

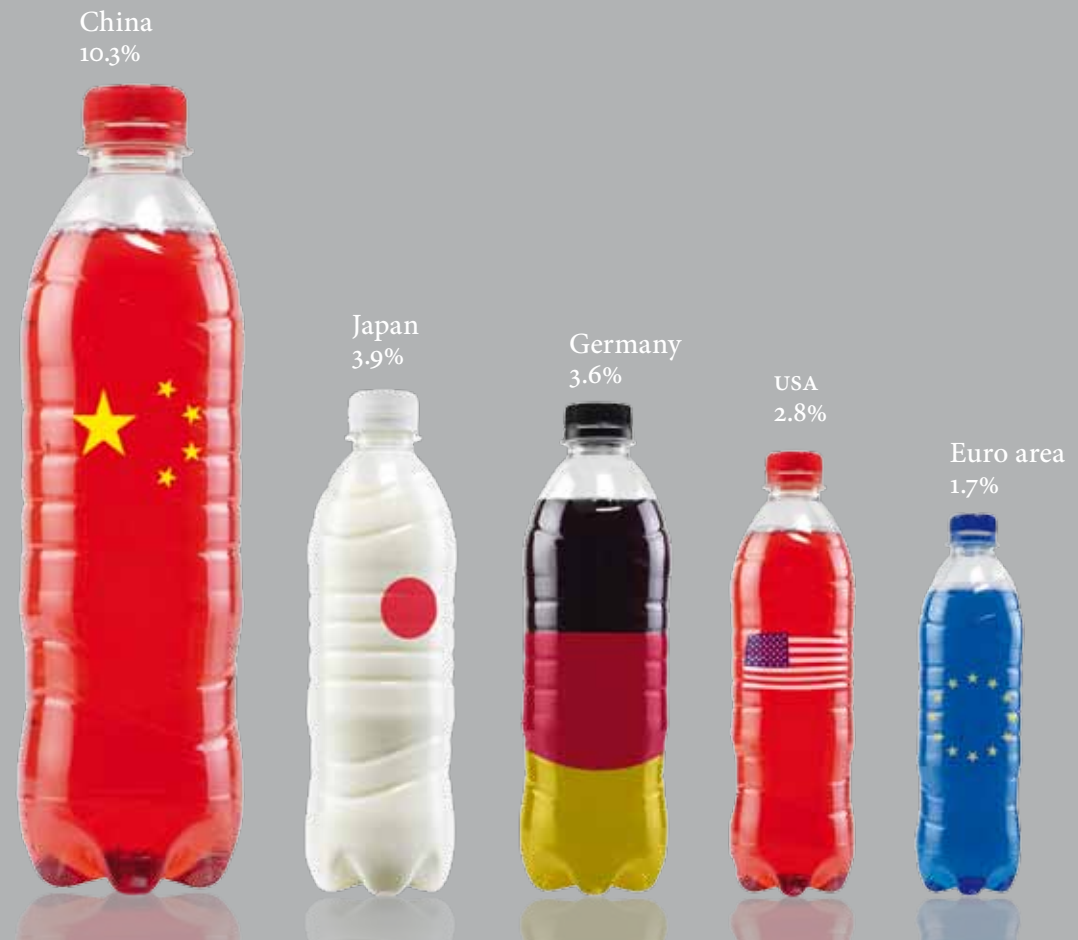
MANAGEMENT REPORT OF KRONES AG

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Economic environment

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

GDP growth in 2010



Management report

Economic environment

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

World's economy grows 5.0%

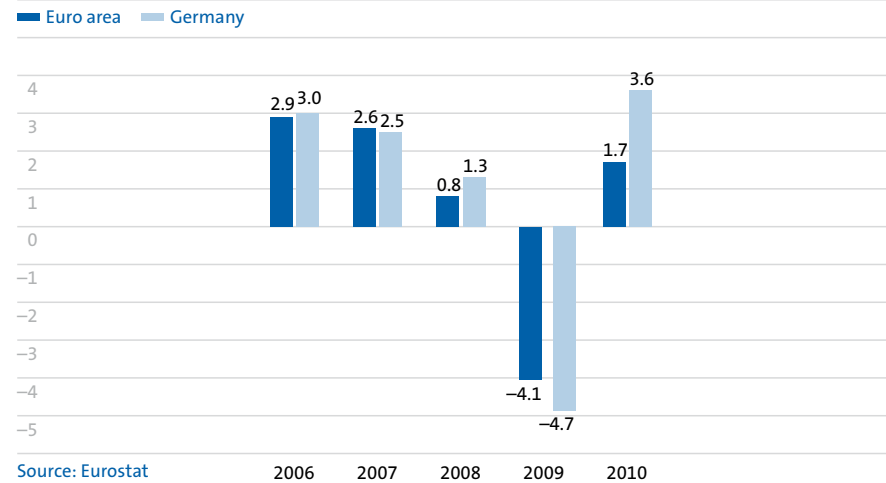
In 2010, high levels of government debt among the industrialised countries and the euro crisis plagued the global economy as constant elements of uncertainty. Most economists were surprised that the world economy nevertheless grew 5.0%. At the start of 2010, economists with the International Monetary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

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

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

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

Change in gross domestic product (%)



Source: Eurostat

German economy grows 3.6%

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

Machinery sector makes great strides

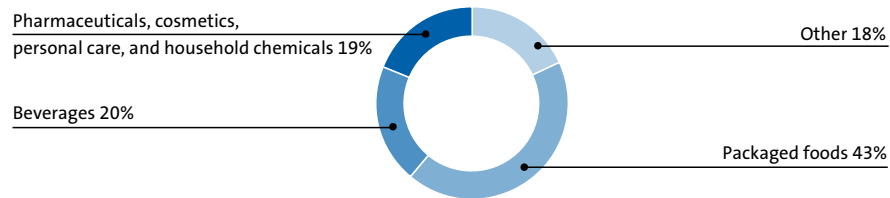
After the dramatic slump of 2009, in which the financial and economic crisis caused output in Germany's machinery and industrial equipment sector to fall by almost one-quarter, things were looking up again for the sector in 2010. The first half in particular saw surges in new orders from Germany and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

The market for packaging machinery

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

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

The global market for packaging machinery by application

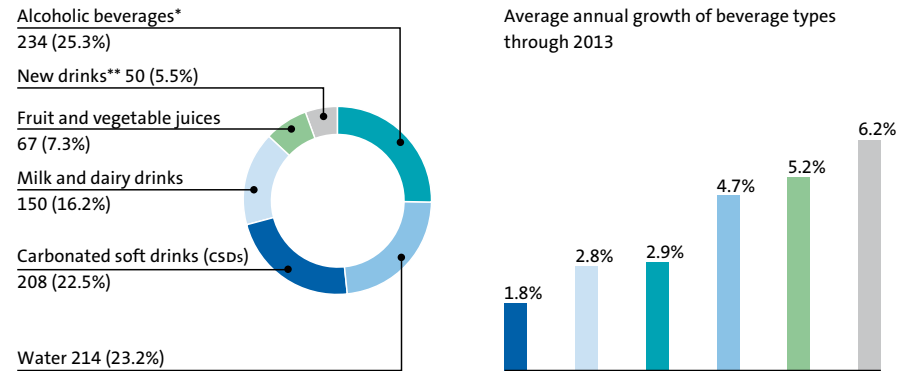


2010: €21.5 billion
Sources: Euromonitor, own estimates

Water is the most popular beverage worldwide

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

Global consumption of packaged beverages in 2010 (billion litres)



2010: 923 billion litres
Sources: Euromonitor, own estimates

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

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

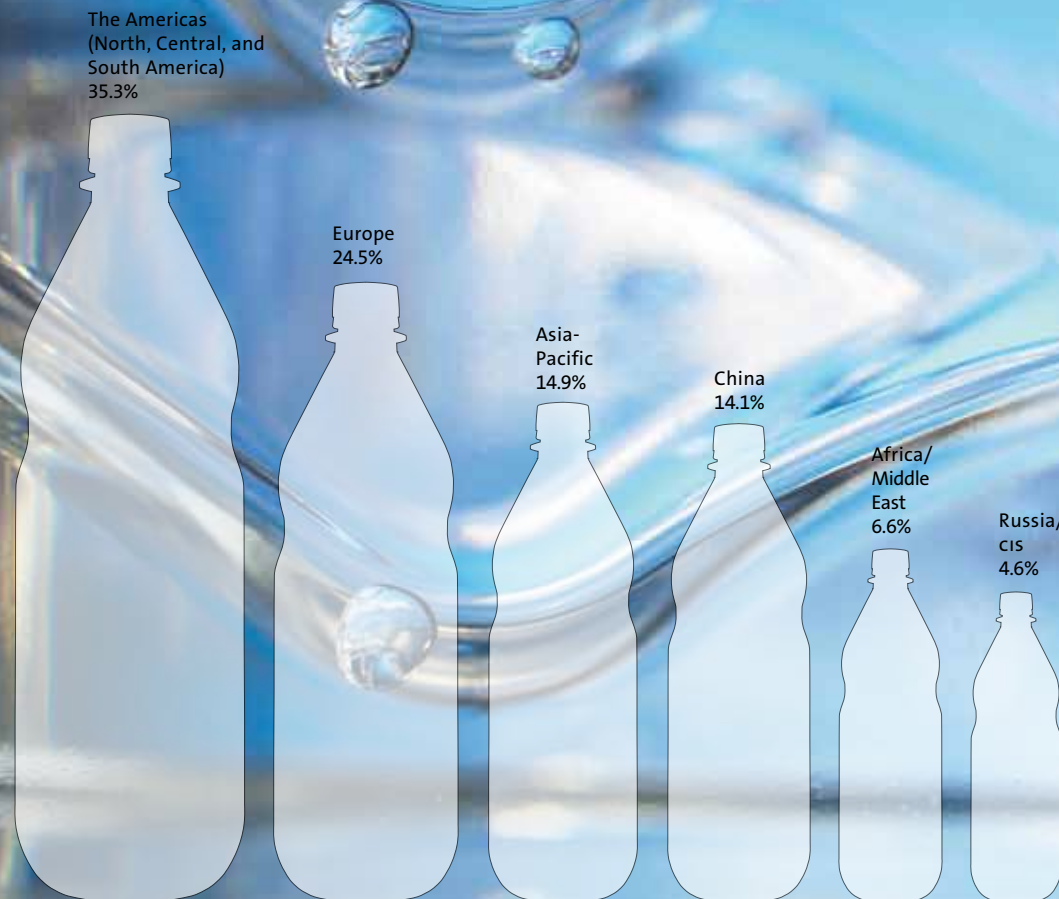
Because demand for carbonated soft drinks (CSDs) is almost saturated, particularly in the industrialised countries, CSD consumption is expected to rise only 1.8%. In 2010, people drank around 208 billion litres of CSDs worldwide, which corresponds to 22.5% of total beverage consumption.

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

Thirst is a constant

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

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



Shares of global beverage consumption in 2010

Sources: Euromonitor, own estimates

Beverage consumption by region

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

Sources: Euromonitor, own estimates

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

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

Demand for PET packaging is rising

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

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

In beverage production, packaging is responsible for the lion's share of costs. Simply put: The lighter the container, the higher the return. Innovative production processes have made it possible to continually reduce the amount of granulate needed to produce plastic bottles. KRONES has designed a 0.33-litre PET bottle that weighs only

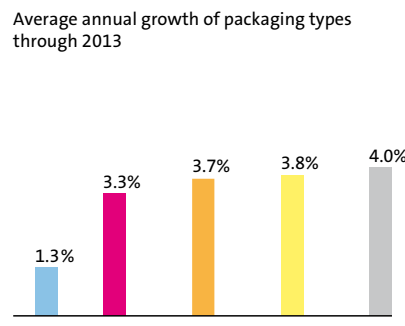
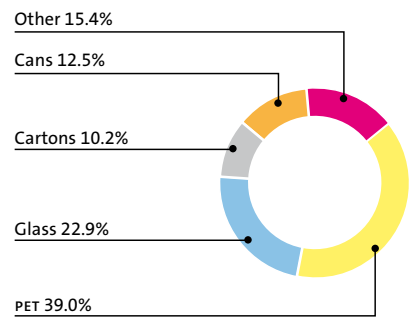
4.4 grams. PET bottles require considerably less fuel to transport than glass bottles, which makes for economic and environmental benefits. Recyclability is another positive environmental aspect of PET bottles. KRONES' bottle-to-bottle PET recycling system processes used bottles and transforms them into food grade granulate that can be used to make new bottles. PET also offers another advantage for beverage companies: Because plastic bottles can be produced in myriad shapes and sizes, bottlers can use their packaging to distinguish their products from the competition.

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

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

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

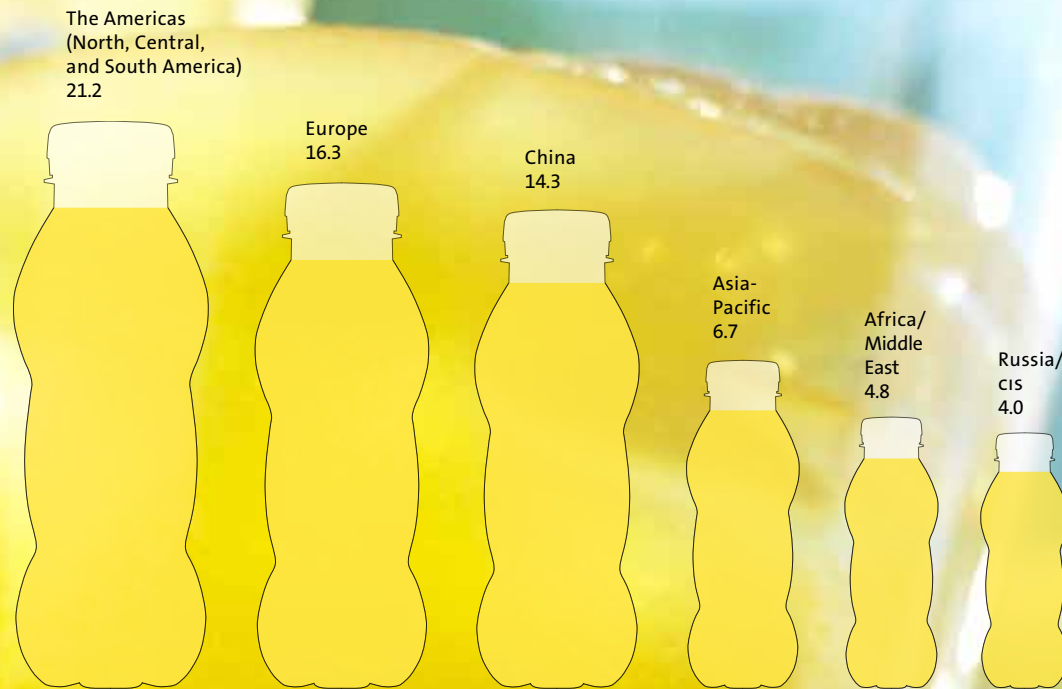
Global beverage market by packaging material in 2010



Sources: Euromonitor, own estimates

Germans love fruit juice

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

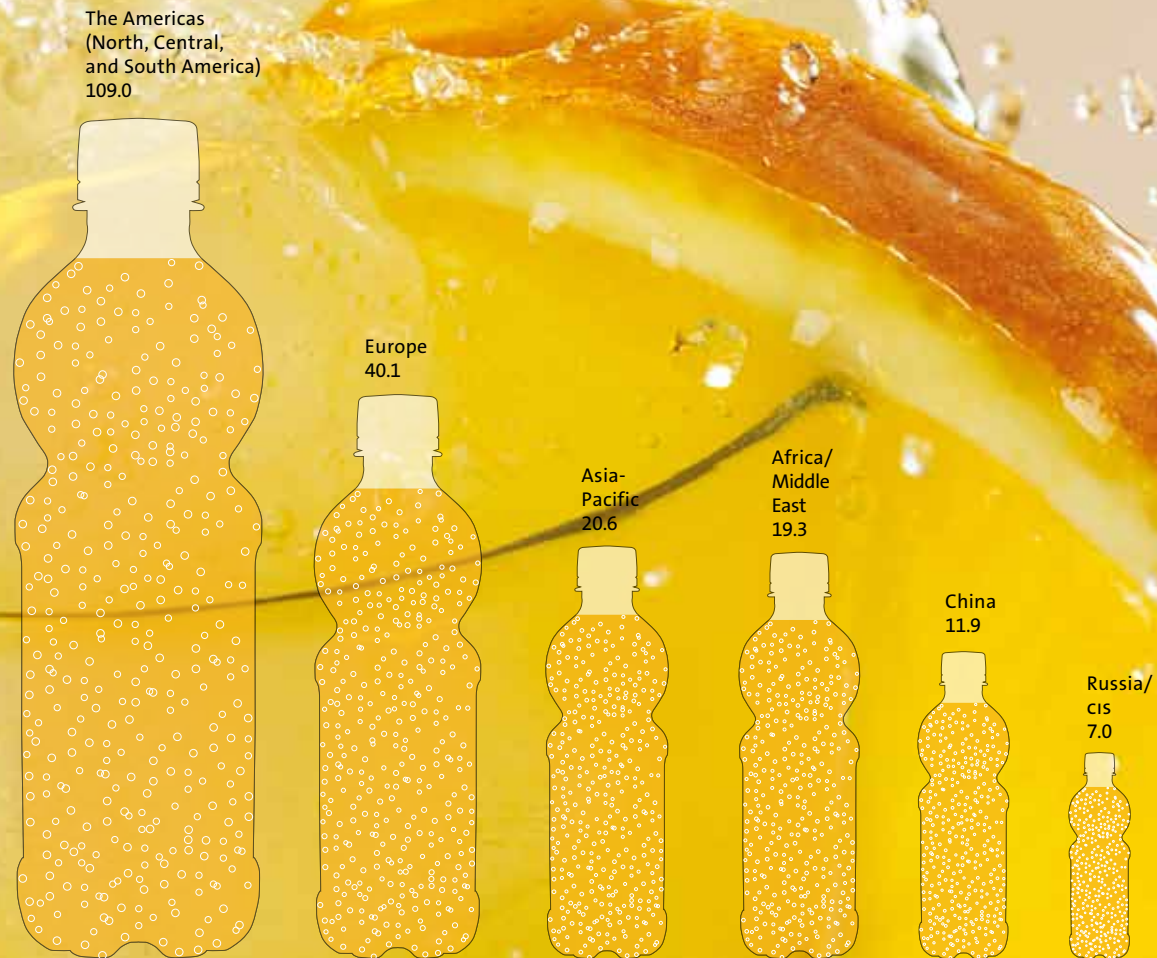


Consumption of fruit and vegetable juices in 2010 (billion litres)

Sources: Euromonitor, own estimates

Americans love carbonated soft drinks

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



Consumption of carbonated soft drinks in 2010 (billion litres)

Sources: Euromonitor, own estimates

KRONES' sales regions

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

The Americas

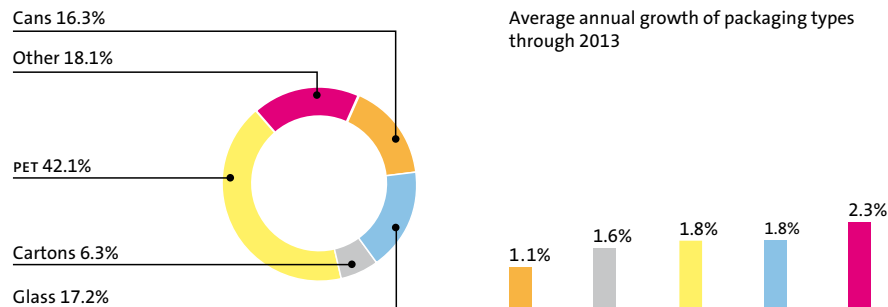
North America

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

South America

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

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



Sources: Euromonitor, own estimates

The Czechs are world champions in beer drinking

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



Beer consumption in 2010 (billion litres)

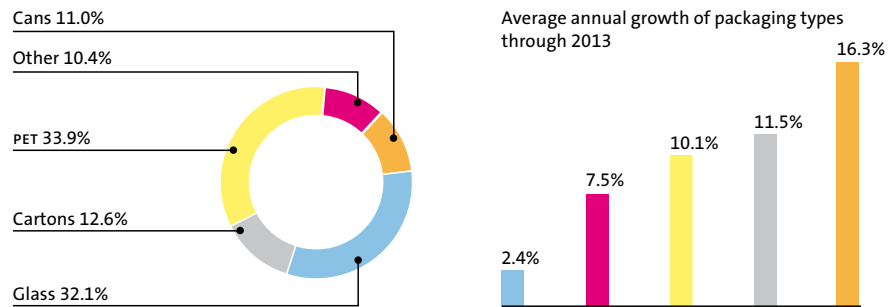
Sources: Euromonitor, own estimates

China

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

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

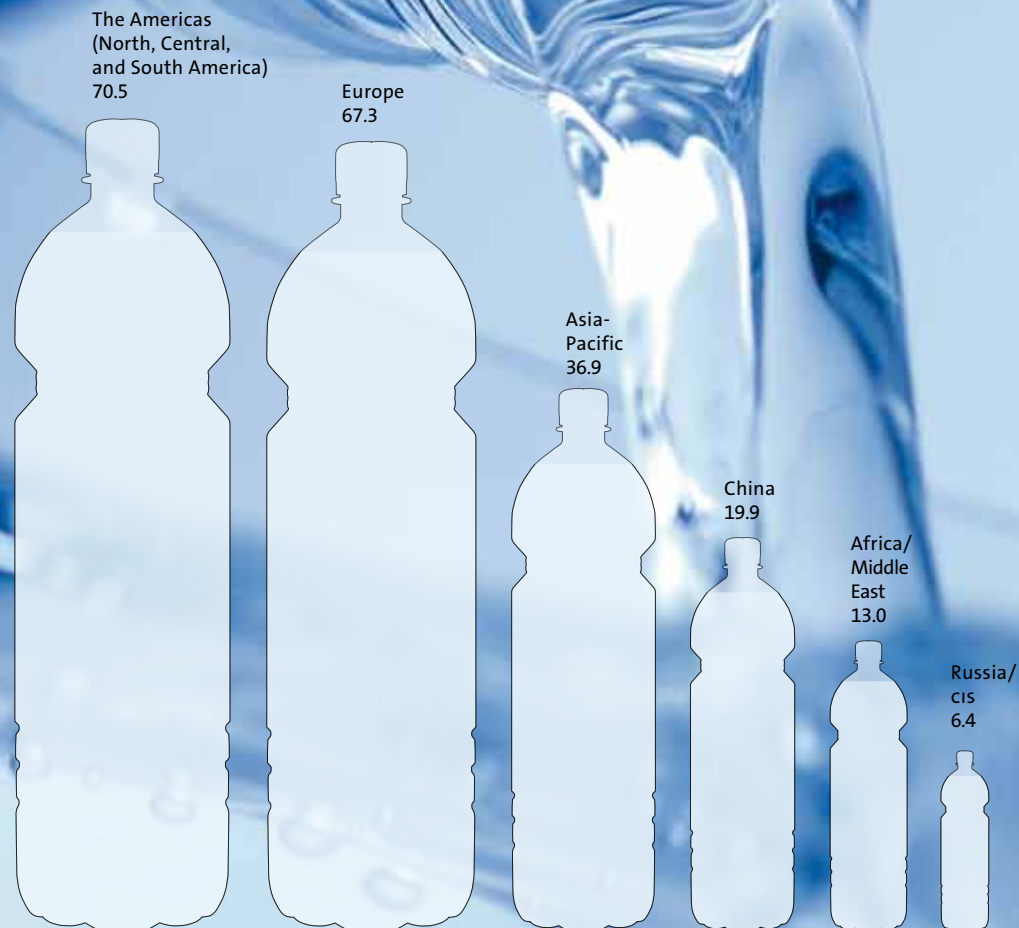
Shares of the beverage packaging market in China in 2010



Sources: Euromonitor, own estimates

Still water is popular

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



Water consumption in 2010 (billion litres)

Sources: Euromonitor, own estimates

Europe

Western Europe

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

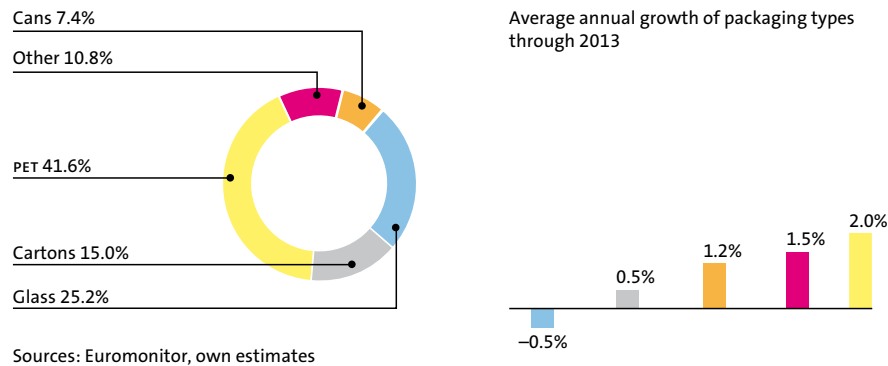
Central Europe

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

Eastern Europe

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

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



Milk – it does a body good and it keeps well

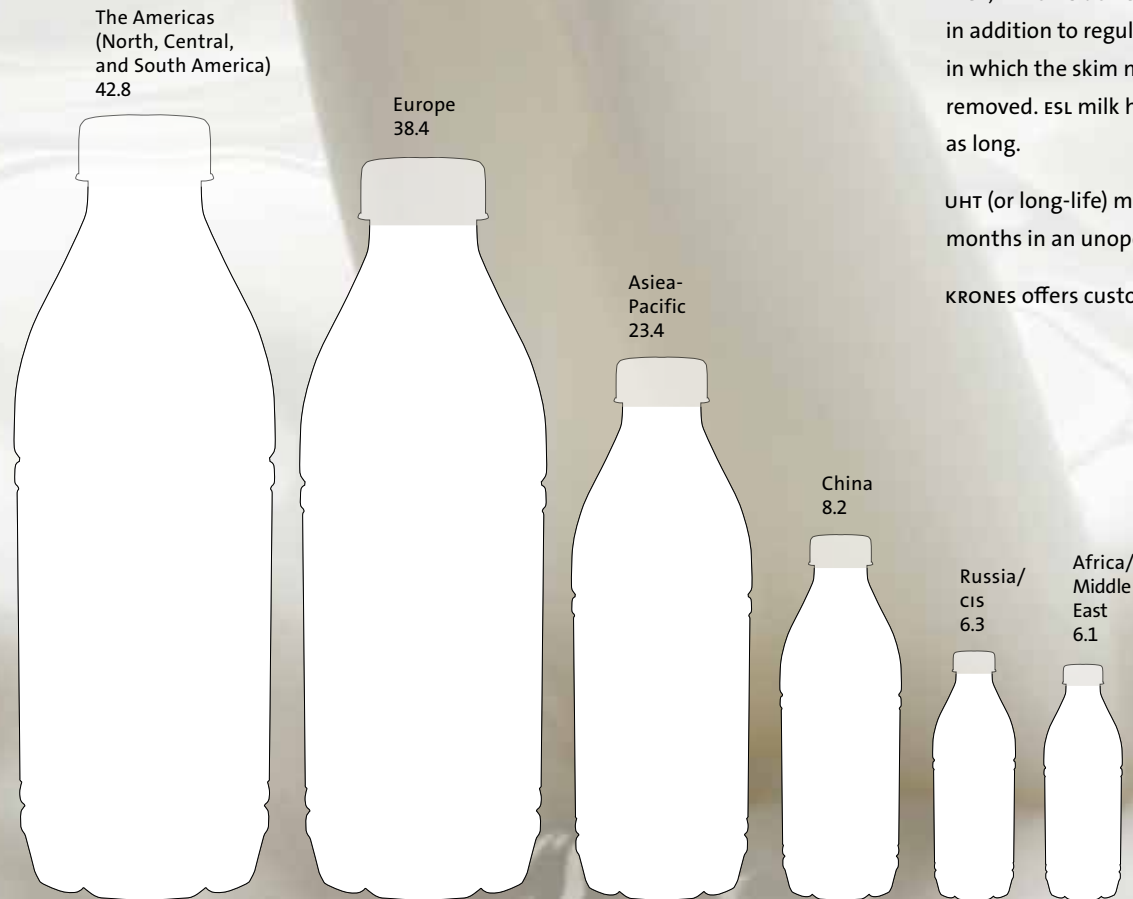
Milk is offered in many different varieties. It is easy for consumers to lose track of what is what. Basically, there are three types of milk: fresh milk, ESL milk, and UHT milk. The difference lies in how the raw milk is treated.

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

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

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

KRONES offers customised solutions for each treatment type.



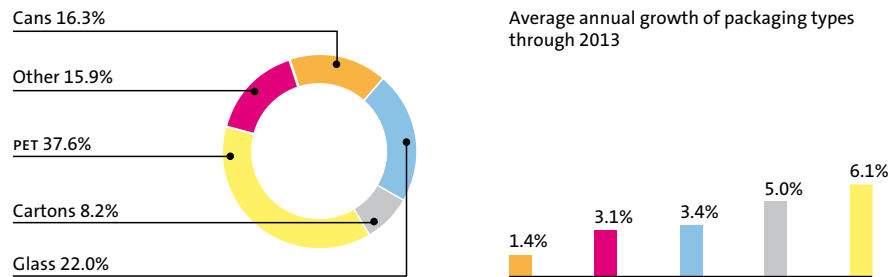
Milk consumption in 2010 (billion litres)

Sources: Euromonitor, own estimates

Asia-Pacific

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

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

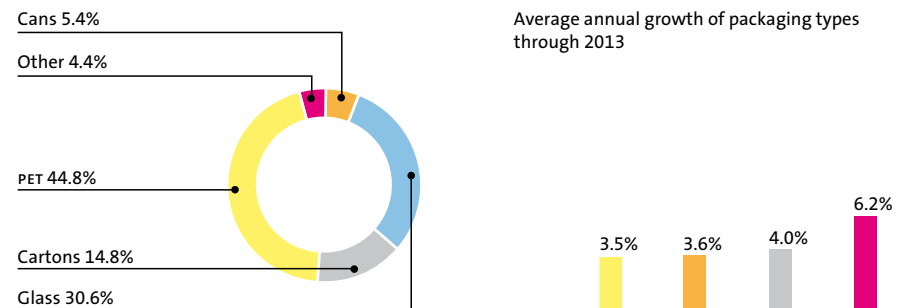


Sources: Euromonitor, own estimates
(Data given does not include flexible plastic)

Russia/cis

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

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



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

KRONES in figures

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

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

KRONES Group sales 2006–2010 (€ million)



Management report for KRONES AG

KRONES AG in figures

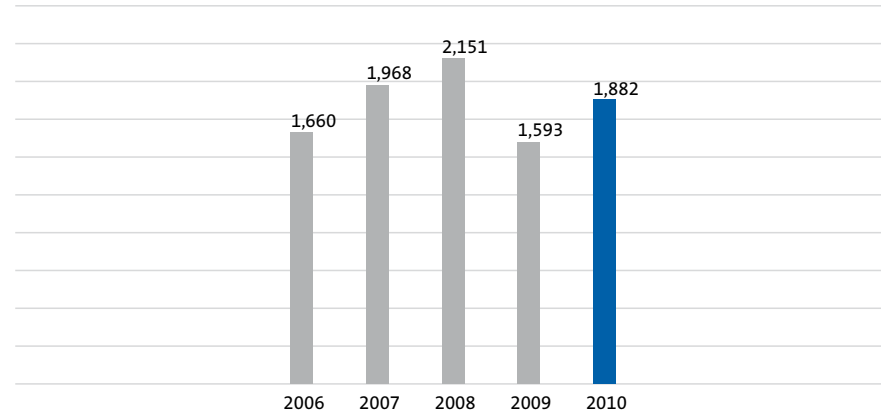
- Sales up sharply in 2010
- KRONES AG results improve substantially
- KRONES pays out dividend of €0.40 per share

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

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

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

KRONES AG sales (€ million)



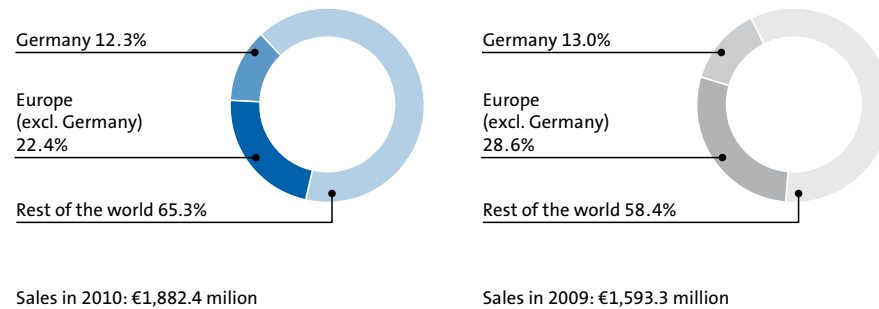
Sales by region

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

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

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

KRONES AG sales by region (%)



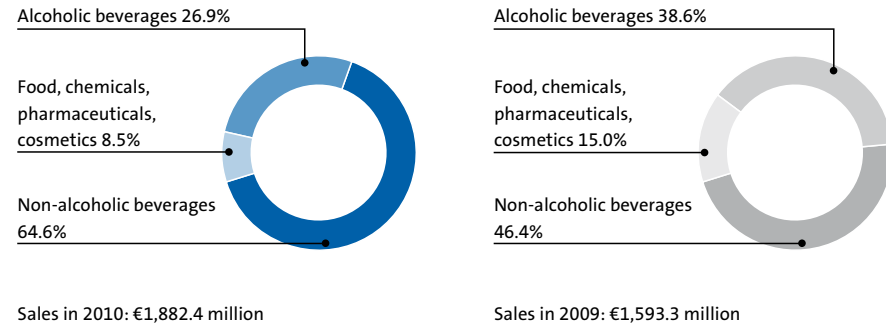
Sales by industry

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

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

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

KRONES AG sales by industry



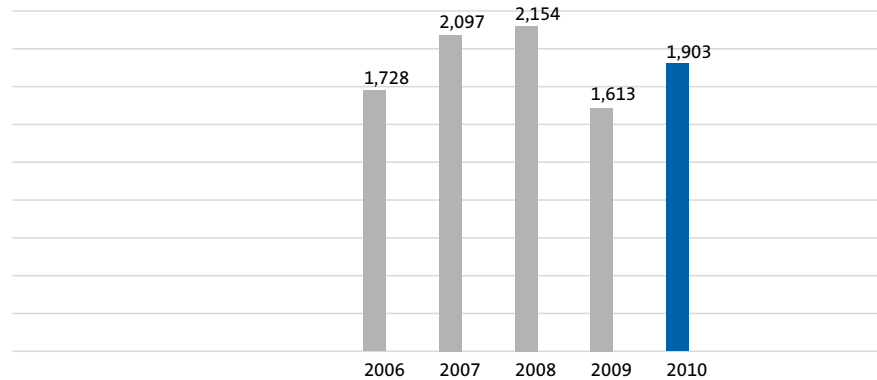
New orders and orders on hand

New orders up sharply

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

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

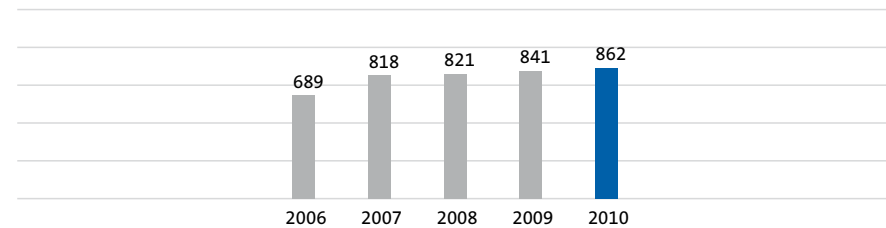
KRONES AG new orders (€ million)



Orders backlog at record level

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

KRONES AG orders on hand (€ million)



KRONES AG earnings

KRONES AG posts operating profit for 2010

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

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

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

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

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

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

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

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

KRONES AG's financial position

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

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

Assets and capital structure

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

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

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

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

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

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

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

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

Research and development (R&D)

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

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

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

enviro is an integral part of research and development at KRONES

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

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

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

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

Innovations in 2010

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

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

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

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

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

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

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

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

Lifecycle Service (LCS)

KRONES' services business

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

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

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

KRONES LCS portfolio

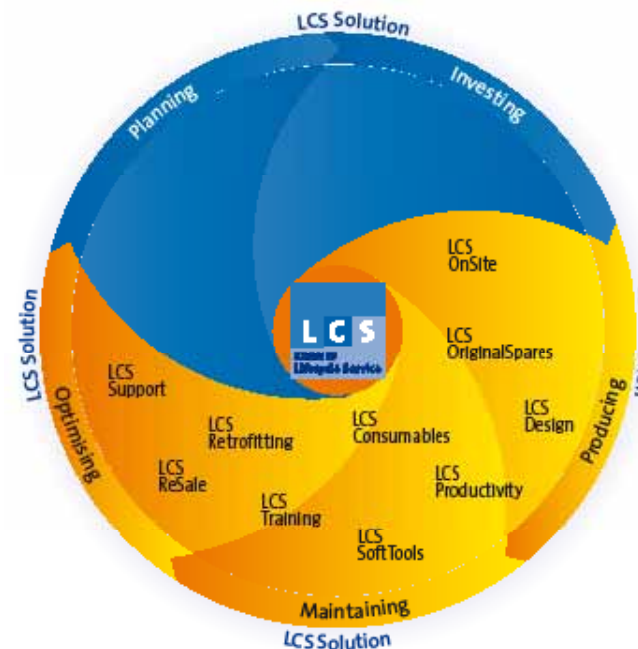
LCS Services

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

LCS Parts + Software

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

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



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

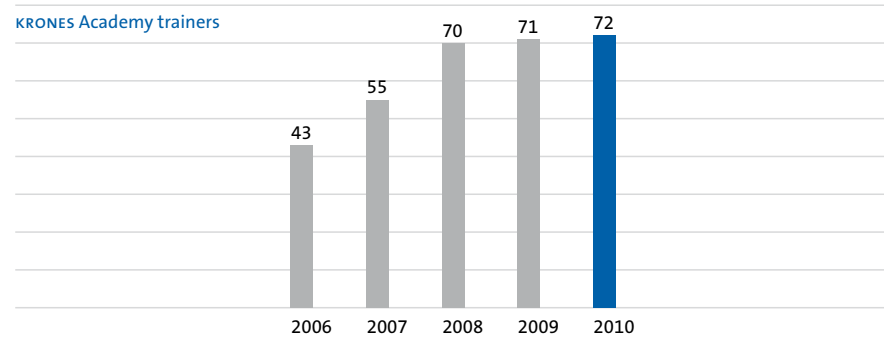
KRONES invests heavily in its international Service Centres

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

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

KRONES Academy

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



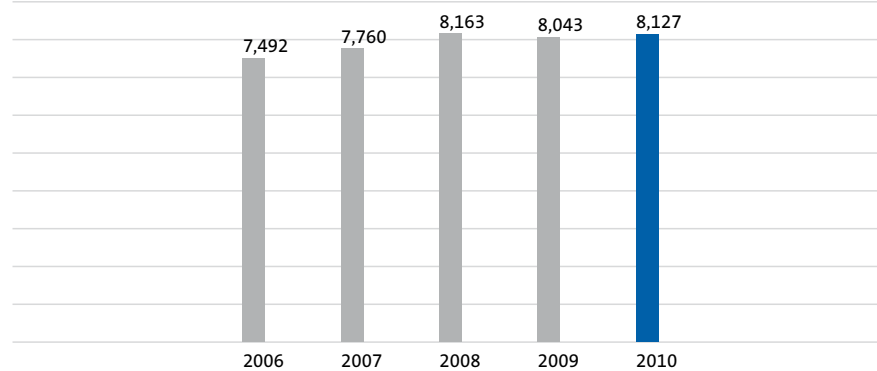
The KRONES Academy hosted an extremely successful »Expert Dialogue« event in Neutraubling in 2010. More than 50 experts from major bottling plants and various sectors of the beverage industry attended and shared their practical experiences from production and service. Most of the presentations were made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

Employees

Number of employees hits record high

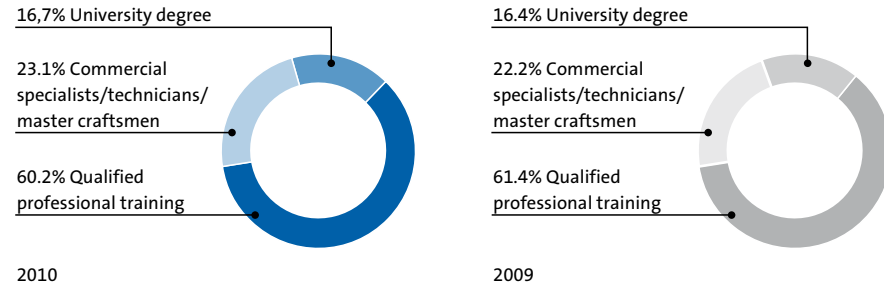
The decision to avoid lay-offs, even during the crisis of 2009, was essential to our positive business development in 2010. Without the dedication and excellent qualifications of our employees, we would not have been able to satisfy the strong demand for our products and services. We even hired additional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

Employees at KRONES AG at 31 December



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

Employee qualifications in Germany



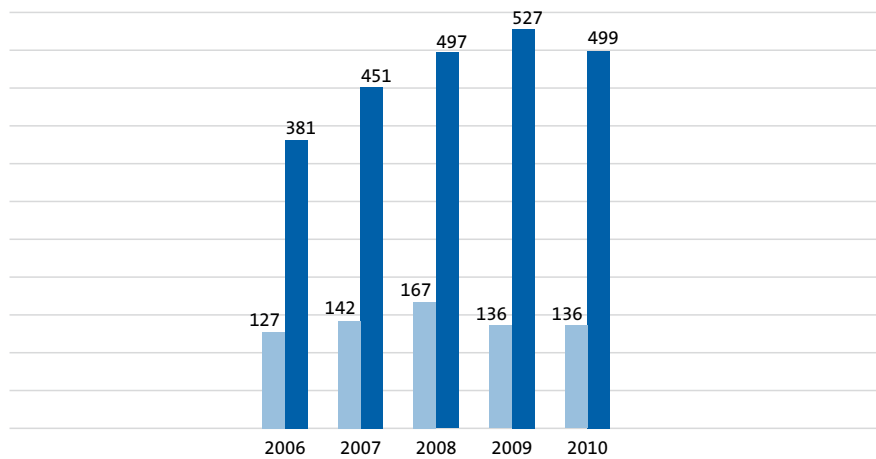
Attractive employer for good recruits

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

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

Number of trainees starting at KRONES AG

Starting trainees Trainees total



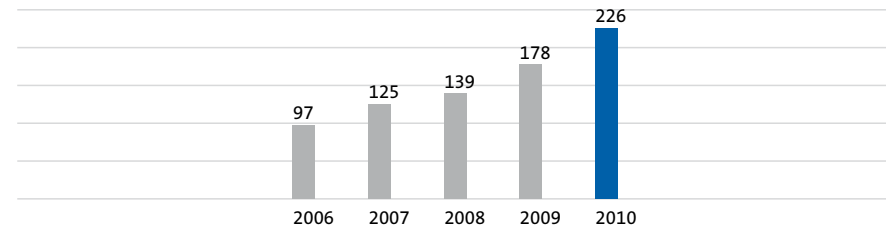
In all, KRONES was training 499 young people in Germany at the end of 2010. That puts our training rate at a very respectable 6.1%. Of our trainees, 441 were in industrial and technical fields and 58 were in commercial fields. In addition to the content prescribed by the respective training programmes,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

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

Close cooperation with universities and students

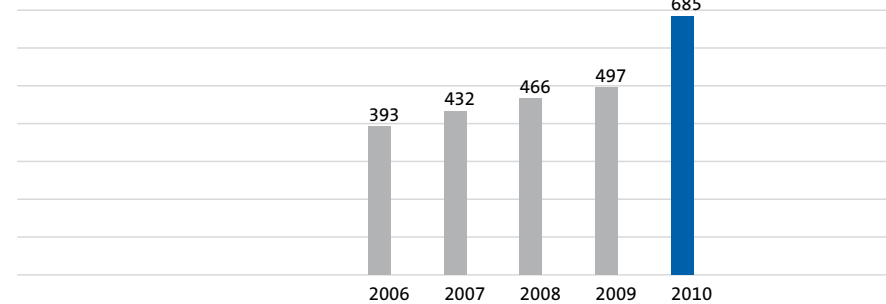
For years, KRONES has been working closely with universities to ensure early contact with university graduates. KRONES organises a range of events at which budding engineers and scholars can learn about the careers and opportunities we offer. Because KRONES has an excellent reputation as a good employer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

Theses written at KRONES



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

Interns at KRONES AG



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

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

Sustainability at KRONES

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

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

Seizing opportunities – reducing risks

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

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

Strategy 2015

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

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

Risk and opportunity report

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

Risk management system is always evolving

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

Risk analysis

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

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

Risk monitoring

We use a variety of interlinked controlling processes to monitor risks within the KRONES Group. Regular comprehensive reports from the individual business units keep the Executive Board and other decision-makers apprised of all possible risks and deviations from company planning in a timely manner. For high-volume projects, potential risks are examined and evaluated in regular meetings. Employees who identify risks pass their information on promptly through the company's internal reporting system.

Risk planning and control

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

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

Risk management organisation

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

Risk controlling

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

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

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

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

- KRONES has a clear management and corporate structure. Key duties that reach across various units are centrally managed.
- The duties of the units that are materially involved in accounting and financial reporting processes are explicitly segregated and responsibilities are clearly assigned.
- Regular reviews and audits are conducted within the various units, primarily by Controlling.

- Standard software is used for accounting and financial reporting as far as possible.
- Special security precautions protect the software and IT systems used for accounting and financial reporting against unauthorised access.
- Sufficient binding policies (e.g. for payments and travel expenses) are in place and updated on an ongoing basis.
- All of the departments involved in the accounting and financial reporting process have suitably qualified staff.
- Regular spot checks are used to continuously verify the completeness and accuracy of our accounting data. The software used also performs programmed plausibility checks.
- We use dual verification for all accounting-related processes.

Risk categories

Financial risks

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

1. Default risk

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

1.1 Trade receivables

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

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

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

1.2 Derivative financial instruments

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

1.3 Other financial assets

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

2. Liquidity risk

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

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

3. Market risks

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

3.1 Interest rate change risks

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

3.2 Currency risks

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

3.3 Share price risks

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

3.4 Commodity price risks

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

4. Legal risks

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

Operational risks and opportunities

1. Price risks

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

2. Procurement risks

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

3. Cost risks

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

4. Personnel risks

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

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

Summary

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

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

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

Events after the reporting date / Outlook

Events after the reporting date

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

Outlook

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

Economic outlook is good despite uncertainties

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

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

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

Positive outlook for Germany's machinery sector

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

Sales and earnings at KRONES expected to increase substantially in 2011

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

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

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

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

Disclosures required under § 289 (4) of the German Commercial Code (HGB)

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

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

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

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

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

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

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

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

As of February 2011

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

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

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

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

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

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

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

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

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

Compensation report

Compensation of the Supervisory Board and the Executive Board

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

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

Responsibility statement

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

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

Neutraubling, 29 March 2011

KRONES AG

The Executive Board



Volker Kronseder
(Chairman)



Hans-Jürgen Thaus
(Deputy Chairman)



Rainulf Diepold



Werner Frischholz



Christoph Klenk

Corporate Governance

Statement on corporate governance

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

KRONES recognises its responsibilities

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

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

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

- A deductible is not included in the D&O policy for the Supervisory Board. (Item 3.8 of the Code)
No specific deductible has been set for this policy because the Supervisory Board always performs its duties properly regardless of the existence of a deductible.
- The Executive Board shall be comprised of several persons and have a Chairman or Spokesman. By-laws shall govern the work of the Executive Board, in particular, the allocation of duties among individual Executive Board members, matters reserved for the Executive Board as a whole, and the required majority for Executive Board resolutions (unanimity or resolution by majority vote). (Item 4.2.1 of the Code)

The rules of procedure governing the Executive Board are set forth in the articles of association for KRONES AG, which already contain detailed rules for the work of the Executive Board. That is why there are no separate written by-laws.

- In keeping with the resolution of the annual shareholders' meeting, total compensation of each member of the Executive Board, subdivided according to fixed, performance-related, and long-term incentive components, is not listed individually by each member's name. (Item 4.2.4 of the Code)
KRONES discloses the structure of Executive Board compensation. Details relating to fixed and variable, performance-related components of compensation are essential for assessing the appropriateness of the compensation structure and whether it results in an incentive effect for the Executive Board.

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

- The Supervisory Board shall establish its own by-laws. (Item 5.1.3 of the Code)
The rules of procedure governing the Supervisory Board are set forth in the articles of association for KRONES AG, which already contain detailed rules for the work of the Supervisory Board. That is why there are no separate written by-laws.
- There is currently no nominating committee at KRONES AG. (Item 5.3.3 of the Code)
Committees are primarily useful for larger bodies if they make that body's work more efficient. There are six shareholder representatives on the Supervisory Board of KRONES AG who suggest nominees. Therefore, we do not feel it is necessary to create a separate nominating committee.

- The compensation of members of the Supervisory Board is currently not itemised. Other compensation for services provided individually, in particular advisory or agency services, is not currently reported. (Item 5.4.6 of the Code)
The total of compensation paid out to members of the Supervisory Board is given in the compensation report, broken down into its fixed and variable portions. We do not believe an individual listing of compensation would provide any additional information of relevance for the capital markets. The same applies to services provided by individual members of the Supervisory Board.

- The shareholdings of members of the Executive Board and the Supervisory Board of KRONES AG are not disclosed in the corporate governance report. (Item 6.6 of the Code)
In order to safeguard the protection-worthy interests and privacy of the board members, we have opted not to make this disclosure in the corporate governance report. However, we do disclose the shareholdings of the Kronseder families holding seats on the Executive Board and the Supervisory Board in the annual report for KRONES AG.

- We are not yet in compliance with the deadline for publication of the consolidated financial statements of KRONES AG within 90 days of the close of the fiscal year. (Item 7.1.2. of the Code)
The annual financial statements of KRONES AG are published within the statutory time period. Important figures for the past fiscal year that are relevant to the capital markets are published within the 90-day limit.«

Neutraubling, 30 March 2011

For the Executive Board

*Volker Kronseder
Chairman*

For the Supervisory Board

*Ernst Baumann
Chairman*

Composition of the Supervisory Board

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

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

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

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

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

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

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

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

c) Age limit

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

d) International experience

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

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

e) Diversity

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

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

Information on corporate governance practices

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

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

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

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

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

Duties and activities of the Executive Board and the Supervisory Board

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

The Supervisory Board oversees the Executive Board. In accordance with the articles of association, the Supervisory Board has twelve members. The Executive Board and the Supervisory Board communicate on a regular basis. The Executive Board informs the Supervisory Board in a timely manner about business development, the company's financial situation, risk management, company planning, and strategy. In addition to regular oral reports, the members of the Supervisory Board receive written reports on the company's earnings and financial position from the Executive Board each month. KRONES' Supervisory Board can establish committees besides the Supervisory Board Committee but has not done so as yet.

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

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

Composition, duties, and activities of the Supervisory Board Committee

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

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

Corporate guidelines

KRONES' corporate guidelines reflect our values

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

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

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

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

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

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

Securing value for a strong future

We stand for excellent quality and technological leadership in our market

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

Creating value with powerful solutions

We owe our success to our workforce

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

Respecting values in effective dialogue

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

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

Creating value with powerful solutions

We safeguard the health and safety of our employees

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

Respecting values in effective dialogue

Our production operations are eco-friendly

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

Securing value for a strong future

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

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

Respecting values in effective dialogue

Suppliers' code

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

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

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

KRONES Code of Conduct

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

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

All employees are urged to not only comply with the guidelines in the code of con-

duct in a formal sense but to live and breathe their meaning and purpose. Only in this way can they serve as the basis of an open and vibrant culture of compliance. In the interest of all employees, violations of the code of conduct are systematically investigated and disciplinary action taken.

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

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

Part of the management report

Compensation report

Executive Board compensation

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

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

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

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

- For fiscal 2010, the direct fixed remuneration of the five active members of the Executive Board was €2,520 thousand (previous year: €2,450 thousand). This fixed amount is the base pay stipulated in the members' contracts and is paid out in equal monthly amounts as a salary. This remuneration is generally reviewed as part of the negotiations relating to the extension of the members' contracts. In addition, the members of the Executive Board received fringe benefits in the form of non-cash benefits (company car) amounting to €89 thousand (previous year: €89 thousand).
- The variable compensation is based on the achievement of company performance targets. The reference figures are consolidated net income (the primary point of reference) and consolidated sales. The gradation of the targets is determined by the Supervisory Board each year. The variable compensation contains risk elements and is thus not guaranteed compensation. In 2010, the variable compensation amounted to €2,503 thousand (previous year: €0 thousand).

- In keeping with the recommendations of the Corporate Governance Code, the Supervisory Board adopted a long-term »performance incentive plan« containing risk elements at its meeting on 17 March 2005. Under this provision, each member of the Executive Board receives a performance incentive that is paid out after no less than ten years of service as a member of the Executive Board of KRONES AG at the earliest. Board members serving for less than ten years are not entitled to the performance incentive. In 2010, €2,275 thousand (previous year: €0 thousand) in such compensation came due for payment as scheduled following the 10-year waiting period.
- The performance incentive is calculated from the relevant Board member's fixed annual remuneration at the time of appointment to the Executive Board and the development of the enterprise value from the time of entry onto the Board to the time at which payment of the incentive comes due.
- EBIT, EBITDA, and consolidated sales are used as the basis for calculating enterprise value. If the current enterprise value is less than it was at the time the member joined the Executive Board, the respective member is not entitled to the performance incentive.
- Provisions of €689 thousand (previous year: €1,908 thousand) were recognised for the performance incentive.
- At KRONES AG there are and have been no stock-option plans or comparable securities-oriented long-term incentive components of remuneration for Executive Board members.
- Pension provisions of €5,238 thousand (previous year: €2,094 thousand) were recognised for active members of the Executive Board.
- Disclosure of the total compensation made to each board member by name as recommended under item 4.2.4 of the German Corporate Governance Code and under § 285 (1) No. 9a Sentences 5-9 and § 314 (1) No. 6a Sentences 5-9 of the German Commercial Code (HGB) is not being implemented. It is the belief of KRONES AG that such disclosure would conflict with personal privacy rights.

- Thus, as resolved by the annual shareholders' meeting on 16 June 2010, detailed disclosure of each individual board member's compensation will not be made before the end of fiscal 2014, as provided for under § 286 (5) of the German Commercial Code.
- On the other hand, details relating to the structure of the compensation are essential for assessing the appropriateness of the compensation structure and whether it results in an incentive effect for the Executive Board.
- For former members of the Executive Board and their surviving dependents, payments amounting to €697 thousand (previous year: €688 thousand) were made and pension provisions of €661 thousand (previous year: €848 thousand) were recognised.

Supervisory Board compensation

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

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

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

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

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

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

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

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