who joined the board in 2012 or later, the post-employment benefits are contribution-based. Annual contributions in the amount of 40% of the respective member's annual base salary are paid into an external pension liability reinsurance policy in which the benefits are pledged to the beneficiary. There, they accrue annual interest until the benefits fall due, at the rate guaranteed when the policy was established plus any annual investment returns. Post-employment pension benefits are granted when the member reaches the age of 62 and only after the member leaves the Executive Board. Executive Board members can choose to receive a lump-sum payout of the post-employment benefits instead of annuity-based payments. Executive Board members' entitlements to post-employment benefits based on contributions from KRONES AG become vested immediately. Executive Board members may elect to receive supplemental monthly benefits for permanent disability and/or a monthly widow(er)'s pension.

Members of the Executive Board who entered the board before 2012 received benefit commitments under a defined benefit plan. The benefit commitment equals 30% of the last base salary received (average of the last 12 months of employment). The commitments include post-employment, permanent disability, and surviving dependent benefits. Here, too, post-employment benefits are granted after the member reaches the age of 62 and leaves the Executive Board. If a member of the Executive Board leaves the company before reaching the age of 62 for reasons of permanent disability or because the employment contract is terminated or not renewed, the amount of the pension entitlement in relation to the company is reduced by a certain percentage for each calendar year up to age 62; the percentage is determined in the individual's contract. If an Executive Board member dies, the member's spouse receives the full amount of the annuity that would have been owed to the Executive Board member for the first 6 months following the member's death. Thereafter, the widow(er)'s annuity is reduced to 70% of that benefit amount. Vesting of benefits is determined based on the provisions of the laws applicable at the time each contract was entered into.

In the case of both contribution-based plans and defined benefit plans, the individual employment contracts contain provisions that govern discontinuation, reduction, or cancellation of benefits (including widow(er)'s benefits if provided for) in the event of particularly substantial changes in accordance with the provisions of the German Stock Corporation Act.

Pension provisions of €2,087 thousand (previous year: €2,489 thousand) were recognised for active members of the Executive Board. At the end of 2018, the corresponding Defined Benefit Obligation (DBO) amounted to the following: for Mr. Klenk €3,866 thousand, for Mr. Ricker €42 thousand, for Mr. Tischer €46 thousand, and for Mr. Goldbrunner €31 thousand. In addition, €1,172 thousand (previous year: €1.024 thousand) was paid into contribution-based plans in 2018. In 2018, pension-related expenditure, including contributions into the post-employment benefits plan (bAV) amounted to the following: for Mr. Klenk €320 thousand, for Mr. Anderson €252 thousand, for Mr. Ricker €216 thousand, for Mr. Tischer €192 thousand, and for Mr. Goldbrunner €192 thousand.

Additional benefits in the event of termination of employment

The members' employment contracts contain a non-compete clause that includes a suitable compensation to be paid for the non-compete period. Further benefits for the event of termination have not been agreed.

Advances and loans

No loans or advances were provided to members of the Executive Board in 2018.

Benefits paid to former members of the Executive Board

Payments to former members of the Executive Board and their surviving dependents amounted to €1,688 thousand (previous year: €1,504 thousand). Pension provisions of €8,761 thousand (previous year: €7,723 thousand) were recognised.

Total remuneration paid to members of the Executive Board in 2017/2018

Remuneration 2018 pursuant to GAS 17 (€ thousand)

Name	Position		Base salary	Fringe benefits	Total	Short-term incentive	Medium-term incentive	Long-term incentive	**Total remun-eration**
Christoph Klenk	CEO Human Resources, Intralogistics, Digitalisation, Communication, Quality, Information Management	since 2003	800	28	828	60	133	920	**1,942**
Michael Andersen	CFO Finance, Controlling, Process Technology, Strategic Purchasing	since 2016	630	182	812	47	85	0	**945**
Thomas Ricker	Sales and Marketing	since 2012	540	21	561	41	67	669	**1,337**
Markus Tischer	International Operations and Services	since 2014	480	18	498	36	57	569	**1,160**
Ralf Goldbrunner	Bottling and Packaging Equipment	since 2014	480	31	511	36	57	493	**1,096**

The incentive amounts are amounts that will be paid out in the subsequent year.

Remuneration 2017 pursuant to GAS 17 (€ thousand)

Name	Position		Base salary	Fringe benefits	Total	Short-term incentive	Medium-term incentive	Long-term incentive	**Total remun-eration**
Christoph Klenk	CEO Human Resources, Communication, Quality, Information Management	since 2003	800	28	828	280	128	0	**1,236**
Michael Andersen	CFO Finance, Controlling, Strategic Purchasing	since 2016	510	219	729	179	0	0	**908**
Rainulf Diepold	Sales and Marketing	since 1996	660	29	689	231	140	1.193	**2,253**
Thomas Ricker	Bottling and Packaging Equipment	since 2012	450	21	471	158	93	0	**722**
Markus Tischer	International Operations and Services	since 2014	400	16	416	140	79	0	**635**
Ralf Goldbrunner	Plants and Components	since 2014	400	32	432	140	79	0	**651**

The incentive amounts are amounts that will be paid out in the subsequent year.

Supervisory Board remuneration

Remuneration of the members of the Supervisory Board is governed by Section 15 of the articles of association and resolved by the annual general meeting. For the 2018 financial year, the articles of association as amended by the annual general meeting on 13 June 2018 apply.

The members of the Supervisory Board receive remuneration that reasonably reflects their responsibilities and the company's position. In keeping with the recommendations of the German Corporate Governance Code, the Chairman and Deputy Chairman of the Supervisory Board as well as the Chairman and members of the Committees receive additional compensation.

The Supervisory Board's remuneration consists of an annual fixed remuneration of €35,000. The Chairman of the Supervisory Board receives two and one-half 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. Moreover, the members of the Supervisory Board receive a flat €1,500 fee per meeting as reimbursement for their expenses unless they submit proof of having incurred higher expenses.

Members of the Supervisory Board who belong to special committees within the Supervisory Board receive additional remuneration of €7,000 annually as well as a €1,500 flat-rate reimbursement for expenses per meeting.

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

The total remuneration paid to members of the Supervisory Board for the 2018 financial year amounted to €712 thousand (previous year: €631 thousand) and is shown in the table below with individualised disclosure.

Total remuneration paid to members of the Supervisory Board in 2017/2018

Remuneration 2018 pursuant to GAS 17 (€ thousand)

Name	Position	Base compensation	Additional compensation for committee work	Meeting attendance fee	**Total remuneration in 2018**
Volker Kronseder	Chairman of the Supervisory Board	87.5	7.0	15.0	**109.5**
Werner Schrödl*,**	Deputy Chairman of the Supervisory Board	52.5	7.0	13.5	**73.0**
Robert Friedmann	Regular member	17.5		4.5	**22.0**
Klaus Gerlach*	Regular member	35.0		6.0	**41.0**
Oliver Grober*,**	Regular member	17.5		4.5	**22.0**
Thomas Hiltl*,**	Regular member	17.5		4.5	**22.0**
Norman Kronseder	Regular member	35.0	7.0	15.0	**57.0**
Prof. Dr. jur. Susanne Nonnast	Regular member	35.0		4.5	**39.5**
Dr. phil. Verena Di Pasquale*,**	Regular member	35.0		6.0	**41.0**
Beate Eva Maria Pöpperl*,**	Regular member	35.0		4.5	**39.5**
Norbert Samhammer	Regular member	17.5		4.5	**22.0**
Petra Schadeberg-Herrmann	Regular member	35.0		4.5	**39.5**
Jürgen Scholz*,**	Regular member	35.0	7.0	10.5	**52.5**
Hans-Jürgen Thaus	Regular member	35.0	7.0	10.5	**52.5**
Josef Weitzer*,**	Regular member	35.0	7.0	15.0	**57.0**
Matthias Winkler	Regular member	17.5		4.5	**22.0**

* Employee representative ** A share of remuneration is donated in accordance with the current rules of the Hans-Böckler-StiftungStiftung

Remuneration 2017 pursuant to GAS 17 (€ thousand)

Name	Position	Base compensation	Additional compensation for committee work	Meeting attendance fee	**Total remuneration in 2017**
Volker Kronseder	Chairman of the Supervisory Board	87.5	7.0	9.0	**103.5**
Werner Schrödl*,**	Deputy Chairman of the Supervisory Board	52.5	7.0	13.5	**73.0**
Klaus Gerlach*	Regular member	35.0		6.0	**41.0**
Norman Kronseder	Regular member	35.0	7.0	13.5	**55.5**
Philipp Graf von und zu Lerchenfeld***	Regular member	35.0	7.0	4.5	**46.5**
Prof. Dr. jur. Susanne Nonnast	Regular member	35.0		6.0	**41.0**
Dr. phil. Verena Di Pasquale*,**	Regular member	35.0		6.0	**41.0**
Johann Robold*,**	Regular member	17.5	3.5	3.0	**24.0**
Beate Eva Maria Pöpperl*,**	Regular member	17.5		4.5	**22.0**
Petra Schadeberg-Herrmann	Regular member	35.0		6.0	**41.0**
Jürgen Scholz*,**	Regular member	35.0	3.5	7.5	**46.0**
Hans-Jürgen Thaus	Regular member	35.0		6.0	**41.0**
Josef Weitzer*,**	Regular member	35.0	7.0	13.5	**55.5**

* Employee representative ** A share of remuneration is donated in accordance with the current rules of the Hans-Böckler-Stiftung *** Deceased 1 December 2017

Report on Gender Equality and Equal Pay – Annex to the Management Report of KRONES AG

KRONES reports in the following on gender equality and equal pay as required under Section 21 of the Transparency in Wage Structures Act (Entgelttransparenzgesetz).

1) Measures to promote equality between women and men and the impact of such measures

Initiatives to improve the reconciliation of work and family life

KRONES aims for continuous improvement in working conditions for all employees. Measures to contribute to a positive working environment have been implemented by means of various initiatives and workplace policies.

In-company agreements have been negotiated on areas such as sabbaticals, flexible working and mobile working. KRONES provides various options for part-time working to address employees' wishes with regard to work-life balance. These options are largely taken up by women in the workforce.

A child daycare centre, Kroki Neutraubling e.V., has provided year-round childcare for over 40 children since 1 September 2008. Two crèche and two preschool groups admit children from families connected with KRONES at ages between four months and six years.

All KRONES AG locations take part in the Germany-wide Girls' Day to encourage more female school students consider the many technical training occupations at KRONES.

Recruitment

Job advertisements for vacancies at KRONES are gender-neutral.

2) Measures to create equal pay for women and men

Pay-scale employees

KRONES AG applies the collective agreements of the Bavarian metals and electrical industry at its operating locations by way of an accession agreement.

Employees are assigned to collective agreement pay scales on a gender-neutral basis in accordance with their specific job requirements.

Non-pay-scale employees

Job evaluation at KRONES for non-pay-scale employees is performed using proven standard methods by assigning job types to salary bands.

In performance agreements, target attainment is assessed on uniform and hence gender-neutral criteria.

KRONES continuously reviews pay structures and makes adjustments as needed.

Statistical data pursuant to Section 21 (2) of the Transparency in Wage Structures Act[1]

Gender	Full-time	Part-time	Employees
Female	860	371	1,231
Male	7,537	110	7,647
Total	**8,397**	**481**	**8,878**

[1] Full-time and part-time employees of KRONES AG in Germany, including BKK – as of 31 December 2016

Responsibility statement

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the group, and the consolidated management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group."

Neutraubling, 20 March 2019
KRONES AG
Der Vorstand

Christoph Klenk
CEO

Michael Andersen
CFO

Thomas Ricker

Markus Tischer

Ralf Goldbrunner

3

CORPORATE GOVERNANCE

Statement on corporate governance 116
- Declaration of compliance 116
- Composition of the Supervisory Board 118
- Information on corporate governance practices 119
- Diversity policies, succession planning for the Executive Board 120
- Duties and activities of the Executive Board and Supervisory Board 120
- Composition, duties, and activities of the Audit and Risk Management Commitee 121
- Composition, duties, and activities of the Standing Commitee 121
- Determinations pursuant to Sections 76 (4) and 111 (5) of the German Stock Corporation Act 121

Statement on **corporate governance**

KRONES recognises its responsibilities

For KRONES, the German Corporate Governance Code is an integral part of governance. The following is the report from the Executive Board and the Supervisory Board on corporate governance in accordance with Item 3.10 of the German Corporate Governance Code.

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.

Declaration of compliance pursuant to Section 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 7 February 2017 have been and are being complied with in accordance with the German Corporate Governance Code (hereinafter the 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 remuneration report shall present certain information about Executive Board remuneration in prescribed model tables. (Item 4.2.5 Sentences 5 and 6 of the Code)

  Some aspects of the layout are unclear and, moreover, it is doubtful that the additional use of the sample tables would serve to make the remuneration report more clear and generally understandable, as the company aims to do in its compliance with financial reporting requirements (see Item 4.2.5 Sentence 3 of the Code).

- 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 eight 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 relevant tasks are undertaken by the Standing Committee.

- In its election recommendations to the annual general meeting, the Supervisory Board does not currently disclose the personal and business relationships of every candidate with the enterprise, the company's governing bodies, and any shareholders with a material interest in the company. (Item 5.4.1 paragraphs 5 and 6 of the Code)

  The Supervisory Board deems the requirements of paragraphs 5 and 6 to be unclear and vague in the details and potentially violating the privacy of those affected.

- No special consideration is given to chairmanship of Supervisory Board committees in terms of remuneration. (Item 5.4.6 of the Code)

  The Supervisory Board is of the opinion that, given the size of the committees, the current additional remuneration paid to members of committees is also appropriate for the committee chairs."

Neutraubling, Germany, 28 February 2019

For the Executive Board:

Christoph Klenk
CEO

For the Supervisory Board:

Volker Kronseder
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 and develop a profile of skills and expertise for the board as a whole. With consideration to the company's specific situation, the composition of the board should duly take into account the company's international activities, potential conflicts of interest, the number of independent Supervisory Board members within the meaning of Item 5.4.2, an age limit to be specified for Supervisory Board members, a regular limit on the length of membership to be specified for the members of the Supervisory Board, and diversity. With respect to the elected employee representatives, the specific requirements of the codetermination acts (Mitbestimmungsgesetze) must be taken into account.

In keeping with the above, 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 KRONES AG's public reputation. 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 or board members to major competitors of KRONES AG and shall not hold management positions at companies that are customers, suppliers, or affiliates of KRONES AG. The Supervisory Board shall contain no more than two former members of the Executive Board.

Moreover, the members of the Supervisory Board shall meet the criteria for independence under Item 5.4.2 of the Corporate Governance Code. Presuming that execution of a Supervisory Board mandate as employee representative casts no doubt on compliance with the criteria for independence under Item 5.4.2 of the Code, the majority of the members of the Supervisory Board shall be independent within the meaning of Item 5.4.2 of the Code. At least two shareholder representatives on the Supervisory Board must be independent. In the reporting period, those were Prof. Dr. Susanne Nonnast and Hans-Jürgen Thaus.

Each member of the Supervisory Board shall agree to submit a declaration to the Chairman of the Supervisory Board 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 ends at the conclusion of the annual general meeting that follows his or her 70th birthday. Reasons must be given for any deviation from this rule.

d) Limit on duration of membership

The Supervisory Board has not set a limit (cap) on the duration of Supervisory Board membership. We believe that such a cap does not make sense because the expertise of experienced Supervisory Board members should be available to the company. The Supervisory Board of KRONES will continue to examine the suitability of Supervisory Board members on an individual basis, regardless of how long members have already been on the board. Because we have not set a term limit, we also have nothing to report on the status of implementation.

e) 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 foreign language skills but also to work experience in other international companies.

f) Diversity

The Supervisory Board of KRONES AG takes diversity into account. Under Germany's Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector, which entered into force on 1 May 2015, at least 30 percent of Supervisory Board seats at KRONES must be held by women and men, respectively. Employee and shareholder representatives on the Supervisory Board of KRONES AG have both decided to each meet the gender quota separately. In accordance with the law and the articles of association, the Supervisory Board of KRONES AG comprises eight shareholder representatives and eight employee representatives. Thus, the Supervisory Board should have at least two female employee representatives and two female shareholder representatives. Petra Schadeberg-Herrmann and Prof. Dr. Susanne Nonnast represent shareholders on the Supervisory Board. The Supervisory Board also has two female employee representatives, Dr. Verena Di Pasquale and Beate Eva Maria Pöpperl.

The Supervisory Board of KRONES implemented all of the objectives a) through f) in the financial year 2018.

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 our interaction with employees, customers, suppliers, and the general public.

Compliance, in the KRONES Group, is an overarching concept denoting conduct consistent with the rules, where the rules to be observed within the company far exceed statutory requirements. They also include the group's internal guidelines and regulations, and embody the moral values and standards that correspond to KRONES' ethical principles. In order to strengthen compliance, KRONES introduced a compliance whistleblower portal in 2018. This reporting system on the KRONES website allows company employees and outsiders to anonymously bring attention to potential infringements of the law or rules and regulations.

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 impact of the manufacture and use of our products.

KRONES maintains eco-friendly production operations and not only complies with statutory regulations but makes every effort to remain as far as possible below the prescribed limits.

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, KRONES creates 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.

When choosing our suppliers, we look at their performance with respect to sustainable, socially responsible business practices. KRONES has developed a suppliers' code for this purpose. The code covers safety and health, the environment, working conditions, and compliance.

Diversity policies, succession planning for the Executive Board

The Executive Board, the Supervisory Board, and the Standing Committee are responsible for succession planning and for monitoring diversity. For the appointment of members of the Executive Board, preference shall be given to candidates whose accomplishments and knowledge make them the best qualified to safeguard the interests of the company and its stakeholders for the long term. The company's diversity policy shall also be taken into account in such appointment processes. When filling a position on the Executive Board, the Supervisory Board shall consider diversity with respect to candidates' professional and educational backgrounds, age, gender, and international management qualifications. The policy consists of the following aspects in detail:

- The Supervisory Board has set a standard age limit for members of the Executive Board. The standard age limit is 62 years (62nd birthday). The board also gives due consideration to ensuring a balanced age structure.
- At least two members of the Executive Board should have a technical/engineering background. At least two members should have international management experience. The Executive Board as a whole should represent the best possible composition for the KRONES Group, its core business, and all stakeholders.
- With the current all-male composition of the Executive Board, the percentage of women on the Executive Board is 0%. The reason for the current all-male composition of the Executive Board is that the Supervisory Board, despite the existence of suitable female candidates, was unable to recruit any of those candidates for a position on the Executive Board. Pursuant to Section 111 (5) of the German Stock Corporation Act, the Supervisory Board of KRONES AG has accordingly established a target of 0% participation of women on the Executive Board. This quota applies for as long as the Executive Board remains in its current composition on the basis of the agreed lengths of contract including any extensions. However, under the company's diversity policy, women will be given priority consideration for filling openings on the Executive Board.
- The Supervisory Board has set the contract term for first-time appointees to Executive Board positions at three years.

Duties and activities of the Executive Board and the Supervisory Board

The Executive Board of KRONES AG consisted of five members in the financial year 2018. Each member is responsible for their respective Executive Board portfolio (*see pages 25 and 191*). 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 work of the Executive Board, such as the majority required for resolutions and transactions that require Supervisory Board approval, is governed by rules of procedure for the Executive Board issued by the Supervisory Board.

The Supervisory Board oversees the Executive Board. In accordance with the articles of association, the Supervisory Board has 16 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, business forecasts, 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.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board (*see pages 29–30 and 191 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 members.

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 general meeting. The Supervisory Board has adopted rules of procedure of its own, governing matters such as responsibilities and rules for the passage of resolutions.

In order to perform its work in the most efficient manner possible, the Supervisory Board has formed an Audit and Risk Management Committee and a Standing Committee.

Composition, duties, and activities of the Audit and Risk Management Committee

The Audit and Risk Management Committee consists of Supervisory Board Chairman Volker Kronseder, his deputy Werner Schrödl and Supervisory Board members Norman Kronseder, Hans-Jürgen Thaus, Josef Weitzer and Jürgen Scholz. Its Chairman is Hans-Jürgen Thaus.

The Audit and Risk Management Committee meets regularly and 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 separate and consolidated financial statements and makes recommendations. In addition, the Audit and Risk Management Committee monitors the effectiveness of the internal control system, the risk management system, and the compliance system.

Composition, duties, and activities of the Standing Committee

The Standing Committee consists of Volker Kronseder, Werner Schrödl, Norman Kronseder and Josef Weitzer. Volker Kronseder chairs the committee. The Standing Committee meets regularly and deals with all other topics that do not fall within the scope of the Audit and Risk Management Committee. These include corporate strategy, human resources strategy, Supervisory Board remuneration, and Executive Board remuneration.

Determinations pursuant to Sections 76 (4) and 111 (5) of the German Stock Corporation Act

Under Section 76 (4) of the German Stock Corporation Act, the Executive Board is required to determine targets for the participation of women in the two levels of management below the Executive Board. It must also set deadlines for compliance with the targets. Despite intensive efforts, the heavily engineering-oriented context at KRONES has meant that only a small number of vacant management positions have so far been filled with women possessing comparable qualifications. As of 31 December 2017, the percentage of women in each of these two levels of management came to 10.9%. The Executive Board of KRONES AG has set itself the goal of at least holding this figure stable through to 30 June 2020. At 10.2%, the figure at the end of the 2018 financial year was slightly down on the previous year.

Under Section 111 (5) of the German Stock Corporation Act, the Supervisory Board must set a target for the participation of women on the Executive Board. It must also set a deadline for compliance with the target. So far, despite intensive efforts, the Supervisory Board has not been able to recruit suitable female candidates for the Executive Board. Because the lengths of current contracts mean that no changes can be expected on the Executive Board in the medium term, the Supervisory Board has set a target of 0% for the percentage of women on the Executive Board of KRONES AG. There is therefore no need to set a deadline for compliance.

4

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of profit and loss 123
Consolidated statement of comprehensive income 124
Consolidated statement of financial position – Assets 125
Consolidated statement of financial position – Equity and liabilities 126
Consolidated statement of cash flows 127
Consolidated statement of changes in equity 128

Consolidated statement of **profit and loss**

€ thousand	Notes	2018		2017	
Revenue	20	3,853,980		3,691,355	
Changes in inventories of finished goods and work in progress	5	1,102		−36,429	
Other own work capitalised	21	49,622		48,159	
Other operating income	22	114,492	4,019,196	112,470	3,815,555
Goods and services purchased	23				
Expenses for materials and supplies and for goods purchased		−1,523,504		−1,408,330	
Expenses for services purchased		−508,521	−2,032,025	−451,077	−1,859,407
Personnel expenses	24				
Wages and salaries		−944,876		−881,788	
Social security contributions and expenses for pension plans and for benefits		−192,390	−1,137,266	−179,659	−1,061,447
Depreciation and amortisation of intangible assets and property, plant and equipment	1/2		−102,736		−94,719
Other operating expenses	25		−544,018		−554,515
EBIT			**203,151**		**245,467**
Investment income	26	8,747		11,941	
Profit or loss shares attributable to associates that are accounted for using the equity method	4	821		−499	
Income from other securities and loans classified as non-current financial assets	26	2		2	
Interest and similar income	26	6,121		10,149	
Interest and similar expenses	26	−14,592		−8,265	
Financial income/expense	26		**1,099**		**13,328**
Earnings before taxes			**204,250**		**258,795**
Income tax	8/27		−53,650		−71,668
Consolidated net income			**150,600**		**187,127**
Profit share of non-controlling interests			−483		−1,632
Profit share of KRONES Group shareholders			**151,083**		**188,759**
Earnings per share (diluted/basic) in €	28		4.78		5.97

Consolidated statement of **comprehensive income**

€ thousand	Notes	2018	2017
Consolidated net income		**150,600**	**187,127**
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses on pensions and similar obligations	12	4,396	–301
		4,396	–301
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation		–2,279	–38,620
Derivative financial instruments	12	–2,380	4,952
		–4,659	–33,668
Other comprehensive income	9	**–263**	**–33,969**
Total comprehensive income	9	**150,337**	**153,158**
of which attributable to non-controlling interests		–483	–1,632
of which attributable to KRONES Group shareholders		150,820	154,790

Consolidated statement of financial position – **Assets**

€ thousand	Notes	31 Dec 2018		31 Dec 2017	
Intangible assets	1	328,183		263,562	
Property, plant and equipment	2	570,820		501,616	
Non-current financial assets	3	8,770		6,215	
Investments accounted for using the equity method	4	28,661		25,242	
Fixed assets		**936,434**		**796,635**	
Deferred tax assets	8	32,450		29,215	
Trade receivables	6	32,578		52,064	
Income tax receivables	8	49		927	
Other assets	6	8,248		3,349	
Non-current assets			**1,009,759**		**882,190**
Inventories	5	320,734		611,820	
Trade receivables	6	955,392		1,225,294	
Contract assets	6/20	647,089		0	
Income tax receivables	8	11,733		10,227	
Other assets	6	157,880		128,292	
Cash and cash equivalents	7	218,802		181,995	
Current assets			**2,311,630**		**2,157,628**
Total			**3,321,389**		**3,039,818**

Consolidated statement of financial position – **Equity and liabilities**

€ thousand	Notes	31 Dec 2018		31 Dec 2017	
Share capital	9	40,000		40,000	
Capital reserves	10	141,724		141,724	
Profit reserves	11	331,521		329,854	
Other reserves	12	−89,160		−91,176	
Group retained earnings		1,009,193		912,794	
Group equity of the parent company			**1,433,278**		**1,333,196**
Non-controlling interests	13	−72		−3,085	
Equity			**1,433,206**		**1,330,111**
Provisions for pensions	14	220,550		220,229	
Deferred tax liabilities	8	23,344		12,915	
Other provisions	15	63,658		47,187	
Provisions for taxes	15	4,434		4,488	
Liabilities to banks	16	3,169		0	
Trade payables	16	1		22	
Other financial obligations	16	41,302		26,975	
Other liabilities	16	2,298		2,194	
Non-current liabilities			**358,756**		**314,010**
Other provisions	15	107,230		149,563	
Provisions for taxes	15	9,000		30,853	
Liabilities to banks	16	555		24,620	
Advances received	16	0		508,864	
Contract liabilities	16/20	547,222		0	
Trade payables	16	491,585		376,525	
Tax liabilities	8	5,510		4,194	
Other financial obligations	16	106,670		6,979	
Other liabilities and accruals	16	261,655		294,099	
Current liabilities			**1,529,427**		**1,395,697**
Total			**3,321,389**		**3,039,818**

Consolidated statement of **cash flows**

€ thousand	Notes	2018	2017
Earnings before taxes		204,250	258,795
Depreciation and amortisation and reversals	1, 2	102,736	94,719
Decrease in provisions and accruals	15/16	−85,721	−52,512
Deferred tax item changes recognised in profit or loss	8	−693	−822
Interest and similar expenses and income	26	8,471	−1,884
Gains and losses from the disposal of non-current assets	22/25	27	−1,380
Other non-cash expenses and income		−6,234	8,258
Decrease (previous year: increase) in trade receivables, contract assets and other assets not attributable to investing or financing activities		10,189	−247,513
Increase (previous year: decrease) in inventories	5	−39,102	107,516
Increase (previous year: decrease) in trade payables, contract liabilities and other liabilities not attributable to investing or financing activities		195,914	−102,579
Cash generated from operating activities		**389,837**	**62,598**
Interest paid		−923	−732
Income tax paid and refunds received		−73,861	−67,722
Cash flow from operating activities		**315,053**	**−5,856**
Cash payments to acquire intangible assets	1	−57,581	−55,296
Proceeds from the disposal of intangible assets	1	43	98
Cash payments to acquire property, plant and equipment	2	−121,547	−78,270
Proceeds from the disposal of property, plant and equipment	2	2,363	6,065
Cash payments to acquire non-current financial assets		−7,159	−25,671
Proceeds from the disposal of non-current financial assets		680	343
Cash payments to acquire shares in affiliated companies		−24,753	−7,423
Interest received		2,819	3,368
Dividends received		10,740	11,941
Cash flow from investing activities		**−194,395**	**−144,845**
Cash payments to company owners		−53,708	−49,193
Proceeds from new borrowing		524	24,620
Cash payments to service debt		−24,620	0
Cash payments to pay lease liabilities		−98	−130
Cash flow from financing activities		**−77,902**	**−24,703**
Net change in cash and cash equivalents		**42,756**	**−175,404**
Changes in cash and cash equivalents arising from exchange rates		−6,417	−11,490
Changes in cash and cash equivalents arising from the consolidated group		468	0
Cash and cash equivalents at the beginning of the period		181,995	368,889
Cash and cash equivalents at the end of the period	7	**218,802**	**181,995**

Consolidated statement of **changes in equity**

	Parent company							Non-controlling interests	Group equity
€ thousand	Share capital	Capital reserves	Profit reserves	Currency differences in equity	Other reserves	Group retained earnings	Equity	Equity	
Notes	9	10	11	11	12			13	
At 1 January 2017	**40,000**	**141,724**	**365,081**	**2,756**	**−95,827**	**773,865**	**1,227,599**	**−2,069**	**1,225,530**
Dividend payment						−49,193	**−49,193**		**−49,193**
Consolidated net income 2017						188,759	**188,759**	−1,632	**187,127**
Allocation to profit reserves			637			−637	**0**		**0**
Currency differences				−38,620			**−38,620**		**−38,620**
Changes in the consolidated group							**0**	616	**616**
Remeasurement of defined benefit plans					−301		**−301**		**−301**
Hedge accounting incl. AfS					4,952		**4,952**		**4,952**
At 31 December 2017	**40,000**	**141,724**	**365,718**	**−35,864**	**−91,176**	**912,794**	**1,333,196**	**−3,085**	**1,330,111**
Adjustments arising from IFRS 9 and IFRS 15			11,663				**11,663**		**11,663**
At 1 January 2018	**40,000**	**141,724**	**377,381**	**−35,864**	**−91,176**	**912,794**	**1,344,859**	**−3,085**	**1,341,774**
Dividend payment (€1.70 per share)						−53,708	**−53,708**		**−53,708**
Consolidated net income 2018						151,083	**151,083**	−483	**150,600**
Allocation to profit reserves			776			−776	**0**		**0**
Currency differences				−2,279			**−2,279**		**−2,279**
Changes in the consolidated group			−8,493			−200	**−8,693**	3,496	**−5,197**
Remeasurement of defined benefit plans					4,396		**4,396**		**4,396**
Hedge accounting incl. AfS					−2,380		**−2,380**		**−2,380**
At 31 December 2018	**40,000**	**141,724**	**369,664**	**−38,143**	**−89,160**	**1,009,193**	**1,433,278**	**−72**	**1,433,206**

5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated segment reporting 130
General disclosures 131
Notes to the consolidated statement of financial position 145
Notes to the consolidated statement of profit and loss 173
Accounting standards applied for the first time 176
Other disclosures 182
Standards and interpretations 184
Shareholdings 187
Members of the Supervisory Board and the Executive Board 191
Proposal for the appropriation of earnings available for distribution 192

Consolidated **segment reporting**

€ thousand	Machines and Lines for Product Filling and Decoration		Machines and Lines for Beverage Production/ Process Technology		Total for the segments		Consolidation		Other		KRONES Group	
	2018	2017*	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenue	3,177,850	3,089,960	676,130	601,395							**3,853,980**	**3,691,355**
Depreciation, amortisation, and write-downs	89,949	81,323	12,787	13,396							102,736	94,719
of which write-downs	1,644	0	0	0							1,644	0
Interest income	4,770	5,327	788	255							5,558	5,582
Interest expense	2,456	2,863	1,387	882							3,843	3,745
EBT	223,295	263,293	−19,045	−4,498							204,250	258,795
Other material non-cash income and expenses	87,326	52,696	3,936	−9,264							91,262	43,432
Share of profit or loss of associates accounted for using the equity method	821	−499	0	0							821	−499
Assets	2,787,139	2,507,856	609,032	560,688	3,396,171	3,068,544	−122,844	−71,665	48,062	42,939	3,321,389	3,039,818
Of which investments accounted for using the equity method	28,661	25,242	0	0							28,661	25,242
Liabilities	1,496,089	1,325,564	468,899	378,738	1,964,988	1,704,302	−122,844	−71,665	46,039	77,070	1,888,183	1,709,707
Capital expenditure for intangible assets and property, plant and equipment	151,620	118,037	27,508	15,529							179,128	133,566
EBT margin (EBT to revenue)	7.0 %	8.5 %	−2.8 %	−0.7 %							5.3 %	7.0 %

*Incl. Machines and Lines for the Compact Class

General disclosures

Legal basis

The consolidated financial statements of KRONES AG, Neutraubling (Regensburg Local Court (Amtsgericht Regensburg) HRB 2344), (the "KRONES Group") for the period ended 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, applicable at the reporting date, including the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) as adopted by the European Union. The Group has not undertaken early application of IFRS standards and interpretations that have not yet entered into force. *A list of such standards and interpretations and of standards applied for the first time is provided on pages 184 to 186.* The Executive Board authorised the publication of the consolidated financial statements on 20 March 2019.

Non-controlling interests in group equity are presented on the statement of financial position as a separate item within equity. On the statement of profit and loss, the share of profit or loss attributable to non-controlling interests is presented as a component of consolidated net income. The shares of consolidated net income attributable to the owners of the parent and to non-controlling interests are presented separately.

Non-controlling interests are additionally shown on the statement of changes in equity.

The explanatory notes provided in the following comprise disclosures and commentary that, in accordance with IFRSs, must be included as notes to the consolidated financial statements in addition to the statement of financial position, statement of profit and loss, statement of comprehensive income, statement of changes in equity and statement of cash flows.

The statement of profit and loss was prepared using the nature of expense method.

The group currency is the euro.

Unless otherwise stated, all financial information presented in euros is rounded to the nearest thousand.

Consolidated group

Besides KRONES AG, the consolidated financial statements for the period ended 31 December 2018 include all material domestic and foreign subsidiaries over which KRONES AG has direct or indirect control.

In the 2018 financial year, KRONES acquired a 100% direct and indirect ownership interest in S.P.S. SOLUTIONS FOR PACKAGING SERVICES S.A., Charleroi, Belgium and S.P.S. SOLUTIONS FOR PACKAGING AND SERVICES S.A.S., Lyon, France, a 91.33% direct and indirect ownership interest in MHT HOLDING AG, Hochheim am Main, Germany, MHT IP GMBH, Hochheim am Main, Germany, MHT MOLD & HOTRUNNER TECHNOLOGY AG, Hochheim am Main, Germany and MHT USA LLC., Peachtree City, USA and a 70% ownership interest in INTEGRATED PLASTICS SYSTEMS AG, Baar, Switzerland. The group also acquired the remaining 49.03% ownership interest in DEKRON GMBH (formerly TILL GMBH), Kelkheim, Germany. KRONES now owns a 100% ownership interest in DEKRON GMBH (formerly TILL GMBH), Kelkheim, Germany. In addition, KRONES acquired a 44% ownership interest in TECHNOLOGISCHES INSTITUT FÜR ANGEWANDTE KÜNSTLICHE INTELLIGENZ GMBH, Weiden, Germany. The company is accounted for using the equity method.

SYSKRON X GMBH, Wackersdorf, Germany, PMR GMBH, Wackersdorf, Germany, KRONES MACHINERY MALAYSIA SDN. BHG., Kuala Lumpur, Malaysia and KRONES PAKISTAN (PRIVATE) LIMITED, Lahore, Pakistan were established during the financial year and included in the consolidated group together with KRONES SPOLKA Z.O.O., Warsaw, Poland and MILKRON GMBH, Laatzen, Germany.

Also established during the financial year were KRONES PROCESSING (SHANGHAI) CO. LTD., Shanghai, China and W.M. SPRINKMAN LLC, Waukesha, USA. In an asset deal in the 2018 financial year, KRONES acquired 100% of the business operations of SHANGHAI XIANTONG EQUIPMENT INSTALLATION, Shanghai, China and 100% of the business operations of W.M. SPRINKMAN CORP., Waukesha, USA.

With the acquisition of ownership interests in S.P.S. SOLUTIONS FOR PACKAGING SERVICES S.A., Charleroi, Belgium and S.P.S. SOLUTIONS FOR PACKAGING AND SERVICES S.A.S., Lyon, France as of 1 May, KRONES strengthened its sales and distribution structure in Central Europe.

KRONES acquired a 70% ownership interest in INTEGRATED PLASTICS SYSTEMS AG, Baar, Switzerland on 1 May 2018. This acquisition strengthens KRONES' PET capabilities.

With the acquisition of 100% of the business operations of SHANGHAI XIANTONG EQUIPMENT INSTALLATION, Shanghai, China on 1 September 2018, KRONES strengthened its capabilities in process technology.

The acquisition by SPRINKMAN of 100% of the business operations of W.M. SPRINKMAN CORP., Wisconsin, USA on 2 October 2018 likewise strengthened KRONES' process technology capabilities.

With the acquisition of MHT HOLDING AG, Hochheim, Germany, on 7 November 2018, KRONES expanded its PET product portfolio to include moulds for the production of preforms for PET bottles, thus closing a gap in the PET value chain.

Initial accounting of the acquired business operations was completed as of the acquisition date.

The amount paid for the remaining ownership interest in DEKRON GMBH (formerly TILL GMBH), Kelkheim, Germany was €3,250 thousand.

The table below presents the consideration transferred for the acquisitions and the fair values of the assets identified and liabilities assumed at the acquisition date.

€ thousand	S.P.S.	SPRINKMAN	MHT	Other	Total
	Fair value	Fair value	Fair value	Fair value	Fair value
Goodwill	9,298	7,484	20,180	2,820	39,782
Non-current assets	1,257	3,234	10,444	2,029	16,964
Current assets	25,140	3,935	5,307	2,604	36,986
(of which trade receivables)	11,129	3,360	2,729	78	17,296
Cash and cash equivalents	1,748	0	5,277	1,160	8,185
Total assets acquired	**37,443**	**14,654**	**41,208**	**8,614**	**101,918**
Liabilities	36,843	12,612	17,607	2,291	69,353
Total liabilities acquired	**36,843**	**12,612**	**17,607**	**2,291**	**69,353**
Net assets acquired	**600**	**2,042**	**23,601**	**6,322**	**32,565**
Non-controlling interests	**0**	**0**	**296**	**0**	**296**
Purchase prices	600	2,042	23,305	6,322	32,270
of which paid in cash	600	1,224	23,305	4,559	29,688
of which purchase price obligations	0	818	0	1,764	2,582

The goodwill recognised for MHT relates to the closing of the gap in the PET value chain. This enables KRONES to serve customers in the beverage industry with a broader portfolio of PET capabilities. This earnings potential, which cannot be allocated to items capable of recognition as assets under IFRSs, is reflected in goodwill.

The goodwill recognised for SPRINKMAN relates to the strengthening of process technology capabilities in North America. This earnings potential, which cannot be allocated to items capable of recognition as assets under IFRSs, is reflected in goodwill.

The goodwill recognised for S.P.S. relates to the strengthening of the sales and distribution structure by the integration of S.P.S. and its workforce in the group. This earnings potential, which cannot be allocated to items capable of recognition as assets under IFRSs, is reflected in goodwill.

The goodwill recognised for the other acquisitions relates to synergies expected from the integration of the companies and their workforces and to the companies' earnings potential, which cannot be allocated to items capable of recognition as assets under IFRSs.

The total amount of goodwill that is expected to be deductible for tax purposes is €7,484 thousand.

The fair value of trade receivables equals the gross amount. None of the trade receivables are impaired and the contractually agreed amounts are expected to be recoverable in their entirety.

After accounting for the effects of purchase price allocations, S.P.S. contributed a net loss of €3,065 thousand and revenue of €11,008 thousand to KRONES as of 31 December 2018. Had initial accounting for S.P.S. been completed as of 1 January, 2018, revenue of €16,512 thousand and a net loss of

€4,598 thousand would have been recognised in the consolidated statement of profit and loss.

After accounting for the effects of purchase price allocations, SPRINKMAN contributed a net loss of €179 thousand and revenue of €4,523 thousand to KRONES as of 31 December 2018. Had initial accounting for SPRINKMAN been completed as of 1 January, 2018, revenue of €18,092 thousand and a net loss of €716 thousand would have been recognised in the consolidated statement of profit and loss.

After accounting for the effects of purchase price allocations, MHT contributed a net loss of €94 thousand and revenue of €3,716 thousand to KRONES as of 31 December 2018. Had initial accounting for MHT been completed as of 1 January, 2018, revenue of €22,296 thousand and a net loss of €1,118 thousand would have been recognised in the consolidated statement of profit and loss.

After accounting for the effects of purchase price allocations, the other acquisitions contributed a net loss of €177 thousand and revenue of €4,990 thousand to KRONES as of 31 December 2018. Had initial accounting for the other acquisitions been completed as of 1 January, 2018, revenue of €6,146 thousand and a net loss of €192 thousand would have been recognised in the consolidated statement of profit and loss.

In determining these amounts, it was assumed that the provisional adjustments to fair value made at the acquisition date would also have applied if the companies had been acquired on 1 January 2018. The amounts for the full 2018 financial year were determined on a straight-line basis.

A number of purchase contracts include contingent consideration that is dependent on the input factors EBIT, EBITDA and cash and cash equivalents. Taking into account the estimated input factors, the fair value of the contingent consideration from these acquisitions is €1,129 thousand as of the reporting date.

One purchase contract (included in the other acquisitions) includes a combined put/call option. The fair value of the put option was measured using the discounted cash flow method. The main input factors are medium-term planning and the discount rate. The estimated undiscounted exercise price at the acquisition date was €1,742 thousand. There was no significant change in the estimated spread as of the reporting date. On this basis, the fair value at the reporting date was €1,450 thousand.

The costs directly attributable to the acquisitions are €1,068 thousand; this was recognised as expense.

Consolidation principles

The separate financial statements of the companies included in the consolidated financial statements are prepared in accordance with uniform accounting policies and were all prepared as of the reporting date of the consolidated financial statements.

Acquisition accounting is performed in accordance with IFRS 3 (Business Combinations), under which all business combinations must be accounted for using the acquisition method. The acquired assets and liabilities are therefore recognised at fair value.

Goodwill that arose before 1 January 2004 continues to be accounted for as a deduction from equity.

Shares in the equity of a subsidiary that are not attributable to the parent are presented as non-controlling interests.

Companies for which KRONES has the ability to exercise significant influence over their business and financial policies (generally by indirectly or directly holding between 20% and 50% of voting rights), are accounted for in the consolidated financial statements using the equity method and initially recognised at cost. Any excess of the cost of the investment over KRONES' share of the net fair value of an associate's identifiable assets and liabilities is adjusted on a fair-value basis and the remaining amount is recognised as goodwill. Goodwill relating to the acquisition of an associate is included in the carrying amount of the investment and is not amortised. Instead, it is tested for impairment as part of the entire carrying amount of the investment in the associate. KRONES' share in an associate's profit or loss subsequent to the acquisition date is recognised in the consolidated statement of profit and loss. The carrying amount of the associate is increased or decreased to recognise cumulative changes in fair value subsequent to the acquisition date. KRONES' share in associates' gains or losses resulting from transactions between KRONES and its associates is eliminated. Inter-company receivables, liabilities, provisions, revenues and expenses between consolidated companies are eliminated in consolidation.

This also applies for inter-company profits or losses from sales made or services provided between group companies provided the inventories from these transactions are still held by the group at the reporting date.

Currency translation

The consolidated financial statements are presented in euro, the functional currency of KRONES AG.

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

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

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

Exchange rate differences compared with the previous year arising from acquisition accounting are normally recognised outside profit or loss, in other profit reserves.

Exchange rates of subsidiaries' functional currencies against the euro:

		Closing rate		Average rate	
		31 Dec 2018	31 Dec 2017	2018	2017
US dollar	USD	1.145	1.199	1.182	1.130
British pound	GBP	0.897	0.887	0.885	0.876
Swiss franc	CHF	1.127	1.169	1.155	1.112
Danish krone	DKK	7.468	7.445	7.453	7.439
Canadian dollar	CAD	1.560	1.502	1.530	1.465
Japanese yen	JPY	125.960	134.880	130.454	126.671
Brazilian real	BRL	4.445	3.971	4.305	3.607
Chinese renminbi (yuan)	CNY	7.860	7.833	7.806	7.629
Mexican peso	MXN	22.520	23.607	22.707	21.331
Ukrainian hryvnia	UAH	31.735	33.750	32.136	30.041
South African rand	ZAR	16.470	14.750	15.617	15.040
Kenyan shilling	KES	116.642	123.705	119.671	116.799
Nigerian naira	NGN	416.290	430.940	425.572	378.595
Russian rouble	RUB	80.026	69.325	74.008	65.892
Thai baht	THB	37.048	39.041	38.182	38.295
Indonesian rupiah	IDR	16,468.500	16,263.600	16,801.557	15,116.839
Angolan kwanza	AOA	352.423	198.718	296.577	187.423
Turkish lira	TRY	6.056	4.534	5.700	4.118
Kazakhstan tenge	KZT	440.150	398.940	407.128	368.845
Australian dollar	AUD	1.623	1.533	1.580	1.473
New Zealand dollar	NZD	1.706	1.683	1.707	1.590
Swedish krona	SEK	10.251	9.830	10.257	9.637
Vietnamese dong	VND	26,564.000	27,222.000	27,201.202	25,650.854
Philippine peso	PHP	60.125	59.712	62.253	56.947
Bangladeshi taka	BDT	95.753	99.260	99.179	91.735
Singapore dollar	SGD	1.560	1.601	1.593	1.559
Myanmar kyat	MMK	1,769.390	1,623.040	1,701.225	1,537.981
United Arab Emirates dirham	AED	4.207	4.403	4.341	4.149
Hungarian forint	HUF	321.060	309.960	318.819	309.253
Malaysian ringgit	MYR	4.733	4.851	4.764	4.853
Pakistani rupee	PKR	160.104	132.698	143.257	119.029
Polish zloty	PLN	4.298	4.175	4.261	4.258
Norwegian krone	NOK	9.940	9.832	9.600	9.329

Accounting policies

The separate financial statements of KRONES AG and its domestic and foreign subsidiaries have been prepared using uniform accounting policies, in accordance with IFRS 10.

Various judgements have been made in preparation of the consolidated financial statements, notably relating to the need for estimates and forecasts in the measurement of non-current assets, inventories, receivables, pension provisions and other provisions.

Intangible assets

Acquired and internally generated intangible assets, excluding goodwill, are recognised in accordance with IAS 38 if it is sufficiently probable that the use of an asset will result in a future economic benefit and the cost of the asset can be reliably determined. They are recognised at cost and amortised systematically on a straight-line basis over their estimated useful lives. Amortisation of intangible assets is normally applied over a useful life of between three and five years and is presented in "Depreciation and amortisation of intangible assets and property, plant and equipment".

Research and development expenditure

Development expenditure of the KRONES Group is capitalised at cost to the extent that costs can be directly attributed, technical feasibility can be demonstrated and it is probable that the use of the asset will result in future economic benefits. In accordance with IAS 38, research expenditure cannot be capitalised and is therefore immediately recognised as an expense in profit or loss. Borrowing costs are capitalised as cost at a capitalisation rate of 0.35%.

Goodwill

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

Goodwill is tested for impairment at the level of the cash-generating unit or group of cash-generating units represented by a division (or corresponding unit).

The cash-generating unit or group of cash-generating units represents the lowest level at which the goodwill is monitored for internal management purposes.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit or group of cash-generating units that is expected to benefit from the synergies of the business combination. If the carrying amount of the cash-generating unit or group of cash-generating units to which the goodwill is allocated exceeds the recoverable amount, an impairment loss is recognised for the goodwill allocated to the cash-generating unit or group of cash-generating units. The recoverable amount is the fair value less costs of disposal or value in use, whichever is higher, of the cash-generating unit or group of cash-generating units. If either of these exceeds the carrying amount, it is not always necessary to determine both values. The values are normally measured on the basis of discounted cash flows. Even if the recoverable amount of the cash-generating unit or group of cash-generating units to which goodwill is allocated exceeds the carrying amount in subsequent periods, impairment losses on that goodwill are not reversed.

Property, plant and equipment

The KRONES Group's property, plant and equipment are accounted for at cost less systematic depreciation on a straight-line basis over their estimated useful lives. The cost of self-constructed assets comprises all directly attributable costs and an allocation of overheads.

No revaluation of property, plant and equipment has been undertaken in accordance with IAS 16.

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

Useful life	Years
Buildings	14 to 50
Technical equipment and machinery	5 to 18
Furniture and fixtures and office equipment	3 to 15

The useful lives take into account the different components of assets with significant differences in cost.

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

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

Leases

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

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

Financial instruments

In accordance with IFRS 9, KRONES classifies financial assets into three categories: financial instruments at amortised cost (AC), financial instruments at fair value through profit or loss (FVTPL) and financial instruments at fair value through other comprehensive income (FVOCI).

The classification of financial assets is made on the basis of KRONES' business model for managing the financial assets and their contractual cash flow characteristics.

In accordance with IFRS 9, KRONES classifies financial liabilities into three categories: financial instruments at amortised cost (AC), financial instruments at fair value through profit or loss (FVTPL) and financial instruments at fair value through other comprehensive income (FVOCI).

For the various classes of financial assets and liabilities, the carrying amounts are generally a reasonable approximation of fair value.

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

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

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

Net gains and losses include impairments and measurement changes for derivative financial instruments and are set out in the explanatory notes on the various measurement categories.

Loss allowances are therefore measured on the basis of one of the following:

- 12-month expected credit losses: Expected credit losses that result from default events that are possible within twelve months after the reporting date.
- Lifetime expected credit losses: Expected credit losses that result from all possible default events over the expected life of a financial instrument.

Loss allowances are measured on the basis of lifetime expected credit losses if the credit risk on a financial asset at the reporting date has increased significantly since initial recognition; otherwise, loss allowances are measured on the basis of 12-month expected credit losses. An entity may assume that the credit risk on a financial asset has not increased significantly if the financial asset is determined to have low credit risk at the reporting date. However, loss allowances must always be measured on the basis of lifetime expected credit losses for trade receivables and for contract assets without a significant financing component; KRONES also measures loss allowances on this basis for trade receivables and contract assets with a significant financing component.

The expected credit losses on trade receivables and contract assets are estimated on the basis of external ratings and historical credit loss experience over the last 36 months. Within each group of financial instruments, credit risks are segmented on the basis of shared credit risk characteristics.

Trade receivables and contract assets have been grouped on the basis of shared credit risk characteristics for the purpose of measuring expected credit losses. The contract assets generally have the same risk characteristics as trade receivables.

Information on risk reporting in accordance with IFRS 7 is provided in the risk report in the group management report.

Financial instruments: policies prior to the application of IFRS 9

KRONES has applied IFRS 9 for the first time as from 1 January 2018. Until 31 December 2017, financial instruments were accounted for in accordance with the requirements of IAS 39.

Financial instruments under IAS 39 used by KRONES consisted of the following: Non-current financial assets; financial instruments held for trading (derivative financial instruments); available-for-sale financial instruments; financial receivables and liabilities.

For the measurement categories, the carrying amounts generally corresponded to the fair values provided by the respective financial institutions as of the reporting date.

Non-current financial assets other than securities were recognised at cost less impairment losses. Non-current securities were classified as “available for sale” and measured at fair value through other comprehensive income. No assets were classified as “held to maturity”. Moreover, the fair value option provided for under IAS 39 was not applied to any items on the consolidated statement of financial position for the KRONES Group.

The fair value of financial assets and liabilities was determined on the basis of financial accounting models using inputs observable in the market at the reporting date (Level 2 within the meaning of IFRS 13.72). Level 2 assets and liabilities were primarily hedging and non-hedging derivatives.

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

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

Non-current financial assets

Non-current financial assets at KRONES comprise shares in affiliated companies that are not consolidated in accordance with IFRS 10 for reasons of materiality, together with loans to such companies.

Changes in the fair value of equity instruments that are not held for trading are recognised in other comprehensive income. The amounts recognised in other comprehensive income are not reclassified to profit or loss on disposal of the equity instrument.

Derivative financial instruments

The derivative financial instruments used in the KRONES Group are used to hedge against currency risks from operating activities. The election has been made to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9.

The main categories of currency risk at KRONES comprise transaction risk arising from exchange rates and cash flows in foreign currencies. The main such currencies are the US dollar, the Canadian dollar, the Japanese yen, the British pound, the Norwegian krone, the Australian dollar and the euro.

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

The strategy objective is to minimise currency risk by using hedging instruments that are judged to be highly effective, thus hedging the exchange rate and providing planning certainty.

The derivative financial instruments are measured on initial recognition and in subsequent measurement at fair value as of the reporting date. The fair values are determined using Level 2 inputs within the meaning of IFRS 13.72. Gains and losses on measurement are recognised in profit or loss unless the criteria for hedge accounting are met.

The derivative financial instruments for which hedge accounting is applied comprise forward currency contracts and currency swaps whose changes in fair value are presented in profit or loss or as a component of equity. In the case of cash flow hedges of currency risks on hedged items, changes in fair value are initially recognised directly in equity and subsequently reclassified to profit or loss when the hedged item affects profit or loss.

These derivative financial instruments are measured on the basis of the forward rates provided by the commercial bank concerned. They are derecognised/reclassified when the corresponding hedged items are recognised in the statement of financial position.

Receivables and other assets

Receivables and other assets, with the exception of derivative financial instruments, are accounted for at amortised cost. Non-interest-bearing and low-interest receivables with maturities of more than one year are discounted.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost includes costs that are directly related to the units of production and an allocation of fixed and variable production overheads.

The allocation of overheads is based on normal capacity.

Selling costs and general and administrative costs are not capitalised. Inventory risks arising from increased storage periods or reduced usability are accounted for with write-downs.

The FIFO and weighted-average cost methods are applied as simplified measurement methods for raw materials, consumables and supplies.

Income tax

The tax expense comprises current and deferred taxes. Current taxes and deferred taxes are recognised in profit or loss except to the extent that they relate to a business combination or to an item recognised directly in equity or in other comprehensive income.

Current taxes are the amount of taxes expected to be paid or recovered in respect of the taxable profit or tax loss for the financial year on the basis of the tax rates that apply at the reporting date or will apply in the near future, and all adjustments of the taxes payable for previous years.

Deferred tax assets and deferred tax liabilities are accounted for using the liability method and are recognised for all temporary differences between the tax base and the carrying amounts in accordance with IFRSs and for consolidation adjustments recognised in profit or loss.

Deferred taxes are measured on the basis of the income tax rates that apply in the various countries at the time of realisation. Changes in the tax rates are taken into account if it is sufficiently certain that they will occur. Where legally permissible, deferred tax assets and liabilities have been offset.

Provisions for pensions

Provisions for pensions are measured using the projected unit credit method in accordance with IAS 19. This method takes into account known vested benefits at the reporting date together with expected future increases in state pensions and salaries based on a prudent assessment of relevant variables. The provisions are calculated on the basis of actuarial appraisals that take into account biometric factors.

Actuarial gains and losses have a direct impact on the consolidated statement of financial position, resulting in an increase or decrease in provisions for pensions and similar obligations and a reduction or increase in equity (in other comprehensive income). The consolidated statement of profit and loss is not affected by actuarial gains and losses as they are required to be recognised in other comprehensive income. In addition, net interest is recognised. Net interest on the net defined benefit obligation is determined by multiplying the net defined benefit obligation by the discount rate used to measure the defined benefit obligation. Because the net defined benefit obligation is reduced by any plan assets, the same discount rate is used to calculate return on plan assets.

Partial retirement benefit obligations

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

Other provisions

Other provisions are recognised when the group has an obligation to a third party as a result of a past event, an outflow is probable, and the amount of the obligation can be reliably estimated. The provisions are measured at fully attributable costs or on the basis of the most probable settlement amount.

Provisions with a residual term of more than one year are recognised at the settlement amount discounted to the reporting date.

Revenue

The basic criterion for revenue recognition under IFRS 15 is transfer of control. A distinction is made between transfer of control at a point in time and transfer of control over time:

KRONES provides machinery and systems for bottling and packaging and for beverage production. KRONES recognises revenue for highly customer-specific projects over time rather than at a point in time, as the resulting assets have no alternative use as a rule and KRONES has a legal right to payment for performance already completed. Progress is measured using an input method. The stage of completion corresponds to the ratio of contract costs incurred up to the reporting date to the total estimated cost of the project.

A further important part of KRONES' business model consists of services. The company maintains service centres and offices around the world. KRONES provides a comprehensive range of products and services for customers under the heading of lifecycle service (LCS). KRONES recognises revenue from sales of spare parts at a point in time, on delivery of the goods (transfer of the significant risks and rewards of ownership). Revenue for services that come under LCS, such as maintenance services, is recognised over time as the customer simultaneously receives and consumes the benefits provided by the group's performance as the group performs.

A provision is recognised in accordance with IAS 37 for anticipated losses relating to customer orders for which revenue is recognised over time.

Costs to obtain contracts where the amortisation period of the costs would be one year or less are immediately recognised as expense.

KRONES receives payments from customers on the basis of a payment plan that is part of the contracts. Contract assets relate to our unconditional right to consideration for contractual performance obligations satisfied to date. Trade receivables are recognised when the right to receive the consideration becomes unconditional.

Contract liabilities relate to payments received in advance, meaning before contractual performance obligations have been satisfied. Contract liabilities are recognised as revenue when we satisfy the contractual performance obligations. If performance exceeds advance payments, the resulting positive balance is presented in contract assets.

Financing components are not included in the amount of revenue to be recognised if it is expected at inception of the contract that the period between the transfer of the promised good or promised service and payment for that good or service will be one year or less.

Revenue is presented net of reductions.

Construction contracts and revenue under IAS 11 and IAS 18

KRONES applies the modified retrospective method for the transition to IFRS 15. Accordingly, the prior-year figures for 2017 have not been restated. In accordance with IAS 11, construction contracts were accounted for using the percentage-of-completion method. Under this method, revenue for the line and machinery portion was recognised in accordance with the percentage of physical completion of the lines and machines at the reporting date.

The percentage of completion for the assembly and installation portion and for software projects corresponded to the ratio of contract costs incurred up to the reporting date to the total estimated costs of the assembly and installation portion or software project. Construction contracts in progress at the reporting date were presented in trade receivables.

With the exception of contracts measured according to IAS 11, revenue was recognised, in accordance with the criteria in IAS 18, when the significant risks and rewards of ownership were transferred provided that a price was agreed or could be determined and a flow of economic benefits from the sale of goods was probable.

Segment reporting

KRONES reports on two operating segments, which are the strategic business units. The Machines and Lines for the Compact Class segment, which was reported on separately until 2017, was made part of KRONES' core segment Machines and Lines for Product Filling and Decoration with effect from 1 January 2018. The two segments are organised by product divisions and services and managed separately due to the different technologies they cover. The Executive Board, as the chief operating decision maker, manages the company as a whole on the basis of monthly reports from the segments. Segment 1 comprises machines and lines for product filling and decoration. Segment 2 comprises machines and lines for beverage production and process technology. The accounting policies used are the same as those described under "General disclosures" above. Segment performance is measured on the basis of internal reporting to the Executive Board, primarily segment revenue and segment EBT.

The table below shows revenue generated through business with third parties in Germany, the USA and the rest of the world.

€ thousand	2018	2017
Germany	2,290,387	2,140,900
USA	411,049	513,715
Rest of the world	1,152,544	1,036,740
	3,853,980	**3,691,355**

The table below shows non-current assets excluding non-current financial assets, investments accounted for using the equity method and deferred tax assets in Germany, the USA and the rest of the world.

€ thousand	2018	2017
Germany	687,477	648,048
USA	63,141	42,209
Rest of the world	189,260	131,261
	939,878	**821,518**

The Machines and Lines for the Compact Class segment, which was reported on separately until 2017, was made part of KRONES' core segment Machines and Lines for Product Filling and Decoration with effect from 1 January 2018.

Notes to the **consolidated statement of financial position**

1 Intangible assets

The carrying amount of intangible assets changed as follows:

€ thousand	Industrial property rights and similar rights and assets as well as licenses	Goodwill	Capitalised development expenditure	Advance payments made	Total
31 Dec 2016					
Cost	166,734	57,919	337,794	0	562,447
Accumulated amortisation	106,955	0	217,171	0	324,126
Net carrying amount	**59,779**	**57,919**	**120,623**	**0**	**238,321**
Changes in 2017					
Cost					
Consolidated additions	3,392	6,852			10,244
Additions	15,491		39,801	5	55,296
Disposals	2,399				2,399
Transfers	59				59
Exchange differences	−1,488	−2,035			−3,523
Amortisation					
Additions	19,176		17,907		37,083
Disposals	2,301				2,301
Transfers	−71				−71
Exchange differences	−275				−275
Net carrying amount at 31 Dec 2017	**58,305**	**62,736**	**142,517**	**5**	**263,562**
31 Dec 2017					
Cost	181,789	62,736	377,595	5	622,125
Accumulated amortisation	123,484	0	235,078	0	358,563
Net carrying amount	**58,305**	**62,736**	**142,517**	**5**	**263,562**

Table continued on next page

€ thousand	Industrial property rights and similar rights and assets as well as licenses	Goodwill	Capitalised development expenditure	Advance payments made	Total
Changes in 2018					
Cost					
Consolidated additions	5,253	39,782	0	0	45,035
Additions	24,214	0	38,506	158	62,878
Disposals	5,485	0	0	0	5,485
Transfers	53	0	0	–1	52
Exchange differences	282	742	0	0	1,024
Amortisation					
Additions	21,408	0	21,083	0	42,491
Disposals	5,450	0	0	0	5,450
Transfers	88	0	0	0	88
Exchange differences	1,755	0	0	0	1,755
Net carrying amount at 31 Dec 2018	**64,821**	**103,260**	**159,940**	**162**	**328,183**
31 Dec 2018					
Cost	208,411	103,260	416,100	162	727,933
Accumulated amortisation	143,590	0	256,160	0	399,750
Net carrying amount	**64,821**	**103,260**	**159,940**	**162**	**328,183**

The additions to industrial property rights and licenses mainly relate to licenses for IT software.

All goodwill underwent a regular impairment test in accordance with IAS 36, as in the previous year. As in the previous year, no impairment losses were recognised on the goodwill. Impairment testing is performed at the level of the smallest cash-generating unit (CGU) or group of cash-generating units on the basis of value in use. The cash flow projections underlying impairment tests are based on the approved revenue forecasts within the forecast period. These forecasts are based in part on external sources of information. They also take into account price agreements based on past experience and expected efficiency gains as well as assumptions about revenue growth based on strategy.

The table below provides an overview of the tested goodwill and the assumptions used for the respective impairment tests, each of which was performed at the level of the smallest cash-generating unit (CGU):

CGU		Carrying amount of goodwill € thousand	Forecast period in years	Annual revenue growth at end of forecast period	Discount rate before taxes
SPRINKMAN	2018	7,411	5	2.0 %	10.4 %
MHT	2018	20,180	5	1.0 %	13.4 %
S.P.S	2018	9,298	6	1.0 %	10.5 %
JAVLYN	2018	4,498	5	1.5 %	10.4 %
	2017	4,298	4	1.5 %	10.4 %
TRANS-MARKET	2018	11,443	5	2.9 %	9.8 %
	2017	10,933	3	2.9 %	9.8 %
SYSTEM LOGISTICS	2018	30,906	3	1.0 %	9.4 %
	2017	30,906	3	1.0 %	9.4 %
HST	2018	4,258	3	1.0 %	9.2 %
	2017	4,258	3	1.0 %	9.4 %
TRIACOS	2018	4,631	3	1.0 %	8.8 %
	2017	4,631	3	1.0 %	9.2 %
Other[1]	2018	10,635	2 to 5	1.0 % – 3.0 %	7.9 % – 13.0 %
	2017	7,710	2 to 5	1.0 % – 3.0 %	8.0 % – 10.8 %

[1] Goodwill with a carrying amount of less than €4 million in each case

The pre-tax discount rates are based on risk-free interest rates, which are determined on the basis of long-term government bond yields. This discount rates are adjusted for a risk premium that reflects the general risk associated with equity investments and the specific risk of the CGU. Revenue growth at the end of the forecast period is the long-term average growth rate of the respective industrial sectors and countries in which the CGUs do business. KRONES AG is of the opinion that no reasonably foreseeable change to any of the material basic assumptions used to determine the value in use of cash-generating units to which goodwill has been allocated could result in the carrying amount being higher than its recoverable amount.

The capitalised development expenditure relates to new machinery projects of KRONES AG. Development expenditure capitalised in the reporting period amounts to €38,506 thousand (previous year: €39,801 thousand).

This figure includes borrowing costs in a non-material amount (previous year: €28 thousand). Including capitalised development expenditure, a total of €179,033 thousand was spent on research and development in 2018 (previous year: €172,476 thousand). The amortisation figure for the reporting period included €1,644 thousand (prior year: €0 thousand) for an impairment on intangible assets relating to the Machines and Lines for Product Filling and Decoration segment.

In the reporting period, business combinations resulted in €45,035 thousand in additions to net carrying amounts for intangible assets (previous year: €10,244 thousand), of which €39,782 thousand is goodwill (previous year: €6,852 thousand).

2 Property, plant and equipment

In 2018, as in the previous year, the depreciation figure for property, plant and equipment did not include any impairments in accordance with IAS 36. Additions to land and buildings and to construction in progress primarily related to the establishment of the production location in Hungary, expansion at the Neutraubling and Raubling locations in Germany and investment in the USA and Italy. The €45,085 thousand in capital expenditure on technical equipment and machinery and on other equipment, furniture and fixtures and office equipment primarily relates to capacity expansion and modernisation at existing production locations.

In 2018, the carrying amounts for property, plant and equipment included government grants of €2,658 thousand (previous year: €28 thousand). Government grants in the amount of €10 thousand (previous year: €12 thousand) were reversed to profit or loss in 2018. As in the previous year, the depreciation figure in 2018 does not include any impairment reversals.

The reported property, plant and equipment is not subject to any restrictions of title or disposal.

Property, plant and equipment includes leased assets in the amount of to €68 thousand (previous year: €150 thousand), beneficial ownership of which is attributed to the group company concerned on the basis of the lease terms (finance leases).

The carrying amounts of the capitalised leased assets are as follows:

€ thousand	31 Dec 2018	31 Dec 2017
Other equipment, furniture and fixtures, and office equipment	68	150
Total	**68**	**150**

In the reporting period, business combinations resulted in €9,498 thousand in additions to net carrying amounts for property, plant and equipment (previous year: €496 thousand).

Property, plant and equipment changed as follows:

€ thousand	Land and buildings	Technical equipment and machinery	Other equipment, furniture and fixtures, and office equipment	Construction in progress	Advance payments made	Total
31 Dec 2016						
Cost	493,828	327,790	228,231	3,414	59	1,053,322
Accumulated depreciation	196,005	214,616	161,401	0	0	572,022
Net carrying amount	**297,823**	**113,174**	**66,830**	**3,414**	**59**	**481,300**
Changes in 2017						
Cost						
Consolidated additions	188		309			496
Additions	11,353	10,878	28,281	35,556	1,327	87,395
Disposals	854	5,123	15,786	3,439	27	25,228
Transfers	328	592	1,492	−2,464	−7	−59
Exchange differences	−4,885	−4,761	−3,493	−32		−13,172
Amortisation						
Additions	13,368	20,179	24,089			57,636
Disposals	374	5,041	15,129			20,543
Reversals						0
Transfers	23	−169	217			71
Exchange differences	−2,186	−3,303	−2,559			−8,047
Net carrying amount at 31 Dec 2017	**293,122**	**103,094**	**71,012**	**33,036**	**1,351**	**501,616**
31 Dec 2017						
Cost	499,957	329,377	239,033	33,036	1,351	1,102,754
Accumulated depreciation	206,835	226,282	168,020	0	0	601,138
Net carrying amount	**293,122**	**103,094**	**71,012**	**33,036**	**1,351**	**501,616**

Table continued on next page

€ thousand	Land and buildings	Technical equipment and machinery	Other equipment, furniture and fixtures, and office equipment	Construction in progress	Advance payments made	Total
Changes in 2018						
Cost						
Consolidated additions	6,674	1,648	1,049	127		9,498
Additions	16,765	11,258	33,827	48,129	12,574	122,552
Disposals	2,432	6,441	15,698	0	167	24,738
Transfers	26,450	1,945	2,489	−29,840	−1,096	−52
Exchange differences	1,180	692	−619	19	−2	1,271
Amortisation						
Additions	13,882	19,975	26,388	0	0	60,245
Disposals	1,191	6,081	15,076	0	0	22,348
Transfers	22	−120	10	0	0	−88
Exchange differences	707	745	67	0	0	1,518
Net carrying amount at 31 Dec 2018	**328,339**	**97,677**	**80,672**	**51,472**	**12,660**	**570,820**
31 Dec 2018						
Cost	548,595	339,635	263,139	51,472	12,660	1,215,501
Accumulated depreciation	220,256	241,958	182,467	0	0	644,681
Net carrying amount	**328,339**	**97,677**	**80,672**	**51,472**	**12,660**	**570,820**

3 Non-current financial assets

The non-current financial assets consist primarily of lendings to and investments in nonconsolidated companies.

4 Investments accounted for using the equity method

The table below provides details on the group's material associates:

Name	Place of business	Ownership interest
		%
Associates		
INTEGRATED PACKAGING SYSTEMS FZCO Dubai	Dubai, U.A.E.	40
TECHNOLOGISCHES INSTITUT FÜR ANGEWANDTE KÜNSTLICHE INTELLIGENZ GMBH	Weiden	44

These companies are accounted for using the equity method in the consolidated financial statements.

Summarised financial information on the group's material associate INTEGRATED PACKAGING SYSTEMS FZCO, Dubai is presented below. The summarised financial information corresponds to the amounts reported in the financial statements for the associate, which were prepared in accordance with IFRSs (adjusted as necessary for the purpose of equity accounting in the consolidated financial statements). There are put and call options with the same exercise price and maturity date. The options are consequently measured at a carrying amount of nil.

€ thousand	31 Dec 2018	31 Dec 2017
Non-current assets	52,347	53,095
Current assets	26,670	24,327
Non-current liabilities	3,940	3,259
Current liabilities	12,248	11,464
Equity	62,829	62,699
Group's share of equity	**25,132**	**25,080**
Other adjustments	0	162
Carrying amount of Integrated Packaging Systems FZCO Dubai, accounted for using the equity method	**25,132**	**25,242**

€ thousand	2018	2017
Revenue	22,838	24,519
Profit or loss for the period	2,235	–1,247
Other comprehensive income	0	0
Total comprehensive income	2,235	–1,247
Share of profit or loss	**894**	**–499**

The carrying amount of TECHNOLOGISCHES INSTITUT FÜR ANGEWANDTE KÜNSTLICHE INTELLIGENZ, which is accounted for using the equity method, was €3,529 thousand and the group's share of profit or loss was –€73 thousand.

5 Inventories

The inventories of the KRONES Group are composed as follows:

€ thousand	31 Dec 2018	31 Dec 2017
Raw materials, consumables and supplies	208,019	177,422
Work in progress	46,559	210,278
Finished goods	35,946	104,280
Goods purchased for sale	25,606	114,956
Other	4,604	4,884
Total	**320,734**	611,820

Inventories are recognised at the lower of cost and fair value less selling expenses.

Write-downs of €7,267 thousand on inventories were recognised as expense in 2018 (previous year: €30,826 thousand) and are substantially based on customary net realisable values and obsolescence allowances. The amount of reversals of write-downs recognised in profit or loss due to improved market conditions was not material. The carrying amount of the inventories recognised at fair value less selling expenses totalled €0 thousand in the reporting period (previous year: €73,603 thousand).

6 Receivables and other assets

€ thousand	31 Dec 2018	31 Dec 2017
Trade receivables	987,970	1,277,358
Contract assets	647,089	0
Other assets	166,128	131,641

With regard to trade receivables and contract assets, please refer to the explanatory notes concerning the introduction of the new standards. The Group measures expected credit losses using the simplified approach under IFRS 9; accordingly, all trade receivables and contract assets are accounted for with lifetime expected credit losses.

The allowance account for trade receivables and contract assets changed as follows:

€ thousand	Trade receivables and contract assets
At 31 Dec 2017	27,444
Change due to first-time application of IFRS 9 as of 1 Jan 2018	13,652
Change due to currency effects	–198
Additions	104
Reversals	–5,430
At 31 Dec 2018	35,572

Other assets mainly comprise advance payments made (€19,959 thousand; previous year: €12,923 thousand), current tax assets (€69,076 thousand; previous year: €51,199 thousand) and prepaid expenses (€9,519 thousand; previous year: €9,730 thousand).

The derivative financial instruments measured at fair value that were entered into for future payment receipts and meet the conditions for hedge accounting or that were entered into as stand-alone hedge transactions totalled €860 thousand at the reporting date (previous year: €1,973 thousand).

7 Cash and cash equivalents

Apart from cash on hand totalling €150 thousand (previous year: €197 thousand), the cash and cash equivalents of €218,802 thousand (previous year: €181,995 thousand) consist primarily of demand deposits. *Changes in cash and cash equivalents in accordance with IAS 7 Statement of Cash Flows are presented in the statement of cash flows on page 127.*

8 Income tax

Income tax receivables and liabilities consist exclusively of income tax in accordance with IAS 12.

The income tax breaks down as follows:

€ thousand	2018	2017
Deferred tax expense/income (–)	693	822
Current tax	52,957	70,846
Total	**53,650**	**71,668**

Deferred taxes are measured on the basis of the tax rates that, on the basis of the current legal situation, apply or are expected to apply in the various countries at the time of realisation. In Germany, the tax rates that apply are a corporate income tax rate of 15.0% plus a solidarity surcharge of 5.5% and a local trade tax multiplier (Gewerbesteuerhebesatz) for KRONES AG averaging 328%. The total income tax rate for the companies in Germany is consequently 27.3%. Tax rates abroad range between 9% and 35%. Deferred taxes were measured using the income tax rate of 27.3%.

The deferred tax assets and liabilities at 31 December break down by items on the statement of financial position as follows:

€ thousand	Deferred tax assets		Deferred tax liabilities	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Intangible assets	54	7	45,476	39,395
Property, plant and equipment	144	95	10,374	10,591
Non-current financial assets	14,486	10,109	39	37
Other non-current assets	1,319	587	67	467
Inventories	12,708	6,904	1,657	120,436
Other current assets	2,798	3,326	27,303	22,315
Tax loss carryforwards	11,116	8,850	0	0
Provisions, non-current	9,964	9,758	10,292	7,256
Other non-current liabilities	2,057	1,158	366	22
Provisions, current	19,134	7,545	92	14,377
Other current liabilities	1,540	148,302	167	138
Deferred tax items recognised in other comprehensive income	31,191	34,378	2,304	96
Consolidation	363	144	−369	−267
Subtotal	**106,874**	**231,163**	**97,768**	**214,863**
Offsetting (–)	**−74,424**	**−201,948**	**−74,424**	**−201,948**
Total	**32,450**	**29,215**	**23,344**	**12,915**

The deferred tax assets and liabilities recognised in other comprehensive income amounted to €28,887 thousand at the reporting date (previous year: €34,282 thousand). This figure includes €32,821 thousand (previous year: €34,378 thousand) for actuarial gains and losses recognised in other comprehensive income in accordance with IAS 19 and –€4,316 thousand for deferred taxes recognised in other comprehensive income on the first-time application of IFRS 9 and IFRS 15. An amount of €380 thousand (previous year: –€96 thousand) related to hedging activities.

Deferred tax items were not recognised on tax loss carryforwards of €14,056 thousand (previous year: €14,172 thousand) and on deductible temporary differences totalling €46 thousand (previous year: €38 thousand).

The temporary differences between the carrying amounts of equity interests in subsidiaries and the tax base of those interests (outside basis differences) came to €21,013 thousand at reporting date (previous year: €18,567 thousand) and are excepted from recognition of deferred tax liabilities.

The tax expense of €53,650 thousand reported in 2018 is €2,110 thousand higher than the expected tax expense that would theoretically result from application of the domestic tax rate of 27.3% at the group level. The difference can be attributed to the following:

€ thousand	2018	2017
Earnings before taxes	204,250	258,795
Tax rate for the parent company KRONES AG	27.30%	27.30%
Expected (theoretical) tax expense	55,760	70,651
Adjustment due to difference between local tax rate and tax rate of KRONES AG	−1,428	1,618
Reductions in tax due to tax-exempt income	−14,724	−10,825
Current tax losses for which no deferred taxes recognised	28	0
Increases in tax expense due to non-deductible expenses	23,134	12,652
Tax effect of as-yet unrealised deferred taxes on loss carryforwards	−1,070	−10,569
Tax income (–) / tax expense (+) for previous years	−1,491	9,172
Tax effect of as-yet unrealised deductible temporary differences	−4,672	−61
Other	−1,887	−970
Taxes on income	**53,650**	**71,668**

The difference between reductions in taxes and increases in taxes for 2018 results in a net decrease in taxes. This is primarily attributable to tax-exempt income.

9 Equity

KRONES AG's share capital amounted to €40,000,000.00 at 31 December 2018, as in the previous year. It is divided into 31,593,072 ordinary bearer shares, each with a theoretical par value of €1.27 per share. 31,593,072 shares were in circulation at the reporting date (previous year: 31,593,072). At 31 December 2018, as in the previous year, the company held no treasury shares.

The company is authorised in accordance with Section 71 (1) No. 8 of the German Stock Corporation Act (AktG) to buy treasury shares totalling up to 10% of the current share capital in compliance with the provisions of the law and of the authorising resolution.

The authorisation can be exercised by the company, by its consolidated companies or by a third party acting on its or their behalf, either in whole or in part, once or multiple times, in pursuit of one or multiple purposes.

The authorisation became effective upon resolution by the annual general meeting on 13 June 2018 and applies until midnight on 12 June 2023. The authorisation resolved by the annual general meeting on 25 June 2014 (agenda item 7) expired when this new authorisation took effect.

The amount of treasury shares purchased under this authorisation, together with other treasury shares that the company has already acquired or still holds or shares that are attributable to the company under Sections 71d and 71e of the German Stock Corporation Act, may at no time exceed 10% of the company's share capital. The authorisation may not be used for the purpose of trading in the company's shares.

The purchase of treasury shares may be carried out, at the discretion of the Executive Board, through a stock exchange or through a public tender offer addressed to all of the company's shareholders or through a public request to the shareholders to submit sales offers.

If the share buyback is done through a stock exchange, the price per share paid by the company (excluding incidental costs) may not exceed or fall short of by more than 10% the price of a KRONES share as determined by the opening auction on the trading day in the Xetra trading system (or any comparable successor system).

Buyback through a public tender offer or a public request to the shareholders to submit sales offers:

If the share buyback is done through a public purchase offer, the company may set a fixed price per share or a price range (excluding incidental costs) within which the company is willing to purchase shares. The company may specify in the public purchase offer a time period for accepting or submitting offers as well as the option to and the terms under which the company might adjust the price range during that period in the event of significant changes in the market price. If a price range is specified, the purchase price must be determined using the sales prices specified in the shareholders' acceptance or submission declarations and the buyback volume set by the Executive Board after the end of the offering period.

In the case of a public tender offer, the purchase price offered or the price range specified may not exceed or fall short of by more than 10% the volume-weighted average price of a KRONES share in Xetra trading (or any comparable successor system) on the last three (3) trading days prior to the offer's official announcement. If the company adjusts the price range, the adjustment must be based on the last three (3) trading days before the public announcement of the adjustment.

In the case of a request to the shareholders to submit sales offers, the purchase price per share determined on the basis of the offers submitted (excluding incidental costs) may not exceed or fall short of by more than 10% the volume-weighted average price of a KRONES share in Xetra trading (or any comparable successor system) on the last three (3) trading days prior to the request's official announcement. If the company adjusts the price range, the adjustment must be based on the last three (3) trading days before the public announcement of the adjustment.

A limit may be placed on the volume of the tender offer or of the request to the shareholders to submit sales offers. If the volume of shares tendered by shareholders exceeds the total volume of the company's tender offer or request for sales offers, consideration or acceptance must be granted on a pro-rata basis, proportionate to the total amount of the tender offer or request for sales offers and the total volume of shares offered by shareholders. However, provision may be made for preferential acceptance of small lots of up to 100 tendered shares per shareholder. The tender offer or call for sales offers can stipulate additional conditions.

The Executive Board is authorised to use treasury shares that are purchased under the above authorisation for any lawful purpose, including any of the following:

They can be cancelled and the share capital reduced by the proportion of the share capital accounted for by the cancelled shares, without the cancellation or its execution requiring a further resolution by the annual general meeting. The Executive Board can also cancel the shares by a simplified process without reducing the share capital so that the proportion of the other shares in relation to the share capital is increased through the cancellation. If the shares are cancelled by the simplified process without any reduction of the share capital, the Executive Board is authorized to adjust the number of shares in the articles of association.

They can be offered and transferred to third parties in return for contributions in kind, in particular in connection with business combinations or the acquisition of companies, operations, parts of companies, or interests in companies. The aforementioned shares may also be used to end or settle valuation proceedings under company law (gesellschaftsrechtliche Spruchverfahren) relating to affiliated companies.

They can be sold to third parties in exchange for cash payment at a price not substantially below the stock exchange price of the company's shares at the time of the sale within the meaning of Sections 71 (1) number 8 sentence 5 and 186 (3) sentence 4 of the German Stock Corporation Act (AktG).

They can be used to service duties or rights to acquire shares in the company under or in connection with convertible bonds or bonds with warrants issued by the company and its group companies or profit-sharing rights with conversion rights or warrants.

The authorisations above relating to the use of treasury shares can be exercised once or multiple times, individually or in combination, on the whole volume or on partial volumes of the acquired treasury shares. The authorisations under d) above can also be exercised by dependent companies or companies that are majority-owned by the company or by third parties on behalf of the company or its dependent or majority-owned companies.

The shareholders' subscription rights on these treasury shares must be excluded insofar as these shares are used as described under b) through d) above in accordance with the above authorisation or to the extent necessary in order to avoid fractional amounts if the treasury shares are to be sold by way of an offer addressed to all shareholders.

The shares used in accordance with the authorisations under d) through d) above may not – either at the time of the resolution or at the time that the authorisation is executed – exceed 10% of the current share capital at the time that the authorisation takes effect or – if lower – at the time it is exercised. Any shares that are issued or sold, under direct or analogous application of Section 186 (3) sentence 4 of the German Stock Corporation Act (AktG), during the term of this authorisation must be counted towards this limit. If, during the term of this authorisation to use treasury shares, other authorisations are used to issue or sell shares of the company or which entail either the entitlement or the obligation to subscription rights and subscription rights are excluded, these shares must also be counted toward the 10% limit described above. Likewise, any shares that are issued to service convertible bonds or bonds with warrants issued by the company and its group companies or profit-sharing rights with conversion rights or warrants must also be counted if the bonds are issued during the term of this authorisation in accordance with Section 186 (3) sentence 4 of the German Stock Corporation Act (AktG).

By resolution of the annual general meeting on 15 June 2016, the Executive Board is authorised to increase the company's share capital, with the approval of the Supervisory Board, by up to €10 million (authorised capital) through the issuance on one or more occasions of new ordinary bearer shares against cash contributions up to and including 15 June 2021. Shareholders must be granted subscription rights to these shares. The Executive Board is authorised to exclude the subscription rights of shareholders, with the approval of the Supervisory Board, for any fractional amounts that may arise. Moreover, the Executive Board is authorised to determine the further details of the capital increase and its implementation, both with the approval of the Supervisory Board. The Supervisory Board is authorised to amend the articles of association in accordance with any utilisation of the authorised capital and upon expiration of the term of the authorisation.

The changes in equity that are recognised in other comprehensive income (excluding dividends) totalled –€263 thousand in the reporting period (previous year: –€33,969 thousand) and consist of changes in currency differences and hedge accounting as well as the recognition of actuarial gains and losses on pensions under other reserves. In addition, the allocation of profit or loss to non-controlling interests resulted in a change in equity of –€483 thousand (previous year: –€1,632 thousand). The sum of changes in equity that are recognised in other comprehensive income and those that are recognised in profit or loss was €150,337 thousand (previous year: €153,158 thousand).

A dividend of €1.70 per share was approved for the 2017 financial year and paid out by KRONES AG in 2018 (previous year: €1.55 per share). The total dividend payout came to €53,708 thousand (previous year: €48,969 thousand).

Disclosures about capital management

A strong equity position is an important prerequisite for ensuring KRONES' long-term survival. To achieve this, KRONES regularly monitors and manages its capital on the basis of the equity ratio, return on capital employed (ROCE) and return on equity (ROE). In order to share the company's success with shareholders, KRONES' policy is to pay out 25% to 30% of consolidated profit in the form of dividends.

10 Capital reserves

The capital reserves total €141,724 thousand (previous year: €141,724 thousand). The capital reserves include amounts transferred under Section 272 (2) No. 4 of the German Commercial Code (HGB) and amounts transferred under Section 272 (2) No. 1 HGB totalling €37,848 thousand.

11 Profit reserves

The legal reserve remains unchanged from the previous year at €51 thousand.

The other profit reserves include deductions for negative goodwill from acquisition accounting for subsidiaries consolidated before 1 January 2004 and adjustments made directly in equity at 1 January 2004 on the first-time application of IFRSs.

Currency differences recognised under profit reserves contain the currency translations of financial statements of foreign subsidiaries that are recognised in other comprehensive income.

The effect of the transition to IFRS 15 amounts to €21,589 thousand after taxes (€29,631 thousand before taxes) and was recognised in profit reserves. In addition, an amount of –€9,926 thousand after taxes (–€13,652 thousand before taxes) was recognised in profit reserves on the first-time application of IFRS 9.

12 Other reserves

Changes in the reserve for post-employment benefits, the reserve for cash flow hedges and the reserve for puttable instruments presented under "other reserves" were as follows:

€ thousand	Reserve for post-employment benefits	Reserve for cash flow hedges	Puttable instruments	Total
At 31 Dec 2016	**–91,204**	**–3,818**	**–804**	**–95,827**
Measurement change	–498	7,784	0	7,083
Tax on items taken directly to or transferred from equity	154	–2,833		–2,679
Currency difference	43	0		248
At 31 Dec 2017	**–91,505**	**1,133**	**–804**	**–91,176**
Measurement change	5,948	–3,070	0	2,878
Tax on items taken directly to or transferred from equity	–1,552	698		–854
Currency difference	0	–8		–8
At 31 Dec 2018	**–87,109**	**–1,247**	**–804**	**–89,160**

The measurement changes for cash flow hedges include additions of –€1,142 thousand and amounts reclassified to profit or loss totalling €1,133 thousand after taxes.

13 Non-controlling interests

In the 2017 financial year, non-controlling interests totalled –€72 thousand (previous year: –€3,085 thousand).

A detailed overview of the composition of and changes to the individual equity components for the KRONES Group in 2018 and the previous year is presented in the statement of changes in equity on page 128.

14 Provisions for pensions

Provisions for pensions are recognised for obligations relating to vested benefits and current benefit payments to eligible active and former employees of KRONES Group companies and their surviving dependants. Various forms of retirement provision exist depending on the legal, economic, and tax circumstances of the relevant country and are generally based on employees' remuneration and years of service.

Company pension plans are generally either defined contribution plans or defined benefit plans.

In defined contribution plans, the company does not assume any obligations beyond establishing contribution payments to special-purpose funds. Contributions are recognised as personnel expense in the year in which they are paid.

In defined benefit plans, the company undertakes an obligation to render the benefits promised to active and former employees, where a distinction is made between systems financed by provisions and systems financed through pension funds. The amount of the pension obligations (the defined benefit obligation) was computed in accordance with actuarial methods. Apart from the assumptions regarding life expectancy based on the 2005 Heubeck actuarial tables, the following average values for the group were also taken into account in the actuarial calculations:

The basis for calculating provisions for pensions in Germany is the company's pension scheme from 31 December 1982, which is closed to new entrants. The scheme entitles all covered employees to post-employment, permanent disability and widow(er)'s pensions. The age limits are 63 for men and 60 for women. The post-employment pension amounts to 1% (0.5% beginning 1 January 1983) of the eligible earned income for each eligible year of employment, not to exceed 25%. It should also be noted that a safeguard for workers' benefits was put into place at the time the new scheme was established on 31 December 1982.

The basis for measurement of the permanent disability and widow(er)'s pensions (50% of post-employment pension) is the post-employment pension that can be earned by the time the employee reaches the age limit, although for the permanent disability benefit only that portion is granted which corresponds to the years of service actually reached. The measurement date for eligible years of service is 31 December 1982. A fixed table applies to new entries after this date. The individual provisions are based on individual contractual agreements.

Both the defined benefit obligations and plan assets are subject to fluctuations over time. This can have a positive or negative effect on funding status. Fluctuations in the defined benefit obligation within the KRONES Group result primarily from changes in financial assumptions such as discount rates and increases in the cost of living as well as changes in demographic assumptions such as changed life expectancy.

%	Average for the group	
	2018	2017
Discount rate	2.0	1.8
Projected increases in wages and salaries	0.0	0.0
Projected increases in state pensions	2.0	2.0

The rates recommended for measuring pension liabilities at the end of the business year as published by Heubeck AG, Mercer Deutschland GmbH, TowersWatson, and AON Hewitt are used to determine the relevant discount rates.

These values, which in turn are determined on the basis of market yields on senior fixed-coupon corporate bonds, are used to obtain an interest rate that reflects the anticipated benefit payments.

The average residual term of post-employment benefit obligations is 19 years (previous year: 19 years).

The projected increases in wages and salaries comprise expected future pay increases, which are estimated each year on the basis of inflation and employees' years of service with the company. Since the pension commitments at our companies in Germany are independent of future pay increases, the projected increase in wages and salaries was not taken into account when determining the corresponding pension provisions.

Increases or decreases in either the net present value of defined benefit obligations or the fair value of fund assets can result in actuarial gains or losses due to factors such as changes in parameters, changes in estimates relating to the risks associated with the pension commitments and differences between the actual and expected return on plan assets. The net value of the pension provisions breaks down as follows:

€ thousand	31 Dec 2018	31 Dec 2017	31 Dec 2016
Present value of benefit commitments financed by provisions	199,099	199,129	198,381
Present value of benefit commitments financed through pension funds	49,534	50,722	52,221
Present value of benefit commitments (gross)	248,633	249,851	250,602
Fair value of plan assets	−28,083	−29,622	−31,454
Carrying amount at 31 December (net defined benefit obligation)	**220,550**	**220,229**	**219,148**

The pension provisions, which amounted to €212,086 thousand at the reporting date (previous year: €216,411 thousand), are primarily attributable to KRONES AG. The actuarial gains or losses resulting from changes in financial assumptions totalled €9,140 thousand (previous year: €0 thousand). Experience adjustments total –€17 thousand (previous year: –€185 thousand); adjustments due to changes in demographic assumptions, mainly relating to an adjustment to the new Heubeck 2018G actuarial tables, total –€3,111 thousand (previous year: €0 thousand).

The costs arising from pension obligations amounted to €5,272 thousand (previous year: €4,721 thousand) and break down as follows:

€ thousand	31 Dec 2018	31 Dec 2017	31 Dec 2016
Current service cost	727	618	1,060
Interest expense	4,562	4,492	5,188
Expected return on plan assets	–508	–545	–703
Past service cost and plan curtailments	491	156	162
Costs arising from pension obligations	**5,272**	**4,721**	**5,707**

The present value of defined benefit obligations, which amounted to €248,633 thousand (previous year: €249,851 thousand), the fair value of the plan assets, which amounted to €28,083 thousand (previous year: €29,622 thousand), and the net amount of the two items reconcile as follows:

€ thousand	Present value of benefit commitments	Fair value of plan assets	Total
At 1 January 2017	**250,602**	**–31,454**	**219,148**
Current service cost	618	0	618
Interest expense (+)/interest income (–)	4,492	–545	3,947
Actuarial gains/losses	188	66	254
Employer contributions	0	–522	–522
Benefits paid	–5,816	2,835	–2,981
Recognised past service cost	156		156
Exchange differences	–389	–2	–391
At 31 December 2017	**249,851**	**–29,622**	**220,229**

€ thousand	Present value of benefit commitments	Fair value of plan assets	Total
At 31 December 2017	**249,851**	**–29,622**	**220,229**
Consolidated additions	3,742	0	3,742
Current service cost	727	0	727
Interest expense (+)/interest income (–)	4,562	–508	4,054
Actuarial gains/losses	–6,448	500	–5,948
Employer contributions	0	–1,222	–1,222
Benefits paid	–4,765	2,752	–2,013
Recognised past service cost	491		491
Exchange differences	473	17	490
At 31 December 2018	**248,633**	**–28,083**	**220,550**

The actuarial gains or losses mainly relate to changes in financial assumptions. KRONES Unterstützungs-Fonds e.V., an occupational pension scheme, is responsible for administrating and managing a portion of the plan assets. KRONES AG is the scheme's sponsoring company. Allianz Global Investor is responsible for administrating and managing another portion of the plan assets as pension liability insurer.

The fair value of plan assets was €28.1 million as of 31 December 2018 (previous year: €29.6 million). Of that, €23.6 million are pension liability insurance policies (previous year: €23.7 million). The rest of the plan assets are attributable to KRONES Unterstützungs-Fonds e.V., headquartered in Neutraubling. The fund assets are invested in a special-purpose fund that is administered and actively managed by Allianz GI. The eligible instruments are specified in the investment guidelines.

A defensive investment strategy is used. At 31 December 2018, the AGI fund consisted of 34.7% government bonds, 7.2% Pfandbriefe (covered bonds governed by the German Pfandbrief Act), and 22.1% investment-grade corporate bonds. The amount held as cash in hand came to 0.7%. The remainder was primarily equity funds. Interest rate risk is actively managed using interest rate futures. The duration of the investment volume is 2.31 years. Management of currency risk: No direct currency investments are made. The overall rating of the fund assets is A+. KRONES AG's plan assets are secured as follows: 84% through the pension liability insurance policies from Allianz and 16% through KRONES Unterstützungs-Fonds e.V.

The expected contributions to plan assets in 2019 are €1,002 thousand. The expected pension benefit payments to be paid out of plan assets in 2019 amount to €2,650 thousand.

In 2018, a total of €55,404 thousand (previous year: €52,261 thousand) was spent on the employer contribution to defined contribution plans (contributions to pension insurance).

The sensitivity of the total pension commitments to changes in the weighted assumptions is as follows:

		Effect on the obligation	
	Change in assumption	Assumption increases	Assumption decreases
Discount rate	0.50%	8.4% decrease	8.8% increase
Change in state pensions	0.50%	6.7% decrease	7.1% increase
Life expectancy	1 year	4.3% increase	4.3% decrease

The above sensitivity analysis is based on a change in one assumption, with all other factors held constant. It is unlikely that this would be the case in reality and changes in several assumptions may be correlated. The same method was used to calculate the sensitivity of defined benefit obligation to actuarial assumptions as was used to calculate the provisions for pensions in the statement of financial position.

15 Provisions for taxes and other provisions

€ thousand	1 Jan 2018	Consolidated additions	Utilisation	Reversal	Additions	Exchange differences	31 Dec 2018	Due within 1 year
Tax liabilities	35,341	187	25,438	2,097	5,863	−422	13,434	9,000
Personnel obligations	38,915	167	3,199	493	13,144	−81	48,453	1,364
Provision for anticipated losses	41,089	475	33,356	464	24,579	−675	31,648	26,419
Provision for warranties	68,961	556	10,195	9,581	6,498	−591	55,648	54,788
Other remaining provisions	47,785	5,670	19,503	19,707	20,181	713	35,139	24,659
Total	**232,091**	**7,055**	**91,691**	**32,342**	**70,265**	**−1,056**	**184,322**	**116,230**

The tax liabilities mainly consist of provisions for income taxes for which no tax assessment notice has yet been issued. The provisions for personnel obligations are primarily for non-current obligations relating to partial retirement. The personnel obligations include €309 thousand for the effects of the time value of money (previous year: €385 thousand). The provisions for anticipated losses and provisions for warranties relate to project business and represent the expected costs from customer orders. The estimates for liabilities relating to projects business are based on customary empirical values. The other remaining provisions primarily include provisions for damages and legal fees. The estimates for liabilities relating to projects business are based on customary empirical values. The non-current provisions have been discounted using rates between 0.9% and 2.0%.

16 Liabilities

€ thousand	Residual term of up to 1 year	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2018
Liabilities to banks	555	3,169	0	3,724
Contract liabilities	547,222	0	0	547,222
Trade payables	491,585	1	0	491,586
Other financial liabilities	106,670	41,302	0	147,972
Other liabilities	261,655	2,298	0	263,953
Total	**1,407,687**	**46,770**	**0**	**1,454,457**

€ thousand	Residual term of up to 1 year	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2017
Liabilities to banks	24,620	0	0	24,620
Advances received	508,864	0	0	508,864
Trade payables	376,525	22	0	376,547
Other financial liabilities	6,979	26,975	0	33,954
Other liabilities	294,099	2,194	0	296,293
Total	**1,211,087**	**29,191**	**0**	**1,240,278**

Reconciliation of movements in liabilities to cash flow from financing activities

The table below shows changes in liabilities to banks as a result of cash and non-cash changes.

€ thousand	31 Dec 2017	Cash changes	Non-cash change due to acquisitions	31 Dec 2018
Liabilities to banks – non-current	0	0	3,169	3,169
Liabilities to banks – current	24,620	–24,065	0	555
Total	**24,620**	**–24,065**	**3,169**	**3,724**

The other financial obligations are obligations on bills, puttable instruments, and earn-out obligations. Under IAS 39, the obligations on bills represent possible liabilities from bills sold and are also recognised as trade receivables amounting to €106,670 thousand (previous year: €6,979 thousand). The other liabilities consist of other remaining liabilities (€256,432 thousand; previous year: €287,374 thousand) and deferred income (€7,521 thousand; previous year: €8,919 thousand).

The other remaining liabilities break down as follows:

€ thousand	Residual term of up to 1 year	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2018
Tax liabilities	32,999	0	0	32,999
Social security liabilities	27,653	1,354	0	29,007
Payroll liabilities	9,887	0	0	9,887
Accruals	158,605	0	0	158,605
Other	24,990	944	**0**	25,934
Total	**254,134**	**2,298**	**0**	**256,432**

Accruals, which amounted to €158,605 thousand (previous year: €194,236 thousand), have greater certainty with respect to their amount and timing than is the case with provisions. The primary items they include are outstanding supplier invoices, obligations relating to flexible working hours, accrued vacation, and performance bonuses.

€ thousand	Residual term of up to 1 year	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2017
Tax liabilities	39,834	0	0	39,834
Social security liabilities	7,457	0	0	7,457
Payroll liabilities	27,465	1,041	0	28,506
Accruals	194,236	0	0	194,236
Other	16,188	1,153	**0**	17,341
Total	**285,180**	**2,194**	**0**	**287,374**

The liabilities from finance leases are recognised under other liabilities without consideration of future interest expense. The residual terms of the individual leases are between 2 and 4 years. Some of the leases contain options for extension or purchase.

The present values of minimum lease payments for finance leases recognised under the other remaining liabilities are as follows, broken down by residual term:

€ thousand	31 Dec 2018	31 Dec 2017
Future minimum lease payments		
Up to 1 year	123	100
1 to 5 years	184	6
	307	**106**
Interest portion of future minimum lease payments		
Up to 1 year	5	4
1 to 5 years	7	0
	12	**4**
Present value of future minimum lease payments		
Up to 1 year	118	96
1 to 5 years	177	6
	295	**102**

17 Contingent liabilities

There were no contingent liabilities in the reporting period or in the previous year.

18 Other financial liabilities

The other financial liabilities consist primarily of operating leases and long-term rental agreements for land and buildings, vehicles, computers, and telecommunication equipment.

Payments amounting to €26,041 thousand (previous year: €24,634 thousand) were made under these rental and lease agreements in 2018.

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

€ thousand	31 Dec 2018	31 Dec 2017
Future minimum lease payments		
Up to 1 year	23,897	21,249
1 to 5 years	34,496	28,398
More than 5 years	267	22
	58,660	**49,669**
Future maintenance		
Up to 1 year	13,316	7,446
1 to 5 years	9,424	3,035
More than 5 years	0	0
	22,740	**10,481**

19 Other disclosures relating to financial instruments

The derivative financial instruments of the KRONES Group substantially cover the currency risks relating to the US dollar, the Canadian dollar, the Norwegian krone, the Australian dollar, the British pound, the Japanese yen and the euro.

The nominal and fair values of the derivative financial instruments are as follows at the reporting date:

€ thousand	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
	Nominal value	Nominal value	Fair value	Fair value
Financial assets				
Currency hedging				
Forward exchange contracts	55,041	99,924	859	1,973
of which hedge accounting	28,875	88,451	450	1,607
Financial liabilities				
Currency hedging				
Forward exchange contracts	73,431	63,361	1,981	513
of which hedge accounting	61,338	10,353	1,781	26

The fair value includes the difference between the forward rate received from the relevant commercial bank and the rate at the reporting date together with appropriate premiums or discounts under accepted appraisal methodologies. These financial instruments are generally accounted for at the trade date.

The risk of default relating to derivative financial instruments is limited to the balance of the positive fair values in the event of a contracting party's default. The cash flow hedges presented are judged to be effective. The net loss from derivatives was €386 thousand in the reporting period (previous year: net loss of €1,219 thousand).

The German master agreements and ISDA agreements do not meet the criteria to require offsetting in the consolidated statement of financial position. That is because the company currently does not have a legally enforceable right to offset the recognised amounts. The right to offset these amounts is only enforceable if future events occur such as insolvency of a party to the contract. Hedging transactions entered into directly by subsidiaries of the KRONES Group also cannot be offset.

The table below presents the carrying amounts of the financial assets and liabilities underlying these agreements:

€ thousand	31 Dec 2018	31 Dec 2017
Financial assets		
Gross amounts of recognised financial assets	1,887,606	1,493,386
Amounts that are netted in accordance with IAS 32.42	0	0
Net amounts of recognised financial assets	1,887,606	1,493,386
Amounts subject to master netting agreement		
Derivatives	–1,981	–513
Net amount of financial assets	1,885,625	1,492,873
Financial liabilities		
Gross amounts of recognised financial liabilities	715,458	513,798
Amounts that are netted in accordance with IAS 32.42	0	0
Net amounts of recognised financial liabilities	715,458	513,798
Amounts subject to master netting agreement	0	0
Derivatives	–860	–513
Net amount of financial liabilities	714,598	513,285

The effect of first-time application of IFRS 9 on the consolidated financial statements is presented on page 176.

The following table presents the financial instruments by their measurement categories and classes and also shows how the financial instruments that are measured at fair value fit within the fair value hierarchy.

31 Dec 2018			Measurement under IFRS 9				Measurement hierarchy		
€ thousand	Carrying amount at 31 Dec 2018	Of which subject to IFRS 7	At amortised cost (AC)	At fair value through profit or loss (FVTPL)	At fair value through other comprehensive income (FVOCI)	Measurement under IAS 17	Level 1	Level 2	Level 3
Assets									
Non-current financial assets	8,770	3,805	3,805						
Trade receivables	987,970	987,970	987,970						
Contract assets	647,089	647,089	647,089						
Other assets	166,128	29,940	29,080	410	450			860	
of which derivatives	860	860		410	450			860	
Cash and cash equivalents	218,802	218,802	218,802						
Liabilities									
Liabilities to banks	3,724	3,724	3,724						
Trade payables	491,586	491,586	491,586						
Other financial liabilities	147,972	147,972	106,889	41,083					41,083
Other liabilities and provisions	263,953	72,176	69,899	199	1,781	295		1,982	
of which derivatives	1,982	1,982		199	1,781			1,982	

31 Dec 2017			Measurement under IAS 39							Measurement hierarchy		
€ thousand	Carrying amount at 31 Dec 2017	Of which subject to IFRS 7	Loans and receivables	Financial assets and liabilities at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Available-for-sale financial assets	Financial liabilities at amortised cost	Measurement under IAS 17	Level 1	Level 2	Level 3
Assets											
Non-current financial assets*	6,215	6,215	2,656			3,559			990		
Trade receivables	1,277,358	1,277,358	1,277,358								
Other assets	131,641	27,818	25,846	366	1,607					1,973	
of which derivatives	1,973	1,973		366	1,607					1,973	
Cash and cash equivalents	181,995	181,995	181,995								
Liabilities											
Liabilities to banks	24,620	24,620					24,620				
Trade payables	376,547	376,547					376,547				
Other financial liabilities	33,954	33,953		26,974			6,979				26,974
Other liabilities and provisions	296,293	78,575		487	26		77,960	102		513	
of which derivatives	513	513		487	26					513	

* Investments measured at cost in accordance with IAS 39.46 (c)

Financial instruments categorised as Level 3 inputs and measured at fair value developed as follows:

€ thousand	2018	2017
Net carrying amount at 1 January	26,974	19,758
Additions resulting from acquisitions	2,582	3,883
Changes	11,527	3,333
(of which currency effects)	234	529
Net carrying amount at 31 December	41,083	26,974

There were no other changes. The financial liabilities, which are based on individual measurement parameters and recognised at fair value, comprise contingent consideration and combined put/call options relating to acquisitions. These items are recognised under "other financial liabilities" and have been measured on the basis of recognised accounting models, taking into account contractual agreements as well as the market and company data available at the reporting date.

The acquisitions include contingent consideration that is dependent on the input factors EBITDA and cash and cash equivalents. Taking into account the estimated input factors, the fair value of the contingent consideration from these acquisitions is €5,420 thousand as of the reporting date.

The acquisitions include put options that are granted to non-controlling interests for their shares in group companies. The anticipated-acquisition method has been applied, meaning that the options are accounted for as if they had already been exercised and each is recognised as a liability at fair value instead of recognising non-controlling interests. The liabilities are recognised through profit or loss.

The fair value of the put option for TRANS-MARKET was measured using Monte Carlo simulation. The main input factors are medium-term planning and the discount rate. The fair value was €987 thousand at the reporting date. The fair value of the put option for SYSTEM LOGISTICS was measured using the discounted cash flow method. The main input factors are medium-term planning and the discount rate. The estimated range of the undiscounted exercise price is between €27,325 thousand and €47,688 thousand at the reporting date. On this basis, the fair value at the reporting date was €33,226 thousand. The fair value of the put option for IPS PLASTICS was measured using the discounted cash flow method. The main input factors are medium-term planning and the discount rate. The estimated undiscounted exercise price at the acquisition date was €1,742 thousand. There was no significant change in the estimated spread as of the reporting date. On this basis, the fair value at the reporting date was €1,450 thousand.

There were no transfers between levels of the hierarchy.

The age structure of trade receivables and other receivables is as follows at 31 December 2018:

€ thousand			Of which overdue by the following number of days at the reporting date			
	Carrying amount	Of which not overdue at the reporting date	up to 90 days	between 90 and 180 days	between 180 and 360 days	more than 360 days
31 Dec 2018 Trade receivables and contract assets	1,635,059	1,460,726	116,017	21,212	24,337	12,767
31 Dec 2017 Trade receivables	1,277,358	998,659	171,991	42,825	34,363	29,520

The default risk to which the Group is exposed in trade receivables and contract assets primarily depends on customer creditworthiness.

KRONES' management has implemented a process in which each customer is assessed in terms of creditworthiness on the basis of external data such as ratings or internal data such as payment history and past-due status of receivables.

The final assessment is made on the basis of customer groups and a classification of customers into one of five risk categories, A to E, according to past-due status.

An expected credit loss rate is computed for each risk category on the basis of meaningful data.

The table below shows the gross carrying amounts and expected credit losses on trade receivables and contract assets at 31 December, 2018:

Rating-based	Gross carrying amount in € thousand	Average loss rate	Loss allowance in € thousand
Key accounts	471,345	0.45%	1,984
Major customers	821,086	0.99%	7,330
Total	**1,292,431**		**9,314**

Indicators that trade receivables and contract assets may be impaired include significant financial difficulties on the part of the customer.

	Category					
	A	B	C	D	E	Total
Average loss rate (%)	0.23%	0.18%	1.70%	5.33%	39.62%	
Gross carrying amount in € thousand	279,308	49,426	9,342	9,998	8,225	356,299
Loss allowance in € thousand	608	81	147	495	3,026	4,357

The cumulative loss allowances in relation to customers for whom the KRONES Group has concluded that their creditworthiness is impaired amounted to €21,901 thousand.

The following overview of maturities shows how the undiscounted cash flows relating to liabilities as of 31 December 2018 influence the company's liquidity situation.

€ thousand	Carrying amount 31 Dec 2018	Cash flow 2019		Cash flow 2020–2023		Cash flow beyond 2023	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Derivative financial instruments	1,982	0	1,980	0	2	0	0
Liabilities to banks	3,724	0	555	680	3,169	0	0
Liabilities from leases	295	6	118	15	177	0	0
Discounted trade bills	106,670	0	106,670	0	0	0	0
Other financial liabilities	41,302	0		44	41,302	0	0
	153,973	**6**	**109,323**	**739**	**44,650**	**0**	**0**

€ thousand	Carrying amount 31 Dec 2017	Cash flow 2018		Cash flow 2019–2022		Cash flow beyond 2022	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Derivative financial instruments	513	0	340	0	173	0	0
Liabilities to banks	24,620	0	24,620	0	0	0	0
Liabilities from leases	102	4	92	0	6	0	0
Discounted trade bills	6,979	0	6,979	0	0	0	0
Other financial liabilities	27,811	0		42	27,811	0	0
	60,025	**4**	**32,031**	**42**	**27,990**	**0**	**0**

Material items denominated in foreign currencies in accordance with IFRS 7 classes:

31 Dec 2018 € thousand	Currency USD	Currency NOK	Currency CAD	Currency CNY	Currency GBP
Cash and cash equivalents	395	0	132	56	0
Trade receivables	907	0	5,238	0	0
Other financial receivables	0	635	34	0	0
Derivatives at positive market values	194	284	269	0	45
Loans	0	0	0	0	0
Total assets	**1,496**	**919**	**5,673**	**56**	**45**
Liabilities					
Trade payables	−2,114	0	0	−1,082	−39
Liabilities to banks	0	0	0	0	0
Liabilities from leases	0	0	0	0	0
Other liabilities	−856	−14,217	−2,543	0	−4,007
Derivatives at negative market values	−1,100	−11	−7	−589	0
Financial liabilities at amortised cost	0	0	0	0	0
Total liabilities	**−4,070**	**−14,228**	**−2,550**	**−1,671**	**−4,046**
Balance of assets and liabilities	**−2,574**	**−13,309**	**3,123**	**−1,615**	**−4,001**
Net exposure at 31 Dec 2018	**−2,574**	**−13,309**	**3,123**	**−1,615**	**−4,001**

A 10% change in the closing rate at the reporting date would have the following effects on consolidated net income:

€ thousand	Currency USD	Currency NOK	Currency CAD	Currency CNY	Currency GBP
Consolidated statement of profit and loss	−116	1.254	−87	68	567
Consolidated equity	3,022	1,254	553	214	671

31 Dec 2017 € thousand	Currency USD	Currency NOK	Currency CAD	Currency GBP	Currency CNY
Cash and cash equivalents	2,104	0	145	0	0
Trade receivables	1,483	0	5,810	0	0
Other financial receivables	894	635	34	20	0
Derivatives at positive market values	740	524	31	39	101
Loans	0	0	0	0	0
Total assets	**5,221**	**1,159**	**6,020**	**59**	**101**
Liabilities					
Trade payables	−26,149	−11	0	−16	−55
Liabilities to banks	0	0	0	0	0
Liabilities from leases	0	0	0	0	0
Other liabilities	−5,038	−2,697	−2,163	−5,569	0
Derivatives at negative market values	−5	−13	−18	−4	−258
Financial liabilities at amortised cost	0	0	0	0	0
Total liabilities	**−31,192**	**−2,721**	**−2,181**	**−5,589**	**−313**
Balance of assets and liabilities	**−25,971**	**−1,562**	**3,389**	**−5,530**	**−212**
Net exposure at 31 Dec 2017	**−25,971**	**−1,562**	**3,389**	**−5,530**	**−212**

A 10% change in the closing rate at the reporting date would have the following effects on consolidated net income:

€ thousand	Currency USD	Currency NOK	Currency CAD	Currency GBP	Currency CNY
Consolidated statement of profit and loss	1,624	137	−162	277	922
Consolidated equity	4,808	786	268	27	174

Notes to the **consolidated statement of profit and loss**

20 Revenue

The KRONES Group's revenue of €3,853,980 thousand (previous year: €3,691,355 thousand) is recognised revenue from contracts with customers. Revenue from contracts with customers breaks down by segment and geographical region as follows.

€ thousand	Machines and Lines for Product Filling and Decoration	Machines and Lines for Beverage Production/ Process Technology
Germany	273,431	88,913
Central Europe (excluding Germany)	205,006	19,587
Western Europe	543,892	177,751
Middle East/Africa	424,271	76,371
Eastern Europe	164,971	22,458
Russia, Central Asia (CIS)	62,014	17,842
Asia-Pacific	402,170	43,556
China	277,993	12,778
North and Central America	420,611	112,452
South America	403,491	104,422
Total	**3,177,850**	**676,130**

The group's contract assets and contract liabilities changed as follows in the financial year:

€ thousand	31 Dec 2018	1 Jan 2018
Contract assets	647,089	370,228
Contract liabilities	547,222	392,986

The amount of revenue recognised in 2018 that was included in the contract liability balance at the beginning of the reporting period was €392,986 thousand.

The increase in contract assets and contract liabilities mainly relates to a larger volume of contracts in progress and higher prepayments from customers as a result of growth in the orders backlog.

The amount of the transaction price allocated to performance obligations unsatisfied (or partially unsatisfied) as of the end of the reporting period was €25,072 thousand. KRONES will recognise most of this as revenue in the next 36 months. No disclosures under IFRS 15.120 are made for performance obligations with an original expected duration of one year or less.

21 Other own work capitalised

Other own work capitalised consists primarily of capitalised development expenditure and capitalised cost of self-constructed property, plant and equipment.

With respect to development expenditure capitalised in accordance with IAS 38, please refer to the notes on intangible assets.

22 Other operating income

Apart from prior-period income from the reversal of provisions and accruals (€13,727 thousand; previous year: €11,293 thousand), gains from disposals of non-current assets (€479 thousand; previous year: €1,558 thousand) and the reversal of loss allowances (€7,910 thousand; previous year: €3,272 thousand), the other operating income, which amounts to €114,492 thousand (previous year: €112,470 thousand), consists substantially of currency translation gains of €36,548 thousand (previous year: €58,016 thousand). This compares with additions to loss allowances of €3,148 thousand (previous year: €8,934 thousand) and currency translation losses of €45,201 thousand (previous year: €51,117 thousand) under other operating expenses.

23 Goods and services purchased

The expenditure for goods and services purchased comprises expenses for materials and supplies and for goods purchased amounting to €1,523,504 thousand (previous year: €1,408,330 thousand) and expenses for services purchased amounting to €508,521 thousand (previous year: €451,077 thousand).

24 Personnel expenses

Within the KRONES Group, 15,330 people (previous year: 14,426) including trainees (546; previous year: 541) were employed on average over the year. The workforce of the KRONES Group is composed as follows (average for the year):

	2018	2017
White-collar employees exempt from collective agreements	2,766	2,551
Employees covered by collective agreements	12,564	11,875
Total	**15,330**	14,426

25 Other operating expenses

Apart from the €453 thousand in prior-period losses from disposals of non-current assets (previous year: €178 thousand), the other operating expenses include additions to loss allowances on receivables (€3,148 thousand; previous year: €8,934 thousand), other taxes (€5,664 thousand; previous year: €5,898 thousand), freight costs (€124,272 thousand; previous year: €106,331 thousand), travel costs (€110,677 thousand; previous year: €107,037), currency translation losses (€45,201; previous year: €51,117 thousand), rent and cleaning costs (€40,873 thousand; previous year: €30,222 thousand), and maintenance costs (€36,191 thousand; previous year: €31,314 thousand).

26 Financial income/expense

The financial income of €1,099 thousand (previous year: €13,328 thousand) breaks down as follows:

€ thousand	2018	2017
Income from other securities and loans classified as non-current financial assets	2	2
Interest and similar income	6,121	10,149
Interest and similar expenses	−14,592	−8,265
Interest income/expense	−8,469	1,884
Investment income	8,747	11,941
Profit or loss shares attributable to associates that are accounted for using the equity method	821	−499
Net financial income/expense	**1,099**	13,328

Besides interest and similar income of €6,121 thousand (previous year: €10,149 thousand) and interest and similar expenses of €14,592 thousand (previous year: €8,265 thousand), financial income/expense also included investment income of €8,747 thousand (previous year: €11,941 thousand) relating to non-consolidated companies. The interest and similar income includes reversals of earn-out obligations totalling €563 thousand (previous year: €4,567 thousand). The interest and similar expenses include a €10,749 thousand (previous year: €4,520 thousand) increase in the obligation relating to put options. *The share of profit or loss of associates accounted for using the equity method came to €821 thousand in 2018 (see page 151).*

27 Income tax

Income tax amounted to –€53,650 thousand in 2018 (previous year: –€71,668 thousand). *Further information is presented under Note 8, "Income tax" (pages 153 to 154).*

28 Earnings per share

Under IAS 33 "Earnings per share", basic earnings per share are calculated by dividing consolidated net income – less profit or loss shares of non-controlling interests – by the weighted average number of ordinary shares in circulation, as follows:

As in the previous year, diluted earnings per share are equal to basic earnings per share.

	2018	2017
Consolidated net income less profit or loss shares of non-controlling interests (€ thousand)	151,083	188,759
Weighted average number of ordinary shares in circulation (shares)	31,593,072	31,593,072
Earnings per share (€)	**4.78**	**5.97**

Accounting standards **applied for the first time**

First-time application of the new financial reporting standards IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" results in changes to the group's accounting policies as described in the following. Other financial reporting standards and interpretations to be applied for the first time have no effect on the annual financial statements.

IFRS 9 Financial Instruments

IFRS 9 "Financial Instruments" replaces the previous requirements under IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new rules for the classification and measurement of financial assets and new rules on impairments of financial instruments.

KRONES has applied IFRS 9 for the first time as from 1 January 2018. In accordance with the transitional provisions under IFRS 9, KRONES has elected not to restate prior-year figures.

IFRS 9 introduces a new classification and measurement approach for financial assets that reflects the business model under which they are held and their cash flow characteristics.

IFRS 9 provides for three major categories of financial assets: at amortised cost, at fair value through profit or loss (FVTPL) and at fair value through other comprehensive income (FVOCI). The standard eliminates the previous categories under IAS 39: held to maturity, loans and receivables and available-for-sale.

For equity instruments that are not held for trading, KRONES has elected to uniformly recognise changes in fair value through other comprehensive income. Under IAS 39, such financial instruments were classified as "available for sale" and measured at amortised cost.

IFRS 9 largely retains the existing requirements under IAS 39 for the classification of financial liabilities.

Under IAS 39, however, all changes in the fair value of liabilities designated as at fair value through profit or loss are recognised through profit or loss, whereas under IFRS 9 they are normally presented as follows:

- Changes in fair value attributable to changes in credit risk on the liability are presented in other comprehensive income.
- The remaining changes in fair value are presented in profit or loss.

The other financial liabilities at KRONES comprise liabilities at fair value through profit or loss. KRONES has retained this classification under IFRS 9.

IFRS 9 replaces the incurred loss model under IAS 39 with a forward-looking expected credit loss model. Loss allowances are therefore measured on the basis of one of the following:

- 12-month expected credit losses: Expected credit losses that result from default events that are possible within twelve months after the reporting date.
- Lifetime expected credit losses: Expected credit losses that result from all possible default events over the expected life of a financial instrument.

The additional loss allowances determined for trade receivables and contract assets in accordance with IFRS 15 amounted to €13,652 thousand and were recognised in profit reserves.

Changes in loss allowances are shown on page 152.

Loss allowances are measured on the basis of lifetime expected credit losses if the credit risk on a financial asset at the reporting date has increased significantly since initial recognition; otherwise, loss allowances are measured on the basis of 12-month expected credit losses. An entity may assume that the credit risk on a financial asset has not increased significantly if the financial asset is determined to have low credit risk at the reporting date. However, loss allowances must always be measured on the basis of lifetime expected credit losses for trade receivables and for contract assets without a significant financing component; KRONES also measures loss allowances on this basis for trade receivables and contract assets with a significant financing component.

The expected credit losses on trade receivables and other receivables, including contract assets, are estimated on the basis of external ratings and historical credit loss experience over the last 36 months. Within each group of financial instruments, credit risks are segmented on the basis of shared credit risk characteristics.

Overall, application of the new impairment model results in earlier recognition of expected losses on trade receivables and other receivables, including contract assets, and thus in an increase in impairments.

Cash and cash equivalents are deposited with banks or financial institutions. Based on the external ratings of banks and financial institutions, KRONES assumes that its cash and cash equivalents have low default risk.

On first-time application of IFRS 9, KRONES has made the election to continue applying the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9.

The table below shows a reconciliation, as of 1 January 2018, of the carrying amounts of financial instruments prior to the transition to IFRS 15, broken down by classes and categories in accordance with IFRS 9, to the previous categories in accordance with IAS 39.

31 Dec 2017			Measurement under IAS 39						
€ million	Carrying amount at 31 Dec 2017	Of which subject to IFRS 7	Loans and receivables	Financial assets and liabilities at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Available-for-sale financial assets	Financial liabilities at amortised cost	Measurement under IAS 17
Assets								
Non-current financial assets*	6.2	6.2	2.7			3.6		
Trade receivables	1,277.4	1,277.4	1,277.4					
Other assets	131.6	27.8	25.8	0.4	1.6			
of which derivatives	2.0	2.0	0.0	0.4	1.6			
Cash and cash equivalents	182.0	182.0	182.0					
Liabilities								
Liabilities to banks	24.6	24.6					24.6	
Trade payables	376.5	376.5					376.5	
Other financial liabilities	34.0	34.0		27.0			7.0	
Other liabilities and provisions	296.3	78.6		0.5			78.0	0.1
of which derivatives	0.5	0.5		0.5				

* Investments measured at cost in accordance with IAS 39.46 (c)

31 Dec 2018			Measurement under IAS 39					
€ million	Carrying amount at 1 Jan 2018	Of which subject to IFRS 7	Loans and receivables	Financial assets and liabilities at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Available-for-sale financial assets	Financial liabilities at amortised cost	Measurement under IAS 17
Assets								
Non-current financial assets	6.2	2.7	2.7					
Trade receivables	1,265.8	1,265.8	1,265.8					
Other assets	131.6	27.8	25.8	0.4	1.6			
of which derivatives	2.0	2.0	0.0	0.4	1.6			
Cash and cash equivalents	182.0	182.0	182.0					
Liabilities								
Liabilities to banks	24.6	24.6					24.6	
Trade payables	376.5	376.5					376.5	
Other financial liabilities	34.0	34.0		27.0			7.0	
Other liabilities and provisions	296.3	78.6		0.5			78.0	0.1
of which derivatives	0.5	0.5		0.5				

IFRS 15 Revenues from Contracts with Customers

The new revenue recognition standard, IFRS 15 "Revenue from Contracts with Customers", combines the previous revenue recognition rules into a uniform model for revenue recognition. It replaces revenue recognition provisions under IAS 11 and IAS 18 and was applied for the first time as from 1 January 2018.

The principles set out in IFRS 15 result in the following five steps:

1 Identification of the contract

2 Identification of the performance obligations

3 Determination of the transaction price

4 Allocation of the transaction price to the performance obligations

5 Satisfaction of the performance obligations

KRONES applies the modified retrospective method, according to which the cumulative effects of first-time application are recognised as an adjustment to the opening balance of profit reserves; prior-year figures are not restated in the statement of financial position. In addition, IFRS 15 has only been applied retrospectively to contracts for which the performance obligations were not fully satisfied as of 1 January. *A detailed description of the application of IFRS 15 is provided on pages 181 and 182 of the 2017 Annual Report.*

KRONES provides machinery and systems for bottling and packaging and for beverage production. KRONES continues to recognise revenue for highly customer-specific projects over time rather than at a point in time, as the resulting assets have no alternative use as a rule and KRONES has a legal right to payment for performance already completed. Commencing with the 2018 financial year, progress is measured using an input method. First-time application of the new accounting standard led to a change in the recognition of revenue for certain contracts, depending on progress towards completion.

As a result of IFRS 15, contract assets and contract liabilities are presented in the statement of financial position for the first time.

The tables below provide an overview of the effects of IFRS 15 on the consolidated financial statements as of 31 December 2018. The main driver of the changes is the different measurement of progress.

IFRS 15: Effects on the consolidated statement of financial position

€ million	31 Dec 2018	Effects of IFRS 15	31 Dec 2018 without application of IFRS 15
Assets			
Non-current assets	977.2	0.0	977.2
Inventories	320.7	453.3	774.0
Trade receivables and contract assets*	1,635.1	–384.4	1,250.7
Remaining current assets	388.4	0.0	388.4
Total	**3,321.4**	**68.9**	**3,390.3**

* Comprising non-current trade receivables

IFRS 15: Effects on the consolidated statement of financial position

€ million	31 Dec 2018	Effects of IFRS 15	31 Dec 2018 without application of IFRS 15
Liabilities			
Equity	1,433.3	−35.9	1,397.4
Deferred tax liabilities	23.3	−13.3	10.0
Remaining non-current liabilities	335.5	0.0	335.5
Other current provisions	107.2	−6.5	100.7
Contract liabilities	547.2	−547.2	0.0
Advances received	0.0	671.8	671.8
Other liabilities and provisions	261.7	0.0	261.7
Remaining current liabilities	613.2	0.0	613.2
Total	**3,321.4**	**68.9**	**3,390.3**

IFRS 15: Effects on the consolidated statement of profit and loss

€ million	1 Jan – 31 Dec 2018	Effects of IFRS 15	1 Jan – 31 Dec 2018 without application of IFRS 15
Revenue	3,854.0	−120,8	3.733,2
Changes in inventories (FG/WIP)	1.1	104.6	105.7
Total operating performance	3,855.1	−16.2	3,838.9
Goods and services purchased	−2,032.0	−0.8	−2,032.8
Personnel expenses	−1,137.2	−2.4	−1,139.6
Net balance of other operating income/expenses, amortisation/depreciation and own work capitalised	−482.7	−0.5	−483.2
EBIT	203.2	−19.9	183.3
Income tax	−53.7	5.6	−48.1
Consolidated net income	**150.6**	**−14.3**	**136.3**

Other disclosures

Group audit fees

The fee for audit services provided by KPMG AG Wirtschaftsprüfungsgesellschaft related primarily to the audit of the consolidated financial statements and the annual financial statements of KRONES AG as well as annual audits of various subsidiaries.

Other assurance services relate primarily to the audit of the group's non-financial report, a certificate of value, and other audits required by law or by contract and contractually agreed assurance services.

The tax advisory services comprise support services for the preparation of income tax returns for employees working abroad.

€ thousand	2018
Audit services	723
Other assurance services	70
Tax advisory services	56
Other services	0

Events after the reporting period

There were no material events after the reporting period.

Related party disclosures

Within the meaning of IAS 24 Related Party Disclosures, the members of the Supervisory Board and of the Executive Board of KRONES AG and the companies of the KRONES Group, including unconsolidated subsidiaries, are deemed related parties. The ultimate controlling party of KRONES AG is Familie Kronseder Konsortium GbR. Purchases and sales between the related companies are transacted at prices customary on the market ("at arm's length"). Sales to subsidiaries that are not consolidated amounted to €27,738 thousand in 2018 (previous year: €33,398 thousand). Commissions received amounted to €8,885 thousand in 2018 (previous year: €7,482 thousand). Trade and other payment transactions resulted in assets of €10,008 thousand (previous year: assets of €14,788 thousand). Repayment is normally within twelve months. Contingent liabilities of €2,697 thousand (previous year: €2,579 thousand) result from guarantees. Trade and other payment transactions with associates totalled €22,532 thousand in 2018 (previous year: €26,586 thousand). This resulted in liabilities of €1,616 thousand (previous year: €2,157 thousand).

Executive Board remuneration and benefits paid to former members of the Executive Board

Total Executive Board remuneration for the financial year amounted to €6,479 thousand (previous year: €6,405 thousand). Pension provisions of €2,087 thousand (previous year: €2,489 thousand) were recognised for active members of the Executive Board. In addition, €1,172 thousand (previous year: €1,024 thousand) was paid into contribution-based plans in 2018.

- Payments to former members of the Executive Board and their surviving dependants amounted to €1,688 thousand (previous year: €1,504 thousand). Pension provisions were recognised in the amount of €8,761 thousand (previous year: €7,723 thousand).

Supervisory Board remuneration

The total remuneration paid to members of the Supervisory Board for the 2018 financial year amounted to €712 thousand (previous year: €631 thousand).

Corporate governance

Shareholders can view the declaration of the Executive Board and the Supervisory Board from 19 February 2018 pursuant to Section 161 of the German Stock Corporation Act [AktG] concerning the Corporate Governance Code as amended on 7 February 2017 at KRONES AG's website. The exceptions are also listed there.

Risk report

The risk report is part of the management report and is on pages 86 to 96.

Standards and interpretations

The accounting policies used in these consolidated financial statements are the standards and interpretations whose application is mandatory as of 31 December 2018. The following new or amended standards and interpretations applied for the 2018 financial year.

Standard or interpretation		Endorsement	Application mandatory for annual periods beginning
IAS 40	Amendments to: Transfers of Investment Property	completed	1 Jan 2018
IFRS 2	Amendments to: Clarifications of Classification and Measurement of Share Based Payment Transactions	completed	1 Jan 2018
IFRS 4	Amendments to: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	completed	1 Jan 2018
IFRS 9	Financial Instruments	completed	1 Jan 2018
IFRS 15	Revenues from Contracts with Customers	completed	1 Jan 2018
IFRS 15	Amendments to: Clarifications and transitional relief	completed	1 Jan 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	completed	1 Jan 2018
	Annual Improvements to IFRS – 2014–2016 Cycle	completed	1 Jan 2017/ 1 Jan 2018

Numerous new or amended standards entered into force in the reporting period. First-time application of the new standards IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” resulted in changes to the group’s accounting policies. *The effects of first-time application of these two standards are described on pages 176 to 181.* The remaining new or amended standards and interpretations listed above have no material relevance for KRONES AG.

The following standards and interpretations have been issued by the IASB but their application is not mandatory until after 31 December 2018.

Standard or interpretation		Endorsement	Application mandatory for annual periods beginning
Conceptual Framework	Amendments to: Conceptual Framework for Financial Reporting and Amendments to References to the Conceptual Framework in IFRS Standards	open	1 Jan 2020
IAS 19	Amendments to: Plan Amendment, Curtailment or Settlement	open	1 Jan 2019
IAS 28	Amendments to: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	completed	1 Jan 2019
IFRS 3	Amendments to: Definition of a Business	open	1 Jan 2020
IFRS 9	Amendments to: Prepayment Features with Negative Compensation	completed	1 Jan 2019
IFRS 10	Amendments to: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	open	to be determined
IFRS 14	Regulatory Deferral Accounts	open	1 Jan 2016
IFRIC 23	Uncertainty over Income Tax Treatments	completed	1 Jan 2019
IFRS 16	Leases	completed	1 Jan 2019
IFRS 17	Insurance Contracts	open	1 Jan 2021
	Annual Improvements to IFRS – 2015–2017 Cycle	open	1 Jan 2019

With the exception of IFRS 16, these standards and interpretations are not expected to have a material impact on the consolidated financial statements of KRONES AG in the reporting period to which they are applied for the first time.

IFRS 16 Leases

In January 2016, the IASB published the financial reporting standard IFRS 16 "Leases", which became EU law on 9 November 2017. IFRS 16 replaces the existing rules on leases, including IAS 17 "Leases", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC 15 "Operating Leases" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

The standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity applies IFRS 15 before or at the date of initial application of IFRS 16. KRONES has not applied the standard early.

Under IFRS 16, all leases and related contractual rights and obligations are generally to be presented in the statement of financial position of the lessee. A lessee recognises a lease liability at the present value of the lease payments. The right to use the leased asset is normally measured at an amount equal to the lease liability plus initial direct costs. There are exceptions for short-term leases, leases of low-value assets and leases of intangible assets. With regard to the elections provided for in the standard, KRONES makes use of the practical expedients for low-value assets, short-term leases and leases of intangible assets.

Lessor accounting is similar to the previous standard, meaning that lessors continue to classify leases as finance or operating leases.

The group has almost completed its assessment of the potential impact on its consolidated financial statements.

This analysis as part of the group-wide first-time application project has identified the following categories of leases for which the transition to IFRS 16 as of 1 January 2019 results in leases previously accounted for as operating leases being recognised as leases under the new standard: Land and buildings, vehicles and other leased assets. First-time application results in the recognition of right-of-use assets in the amount of €80 million to €100 million and corresponding lease liabilities in the consolidated statement of financial position as of 1 January 2019.

The types of expenses associated with these leases will also change, as the recognition of right-of-use assets under IFRS 16 will result in the linear expenses for operating leases previously recognised under IAS 17 being replaced by an amortisation expense for right-of-use assets and interest expense for lease liabilities.

KRONES will apply IFRS 16 for the first time as of 1 January 2019 using the modified retrospective approach. The cumulative effect of applying IFRS 16 is therefore recognised as an adjustment to the opening balance of profit reserves as of 1 January 2019. On the basis of current knowledge, the change in profit reserves will not be material. Comparative information for the 2018 financial year will not be restated in the 2019 financial year.

When transitioning to IFRS 16, the group may elect whether to:

- Apply the definition of a lease in IFRS 16 to all of its contracts; or
- Apply a practical expedient under which it does not assess whether a contract is or contains a lease if the contract has already been analysed and classified under IAS 17.

On transition, the group will make use of the practical expedient of retaining the definition of a lease. This means that the group will apply IFRS 16 to all contracts entered into before and ongoing beyond 1 January 2019 that were identified as leases under IAS 17 and IFRIC 4.

KRONES has also decided to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Shareholdings

Name and location of the company	Share in capital held by KRONES AG (%*)
neusped NEUTRAUBLINGER SPEDITIONS-GMBH, Neutraubling, Germany	100.00
KIC KRONES INTERNATIONALE COOPERATIONS-GESELLSCHAFT MBH, Neutraubling, Germany	100.00
ecomac GEBRAUCHTMASCHINEN GMBH, Neutraubling, Germany	100.00
EVOGUARD GMBH, Nittenau, Germany	100.00
MAINTEC SERVICE GMBH, Collenberg/Main, Germany	100.00
SYSKRON HOLDING GMBH, Wackersdorf, Germany	100.00
SYSKRON GMBH, Wackersdorf, Germany	100.00
SYSKRON X GMBH, Wackersdorf, Germany	100.00
PMR GMBH, Wackersdorf, Germany	100.00
TECHNOLOGISCHES INSTITUT FÜR ANGEWANDTE KÜNSTLICHE INTELLIGENZ GMBH, Weiden i. d. Opf., Germany	44.00
TRIACOS CONSULTING & ENGINEERING GMBH, Altenstadt a. d. Waldnaab, Germany	100.00
HST MASCHINENBAU GMBH, Dassow , Germany	100.00
DEKRON GMBH (vormals TILL GMBH), Kelkheim , Germany	100.00
GERNEP GMBH ETIKETTIERTECHNIK, Barbing, Germany	100.00
MILKRON GMBH, Laatzen, Germany	100.00
KRONES BETEILIGUNGSGESELLSCHAFT MBH, Neutraubling, Germany	100.00
MHT HOLDING AG, Hochheim am Main, Germany	91.33
MHT MOLD & HOTRUNNER TECHNOLOGY AG, Hochheim am Main, Germany	91.33
MHT IP GMBH, Hochheim am Main, Germany	91.33
S.A. KRONES N.V., Louvain-la-Neuve, Belgium	100.00
S.P.S.–SOLUTIONS FOR PACKAGING SERVICES S.A., Charleroi, Belgium	100.00
MAINTEC SERVICE EOOD, Sofia, Bulgaria	100.00
KRONES NORDIC APS, Holte, Denmark	100.00
KRONES S.A.R.L., Viviers-du-Lac, France	100.00
S.P.S.– SOLUTIONS FOR PACKAGING SERVICES S.A.S., Lyon, France	100.00
KRONES UK LTD., Bolton, U.K.	100.00

Name and location of the company	Share in capital held by KRONES AG (%*)
SYSTEM LTD., London, U.K.	60.00
KRONES S.R.L., Roverbella (MN), Italy	100.00
KOSME S.R.L., Roverbella (MN), Italy	100.00
SYSTEM LOGISTICS, Fiorano (MD), Italy	60.00
KRONES KAZAKHSTAN TOO, Almaty, Kazakhstan	100.00
KRONES NEDERLAND B.V., Bodegraven, Netherlands	100.00
KOSME GESELLSCHAFT MBH, Sollenau, Austria	100.00
KRONES SPÓLKA Z.O.O., Warsaw, Poland	100.00
KRONES PORTUGAL EQUIPAMENTOS INDUSTRIAIS LDA., Barcarena, Portugal	100.00
KRONES O.O.O., Moscow, Russia	100.00
KRONES ROMANIA PROD. S.R.L., Bucharest, Romania	100.00
SYSTEM NORTHERN EUROPE AB, Malmö, Sweden	60.00
INTEGRATED PLASTICS SYSTEMS AG, Baar, Switzerland	70.00
KRONES AG, Buttwil, Switzerland	100.00
KRONES IBERICA, S.A.U., Barcelona, Spain	100.00
SYSTEM LOGISTICS SPAIN SL, Castellon, Spain	100.00
KRONES S.R.O., Prague, Czech Republic	100.00
KONPLAN IMMOBILIENGESELLSCHAFT S.R.O., Pilsen, Czech Republic	100.00
KONPLAN S.R.O., Pilsen, Czech Republic	100.00
KRONES MAKINA SANAYI VE TIKARET LTD. SIRKETI, Istanbul, Turkey	100.00
KRONES UKRAINE LLC, Kiev, Ukraine	100.00
KRONES HUNGARY KFT, Debrecen, Hungary	100.00
KRONES ANGOLA – REPRESENTACOES, COMERCIO E INDUSTRIA, LDA., Luanda, Angola	100.00
KRONES SURLATINA S. A., Buenos Aires, Argentina	100.00
KRONES PACIFIC PTY LIMITED, Sydney, Australia	100.00
KRONES BANGLADESH LIMITED, Dhaka, Bangladesh	100.00
KRONES DO BRAZIL LTDA., São Paulo, Brazil	100.00
KRONES S. A., São Paulo, Brazil	100.00

Name and location of the company	Share in capital held by KRONES AG (%*)
KRONES CHILE SPA., Santiago de Chile, Chile	100.00
KRONES SALES (BEIJING) CO. LTD., Beijing, China	100.00
KRONES MACHINERY (TAICANG) CO. LTD., Taicang, China	100.00
KRONES TRADING (TAICANG) CO. LTD., Taicang, China	100.00
KRONES ASIA LTD., Hongkong, China	100.00
KRONES PROCESSING (SHANGHAI) CO., LTD., Shanghai, China	100.00
KRONES INDIA PVT. LTD., Bangalore, India	100.00
PT. KRONES MACHINERY INDONESIA, Jakarta, Indonesia	100.00
KRONES JAPAN CO. LTD., Tokyo, Japan	100.00
KRONES CAMBODIA CO. LTD., Phnom Phen, Cambodia	100.00
KRONES MACHINERY CO. LTD., Mississauga, Ontario, Canada	100.00
KRONES LCS CENTER EAST AFRICA LTD., Nairobi, Kenya	100.00
KRONES ANDINA LTDA., Bogotá, Columbia	100.00
KRONES KOREA LTD., Seoul, Korea	100.00
KRONES MACHINERY MALAYSIA SDN. BHD., Kuala Lumpur, Malaysia	100.00
KRONES MEX S. A. DE C. V., Mexico D. F., Mexico	100.00
SYSTEMLOG DE MEXICO S.A. DE C.V., Nuevo Leon, Mexico	60.00
KRONES MYANMAR LTD., Sanchaung Township, Myanmar	100.00
KRONES NEW ZEALAND LIMITED, Auckland, New Zealand	100.00
KRONES LCS CENTER WEST AFRICA LTD., Lagos, Nigeria	100.00
KRONES PAKISTAN (PRIVATE) LIMITED, Lahore, Pakistan	100.00
KRONES FILIPINAS INC., Taguig City, Philippines	100.00
KRONES SINGAPORE PTE. LTD., Singapore, Singapore (former ASIA FOOD AND BEVERAGE CONSULTING GROUP PTE LTD.)	100.00
KRONES-IZUMI PROCESSING PTE. LTD., Singapore, Singapore	73.00
KRONES SOUTHERN AFRICA (PROP.) LTD., Johannesburg, South Africa	100.00
KRONES (THAILAND) CO. LTD., Bangkok, Thailand	100.00
SYSTEM LOGISTICS ASIA CO. LTD., Bangkok, Thailand	60.00

Name and location of the company	Share in capital held by KRONES AG (%*)
KRONES INC., Franklin, Wisconsin, USA	100.00
SYSTEM LOGISTICS CORPORATION, Arden, Delaware, USA	60.00
TRANS-MARKET LLC, Tampa, Florida, USA	80.00
PROCESS AND DATA AUTOMATION, LLC, Erie, Pennsylvania, USA	100.00
JAVLYN PROCESS SYSTEMS LLC, Rochester, New York, USA	100.00
SPRINKMAN, LLC, Waukesha, Wisconsin, USA	100.00
MHT USA LLC, PEACHTREE, Georgia, USA	91.33
MAQUINARIAS KRONES DE VENEZUELA S. A., Caracas, Venezuela	100.00
INTEGRATED PACKAGING SYSTEMS (IPS) FZCO, Dubai, United Arab Emirates	40.00
KRONES VIETNAM CO. LTD., Ho Chi Minh City, Vietnam	100.00

*Direct and indirect shareholdings

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

Use of exemptions

The following fully consolidated German group companies made use of the exemption in Section 264 (3) HGB in the 2018 financial year.

Name and location of the company
KRONES BETEILIGUNGSGESELLSCHAFT MBH, Neutraubling, Germany
DEKRON GMBH, Kelkheim, Germany
ecomac GEBRAUCHTMASCHINEN GMBH, Neutraubling, Germany
EVOGUARD GMBH, Nittenau, Germany
GERNEP GMBH ETIKETTIERTECHNIK, Barbing, Germany
HST MASCHINENBAU GMBH, Dassow, Germany
KIC KRONES INTERNATIONALE COOPERATIONS-GESELLSCHAFT MBH, Neutraubling, Germany
MILKRON GMBH, Laatzen, Germany
NEUSPED NEUTRAUBLINGER SPEDITIONS-GMBH, Neutraubling, Germany

The companies are directly and/or indirectly affiliated with KRONES AG by a profit transfer agreement.

Members of the **Supervisory Board** and the **Executive Board**

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

Supervisory Board

Volker Kronseder
Chairman of the Supervisory Board
* UNIVERSITÄTSKLINIKUM REGENSBURG
* ECONOMIC ADVISORY BOARD BAYERISCHE LANDESBANK

Werner Schrödl**
Chairman of the Group Works Council
Chairman of the Central Works Council
Deputy Chairman of the Supervisory Board
* Verwaltungsrat der BAYERISCHEN BETRIEBSKRANKENKASSEN

Robert Friedmann
Spokesman for the central managing board of the WÜRTH GROUP
* ZF FRIEDRICHSHAFEN AG
Since 13 June 2018

Klaus Gerlach**
Head of Central International Operations and Services

Oliver Grober**
Chairman of the Employees' Council, Rosenheim
Since 13 June 2018

Thomas Hiltl**
Chairman of the Employees' Council, Nittenau
Since 13 June 2018

Norman Kronseder
Farmer and forester
* BAYERISCHE FUTTERSAATBAU GMBH

Professor Dr. jur. Susanne Nonnast
Professor at Ostbayerische Technische Hochschule (OTH) Regensburg

Dr. Verena Di Pasquale**
Deputy Chairperson of DGB Bayern (the German Trade Union Confederation in Bavaria)

Beate Eva Maria Pöpperl**
Independent Member of the Employees' Council

Norbert Samhammer
Chief executive of SAMHAMMER AG
Since 13 June 2018

Petra Schadeberg-Herrmann
Managing partner KROMBACHER BRAUEREI
BERNHARD SCHADEBERG GMBH & CO. KG,
KROMBACHER FINANCE GMBH,
SCHAWEI GMBH,
DIVERSUM HOLDING GMBH & CO. KG

Jürgen Scholz**
First authorised representative IG Metall administrative office in Regensburg
* INFINEON TECHNOLOGIES AG

Hans-Jürgen Thaus
* HAWE HYDRAULIK SE
* MASCHINENFABRIK REINHAUSEN GMBH
* KURTZ HOLDING GMBH & BETEILIGUNGS KG

Josef Weitzer**
Deputy Group Employees' Council Chairman
Deputy Composite Employees' Council Chairman
Employees' Council Chairman, Neutraubling
* SPARKASSE REGENSBURG

Matthias Winkler
Managing partner at WW+ KN Steuerberatungsgesellschaft mbH
Since 13 June 2018

Executive Board

Christoph Klenk
CEO
Human Resources, Intralogistics, Digitalisation, Communication, Quality, Information Management

Michael Andersen
CFO
Finance, Controlling, Process Technology, Strategic Purchasing

Thomas Ricker
Sales and Marketing

Markus Tischer
International Operations and Services

Ralf Goldbrunner
Bottling and Packaging Equipment

* Other Supervisory Board seats held, pursuant to Section 125 (1) Sentence 5 of the German Stock Corporation Act
** Elected by the employees
In addition, each of the group companies is the responsibility of two members of the Executive Board.

Proposal for the appropriation of **KRONES AG's earnings available for distribution**

KRONES AG had earnings available for distribution of € 351,071,419.13 at 31 December 2018.

We propose to the annual general meeting on 5 June 2019 that this amount be used as follows:

Proposal for the appropriation of earnings available for distribution	€
Dividend of €1.70 per share (for 31,593,072 shares)	53,708,222
Amount brought forward to new account	297,363,196

Neutraubling, 12. March 2019

KRONES AG

The Executive Board

Christoph Klenk
CEO

Michael Andersen
CFO

Thomas Ricker

Markus Tischer

Ralf Goldbrunner

6

OTHER INFORMATION

Auditor's report ... 194
Commercial glossary ... 201
Technical glossary ... 202
Key figures for the KRONES Group ... 203
Publishing information ... 204
Financial calendar ... 204
Contact ... 205

Independent auditor's report

To KRONES Aktiengesellschaft, Neutraubling

Report on the audit of the consolidated financial statements and the group management report

Opinions

We have audited the consolidated financial statements of KRONES Aktiengesellschaft, Neutraubling, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of cash flow and consolidated statement of changes in equity for the financial year from 1 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of KRONES Aktiengesellschaft, Neutraubling, for the financial year from 1 January to 31 December 2018.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the Group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10(2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5(1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Accrual basis of accounting for revenue

For details on the accounting principles used, please see the notes to the consolidated financial statements, pages 142 to 143.

The financial statement risk

The Group's revenue totalled €3,854 million in the 2018 financial year.

The major part of the KRONES Group's revenue is generated through large projects involving new machinery. This entails performance comprising the design of the new machines and their installation and commissioning on site, which are regarded as a single inseparable performance obligation. As contracts for new machinery are customer-specific, the group's performance creates an asset that does not have an alternative use to the group. The group has a legal right to payment for the performance completed to date, including an appropriate margin. In accordance with IFRS 15, revenue is therefore recognised over time on the basis of progress. Progress is determined on the basis of the costs incurred as of the reporting date relative to the expected total costs of each project.

Other material revenue that does not result from the above contracts is generated with services that are independent of large-scale new machinery projects. These are accounted for over time in accordance with IFRS 15. Service revenue is recognised in accordance with the ratio of costs incurred as of the reporting date to the expected total costs of the service. Determination of the total costs entails certain judgements. There is a financial statement risk of progress being estimated incorrectly and, as a result, of both revenue and earnings from these services being allocated to the wrong financial year.

Our audit approach

In order to verify that the appropriate amount of revenue was recognised for the period, we evaluated the design, setup and effectiveness of the internal control system relating to revenue recognition, the determination of costs incurred and expected total costs and, in particular, the determination of progress.

In light of the first-time application of IFRS 15, we made the appraisal of management's interpretation of the criteria for recognition of revenue over time a focal point of our audit. For this purpose, we appraised the requirements under the group-wide accounting directive. We assessed the proper implementation of that accounting directive on the basis of contracts selected for risk. We reviewed the methodology for determining costs incurred to date in relation to the cost categories incorporated. We examined the process for correctly recognising the incurred costs in terms of timing and classification. In addition, we verified the completeness of the recognised costs at the reporting date by means of a search for unrecognised costs/liabilities.

We examined the process for determining the expected total costs in relation to the cost categories included and for updating the forecast for the expected total costs as necessary. In this connection, we discussed the estimation of total costs for a random selection of projects with the respective project managers. In addition, we satisfied ourselves of the quality of the company's forecasts to date by comparing the estimates of the expected total costs from previous financial years with the total costs actually incurred.

Furthermore, we verified the calculation of progress, which is based on the ratio of actual costs incurred to the expected total costs, against projects selected for risk.

Our conclusions

The procedure used by KRONES AG for accrual accounting for revenue in relation to appropriate estimation of progress produces appropriate results. The assumptions underlying revenue recognition are appropriate.

Impairment testing of goodwill

For details on the accounting principles and assumptions used, please see the notes to the consolidated financial statements, page 137 and pages 145 to 147.

The financial statement risk

Goodwill amounted to €103.3 million as of 31 December 2018.

Goodwill impairment testing is complex and is based on a number of assumptions involving judgement. These include expected business and earnings performance, the assumptions regarding long-term growth rates and the discount rates used.

As a result of the impairment tests performed, the company did not identify any need to recognise an impairment.

There is a financial statement risk of an impairment as of the reporting date not having been identified.

Our audit approach

With the support of our valuation specialists, we evaluated the appropriateness of the material assumptions and the company's calculation models. We also discussed the expected business and earnings development and the assumptions about long-term growth with those responsible for forecasting. In addition, we also examined whether the assumptions are consistent with other available internal forecasts, for instance those prepared for tax purposes, and with the forecasts prepared by management and approved by the supervisory board.

Furthermore, we evaluated and confirmed the quality of the company's previous projections by comparing the forecasts for prior periods with the actual results and analysing any deviations.

Because even small changes in the discount rate can have a material impact on the results of impairment testing, we compared the assumptions and parameters underlying the discount rates applied, in particular the risk-free interest rates, the market risk premium and the beta factor, with our own assumptions as well as with publicly available data.

To ensure the mathematical accuracy of the valuation model used, we tested the company's calculations on the basis of elements that had been selected for risk.

Our conclusions

The calculation model used for impairment testing of goodwill is appropriate and consistent with applicable accounting principles. We deem the assumptions and parameters underlying the company's valuation appropriate.

Other information

Management is responsible for the other information. The other information comprises the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report, or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of management and the supervisory board for the consolidated financial statements and the group management report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor’s responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw atten-

tion in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with the law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 13 June 2018. We were engaged by the supervisory board on 26 October 2018. KPMG AG has served as auditor since the 2017 financial year. Previously, KPMG Bayerische Treuhandgesellschaft AG, a fully integrated company of KPMG AG, was previously engaged with the audit from 2001.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Andreas Feege.

Munich, 20 March 2019

KPMG AG

Wirtschaftsprüfungsgesellschaft

Braun	Feege
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Commercial glossary

Cash flow	All inflows and outflows of cash and cash equivalents during a period.
Corporate governance	Framework for responsible corporate management and supervision that is oriented toward sustainability.
Depreciation and amortisation	Non-cash expenses that represent the cost of current and non-current assets being used over time.
EBIT	Earnings before interest and taxes.
EBITDA	Earnings before interest, taxes, depreciation and amortisation.
EBITDA margin	Ratio of earnings before interest, taxes, depreciation and amortisation to revenue
EBT	Earnings before taxes.
EBT margin	Ratio of earnings before taxes to revenue.
Equity	Funds made available to the company by the owners by way of contribution and/or investment, plus retained earnings.
Free cash flow	Measure of financial performance calculated as the cash flow from operating activities minus cash flow from investing activities. It is the cash available to pay dividends, reduce debt, or to be retained.
IFRS	International Financial Reporting Standards. Accounting standards issued by the International Accounting Standards Board (IASB) that are harmonised and applied internationally.
Net cash and equivalents	Cash and highly liquid securities under current assets less liabilities to banks.
Return on equity before taxes	Ratio of earnings before taxes to average equity.
ROCE	Ratio of EBIT to average capital employed (total assets less interest-free liabilities and interest-free other provisions).
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 follows: (inventories + trade receivables + prepayments) – (trade payables + advances received).
Working capital to revenue	The ratio of working capital to revenue indicates how much capital is needed to finance revenue generation.

Technical glossary

Aseptic beverage filling	Germ-free filling of beverages at ambient temperature.
Bloc (also: block)	Two or more individual machines that are directly linked together. The ErgoBloc L for the wet section of the line comprises a stretch blow-moulder, a labeller, and a filler.
Bottling on demand	An innovative process for quickly handling a broad range of products on a single line – with the smallest conceivable batch size (down to one container).
Brewhouse	In the brewhouse, the raw materials malt, hops, and water are processed in several stages to produce beer.
Digital printing	Printing process in which data are transferred directly from a computer onto an object, without a print template first being generated. Digital printing is far more flexible and significantly more cost-effective on smaller print runs (batches) than conventional printing and labelling processes.
Energy drink	A beverage that acts as a stimulant. The main ingredients are sugar and caffeine.
enviro	KRONES' sustainability programme. enviro was certified by TÜV SÜD in 2009. This independent certification enables KRONES to award the enviro seal for efficient use of energy and media and environmental friendliness for its machines and lines. All new developments at KRONES are aligned with the criteria of our enviro sustainability programme.
Internet of Things (IoT)	The use of Internet connectivity to link up appliances and everyday objects to the Internet in addition to human users with conventional network devices.
Intralogistics	The internal flow of materials and goods within a company, including warehouse, order-picking, and conveyance systems.
Pasteurisation	Brief heating of liquid foods to between 60 and 100 °C in order to destroy bacteria and microorganisms for longer preservation.
PET	Polyethylene terephthalate, a thermoplastic material from the polyester family used for producing beverage bottles.
Recyclate	Product obtained in a recycling process.
Soft drinks	Non-alcoholic beverages, usually carbonated.
Stretch blow-moulding	Process for the manufacture of hollow plastic products such as PET bottles.

Key figures for the KRONES Group 2014 – 2018

		2018	2017	2016	2015	2014
Revenue						
Revenue	€ million	3,854	3,691	3,391	3,174	2,953
Germany	€ million	362	388	354	382	284
Outside Germany	€ million	3,492	3,303	3,037	2,792	2,669
Export share	%	91	89	90	88	90
Earnings						
Earnings before taxes (EBT)	€ million	204	259	238	223	192
Consolidated net income	€ million	151	187	169	156	136
Earnings per share	€	4.78	5.97	5.40	4.98	4.30
Assets and capital structure						
Non-current assets	€ million	1,010	882	799	697	672
of which fixed assets	€ million	936	797	725	646	624
Current assets	€ million	2,312	2,158	2,272	2,010	1,756
of which cash and equivalents	€ million	219	182	369	365	336
Equity	€ million	1,433	1,330	1,226	1,111	989
Total debt	€ million	1,888	1,710	1,845	1,596	1,439
Non-current liabilities	€ million	359	314	308	278	275
Current liabilities	€ million	1,529	1,396	1,537	1,318	1,164
Total assets	€ million	3,321	3,040	3,071	2,707	2,428
Cash flow/capital expenditure						
Free cash flow	€ million	121	–151	49	71	152
Capital expenditure for PP&E and intangible assets	€ million	179	134	111	103	95
Depreciation, amortisation and impairments	€ million	103	95	93	88	91
Net cash position (cash and cash equivalents less debt)	€ million	215	157	369	365	336
Profitability ratios						
EBT margin	%	5.3	7.0	7.0	7.0	6.5
Working capital to revenue*	%	27.3	27.3	26.7	24.6	24.6
Return on equity before taxes	%	14.8	20.3	20.3	21.3	19.7
ROCE	%	12.8	16.6	17.0	17.7	16.4
Employees (at 31 December)		16,545	15,299	14,443	13,346	12,624
Germany		10,887	10,366	10,061	9,767	9,344
Outside Germany		5,658	4,933	4,382	3,579	3,280
Dividend						
Dividend per share	€	1.70**	1.70	1.55	1.45	1.25

* Average over 4 quarters ** As per proposal for appropriation of earnings available for distribution

Publishing information

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

This English language report is a translation of the original German KRONES Konzern Geschäftsbericht 2018. In case of discrepancies the German text shall prevail.

We would be happy to mail you a copy of the original German version of this Annual Report on request. You can also find it in the Investor Relations section at krones.com.

Financial calendar

29 April 2019	Quarterly statement for the period ended 31 March 2019
5 June 2019	Annual general meeting
25 July 2019	Interim report for the period ended 30 June 2019
24 October 2019	Quarterly statement for the period ended 30 September 2019

Contact

KRONES AG
Investor Relations
Olaf Scholz
Phone +49 9401 70-1169
E-mail olaf.scholz@krones.com
Böhmerwaldstrasse 5
93073 Neutraubling
Germany