

Risk report

- Risks identified on an ongoing basis
- Monitoring and control instruments improved further

We use and ceaselessly evolve an internal system to continuously monitor and control all significant business processes so that we can actively manage risks.

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 monitoring and control system with which we record, analyse, and assess all relevant risks is an integral part of the risk management system at KRONES. We monitor all material risks and any countermeasures already taken in a detailed, ongoing process that entails planning, information, and monitoring. 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 management.

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 an 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.

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.

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 management

We use the following tools to plan our business activities and control risk within our risk monitoring and 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 and for implementing concrete measures such as risk analysis.

Risk controlling

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

Risk categories

Financial risks

Information relating to IFRS 7 Financial Instruments: Disclosures.

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 counterparty'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 credits that may be at risk of default.

The theoretical maximum credit risk from trade receivables corresponds to the book value.

in € k	Book value	Of which not overdue at the reporting date	Of which overdue by the following number of days at the reporting date			
			up to 90 days	between 90 and 180 days	between 180 and 360 days	more than 360 days
31 Dec 2007						
Trade receivables	611,870	428,125	58,179	38,304	54,064	33,198
31 Dec 2006						
Trade receivables	574,872	378,299	52,619	41,420	50,632	51,902

1.2 Derivative financial instruments

KRONES uses derivative financial instruments solely for risk management purposes. Not using derivative financial instruments would subject the company to greater financial risks. These instruments essentially cover the risks arising from changes in exchange rates between the euro and the US dollar, the British pound, the Canadian dollar, and the Swiss franc. The risk of default relating to derivative financial instruments is limited to the balance of the positive fair values in the event of a contracting party's default. More on this topic is in the notes to the consolidated financial statements.

1.3 Other financial assets

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

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. That allows KRONES to be proactive about any possible liquidity bottlenecks.

Apart from cash on hand, KRONES' cash and cash equivalents consist primarily of bank balances.

The following overview of maturities shows how the undiscounted cash flows relating to liabilities as of 31 December 2007 influence the company's liquidity situation.

in € k	Book value at 31 Dec 2007	Interest	Cash flow for 2008 repayment	Interest	Cash flow for 2009–2012 repayment	Interest	Cash flow for 2013 or later repayment
Liabilities to banks	810	27	80	78	348	26	382
Liabilities from leases	7,749	698	971	2,387	6,778	0	0
Discounted trade bills	59,010	0	43,135	0	15,875	0	0
Other financial liabilities	8,253	12	7,721	106	532	0	0
	75,822	737	51,907	2,571	23,533	26	382

in € k	Book value at 31 Dec 2006	Interest	Cash flow for 2008 repayment	Interest	Cash flow for 2009–2012 repayment	Interest	Cash flow for 2013 or later repayment
Liabilities to banks	887	29	77	90	337	41	474
Liabilities from leases	8,776	715	1,087	2,394	1,710	568	5,979
Discounted trade bills	38,696	0	25,938	0	12,758	0	0
Other financial liabilities	9,334	62	8,825	102	509	0	0
	57,693	806	35,927	2,585	15,314	609	6,453

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 subject 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 subject to currency risks. We use currency hedging tools to counter these risks as well as possible. Moreover, we are increasingly making purchasing and sales transactions in euros or the relevant functional currency.

3.3 Share price risks

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

3.4 Commodity price risks

KRONES is subject to market price risk relating to its procurement of parts and raw materials for operations. The company uses targeted procurement management and long-term supply contracts to mitigate these risks.

Operational risks

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. The aim of our cost-reduction measures is not to reduce the number of employees significantly. Instead, KRONES intends to generate higher sales revenues with approximately the same number of personnel. To achieve this, we are continually improving our production processes.

4. Personnel risks

KRONES depends on highly qualified employees. One risk we face is that we may have difficulty finding and retaining such employees. We are countering personnel risks with our own education, training, and continuing education programmes.

We also 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 2010.

Summary

Viewed from today's perspective, KRONES is not exposed to any risks that threaten the Group's continued existence and we do not expect any fundamental changes to the risk situation. To the greatest extent possible, we have taken precautions, with comprehensive measures for preventing, reducing, and hedging risks, to mitigate business risks that could have a substantial impact on KRONES' assets, financial position, and results of operations.