

We are
contributing



2016 Highlights

- KRONES increased value creation by 5.8% to €1,202 million, of which €974 million went to employees.
- By the end of 2017, 84% of our machines and process models will have been assessed under enviro.
- In 2016, we reduced the rate of accidents per 1,000 employees by 23.7%.
- We employed 4,382 people at our international sites in 2016. That is 22.4% more than in the previous year.
- 69% of our charitable donations and sponsoring budget went towards social causes, the rest towards civic, academic/scientific, and athletic projects or events.

		2016	2015	Change
Revenue	€ million	3,391.3	3,173.5	+6.9%
EBT	€ million	237.6	223.3	+6.4%
Consolidated net income	€ million	169.1	156.3	+8.2%
Value added	€ million	1,202	1,136	+5.8%
Capital expenditure for PP&E and intangible assets	€ million	111.3	102.6	+8.5%
Equity	€ million	1,225.5	1,110.7	+10.3%
Total CO ₂ emissions (Scope 1, Scope 2)	metric tonnes	35,899	38,164	−5.9%
Total CO ₂ emissions per € 1 million in revenue (Scope 1, Scope 2)	metric tonnes	10.6	12.0	−11.7%
Water consumption	m ³	116,442	131,043	−11.1%
Water consumption per € 1 million in revenue	m ³	34	41	−17.1%
Total waste generated	metric tonnes	16,701	17,508	−4.6%
Total waste generated per € 1 million in revenue	metric tonnes	4.92	5.52	−10.9%
Employees at 31 December				
Worldwide		14,443	13,346	+1,097
Germany		10,061	9,767	+294
Outside Germany		4,382	3,579	+803

“We are contributing”

Sustainability is vital to our existence and coexistence worldwide. That is true for people and businesses alike.

KRONES seeks to ensure that everything we do is as consistent with the principle of sustainability as possible. It is part of our corporate strategy. However, we can only be successful in this if we engage all of our stakeholders and work together to align our relationships and actions to this purpose – ourselves and our employees, our customers, and our suppliers. We welcome every contribution to this process.

We work continually to improve the way we develop sustainable approaches and integrate them into our business processes. Our sustainability report reflects the contributions we are making within our business environment and the results we have achieved.

KRONES compact

Economic

Environmental

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About the KRONES Sustainability Report

This Sustainability Report has been prepared in accordance with the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines. It meets the criteria of the “Core” option for “in accordance” reporting.

The reporting period is from 1 January 2016 to 31 December 2016. The previous report was published in May 2016 for the year 2015. The Sustainability Report is published annually.

Labour practices and decent work

Society

Other

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Dear readers,

Considering the economic implications of our actions is our top priority at KRONES. Our commercial success is essential to the company's future. As we continue to build our market position, we also accept our social responsibility. Our business strategy ensures secure employment for more than 14,000 people worldwide, not including the employees of our supply chain partners.

Our primary objective is to be competitive and to operate sustainably. We review our strategies and orientation on an ongoing basis and adapt them to the prevailing economic environment. Within our Value strategy programme, we have amended our previous target set of 7/7/20 and are now aiming for 7/8/22 through the year 2020. Details on these targets can be found in our 2016 Annual Report. With higher earnings, we mean to generate more cash with which to invest in research and development, IT, and state-of-the-art production facilities and buildings. In this way, we are making our sites ready for a sustainable future. Profitability is crucial to our success here. But it is not everything. We promote our employees' professional development with ongoing skill-building and training opportunities. We are currently developing a new programme for this purpose.

Conserving resources is the second core aspect of our sustainable management approach. We seek to minimise the environmental impact of our activities. Improving material efficiency and optimising logistics processes are key here. In 2016, we improved our freight forwarding operations by constructing a dedicated rail connection within our Neutraubling plant. We are systematically pursuing our CO₂ reduction target in all of our facility maintenance and updating activities. We are on the right track, particularly with respect to electricity consumption. We are increasingly bringing consideration of our global footprint to bear in our engineering, procurement, and production. Thus, we are purposefully evolving our sites in line with the way our Lifecycle Services (LCS) team has already been operating for many years.

Research and development is the third pillar of our sustainable business strategy. Our enviro management system, which has been certified by TÜV SÜD, gives us an excellent tool for developing resource-friendly technology. The enviro criteria for designing energy and media-efficient products are updated on a regular basis to always keep pace with the latest state of the art. As a result, our customers have access to a broad range of resource-friendly machinery. We expanded enviro 2.0 in 2016 and now conduct evaluations of entire systems as well as individual machines and process models. This programme expansion is especially important with respect to



We are improving material efficiency and optimising processes in freight forwarding logistics in an effort to minimise the impact of our business activities.

Our CO₂ reduction target remains realistic. When updating our facilities, we follow a prescribed action plan and use energy-efficient technology.

machines and lines used in the production of beer and soft drinks as they can now be assessed as complete systems under enviro. In this way, we are tapping potential energy and media savings for our customers in the brewing process and in the bottling and canning of beer and non-alcoholic soft drinks. Thus, we are helping our customers improve their environmental performance in production. As we have indicated in past reports, there is still certainly room to expand the enviro options in our new machinery business.

Our Lifecycle Service (LCS) portfolio includes a number of products and services that help keep our machines and lines operating efficiently throughout their entire useful lives. It is designed for customers who are already using KRONES machines in their plants. As a “Partner for Performance”, we support these customers to ensure efficient operation of our machines and lines for the long term.

Our Lifecycle Service team provides a wide range of products and services to help ensure long useful lives of KRONES machines and lines at our customers' plants.

We operate in a market with a secure future. The world's population is growing and, with it, so is the number of consumers. That means we can expect demand for our products to remain high for the long term. Nevertheless, the competition is stiff, not only in Europe but also in China. To address this fact, we are improving our processes and continually evolving our products. Digitalisation offers development potential for our company and for the sustainable design of production and all business processes. It enables us to help our customers develop their business models. For example, they can use available data to discover how they can operate their machines more efficiently and reduce downtimes and resource consumption.

We have developed a comprehensive package of measures aimed at ensuring our competitiveness on the market, even when times are tough. We must further reduce our costs and lead times while at the same time maintaining our high standard of quality.

I am confident that we will master the challenges that are yet to come with respect to corporate sustainability, in terms of both economics and the environment. That is due in large part to the untiring dedication of our employees, whom I would like to thank at this time. Our Code of Conduct provides excellent guidance for our activities. We are fully committed to abiding by and enforcing this code. It is based on the ten principles of the UN Global Compact, which inform our every action.



Christoph Klenk
CEO



Our contribution to resource conservation is clear: Since 2008, we have aligned our machinery portfolio with the principals of energy and media efficiency by means of our enviro management system. Assessing all of our machines against enviro criteria has resulted in many improvements to our fundamental machinery designs, which have enabled our customers to conserve resources.

A blue ink signature of Thomas Ricker.

Thomas Ricker
Bottling and Packaging Equipment

Going forward, we aim to strengthen our group's presence worldwide. Using our global value chain will shorten our response times and put us even closer to our customers.

A blue ink signature of Michael Andersen.

Michael Andersen
CFO
Finance, Controlling,
Strategic Purchasing

Strong communication with all stakeholders is essential to our ability to make the best, most appropriate decisions. We consciously incorporate the details of day-to-day business into our considerations in order to make sound, sustainable decisions on our corporate strategy and product offerings.

A blue ink signature of Christoph Klenk.

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



We are strengthening our presence in the regions and opening new KRONES Academy training centres, most recently in Colombia and Brazil. That benefits our customers and our service technicians. It also ensures competent service throughout our machines' entire useful lives. Our tightly woven service network spans the globe and serves as our guarantee to customers.

Markus Tischer
International Operations and Services

Our process technology and intralogistics give our customers intelligent, forward-thinking solutions for their entire plants. When it comes to digitalisation, master software and automation enable our customers to operate their lines at the highest possible efficiency. That, in turn, opens up a broad range of possibilities for efficient resource use.

Ralf Goldbrunner
Plants and Components

KRONES is expanding its presence in China by investing in its Taicang site. We are enhancing local service offerings there as well as local engineering and product management. In addition, we are producing selected machines specifically for the Chinese market. We always pay close attention to ensuring that conditions there and at our other locations around the world are fair and transparent.

Rainulf Diepold
Sales and Marketing

KRONES delivers complete plants from a single source to customers in the beverage industry. We use our unique mix of expertise to keep our customers' investment and operating costs low. Of equal importance, we enable our customers produce their products reliably and at the highest level of quality.

We deliver not only all of the machines and lines necessary for producing, filling, and packaging beverages. We also provide complete logistics systems, supply and disposal systems, and state-of-the-art IT solutions that manage and document all production processes. We always strive to ensure that all buildings are designed to optimally meet our customers' specific production criteria.

This model of a complete beverage plant below provides a brief overview of our offerings.

KRONES offers everything that is needed for beverage production. The brewhouse ¹ is the heart of a brewery. Here, beer is brewed in several stages from the basic ingredients water, hops, and malt. The brewhouse consists of various systems such as the malt silo, mash tun, lauter tun, wort kettle, whirlpool, and wort chiller. Beer also passes through KRONES-built fermentation and conditioning tanks ² and filters to finalize the brewing process.

For soft drink producers, KRONES offers systems ranging from water treatment to the syrup room to mixers and carbonators.

All KRONES conditioning and production tanks ³ are precision manufactured and fit perfectly into the production line.

In a comprehensive project planning phase, KRONES not only designs the ideal layout of the production halls but also tailors buildings such as administration ⁴ and laboratories ⁵ to the customer's specific needs.

The bottling hall ⁶ contains many powerful machines and lines from KRONES. Examples include stretch blow-moulders, which form PET preforms into bottles, fillers that handle glass and plastic bottles as well as cans, and labellers, inspectors, and bottle washers.



The filled containers are collated into packs on KRONES packaging and palletising machines **7** and packaged according to the customer's specifications. KRONES offers products ranging from stand-alone palletising robots to complete packaging lines.

KRONES' wholly-owned subsidiary SYSKRON and the Italian company SYSTEM LOGISTICS, in which KRONES holds a 60% stake, deliver fully automated high-bay warehouses **8** that ensure highly efficient material flows – because every unnecessary logistics step costs time and money.

However, a semi-automated or even a manual warehousing system **9** may be the best solution in some cases. SYSKRON is the perfect partner for these needs as well.

In the beverage industry, the diversity of products is growing and volumes per item are shrinking. Order-picking and distribution **10** have to accommodate. KRONES offers solutions that are precisely tailored to these needs. KRONES' subsidiary SYSTEM LOGISTICS makes a major contribution here with its automated order-picking systems.

We create a best-fit concept for the supply of heating, cooling, compressed air, and power and calculate optimum capacities for each individual factory **11**.

KRONES configures all disposal systems **12** – for instance, for waste and waste water – to suit and helps ensure that all environmental standards are met.



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

The KRONES Group is organised in three segments:

■ **Machines and lines for product filling and decoration**

This is KRONES' biggest segment, offering machinery and systems for labelling, filling, inspection, bottle washing, and PET bottle production.

■ **Machines and lines for beverage production/process technology**

This segment comprises brewhouse and filtration technology for the brewing industry and the complete production of non-alcoholic beverages, ready-to-drink teas, and alcoholic mixed drinks.

■ **Machines and lines for the compact class**

In the compact class segment, KRONES subsidiaries KOSME and GERNEP offer a product range of filling and labelling technology similar to that of our "machines and lines for product filling and decoration" segment, but for lower outputs.

KRONES posted revenue of over €3.39 billion and generated a profit (consolidated net income) of €169.1 million in 2016. The company generated 90% of revenue outside Germany in 2016.

At 31 December 2016, the KRONES Group employed 14,443 people. The company's headquarters and largest production site is Neutraubling, Germany. Production also takes place at plants in Nittenau, Flensburg, Freising, and Rosenheim, Germany. In addition, KRONES has a network of more than 50 companies outside Germany that offer a variety of products and services for the entire life of a line. The subsidiary KOSME manufactures its products in Italy and Austria.

With its three operating segments, KRONES holds a leading position in the market as a full-service supplier.

KRONES generated the highest sales revenue in the company's history, nearly €3.4 billion, in 2016.

KRONES is committed to producing its new machinery in Germany. Because exports make up a large share of the company's revenue, KRONES is steadily expanding its workforce at sites worldwide.

Key figures for the KRONES Group

		2016	2015
Revenue	€ million	3,391	3,174
Export share	%	90	88
Earnings before taxes	€ million	238	223
Consolidated net income	€ million	169	156
Earnings per share	€	5.40	4.98
Total assets	€ million	3,071	2,707
Equity	€ million	1,226	1,111
Employees (at 31 December)		14,443	13,346
In Germany		10,061	9,767
Outside Germany		4,382	3,579
Dividend per share	€	1.55*	1.45

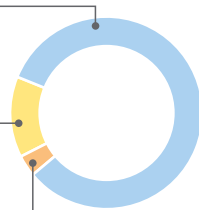
* As per proposal for the appropriation of retained earnings

KRONES Group – Segment revenue

Machines and lines
for product filling
and decoration
83.0% (€2,815.3 million)

Machines and lines
for beverage production/
process technology
13.4% (€454.1 million)

Machines and lines
for the compact class
3.6% (€121.9 million)

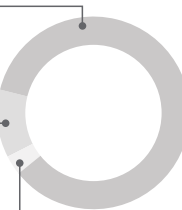


Revenue in 2016: €3,391.3 million

Machines and lines
for product filling
and decoration
85.3% (€2,705.9 million)

Machines and lines
for beverage production/
process technology
11.3% (€358.7 million)

Machines and lines
for the compact class
3.4% (€108.9 million)



Revenue in 2015: €3,173.5 million

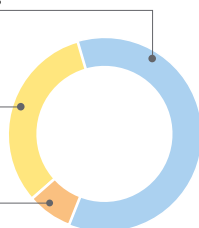
Our core segment, machines and lines for product filling and decoration, contributed 83% of consolidated revenue in the reporting period.

KRONES Group – Revenue by industry

Non-alcoholic beverages
60.3%

Alcoholic beverages
32.1%

Food, chemicals,
pharmaceuticals,
cosmetics 7.6%



Revenue in 2016: €3,391.3 million

Non-alcoholic beverages
54.3%

Alcoholic beverages
34.8%

Food, chemicals,
pharmaceuticals,
cosmetics 10.9%



Revenue in 2015: €3,173.5 million

KRONES Group revenue by region

	31 Dec 2016		31 Dec 2015		Change
	€ million	%	€ million	%	%
Germany	354.2	10.4	382.3	12.0	-7.4
Central Europe (excluding Germany)	214.4	6.3	152.8	4.8	+40.3
Western Europe	513.5	15.1	513.3	16.2	0.0
Eastern Europe	121.4	3.6	90.5	2.9	+34.1
Russia, Central Asia (CIS)	72.3	2.1	82.2	2.6	-12.0
Middle East/Africa	570.4	16.8	431.8	13.6	+32.1
Asia-Pacific	402.3	11.9	489.9	15.4	-17.9
China	323.5	9.5	289.1	9.1	+11.9
North and Central America	504.9	15.0	437.5	13.8	+15.4
South America/Mexico	314.4	9.3	304.1	9.6	+3.4
Total	3,391.3	100.0	3,173.5	100.0	+6.9

More figures and information about our business development are in the 2016 Annual Report.

KRONES' revenue was more or less evenly split between the emerging markets and the mature markets in 2016.

Legal form

Stock corporation under German law (Aktiengesellschaft, AG)

Executive Board

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

Michael Andersen, CFO, Finance, Controlling, Strategic Purchasing

Rainulf Diepold, Sales and Marketing

Thomas Ricker, Bottling and Packaging Equipment

Markus Tischer, International Operations and Services

Ralf Goldbrunner, Plants and Components

In addition, each of the group companies is the responsibility of two members of the Executive Board.

Inclusion of Executive Board Chairman Christoph Klenk in the CSR Committee ensures that KRONES AG's highest decision-making body is directly responsible for economic, environmental, and social performance.

Supervisory Board

Pursuant to Section 8 (1) of the articles of association, six members are elected by the shareholders in accordance with the German Stock Corporation Act (Sections 96 (1) and 101). Six members are elected by the employees pursuant to Section 1 (1) and Section 7 (1) Sentence 1 Number 1 of the Codetermination Act.

The Supervisory Board appoints the members of the Executive Board and approves important corporate decisions.

The structure of the remuneration 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. Details can be found on pages 138 to 143 of KRONES' 2016 Annual Report.

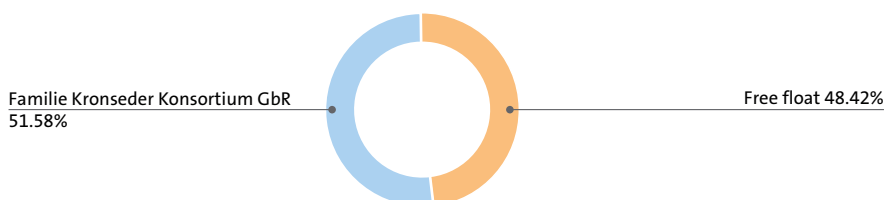
Information on shareholder rights pursuant to Section 121 (3) Sentence 3 Number 3 of the German Stock Corporation Act (AktG) can be found at https://www.krones.com/media/downloads/170501_Erlaeut_Akt_Recht_e.pdf.

In addition, information on how shareholders can exercise their voting rights is available (in German only) at https://www.krones.com/media/downloads/eVollmacht_Krones_2017_170502.pdf.

Shares

KRONES shares are no par value ordinary bearer shares. Each share carries one vote. The stock has been listed and available for trading on all German stock exchanges since 29 October 1984. KRONES' share capital of €40.0 million is divided into 31,593,072 shares. KRONES is included in the MDAX share index, the German stock exchange's midcap index.

KRONES Group – Shareholder structure as of December 2016



The Kronseder family consortium retains a 51.58% stake and remains a stable majority shareholder of KRONES AG. The free float (those shares not held by the family) comes to 48.42%.

KRONES is committed to doing business sustainably. That means that, in our business activities, we give equal importance to economic targets, environmental stewardship, and social responsibility. Only in this way can we provide for the needs of future generations.

We joined the UN Global Compact in 2012 and are committed to its ten principles as the basis of our corporate governance. It is also important to us that we show our business partners, investors, employees, and the general public that we accept responsibility and reflect it in our business processes.



KRONES' mission statement

Our customers around the world are primarily in the food and beverage (liquid food) industry. We provide them with machinery, lines, and systems, including all related services, that are the best in every respect.

KRONES' mission statement answers the questions: Who are we, where do we want to go, and how can we get there?

Profitable growth

To consolidate our position, we will continue to grow profitably and further expand our technology leadership – with innovation, a passion for change, and consistent performance. We listen to our customers and develop our products to meet their needs.

Global network

Our lines and complete solutions provide the highest level of efficiency at competitive prices. Our global network enables us to provide fast, cost-effective, high-quality service – anytime, anywhere around the world.

All strategic decisions are aimed at ensuring the company's sustainable development. Even when optimising profits and cash flow in the short term, we still keep sustainability sharply in focus. This makes KRONES a dependable partner for our customers, employees, shareholders, and suppliers. Our financial strength gives us independence. We use resources wisely in order to safeguard this freedom for the long term.

Our sites around the world form a global value chain that serves as the very foundation of our success. Each of our core modules is built at only one site, with exceptional cost-effectiveness. These sites concentrate our expertise and experience in the relevant technology. To secure this advantage for the long term, KRONES offers attractive working conditions, promising training opportunities, and plenty of room for individual development at all of our sites worldwide. Transparent hierarchies, appreciative leadership, and clear goals inform our corporate culture. To stay agile and competitive going forward, we keep our structures lean and efficient.

Fair and forthright interactions

We are a multinational corporation where a diversity of cultures, languages, and ways of life come together on equal footing. We are fair and forthright in our interactions. Honesty, transparency and integrity inform all of our actions. We are interested in the thoughts and opinions of our employees and partners and are willing to learn from others.

KRONES – We do more.

KRONES Code of Conduct

Ensuring that our employees' actions are ethical and lawful

KRONES has been a constant in the beverage and packaging machinery market for many years. We strive to maintain the solid reputation we have earned and further develop our position as market leader.

To accomplish this and to transparently document our social and civic responsibility, we have developed our Code of Conduct on the basis of our mission statement. It is intended to ensure that our actions are always lawful, ethical, and responsible, both within and outside the company. The clear, unequivocal rules laid out in the Code of Conduct are binding for all KRONES employees – including the Executive Board, management, and every member of our staff worldwide. The provisions of the Code of Conduct form an integral part of every employment contract at KRONES. All employees within the KRONES Group abide by local national laws in their implementation of the Code of Conduct.

In this way, we can be certain that our employees act in accordance with clear rules that are easy to understand and follow and therefore serve as a guide for their daily work. That is the basis for ensuring compliance with laws, standards, policies, and guidelines company-wide. All employees are expected to not only comply with the guidelines in the Code of Conduct in a formal sense but to live and breathe them. That engenders the culture of openness and compliance that informs our activities daily. To communicate this expectation credibly and reliably, both within and outside the company, we systematically investigate and take disciplinary action on violations of the Code of Conduct.

Our Code of Conduct is available to the public. Our guidelines for proper conduct can be viewed at any time at https://www.krones.com/media/downloads/CoCo_2016_en.pdf.

KRONES' Supplier Code

Responsibility is also an important factor within our value chain

Our Supplier Code serves as the foundation for our relationships with suppliers. This code compiles the high standards of ethical, sustainable action to which we hold our suppliers.

The most important message of the Supplier Code, which we revised in 2016, is that we expect our business partners to adhere to standards such as the ten principals of the UN Global Compact, the OECD Guidelines, and the UN Guiding Principles on Business and Human Rights.

In addition, some requirements are worded more strongly and explicitly presented as requisite to having a business relationship with KRONES. These criteria include compliance with environmental regulations as well as comprehensive guidance with respect to fighting corruption and handling conflicts of interest.

In order to disseminate these standards on ethical practices, the code also calls on our business partners to promote this dialogue with their own business partners. In that way, our business partners are further conveying the standards laid out in our Supplier Code to their own suppliers and subcontractors.

The Supplier Code is part of the ordering process and, as part of our general terms and conditions, a binding component of every procurement contract. In addition, we also demand proof of certification of suppliers and conduct audits in the form of compliance spot checks.

The Supplier Code is available online at https://www.krones.com/media/downloads/krones-supplier-code_en.pdf.

Corporate Governance Code

Ensuring responsible corporate governance

KRONES is committed to corporate social responsibility and follows the recommendations of the German Corporate Governance Code ("the Code"). The Executive Board and the Supervisory Board report on Corporate Governance in accordance with Item 3.10 of the Code. The German Corporate Governance Code contains essential statutory regulations for the management and supervision (governance) of German listed companies as well as internationally and nationally recognised standards for good and responsible corporate governance.

Details on the requirements of the Corporate Governance Code can be found on pages 148 to 153 of our 2016 Annual Report and on KRONES AG's website.

At KRONES, proper conduct is a fundamental requirement in every area of our business and at every one of our locations worldwide. It is how we achieve a high level of credibility among our customers and suppliers, with authorities, and in the eyes of all of our employees. Our compliance management system provides a strong framework for ensuring adherence to codes of ethics and the law. Organisationally, the Compliance Officer and his team are within the purview of the Chief Executive Officer and therefore report directly to the company's most senior decision-maker. Close collaboration with the other Executive Board members' areas of responsibility is also ensured.

In addition, our Compliance Committee serves an advisory role. In the committee, the Compliance Officer shares information and ideas with representatives of the highest levels of management for each area of Executive Board responsibility. Our Internal Audit department is another partner supporting our efforts to detect non-compliance.

In keeping with the international nature of our group, we began in 2014 to introduce KRONES AG's compliance system at our subsidiaries in Germany and worldwide. Since 2016, we now have regional compliance representatives in place who are given specific training and information before beginning their work. Their main tasks are in the realm of prevention since they are familiar with local circumstances in the regions and are available to respond quickly to important questions. Thus, they are able to support employees in their day-to-day work.

Our aim is to ensure that our position with respect to all aspects of compliance is consistent and reliable worldwide. We thoroughly examine all foreseeable issues relating to compliance and train our employees so that they know how to handle them. We also conduct compliance risk analyses within our parent company and branch offices and closely monitor business processes. In addition, we may audit business partners with respect to compliance aspects on a case-by-case basis (third-party due diligence).

Our Code of Conduct provides a framework for all matters relating to proper conduct. It is complemented by our Supplier Code, which communicates our requirements with respect to ethical practices to our suppliers. Our compliance management system fills this framework with clear guidelines in the form of concrete policies for each area of our business across the group. All policies are drafted by the departments and reviewed by our compliance team prior to approval by the Executive Board as a whole. Every employee is then informed about the policies that are important and relevant to his or her work by way of established communication channels. The compliance team also conducts training sessions on specific topics of relevance to specific employee groups to raise awareness among these employees. Besides this training, the internal communication network, KRONES inside, and the employee magazine KRONES world are also used as channels for conveying information on all compliance-related matters.

The Corporate Compliance Officer and Compliance representatives are the central point of contact for all compliance activities worldwide. This structure enables the decentralised aspects of compliance, such as customs and foreign trade, the central company safety and health department, and quality management, to be integrated into processes and provided with the information that is important to them.

All policies are available and accessible to all employees in KRONES' Intranet as a reference when questions arise in their day-to-day work.

In addition, a compliance help desk provides our employees with rapid support in resolving questions. Employees can also report violations of laws or policies to the help desk. The help desk is obligated under its charter to maintain anonymity if requested to do so.

2016: Policies strengthened and international activities expanded

Fundamentals training on the topic of Compliance and the KRONES Code of Conduct is always a top priority for us. The program comprises in-person training for our management team and an e-learning programme for all employees.

No reportable incidents of corruption are known to have occurred in 2016. Similarly, no legal actions were initiated for anti-competitive behaviour, anti-trust, or monopoly practices.

➔ In all, 13,767 employees (previous year: 12,991) have received Compliance training since 2014. Thus, we reached 776 more employees at our sites in Germany and abroad compared with 2015. Successful completion of the e-learning module is tested and documented in an online exam. Employees then receive a certificate of completion.

➔ The fundamentals e-learning programme is available in five languages: German, English, Spanish, Chinese, and Portuguese.

➔ Last year, 62 new management personnel received in-person training (previous year: 69). In addition, 319 new employees without access to a PC were also given instruction (previous year: 326).

Consistency and compliance are obligatory in all group companies. To support our employees beyond their fundamental training in this respect, we have introduced the compliance programme at the national and international levels and made the e-learning programme a mandatory part of employee training across the board.

➔ In 2016, Compliance representatives for the regions were appointed and trained.

➔ At the international level, our main focus in terms of compliance training in 2016 was on our European offices.

➔ We intend to roll out the compliance programme in offices in South America and Asia in 2017. The newly consolidated companies SYSTEM LOGISTICS, Italy, and TRANS-MARKET in North America will also be integrated into the compliance programme.

In order to establish transparent principals for business processes in all areas and for all employees, new policies were drafted by the individual business areas, reviewed by the compliance team, and approved by the Executive Board.

- ➔ With respect to compliance and corporate governance, our revision of the Supplier Code and new policies on competition and data storage and protection are of particular relevance.
- ➔ Other areas on which our compliance work focused include a transfer pricing policy from our finance department and a policy on the use of social media from our corporate communications department.

The launch of our anti-corruption programme was an important focus of activities in 2016. This programme serves as basic training for all conceivable cases of corruption in relation to our business activities.

- ➔ The programme is designed as in-person training for employees who have regular contact with third parties. The primary target groups for this training are our sales, procurement, service, and installation teams as well as quality management, corporate communications, and human resources.
- ➔ In 2016, 1,186 people completed this training.
- ➔ For all other areas with regular third-party contact, we launched an e-learning programme on the topic of anti-corruption. The anti-corruption programme's e-learning component is available in German and English.
- ➔ The anti-corruption programme is slated to be conducted at our sites worldwide in 2017. We are starting this roll-out at KRONES INC. in the USA and KOSME S.R.L. in Italy. We intend to train approximately 1,600 employees at our international sites over an extended period.

Anti-corruption training is mandatory for all employees working in areas that put them in regular contact with third parties.

In terms of prevention, we stepped up our risk analysis efforts in 2016.

- ➔ Our nine-category risk analysis of KRONES AG and subsidiaries showed our compliance-related processes to be at a good level.



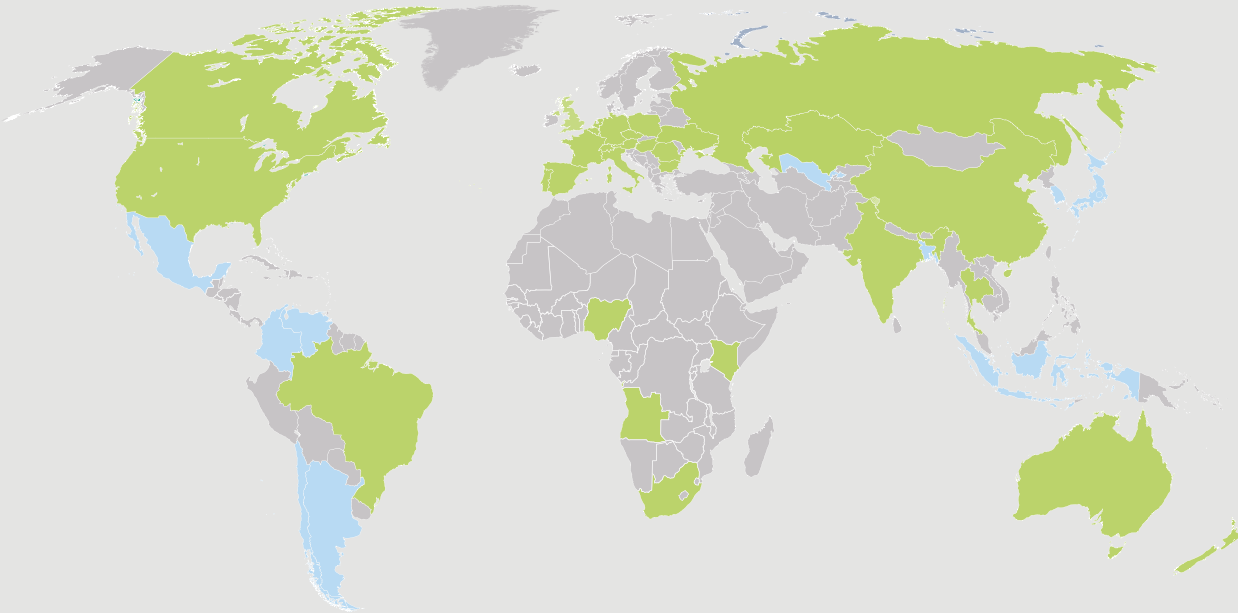
Anonymous whistleblowing procedures in development

It is crucial that we be fully informed about any incidents of possible wrongdoing. We have decided to set up a standardised solution to allow any member of our team to anonymously report possible misconduct.

In 2017, in cooperation with a third-party provider, we will set up KRONES Integrity, an information and reporting system that allows anyone with information about improper behaviour to report it in an easily accessible, anonymous process anywhere in the world.

*Welf Kramer
Compliance Officer*

Compliance worldwide – introduction of compliance activities in the regions

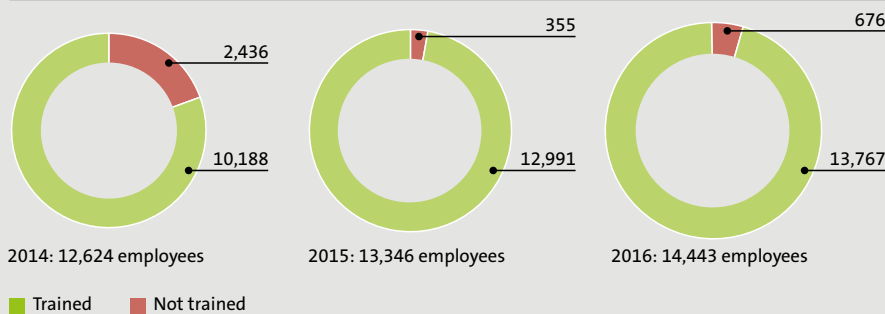


- KRONES sites at which compliance activities have already been rolled out (2014–2017)
- KRONES sites at which a roll-out by 2018 is planned

We rolled out compliance activities in stages at our international sites in 2016. First, we appointed regional compliance representatives. Our training programme focused on our European sites outside Germany in 2016.

Remaining companies will be covered by 2018 at the latest. The e-learning programme is available in German, English, Portuguese, Chinese, and Spanish.

Compliance training



All employees must complete compliance training, either through the e-learning programme or in an in-person training course. Because we are continually adding to our workforce worldwide, some individual employees had not completed the programme at the reporting date.



From left to right: Gudrun Meyer-Gruber, Welf Kramer (both members of Corporate Compliance Group – ccc), Klaus Gerlach (International Operations and Services – ios)

E-learning with video-based training

Our anti-corruption programme began with in-person training courses at the start of 2016. In those courses, 1,186 employees with regular contact to third parties – that is, to customers, suppliers, and service providers of all types – were informed about the dangers of corruption. The focus of these training courses was on members of our sales and procurement teams.

We are now preparing for the second wave, in which another 900 employees with regular third-party contact will be given fundamental knowledge about corruption by way of an e-learning pro-

gramme. At the heart of the online course is a series of short video sequences in which Welf Kramer and Gudrun Meyer-Gruber (ccc) discuss the main issues relating to corruption and explain possible actions to take in situations in which corruption is a risk.

They have partnered with Klaus Gerlach (ios LCS) for the e-learning programme. In the videos, Gerlach raises questions that arise in real-life situations. His examples help to illustrate how KRONES employees should respond in situations that may pose a risk of corruption.

KRONES is committed to sustainability in all of its business practices. This commitment informs our activities with respect to economic, environmental, and social factors. We joined the UN Global Compact in 2012 and have made its ten principles the imperative basis for action within our company. The principles of the UN Global Compact are integrated into our Code of Conduct and our Supplier Code. We stand for high transparency and are registered on various platforms that focus on measuring a diverse range of parameters relating to companies' sustainability performance. We provide information to CDP, ecovadis, and Sedex. These platforms are an important source of information for customers and investors to assess our CSR activities.

Our actions are guided by the precautionary approach. We ensure this by means of detailed risk analysis, which underlies all decision-making on product development and the development of our production sites.

Our overarching corporate strategy, Value, also serves as the basis for defining our CSR strategy. The four pillars of Value – quality, profitability, growth, and innovation – cover all sustainability-related tasks. Thus, our master strategy takes into account topics relating to economic, environmental, and social responsibility.

Our employees are crucial to successful implementation of our Value strategy. With their innovative ideas, steady focus on customer needs, and high level of dedication, they enable us to strengthen and grow our position worldwide. For this reason, we will continue to ensure that our people have a secure, suitable framework in which to operate. In the medium term, our CSR strategy with respect to labour practices and decent work is aimed at further developing the framework for our employees at our sites worldwide (see pages 100 to 131).

Offering a range of products that meet the highest sustainability criteria is another key part of our strategy. With the enviro programme, we offer our customers “best-in-class” machines and lines that operate as efficiently as currently possible with respect to resource and media consumption. This programme has been implemented across our entire product development process and offers reliable guidance for building eco-efficient machines. Certification of this management system enables us to apply standardised processes to the development of environmentally friendly machines (pages 65 to 75).

This environmental awareness is also alive and strong within our production sites. Conserving resources and reducing energy consumption are the main points. By defining a CO₂ reduction target, we have committed to taking responsibility for countering the possible consequences of climate change as a company. The CO₂ reduction target applies to direct and indirect energy-related emissions and aims to reduce these emissions by 30% to 40% per €1 million in revenue using 2010 as the base year. We also look at other indirect (Scope 3) emissions (pages 78 to 97).



All activities within our sustainability policy are directly related to the ten principles of the UN Global Compact. We are committed to these principles and have made them available at <https://www.krones.com/en/company/responsibility/values-and-management.php#7180>.

Our society-related activities are constantly evolving. We see ourselves as a partner within our business environment and take our stakeholders' concerns into account. We will define further actions to take in this regard to further expand our involvement in the community and increase communication with stakeholders (pages 132 to 143).

Our sustainability efforts are based on the targets defined by the CSR Teams. Our annual CSR Report presents our CSR activities and the annual progress report required as part of our membership in the UN Global Compact. The CSR Teams review and, as needed, adjust the topics and aspects covered in our CSR Report on a regular basis. The CSR Report is reviewed and approved by the Executive Board prior to publication.

Evolution of sustainability topics

In 2016, in accordance with an Executive Board decision, we began expanding our CSR activities to our international sites and introduced the sustainability reporting guidelines there. Additional actions taken as part of our CSR efforts are described in the "Goals and actions" section of each chapter of this report.

KRONES has bundled all of the company's activities relating to sustainability and social responsibility in the CSR Officer and the CSR Committee. The committee consists of members from within and outside the company who enable the body to look at issues that are important to various stakeholder groups. As members of the committee, the Chairman of the Executive Board and Chairman of the Supervisory Board participate in CSR Committee meetings on a regular basis. In this way, decision-makers at the highest levels of management and supervision directly address the economic, environmental, social, and societal aspects. Thus, important content is conveyed directly to the company's most senior decision-makers. Experts from the individual departments give the members of the committee a comprehensive view of the company's CSR activities and support decision-making on the direction these activities take. The results of this information exchange are then pursued further in the work of the Executive Board.

In 2016, the CSR Committee held three meetings, thus achieving a close, regular exchange among the decision-making bodies, internal experts, and external participants.

Topics of focus for the CSR Committee in 2016

- A comprehensive update of the measures relating to climate change worldwide in accordance with the resolutions of the 21st Global Climate Conference (COP) in Paris revealed the significance of climate change for KRONES and the importance of reducing emissions to all committee members. The target that was agreed in Paris, to limit global warming to 2 degrees Celsius above pre-industrial levels, is highly relevant to KRONES' activities.
- An audit project entitled "Environmental protection/sustainability" conducted by our Internal Audit team improved the transparency of our CSR workflows. The audit process prescribed that CSR be mapped in an internal process model. For this reason, a process for reporting on corporate social responsibility was established within the "Communication" management process.
- Having our sustainability performance evaluated by various rating agencies promotes the continuous improvement of our sustainability performance. We base our efforts on ratings by the following third-party institutions: Oekom Research, ecovadis, and CDP. In addition, the certification company SGS conducted an audit on behalf of one of our key accounts in 2016 using a system that largely corresponds to that of the SMETA Audit conducted in 2015.

The CSR Committee does not explicitly deal with activities relating to economic aspects. Rather, several of the ESG considerations can be placed within the context of individual pillars of the Value strategy, which is designed to promote KRONES' long-term growth. The advances we are making with the Value programme, which also include securing the company's long-term commercial success, fall within the scope of our financial reporting.

Projects overview

■ International roll-out of CSR activities

An initial inventory of the available data was conducted at our sites in Brazil, the USA, and China.

■ Continuing development of compliance-related activities

A focus of these activities was on broadly disseminating the anti-corruption programme. To this end, we also designed a special e-learning programme for employee groups that have regular contact with third parties. The programme will be rolled out groupwide starting in 2017.

■ enviro – sustainable products

Besides assessing individual machines and process models under the enviro management system, we have also begun assessment of entire systems. In addition, a Lifecycle Impact Assessment (LCIA) was conducted for six KRONES systems for the bottling of sensitive high-acid beverages.

■ Status report: CO₂ emissions target

A review of the measures taken to implement our CO₂ emissions target reveals that, despite shifts in our energy mix from year to year, we can expect to achieve our reduction target by 2020.

■ Occupational health management

A pilot project was launched in Nittenau that aims to gain information about occupational health, assess what needs to be done, and lay the foundations for strategic health management. Employee surveys, interviews with management, and analysis of the structures and measures currently in place were used to obtain a picture of the current situation at this site, which can then serve as a model.

■ Internal communication

Over a two-month period, 2,504 employees at our German plants participated in a survey on internal communication. The survey's aim was to examine how relevant various channels of internal communication are to employees.

■ Social commitment

We continued our collaboration with facilities for the education and care of children and youth in the Regensburg area on a Christmas celebration in 2016. This activity was also expanded to our Flensburg, Rosenheim, and Nittenau plants. Besides the holiday activity, KRONES also continues to support organisations that offer relief services for refugees. Regensburg's CampusAsyl network was once again included in our charitable giving budget for 2016.



KRONES AG's CSR Committee:

The CSR Committee brings together representatives from the various stakeholder groups and collaborates to develop topics of focus for KRONES' sustainability strategy.

From left to right:

Prof. Dr.-Ing. Erich Kohnhäuser, former President of the University of Applied Sciences in Regensburg, is the committee's connection to academia as a result of his long career as a university professor.

Claudia Islinger, Works Council, represents the company's employees and brings issues of current interest to employees into the Committee's work.

Roland Pokorny, Head of Corporate Communications, uses his comprehensive communications with all stakeholder groups to firmly establish KRONES AG's activities in society.

Nico Irrgang, Project Coordinator CSR, coordinates all CSR activities at KRONES and supports the internal project teams on topics of sustainability.

Volker Kronseder, Chairman of the Supervisory Board, follows the CSR topics from the perspective of shareholders and brings key points into the work of the Supervisory Board.

Ingrid Reuschl, Head of Public Relations and Web Solutions, Corporate Communications, is responsible for all issues relating to Corporate Social Responsibility within KRONES AG and reports on these topics to the CEO.

Philipp Graf von und zu Lerchenfeld, Member of the German Bundestag, advises the CSR Committee on all questions relating to political topics.

Prof. Dr. Thomas Schwartz, honorary professor of applied ethics, with emphasis on business ethics and corporate ethics, is the committee's source of inspiration on all matters relating to ethical and sustainable action.

Welf Kramer, Compliance Officer and specialist in commercial law, shares his knowledge of the relevant aspects of legal standards with the committee.

Not pictured:

Christoph Klenk, CEO and member of the CSR Committee since the start of 2016, brings the CSR topics to the Executive Board.

KRONES AG has systematically anchored sustainability into its business structure. Sustainability is a company-wide responsibility and falls within the direct purview of the Chairman of the Executive Board (CEO). Clear roles and responsibilities have been defined for the individual technical areas, which carry out the work of a sustainable business strategy at the operational level.

CSR Committee

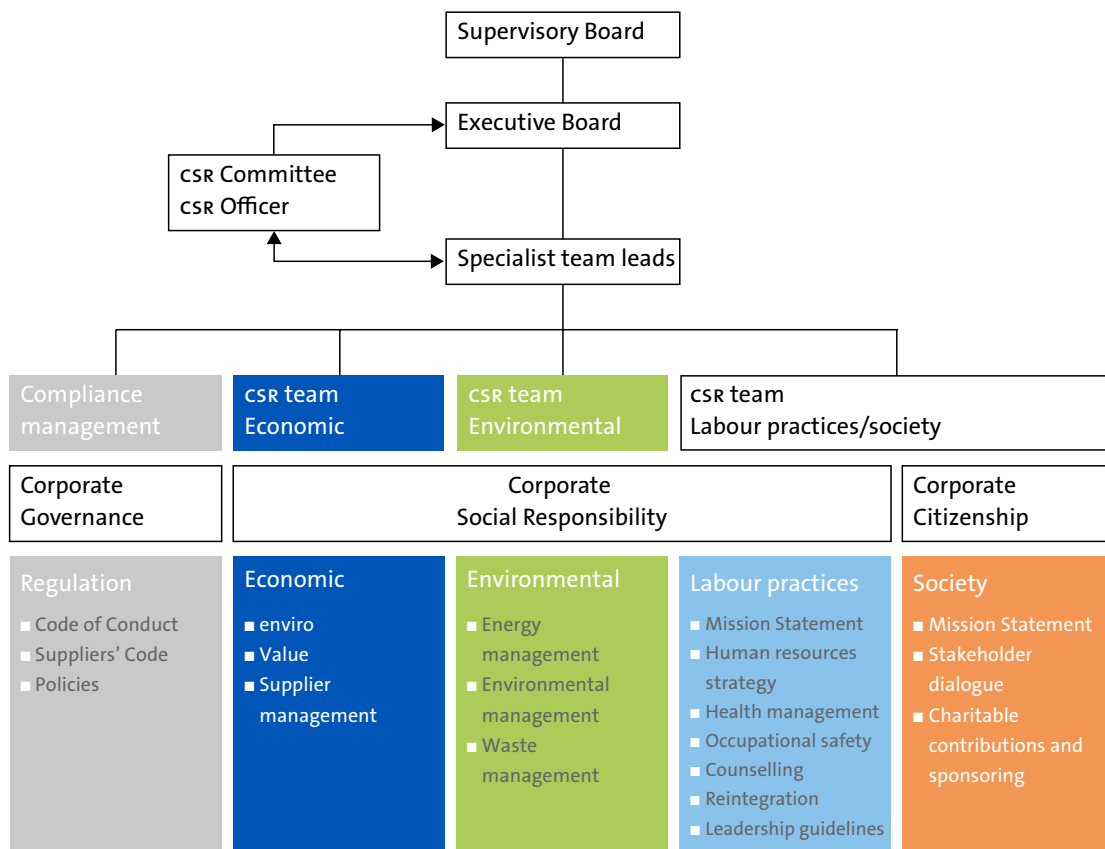
The CSR Committee is the most important body for implementing and realising the company's sustainability strategy. The committee's task is to inspire and initiate action in the various areas. The committee also drafts policies and guidelines for all aspects of the sustainability strategy. By monitoring and overseeing our pursuit of CSR objectives, the CSR Committee is able to steer developments and intervene where necessary.

CSR specialist teams

Representatives from various departments make up the individual CSR specialist teams, which deal with the economic, environmental, and labour practices/society aspects. They develop goals and actions for their respective area of responsibility and identify potential for continually improving our sustainability performance. If necessary, the CSR Officer brings the proposals to the CSR Committee, where the proposals are reviewed with respect to company-wide applicability and implementation.

The CSR Committee meets once each quarter to discuss current CSR strategy matters. In this way, the Chairman of the Executive Board receives regular reports and information on current topics relating to the company's sustainability performance.

By including CSR topics in our integrated management system, we are ensuring that our processes are followed in a standardised, traceable manner.



This sustainability report covers the activities and data of KRONES AG for the year 2016. This report has been prepared in accordance with the Global Reporting Initiative (GRI) G4 Guidelines and is based on the criteria of the Guidelines' "Core" option.

For information that is covered in full by our financial reporting, we provide a cross reference to our Annual Report in the GRI Content Index. This applies in particular to information relating to the process of selecting members of the highest governance body and remuneration of Supervisory Board members and members of management. Similarly, we refer in this report to the Annual Report for the KRONES Group for information relating to risk and opportunity reporting.

The Sustainability Report covers all production sites in Germany and thus around 70% of our employees. Some individual portions of this report include expanded report boundaries. The "Products" section covers 100% of our company's offerings. Many human resources figures also cover 100% of employees. The extent of coverage is indicated for each of the individual charts and tables.

Consistency in the report's scope

The scope of this report is unchanged from the previous year. No new indicators have been measured and integrated into the report. The aspects presented here were once again submitted to the company's management for review as part of the materiality analysis and were confirmed. The scope of this report is also unchanged with respect to the integration of our international sites. Thus, data for the KRONES Group are presented in the section on "Labour practices and decent work". This is particularly relevant for the information on global workforce figures, the age structure of our workforce, and the information on gender, new hiring, and employee turnover in the regions.

Acquisitions have changed the volume of data

The volume of data, particularly in the "Labour practices and decent work" section, changed as a result of the addition of data from acquired companies, SYSTEM LOGISTICS, SPA, Italy, and TRANS-MARKET LLC, USA. The data for these companies has been included in our workforce data. However, no information on age structure is available for SYSTEM LOGISTICS. Any variations in the data sets are indicated in the marginal notes to each chart. There is also a small degree of imprecision in the presentation of the workforce age structure where birth dates are missing for some employees at some sites. The degree of imprecision is less than one percent.

Another change can be seen in our presentation of employment types (job categories). Changes in the division of responsibilities among Executive Board members and the appointment of Christoph Klenk as Chief Executive Officer at the start of 2016 have resulted in some responsibilities shifting categories. As a result, some of the categories are no longer completely, directly comparable with the information from the previous year.

As in the previous year, we are including emissions from freight forwarding as an estimate. We assigned the various shipments to their individual destination ports and linked them with emissions estimates provided by a shipping company.

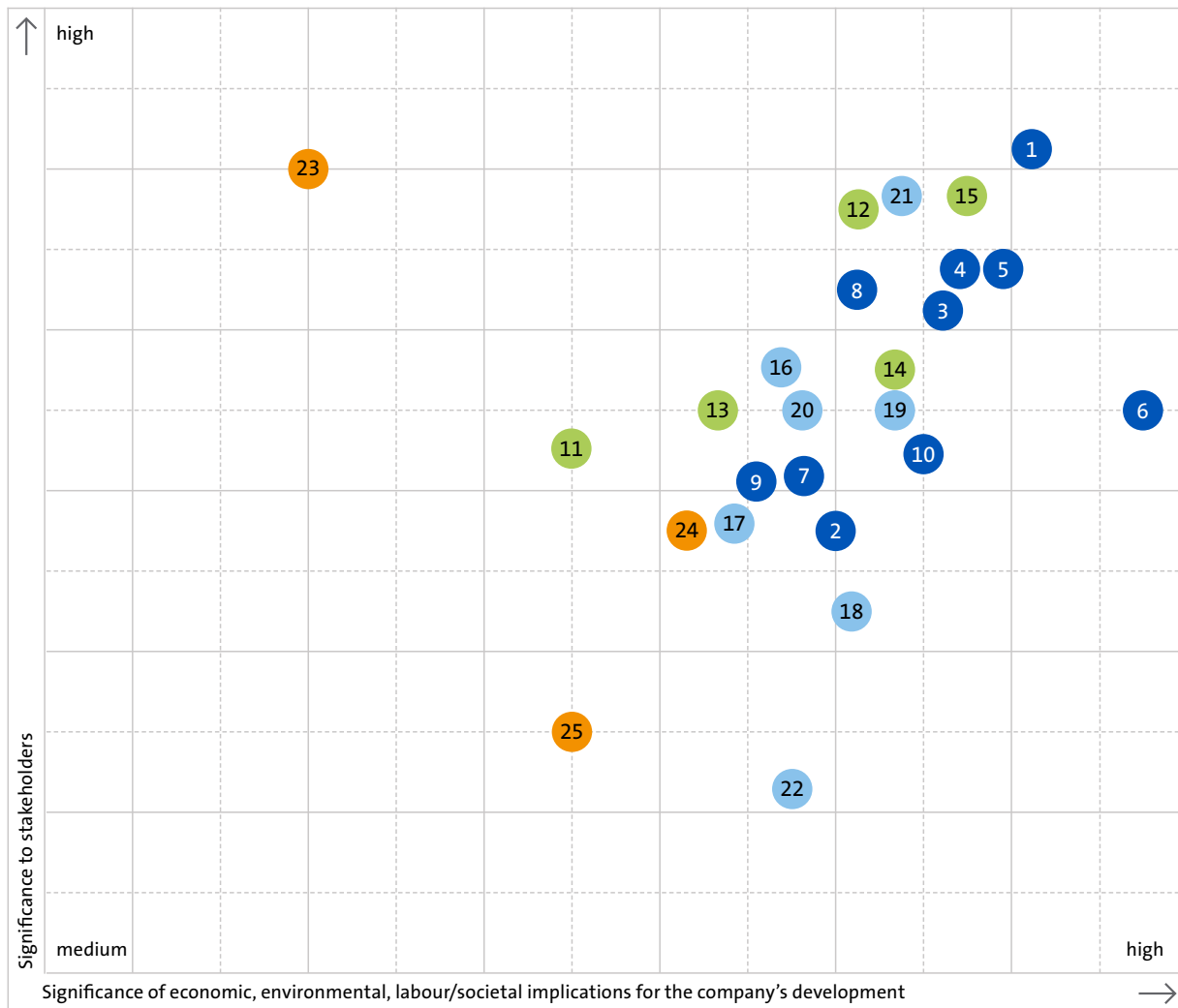
Additional information in some areas

We are providing additional information on the compliance teams' activities this year. In particular, activities relating to the anti-corruption programme are presented in greater depth. We have expanded the information presented for evaluating our stakeholder dialogue. We have also expanded the information reported on our CO₂ reduction target through 2020 and now provide a table showing the progress we have made within our action plan. Another content change can be seen in our presentation of freight forwarding data. As a result of the new rail connection that went into operation last year, we have added a new figure to the chart on outgoing freight: the rail freight loads departing directly from our Neutraubling plant by way of our on-site platform. In order to present the rail containers in relation to truckloads, we have converted them into truckloads.

We have expanded the information reported on the topic of occupational health and safety somewhat and now also include in an overview data on the duration of incapacity following a work-related accident and on days lost following a work-related accident in relation to the annual total number of working days. In addition, we are now reporting the rate of accidents per 1,000 employees separately for men and women.

External assurance

The 2016 Sustainability Report has been reviewed and approved by the Chairman of the Executive Board. As in the previous year, we commissioned external assurance of the report from TÜV SÜD in order to audit the information in terms of both quality and quantity. Details about the standards applied and the depth of the audit are presented in the auditing organisation's certification, which is printed on the inside cover of this report. KRONES AG has no relationship with the auditing organisation beyond the engagement to perform an audit as part of the recertification of our management system. Our Executive Board and Supervisory Board supported the commissioning of external assurance.



● Economic
 ● Environmental
 ● Labour practices
 ● Society

The technical departments reviewed the aspects that are material to our company and its activities with respect to sustainability. As part of the kick-off of our CSR reporting process, we reviewed the existing matrix to determine whether it is still applicable in its current configuration. This review included the examination and positioning of the aspects in relation to their significance to stakeholders and to their implications for the company's development. In a candid discussion, only two points were determined to be in need of adjustment. These were points 16 and 20, both of which were defined more specifically and their impacts adjusted. In addition, a discussion took place about whether the internal and external impact of the aspects matched the actual circumstances. There was unanimous agreement that the current presentation is valid.

No.	Topic	Internal	Both	External	Impact
1	Technological leadership		X		Long-term business success
2	Lean manufacturing (TPM)		X		Long-term business success
3	Clear, transparent relationships with customers		X		Assurance of compliance with standards
4	Long-term, personalised relationships with customers		X		Long-term business success
5	Fast, individual service for all KRONES customers			X	Increased customer loyalty
6	Responding flexibly to market changes		X		Long-term business success
7	Regional suppliers in LCS Centres		X		Fast response in project handling and execution
8	Clear contract terms		X		Transparent business processes
9	Transparent supply chain		X		Assurance of compliance with standards
10	Dutiful conduct and compliance with regulations and laws	X			Long-term business success
11	Programmes to ensure long-lived machines (LCS)			X	Increased customer loyalty and improved resource conservation
12	Energy and media conservation in production operations		X		Improved resource conservation
13	Reducing pollution and hazardous materials		X		Reduced environmental impact
14	Optimum utilisation of production materials (waste and material efficiency)	X			Improved resource conservation
15	Energy and media efficiency and environmental sustainability of products		X		Improved resource conservation
16	Qualification/continuing education and training of employees worldwide		X		Highly skilled employees at all sites
17	Balanced employee structure (diversity)	X			Greater intercultural competence
18	Effective health management	X			Healthy employees
19	Effective occupational safety management		X		Consistently low incidence of work-related accidents
20	Attractive and fair working conditions at construction sites		X		Strengthening employer brand
21	Attractive and fair working conditions worldwide	X			Long-term employee loyalty
22	Increased employee loyalty worldwide	X			Strengthening employer brand
23	Improved stakeholder dialogue		X		Quick identification of action items
24	Use of industry knowledge and research findings	X			Future-oriented products and technologies
25	Sustainable charitable giving and sponsoring concepts		X		Taking on social responsibility



Volker Kronseder
Chairman of the Supervisory Board

Mr Kronseder, what strategic significance does corporate social responsibility have for the company's development?

As a company that is included in the MDAX mid-cap index, we have an obligation to be transparent about our activities relating to all aspects of the KRONES Group's sustainable governance. And we are glad to fulfil this obligation. Because they are the very same activities we pursue in the company's best interest. The Value strategy programme has been an essential part of the company's evolu-

tion since 2011. Its primary focus has been on financial targets. However, we are also aligning these targets with principals of sustainability since creating lasting value is a fundamental aim of the Value programme. The programme also requires that we conserve resources and accept responsibility.

Our comprehensive strategy for providing resource-friendly products has been defined for years now in the form of the enviro programme. With it, we are supporting our customers' efforts to do business sustainably. No other supplier within the beverage industry has yet adopted a comparable broadly-based management system for conserving resources across its entire machinery spectrum. Now it is up to customers to buy these products and use them in their plants.

Where do you see further potential for developing KRONES' sustainability efforts, apart from the enviro series?

The Supervisory Board must always keep the big picture in mind. Of course, that means we will also have to consider the possible impact of any sustainability measures on our bottom line. The Supervisory Board and the Executive Board take a pragmatic approach to decisions about infrastructure, for instance, on updating our sites. We do not have to have a

separate "sustainability" budget. Reasonable approaches to resource conservation are always considered when budgets are being approved – and with that I also mean the impact of proposals on our profitability. We always seek to strike a balance between economic, environmental, and social considerations.

How do you ensure that issues relating to sustainable business practices reach the Supervisory Board?

Social aspects are always a priority for the Supervisory Board as they are closely linked to the continuity of our company as a family business. My presence in the CSR Committee enables me to bring additional aspects and ideas into the Supervisory Board. That in turn ensures close sharing on important CSR topics. In 2017, CSR decision-makers will communicate directly with the Supervisory Board. CSR team members will present topics of current concern and work to be done on environmental, social, and economic matters and enhance our Supervisory Board members' understanding and awareness of sustainable business practices.

In our ongoing dialogue with stakeholders, it is important to us that we speak to each group individually and take their interests into account. For that reason, we have assigned a team of employees to each stakeholder group. This team enables us to maintain an ongoing dialogue with these interest groups and track and follow up within the company on important issues that arise.

Customers

Significance for the company's development

Constructive, continuous dialogue with our customers ensures our company's success. Responsibility for our close contact with customers lies with our sales team in Germany and at our more than 40 offices worldwide. Additionally, the specialists within Lifecycle Services (LCS) also maintain our relationship with customers throughout the entire useful lives of their KRONES equipment.

Our customers' expectations

- High-performance, high-quality products
- Flexible machine and line concepts
- Individual solutions for their specific tasks
- Fast service to ensure high availability of their lines

Our contribution to this stakeholder relationship

- Close contact and intensive consulting of customers through our global sales network and Lifecycle Service Centres.
- Development programmes for innovative product concepts
- One-stop-shop concept for supplying our customers
- Comprehensive training programme for our customers' employees to ensure safe, efficient use of our machines and lines

Actions taken in 2016

- Customer Day – Smart Factory, Leeds, UK: “Intralogistics and IT in flux: From current best practices to the factory of the future”, featuring presentations on connected factory and on evolving the digitalisation of production
- Workshops to promote optimum communication of our Partner for Performance programme at our LCS Centres: Ongoing support of our customers on the long-term use of their KRONES machines
- Regular dialogue with customers on matters of responsible governance and participation in a SMETA Ethical Trade Audit.

Shareholders

Significance for the company's development

Shareholders' trust in our long-term business policy depends on them having access to timely information in accordance with the provisions of the laws governing corporations. Shareholders need a comprehensive base of information in order to assess their investments with certainty. We communicate with shareholders and investors through our Chief Executive Officer, our Chief Financial Officer, and our head of investor relations.

Our shareholders' expectations

- Clear information about KRONES' strategic orientation
- Continuous attention to economic targets to maintain the value of the company's shares and continuous comparison of performance targets to actual performance
- Governance in accordance with all corporate governance rules

Our contribution to this stakeholder relationship

- Publication of company information that is important to the capital markets at <https://www.krones.com/en/company/investors.php>
- Continuous, close contact with investors through conference calls as posted on our public financial calendar
- Presentation of trends and market opportunities in our financial reporting
- Publication of all information for our shareholders in our Annual Report, which can be accessed at <https://www.krones.com/en/company/investor-relations/reports.php>

Actions taken in 2016

- Regular communication on business development with 21 analysts
- Published ad-hoc reports in accordance with Section 15 of the German Securities Trading Act (WpHG)
- Purchased stakes in other businesses in order to strengthen our market presence, for instance the acquisition of a stake in SYSTEM LOGISTICS S.P.A., Italy, and the acquisition of 80% of the business operations of TRANS-MARKET INC., USA

Employees

Significance for the company's development

Our employees' specialist knowledge is a crucial factor to the success and presence of KRONES machines and lines worldwide. Ensuring a high skill level and a high level of commitment among our employees is essential to the strength of our market position. Responsibility for our employees' ongoing professional development lies with our central Human Resources department.

Our employees' expectations

- Dependable, fair conditions of employment
- Comprehensive options for continuing education
- A broad range of internal communication through various channels
- Close collaboration with management

Our contribution to this stakeholder relationship

- Trust-based collaboration between management and employee representatives at our German sites
- Keeping employees worldwide informed and up-to-date through the Intranet and the digital edition of our employee magazine, KRONES world
- Supporting intercultural communication among employees at our sites worldwide
- Broad programme for flexible workplace and work-life balance
- Training portal with 600 training and continuing education courses

Actions taken in 2016

- Employee survey on internal communication and important information channels, with 2,504 employees responding
- Survey on health in the workplace at our Nittenau site, with 68% of employees participating
- Adapted organisational structures in our human resources department to accommodate KRONES' increasingly international orientation

Suppliers

Significance for the company's development

Our business performance depends heavily on our close, long-standing partnership with our suppliers. That presupposes that our suppliers adhere to the same set of values we do and incorporate them into their daily business practices. For this reason, our Supplier Code is an integral part of our General Terms and Conditions of Purchase. Our central procurement management department reviews suppliers' compliance with our standards as part of our quality assurance activities.

The Strategic Purchasing team is responsible for all activities relating to procurement management.

Our suppliers' expectations

- Dependable, fair conditions for supply contracts
- Timely payment
- Comprehensive ground rules for specifying scope of supply
- Communication and information on new options for quotation

Our contribution to this stakeholder relationship

- Ongoing supplier management and long-term supply contracts
- Efficient organisation for processing deliveries and payment
- Close collaboration with quality management
- Publication of all processes for initial application to become a supplier to KRONES and of all guidelines for specifying parts on our website at <https://www.krones.com/en/company/suppliers.php>

Actions taken in 2016

- Expanded the SAP module for Supplier Relationship Management (SRM)
- Increased local sourcing at our LCS sites worldwide

Scientists and academia

Significance for the company's development

Close communication with research institutions provides us with the latest knowledge and insights for innovative solutions. Responsibility for this cooperation and our close contact with this stakeholder group lies with Research & Development, the CSR Committee, and Corporate Communications.

The expectations of our partners in science and academia

- Exchange between academia and practice
- Contribution of financial support and expertise to research projects
- Promotion of young talent

Our contribution to this stakeholder relationship

- KRONES employees' regular participation in symposia with reports from the field
- Awarding research assignments
- Offering internships and thesis-writing opportunities

NGOs/associations/policy-makers

Significance for the company's development

Memberships in trade associations inform and shape opinions on industry-specific topics and promote the exchange of information within the industry. Collaboration with trade associations takes place within the relevant departments.

The expectations of our partners in trade associations and NGOs

- Participation in exchange both industry-wide and across multiple industries
- Involvement in associations' work
- Support in the development of norms and standards

Our contribution to this stakeholder relationship

- Membership in the trade association for food processing and packaging machinery (Fachverband Nahrungsmittelmaschinen und Verpackungsmaschinen) within the German Engineering Federation (VDMA e.V.)
- Active participation in standards organisations

The general public/media

Significance for the company's development

Positive public perception of our company in the regions and worldwide enhances our appeal as an employer at individual business locations. Responsibility for the ongoing dialogue with the general public lies with our central Corporate Communications department.

The expectations of the general public and the media

- Information about the company
- A culture of openness
- Presentation of industry-specific topics

Our contribution to this stakeholder relationship

- Provide information on the company for the general and trade public and within the company by way of print media (e.g. KRONES magazine), media relations with technical and business publications, and visitors' programme
- Broad range of information on KRONES' website and on social media

Cultural and social institutions

Significance for the company's development

By promoting cultural and social projects, we are supporting our company's positive public image. Communication with institutions and organisations is the purview of the charitable giving committee.

The expectations of cultural and social institutions

- Awareness of cultural issues and involvement in cultural and social projects
- Financial support of projects

Our contribution to this stakeholder relationship

- Support of projects with concrete local relevance in accordance with our charitable giving policy
- Support of KROKI day care centre as a community childcare facility within the city of Neutraubling
- Support of child and youth welfare organisations at our German sites

Goals	Actions	Target date
Sensitise and motivate our employees with respect to sustainability and responsible action	■ Regular articles on CSR in the employee magazine KRONES world □ <i>Topics integrated into editorial calendar</i>	ongoing
	■ Annual sustainability report □ <i>Sustainability Report in accordance with GRI Guidelines, version G4</i>	ongoing
	■ Update the “sustainability” section of our Intranet	ongoing
Include the LCS Centres in our sustainability reporting	■ Provide information on requirements under GRI Guidelines □ <i>Data survey on selected indicators is being expanded and made more detailed</i> □ <i>Developing concept for 2018 data collection</i>	in progress 2017
	■ Sensitise plant managers	erledigt
	■ Training and education at the sites	2016 – 2017
Further develop CSR strategy	■ Develop sustainability topics relevant to the company and prepare action plan □ <i>Ongoing CSR Workshop series with the departments</i>	ongoing ongoing
Improve our sustainability rating	■ Communicate with analysts, investors, and customers on sustainable investment □ <i>Participating in customer events and providing information about sustainability activities</i> □ <i>Increasing communication with analysts</i>	ongoing ongoing ongoing
Launch KRONES Intranet at our sites worldwide	■ Roll out Intranet group-wide □ <i>Intranet is used worldwide, also for regional topics</i>	ongoing



53.2% of KRONES' revenue was generated in the emerging markets in 2016.

53.2%



€974 million – or 81% of total value added – was spent on employees.

974



78% of our purchasing volume is sourced from Germany.

78%



91 system audits were conducted on suppliers before starting the vendor relationship.

91

KRONES operates in the market of machinery and equipment for producing, filling, and packaging beverages and other liquid food. This market is growing at a relatively stable rate of around 4% to 5% each year, driven by megatrends such as steady population growth, rising standards of living in the emerging markets, and urbanisation. Another factor driving growth is the rapidly increasing number and variety of packaging forms and beverage types.

Broad portfolio secures KRONES' market position

KRONES is one of the few one-stop shops in this market. We offer customers in the liquid food industry everything they need from a single source, from beverage production to filling to packaging. Intralogistics solutions and high-level after-sales service round out our portfolio. We offer products and services to cover everything from "simple" to "highly sophisticated".

Besides our big European competitors, a number of smaller providers are also active in our market. A growing number of those are in China. Most of our competitors only offer specific parts of a beverage plant or operate only in certain regions. KRONES' turnkey approach puts the company in an excellent position and we intend to defend our strong market position in our core segment, machines and lines for product filling and decoration, and considerably strengthen our position in our two smaller segments, machines and lines for beverage production/process technology and machines and lines for the compact class.

Responding to market volatilities with Value

Just as the market offers opportunities, it also presents many challenges. Volatility in the global economy and at times acute crises in individual countries and regions are becoming almost standard. As a result, we must become more flexible, faster, and more regionally focussed. The Value strategy programme we launched in 2011 helped us to offset fluctuations in demand and meet our forecasts for revenue and earnings once again in 2016. All three segments contributed.

Actively managing risks

KRONES is exposed to a variety of risks that are inherent to doing business globally. We continuously monitor all significant business processes to identify risks early and to actively manage and limit them. Within our corporate strategy, we also identify, analyse, and unlock opportunities. However, unlike risks, business opportunities are not documented within our risk management system. KRONES' risk management system consists of an internal control system with which we record, analyse, and assess all relevant risks. We monitor all material risks and any countermeasures already taken in a detailed, ongoing process that entails planning, information, and control.

Comprehensive information on our risk management can be found on pages 118 to 129 of KRONES' Annual Report.

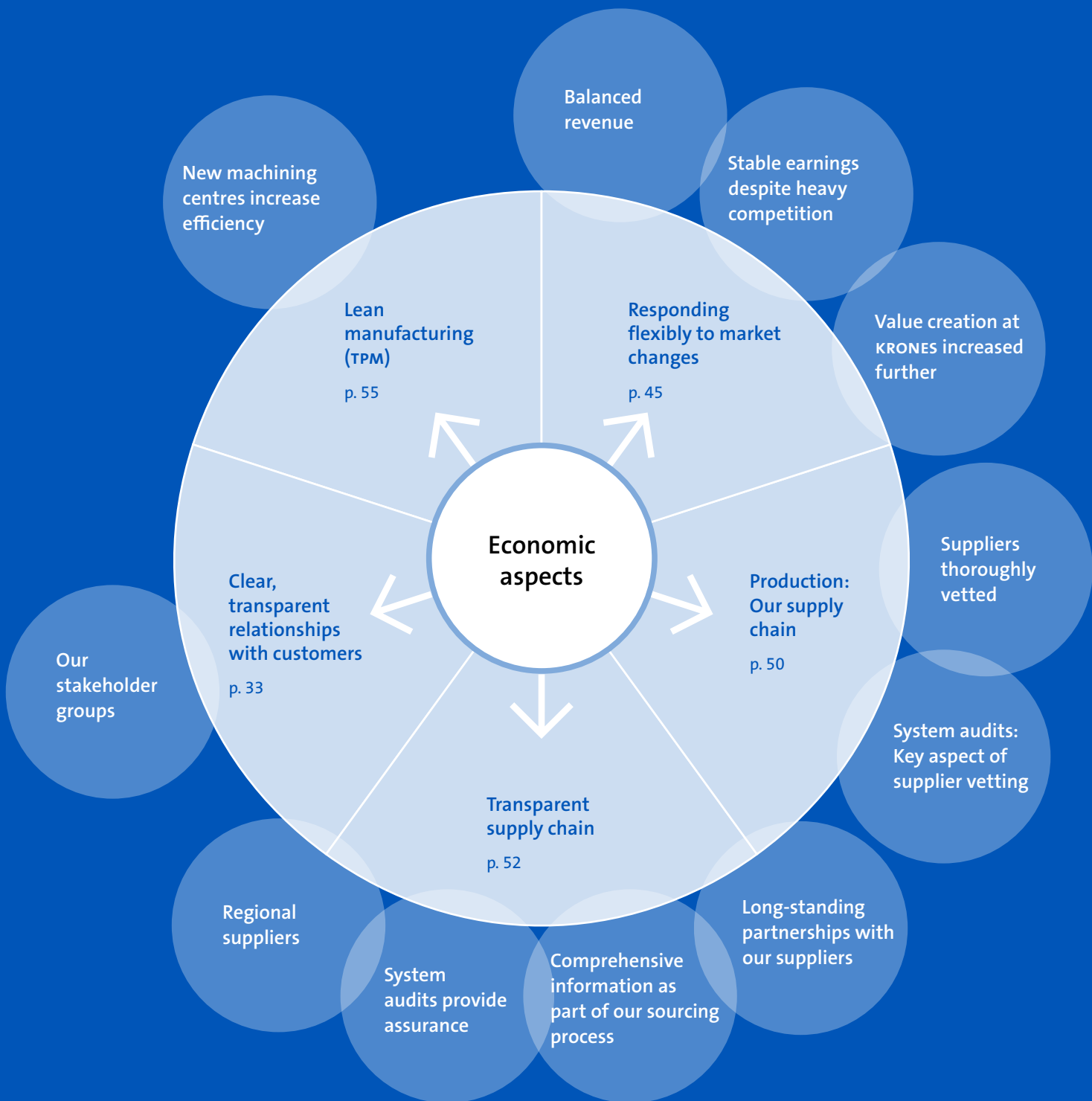
7/8/22 – our new medium-term targets through 2020

To keep moving the company forward for the long term, the KRONES team has set new medium-term targets. 7/8/22 stands for:

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

As of 2017, working capital to revenue is KRONES' new third target, replacing ROCE. The main reasons for the change are that the new target provides greater transparency and our employees can help shape it.

These targets are certainly ambitious given the existing market challenges. The fight for orders remains intense. On the customers' side of things, mergers and acquisitions are delaying capital investments and increasing customers' buying power. Therefore, we do not expect prices to improve in the short or medium term. Moreover, increasing digitalisation and integration of production will forever change our market and its business models and require capital investment.



KRONES continued its stable growth in 2016. Revenue increased 6.9% year-on-year to €3,391.3 million.

- ➔ The increase is due in part to acquisitions. In 2016, the company purchased a majority stake in SYSTEM LOGISTICS and the majority of business operations of TRANS-MARKET.
- ➔ Adjusted for the acquisitions, revenue growth came to 4.2%. With that, KRONES has slightly exceeded its growth target of 3% for the year 2016. Our comprehensive range of products and services and our strong international presence supported the company's growth.

Balanced revenue

The company's revenue remains very well balanced internationally.

- ➔ As in 2015, KRONES generated 53.2% of consolidated revenue in the emerging markets in the reporting period. Similarly, the mature markets (Germany, Western and Central Europe, and North and Central America) once again contributed 46.8% to consolidated revenue. The increase in consolidated revenue was sharper in Central and Eastern Europe, the Middle East/Africa, and once again, North and Central America than elsewhere.

- ➔ New machinery and services business both contributed to our revenue growth in 2016. In terms of new machinery, KRONES benefited primarily from the continuing trend towards beverage packaging made of PET plastic. KRONES is the global technology leader in this area.

- ➔ The large installed base of existing machinery as well as our efforts to expand our international service business and the resulting proximity to customers all contributed to increasing our service revenue.

The continuing trend towards beverage packaging made of PET plastic is an important factor for our business development.

We received government subsidies totalling €63,530 in 2016.

Earnings stable despite heavy competition

KRONES increased earnings again in 2016 despite the highly competitive markets. Thanks in large part to effects from the Value strategy programme, KRONES was able to keep its EBT margin stable in the reporting period despite the generally challenging market environment.

- ➔ Accomplishments under Value in 2016 include a higher degree of modularisation of our machines and lines and savings through local procurement of materials and services. Additional short-term cost savings also contributed to the better earnings. As expected, market prices provided no support.
- ➔ Earnings before taxes (EBT) rose 6.4% year-on-year, from €223.3 million to €237.6 million. The EBT margin remained unchanged year-on-year at 7.0%. Thus, KRONES met its EBT margin target for 2016.

Consolidated net income increased 8.2%, from €156.3 million in the previous year to €169.1 million in 2016, slightly more than earnings before taxes. That is because the company's tax rate was lower year-on-year, from 30.0% to 28.8%. Earnings per share improved 8.4% in the reporting period, from €4.98 in the previous year to €5.40.

➡ Overall, KRONES exceeded its target for revenue growth in the reporting period and met its earnings target. KRONES' third target, return on capital employed (ROCE – the ratio of EBIT to average net capital employed), decreased slightly from 17.7% in the previous year to 17.0% in the reporting period. With that, we did not achieve our ROCE target of 18% for 2016.

Value creation at KRONES increased further

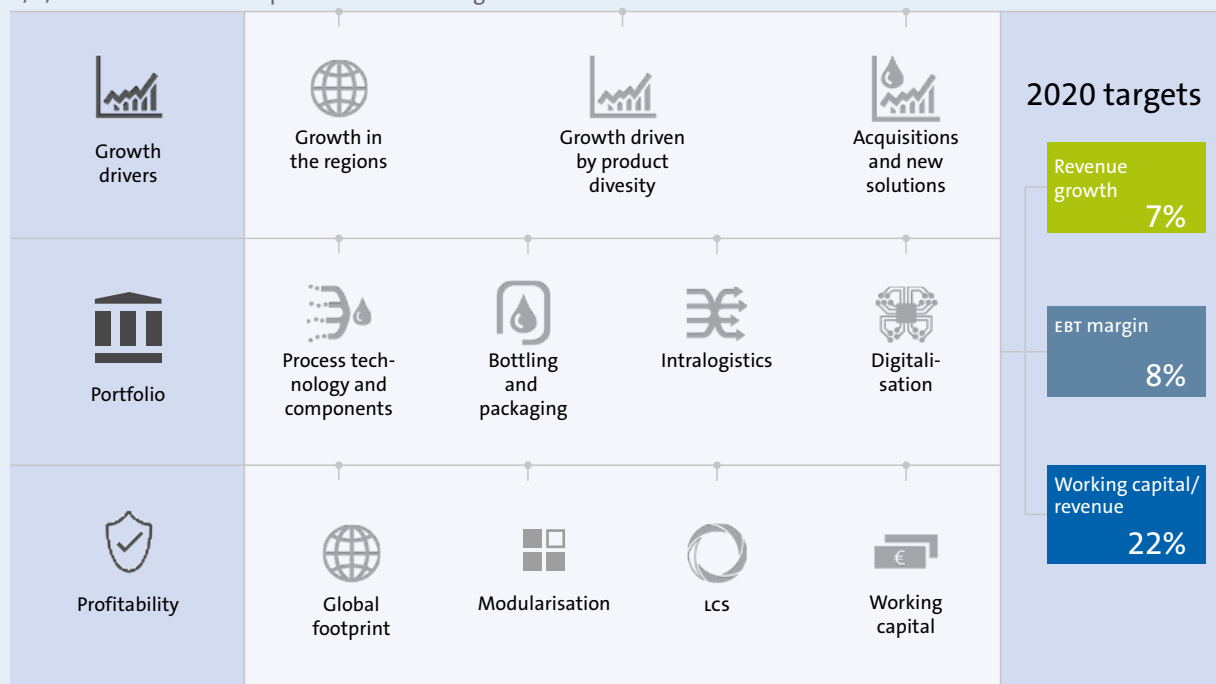
The value added calculation presented here shows the KRONES Group's contributions to the economy and society. It shows the value created by the company and how that value is distributed among stakeholders. A company's value added is calculated by deducting the expenses for production – that is, cost of goods and services purchased, depreciation and amortisation on non-current assets, and other operating expenses – from total operating performance (including other income and own work capitalised). KRONES generated €1,202 million in value added in 2016 (previous year: €1,136 million).

€68.5 million of our value added went to the state in the form of tax payments.

➡ The lion's share of value added at KRONES (81.0% or €974 million) went towards our employees in 2016. Besides wages and salaries (€809 million), KRONES spent €165 million on social security contributions, pension plans, and employee benefits. Another €68.5 million or 5.7% of value added went to the state in the form of tax payments.

➡ In order to share the company's success with shareholders, KRONES paid out €45.8 million in the form of dividends in the reporting period. In the year under review, €113.7 million in value added remained within the company and is available for investment in future growth.

7/8/22 – The KRONES Group's medium-term target



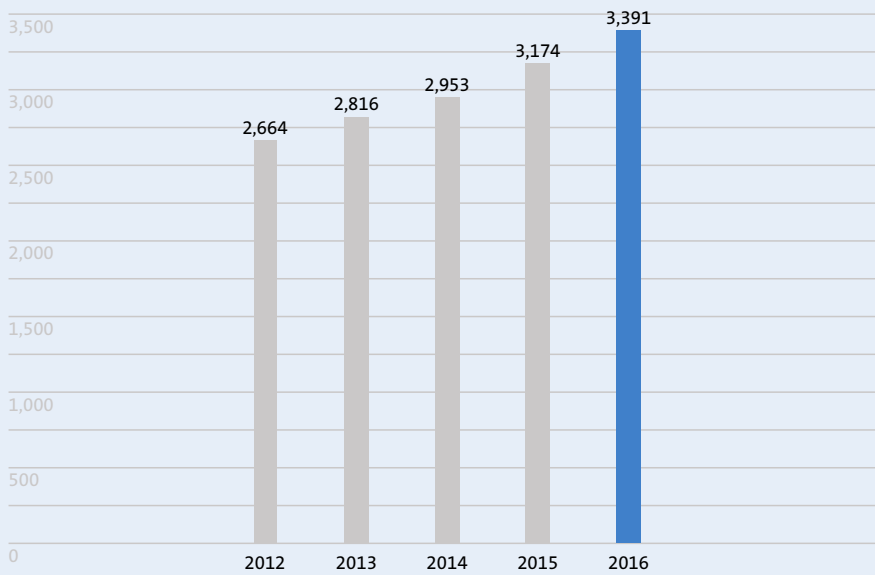
We are approaching our targets through 2020 with a three-prong strategy. The first prong is growth, the second is expanding our portfolio, and the third is improving profitability.

	Forecast for 2017*	Actual value 2016
Revenue growth	+ 4%	+ 6.9%
EBT margin	7.0%	7.0%
Working capital to revenue	27%	26.7%

* Excluding acquisitions

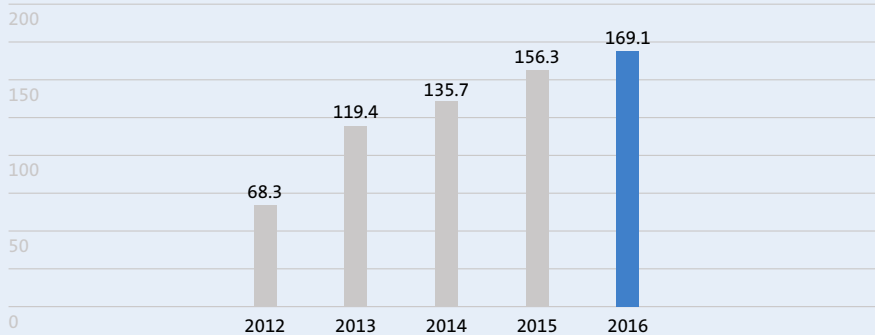
Our business development in 2017 will build on what we have already achieved. Our forecast values remain in a similar corridor.

KRONES Group – Revenue (€ million)



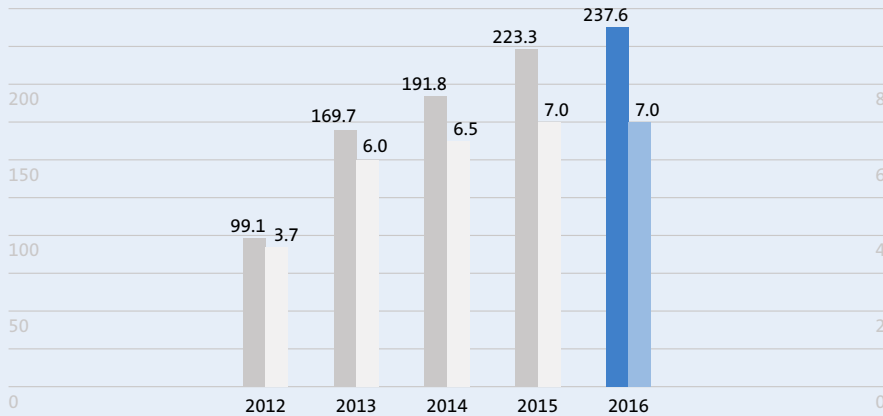
Revenue grew further in 2016. With €3,391 million, we posted the highest revenue ever in the company's history.

KRONES Group – Net income (€ million)



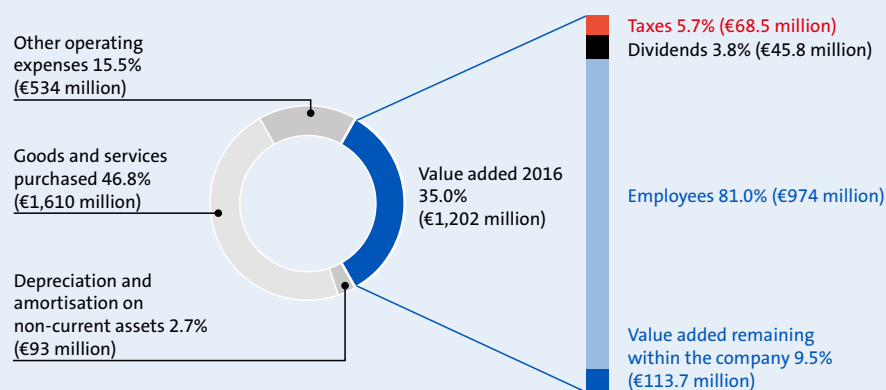
After taxes, consolidated net income was up 8.2% to €169.1 million in the reporting period.

KRONES Group – EBT (€ million) and EBT margin (%)



At €237.6 million, earnings before taxes (EBT) were up 6.4% on the year-earlier period.

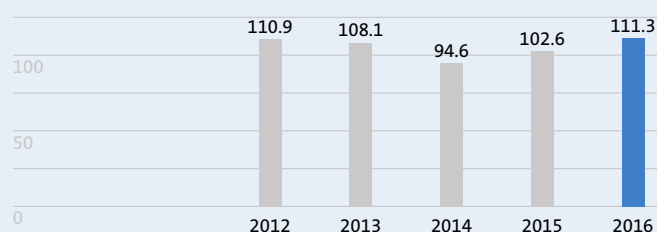
KRONES Group – Value added calculation 2016



Total operating performance, including other income, 2016: €3,439 million (100%)

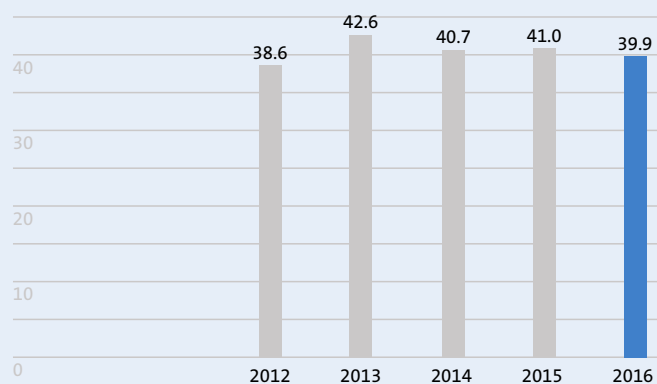
KRONES increased value added 5.8% from €1,136 million in the previous year to €1,202 million in 2016. Of this, 81.0% went to our employees in the form of wages, salaries, social security contributions, retirement benefits, and other benefits.

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



We increased investment in intangible assets and property, plant and equipment year-on-year in 2016 as forecast. We increased capital expenditure by 8.5%.

KRONES Group – Equity ratio (%)



With net cash and equivalents of nearly €370 million at the group level and an equity ratio of around 40%, we are in excellent financial health.

We manufacture precision, high-performance machines. Consistently high quality in our raw materials and third-party components is very important to us. Flexible, on-time delivery of materials is also important for the reputation of KRONES machines on the market. Of course, comparing prices is also an essential part of our procurement policy. Orderly, well-managed processes across the entire supply chain are an essential part of how we operate at KRONES. For this reason, we focus on close, long-standing relationships with our suppliers, to ensure that we can count on the materials being of high quality.

No complaints were filed regarding human rights or environmental impacts in 2016.

To ensure the stability of processes in this regard, we have incorporated the individual order processes into dedicated policies and codes which apply internally and externally. These policies and codes are: the Code of Conduct, the Supplier Code, our audit policy, and our procurement policy, to which we added a policy on supplier management in 2016. Process maps within our process model and the codes and policies listed above include specific provisions for auditing our suppliers and supply channels. In this way, KRONES ensures a verified procurement process.

Suppliers thoroughly vetted

Our supplier selection process uses a self-assessment form to gain an initial overview of a supplier's capabilities, with questions on all relevant aspects of product range, technical qualifications, and current certifications. This self-assessment form requests that prospective suppliers confirm that they meet the requirements laid out in our Supplier Code. It also collects information on whether a prospective supplier has an environmental management system, environmental guidelines, and an occupational health and safety management system. In addition, we ask whether suppliers audit their own suppliers with respect to certifications and compliance with specific standards. In this way, our procurement decisions also take into consideration issues further along the supply chain.

Our central purchasing department bears responsibility for strategic procurement, for the organisation and execution of our procurement processes, across the entire KRONES Group. Our procurement policy, which describes all process flows and accountability, applies to 100% of our purchasing. Our purchasing activities take into account all legal requirements and standards that are relevant with respect to our suppliers. The self-declarations we require from suppliers and service providers enable us to ensure compliance with all laws and standards, including the core labour standards of the ILO (International Labour Organisation), as explicitly specified in our Supplier Code.

System audits: Key aspect of supplier vetting

We conduct on-site system audits on all potential new suppliers before establishing a supplier relationship. The procedure for system audits is laid out in our audit policy and is carried out in close collaboration between our purchasing department and our quality management team. For the selection, qualification, and development of suppliers, risk analysis on their environmental impact is done on the basis of the self-disclosure form and in the subsequent stages of qualification as part of the system audit. We also conduct renewal audits, particularly on strategically important suppliers. We perform construction site inspections to evaluate the situation at construction sites worldwide and the subcontractors working there.

We conducted 181 such audits in 2016. Most of these were system and product audits.

- ➞ These audits did not result in any conclusions being made with respect to occupational safety and health, environment, or human rights.
- ➞ As a result of cost-cutting measures, resource shortages, and more topic-specific audits, we conducted fewer construction site audits in 2016.
- ➞ In 2017, the number of audits is expected to be similar to the 2016 number. In determining which countries to focus on for our supplier audits, we closely follow our strategic purchasing department's master sourcing strategy.

KRONES produces the majority of its machines and lines in Germany – in Neutraubling, Nittenau, Rosenheim, Flensburg, and Freising. The subsidiary KOSME produces in Austria and Italy. KRONES manufactures spare parts at its Lifecycle Service (LCS) Centres in Franklin (USA), Taicang (China), and São Paulo (Brazil). We also produce machines for the Chinese market at our plant in Taicang. A line of fillers for water, a flash pasteuriser, and a palletiser are manufactured there specifically for our customers in China.

Besides a total of seven LCS Centres at strategically important points, the company also has a global network of sales and service offices.

Long-standing partnerships with our suppliers

We rely on our close partnership with suppliers. Our Supplier Code serves as the foundation for this partnership. It compiles all of our requirements and expectations of our suppliers and their responsibilities. Vendors can access the Supplier Code at krones.com.

New software for supplier management will help ensure a high degree of transparency in our supply chain.

➞ In 2016, we partnered with 2,002 suppliers with contract volumes of €50,000 or more.

➞ We terminated business relations with seven suppliers for legal, quality, or other reasons in 2016. This figure does not include suppliers with whom we did not place orders due to lack of need for their products or services.

Comprehensive information as part of our sourcing process

We have actively employed supplier management software since February 2017.

➞ We can use this software to evaluate supplier performance and individual suppliers in accordance with the specifications of the relevant procurement category. Questionnaires can be customised to perfectly suit the respective procurement category, thus enabling us to refer much more specifically to the desired performance.

➞ All of the information collected on suppliers is stored in the sourcing tool and can be called up as needed by any member of our procurement team.

➞ As soon as the roll-out of the supplier lifecycle tool is complete, we will also be able to evaluate our suppliers on the basis of certifications (e.g. ISO 14001, ISO 50001) and available sustainability reporting. We expect to accomplish that by the end of 2017.

In 2016, we launched a stepped-up effort to conduct risk analyses of individual suppliers in collaboration with our corporate compliance team.

➔ Our risk analysis of new suppliers focuses on aspects that include D&B failure scores, country risk, debt ratio, currency risk, and political risk. In addition, we also query whether an environmental management system is in place, whether employees are properly trained, and whether separation of waste materials is practiced.

Regional suppliers

KRONES is strengthening its global footprint. For this, the company will increasingly shift more procurement, engineering, and parts of production into the regions in which our customers operate their plants. Thus, local purchasing volumes will increase accordingly.

➔ This increased focus on local procurement is already in place in the USA, where we increased the portion of locally sourced material from 37% in 2015 to 46% in 2016.

➔ In China, the share of locally sourced products has consistently been above 20%.

➔ Our aim is to steadily enhance our presence worldwide and to further increase the share of local sourcing through 2020, with rates varying by region.

➔ We are gradually increasing our engineering capacity in the LCS Centres. Besides reducing the number of loads shipped by sea freight, this effort also serves to increase local value creation at our sites worldwide and, thus, promote sustainability.

➔ Our Supplier Code also applies to our local procurement activities in the regions. It is an integral part of purchasing agreements at our LCS Centres.

We are further increasing our local sourcing. Some of our LCS Centres already purchase more than 20% of needed materials locally.

Our suppliers are multipliers

Our Supplier Code specifies all of our expectations of our suppliers. It forms an integral part of every ordering process within our company. Our supply chain partners commit themselves to monitor and actively promote compliance with the basic principles at all of their sites and in all of their activities.

The Supplier Code also formally requires that our business partners communicate the principals laid out in the Supplier Code to their subcontractors and other business partners. Thus, they call upon their own business partners to apply the same standards to their activities.

Alois Bachfischer
Head of Strategic Purchasing

Lean manufacturing and total productive maintenance (TPM) are important to our ability to achieve our economic targets and ensure our company's long-term success. They are part of our Value strategy and firmly established within the pillar entitled "profitability". For this important aspect of our sustainability strategy, we have defined a number of approaches such as conserving materials, employing efficient machining processes, and optimising our use of consumables. Involving our employees directly in a number of optimisation projects enables us to integrate their practical experience.

Efficient use of materials and supplies is the most important criterion for the manufacture of our machines and lines.

- ➔ The four main materials used in our machines are stainless steel, steel, aluminium, and plastic. In 2016, we used 16,700 metric tonnes of stainless steel, 2,800 metric tonnes of steel, 800 metric tonnes of aluminium, and 900 metric tonnes of plastic in Germany.
- ➔ In all, we purchased a total of 21,200 metric tonnes of these materials in 2016 (previous year: 20,560 metric tonnes).
- ➔ According to information from one of our suppliers, the share of recycled material in stainless steel is around 90%.
- ➔ The plastics used in our machines may contain a share of recycled material, depending on the parts in question. This share is defined in the specification sheet for the respective part and serves as a basis for our orders. Thus, certain parts contain 50% recycled plastic material.

New machining centres increase efficiency

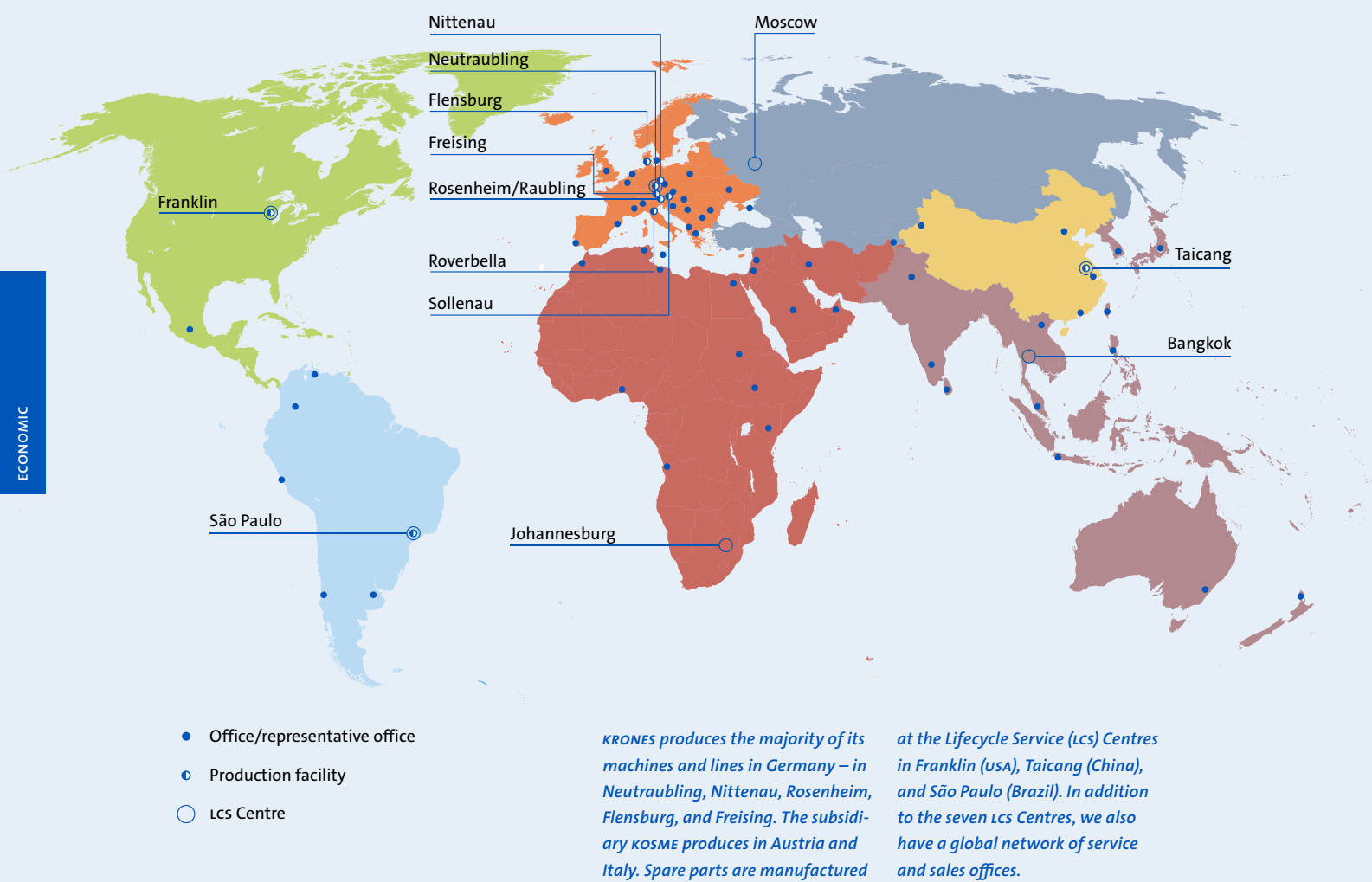
We are continually evolving our production environment to further support cost-effectiveness in production. That includes investing in new, highly efficient machining centres.

- ➔ In 2016, a fibre laser cutting machine was put into operation in our sheet metal working shop. Instead of CO₂, the laser's light beam is created through fibre optic cable, which reduces energy consumption by 40% and increases efficiency and cutting speeds. Process steps that had to be completed manually in the past are now done automatically. For example, Liftmaster now automatically pulls the metal sheet from the adjacent storage area and places it on the work area.

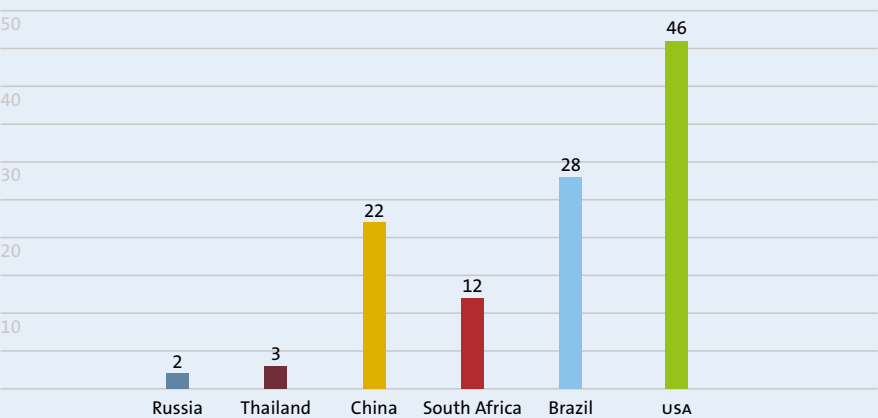
We receive improvement suggestions from employees working in our plants, which give us numerous ideas for improving efficiency. Employees enter their suggestions in the Brainpool portal, where they are then reviewed by department heads and a committee.

- ➔ In 2016, we received 1,353 submissions, which gave us great ideas with respect to sustainability. Of these proposals, we implemented 583 (or 43%). In the previous year, we registered 1,680 submissions and implemented 40% of them.

KRONES Group – Production sites, LCS Centres, and offices

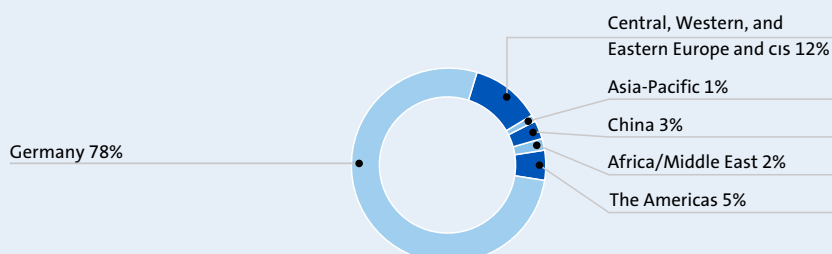


KRONES Group – Products and services purchased locally by the LCS Centres worldwide in 2016 (%)



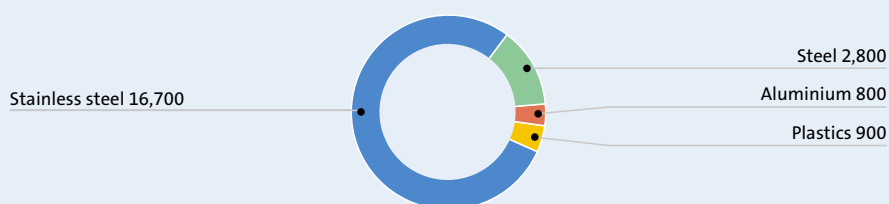
The LCS Centre and production facility in Franklin, Wisconsin, USA, obtains 46% of the raw materials it uses directly from a local sourcing network.

KRONES Group – Purchasing volume by region of origin in 2016 (% of total)



Germany remains our most important procurement market. We buy 78% of materials (previous year: 76.3%) from German suppliers. In this way, we keep the supply chain short for the materials needed at our German sites. That also allows us to ensure that our procurement is in compliance with laws and standards relating to occupational safety and health, employee rights, and the environment.

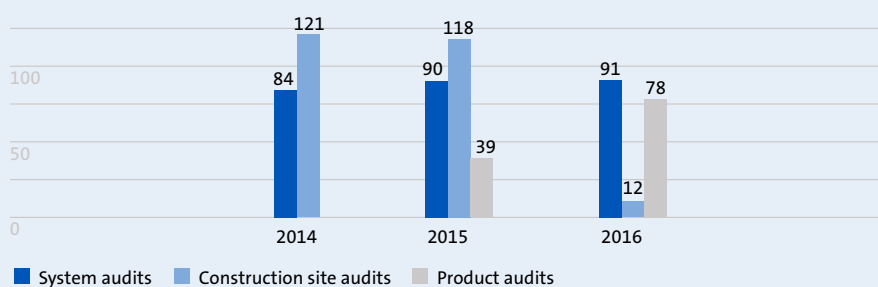
KRONES AG – Main raw materials sourced in 2016 (metric tonnes)



Stainless steel is the number 1 material used in our production processes. With 16,700 metric tonnes, we used almost the same amount in 2016 that we had in the previous year (16,600 metric tonnes).

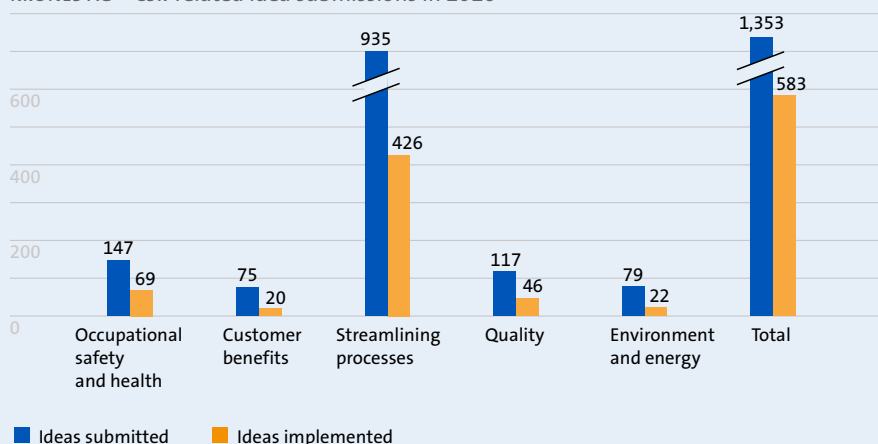
The total volume of raw materials purchased came to 21,200 metric tonnes, which is up 3.1% on the previous year.

KRONES Group – System audits conducted prior to contracting with a supplier/construction site audits



We conducted 91 system audits prior to contracting with prospective suppliers in 2016. In addition, we performed 12 construction site audits, in which we inspected and reviewed our subcontractors on the job at construction sites.

KRONES AG – CSR-related idea submissions in 2016



1,353 ideas were submitted in 2016. Proposals for streamlining processes were particularly numerous. We were able to implement nearly 43% of the ideas submitted.



Retrofits extend machines' useful lives. 10% of retrofit contracts we receive are for machines over 17 years old.

17



The KRONES.shop online shopping platform is available in more than 60 countries.

60



By the end of 2017,
we will have assessed
84% of our machinery
portfolio under enviro.

84%



KRONES invested €171
million in research and
development in 2016.

171

Our management identified technology leadership as the most important aspect within our materiality matrix. To secure our future, we are investing in innovation. As market demands and the needs of specific customer groups continue to evolve, we respond with targeted new and ongoing developments in our machinery portfolio and in the services and software we offer.

Responding to megatrends with targeted innovations

The number and variety of beverage types and packaging forms is increasing unabated. To meet this trend, producers need highly versatile machines and lines. Another trend is the rising standard of living in the emerging markets and developing countries. These markets are very important for KRONES. In order to meet the needs of customers in these regions, we are adapting the technology of certain model series to regionally specific requirements. The digitalisation of production also offers good potential for long-term growth. We offer our customers products that are based on deep data integration and increasingly operate on the basis of new, digital business models. Our subsidiary SYSKRON plays an important role here.

KRONES spent €171 million on research and development in the reporting period (previous year: €164 million). That represents 5.0% of consolidated revenue. The increase in the number of registered patents and utility models, from 4,450 in the previous year to 5,028 at the end of 2016, is evidence of our great capacity for innovation.

Sustainability remains a crucial factor in our product development

Innovation is a crucial part of our Value strategy. Our powerful development work is done by a team of around 2,100 people who develop new machines, systems, and services to meet the demands of the market. The criteria on which our product innovations are based include:

- Reducing the operating cost of our machines and systems
- Robust solutions with high availability
- Fast commissioning and start-up
- High flexibility combined with fast changeovers
- Easy, safe operation
- High production reliability

This approach is reflected in our TÜV SÜD-certified enviro 2.0 management system, which specifies which criteria must be used in the design of resource-saving, energy-efficient machines, lines, and systems. We apply these criteria to our entire development programme.

We have detected no cases of violation of or non-compliance with rules relating to the impact our products may have on safety and health.

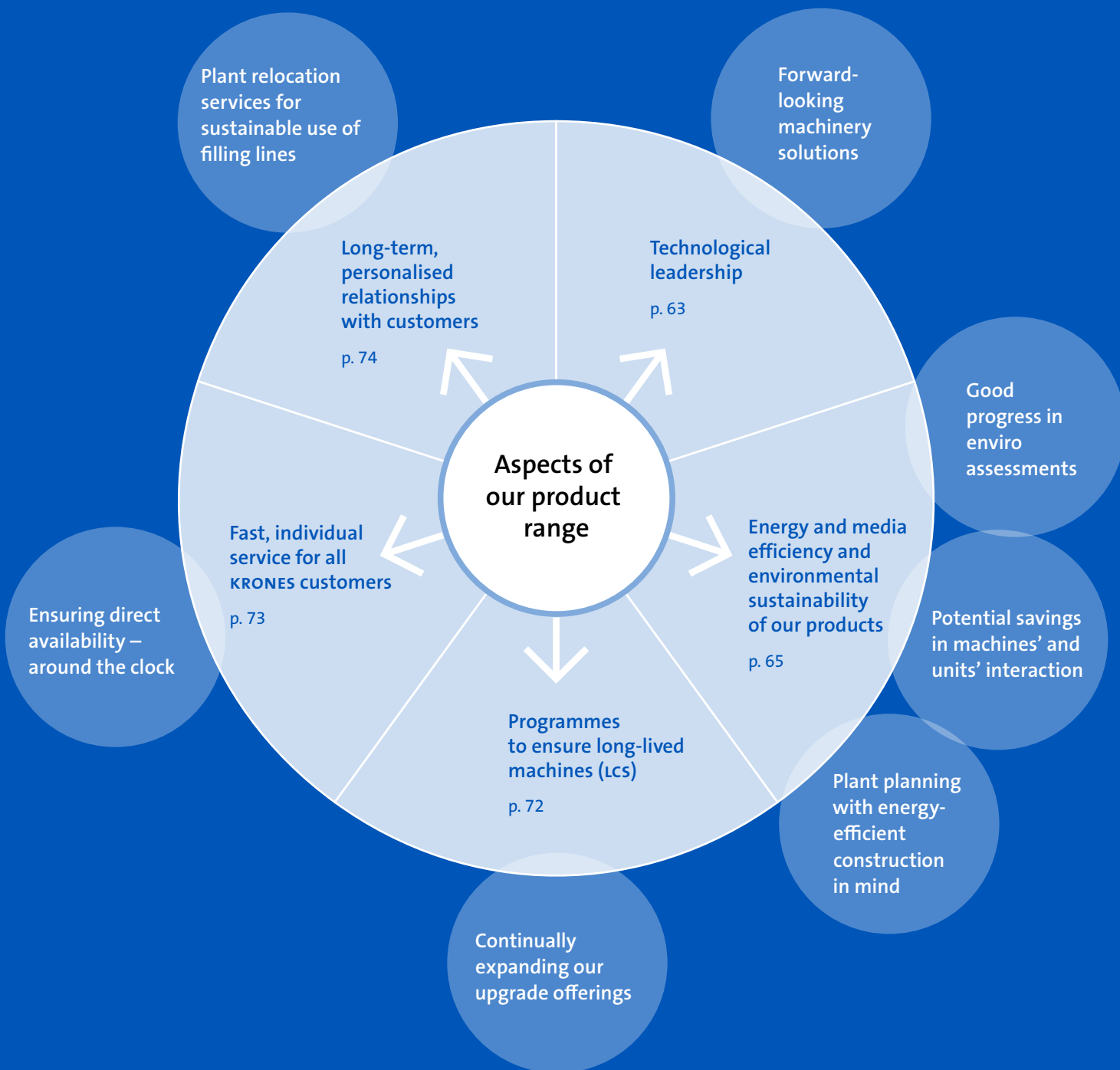
enviro machines are available worldwide and can be used in any country around the world.

Highest standards of compliance with regulations and customer specifications

Regulations relating to machinery operation and safety are our guide. These include applicable regulations of the EU as well as of the countries in which our machines will be used. We manufacture all machines in accordance with CE marking standards and can confirm that final acceptance of all machines is done in accordance with the EU's Machinery Directive. In addition, we take into consideration numerous international norms and test noise emissions on new designs. Monitoring of compliance with regulations and standards is the responsibility of our quality assurance team. We also further test and document conformity with promised consumption values during the final acceptance process at our customers' plant.

Our plant planning activities are also conducted in accordance with the laws in effect where the plant is to be located. LEED certification requirements are available in our planning departments but are not yet in high demand among our customers. Our collaboration with large beverage groups often involves the incorporation of proprietary standards for plant planning and resource conservation. Compliance with these standards is always a binding part of any contract.

We do not use any parts based on nanotechnology in our machines and lines.



Our claim to technological leadership requires that we address megatrends and identify future market needs in the beverage industry. In conjunction with the use of new technologies such as increasing digitalisation in production, 3D printing, and digital direct printing of beverage packaging, we are developing innovative solutions for the future.

Forward-looking machinery solutions

ErgoBloc LC KT

KRONES has synchronised the entire wet section of the line in the ErgoBloc L. The bloc converts PET preforms into PET bottles and then labels and fills them. To meet the specific needs of our customers in China, we have expanded the successful ErgoBloc model series to include an entry-level model, the ErgoBloc LC KT. This monobloc can fill still water into PET bottles sized between 0.25 and 2.0 litres. The entire system, from its speed to its simplified operation, is geared towards the needs of our customers in China. It also offers a variety of other advantages including a small footprint. Additional elements such as conveyors and bottle dryers are unnecessary. Like its bigger brother, the ErgoBloc LC KT is very energy and resource efficient. The system can process up to 48,000 containers per hour depending on bottle size.



Proportional flow regulator

Conventional filling valves can only operate at two speeds: slow and fast. With the proportional flow regulator (PFR), KRONES has developed a new filling valve component that enables infinitely variable flow rates. That provides maximum flexibility for products with different characteristics and a wide variety of container geometries. Compared with conventional filling systems, handling time is shortened, which in turn increases both machine output and the robustness of the filling process. The filling system can then achieve the same output with fewer valves, which translates to lower costs and a smaller footprint. Savings of up to 20% can be achieved on filling valve maintenance alone. The proportional flow regulator has already been successfully tested in practice, filling carbonated soft drinks, vinegar, iced tea, milk, juice, soy sauce, and wine.



Contiroll gluing station

The Contiroll labeller applies reel-fed labels to bottles and other containers. The gluing station is an important part of the Contiroll. It must always precisely transfer the right amount of glue to the labels. After a complete redesign, the gluing module now operates on the same principle as intaglio printing. The glue roller serves as the gravure cylinder. The roller is engraved with a grid matrix consisting of “cells”, or depressions, and the walls that separate them. That ensures that a precisely defined amount of glue is taken up and applied to the label. The geometry and depth of the cells and the width of the walls on the glue roller determine how much glue is transferred to the label. Excess glue is scraped off the roller by a new, user-friendly doctor blade system. A vacuum cylinder presses the cut-to-length label against the glue roller. On contact with the label, the surface tension of the hot melt glue in the glue roller’s cells pulls the glue out of the cell, transferring it to the label. This new technology saves customers glue and significantly reduces the amount of machine cleaning needed since the grid structure prevents significant build-up of glue strings.



Poseidon – dynamic fermentation

Breweries gain real added value when fermentation and lagering (cold conditioning) times are shortened, increasing cellar capacities. That is what our Poseidon dynamic fermentation development project is all about. It features a pipe-within-a-pipe mixing system that generates or supports different flow profiles in the tank to match the process at hand. Traditional methods circulate the tank’s entire contents. Poseidon circulates only the upper portion of the tank for sedimentation of residual yeast and other clouding factors, thus allowing for better, faster sediment removal. The cooling rate is also significantly higher. In all, dynamic fermentation makes the entire fermentation and conditioning process more economical for the brewer. The design can be quickly retrofitted inside existing tanks with no difficulty. The unit is also easy to clean.



Sustainability is a megatrend that KRONES picked up on in its early stages, creating the enviro programme. We have been developing and reviewing the criteria for energy and media efficiency and resource conservation in our products since 2008. The enviro sustainability programme is a TÜV SÜD-certified management approach that is deeply integrated into our product development process to ensure that all new designs are reviewed for resource-friendliness in accordance with a clearly defined process. All KRONES innovations aim to reduce energy and media consumption on our machines and lines. Thus, we are not only pursuing resource-savings targets within our own plants but also offer our customers the means with which to reduce resource consumption in their own operations. In this way, we are also providing an example for how our products can be used in the downstream supply chain with respect to Scope 3 emissions.

Good progress made in enviro assessments

The assessment of our products in accordance with enviro criteria continues. By the end of 2017, 84% of our machines and process models will have been assessed under enviro.

- ➔ An enviro solution is available for more than 62% of KRONES' products. Another 22% of our machines will be assessed by the end of 2017. A share of 16% of the machinery portfolio will not be assessed under enviro since either the criteria cannot be applied to these machines or the machines in question are custom designs, laboratory machines, or third-party machines.
- ➔ We plan to have assessed all of the machines that will be presented at the drinktec 2017 trade fair under enviro 2.0. In this way, KRONES is disseminating information about our range of enviro machines on a regular basis. Besides our trade fair presentation, we also regularly include information about enviro in our customer publication, KRONES magazine.
- ➔ Energy and media-efficient machines can be configured in our quotation software by simply selecting the "enviro" option. This feature is available almost immediately after the machine assessment has been completed. Thus, our sales team can quickly select the right machines for a customer project and create a customised calculation of how long it would take for the resource-friendly version of a machine to pay for itself.

Potential savings in machines' and units' interaction

With enviro 2.0, we are not longer limited to assessing individual machines and process models. Instead, we can also examine entire systems for their media and resource-efficiency.

System assessments in our enviro management approach enable us to evaluate the energy efficiency of individual line components and how they impact each other.

➡ System assessment allows us to take a look at energy and media flows across multiple machines and systems and thus identify and realize potential savings. By comparing these consumption figures with figures for the industry or the state of the art, we can also present a picture of the savings our machines and systems offer by comparison. Thus, the enviro management approach is also now fully functional at the systems level.

➡ Because they have been assessed at the system level, systems such as EquiTherm Brew and EquiTherm Coldfill offer users assurance that their brewhouse or cold filling operations are working at the highest level of efficiency.

➡ By compiling the enviro options into energy or media-savings packages for the base machines, we are able to offer our customers solutions for resource-friendly operations.

Plant engineering with energy-efficient construction in mind

Energy efficiency is a major focus of our customers when it comes to new construction and plant reconfiguration projects. In our plant engineering services, our energy, media, and utilities engineering teams work hard to minimise consumption at our customers' plants and create synergies in energy and media supply.

We have had only a few requests for LEED projects. Our plant engineering teams are prepared to handle them and can support our customers throughout the certification process.

➡ Many customers, such as EMAS-registered companies, have their own programmes for environment and resource-friendly building. The customers' criteria are used as a basis for our feasibility and concept planning and in design planning. That is true of projects in Germany and abroad. In both cases, very specific regulations often apply, which also include environmental aspects.



LEED certification is possible

Ensuring energy and the environment-friendly processes is part of our day-to-day work in plants consulting. We have completed numerous projects and are currently working on more, which meet the highest standards in terms of energy efficiency and environmental friendliness.

Of course, we also provide LEED documentation and support the certification process as part of our engineering projects if our customers wish.

Bernd Rothmeier
Head of Plants Consulting, Layout and Civil Engineering



Three enviro-certified machines for Erdinger Weissbräu

Energy and media efficiency and resource conservation are deeply rooted in the corporate philosophy of companies like the environmentally conscious brewery Erdinger Weissbräu. Erdinger has been using a combined heat and power (cogeneration) plant as its electricity source since 2011. Erdinger uses the process heat from the plant in its pasteuriser, which now operates exclusively on recirculated process heat. According to Erdinger Weissbräu, that has enabled the brewery to reduce its electricity consumption by more than 5%.

Erdinger's order of two new KRONES lines included the core specification that they integrate this and another cogeneration plant into the filling process even more efficiently. That is because Erdinger

Weissbräu has set itself the goal of reducing its energy consumption by another 5% in the medium term. And the company is certainly on the right track to accomplish that, thanks in part to three new enviro-certified machines: The Modulfill HES filler operates on energy-efficient PM drives and frequency-controlled pumps and features lower consumption of compressed air, CO₂, and water. The Linatronic empty-bottle inspector also uses energy-efficient PM drives and requires no cooling air. The Lavatec E4 bottle washer is also enviro-certified. Its main selling point was the great potential for reducing heat requirements and far lower water consumption compared with its predecessor. The new systems have completely changed the energy mix at Erdinger Weissbräu. Now, the brewery is able to obtain almost all of the energy used for the entire bottling process from the cogeneration plant.

Pasteurisation of the filled bottles is an example of how the heat resulting from power production in the cogeneration plant is used.

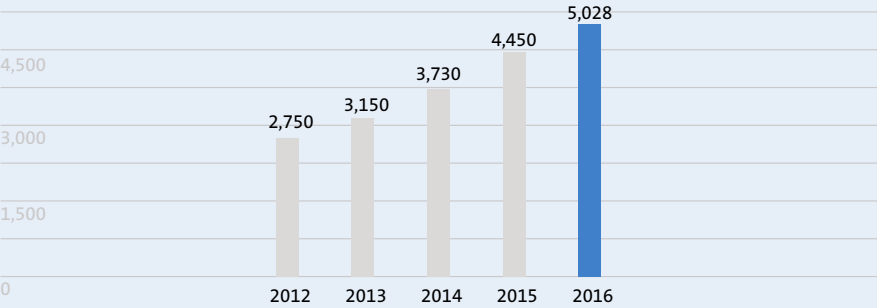
Modulfill

Checkmat



 **KRONES**

KRONES Group – Registered patents and utility models



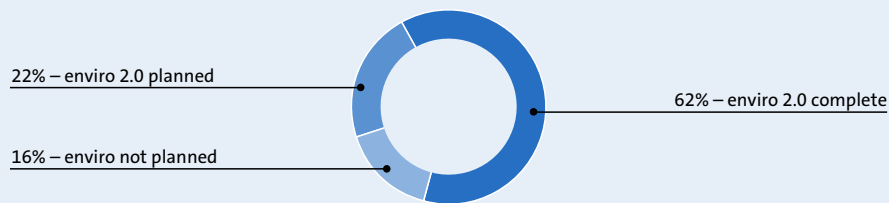
New solutions and designs exemplify our considerable innovative power. KRONES had over 5,028 protected innovations in 2016.

Fundamentals and information about product design and development

Sourcing	Product development + production	Use
<div><div>■ Certificate of origin for raw materials</div><div>■ Suppliers Code</div><div>■ Material specifications</div></div> <div>Who monitors?<div>■ System audits and renewal audits by procurement and quality management teams</div></div>	<div><div>■ EU Directives, e.g. 2006/42/EC 97/23/EC 2006/95/EC 2004/108/EC</div><div>■ ISO norms, e.g. DIN EN ISO 12100 DIN EN ISO 13857 DIN EN 415-02,-3,-4 DIN EN 1672-2 DIN EN 14159</div><div>■ enviro manual, material and resource efficiency checklist</div><div>■ R&D statements on noise emissions of new designs</div><div>■ State of the art</div></div> <div>Who monitors?<div>■ Quality management processes</div><div>■ enviro certification process</div></div>	<div><div>■ Operator manual, e.g. consumption data, noise emissions, required supplies</div><div>■ Maintenance manual, documentation on enviro consumption data</div><div>■ enviro seal and certificate</div><div>■ LCS product portfolio for a long useful life</div></div> <div>Who uses?<div>■ Sales team, for making proposals and sales</div><div>■ Customers, for inquiries and purchase decision and for line operation</div><div>■ LCS team, for after-sales support</div></div>
Internal Information	Internal Information	External Information

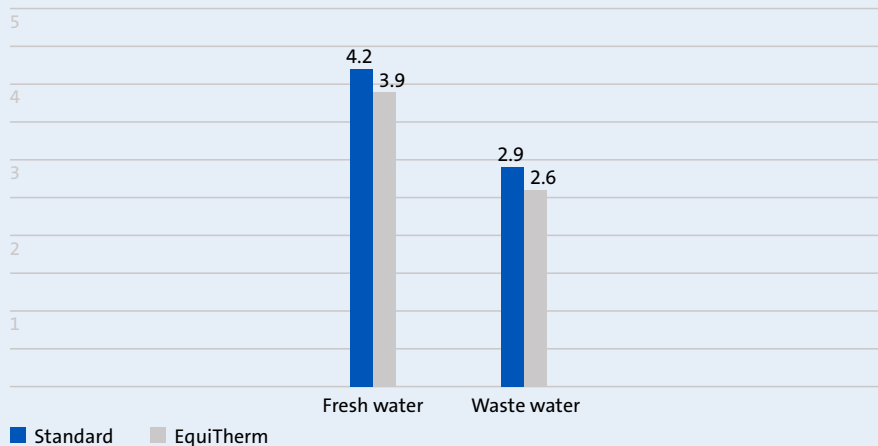
The design and manufacturing process for our machines and lines is informed by a comprehensive range of specifications and norms. All applicable rules are incorporated in each phase of the product lifecycle – even at the international level.

enviro 2.0 – Revenue-weighted



A large part of our product portfolio has been assessed under enviro. At the end of 2016, 62% of our machines had undergone assessment. As a result of the transition from enviro 1.0 to enviro 2.0 – process model assessment – in 2016, some previously assessed machines had to be reevaluated under the new criteria.

Comparison of specific water consumption – complete brewery (water [hl/hl of saleable beer produced])*

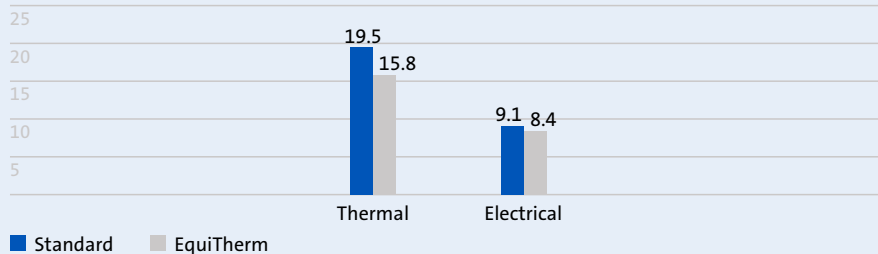


*Basis: Modern KRONES complete brewery (200.00 hl saleable beer per year; reference: 12 °P, no blending)

System assessment enables us to evaluate the efficiency of our solutions in their interaction with multiple machines. Our example here, EquiTherm, shows how much additional potential can be tapped in terms of conserving water and energy.

In water consumption, we see that using the EquiTherm system reduces fresh water consumption by 7.1% and waste water volumes by 10%.

Comparison of specific energy consumption – complete brewery (energy [kwh/hl of saleable beer produced])



*Basis: Modern KRONES complete brewery (200.00 hl saleable beer per year; reference: 12 °P, no blending)

In this example, using an EquiTherm system also reduces energy consumption. The amount of thermal energy required is lowered by 19%; consumption of electrical power is reduced by 7%.

Retrofits are another element of our Lifecycle Services. When customers purchase KRONES machines, they get powerful, high-quality technology. The machines are subjected to high operational demands, for instance from running continuously – even 24/7 at some customer plants.

We continue to support our customers after our machines and lines are put into operation, offering customised packages to ensure continuous high availability, efficient operation, and conservative use of resources

- ➔ Our On-site Service and Maintenance products include three programmes for exchanging wear parts at the end of their useful lives: refurbish on-site, refurbish in-house, or replace.
- ➔ Service contracts provide support for the long-term operation of machines and lines. Optional inspection, maintenance, or support contracts provide for fast evaluation of the machine's status, which reduces the likelihood of unscheduled downtimes.

Continually expanding our upgrade offerings

Retrofits and upgrades extend machines' useful lives and bring existing technology up to date – sometimes even technology that has been in operation for many years. Even when our customers do not plan to invest in new equipment, they can significantly improve the functionality, performance, and ease of operation of a machine by having new components or add-ons installed.

- ➔ KRONES machines are high quality machines and therefore long-lived.
- ➔ New change parts or machine conversions can allow existing machines to handle new container shapes and sizes and, depending on the machine type, possibly new products.
- ➔ Upgrades offer the potential to bring machines up to the latest state of the art in terms of energy and media consumption or reduce the workload required of operating personnel.
- ➔ We also support our customers when existing components are discontinued or OEM parts are no longer supported by the manufacturer. We offer affected customers the option of bringing their machines up-to-date by way of an upgrade or conversion.

We are continually expanding our Upgrades programme. Demand for upgrades that significantly reduce energy consumption is especially high for machines that produce plastic containers since they are among the most energy-hungry machines.

- ➔ In 2017, we will complete development of an upgrade for plastics technology that significantly reduces consumption of compressed air on older blow-moulders (Contiform 2 series).
- ➔ In our filling technology division, we have developed an upgrade that will help to conserve water and electricity – an autonomous, frequency-controlled vacuum pump system that features a closed-loop system for the water used in the liquid ring vacuum pump.

Our entire portfolio of services for ensuring continued high performance of KRONES lines can be viewed at <https://www.krones.com/en/products/lifecycle-service.php>.

80% of all contracts for upgrades and retrofits involve machines that are up to 12 years old. Another 10% of machines are between 12 and 17 years old.

Our customers want production systems that operate reliably and cost-effectively throughout their entire useful lives. Not only the machines but also service has to be flawless in order for the system to run as smoothly as possible. KRONES has bundled all of its after-sales activities under the name Lifecycle Service (LCS). KRONES LCS offers customers a comprehensive range of products and services and employs highly qualified technicians worldwide. In all, around 2,400 employees are in the field providing after-sales service to customers.

Short response times are essential to the success of any service business. That is why we are continually moving closer to our customers and increasingly deploying local staff to carry out LCS projects. Key spare parts are kept on hand at regional warehouses.

➞ Seven LCS Centres at strategically important locations serve as bases for our international service activities. Each of these service hubs is responsible for a set of countries and branch offices.

Ensuring direct availability – around the clock

We offer customers who purchase a support contract a central point of contact for all questions and concerns relating to their machines and systems. It is available around the clock, seven days a week. Support quickly puts customers in touch with the right partner to resolve their specific issue. That is one way we help minimise costly downtimes.

➞ KRONES Support includes the following services: phone support, e-mail support, and remote service. With remote service, we use a data link to directly access the defective machine for troubleshooting. Of course, we do so only with the customer's prior agreement. KRONES service technicians can then view the machine data and resolve problems through a highly secure Internet connection.

➞ To date, KRONES has operated all global remote service from our headquarters in Neutraubling. In the future we intend to move this service into our LCS Centres in the regions. The LCS Centre in North America will be the first, picking up remote service in 2017.



**Partner for
Performance**

Lifecycle Service offerings are available through the KRONES LCS Centres worldwide. As a result, customers everywhere can use the services for their machines in every stage of their machine's lifecycle.

Remote service enables us to provide our customers assistance without having to be on site. That is an important contribution to resource conservation because it enables us to provide service without travel.

KRONES.shop – our online shopping platform – includes personalised product offerings that are aligned with the customer's existing machinery. A "reorder" feature allows customers to purchase the same set of items from a previous order with a simple click of the mouse. The platform also includes a used machinery portal as well as training and service offerings.

➞ In 2016, we also launched a feature that allows KRONES customers to submit a non-binding service inquiry along with any KRONES.shop order. Customers are immediately given the earliest possible appointment. The electronic parts catalogue KRONES eCat is also connected to KRONES.shop. The catalogue contains technical drawings, circuit diagrams, parts lists, and documentation. Our customers can order parts directly through KRONES eCat, which makes the entire ordering process quick and convenient.

➞ We are making country-specific online shops available to customers worldwide. The platform was launched in Europe in 2015. The shop is already fully operational and available to customers there. In 2016, a version went live for most Asia-Pacific countries and China. KRONES.shop is currently available in more than 60 countries. The USA and other countries are to be added in 2017.

Plant relocation services for sustainable use of filling lines

Production line relocation is a special service offered by KRONES LCS. It offers great potential because more and more of our customers wish to use existing machines and lines at new sites. We make sure the entire move goes off without a hitch.

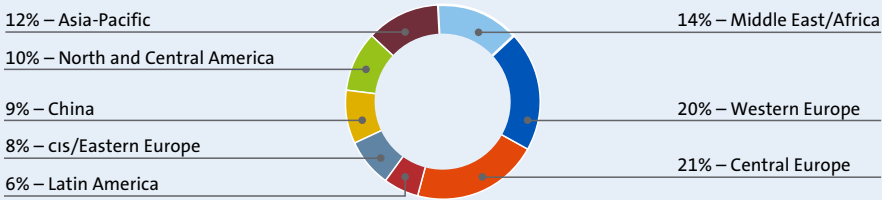
➞ KRONES creates a customised project plan and provides comprehensive services throughout all stages of the relocation project, from start to finish. We analyse in advance whether the systems to be relocated are a good fit for the new operation and whether adaptations are needed. We offer 3D visualization for laying out the new production plant.

➞ Depending on the customer's wishes, we can bring the equipment up to the latest state of the art with upgrades from KRONES' LCS portfolio before putting it back into operation. We can also expand the line with new or used KRONES machines as needed.

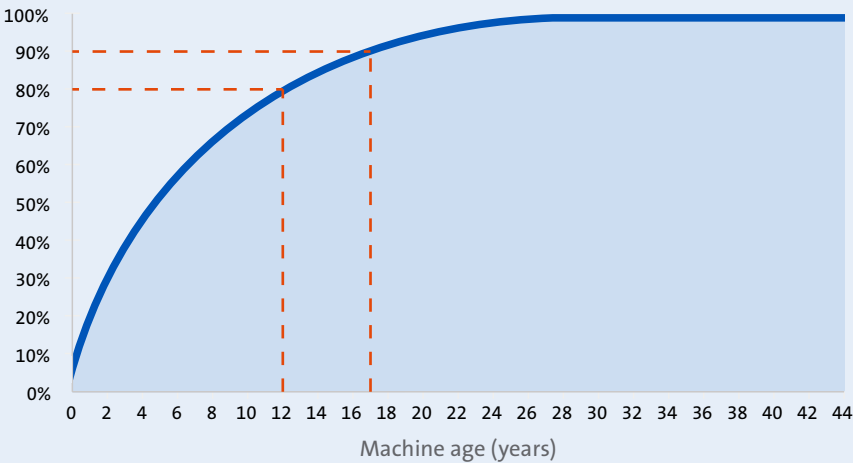
Relocating a production line to a different site enables our customers to respond directly to changes in the markets and move existing lines to where they are needed.

A concrete example of such a move can be found on page 54 of our Annual Report.

Upgrades by region 2016



Upgrades are an important option for bringing existing machinery up to date. Customers from all regions worldwide have shown strong interest in such solutions for their machines.



Retrofits are relevant for machines of all ages. They make it possible to keep existing machines up to the latest state of the art and to adapt them to changing production requirements. Of all the machines we retrofit or upgrade, 80% are 12 years old or newer.

Goals	Actions	Target date
Product optimisations through the enviro programme	<ul style="list-style-type: none"> Continually improve energy and media efficiency and environmental compatibility in our machinery portfolio <ul style="list-style-type: none"> Continuous monitoring by enviro Officer 	ongoing
	<ul style="list-style-type: none"> Evolve EquiTherm series for combined heating and cooling <ul style="list-style-type: none"> Assessment of EquiTherm Coldfill has begun, EquiTherm Brew successfully launched 	complete
enviro 2.0	<ul style="list-style-type: none"> Optimise the portfolio of enviro products <ul style="list-style-type: none"> enviro assessment of our machinery portfolio 1. Transition lubricants to H1 in bottling and packaging technology and soft drinks, dairy, and water 2. enviro optimisations in toolboxes 	ongoing ongoing ongoing
	<ul style="list-style-type: none"> Further develop the enviro system <ul style="list-style-type: none"> TÜV-SÜD certification of systems Take enviro topics into account early in the product development process 	complete 2017
	<ul style="list-style-type: none"> Strengthen communication and enviro brand <ul style="list-style-type: none"> Step up communication of the added value that enviro offers customers 	ongoing
Increase profitability, bring EBT margin up to approx. 7% Value targets: 7/8/22 (see Annual Report)	<ul style="list-style-type: none"> Implement Value strategy programme with defined programmes and initiatives <ul style="list-style-type: none"> Continually improving key performance indicators (see KRONES Group annual report), KPIs per end of 2016 	ongoing
<ul style="list-style-type: none"> 7% revenue growth per year on average 8% EBT margin 22% working capital to revenue ratio 		
Introduce a CRM system across our entire sales organisation	<ul style="list-style-type: none"> Define key performance indicators and factors for assessing customer satisfaction data <ul style="list-style-type: none"> Project started, customer satisfaction analysis in progress in various areas, results being interpreted, and recommendations for action being developed 	in progress
Update the integrated management system (IMS)	<ul style="list-style-type: none"> Transfer certification type from "Community" to "Matrix". Merge the two certifications for domestic plants and LCS Centres <ul style="list-style-type: none"> Certification audit conducted in Q2 2015 	complete
	<ul style="list-style-type: none"> Transition to revised ISO 9001:2015 and ISO 14001:2015 	2018

A man with short brown hair, wearing a green Carlsberg baseball cap and clear safety glasses, is smiling at the camera. He is wearing a bright yellow high-visibility jacket over a dark grey sweater. The background is a blurred industrial setting, likely a brewery, with metal structures and lights.

Plant relocation to Stettin

For us, the biggest challenge with the plant relocation was time. We wanted to be ready to go into production in time for our peak season – and we did it. Besides Carlsberg saving a considerable amount of money by moving the production line instead of buying a new one, we were able to complete the installation and commissioning in just two and a half months. After the machine conversions and upgrades, the line almost feels like a completely new plant.

Piotr Forna

Project lead for the plant relocation and head of bottling, Bosman Brewery, Stettin



We improved our energy intensity from 36.8 mwh per €1 million in revenue in 2015 to 36.3 MWh in 2016.

36.3



Direct and indirect energy-related CO₂ emissions came to 35,899 metric tonnes, which is down 5.9% from the previous year.

35,899



We reduced CO₂ emissions resulting from travel for the fifth year in succession, by 5.2% year-on-year.

5.2%



We reduced the amount of waste generated per €1 million in revenue by 10.9% year-on-year.

10.9%

Responsibility for the environment

Ecological aspects of our production

We have striven to use resources wisely for many years now. We examine all options available for conserving resources and assess whether they can be incorporated into our company in a financially reasonable way. We would like to continue to do everything we can to be good stewards of raw materials, energy, and the environment. As a supplier to many beverage and food producers, we help our customers worldwide to use resources as wisely as possible as well.

We have firmly established our approach to operating in an environmentally friendly way in our Code of Conduct, which applies to all of our employees in Germany and around the world. This voluntary commitment is supplemented by our DIN EN ISO 14001 environmental management system. Certification of our IMS has enabled us to extend our environmental management system to our sites in China, Brazil, and the USA.

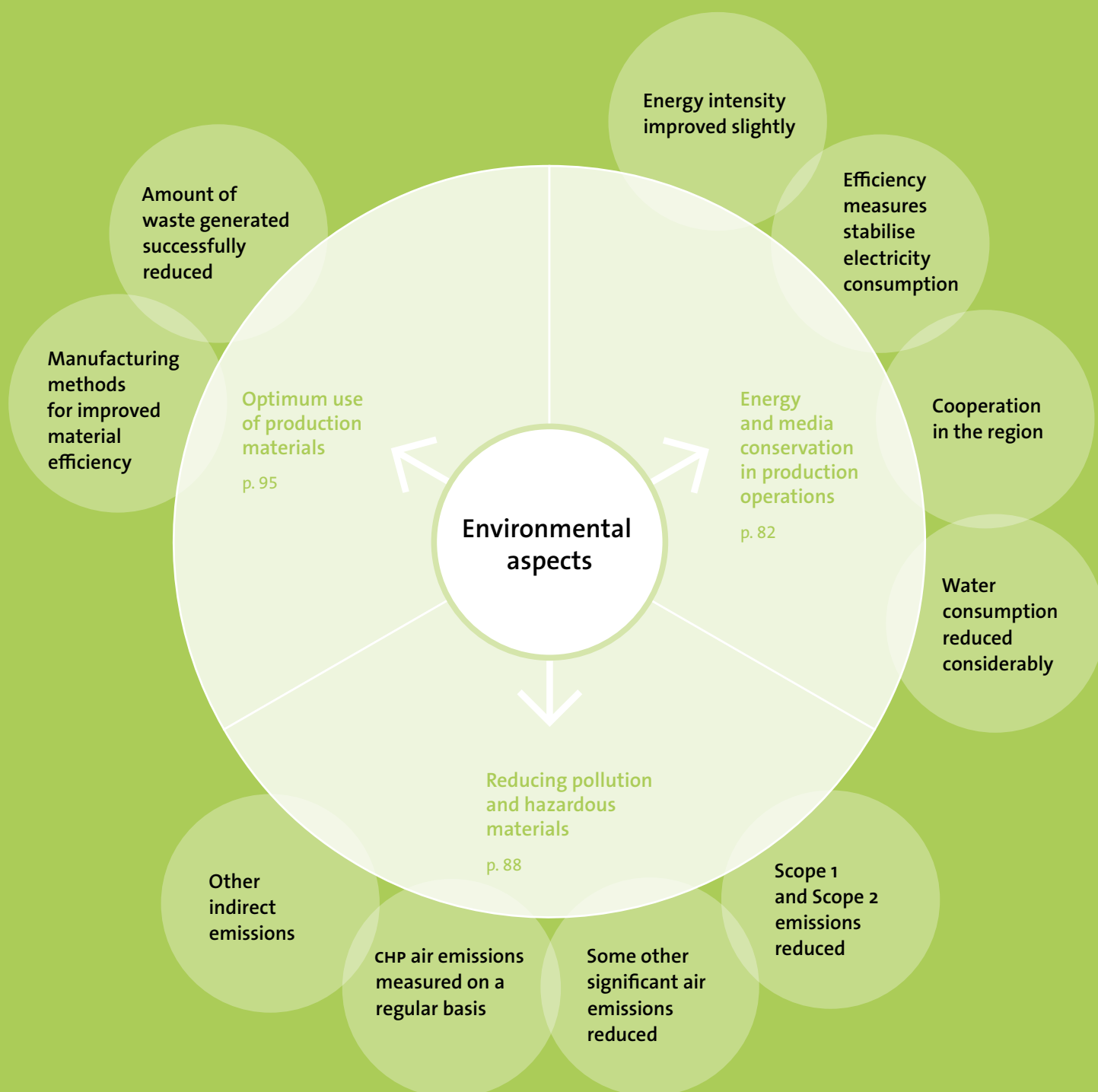
Conserving resources by strengthening our LCS Centres

In the interest of conserving resources for the long term, we are growing our LCS Centres worldwide. In 2015, we defined a CO₂ reduction target for our sites in Germany. We are now working through the associated action plan. In all, we intend to reduce our Scope 1 and Scope 2 emissions per €1 million in revenue by 30% to 40% compared with a 2010 baseline by 2020.

Our Building Engineering Services team is collaborating closely with plant managers to work on all aspects of energy consumption and energy efficiency. We have adopted a separate budget specifically for implementing efficiency measures relating to our CO₂ reduction target. The progress we have made so far is presented in this chapter. Besides the team responsible for energy management, we also have appointed an environmental management officer in accordance with the provisions of ISO 14001, who reports to the company's management. In accordance with the laws and regulations on pollution control and waste management, we also have appointed officers for pollution control and waste management, who are integrated into the environmental management processes.

This team also directly addresses the environmental aspects of freight forwarding. Strategies for resource conservation – such as the commissioning of a rail connection inside our plant in 2016 and the setting of emissions limits for vehicles in our motor pool (based on ECE consumption values – are developed by this team and implemented with the support of departments such as engineering and/or strategic purchasing. Monitoring of our environmental performance takes place in accordance with the reporting cycles of our IMS system. Important developments or approaches with respect to environmentally friendly operations are also regular topics of discussion in CSR Committee meetings. We are also represented in the CDP monitoring process and communicate our environmental performance in accordance with CDP requirements.

In 2016, we did not pay any fines or incur non-monetary sanctions for non-compliance with environmental laws or regulations.



Energy consumption at our plants in Germany increased in 2016. In all, our consumption of heating energy and electricity came to 123,391 MWh (previous year: 116,644 MWh), which is up 5.8% over the previous year. This increase is smaller than the 6.9% increase in revenue.

Once again in 2016, we leased or expanded production or storage spaces at some sites. The result is a 3.6% increase in the total area of our Neutraubling, Flensburg, and Rosenheim sites.

⇒ The increase in energy consumption can be attributed entirely to consumption of heating energy. Energy consumption per m² of production area came to 0.365 MWh and is therefore up only very slightly (previous year: 0.361 MWh).

Consumption of heating energy per square metre of production area increased 1.1%.

⇒ It is worth noting that absolute energy consumption was similar to 2013 levels. In fact, Germany's National Meteorological Service (Deutscher Wetterdienst) correction factors were similarly high for both years. That suggests a link between weather conditions in 2016 and the higher energy consumption.

⇒ We plan to further expand our production area in Germany by adding space and/or transitioning from leased space to owned space. Planning is currently underway for the construction of a new 12,000 m² assembly hall at our Raubling site. The space is slated to go into operation in 2018.

Energy intensity improved slightly

At 36.3 MWh per €1 million in revenue, our energy intensity improved further (previous year: 36.8 MWh). This development can be attributed in particular to the fact that we had strong business growth while production area was relatively unchanged.

Key figures on our cogeneration plants for 2016:

*33% electricity production
41% heat production
26% efficiency losses*

⇒ Thermal energy plays a lesser role in our production processes. Its main use is for heating our buildings and firing our heat-lead cogeneration plants (CHPs). There is an obvious connection to prevailing weather conditions.

⇒ Consumption figures for natural gas came to 17.1 MWh per €1 million in revenue (previous year: 16.4). The values for the other primary energy sources were virtually unchanged.

Efficiency measures keep electricity consumption stable

Our consumption of electricity increased only minimally (by 1%). That comes to a 5.5% decrease in the amount of electricity consumed per €1 million in revenue generated.

⇒ The nearly stable electricity consumption can be attributed primarily to equipment improvements that resulted in higher productivity with machines operating for the same amount of time.

Our electricity consumption remained stable in 2016 despite higher revenue.

⇒ We generated 30% of our electrical power supply with our own cogeneration (CHP) plant at our Neutraubling site. The increase in CHP is closely linked with the increase in natural gas consumption at our Neutraubling plant. We have increased the share of self-generated power in our consumption profile by 42% since 2014.

⇒ Replacing metal vapour lamps with LED lamps in some areas of our production halls enabled us to reduce electricity consumption for lighting to around 25% in these areas.

⇒ In 2017, we are continuing work to equip various areas of our plants with LED lighting. These conversion projects, which are part of our action plan for reducing CO₂ emissions, focus first on areas in which lighting still uses older, more temperamental technology and hall areas that do not have optimal lighting. In all, we plan to retrofit 24,000 m² with new LED lighting in 2017.

We plan to retrofit some areas of our plants with LED lighting in 2017.

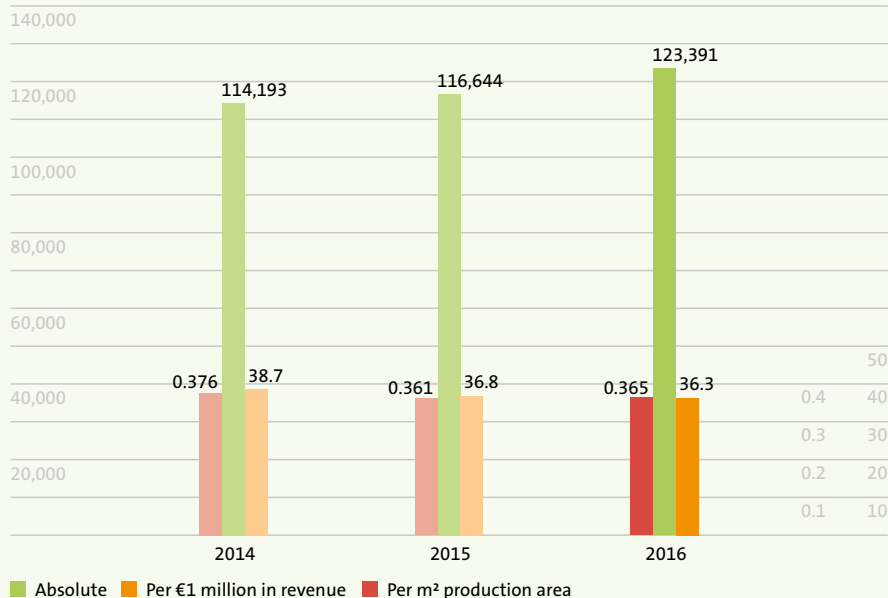
⇒ Energy-efficient LED lighting is already provided for in the plans for the new construction project at our Raubling site.

Cooperation in the region

KRONES is a member of the “energy cluster” established by Energieagentur Regensburg and the Regensburg Energy Efficiency Network (REEN). Sharing with other companies in the region enables us to better assess our own activities for improving energy efficiency and gain ideas about potential yet to be tapped.

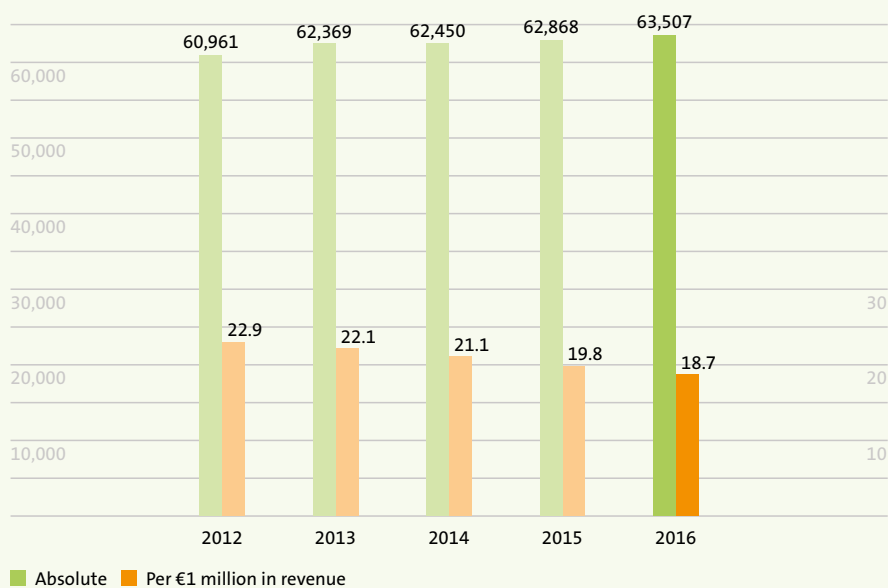
⇒ Within the REEN, we have set a shared CO₂ reduction target for the greater Regensburg area. We also use the exchange with other members of the network to gain practical suggestions for improving energy efficiency. The first results of this exchange show that continually reducing energy consumption requires increased employee awareness.

KRONES AG – Energy consumption (absolute mwh, mwh per €1 million in revenue, and mwh per m² production area)



Energy consumption rose 5.8% to 123,391 mwh in 2016. According to data from Germany's national weather service, the increase per m² of production area can be attributed to the weather conditions during the year.

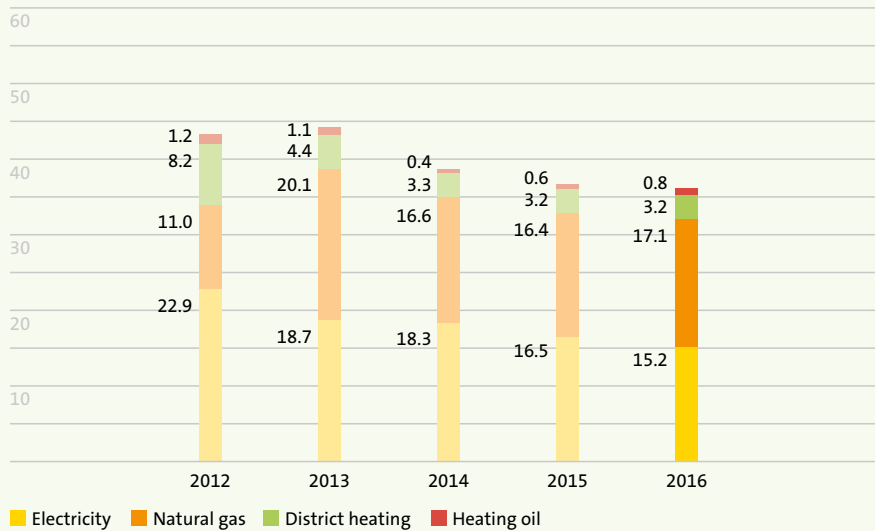
KRONES AG – Electricity consumption (absolute mwh and mwh per €1 million in revenue)



Electricity consumption remains virtually unchanged from year to year. In absolute terms, the 63,507 mwh in consumption is up 1% year-on-year. Relative to revenue generated, electricity consumption actually decreased by 5.5%.

According to our energy utilities, we drew 20,909 mwh of electrical power from renewable resources. On average, that corresponds to a 40.5% share of total energy drawn (previous year: 35.8%).

KRONES AG – Energy drawn from external sources – electricity, natural gas, district heating, and heating oil (mwh per €1 million in revenue)



Energy drawn from external sources per €1 million in revenue has decreased steadily and is currently at 36.3 mwh per €1 million in revenue (previous year: 36.7 mwh).

Action plan for reducing CO₂ emissions through 2020

	Target reduction in mwh/year	Actual reduction achieved in mwh/year	Energy source	Target reduction (metric tonnes/year)	Actual CO ₂ reduction achieved (metric tonnes/year)	Progress toward target, CO ₂
Lighting	2.725	51	Electricity	1.384	24	1.8%
Compressed air	639	528	Electricity	325	251	77.4%
Pump systems, motors	147	220	Electricity	75	105	140.0%
Air conditioning and cooling water installations			Electricity			
Heating systems	706	553	Natural gas, district heating	312	281	90.1%
Ventilation systems	350	369	Natural gas, district heating	106	109	102.3%

Water consumption reduced considerably from high year-earlier figure

In 2016, we were able to bring water consumption back down to a lower level after the previous year's spike. We drew 116,442 m³ of water from the municipal water supply (previous year: 131,043 m³). That is 11.1% less than in the previous year. Relative to revenue, we achieved a high level of efficiency with respect to water consumption in 2016. At 34 m³, consumption per €1 million in revenue was down 17% from the previous year. The volume discharged into the public network largely equals the volume withdrawn. Amounts lost to diversion, disposal, or evaporation are not taken into account.

At our Neutraubling site, we withdrew 1,186,948 m³ (previous year: 1,048,391 m³) of groundwater for cooling buildings, all of which was then fed back into the groundwater supply.

In our production operations, we strive to use materials and supplies that may be categorised as water pollutants as sparingly as possible.

⇒ In our Rosenheim plant, we significantly reduced our use of cooling lubricants by conducting intensive training, implementing oil removal systems, and closely monitoring the quality of cooling lubricants. Consumption of cooling lubricants at mid-year came to 3,474 kg from 2013 to 2015 and was down to 2,940 kg in 2016, a reduction of 15%.

We operate installations that are subject to licensing at our sites in Neutraubling, Nittenau, and Freising. We monitor them in accordance with the German Self-Monitoring Ordinance [Eigenüberwachungsverordnung]. In addition, we also commission third-party monitoring to ensure the validity of our own measurements.

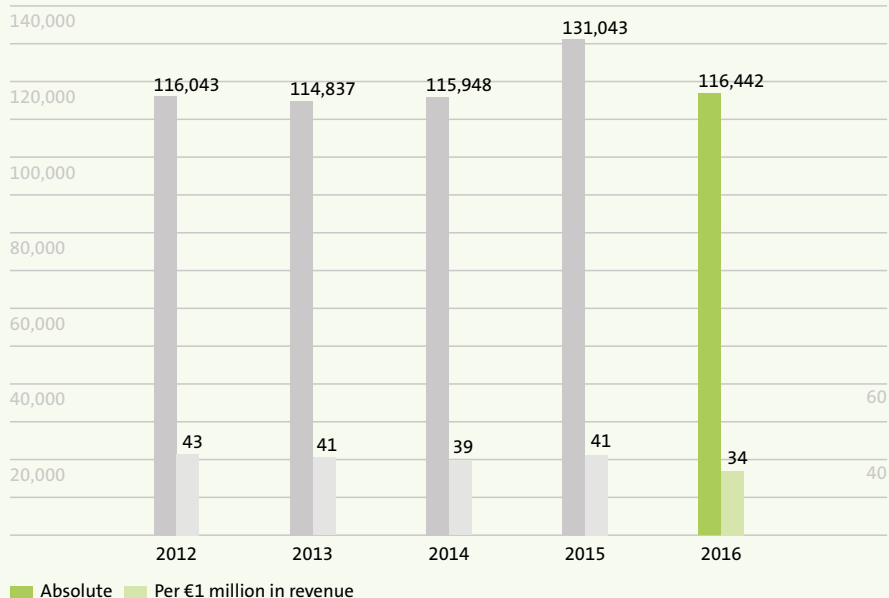
⇒ In 2016, the volume of waste water from installations that are subject to licensing came to 4,505 m³ (previous year: 4,071 m³). The waste water is treated, either in internal physical/chemical processes or in neutralisation systems.

⇒ As in the previous years, the contaminant loads were below the prescribed limits in all three installations.

We improved our efficiency with respect to water consumption in 2016. At 34 m³, consumption per €1 million in revenue was down considerably from the previous year's 41 m³.

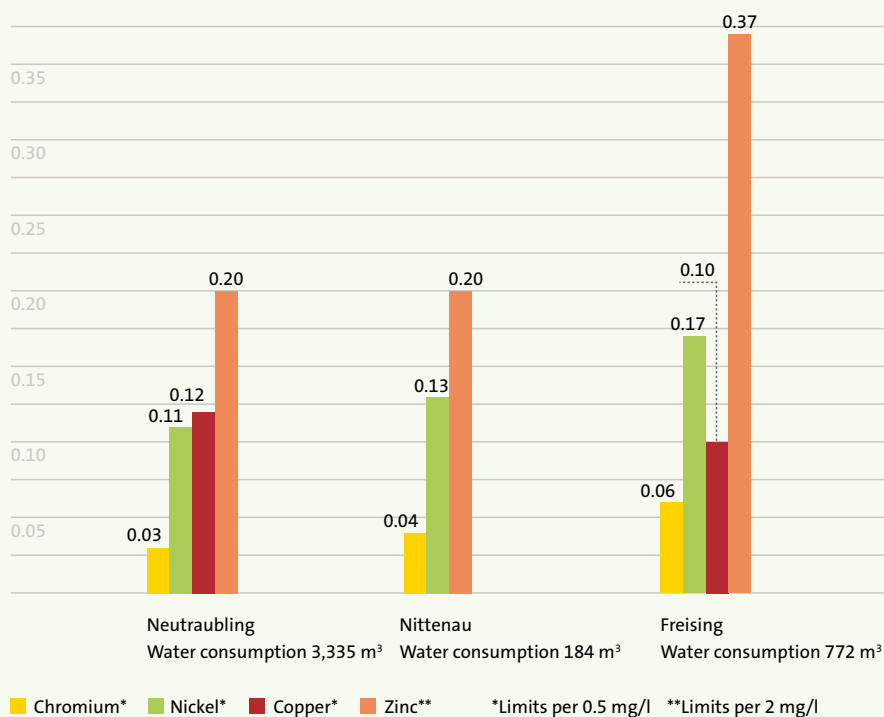
In the previous year, consumption had been considerably higher year-on-year due to damage to our piping system and to a higher number of filling tests conducted.

KRONES AG – Water consumption (m³ and m³ per €1 million in revenue)



Water consumption came to 116,442 m³ in 2016, which is back down to the levels reported in the years 2012 through 2014.

KRONES AG – Components of waste water subject to mandatory treatment in 2016 (average mean contaminant load in mg/l)



Regular testing of waste water that is subject to mandatory treatment consistently shows the same value range – we have never reached or exceeded the prescribed limits.

Our efforts to reduce pollution and hazardous materials relate to our plants in Germany. We have set a CO₂ emissions target for our German sites, which we seek to achieve by implementing an action plan that was adopted in 2015. This relates to Scope 1 and Scope 2 emissions. We also monitor emissions of other substances known to have an effect on climate and VOC emissions in accordance with the provisions of the law.

Scope 1 and Scope 2 emissions reduced

In 2016, our total direct and indirect energy-related emissions came to 35,899 metric tonnes (previous year: 38,164 metric tonnes). That is a reduction of 2,265 metric tonnes or 5.9%. Direct emissions totalled 12,433 metric tonnes (previous year: 10,979 metric tonnes) and indirect energy-related emissions came to 23,466 metric tonnes (previous year: 27,185 metric tonnes).

➔ The year-on-year increase in direct emissions can be attributed to the higher consumption of heating energy. The rates of increase in consumption and CO₂ values are roughly within the same corridor at 11% and 13%, respectively.

The higher share of electricity generated on-site in our own CHPs resulted in higher consumption of natural gas. That in turn affected direct CO₂ emissions.

➔ The generation of electricity in our own cogeneration (CHP) plants and the increased output of our CHPs resulted in a corresponding increase in natural gas consumption and, thus, higher direct CO₂ emissions.

➔ Our Nittenau and Rosenheim sites use carbon-neutral district heating.

➔ The reduction in CO₂ emissions from electricity consumption resulted from the higher share of electricity generated on-site at our Neutraubling plant. Our power mix is also much improved in 2016: Depending on the local utility provider, the share of renewables was between 40.4% and 50.8% (previous year: between 34.8% and 48.9%).

Our target of reducing direct and indirect energy-related CO₂ emissions per €1 million in revenue by 30% to 40% by 2020 is realistic.

➔ At 10.6 metric tonnes, our CO₂ emissions per €1 million in revenue were down 11.7% year-on-year. Relative to the figure for the base year 2010 (16.85 metric tonnes of CO₂ per €1 million in revenue), we have already reduced these emissions by 37%.

Our CO₂ reduction target for 2020 is achievable.

➔ Our efforts with respect to the rest of our action plan are ongoing and we expect to achieve our target – even under varying weather conditions.

Some other significant air emissions reduced

We use R365mfc and R227ea in our foam manufacturing. The amounts of these substances used in 2016 came to 46.65 kg (R227ea) and 305.52 kg (R365mfc).

➔ Compared with the year 2015, when CO₂ emissions totalled 511.3 metric tonnes, we reduced CO₂ emissions by 21.4% in 2016 to 401.9 metric tonnes.

This was achieved as a result of changed production processes and increased outsourcing of tasks in this area.

Emissions of VOCs totalled 13.4 metric tonnes in the reporting period (previous year: 11.9 metric tonnes). These substances are generated primarily in our paint shops.

We are monitoring VOC emissions from our paint shops.

➔ The pilot phase of a new dosing and painting process at our Rosenheim plant, which was mentioned in last year's report, is not yet complete.

➔ While the systems at all of our other sites are below the reporting limit of 5 metric tonnes, we have recorded an increase in solvent use at the Rosenheim plant to 5.9 metric tonnes in 2016, which resulted from the pilot operation of a new painting and dosing process and changes in our supplier pool there.

➔ We have an internal action plan for 2017 under which we will assess solvent use in the first quarter of 2017 and use those figures to extrapolate total consumption for the year 2017. At present, we expect solvent use to return to levels below the reporting limit.

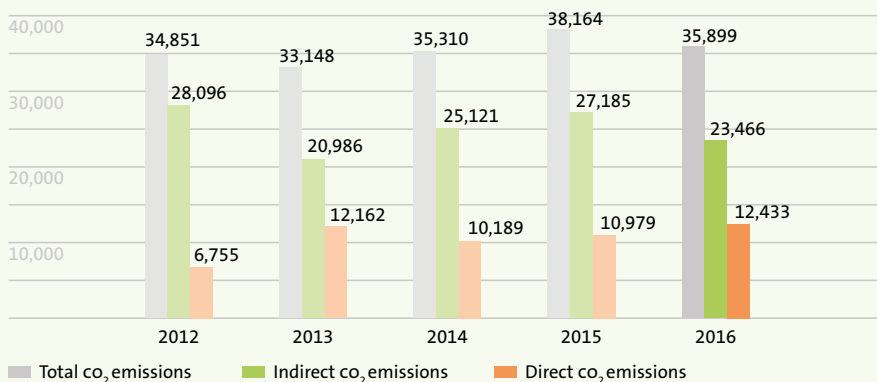
Air emissions measured on a regular basis

In accordance with the provisions of Germany's Federal Act for the Protection against Harmful Environmental Effects Caused by Air Pollution, Noise, Vibration, and Similar Factors [Bundesimmissionsschutzgesetz], measurements of emissions were taken on the CHP in Neutraubling and on our pickling plant in Freising in 2016.

➔ The measurements for the three plants, for 17,283 hours operating at full capacity, yielded the following average mass flows: NO_x 0.685 kg/h, SO₂ 0.0017 kg/h, formaldehyde 0.035 kg/h, and CO 0.145 kg/h.

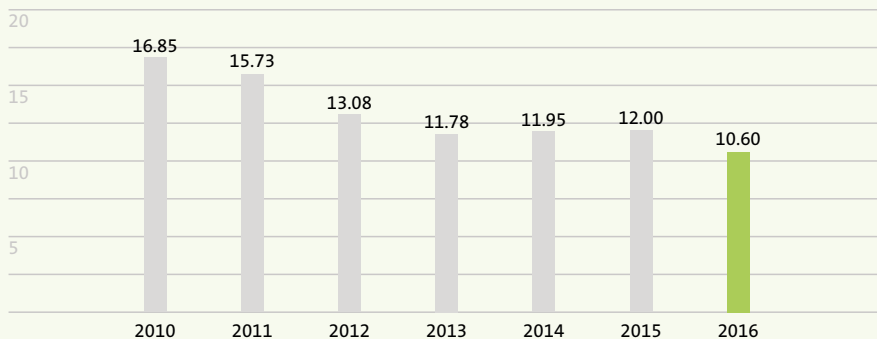
➔ In the pickling plant in Freising, a total annual load of 46.41 kg HF and 396.27 kg of NO₂ was measured. The value for particulate emissions is documented at 0.

KRONES AG – Direct and indirect energy-related CO₂ emissions according to GRI calculation (metric tonnes)



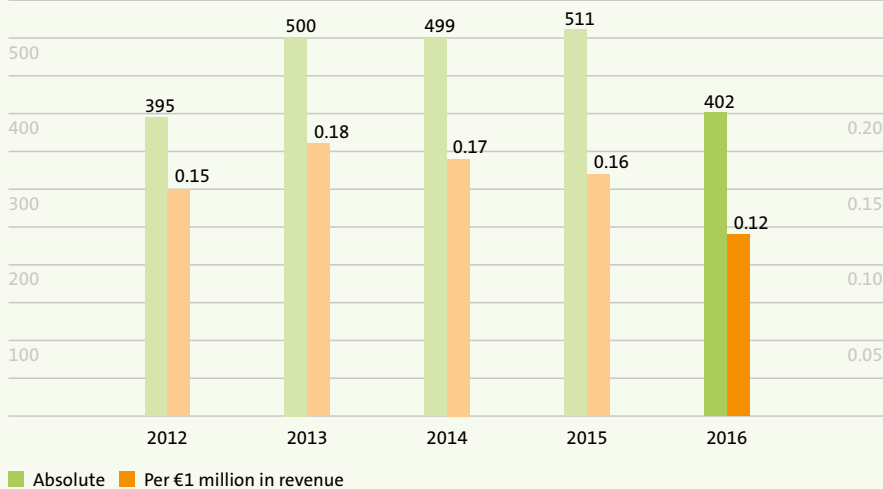
KRONES AG's direct and indirect energy-related emissions came to 35,899 metric tonnes in 2016, which is down 5.9%.

KRONES AG – Direct and indirect energy-related CO₂ emissions (metric tonnes per €1 million in revenue)



Our direct and indirect energy-related CO₂ emissions came to 10.6 metric tonnes per €1 million in revenue in 2016. That is a 37% reduction in direct and indirect energy-related greenhouse gas emissions per €1 million in revenue from the 2010 baseline.

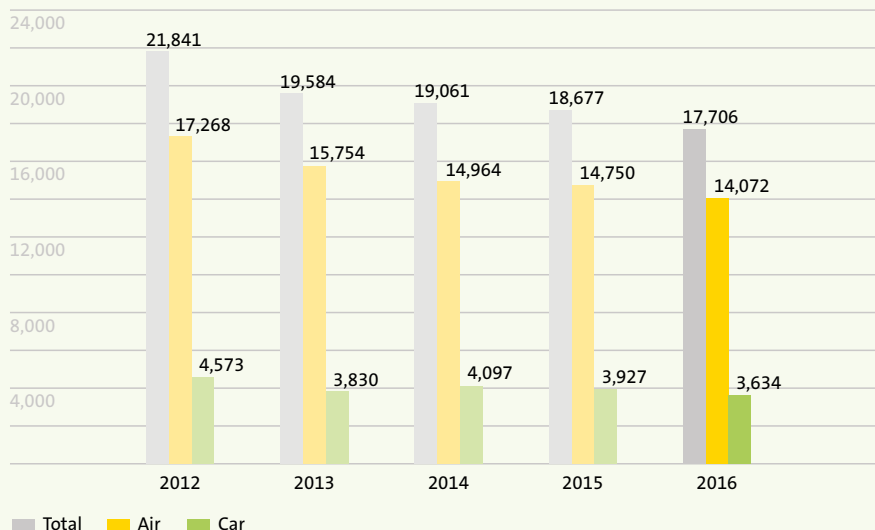
KRONES AG – Other greenhouse gas emissions, in CO₂ equivalents (metric tonnes)



The amounts of other relevant greenhouse gas emissions result from the use of R227ea and R365mfc, which are used in our foam manufacturing.

VOC emissions from the paint shops in our German plants came to 13.4 metric tonnes in the reporting period.

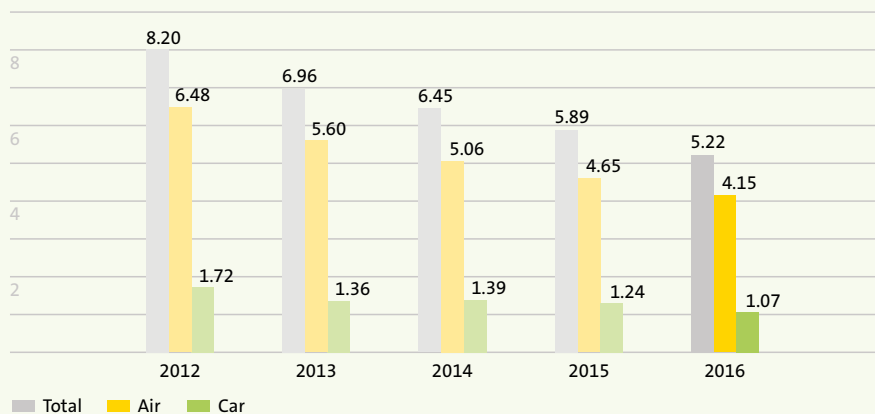
KRONES Group – CO₂ emissions resulting from work-related travel (metric tonnes)



CO₂ emissions from work-related travel have been reduced continually since 2012. We reduced them 5.2% year-on-year to 17,706 metric tonnes in the reporting period.

Rail travel with Deutsche Bahn by KRONES employees is carbon-neutral and therefore does not appear in this chart.

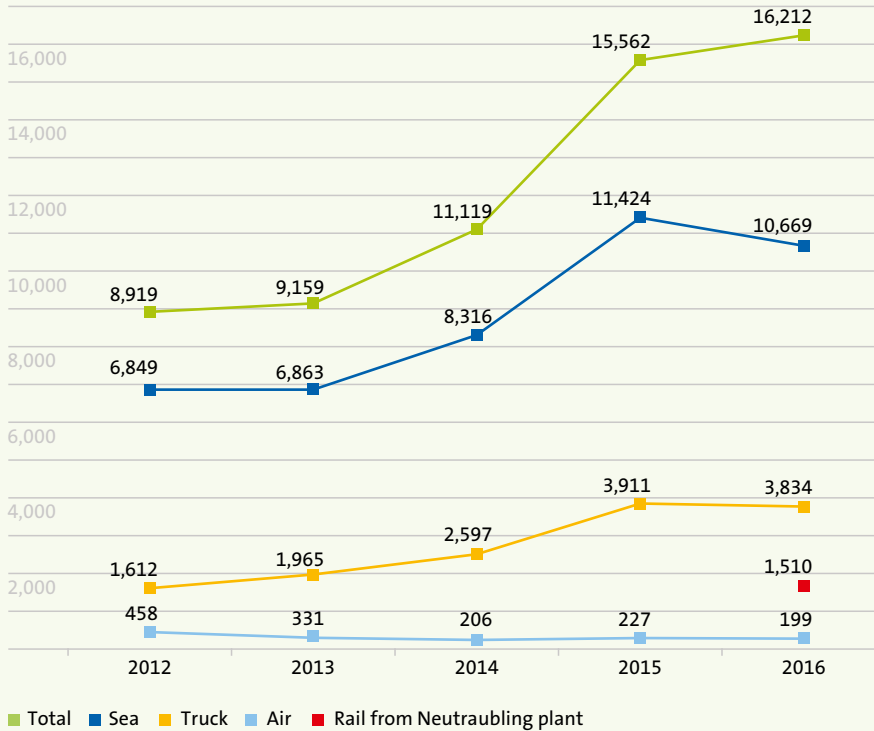
KRONES Group – CO₂ emissions resulting from work-related travel (metric tonnes per €1 million in revenue)



We reduced the specific value of CO₂ emissions resulting from work-related travel by 11.4%.

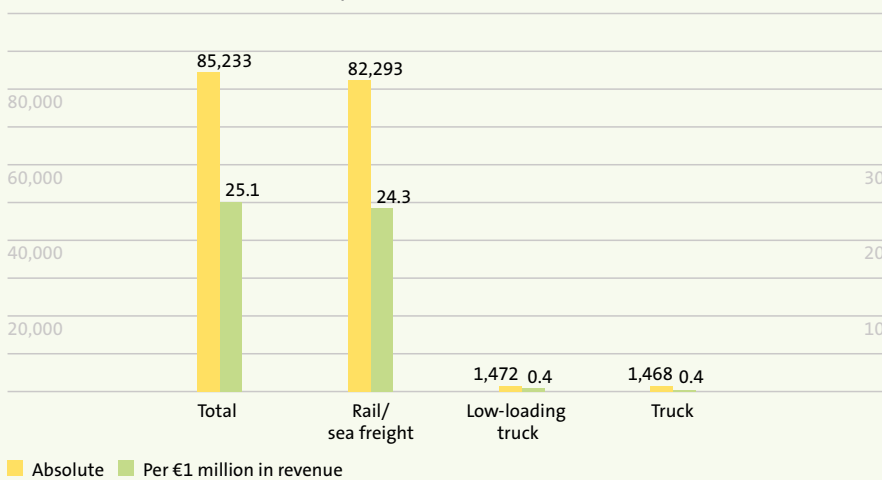
The emissions data for air travel relate to the KRONES Group. Emissions for car travel relate to KRONES Germany. Emissions for car travel at other sites worldwide are not currently measured and are therefore not included in this chart.

KRONES AG – Outgoing freight (truckloads)



In 2016, we loaded 16,212 trucks at our sites in Germany. The decrease in the number of truckloads bound for sea freight can be attributed to the fact that the direct rail connection within our Neutraubling plant enables us to significantly reduce the number of truck transfers to the container terminal. The 1,510 truckloads shown under rail shipments in the chart correspond to 858 rail cars.

KRONES AG – CO₂ emissions, freight forwarding by sea freight (metric tonnes and metric tonnes per €1 million in revenue)



Emissions from freight forwarding are estimates based on the average emissions figures calculated for shipments to the individual destinations. At present, the rail/sea freight figures are estimates. The information on low-loading trucks and trucks covers transfers to sea freight.

Thus, our calculations attribute 85,236 metric tonnes of CO₂ emissions to sea freight.

Other indirect emissions: Focus on work-related travel and freight forwarding

KRONES generates 90% of its revenue outside Germany. When examining which upstream and downstream emissions play a role in our business model, work-related travel and freight forwarding are obvious hot spots. We have been tracking these two sources of emissions since 2012 and have observed a steady downward trend in these emissions.

The increased activities of our LCS Centres have resulted in less travel and therefore reduced CO₂ emissions arising from work-related travel. Sea freight is the main mode used for freight forwarding. Shipments are transported by air only in exceptional cases.

Our aim is clear: We strive to reduce emissions from travel and freight forwarding. We will achieve this by continuing to shift more and more duties to the LCS Centres.

By organising their travel, our employees contributed to climate protection, reducing CO₂ emissions from work-related travel by 971 metric tonnes.

⇒ A 12% reduction in the number of flights taken within Europe and Germany and a 3.6% reduction in long-haul flights have yielded a total reduction in CO₂ emissions from air travel of 4.6%.

⇒ KRONES is shrinking its motor pool and that also had an impact in 2016. CO₂ emissions from car travel were reduced by 7.5%. An agreement with our mobility service provider, which limits CO₂ emissions for its vehicles, also contributed.

⇒ We intend to revise our company travel policy in 2017 in such a way that will help change travel habits.

A large share of our outgoing freight is forwarded by sea. We ship around 75% of our products by way of environmentally friendly modes of transport, using a combination of rail and sea freight.

⇒ 1.2% of our freight is forwarded by air. 23.6% is forwarded by truck – primarily to destinations in Central Europe.

⇒ The volume of freight forwarded increased analogously to the 6.9% increase in revenue. The 4.2% increase in freight volume is still considerably less than the increase in revenue.

The CO₂ emissions cited here are estimates for the biggest part of our freight volume, sea freight. At 85,236 metric tonnes, CO₂ emissions are roughly on par with the previous year (83,724 metric tonnes, +1.8%).

⇒ In order to have reliable data in the future, we have launched a project that requires freight carriers to determine the volume of emissions in collaboration with our central purchasing department.

The upper limit for CO₂ emissions for the vehicles used by our mobility services provider was set at 97.5 g of CO₂ per kilometre based on ECE consumption data, with a tolerance of +10%. For 2016, this number came to 102.65 g of CO₂ per kilometre.

Supporting environmental performance

KRONES' production sites in Germany are subject to extensive regulations relating to emissions, water protection, and waste. We collaborate closely with the departments on an ongoing basis and help our production teams remain in compliance. We conduct regular monitoring of various systems in accordance with licensing and permits.

Corporate Safety and Security department's environment team is tasked with developing ways to continuously improve the data available from the different departments and with monitoring systems.

Johanna Mirbeth
Corporate Safety and Security

All materials and raw materials are processed using state-of-the-art machining equipment in our plants. We are continually optimising processes to achieve a high degree of material efficiency. That is reflected in a year-by-year comparison of material consumption, which is little changed. Most of the waste generated is reused or recycled. With respect to waste disposal, we adhere to laws and regulations to promote closed cycle waste management. In accordance with processes prescribed under ISO 14001, we monitor and analyse our processes and results on an ongoing basis.

KRONES AG did not ship internationally or transport any waste that is subject to the provisions of the Basel Convention in 2016.

Manufacturing methods for improved material efficiency

New, fully automated machining centres minimise material waste. Improved software calculates how to make the most of production materials

- ➔ In the new pipe machining centre in Neutraubling, Germany, implementing programmable logic controllers for processing tube rods has cut material waste by 95%.
- ➔ With the new laser machining centre and other optimisation measures, we have increased the efficiency of sheet metal processing at our Rosenheim plant by nearly 10%. The new nesting software in use across the group is helping to improve our technical, economic, and environmental performance at all of our sites.

Amount of waste generated successfully reduced

After a spike in 2015, we were able to reduce the total volume of waste generated within KRONES AG in 2016.

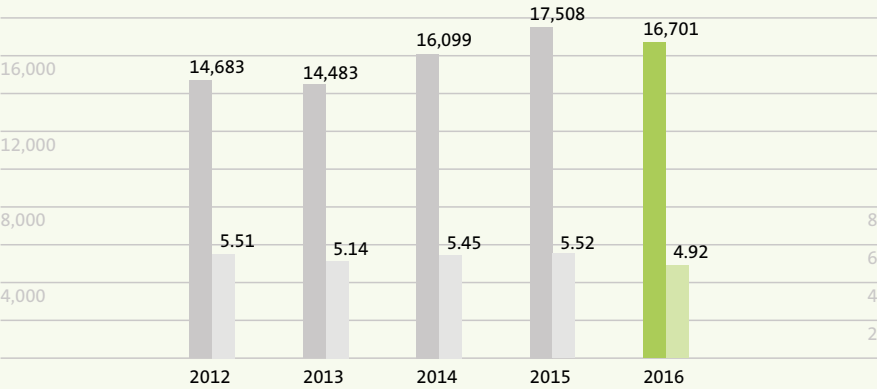
- ➔ The volume of waste came to 16,701 metric tonnes in the reporting period (previous year: 17,508 metric tonnes). Thus, we achieved a year-on-year reduction of 4.6%.
- ➔ The reduction in the amount of waste generated is reflected in both recyclable (-4.3%) and non-recoverable waste (-22.9%).
- ➔ In Neutraubling especially, we were able to significantly reduce the amount of non-recoverable hazardous waste. Among recyclables, we reduced the amount of wood and metal by a total of around 870 metric tonnes.

Overall, we have documented an increase in the figures for recyclable waste since revising our waste management system in keeping with compliance directives that became effective in December 2014.

- ➔ The figures reported before 2014 must therefore be viewed with the caveat that, prior to 2014, some recoverable waste materials were given to employees. Details about the policy change were presented in our 2014 Sustainability Report.
- ➔ The amount of hazardous waste over the 5-year period presented here remained within a range that matches the approved storage capacities for these materials.

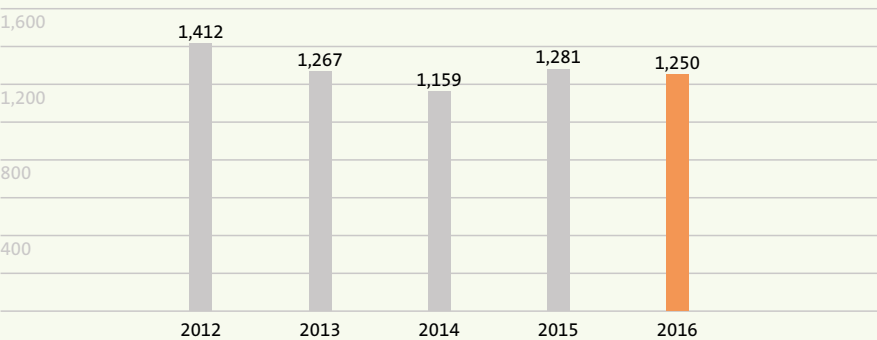
Hazardous waste is stored properly until a predefined volume is collected, which is then transferred to specialised disposal services. We do not exceed approved limits on their storage.

KRONES AG – Total waste generated
(metric tonnes and metric tonnes per €1 million in revenue)



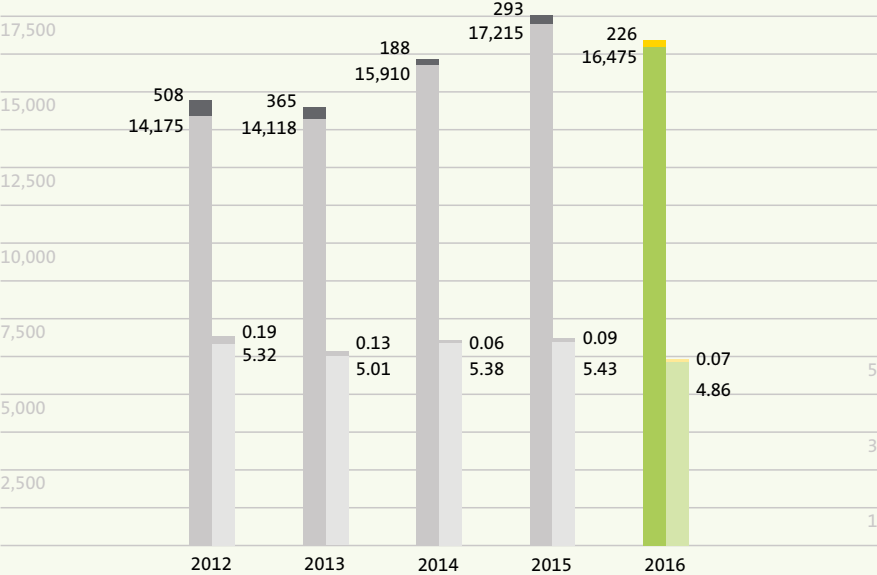
We further reduced waste volume in 2016. At 4.92 metric tonnes per €1 million in revenue, it was down 10.9% from the previous year.

KRONES AG – Hazardous waste (metric tonnes)



Of the hazardous waste generated, 1,084 metric tonnes were recoverable and 166 metric tonnes were non-recoverable. Handling of this waste is done by specialised waste management companies. No hazardous waste was transported between our plants.

KRONES AG – Recyclable and non-recoverable waste
(metric tonnes and metric tonnes per €1 million in revenue)



The volume of recoverable waste came to 4.86 metric tonnes per €1 million in revenue in 2016. The volume of non-recoverable waste came to 0.07 metric tonnes per €1 million in revenue.

Recyclable Absolute Per €1 million in revenue
Non-recoverable Absolute Per €1 million in revenue



Keeping an eye on the impact of our operations

We give due consideration to surroundings and the environment when working on construction projects. For example, last year, we responded to input and questions from members of the community before beginning work on expanding our Raubling plant.

We comply with all requirements relating to protecting residents and the natural environment under our permits. Our plant managers take the concerns of the surrounding community and environment very seriously and always seek solutions that are agreeable for all involved.

Franz Zollner
Head of Building Engineering Services

Goals	Actions	Target date
Establish an energy management system	<ul style="list-style-type: none"> ■ Collect energy data <ul style="list-style-type: none"> □ <i>Fleshing out the details of how much data is to be collected; ongoing expansion in connection with restructuring and construction projects</i> 	ongoing
	<ul style="list-style-type: none"> ■ Establish performance indicators <ul style="list-style-type: none"> □ <i>Monitoring energy consumption based on performance indicators</i> 	ongoing
Conserve energy	<ul style="list-style-type: none"> ■ Replace hall lighting with LED technology (action plan for reducing CO₂ emissions) <ul style="list-style-type: none"> □ <i>Setting priorities</i> □ <i>Replacing existing hall lighting with LEDs in stages</i> 	complete 2020
	<ul style="list-style-type: none"> ■ Need-appropriate, efficient operation of drives, power units (action plan for reducing CO₂ emissions) <ul style="list-style-type: none"> □ <i>Incorporating applicable systems</i> 	in progress
	<ul style="list-style-type: none"> ■ Optimise compressed air supply 40 bar/8 bar (action plan for reducing CO₂ emissions) <ul style="list-style-type: none"> □ <i>Developing an action plan for preventing leaks</i> □ <i>Replacing individual systems with compressor fitted with efficiency motor; integration into central compressed air network</i> 	2020 in progress
	<ul style="list-style-type: none"> ■ Optimise cooling supply (action plan for reducing CO₂ emissions) <ul style="list-style-type: none"> □ <i>Central cooling unit to replace decentralised units</i> □ <i>Developing an energy concept</i> 	in progress in progress
	<ul style="list-style-type: none"> ■ Optimise ventilation systems (action plan for reducing CO₂ emissions) <ul style="list-style-type: none"> □ <i>Heat recovery on the exhaust systems of production machinery</i> □ <i>Heat recovery in cafeteria ventilation systems</i> 	complete 2017
Environmentally responsible behaviour among employees	<ul style="list-style-type: none"> ■ Involve employees with concrete guidelines for environmentally responsible behaviour <ul style="list-style-type: none"> □ <i>Incorporating ideas from Brainpool employee innovation portal</i> 	ongoing

Goals	Actions	Target date
Conserving resources	<ul style="list-style-type: none"> ■ Recycling – further analyse possibilities for recycling <ul style="list-style-type: none"> □ <i>Projects launched for improved use of materials, e.g. sheet metal and piping/tubing</i> □ <i>Preventing raw materials consumption</i> □ <i>Verifying measures taken to improve material efficiency; new cleaning system installed in the Rosenheim plant which extends the service life of media used</i> 	<p>in progress</p> <p>in progress</p> <p>in progress</p>
	<ul style="list-style-type: none"> ■ Reduce the amount of waste generated <ul style="list-style-type: none"> □ <i>Increased sorting and separation of materials at on-site collection station</i> □ <i>Training documentation has been designed to improve education and motivation of employees</i> □ <i>Intensified sorting and separation of waste materials</i> 	<p>ongoing</p> <p>in progress</p> <p>in progress</p>
	<ul style="list-style-type: none"> ■ Reduce coolant emissions <ul style="list-style-type: none"> □ <i>Additional measurements are being done</i> □ <i>Continuous monitoring of coolant emissions</i> 	<p>in progress</p> <p>in progress</p>
	<ul style="list-style-type: none"> ■ Reduce PU foam containing climate-relevant greenhouse gases <ul style="list-style-type: none"> □ <i>Conversion partially complete; climate-relevant greenhouse gases still present</i> □ <i>Reviewing transition to other production processes</i> 	<p>ongoing</p> <p>ongoing</p>
	<ul style="list-style-type: none"> ■ Reduce CO₂ emissions by 30% to 40% for KRONES AG <ul style="list-style-type: none"> □ <i>Action plan adopted</i> 	<p>2020</p>
	<ul style="list-style-type: none"> ■ Develop a new mobility concept for business travel within Germany <ul style="list-style-type: none"> □ <i>Roll-out among service technicians</i> 	<p>in progress</p>
	<ul style="list-style-type: none"> ■ Determine downstream Scope 3 emissions <ul style="list-style-type: none"> □ <i>Initial contact made with freight carriers</i> 	<p>in progress</p>



We grew our workforce
by 1,097 employees
groupwide.

1,097



The employee turnover
rate in Germany is 2.2 %.

2.2%



Our workplace rehabilitation management (WRM) works: We reintegrated 58 employees from long-term sick leave.

58



We reduced the rate of accidents per 1,000 employees by 23.7% in 2016.

23.7%

Workforce development

Working continually on our international orientation

Our human resources strategy focuses on six main topics. According to our materiality matrix, all aspects are of high importance. Overall, our human resources policy is geared toward strengthening our activities in the regions worldwide. Our presence in growth regions has been very important for some time now – after all, the lion’s share of our revenue is generated outside Germany. As we have stated in previous reports, we are taking a long-term approach to the internationalisation process. We are dedicating considerable energy and to all aspects of human resources development and to occupational safety and health programmes.

Well positioned – at all locations

Providing attractive and fair working conditions worldwide is a priority. It is essential if we wish to recruit the best applicants and build strong teams at all of our sites. Of course, we are also committed to high standards worldwide and conforming to local laws and regulations.

A well-balanced workforce structure helps us bring diverse, individual skills into our company. The number one criterion for hiring a new employee is the job description and the applicant’s suitability for the job. Each job goes to the best applicant, regardless of gender or ethnicity.

Employee loyalty is important to us. Our efforts to gain employees’ loyalty have met with varying degrees of success in different local markets. We consider it a success that employee turnover rates in the regions stabilised in 2015 and 2016. To best enable our employees to execute their duties, we provide a comprehensive range of skill-building and continuing education and training opportunities.

In addition to the SMETA audit conducted in 2015, we underwent an URSA audit (Understanding Responsible Sourcing Audit) for one of our key accounts in 2016. The audit was conducted at our Neutraubling, Taicang, and Bangalore sites.

Our Code of Conduct stipulates that we do not tolerate any form of discrimination and that applicants and employees must be hired and promoted solely on the basis of their qualifications.

Keeping an eye on our global footprint

What have we achieved with respect to these items? Highly skilled, qualified employees in Germany and at our international sites are the most important factor for our success. They safeguard our position as market leader and contribute to steadily increasing our profitability in all growth regions. That is possible because the employees at our local offices around the world are in direct, intensive contact with our customers. That is something we could not accomplish to the same extent from Germany. By strengthening our international activities, we are also reducing resource consumption associated with work-related travel. And that improves our global footprint. Our workforce in Germany is growing at a moderate pace. That remains important since – as the age distribution of KRONES AG’s workforce shows – we have to expect a larger number of employees to retire in the medium term.

We do not know of any reports of discrimination in 2016.



Our workforce across the group grew by 1,097 people or 8.2% over 2015. As a result, we now have 14,443 employees worldwide. Workforce growth at our sites in Germany remained moderate at 3%. The number of employees at our offices and subsidiaries outside Germany increased by 803 in 2016 to 4,382.

We intend to continue to grow our workforce at a moderate pace in Germany and at a higher rate outside Germany.

⇒ Workforce growth in Germany reflects the need to prepare for increasing numbers of employees retiring in the years ahead. The share of employees aged 55 and older is up 11.3% year-on-year. That means we must begin planning now for a moderate increase in hiring.

Effective succession planning

In order to determine more precisely which employees and skill sets we will need, we have turned the talent pool programme that was launched last year into a pilot project for comprehensive succession planning in our research and development department.

⇒ We have decided to begin using talent management software to ensure that we are pursuing the right professional development for our employees.

⇒ With the help of this human capital management software, we expect to gain a comprehensive overview of all of the skills and qualifications of our workforce. For data collection, we will ask each employee to update his or her own profile and provide information that is important to the company.

⇒ In 2017, we will test the programme on a small group of users and define the datasets needed for our HR development.

⇒ We expect the software to be available to all employees in Germany by 2019. At the international level, we plan to first use the software for our sales staff and their professional development.

As in the previous year, we made only little progress towards reducing the share of temporary employees in 2016

⇒ KRONES AG permanently hired 133 employees who had been working for KRONES under temporary contracts. Thus, 26.5% of all hiring was done from among our temporary workers.

➔ The share of employees with temporary contracts was reduced to 12.96% (previous year: 13.51%) of our total workforce. We did not reach our target share of no more than 10% of the total workforce at KRONES AG as laid out in a company agreement.

➔ We consider the use of temporary employees necessary in order to respond quickly to changes in market demand. In light of amendments to the German Labour Leasing Act (Arbeitnehmerüberlassungsgesetz), which entered into force in 2017, we will review and revise our strategy with respect to the use of temporary workers.

The number of employees at our sites abroad increased 22.4% in 2016. This figure includes 448 employees who came to the company as a result of our acquisition of SYSTEM LOGISTICS S.P.A., Italy, and TRANS-MARKET LLC, USA.

Satisfactory share of female employees in non-technical areas

We continue to work to increase the share of women in our workforce. Women currently make up 13.7% of our workforce (previous year: 13.6%).

➔ The overview of employment types shows that the low share of female employees overall stems primarily from our production operations. Women are well represented in non-technical departments, accounting for as much as 48% of those teams.

➔ The share of women in management improved to 5.9% (previous year: 5.3%), demonstrating our ongoing efforts to give women greater consideration for such positions.

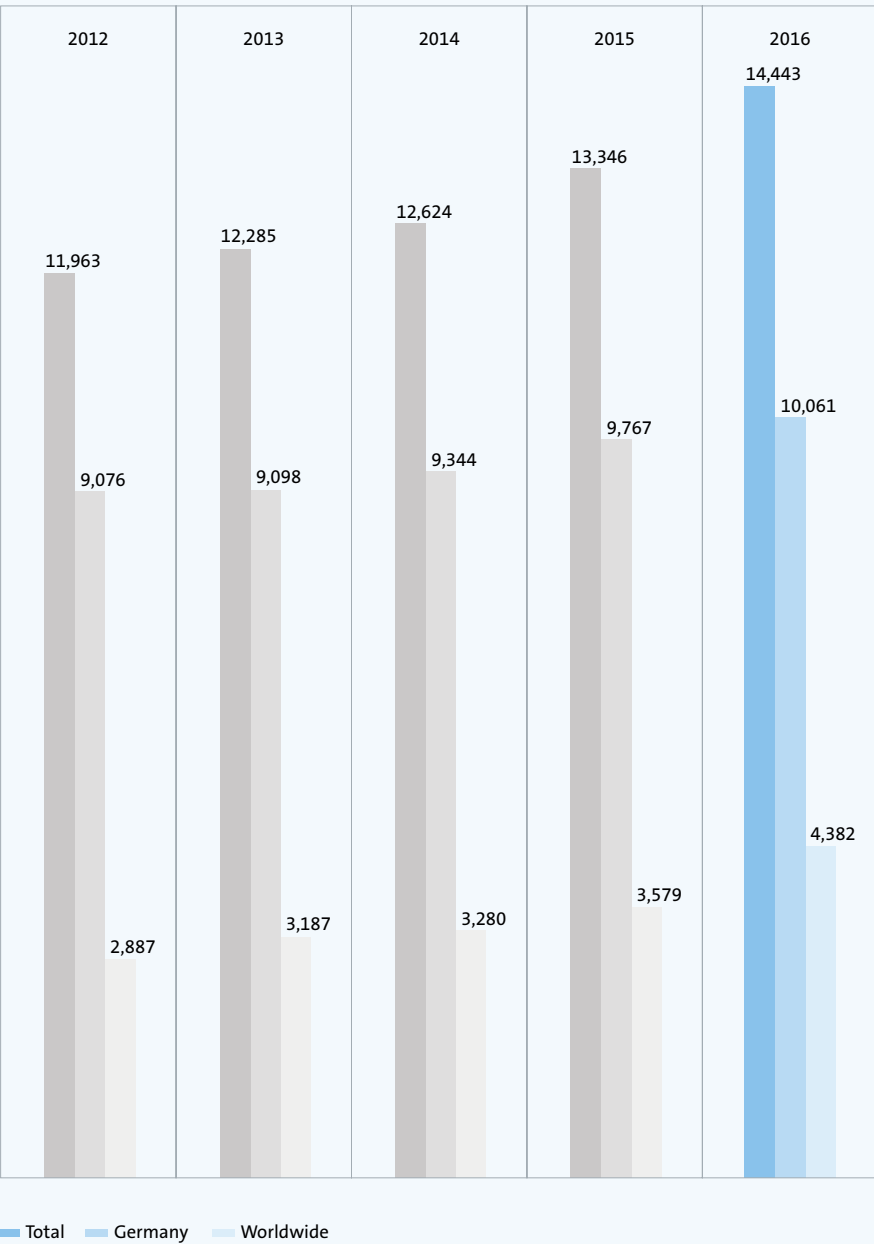
➔ The share of female employees at our international sites is between 32.9% (CIS) and 12.0% (North America).

We are approaching compliance with Germany's Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector.

➔ Fulfilment of the requirement that women and men each hold at least 30 percent of the seats on the Supervisory Board is discussed in the Corporate Governance section of KRONES' 2016 Annual Report.

Disabled and equal status employees made up 6.0% of KRONES AG's workforce in 2016 (previous year: 5.7%).

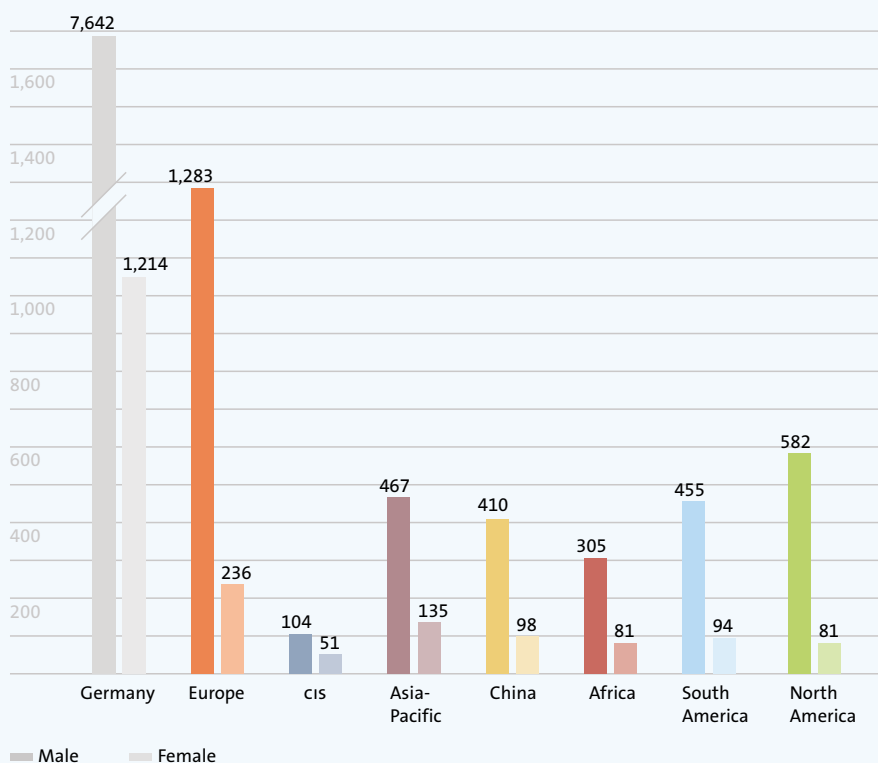
KRONES Group – Employees by region



30.3% of our workforce is employed at sites outside Germany. That is 803 more than in the previous year. This figure includes 448 employees acquired with SYSTEM LOGISTICS, Italy, and TRANS-MARKET, USA.

The number of employees in Germany increased by 3%, which includes employees at all KRONES Group companies in Germany.

KRONES Group – Total workforce by region and gender in 2016

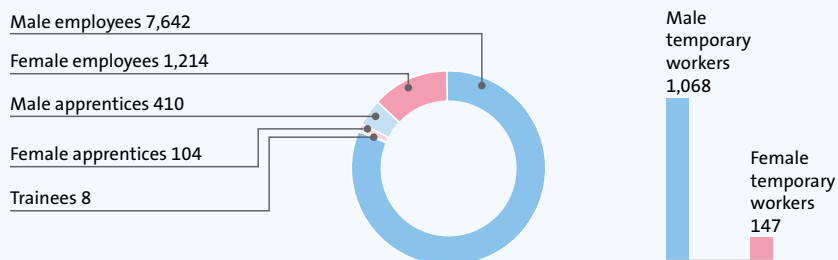


The KRONES Group employs 11,248 men and 1,990 women worldwide.

In addition to employees at our sales offices, the figures for Europe also include employees of the subsidiaries KOSME, KONPLAN, MAINTEC, and SYSTEM LOGISTICS, which are also located in Europe.

The number of employees shown for North America includes KRONES INC. as well as TRANS-MARKET.

KRONES AG – Workforce structure in 2016



In 2016, KRONES AG employed 9,378 persons. That is up 2.4% compared with the previous year. In addition, KRONES AG employs 1,215 temporary workers. That is equal to 12.96% of the total workforce (previous year: 13.51%).

3.4% of people employed at KRONES AG are citizens of countries other than Germany (previous year: 3.3%).

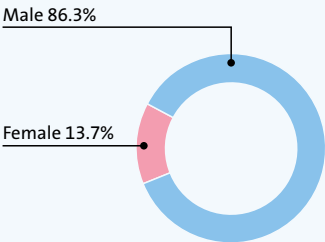
KRONES Group – Management structure in 2016

	KRONES AG	KRONES worldwide
Executive Board		6
Senior management	26	6
Management	686	227

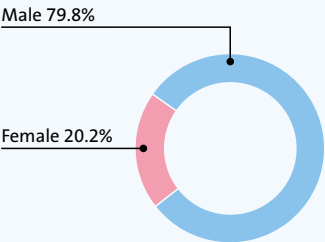
In all, KRONES AG employed 718 management staff in 2016. That is a share of 7.7% of the workforce. At the international sites, 233 employees had management responsibility. That is a share of 5.3% of the total workforce.

KRONES AG – Male/female employees in 2016

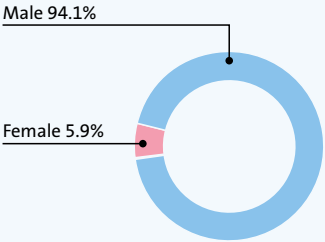
Total workforce



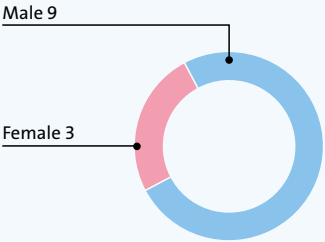
Young talent



Management



Supervisory Board members



The share of female employees at KRONES AG was 13.7% in 2016 (previous year: 13.6%).

Among our young talent, the share of female apprentices was 20.2% (previous year: 21.6%).

The share of female managers at KRONES AG is 5.9% (previous year: 5.3%).

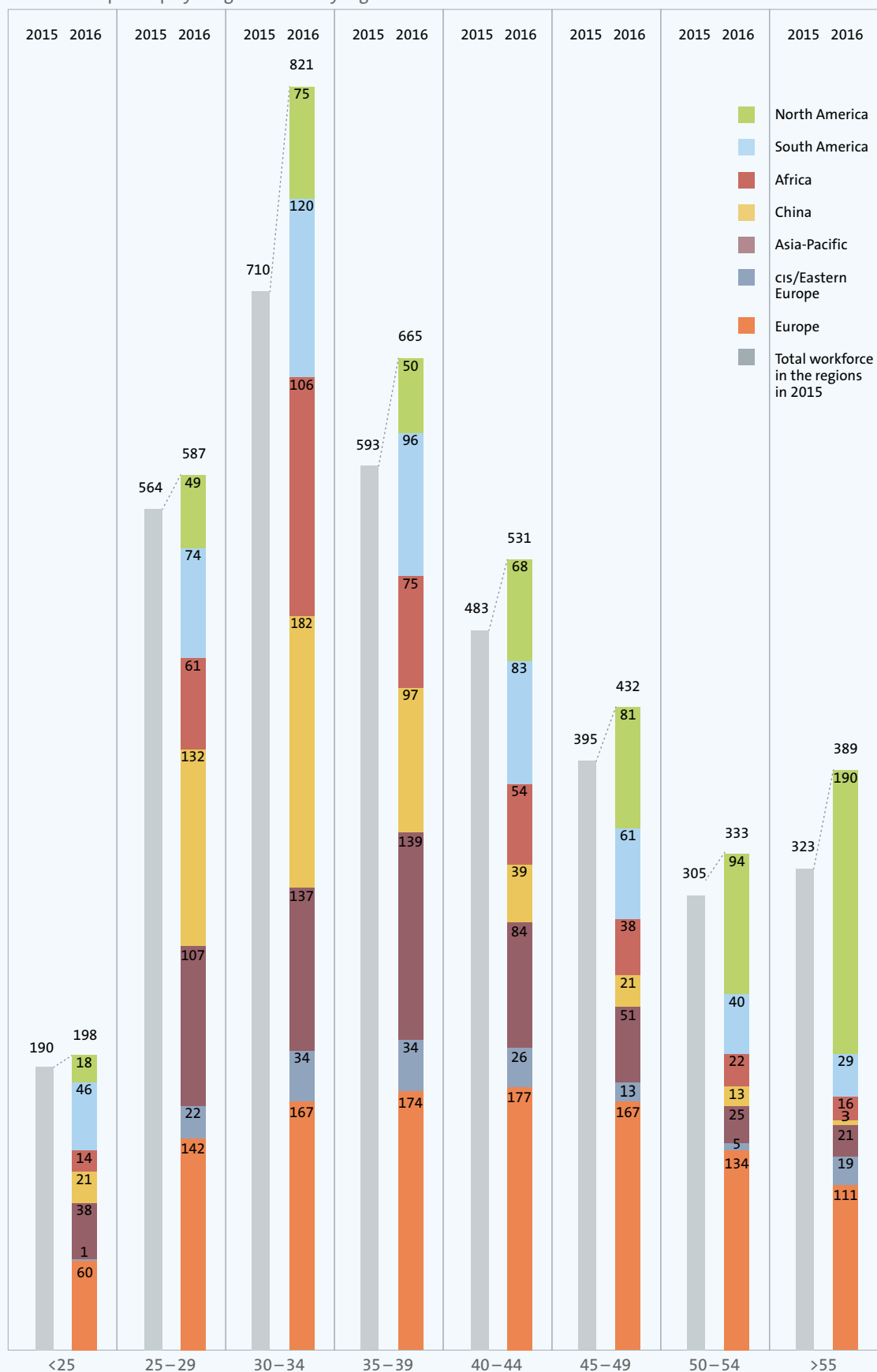
The Supervisory Board consisted of nine men and three women in 2016. In the previous year, there were ten men and two women on the board.

KRONES AG – Employment types

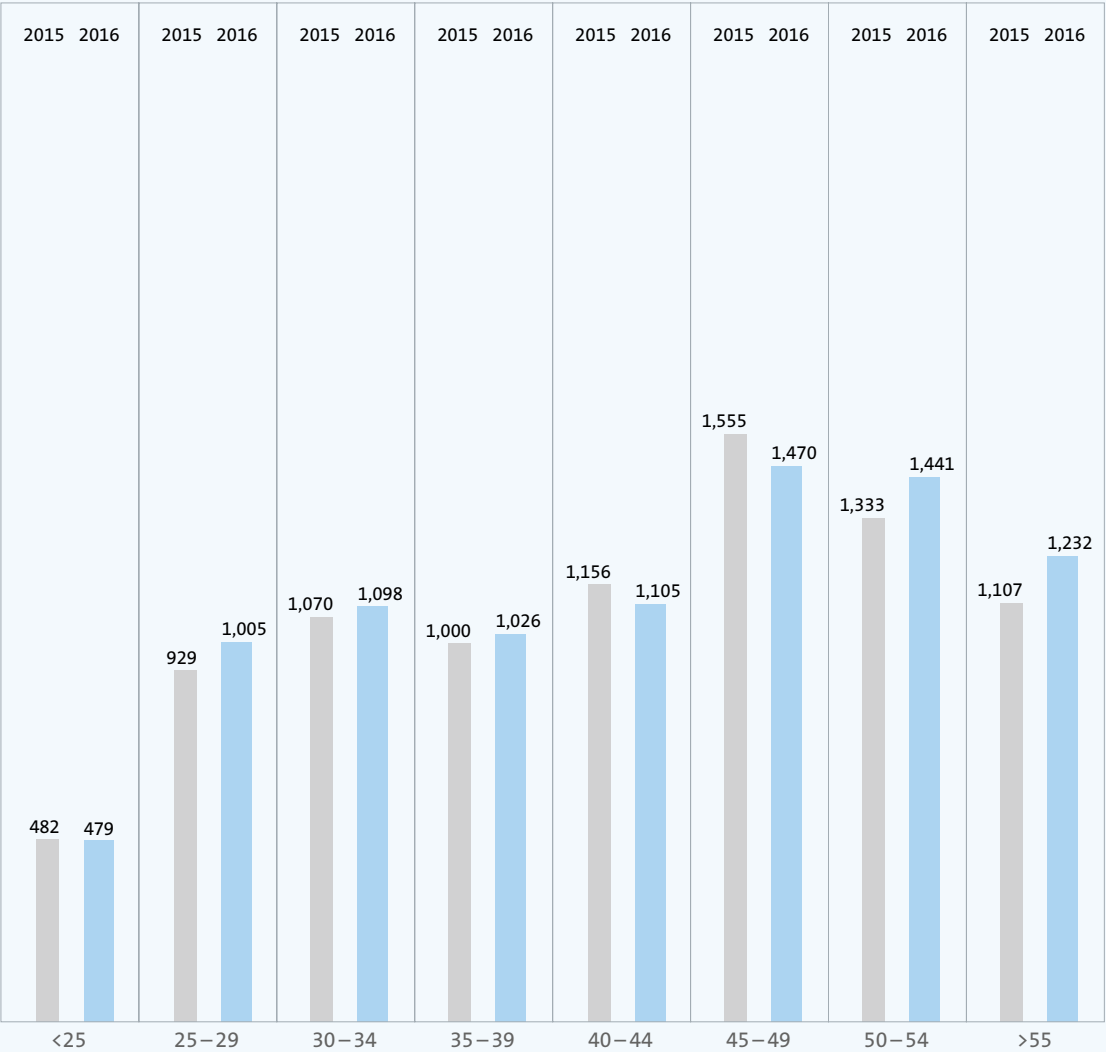
	2016		2015
	Total	of which female employees	Total
Total workforce (all employees and supervised workers)	9,378	13.7%	9,158
■ Business units	7,499	8.7%	7,424
■ Human resources, communication, quality	1,032	26.9%	741
■ Finance and controlling	237	41.4%	417
■ Sales and marketing	610	48.0%	576

In non-technical areas, women make up between 26.9% and 48.0% of KRONES AG's workforce. In the business units, which include all of our production employees, the share of women is 8.7%.

KRONES Group – Employee age structure by region



KRONES AG – Age structure



In the age structure chart for the regions, the figure for Europe also includes the subsidiaries KOSME, MAINTEC, and KONPLAN. Employees of SYSTEM LOGISTICS are not included here. The data for the region North America includes the age structure of the workforce of TRANS-MARKET.

Of the employees at our international sites, 2,271 are younger than 40 years old. That is a share of 56.9%.

The average age of employees – excluding apprentices – at KRONES AG is 42.1 years (previous year: 41.9 years).

Our Supervisory Board includes three members in the 30 to 50 age category. The remaining nine members are over 50 years old.



We value long-term relationships with our employees

We are continually evolving existing structures and adapting them to new circumstances. Throughout all restructuring, we safeguard existing employment relationships by way of an extensive job security programme and by using tools like temporary work contracts to lend flexibility where needed.

As a result, we have not had to resort to significant lay-offs in recent years. However, we will depend increasingly on our employees' willingness to be flexible, learning new skills and possibly moving jobs within the company.

Andreas Horn

Head of Human Resources and Social Affairs

Attractive and fair working conditions worldwide

One imperative of our HR strategy is to provide employees with fair, appropriate working conditions as specified in our Code of Conduct. These expectations are discussed in close collaboration with our employee representatives, who are involved in processes for all sites in Germany in accordance with the provisions of the Works Council Constitution Act (Betriebsverfassungsgesetz). The Code of Conduct is also binding at all of our sites worldwide. The managing directors of our offices worldwide take guidance from local laws and the standards of the KRONES Group.

Locational continuity

Our German sites remain important for KRONES. We will continue to rely on the expertise of our people in Germany.

- ➔ The current company agreement on job security includes an employment guarantee through 2018. We are in talks with employee representatives to align expectations for the time after 2018.
- We will continue to pursue the steady growth of recent years in accordance with our published targets. We offer our employees engaging, secure jobs and fair conditions.*
- ➔ The overview of hiring and employee turnover rates shows that we are expanding our workforce overall, with workforce growth closely linked to the business potential expected in the various regions of the world.
- ➔ If earnings are down for an extended period, restructuring in certain business areas cannot be avoided entirely. If such measures become necessary, we will make this public in our annual financial reporting. In 2014, we reported on the restructuring at KOSME Italy.

Fair pay structure

Pay structures in Germany are based on the framework collective agreement for the metalworking union, which we apply by way of a recognition agreement. At our sites worldwide, we ensure that conditions are appropriate to the respective markets.

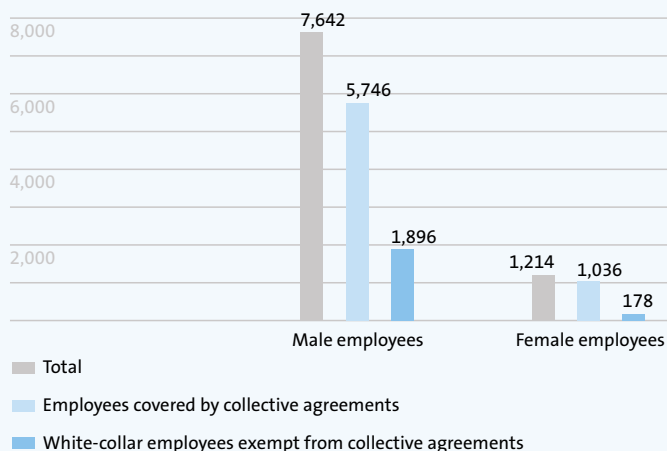
- ➔ The recognition agreement covers 61% of the KRONES Group's employees.
- ➔ We work ceaselessly to achieve conformity with collective agreements and to increasingly bring contracts that are unnecessarily exempt into line with collective agreements. In 2016, 76.6% of KRONES AG's employees were covered by collective agreements (previous year: 75.8%) and 23.4% (previous year: 24.2%) were exempt.
- ➔ Men and women receive nearly equal pay. The ratio of base pay for employees whose pay is covered by collective agreement or whose pay is exempt is 1:0.98, men to women (as in the previous year). Among management employees, the ratio is 1:0.91 (previous year: 1:0.94).

KRONES AG has committed to work with staffing services that are subject to and adhere to collective agreements for temporary workers. Moreover, the pay structure for our temporary workers is analogous to the general pay structure for KRONES employees.

The company agreements relate to all employees of KRONES AG and, in some cases, to temporary workers. The companies EVOGUARD, KIC KRONES, and ECOMAC also adopt the agreements as applicable. As a result, these collective agreements cover 65% of the KRONES Group's total workforce.

The notice periods regarding significant operational changes are specified in the relevant company agreements or in the provisions of the law.

KRONES AG – Pay types in 2016



Of our male employees, 5,746 or 75.2% are paid in accordance with the collective bargaining provisions of the recognition agreement with the German metalworkers' union, IG Metall. The other 24.8% of male employees are paid under contracts that are exempt from this agreement. Of our female employees, 85.3% are paid under the collective bargaining agreement and 14.7% are paid outside the collective bargaining agreement.

KRONES AG – Ratio of base salary and pay of men to women in 2016

Employees covered by and exempt from collective agreements	1 : 0.98 (same as previous year)
Management	1 : 0.91 (previous year: 1 : 0.94)

Pay agreements for all employees are based on task-related categories which do not take employees' gender into account.

KRONES AG – Employee benefits

Employee benefits	Full-time employees	Part-time employees	Limited-term employees
Disability insurance	x	x	x
Night shift work on holiday/night shift bonus/hardship allowance/shift work/Sunday bonus	x	x	x
Parental leave	x	x	x
Preventative health care	x	x	x
Travel allowance	x	x	x
On-call bonus	x	x	x
Post-employment benefits	x	x	Possible back payment (without interest) if contract made permanent
Allowance for protective footwear	x	x	x
Membership in company health insurance fund (BKK)	x	x	x

Additional benefits that are available to all employees include use of community facilities, allowances for the cafeteria and parking, benefits from solidarity and assistance funds, and the payment by the employer of flat-rate tax on certain benefits.

Knowledge and expertise on all aspects of the technology for producing and filling beverages and understanding of the market are invaluable and often the key to unlocking markets. It is in our interest to win the loyalty of our employees for the long term. We have adopted flexible working time solutions in order to meet the varied needs of our employees with respect to their working lives. These include programmes for older employees approaching retirement age. We also adhere to the provisions of the law with respect to parental leave and long-term caregiver leave. We continually review employee requests regarding flexible working time options.

Employee turnover is low in Germany, 2.2% (previous year: 1.8%). We interpret that as an indication of high satisfaction among employees with the conditions of their employment.

➡ Employee turnover rates worldwide are also stabilising. As in the previous year, the numbers for the different regions are between 4.7% and 12.7%.

Personalisation of working hours

The numerous options for employees to organise their working time have been well received.

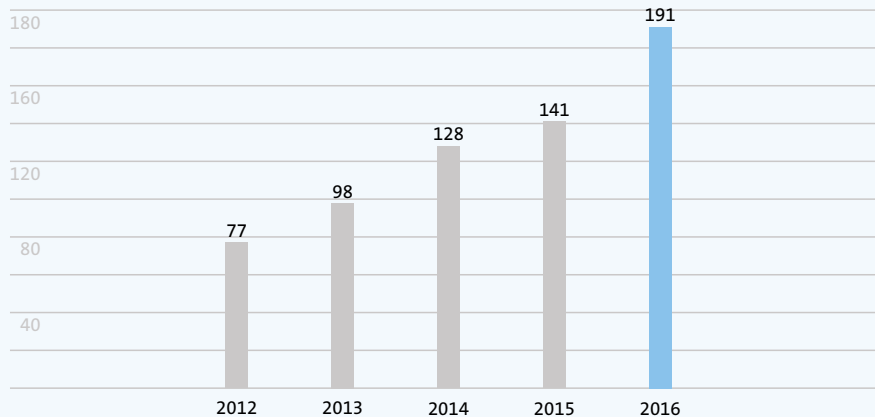
- ➡ Long-term flextime accounts and standard working time accounts allow our employees a variety of means for adapting their working time to their individual needs.
- ➡ Our records show a steady increase from year to year in the number of employees taking a sabbatical or opting for part-time employment. The share of employees taking parental leave (including part-time leave) is also rising steadily.
- ➡ The switch to work part time will depend on whether the employee's duties are suited to it. In 2016, 5.3% of our employees worked part-time (previous year: 5.0%).
- ➡ Growing interest in working from home is currently being addressed in a pilot project at our Neutraubling site. The pilot project "Mobile working" kicked off at the start of 2017 and is being implemented in 11 areas. We expect to have initial results at the end of the year.

Requests for partial retirement may be denied on operational grounds if deemed necessary in order to keep the company functioning properly (irrespective of the 4% quota).

For older employees who are approaching but not yet at retirement age, we offer partial retirement options that may entail alternating phases of working and leave or a continuous phase of part-time work over the entire duration of the partial retirement.

- ➡ In 2016, the share of employees in partial retirement was 3.5% (previous year: 3.6%). 284 people took advantage of the partial retirement option.
- ➡ In January 2016, a new company agreement on partial retirement was signed which set a cap of 4% on the share of employees who may be in partial retirement across all of our plants in Germany (incl. ECOMAC and KIC KRONES). Partial retirement requests beyond this cap may be approved by the Executive Board.

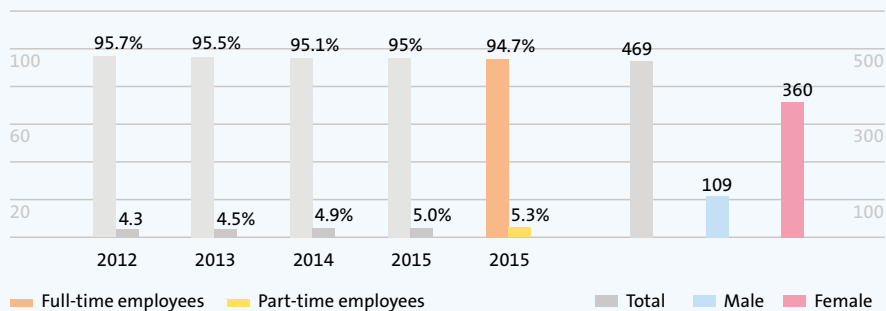
KRONES AG – Employees on sabbatical 2016



Employees who have been with the company for two years are entitled to take a sabbatical of up to six months and return to their old job afterwards.

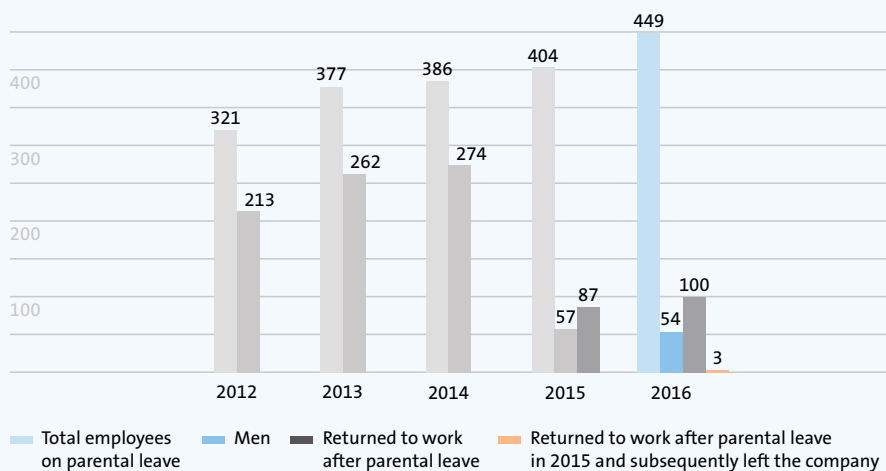
KRONES AG – Full-time and part-time employment

Part-time employees 2016



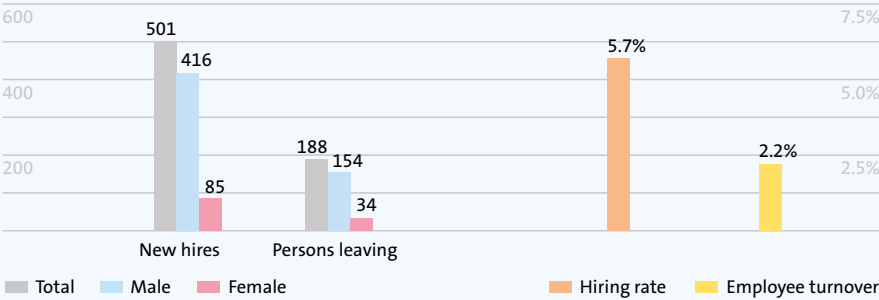
Of the total number of employees working part-time, 23.2% are male.

KRONES AG – Employees on parental leave



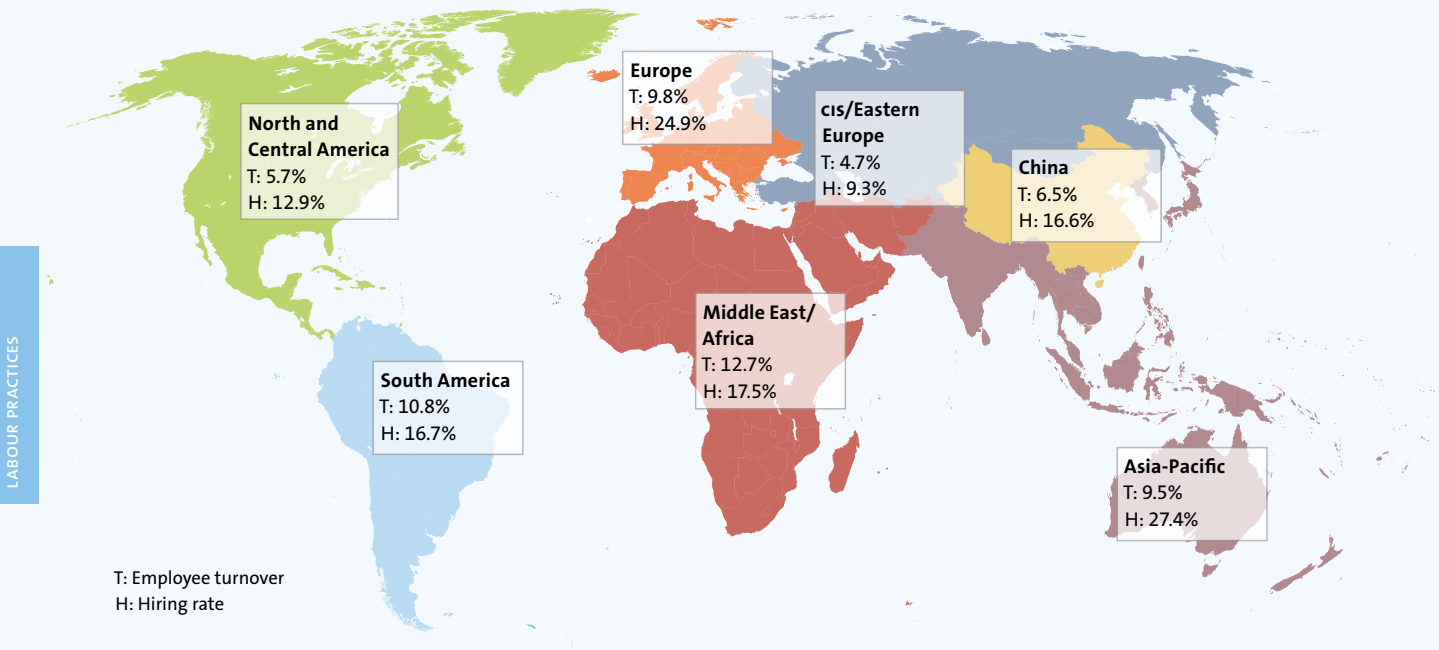
449 employees took parental leave in 2016. For 2015 and subsequent years, employees on parental leave will only be included in the measurement if they take more than four weeks off.

KRONES AG – New hires, turnover in 2016



501 new employees started at KRONES AG in 2016. The number of employees who left the company was 188, including all reasons for leaving. The average turnover rate at KRONES AG was 2.2% in 2016 (previous year: 1.8%).

KRONES Group – New hires, turnover in 2016



Employee turnover at our international sites was between 4.7% (cis/Eastern Europe) and 12.7% (Middle East/Africa) in 2016.

The figures for new hiring were between 9.3% and 27.4% across all sites.

The high rate of new hiring (24.9%) in Europe resulted from the acquisition of a majority stake in SYSTEM LOGISTICS, Italy.



Developing employee qualifications

Competence management is an important aspect of the improvements we are making in our continuing education offerings. A new software solution that enables us to better track the skills and professional development of our employees will be an important part of our strategy going forward. This new concept will serve as a basis for developing and evolving our continuing education programming.

By building our competence management, we will achieve our goal of ensuring that our people are optimally trained and skilled to perform their work.

Veiko von Eckern
Head of Personnel Development

Our activities on the world's markets require highly qualified people. That is why, in addition to our more traditional training programme in Germany, we have developed special skill-building projects at some of our international sites aimed at increasing the competence of our trainees. In addition, we offer our employees numerous opportunities to enhance and build on their existing qualifications. As the skills demanded of our employees vary more and more widely, it only makes sense that KRONES evolve its competence management.

In close collaboration with the Chinese university Hubei Light Industry Technology Institute, KRONES Taicang was honoured as "best partner for dual training and education" in China.

In the last three years, we have successfully implemented measures under our existing professional development strategy for management and employees. We are currently working to develop this concept further.

- ➔ The competence management programme, with individual and group development reviews, was no longer sufficiently effective last year since the actions previously agreed on for individual employees had already been completed. Therefore, the number of reviews conducted decreased to 2,200 (previous year: 5,200).
- ➔ Our reconfiguration of the programme is now closely tied to implementation of a new software solution for collecting information on and developing our employees' skills. We are currently testing the new programme in a pilot project. The pilot project is slated for completion in 2018.
- ➔ We are currently evaluating the existing programme for the continued professional development of our management employees for potential modifications as well.

High participation in continuing education opportunities

It is important to us that we offer our employees comprehensive opportunities for continuing education. In 2016, participation in continuing education courses was high, similar to the previous year.

- ➔ The number of participants in development opportunities was 15,800 in 2016 (previous year: 16,000). In addition to these courses, our employees also had access to e-learning opportunities. We have recorded 21,000 participants in e-learning, of which around 50% were from our offices outside Germany.
- ➔ The training portal currently offers around 600 different training options.
- ➔ Our professional development programme for management employees reached 78 participants in 2016, of which 56 were from Germany and 22 were from our sites outside Germany.

In-house training as a key to success

In-house training will continue to hold an important place at KRONES. The number of apprentices we take on remains closely linked to the potential space available for new hires. The commitment to permanently hire apprentices upon completion of their training is part of our recognition agreement with the German metalworkers' union.

⇒ We permanently hired 118 young employees upon completion of their vocational training in 2016 (previous year: 127). Twenty-five young people had other plans following completion of their training or began work on additional qualifications.

⇒ Since we are currently training more people than we have need for in-house, we may not offer permanent employment contracts to all apprentices completing their vocational training in 2017.

We have also established vocational training concepts at sites outside Germany to bolster our company's increased activities worldwide. Ensuring that young people have a solid foundation in the skills required for building special-purpose machinery is important to us.

⇒ At our facility in Nairobi, Kenya, nine young talents completed their intermediate examinations for industrial electronics in accordance with German standards. At the end of their programme in 2017, these trainees will support projects at the East Africa LCS Center as mechatronics technicians.

We are training young talent in Taicang, China, and Nairobi, Kenya, in a programme that is closely modelled after the German system of vocational training.

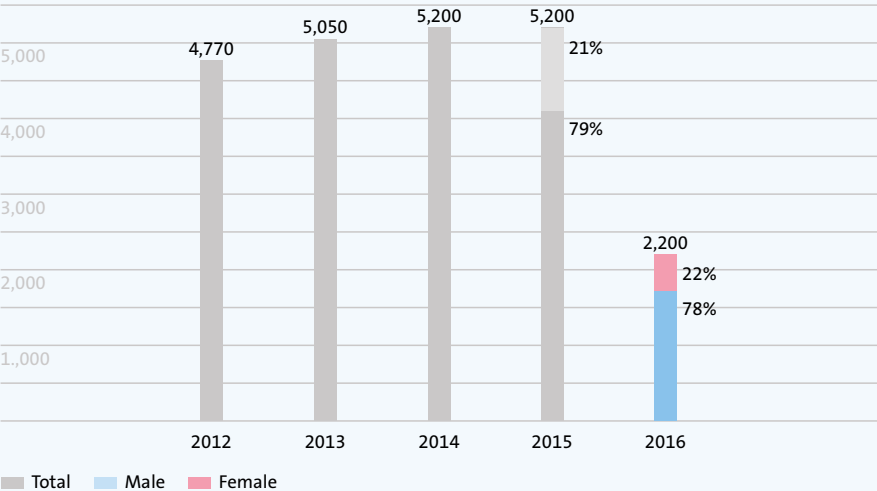
Another ten young people began training under the programme in January 2017.

⇒ In China, we are training 60 young people each year as mechatronics technicians or metal milling machinists. The training is done in collaboration with local schools, particularly the brewing academy in Wuhan.

⇒ The trainee programme we launched in China in 2016, has been a success. Four trainees are now ready for work at our site in China.

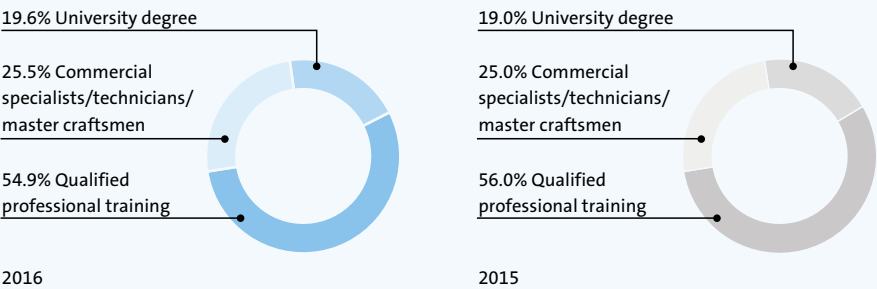
⇒ In 2016, apprentices from Germany – seven international sales clerks and three aspiring engineers from our dual course of vocational training and university study – were able to gain international experience at various KRONES offices abroad.

KRONES AG – Individual and group development reviews



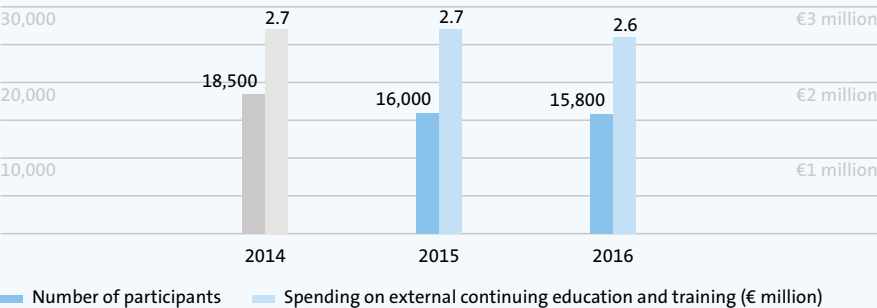
Employees and their supervisors decided themselves whether to conduct individual and group development reviews in 2016. It is clear that it is time to change tack.

KRONES AG – Employee qualifications in Germany



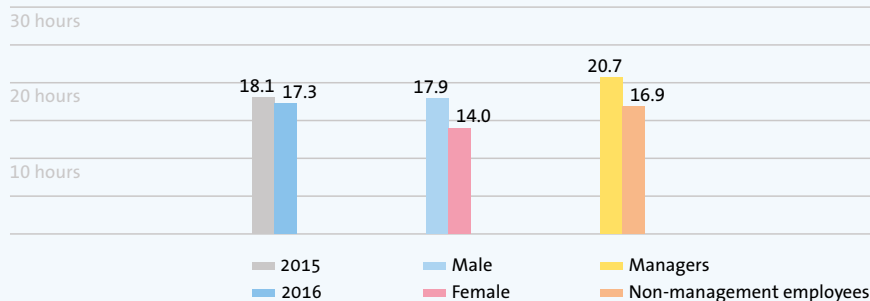
As we continue to align our company more to the international markets highly qualified employees will play an essential role in ensuring that management processes are carried out effectively worldwide.

KRONES AG – Participation in continuing education measures



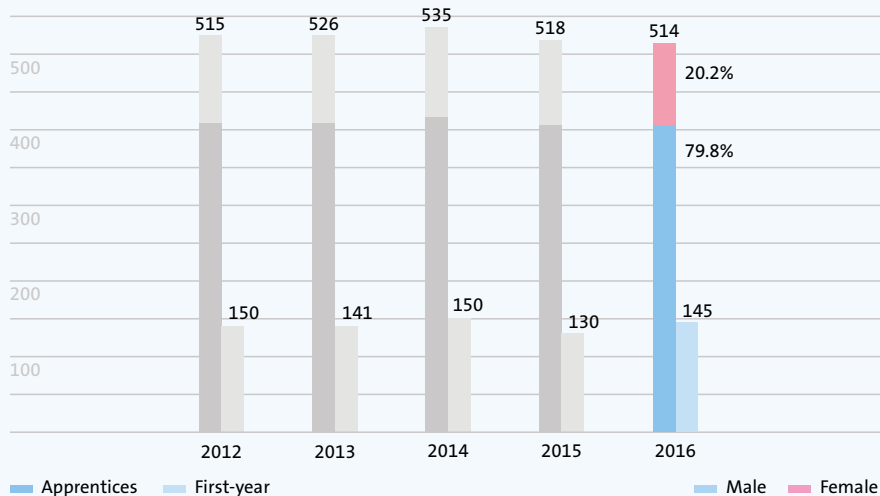
The number of participants in continuing education and training opportunities was nearly the same in 2016 as in the previous year.

KRONES AG – Average time spent on continuing education per employee in 2016



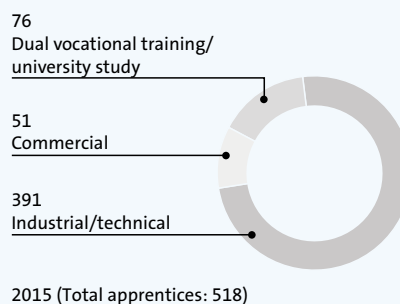
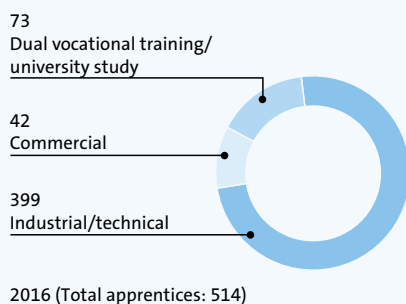
The average time spent on continuing education measures per employee in 2016 was 17.3 hours, which is slightly lower than in the previous year (18.1 hours).

KRONES AG – Apprentices (total and first-year)



Our training rate was 5.5% in 2016 (previous year: 5.7%).

KRONES AG – Apprentices by field



We are ensuring access to qualified young talent in our German plants. The focus of our vocational training programmes is on industrial and technical fields. Of our apprentices in training, 77.6% are in these fields.

The health and well-being of our employees is essential and must therefore be a core part of our corporate culture. For this reason, we have begun to bundle all aspects and activities relating to employee health in an occupational health management programme. A team of experts comprising members of our HR department, occupational safety and health team, counselling service, in-house medical service, and company health insurance fund is developing the programme's framework. The core objective of an occupational health management programme is to promote the health and well-being of employees through preventive measures, to identify factors that may lead to illness, and – to the extent possible – to eliminate or prevent these factors. In this way, we can safeguard our employees' health, increase employee satisfaction, and bolster employees' ability to work for the long term.

Survey on occupational health management

In order to plan the occupational health management programme purposefully, we conducted a pilot project in 2016 which included a survey of employees at our Nittenau plant.

➞ The response rate to the survey was good, at 68%. The survey focused on questions such as a subjective assessment of one's health and strengths, resources available at work, and the stresses and workloads experienced at work. Employees responded largely positively to questions about reconciling work with their personal lives and about their own ability to perform their work under current circumstances. However, the survey revealed areas that need work, particularly with regard to environmental factors at work. These include such things as noise, lighting, and drafts. Nittenau employees also expressed a wish for more support, for themselves and their supervisors, in increasing their own health awareness and knowledge.

➞ Once the first measures have been successfully implemented in Nittenau and we have seen initial results, we intend to roll out the occupational health management programme in stages at our other plants.

Overarching measures for protecting occupational health will continue to be carried out across plants or at specific plants as relevant, independent of the occupational health management programme.

➞ Across-the-board rules for protecting non-smokers have been in place at all of our German sites since the second quarter of 2016.

➞ KOSME Safety Culture is a programme at our Italian subsidiary that is raising awareness of safety, prevention of occupational illnesses and accidents, and overarching aspects of staying healthy in general.

KRONES provides in-house counselling as a voluntary, independent service for employees who need help coping with difficulties relating to work or their personal lives within a framework of confidentiality.

Rehabilitating employees from long-term sick leave

We have had great success with workplace rehabilitation management (WRM). Reintegrating employees who have been on long-term sick leave is an obligation under Germany's German Social Security Code (Sozialgesetzbuch) and our process has proven highly effective. Our WRM team consists of the employees themselves, their HR business partners, the Works Council, the disabled employees' representative, and our counselling service, which coordinates the WRM process for our German sites.

➞ In 2016, we began communication with 103 employees on long-term sick leave regarding their reintegration into the workplace. Through our WRM team's work, we were able to permanently rehabilitate 58 employees (previous year: 27). This sharp increase resulted from close scheduling, a high level of willingness on the part of the affected employees to accept our offer of assistance, and a high level of effort on the part of our HR business partners to include affected employees in the programme.

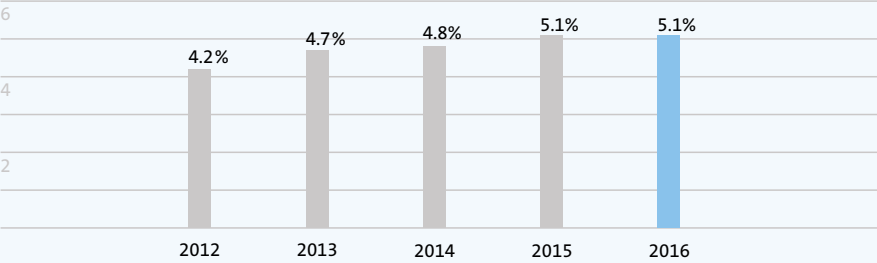
The legal obligation of employers to conduct WRM is laid out in Section 84, Paragraph 2, Volume nine of the German Social Security Code), which contains wording that requires companies to offer workplace rehabilitation management (WRM) to long-term sick employees.

➞ The average period of absence among long-term sick employees was 193 days before we began collaborating on rehabilitation. After successful WRM, that figure dropped to 12.8 days. The average age of employees in the WRM programme was 50 years.

➞ We were able to publish a WRM success story in our employee magazine, KRONES world, for the first time, featuring an employee who had been on long-term sick leave. This personal story will further promote trust in our WRM activities.

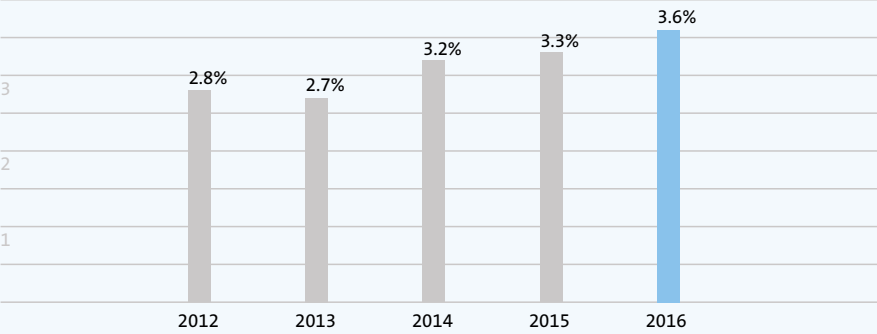
➞ We expect future WRM activities to be at a similar level. Further increasing the rate of employee rehabilitation will not likely be feasible due to the considerable time involved in coordinating and the limited capacity of those involved in the process.

KRONES AG – Absenteeism



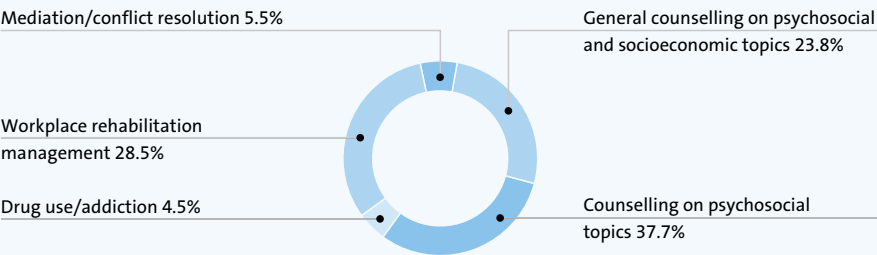
Absenteeism was stable for the first time in 2016 after having risen slightly for each of the past several years. However, since our employees – like all others – are subject to the usual illnesses of winter time, this year’s numbers do not necessarily indicate a long-term flattening of the trend.

KRONES Germany – Counselling cases based on total number of employees



Our company’s social counselling service is a voluntary service that KRONES offers to support employees experiencing work-related or personal difficulties. The increase in counselling cases in 2016 can be directly attributed to the increase in workplace rehabilitation management (WRM) activity.

KRONES AG – Main counselling topics in 2016



WRM measures require an average of around four months of counselling from start to finish. In 2016, our counselling service added 103 cases to the WRM process. In 58 cases, some of which were carry-overs from the previous year, the employees were successfully reintegrated into the workforce.



Returning to work, one step at a time

Workplace rehabilitation management (WRM) helps employees return to work. Thanks to the cooperation of everyone involved in the process, Günther Schneider was able to resume his duties after a long illness.

After some adjustments were made in his department to accommodate his rehabilitation and subsequent time spent becoming reacquainted with work flows, Günther Schneider is fully back to work. In his words, "For me, work was the best therapy."

Günther Schneider (left) with counsellor Wolfgang Bernkopf (right)

We protect our employees at work with comprehensive measures under our occupational safety management system. Our activities in Germany are based on the provisions of laws and employers' liability insurance association rules and regulations. We also adhere to local laws on occupational safety at our sites worldwide. We are certified under the Occupational Health and Safety Advisory Services (OHSAS) standard. This certification was expanded to cover all IMS-certified sites.

Occupational safety data is monitored and presented to the Executive Board on an ongoing basis. Action items relating to occupational safety are determined in collaboration between the Head of Corporate Safety and Security and the occupational safety specialists within the different business lines and implemented with active communication between managers and employees. An indication of the success of this continuous monitoring is the fact that we further reduced the rate of reportable work-related accidents per 1,000 employees in 2016.

Evaluating the rules for occupational safety is the purview of the occupational safety committees, which integrate the Works Council and therefore represent the entire workforce.

We have set ourselves a target of reducing the rate of reportable work-related accidents per 1,000 employees by 5% each year through 2020.

- ⇒ In 2016, we were able to reduce the rate of reportable work-related accidents per 1,000 employees to 17.7 – a decrease of 23.7% year-on-year, which we consider a great success. The improved system for assessing hazards, which we described in last year's report, was instrumental in our success here.
- ⇒ The rate of reportable work-related accidents per 1,000 employees was 20.1% among men and 3.8% among women. This number is based on the number of work-related accidents resulting in one or more lost days of work.
- ⇒ We use a matrix to specify our targets for the rate of reportable work-related accidents per 1,000 employees and the absolute number of accidents for the individual business lines.
- ⇒ Our statistics show 23 different types of injury. Since our production workflows involve numerous steps that must be executed manually, injuries to fingers, arms, and feet were the most common. There were no work-related fatalities in 2016.

Continuous improvement of the quality of data collection remains important.

- ⇒ For example, we intend to better document smaller incidents and near-misses in the business units.
- ⇒ We also see potential for improvement in our accident analyses, where we want to get to the root cause.

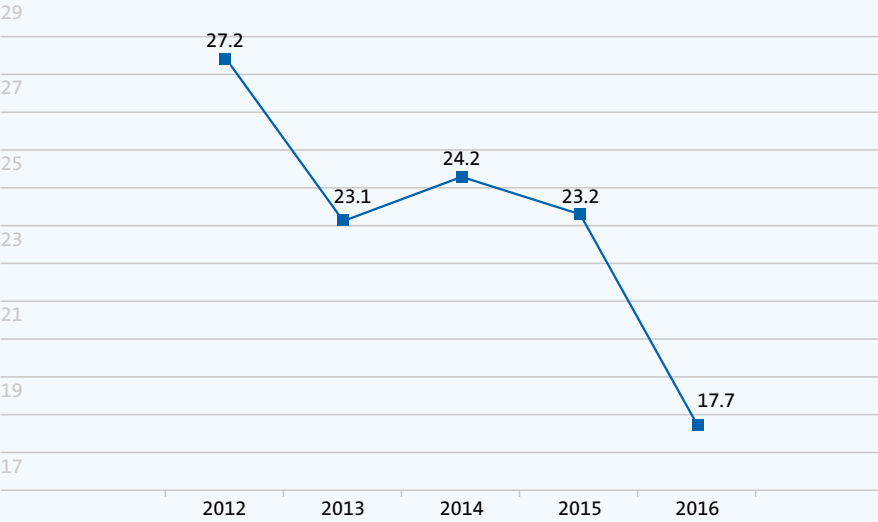
Improving the flow of information on construction site safety

Our efforts to document accident scenarios also focus on our on-site installation activities.

- ➔ In 2016, we assigned responsibility for occupational safety tasks relating to on-location installation work to the central Corporate Safety and Security department. Construction site safety was previously the purview of the head of on-site installation.
- ➔ We have noted that our documentation of work-related accidents at these sites is in need of improvement. There is also potential for further development in how we derive concrete guidelines from incidents. Unfortunately, because construction sites are distributed across the globe, it is often difficult for the safety expert responsible to participate in the process of gaining insights and decisions on remedial actions on site.
- ➔ However, by systematically analysing accidents we intend to make it possible for safety experts and managers to better determine when similar situations may arise at construction sites and prevent hazards.
- ➔ Individual hazard assessment at every construction site is necessary and can make an important contribution to workplace safety. It is an integral part of the job preparation process for project leads and is often a fundamental requirement made by customers.
- ➔ Construction site audits on occupational safety are conducted on an ongoing basis. Our most urgent objective is to visit regularly with all construction site foremen to improve awareness and thus to more firmly establish the topic of occupational safety within our on-site installation operations.

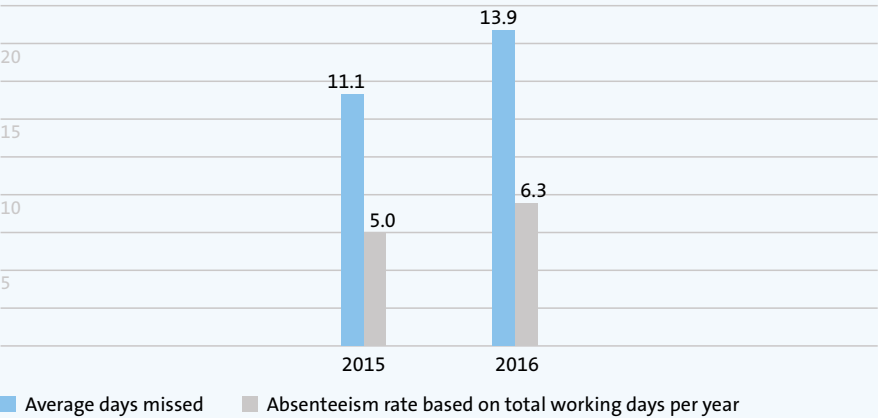
One new case of an occupational disease was reported to the employers' liability insurance association. In all, 79 cases of occupational illness have been recorded. We do not have information about possible links between these diagnoses and the employees' work at KRONES because the insurance carrier is not permitted to share this information with us for reasons of data privacy.

KRONES AG – Reportable work-related accidents per 1,000 employees (1 or more days lost time)



At our plants in Germany, we had an overall rate of work-related accidents with one or more days lost time of 17.7 per 1,000 employees in 2016 (previous year: 23.2). That is down 23.7% from 2015.

KRONES AG – Days of work missed following a work-related accident



The average number of days of absence following a work accident was 13.9 days in 2016 (previous year: 11.1 days). Based on the total number of working days in the year, that translates to an absence rate of 6.3 for all injured workers.



Occupational safety is a high priority

We track all accidents in an ongoing monitoring process and report the data to the Executive Board, which then requests options for further action.

We are continually improving the quality of reporting and are able to use the information to systematically improve potential hazard situations. Our analysis of situations at construction sites is still in need of improvement. The difficulty there is that we are unable to obtain details in real time.

Ulrich Schäfer
Head of Corporate Safety and Security

Goals	Actions	Target date
Internationalise HR activities	<ul style="list-style-type: none"> ■ Define and implement international processes <ul style="list-style-type: none"> □ <i>Further analyses are being done</i> 	2017
	<ul style="list-style-type: none"> ■ Establish HR expertise at our international sites <ul style="list-style-type: none"> □ <i>Implementing regional framework for North America, Latin America, Asia-Pacific, China, and Africa</i> 	2017
Increase employee qualifications	<ul style="list-style-type: none"> ■ Continuously evolve competence management <ul style="list-style-type: none"> □ <i>Revising competence management in conjunction with roll-out of talent management software</i> 	in progress
	<ul style="list-style-type: none"> ■ Adjust training and continuing education offerings <ul style="list-style-type: none"> □ <i>Continually expanding the training offerings</i> 	ongoing
	<ul style="list-style-type: none"> ■ International workforce structures <ul style="list-style-type: none"> □ <i>Increasing the use of e-learning options</i> 	ongoing
Secure access to the next generation of specialists	<ul style="list-style-type: none"> ■ Accept apprentices in a variety of fields <ul style="list-style-type: none"> □ <i>130 new apprentices were accepted for 2016; 20 different fields of vocational training and university studies offered</i> 	ongoing
	<ul style="list-style-type: none"> ■ Increase service focus with Profil 21 professional training option <ul style="list-style-type: none"> □ <i>The first Profil 21 service graduates have been hired on; concept is being adapted and improved on a regular basis with active feedback from all participants</i> 	in progress
Promote and recruit specialists and skilled workers	<ul style="list-style-type: none"> ■ Collaborate with colleges and universities <ul style="list-style-type: none"> □ <i>Informational events at colleges and universities</i> 	ongoing
	<ul style="list-style-type: none"> ■ Trainee programme <ul style="list-style-type: none"> □ <i>Recruiting trainees</i> □ <i>New trainee programme for Taicang site</i> 	ongoing 2016
	<ul style="list-style-type: none"> ■ Promote intercultural understanding among our skilled workers <ul style="list-style-type: none"> □ <i>Number of Across Borders participants 2015 to 2016: 15 (8 from Germany; 7 from outside Germany)</i> 	ongoing
Occupational health management	<ul style="list-style-type: none"> ■ Coordinate all actions (in-house medical service, company health insurance fund, counselling service, and human resources) <ul style="list-style-type: none"> □ <i>Prioritisation of areas</i> 	in progress
	<ul style="list-style-type: none"> ■ Speed rehabilitation and reintegration of employees who have been on long-term sick leave <ul style="list-style-type: none"> □ <i>Analysis of causes and identification of possibilities for significantly reducing reintegration times has begun</i> 	in progress
	<ul style="list-style-type: none"> □ <i>Workplace Rehabilitation Management policy is being applied</i> 	ongoing

Goals	Actions	Target date
Work-life balance	<ul style="list-style-type: none"> ■ Support employees and their families on assignments abroad <ul style="list-style-type: none"> □ <i>Employee support programme available through Human Resources and Social Affairs (24 employees)</i> 	ongoing
	<ul style="list-style-type: none"> ■ Support management employees' use of sabbatical <ul style="list-style-type: none"> □ <i>191 employees made use of this option in 2016</i> 	ongoing
	<ul style="list-style-type: none"> ■ Optimise parking situation <ul style="list-style-type: none"> □ <i>Coordinating and implementing concept</i> 	2017
Reduce accident rates (per 1,000 employees)	<ul style="list-style-type: none"> ■ Systematic accident analysis <ul style="list-style-type: none"> □ <i>Deriving remedial actions from incidents</i> □ <i>Each incident that results in injury or days of lost work as well as electrical accidents are analysed in detail and communicated within the German sites</i> □ <i>Roll-out in all German plants has begun</i> 	ongoing in progress in progress
	<ul style="list-style-type: none"> ■ Step up hazard assessment <ul style="list-style-type: none"> □ <i>Involving employees in TPM in all areas</i> □ <i>Workplace inspections are done 2–4 x per year in production areas</i> 	in progress ongoing
	<ul style="list-style-type: none"> ■ Further develop systems for employee training and guidance <ul style="list-style-type: none"> □ <i>Currently producing new basic instruction and additional instruction cards (1-point lessons)</i> □ <i>Operating instructions for machines and hazardous materials are undergoing additional revision under a new system</i> 	in progress in progress
	<ul style="list-style-type: none"> ■ Establish more standards that apply internationally 	in progress
	<ul style="list-style-type: none"> ■ Train managers and supervisors in how to deal with illness-related absences <ul style="list-style-type: none"> □ <i>Training concept consists of several modules; almost all managers have completed the training</i> 	ongoing



4,276 visitors toured our production facilities in Neutraubling in 2016.

4,276



69% of our budget for charitable contributions and sponsoring went towards social projects.

69%



280 Bachelors or Masters Degree candidates wrote their theses at KRONES in 2016.

280



2,504 employees responded to our survey on media used for internal communications.

2,504

Social responsibility

In dialogue with numerous stakeholder groups

Ongoing communication with our stakeholders is indispensable. We are part of society and see ourselves as partners in an extensive dialogue with our stakeholders. The relevant departments engage with customers, employees, suppliers, and shareholders on an ongoing basis on key topics of interest to them. Individual specialists within the departments communicate with these stakeholder groups and are supported by our overarching communication concept.

We have defined our partnership with stakeholders and specified concrete expectations and rules regarding these relationships and their use in our Code of Conduct and other policies. That ensures that we are a dependable partner. We abide by the provisions of the law regarding the publication of important information. That applies to our financial reporting as well as documentation of operational information as required by law. Maintaining a good, regular dialogue with the public is also important to us. Our CSR Committee therefore includes members who represent various stakeholder groups and present their concerns. We use various communication channels as appropriate to the occasion and stakeholder group. We firmly believe that in order to properly meet the expectations of our stakeholder groups, decisions must be made and communicated on an individual basis, bearing the respective situation in mind. Of course, a high degree of transparency in all of our activities and accurate information about the circumstances of our actions are essential.

As part of our social engagement efforts, we have a budget for charitable giving and sponsoring. Here, too, we have developed a policy that guides our activities and clearly defines which activities KRONES will support. An important point here is that our charitable giving policy prohibits any donations to political parties or related organisations. We have always adhered strictly to this principal in years past and will continue to do so in the future.

We take ideas gained from various activities and carry them on within our company. We strive to better monitor actions taken by conducting surveys where reasonable and where questions can be clearly framed. In addition, we use social media channels to obtain a general picture of the mood among individual interest groups. Our monitoring of charitable giving and sponsoring has room for improvement, particularly with respect to tracking the long-term impact of our activities. We are currently developing a concept for this purpose, which will go into effect in 2018.

KRONES is a solutions provider for companies in the beverage and liquid food industry. Our compliance policy prohibits us from engaging in lobbying or operating offices in government-related organisations.

Our charitable giving policy strictly prohibits donations to political parties.



In keeping with our desire to maintain a purposeful dialogue with stakeholder groups, we use a variety of means to communicate with the individual groups. The channels we use will depend on the size of the stakeholder group and the concrete reason for the communication. A visit to our website offers a wealth of information for all interested parties.

Being close to customers and understanding their daily operational needs is one of the most important concerns of our sales team. We host occasional expert dialogues and customer seminars to foster the exchange of ideas.

- ➔ In 2016, we hosted an expert dialogue at our offices in Spain, with a focus on LCS products and providing practical examples for improving productivity.
- ➔ At our Taicang, China, site, we hosted 122 beverage producers from across China for a tour of our facility during the China Brew China Beverage trade fair. In particular, these visitors were able to see machinery models that had recently been designed specifically for the region.
- ➔ The team at our local UK office examined the topic of craft brewing and requirements for the craft brewing process.

Topics on all aspects of corporate social responsibility can be found at <https://www.krones.com/en/company/responsibility/sustainability.php>.

Customer days are held at our offices at irregular intervals as a platform for communication.

Evaluating our internal communications

Which channels do our employees use to find out information about the company? Which media do they prefer and what would they like to know more about? We put these questions to employees at our sites in Germany in a corporate communications survey conducted between 25 July and 30 September 2016.

- ➔ The survey focussed on preferences relating to various channels for internal communication, frequency of use, and content.
- ➔ In all, 2,504 employees across Germany gave their opinions about internal communications; 91% of them had access to their own computer.
- ➔ 69% of respondents feel that the information provided is “just right” and 80% use the Intranet daily or more than once per day. Interest in the employee magazine, whether the printed version or the online version, was similarly high: 72% of respondents said they read it regularly. A number of open-ended questions allowed employees to express their wishes or provide ideas for internal communications.
- ➔ The survey results were used for the relaunch of our employee magazine. We also added one more issue to the editorial calendar. As requested, we are working to develop a structured, manageable connection among the various internal communication channels along the lines of a “social intranet”. The launch of the “Executive Board dialogue” project promotes direct communication.



Stakeholder dialogue Keeping employees informed

A team of writers prepares information and news from the various business units, plants, and subsidiaries for various communication channels. An employee survey on internal communications conducted in 2016 helped us find out which media our employees prefer to use and how often they use them. The survey results influence how we implement internal communications – with respect to both the media we use and the content.

*The team (from left to right): Julia Leserer, Maria Seywald, Christina Hackner, Susanne Werner, and Angelika Krempf
Corporate Communications*

Hosting groups of visitors is a traditional communication platform for our company. Tours are particularly geared toward employees and their families.

- ➞ In 2016, we registered considerable interest from universities and other schools, which make up 34.3% of our visitors and are therefore certainly a primary target group. Something new this year: We hosted tours for four groups of asylum seekers.
- ➞ The number of tours and visitors was up compared with 2015. Since tours are an effective and personal means of presenting our company, we will continue to offer them in 2017.

Open communication with communities

As part of our community, we consider it important that we provide timely information about our activities. That includes presenting plans and construction projects and responding to questions from the public.

- ➞ Before starting construction on the expansion of our Raubling plant, we presented the plans in an informational meeting co-hosted with the district council. Citizens' questions related to items such as development rights on the proposed site, the routing of transport vehicles, and employee parking. We also announced at the meeting that the construction project would create new jobs.

Associations and universities as a platform for knowledge sharing

We work closely with trade associations. Such collaboration gives us access to important information such as economic data and current standards work. Our participation in technical conferences also keeps us abreast of topics in the various fields and enables us to participate in knowledge sharing.

- ➞ Our membership in the German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau e.V.) is important. We are represented in various working groups within the trade association for food processing and packaging machinery (Fachverband Nahrungsmittelmaschinen und Verpackungsmaschinen). Our Supervisory Board Chairman, Volker Kronseder, is involved in that organisation's board.
- ➞ BlueCompetence is a sustainability initiative of the VDMA that presents sustainable product and machine concepts. It makes information available to the public about solutions that help conserve resources. Our CEO Christoph Klenk made a statement in an April 2017 publication on the importance of sustainable business practices.
- ➞ Besides our participation in the UN Global Compact, we are members of Sedex, ecovadis, and CDP. These memberships make our sustainability practices available for review, for example, by our customers. These organisations audit the company's sustainability performance, each with a different focus.

Our activities with respect to academia and industry representatives focus on two areas. First, we collaborate with universities by offering thesis-writing opportunities. That enables us to be in close communication with universities and to integrate young research talents into our work flows. We also provide funding and/or equipment for concrete projects that are conducted on site at universities.

The second area of focus is our participation in technical seminars, lectures, and conferences. KRONES experts speak at selected events, presenting current technologies and machinery concepts. Communication at these events helps us gain new ideas and share with other industry specialists.

Partnering with universities

Our research and development department selects and supports the research projects that we conduct with universities..

⇒ As part of our participation in the Robofill project conducted by the packaging machinery department of the Technical University of Munich, and in collaboration with industry partners, we are developing solutions that can serve as model applications for digitalisation in the packaging industry.

Close collaboration with colleges and universities gives us access to scientific findings on a wide range of subject matter relevant to the beverage and packaging industry.

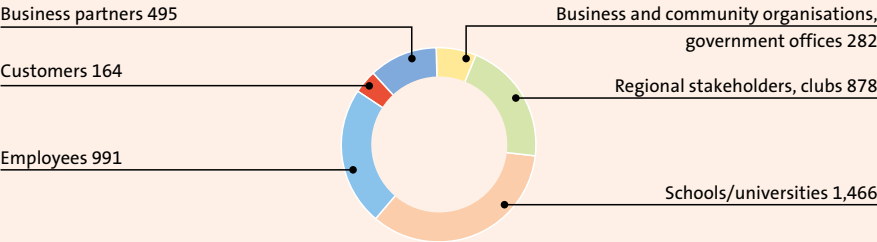
⇒ A development project conducted in collaboration with the brewing technology department of the Technical University of Munich studied continuous fermentation and yielded new approaches to changing the fermentation process in beer production. In this project, researchers also determined a way to improve energy use in the brewhouse.

⇒ KRONES Innovation Lab offers a new approach to fleshing out creative ideas. The team, which is based in the TechBase in Regensburg, translates project ideas submitted by KRONES employees into concrete concepts. Students from a variety of fields – from medical, mechanical, industrial, and systems engineering to informatics and economics – take an unbiased approach to the projects, exploring unique, innovative approaches to translating the latest trends in research and science into practical solutions for KRONES.

A very important opportunity for exchanging knowledge and ideas in the industry is the drinktec trade fair, which takes place in Munich every four years.

⇒ Our exhibits at drinktec in September 2017 will showcase the developments we have been working on for the beverage and packaging machinery market. We will also present recent research findings and possible pilot applications and make them available to the trade public. Many students also use this platform. KRONES makes admission tickets available to students free of charge so that they, too, can benefit from the trade fair.

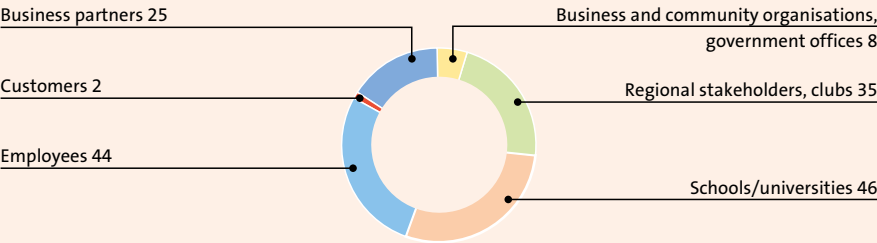
Visitors in 2016 – Number of people per category



Total visitors in 2016: 4,276

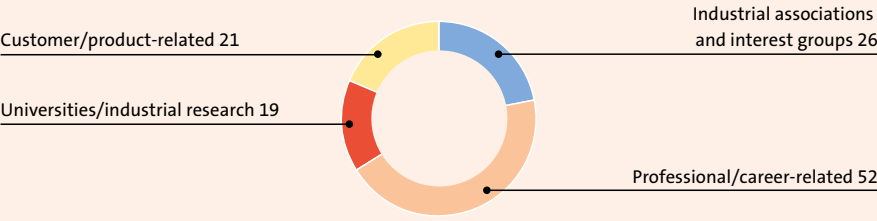
Our visitor management system recorded 4,276 visitors in 2016, of which 57.5% fell into the category “employees” or “schools/universities”.
In all, we hosted 160 visitor groups.

Visitors in 2016 – Number of groups per category



Total groups in 2016: 160

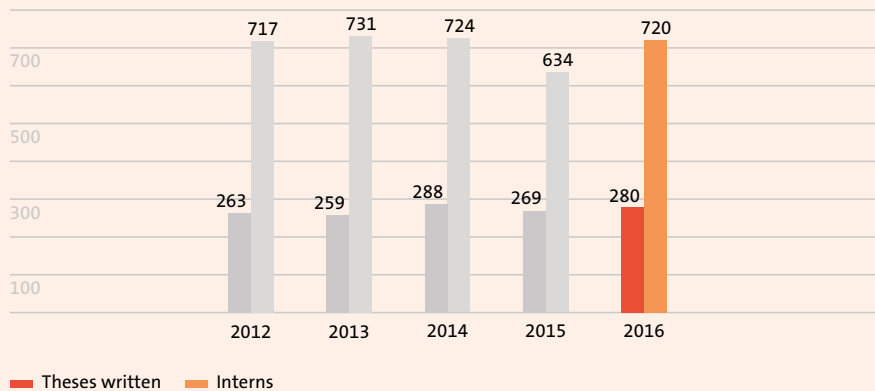
KRONES AG – Memberships



Total memberships in 2016: 118

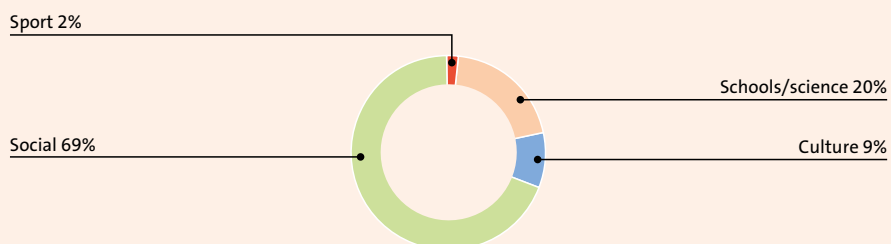
In all, we held memberships in 118 different associations and organisations. Professional and career-related associations, which make up the largest share of our memberships, keep our employees up-to-date in their knowledge and industry information.

KRONES AG – Interns and theses



Providing internships and supporting student theses gives us access to universities and young talent. We consistently support between 260 and 290 theses each year.

KRONES AG – Charitable contributions and sponsoring



A large portion of our budget for charitable contributions and sponsoring goes towards social projects. That includes our support of the KROKI childcare centre in Neutraubling, disaster relief following the earthquake in Nepal, and aid for refugees.

Our ability to respond to donation and sponsorship requests is governed by our charitable giving and sponsoring policy. All requests for contributions from KRONES to social activities or causes are reviewed in our charitable giving and sponsoring committee and decided on in accordance with the criteria laid out in our company policy. The committee consists of one member each of the Executive Board, the finance department, corporate communications, and the CSR team.

An important criterion for approval of contributions is that the project or cause must have a direct relation to or impact on the communities where our production sites and offices are located in Germany and abroad. In this way, we ensure that we are supporting the economic, social, and cultural environment at our business locations. We give priority to projects that also enable our employees to get involved. As a matter of policy, we do not contribute to any political parties. We adhered to this policy in 2016.

A connection with local projects and activities is an important criterion for funding approval.

Our charitable giving and sponsoring policy also applies to our subsidiaries abroad. That ensures that all activities are based on the same principals.

➞ Contributions made by our subsidiaries are not included in our current charitable giving and sponsoring budget. When we publish our new charitable giving and sponsoring strategy, we will request information from our subsidiaries with respect to their charitable giving and sponsorship activities beginning in 2018.

Social projects

In 2016, more than two-thirds of our €691,000 charitable giving and sponsoring budget went towards social projects.

➞ That includes our financial support of the KROKI day care centre in Neutraubling, which provides care for children of employees as well as parents in the surrounding communities, beginning as early as 4 months of age. Our charitable contributions are paid out in full to their recipients. The cost of internal processes, including expenses relating to payment transactions, is not passed on to recipients. They are simply counted as part of our own administrative expenses.

➞ A cause that is very important to our company is Leukämiehilfe Ostbayern e. V., an organisation that provides assistance to leukaemia patients by providing for better housing for patients and their families at the University Clinic in Regensburg, which in turn helps improve treatment outcomes and patient recovery.

➞ Supporting organisations that offer relief services for refugees and asylum seekers also remains an important cause for KRONES. We made a monetary donation to the organisation CampusAsyl e.V. in Regensburg in 2016.

The second area of focus of our social engagement in 2016 was making grants to schools and continuing education events. 20% of our charitable giving and sponsorship budget went towards such grants..

➞ Our sponsorship activities afforded us a strong presence at technical conferences and events. In 2016, the anniversary year of the German Beer Purity Law, this also included cultural events.

Goals	Actions	Target date
Intensify stakeholder dialogue	<ul style="list-style-type: none"> Establish and continue social media activities <ul style="list-style-type: none"> <i>Social media concept implemented and updated continually</i> 	ongoing
	<ul style="list-style-type: none"> Stakeholder day <ul style="list-style-type: none"> <i>Developing a concept for an issue-specific stakeholder meeting</i> 	2017 – 2018
Training on anti-corruption policy	<ul style="list-style-type: none"> E-learning programme on compliance management <ul style="list-style-type: none"> <i>Roll-out of compliance training at LCS sites</i> 	complete
	<ul style="list-style-type: none"> Technical training for sensitive areas <ul style="list-style-type: none"> <i>Training programme began in the third quarter of 2014</i> 	ongoing
Provide information for employees' family members	<ul style="list-style-type: none"> Regular group tours of the production facilities for visitors <ul style="list-style-type: none"> <i>Involving retired employees in order to offer more employee tours</i> 	ongoing
Conduct university marketing at the national level	<ul style="list-style-type: none"> Participate in university job fairs, field trips, and lectures <ul style="list-style-type: none"> <i>Continuous use of recruiting and higher education events to gain new recruits</i> 	ongoing
Charitable contributions and sponsoring	<ul style="list-style-type: none"> Monitor social commitment <ul style="list-style-type: none"> <i>Developing a monitoring framework for grants</i> 	2017
Improve presentation of sustainability topics on our website	<ul style="list-style-type: none"> Expand sustainability content on our corporate website <ul style="list-style-type: none"> <i>Content is being updated</i> 	ongoing

The 2016 CSR Report for KRONES AG has been prepared in accordance with GRI G4 Core option.

General standard disclosures		Page	External assurance
Strategy and analysis			
G4-1	Statement from the most senior decision-maker	4–7	✓
G4-2	Impacts, risks, and opportunities	22–24, 43, AR 30, 118–129	✓
Organisational profile			
G4-3	Name of the organisation	Cover	✓
G4-4	Primary brands, products, and services	8–11	✓
G4-5	Location of headquarters	10	✓
G4-6	Countries where the organisation operates	11, 56, AR 27, 72, 94	✓
G4-7	Nature of ownership and legal form	12, AR 136–137	✓
G4-8	Markets served	11	✓
G4-9	Scale of the organisation	10–12	✓
G4-10	Total workforce	106–107	✓
G4-11	Employees covered by collective bargaining agreements	112	✓
G4-12	Supply chain	50–53	✓
G4-13	Significant changes regarding size, structure, or ownership	AR 88, 90, 130, 164–166	✓
G4-14	Precautionary approach addressed	13–15, 22–23	✓
G4-15	Endorsement of external charters, principles, or other initiatives	4–7, 13	✓
G4-16	Memberships in associations and advocacy organisations	137, 141	✓
Identified material aspects and boundaries			
G4-17	Company's structure according to consolidated financial statements	10, AR 202–203	✓
G4-18	Process for defining report content and aspect boundaries	28–31	✓
G4-19	Material aspects	30–31	✓
G4-20	Material aspects within the organisation	30–31	✓
G4-21	Material aspects outside the organisation	30–31	✓
G4-22	Restatements of information provided in previous reports	28–30	✓
G4-23	Significant changes in scope and aspect boundaries	28–30	✓
Stakeholder engagement			
G4-24	List of stakeholder groups engaged	33–38, 136–137	✓
G4-25	Basis for identification and selection of stakeholders	33–38	✓
G4-26	Approach to stakeholder engagement	33–38, 136–137	✓
G4-27	Topics and concerns that have been raised through stakeholder engagement	33–38, 97, 136–137	✓
Report profile			
G4-28	Reporting period	3	✓
G4-29	Date of most recent previous report	3	✓
G4-30	Reporting cycle	3	✓
G4-31	Contact point for questions regarding the report	Cover	✓
G4-32	"In accordance" option and GRI Index for the chosen option	3, 29, 144–147, Cover	✓
G4-33	External assurance for the report	Cover, 29	✓
Governance			
G4-34	Governance structure	12, AR 8–9, 26, 136–137, 204	✓
G4-35	Delegation of sustainability topics from the highest governance body to employees	24–26, 27, 32	✓
G4-36	Position with responsibility for sustainability topics and reporting	12, 24–26, 27	✓
G4-37	Processes for consultation between stakeholders and highest governance body on sustainability topics	24–26, 27, 32	✓
G4-38	Composition of the highest governance body	108–110, AR 148–151, 204	✓
G4-39	Chair of the highest governance body	AR 148–151, 204	✓
G4-40	Nomination and selection processes for the highest governance body	AR 148–153	✓
G4-41	Processes in place to avoid conflicts of interest	AR 148–150, 199, 204	✓
G4-42	Role of the highest governance body and senior executives in the development, approval, and updating of strategies and goals related to sustainability impacts	12, 24–27, 32	✓
G4-43	Measures taken to develop the highest governance body's collective knowledge of sustainability topics	24–26, 27, 32	✓
G4-45	Highest governance body's role in the identification and management of impacts, risks, and opportunities	AR 10–14, 118–129	✓
G4-46	Highest governance body's role in reviewing the risk management processes for sustainability topics	32, AR 10–14, 118–129	✓
G4-48	Highest position that formally reviews the sustainability report	23	✓

G4-49	Process for communicating critical concerns	16–21	✓
G4-50	Nature and total number of critical concerns that were communicated and mechanism(s) used to address and resolve them	17	✓
G4-51	Remuneration policies for the highest governance body and senior executives	AR 138–143	✓
G4-52	Process for determining remuneration	AR 138–143	✓

Ethics and integrity

G4-56	The organisation's values, principles, standards, and norms	13–15	✓
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behaviour	16–21	✓
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour and matters related to organisational integrity	16–21	✓

Specific standard disclosures – economic

Aspect: economic performance

G4-DMA		42–44	✓
G4-EC1	Direct economic value generated and distributed	48, 49	✓
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	43, AR 118–129	✓
G4-EC3	Coverage of the organisation's defined benefit plan obligations	AR 159, 173	✓
G4-EC4	Financial assistance received from government	45	✓

Aspect: procurement practices

G4-DMA		50–53	✓
G4-EC9	Proportion of spending on local suppliers at significant locations of operations	52–53, 56–57	✓

Specific standard disclosures – environmental

G4-DMA		55, 80, 93, 95	✓
EN1	Materials used by weight or volume	55	✓
EN2	Percentage of materials used that are recycled input materials	55	✓

Aspect: energy

G4-DMA		80–83	✓
EN3	Energy consumption within the organisation	82–85	✓
EN5	Energy intensity	84–85	✓
EN6	Reduction of energy consumption	82–85	✓
EN7	Reduction of energy requirements of products and services sold	65–71, 72	✓

Aspect: water

G4-DMA		80, 86	✓
EN8	Total water withdrawal by source	86–87	✓
EN10	Percentage and total volume of water recycled and reused	86–87	✓

Aspect: emissions

G4-DMA		80, 88–89	✓
EN15	Direct greenhouse gas emissions (Scope 1)	88, 90	✓
EN16	Indirect greenhouse gas emissions (Scope 2)	90	✓
EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	90, 91, 92	✓
EN18	Greenhouse gas (GHG) emissions intensity	90, 91	✓
EN19	Reduction of GHG emissions	88–89, 93	✓
EN21	NO _x , SO _x , and other significant air emissions	89	✓

Aspect: effluents and waste

G4-DMA		80, 86, 87, 95	✓
EN22	Total volume of water discharges by quality and destination	87	✓
EN23	Total weight of waste by type and disposal method	95–96	✓
EN24	Total number and volume of significant spills	86–87	✓
EN 25	Weight of transported, exported, or treated waste deemed hazardous under the terms of the Basel Convention and percentage of transported waste shipped internationally	95	✓

Aspect: products and services

G4-DMA		60–61, 65	✓
EN27	Extent of impact mitigation of environmental impacts of products and services	60, 65–66, 71	✓

Aspect: compliance

G4-DMA		18–19	✓
EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	80	✓

Specific standard disclosures – environmental**Aspect: Transport**

G4-DMA		80, 93	✓
EN30	Significant environmental impacts of transporting products and other goods and materials used for operations and transporting members of the workforce	91–93	✓

Aspect: supplier environmental assessment

G4-DMA		50, 51, 53	✓
EN32	Percentage of new suppliers that were screened using environmental criteria	51, 53, 57	✓
EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	50	✓

Specific standard disclosures – social**Labour practices and decent work****Aspect: employment**

G4-DMA		102, 104, 112, 114	✓
LA1	Total number and rate of new employee hires and rate of employee turnover during the reporting period, by age group, gender, and region	116	✓
LA2	Benefits that are provided to full-time employees only, by significant locations of operation	113	✓
LA3	Return to work and retention rates after parental leave, by gender	115	✓

Aspect: labour/management relations

G4-DMA		102, 111, 112, 113, 129	✓
LA4	Minimum number of weeks' notice generally provided to employees and their elected representatives prior to implementation of significant operational changes that could substantially affect them	111–113	✓
LA5	Percentage of the total workforce represented in formal joint management-worker committees that help monitor and advise on occupational health and safety programmes	126	✓
LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism and total number of work-related fatalities by region and gender	126–129	✓
LA8	Health and safety topics covered in formal agreements with trade unions	126	✓

Aspect: training and education

G4-DMA		102, 117–119	✓
LA9	Average hours of training per year per employee, total and by gender and employee category	121	✓
LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	114, 118	✓
LA11	Percentage of employees receiving regular performance and career development reviews, by gender and employee category	118–120	✓

Aspect: diversity and equal opportunity

G4-DMA		102	✓
LA12	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	104–110	✓

Aspect: equal remuneration for women and men

G4-DMA		102, 112	✓
LA13	Ratio of base salary and remuneration of women to men by employee category, by significant locations of operation	112–113	✓

Aspect: supplier assessment for labour practices

G4-DMA		50–51	✓
LA14	Percentage of new suppliers that were screened using labour practices criteria	51, 53	✓
LA15	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken	53	✓

Aspect: labour practices grievance mechanisms

G4-DMA		102	✓
LA16	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms	102	✓

Human rights**Aspect: investment**

G4-DMA		15–17	✓
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Aspect: non-discrimination

G4-DMA		102, 112	✓
HR3	Total number of incidents of discrimination and corrective actions taken	102	✓

Aspect: freedom of association and collective bargaining

G4-DMA		50–51, 52–53, 112	✓
HR4	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights	53	✓

Aspect: human rights grievance mechanisms

G4-DMA		50–51	✓
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	50	✓

Aspect: anti-corruption

G4-DMA		18–19, 20, 22–23	✓
G4-SO3	Total number of operations assessed for risks related to corruption and significant risks identified	20, 22	✓
G4-SO4	Communication and training on anti-corruption policies and procedures	20, 22–23	✓

Aspect: public policy

G4-DMA		134	✓
G4-SO6	Total value of political contributions	140	✓

Aspect: anti-competitive behaviour

G4-DMA		16	✓
G4-SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	17	✓

Aspect: compliance

G4-DMA		16–17, 18–19	✓
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	17, 19	✓

Aspect: supplier assessment for impacts on society

G4-DMA		50–51	✓
G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society	51, 53, 57	✓

Product responsibility**Aspect: customer health and safety**

G4-DMA		60, 61	✓
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	70	✓

Economic aspects Product and service labelling

G4-DMA		60–61	✓
G4-PR3	Type of product and service information required by the organisation's procedures for product information and labelling	70	✓

CDP (Carbon Disclosure Project)	Non-profit organisation providing a standardised system for measuring, analysing, and comparing environmental data for companies and communities worldwide.
Corporate governance	Responsible corporate management and supervision that is oriented toward long-term value creation.
Corporate social responsibility	Voluntary corporate initiative to take responsibility for the company's effects on social welfare and to integrate environmental aspects above and beyond legal requirements.
GRI (Global Reporting Initiative)	An international network that supports companies in their efforts to measure, understand, and report on their performance with respect to sustainability. GRI has established a reporting framework that serves as a guideline for companies and is free of charge. GRI reporting relies on transparency and aims to provide standardised, comparable information.
Integrated management system (IMS)	A single system that incorporates the requirements and specifications from various areas such as quality, environment, occupational safety, and security into a uniform structure and documents the methods used for oversight
LEED (Leadership in Energy and Environmental Design)	Internationally recognised certification system for the development and planning of buildings with extremely high environmental performance. Evaluation of a construction project all the way through to its commissioning and final acceptance and subsequent monitoring are aimed at ensuring that the resulting building can operate at the planned level of efficiency.
OHSAS	OHSAS 18001 (Occupational Health and Safety Assessment Series) is used in many countries as the basis for certification of management systems for occupational safety. The structure of OHSAS 18001 is closely based on the ISO 9001 and ISO 14001 standards and can be used as part of an integrated management system.
SMETA (SEDEX Members Ethical Trade Audit)	Audit procedure that comprises good practices for conducting ethical trade audits and reducing duplication of effort in auditing. The documents enable auditors to conduct standardised audits that will be accepted by multiple retailers and brands.
Sustainability	Fundamental concept for shaping economic, political, and social developments so as to meet the needs of the present-day generation while keeping ecological, social, and economic structures intact for future generations.
Total Cost of Ownership (TCO)	Takes into all costs associated with an investment, including all expenses that arise during its use over its entire service life such as energy costs and maintenance and repair costs.
UN Global Compact	The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment, and anti-corruption.
Value chain	The value of a product or service consists not only of the product or service itself. In some cases, it may consist of many various components that are produced along the stages of value creation. Several stages of value creation constitute a value chain.
Value creation calculation	The value created is determined by subtracting from the company's performance (sales revenues and other income) the advance payments necessary for bought-in goods and materials, depreciation and amortisation, and other expenditures. The origination of the value creation is set against its use.

KRONES at a glance

Business model, business areas, and organizational structure

KRONES offers machinery and systems for filling and packaging and for beverage production. KRONES' customers include breweries, beverage producers, and companies in the food, chemical, pharmaceutical, and cosmetic industries. Services are an important part of KRONES' business model. The company maintains service centres and offices around the world.

KRONES reports on its three segments: "machines and lines for product filling and decoration", "machines and lines for beverage production/process technology", and "machines and lines for the compact class".

Machines and lines for product filling and decoration

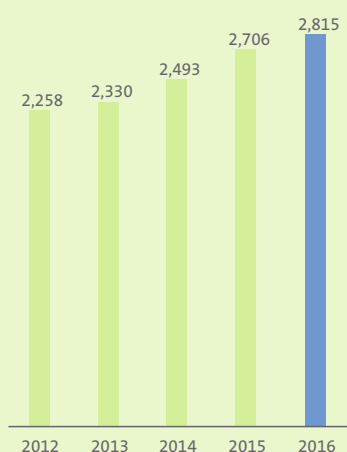


This is by far KRONES' largest and most profitable segment. It offers machines and lines for filling, labelling, packaging, and conveying products. Machines for producing PET containers and converting used plastic bottles into food-grade recycled material (PET recycling systems) are also part of this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

	2016	2015
EBT (€ million)	229.6	220,5
EBT margin (%)	8.2	8.1
Employees*	12,000	11,502

*Consolidated group (see 2016 Annual Report for more details)

Revenue (€ million)



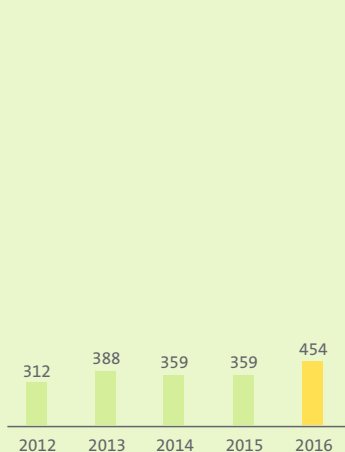
Machines and lines for beverage production/process technology



This KRONES segment offers machinery and equipment for producing and treating beer, soft drinks, fruit juices, milk, and dairy drinks. Intralogistics business with our subsidiaries SYSKRON, TRIACOS, and SYSTEM LOGISTICS and our EVOGUARD brand components are also part of the beverage "production/process technology" segment.

	2016	2015
EBT (€ million)	1.5	-2.1
EBT margin (%)	0.3	-0.6
Employees*	1,450	944

Revenue (€ million)



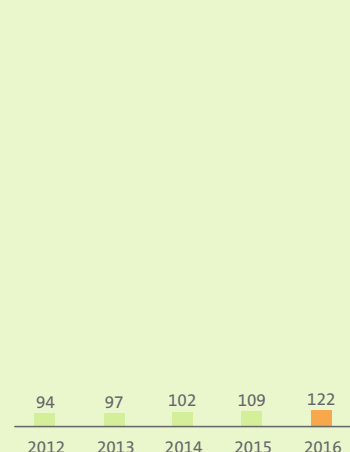
Machines and lines for the compact class



In the compact class segment, KRONES subsidiaries KOSME and GERNEP offer a product range of filling and labelling technology similar to that of our "machines and lines for product filling and decoration" segment, but for smaller-scale operations. With KOSME and GERNEP, we are able to serve smaller and mid-sized companies that do not need high-speed machines but are nevertheless committed to quality.

	2016	2015
EBT (€ million)	6.4	4.9
EBT margin (%)	5.2	4.5
Employees*	523	495

Revenue (€ million)



External assurance of the sustainability report

Scope and standards:

TÜV süd Management Service GmbH has been engaged to provide external assurance on this Sustainability Report. The assurance process was conducted in accordance with the following guidelines and standards:

- Global Reporting Initiative – G4 Sustainability Reporting Guidelines 2013 (GRI G4)
- AA 1000 standards for the general principles and methodology for evaluation and review
- ISO 14001 – specification for environmental management systems, BS OHSAS 18001 – specification for occupational health and safety management systems

In addition, wherever aspects relating to management systems are involved, the auditing methods used are in accordance with ISO 17021.

Audit process and depth:

For our audit of the report, we reviewed documents and conducted interviews with persons in key positions and at various levels of the company, including management, middle management, employees, and employee representatives.

Our review was conducted on the basis of Global Reporting Initiative – G4 Sustainability Reporting Guidelines 2013 (GRI G4).

The objective of the audit was to:

- Confirm KRONES AG's self-declaration of "in accordance" reporting under the Core option.
- Confirm fulfilment of the GRI G4 Core option
- Review the reliability of the sustainability performance data and CSR-related information from KRONES AG

The following aspects were examined in spot checks:

- Stakeholder process and CSR materiality matrix
- Evaluation of the materiality criteria
- Review of data and records underlying the reporting
- Appropriate and balanced presentation of performance in the selection of performance indicators
- Role of CSR performance indicators with respect to decision-making process

We audited the identification of relevant stakeholder groups, the method used to collect and consolidate data for this report, the existing management systems, and the internal control and monitoring functions. Economic and financial data were not audited. Instead, they were assessed in comparison with the information contained in the audited 2016 Annual Report.

The following sites were included in this audit:

- KRONES AG, Böhmerwaldstrasse 5, 93073 Neutraubling, Germany
- KRONES AG, Nittenau plant, Heideweg 34-36, 93149 Nittenau, Germany
- KRONES AG, Steinecker plant, Raiffeisenstrasse 30, 85356 Freising, Germany
- KRONES AG, Rosenheim plant, Äussere Münchener Strasse 104, 83026 Rosenheim, Germany
- KRONES AG, Flensburg plant, Schäferweg 9, 24941 Flensburg, Germany

Level of assurance & materiality threshold

The opinion expressed in this audit report is based on a "limited level of assurance" and a materiality threshold derived from the auditor's expert evaluation.

Conclusion/validation

Our audit procedure has revealed no indications that could call into question the conclusion that the report meets the criteria of GRI G4 Core reporting.

Moreover, we conclude that KRONES AG has not omitted any material aspects from the report and the reporting process delivers reliable CSR-relevant data and information. Availability of this report to the general public is guaranteed.

This report provides a comprehensive, accurate, and proper presentation of performance on the basis of reliable, reasonably documented information.

TÜV süd Management Service GmbH
Munich, 13 May 2017



Dipl.-Ing. Wolfgang Brandl
Corporate Social Responsibility Auditor
Environmental Auditor



Dipl.-Ing. Ulrich Wegner
Head of the Certification Body
Environmental Auditor



Management Service

Responsibilities:

KRONES AG is solely responsible for the content of this report and for selection of the topics. TÜV SÜD Management Service GmbH's responsibility was to review the correctness and credibility of the information and to confirm whether the requirements have been met.

Publication credits

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This English language report is a translation of the original German KRONES AG Nachhaltigkeitsbericht 2016.

In case of discrepancies the German text shall prevail.

This Sustainability Report 2016 is also available in German. We would be happy to mail you a copy on request. You can also find it in the Responsibility section at krones.com.

KRONES AG

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