

About this report

This report is the combined, separate non-financial report for both the KRONES Group and KRONES AG for the financial year 2017 within the meaning of Sections 315b and 315c in conjunction with Sections 289c through 289e of the German Commercial Code (Handelsgesetzbuch, HGB), which is made available to the general public at our website under Company/Responsibility/Sustainability/Download.

The combined, separate non-financial report for the KRONES Group and KRONES AG for the financial year 2017 has been reviewed by the Supervisory Board of KRONES AG. In addition, by order of the Supervisory Board, this report has been audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, under consideration of the International Standard on Assurance Engagements (ISAE) 3000 (Revised): “Assurance Engagements other than Audits or Reviews of Historical Financial Information”, published by International Auditing and Assurance Standards Board (IAASB) under a Limited Assurance Engagement with respect to the disclosures required by law under Sections 315b and 315c in conjunction with 289c through 289e HGB.

This report is based on the Global Reporting Initiative GRI G4 Guidelines. The content relates to the financial year 2017 and has been derived directly from the KRONES Group’s newly revised materiality matrix. KRONES’ business model can be found in the group management report on page 24 of the KRONES Group’s Annual Report. Information on the consolidated group can be found on pages 184 to 185 of the Annual Report. A risk analysis was conducted for all points that have been determined to be material. No risks with potentially serious negative impact were identified. The complete risk and opportunity report can be found on pages 84 to 96 of the Annual Report. Within the scope of the concepts presented and KRONES’ sustainability management to date, non-financial key performance indicators have not been tracked. Only the area of innovation (page 38 of the Annual Report) has any correlation between the concepts presented here and amounts reported in the consolidated financial statements. All references made in this report refer to supplementary information, with the exception of references to the group management report.



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Dear readers,

Considering the financial impact of our actions is our top priority at KRONES. Economic success is essential to the company's continued growth and long-term viability. Details on KRONES' economic performance can be found in the group management report within our Annual Report.

But profitability is not our sole concern. We also have put purposeful measures in place to ensure that our business practices are sustainable. KRONES is a member of the UN Global Compact and is committed to its ten principles of doing business sustainably. These principles guide KRONES as we seek to implement sustainable development goals. It is also important to us that we show our business partners, investors, employees, and the general public that we accept responsibility and are implementing purposeful measures to meet that responsibility.

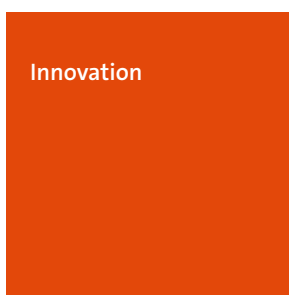
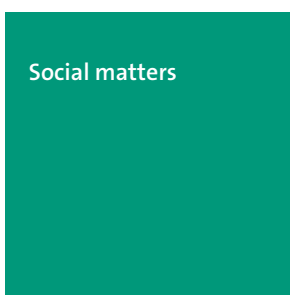
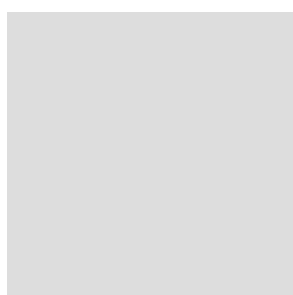
That is why we have published a CSR (Corporate Social Responsibility) Report each year since 2007, in which we present the activities undertaken in the past financial year. This Non-financial Report marks the beginning of a new era in our CSR communications. It has been prepared in order to meet the requirements of the new CSR Directive Implementation Act, which entered into force in Germany in April 2017. In accordance with the Act, we now disclose in detail the concepts we have followed in the past financial year with respect to the non-financial aspects most relevant to KRONES.

Because we report on eleven different issues and thus on a very broad range of subjects, the level of completion and implementation of each individual concept varies widely. We have already established a uniform management system group-wide for certain aspects, such as anti-corruption and bribery. For others, our current focus is primarily on KRONES AG. Thus, we view the CSR Directive Implementation Act as both a duty and an opportunity to systematically expand KRONES' CSR management and progressively apply it to the entire group.

Volker Kronseder
Chairman of the Supervisory Board

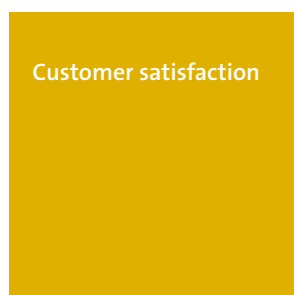
Christoph Klenk
CEO





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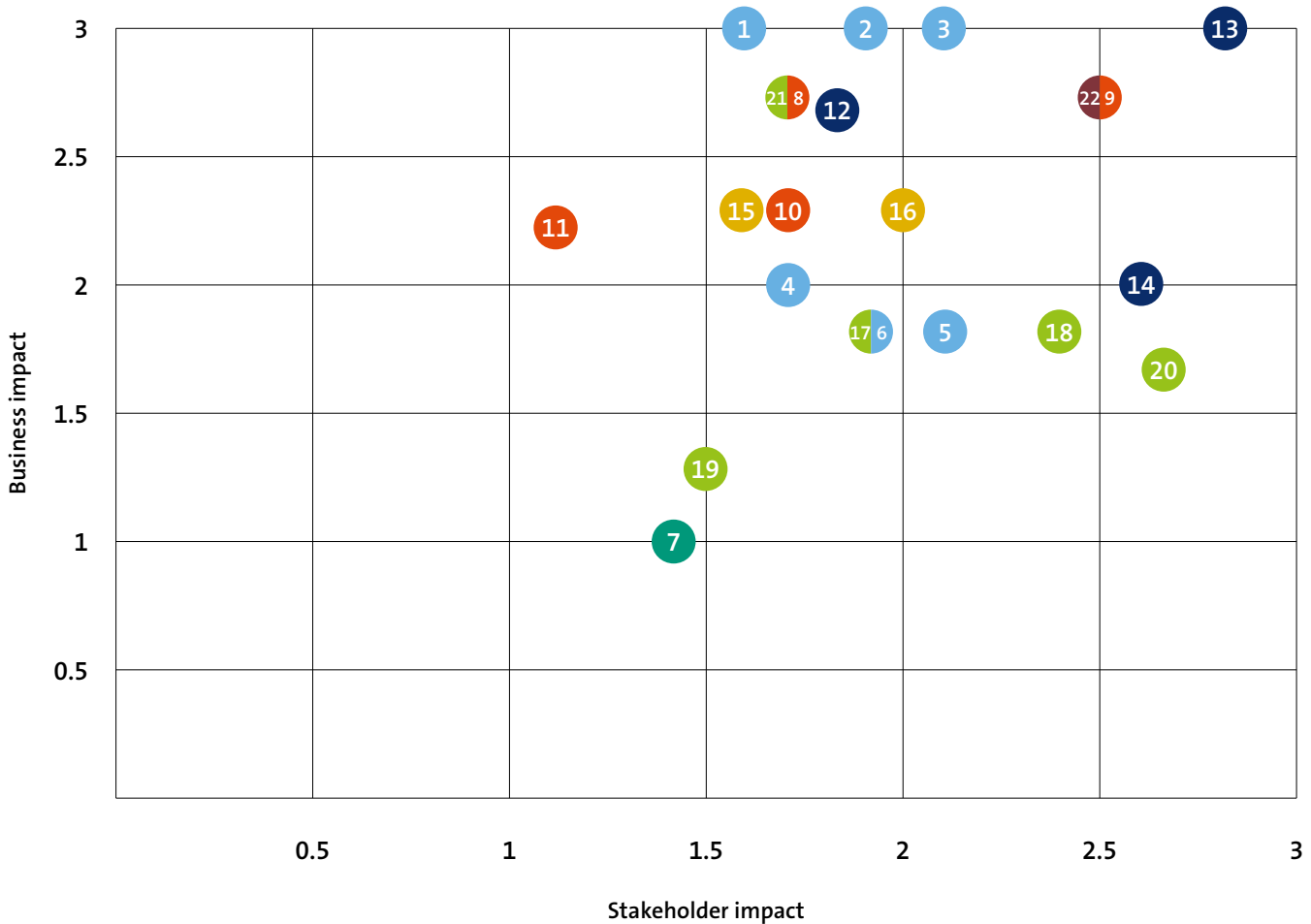
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Materiality analysis

The newly developed materiality matrix and its contents build on the matrix we have presented in our CSR Reports in previous years. It is based on GRI criteria and the definition of materiality under Section 289c (3) of the German Commercial Code (HGB). We used the items that had been deemed material in the previous years as our starting point. After examining them in a stakeholder analysis, we bundled our key stakeholders' demands in a prioritised list. Our next step was to analyse the list with respect to business impact. Our executive management then evaluated the topics, taking into account the following: risk potential, efficiency potential, differentiation potential, and growth potential for KRONES. The final prioritisation and positioning of the key items was based on assessment of the stakeholder and business impact analyses. The materiality matrix was approved by the Executive Board.



Definition statement pursuant to Section 289c (2) of the German Commercial Code (HGB) and German Accounting Standard 20 (GAS 20)

We have included all aspects prescribed by law to enhance non-financial reporting and added to them innovation and customer satisfaction. We then combined all of the material items within the matrix into “issues” and categorised them under the respective aspects. The issues serve as the basis for the concepts presented.

Employee-related matters

Capable, motivated workforce

- 1 High level of employee loyalty
- 2 Sustainable, purposeful training and continuing education
- 3 Recruiting the right people

Occupational safety and health

- 4 Effective health management
- 5 Effective occupational safety management

Diversity

- 6 Balanced employee structure (diversity)

Social matters

- 7 Social commitment (corporate citizenship)

Innovation

- 8 Responding flexibly to market changes
- 9 Technological leadership
- 10 Use of industry knowledge and research findings
- 11 Lean manufacturing (TPM)

Anti-corruption and bribery matters (compliance)

- 12 Clear, transparent relationships with customers
- 13 Dutiful conduct and compliance with regulations and laws
- 14 Documentation and transparency

Customer satisfaction

- 15 Fast, individual service for customers
- 16 Long-term, personalised relationships with customers

Environmental matters

Environmental matters relating to production

- 17 Reducing pollution and hazardous materials
- 18 Energy and media conservation in production operations
- 19 Making optimum use of production materials

Environmental matters relating to products

- 20 Energy and media efficiency and environmental sustainability of our products

Sustainability in our supply chain

- 21 Sustainability in our supply chain

Respect for human rights

- 22 Respect for human rights



For strategic reasons, our human resources organisation does not apply a uniform management approach across the entire group. That is because KRONES is a diverse company. The group consists of a large number of individual companies that operate in very different regions of the world and must manage widely varied challenges. The individual companies within the group must have sufficient strategic and organisational freedom to align their human resources management with their own needs and to adapt to local circumstances.

For that reason, unless indicated otherwise, this section of this report focuses on employee matters within KRONES AG. With 9,555 employees¹, KRONES AG accounts for the largest share of the group's total workforce by far and therefore nevertheless gives a representative picture of the group.

Concept: Capable, motivated workforce

KRONES develops, manufactures, installs, and supports capital goods that are technologically highly complex – for an intensely competitive market whose demands are constantly changing. Because we have set ambitious growth targets despite this challenging environment, effective human resources policy is a major priority. To accomplish what we have set out to do, we need a workforce that is up to the challenge, in terms of both ability and motivation.

For that reason, KRONES' human resources strategy aims to maintain consistently high levels of both competence and motivation among employees. From KRONES AG's perspective, that requires three essential elements:

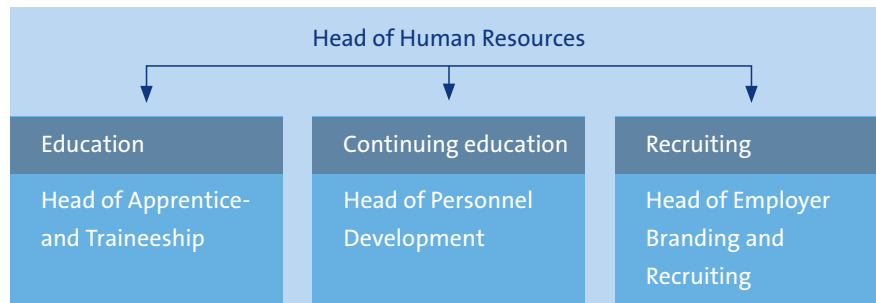
- Recruiting the right people,
- A high level of employee loyalty, and
- Sustainable, purposeful training and continuing education.

¹ Includes 23 KRONES BKK employees



1. Organisation

Responsibility for the aspects mentioned above lies with the Head of Human Resources, who reports directly to the CEO. The following functional units in turn report directly to the Head of Human Resources and provide strategic and operational support:



2. Actions and results

2.1 Recruiting the right people

KRONES uses a wide variety of channels to engage with potential applicants. Besides the corporate website and social media activities, these include in particular collaboration with schools and universities as well as participation in recruitment fairs. Because a major focus is on individuals who are just getting started in their careers, we have redesigned our communications materials for recruiting students in vocational training and at university. The new job fair booth and print brochures have been in use since April 2017. The rate of new hires for the year 2017 was 5.77%.

To ensure that KRONES is able to position itself even more successfully in the increasingly competitive market for qualified new talent, we have also established a position tasked with Employer Branding and Recruiting. This position has been actively staffed since September 2017.

2.2 Employee loyalty

KRONES' work culture is based on fairness and appreciation of employees' contributions. That fact is manifest in many of our actions, from the framework collective agreement for the metalworking union, which KRONES applies in the form of a recognition agreement with the metalworkers' union, to the many and diverse benefits that KRONES offers its employees. The company also sent a clear signal of stability and continuity in October 2017 by adopting a company agreement on job security¹ that applies through 2022.

Employee approval of KRONES as an employer is evidenced by the company's consistently very low employee turnover rates. In 2017, only 2.64% of the company's workforce left the company. Only 0.09% left after just six months of employment.²

¹ The corresponding company agreement applies to employees and apprentices at all KRONES AG locations as well as for the subsidiaries KIC KRONES and ecomac. KRONES AG is working to have the agreement apply to EVOGUARD as well.

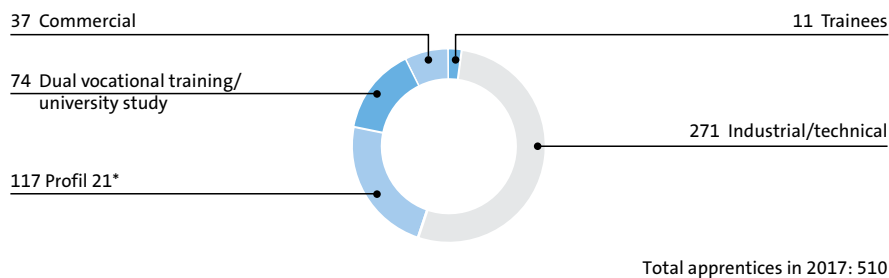
² These figures include all reasons for leaving.



2.3 Training and continuing education

Because of the high expectations KRONES has of its employees, need-oriented staff development and training programmes are a high priority. That begins with the many options for vocational training in various industrial, technical, and commercial fields that KRONES offers to school leavers and students and carries over across each employee's entire career. In all, KRONES AG spent €2,202,665 on training and continuing education for its employees in the reporting period.

KRONES AG – Apprentices by field



* Profil 21 includes both professional and technical training which gives graduates two separate qualifications.

3. Outlook

In order to equip KRONES' human resources management team for the future, we have decided to introduce an integrated HR software suite that combines all central HR processes onto a unified platform and enables us to close existing gaps, such as the one we had identified with respect to systematic succession planning. The software suite will be deployed in an iterative process over the next several years. The first wave of implementation started in 2017 and involved the transfer of payroll adjustment processes to the new system.

For 2018, we also plan to revamp our professional development programme for management employees and revise the existing leadership guidelines. At the same time, we are completing the rollout of the PDCA (Plan, Do, Check, Act) cycle across KRONES AG. With PDCA, the company has for the first time a continuous improvement tool in place that can be used by all employees, with no exceptions.

With respect to employee turnover, our goal for 2018 is to come in at least two percentage points below the industry average rate calculated by the German Engineering Federation (VDMA). Our rate for 2017 was 2.64%. The industry average was 6.8%.



Concept: Occupational safety and health

Occupational safety and health at KRONES is based on occupational safety and health management that currently extends across all of KRONES AG and is being gradually expanded across the group. Our approach is a preventive one. Our goal is to be proactive, identifying potential hazards and developing and implementing effective countermeasures before they become actual hazards.

1. Organisation

At KRONES AG, the Head of Corporate Safety and Security leads our occupational safety and health efforts. In organisational terms, this role is situated below the Head of Human Resources. However, with respect to occupational safety and health management, it reports directly to the CEO.

2. Actions

The concrete process steps involved in occupational safety and health are based directly on the needs of the respective sites and departments. The following projects and preventative actions applied company-wide in 2017:

2.1 Consistent communication

In addition to the workplace safety committees required by law, KRONES' occupational safety and health organisation has also initiated the formation of "pre-committees". In the latter, the workplace safety specialists bring together the managers and safety officers directly responsible for various areas within the company to discuss matters relating to employee safety and health and to resolve any issues that arise. The safety specialists then bring selected topics and ideas from these meetings to the respective workplace safety committees or directly to the Head of Corporate Safety and Security. This process flow ensures that all safety-related topics from all levels of the company's hierarchy get to the right place and are handled purposefully and efficiently.

2.2 Machine safety

All production equipment at all KRONES AG plants has been evaluated to check the current status of workplace safety and occupational safety and health compliance. We have also developed centralised guidelines for the use of existing machinery that does not bear CE marking (such as lathes and milling and boring machines) and has known non-conformities. A broad range of possible actions apply in practice, depending on the current condition of each machine. The activities range from adapting the way the work processes are organised to additional training for affected employees to technical modifications to the machine. In certain cases, a machine may also be decommissioned. Implementation of all such actions has been completed for lathes. Successive implementation on our milling and boring machines is currently underway.



Our Corporate Safety and Security team has also defined concrete minimum requirements for the safety of new machines. These have been integrated into the centralised technical specifications that our Purchasing department uses as the standard for ordering. Thus, these requirements are mandatory for all new capital goods purchases.

2.3 Health management

Demographic change, extended working lives, rising expectations of employees' flexibility and ability to work under pressure – these and other expected developments in the world of work make occupational health management programmes indispensable. Due to the great variety of activities and workplaces within the company, needs are very heterogeneous and progress in developing and implementing an occupational health management programme at KRONES has been slow. In 2017, we ran a pilot programme at our Nittenau plant, in which a series of health-promoting courses were made available to employees. The course catalogue was designed on the basis of a survey that had been conducted among employees at the plant in 2016 with a response rate of 68%. An occupational health management committee is currently assessing whether and how the knowledge gained from the pilot project can be used to establish a concept across KRONES AG as a whole.

3. Results and outlook

The effectiveness of our occupational safety management is reviewed on the basis of monthly reports. The reports present accident statistics, lost days, costs associated with accidents, and, sometimes, pending actions – for KRONES AG as a whole as well as for individual departments and hierarchy levels.

The most important key performance indicator (KPI) here is the rate of accidents per 1,000 employees resulting in one or more days of lost time. In 2017, this figure was 19.76. Although the rate is already quite low for a company in the metalworking industry, we are not yet satisfied. For this reason, we have developed a new system for assessing hazards, which is being implemented for the first time beginning in 2018. We expect the new system to provide us with more objective, more detailed insights that can serve as a basis for our preventive work.





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Concept: Diversity

Diversity was determined to be a material issue within our materiality matrix. KRONES has for years implemented specific measures aimed at ensuring a balanced employee structure. We have developed a diversity concept for our Executive Board and Supervisory Board, which can be found on pages 118 to 121 of our Annual Report. However, we are as yet unable to present a comprehensive management concept that covers all aspects of diversity at KRONES. As a signatory to the Diversity Charter, we will continue to work to develop such a concept over the coming years and successively introduce the related management approaches.



Concept: Social commitment (corporate citizenship)

Charitable giving and sponsoring play a growing role in the KRONES Group's corporate citizenship activities. The underlying strategy has the following primary objectives:

- To achieve the greatest possible benefit to the respective beneficiaries with the funds employed and
- To support projects that are in alignment with the company's values and interests.

KRONES' centralised charitable giving and sponsorship management has thus far focussed on KRONES AG and its German subsidiaries. However, preparations have already been made for integrating the remaining group companies beginning in 2018.

1. Organisation

All charitable giving and sponsorship activities of KRONES AG and its German subsidiaries are managed centrally by the charitable giving and sponsorship coordinator within the CSR team. At all other group companies, responsibility for charitable giving and sponsorships lies with the manager of the respective company or an appointed officer.

The charitable giving and sponsorship committee serves as the central decision-making and advisory body for contributions and strategic decisions. For handling donation requests, the committee consists of four members, one each from the CSR Team, Communication, Executive Assistant, and Financial Accounting. For sponsorship matters, one or two additional members, from Human Resources and/or Sales, may be involved, depending on the subject matter or the potential partner for the sponsorship. The committee meets on an as-needed basis but at least once every four weeks.

2. Actions

A binding, uniform policy governs all charitable giving and sponsorship activities for KRONES AG and its German subsidiaries.

2.1 Charitable giving

In general, KRONES' engagement focuses on three broad areas: education, science and research; culture and sports; and social welfare and the environment. Recipients of charitable contributions may be individuals, groups of individuals, or organisations. However, political parties and political organisations are categorically excluded from receiving support from KRONES.



Preference is given to supporting projects and organisations in which KRONES employees can be actively involved or which have a regional relevance to one of the company's sites. That is especially true for sports. Because KRONES' charitable giving and sponsorship strategy does not support the funding of athletic clubs or events, projects in this area must have a charitable purpose or be open to participation by KRONES employees in order to receive support.

In all three areas, support can come in the form of monetary or in-kind donations.

2.2 Sponsorship

Sponsorship activities cover the same areas as our charitable giving, but with the addition of events that are relevant to our business.

2.3 Awarding and decision-making process

Contributions are awarded in accordance with a clearly defined process. The charitable giving and sponsorship committee plays the central role in this process, reviewing all requests for their merit in accordance with KRONES' charitable giving and sponsorship strategy. A uniform set of criteria are used for this assessment.

Donations and sponsorships are approved by an absolute majority of the committee. The only exceptions are requests for in-kind donations that fall below a limit specified in the charitable giving and sponsorship policy. In order to maintain a proper balance between donation amounts and processing workloads, these decisions are the responsibility of the charitable giving and sponsorship coordinator.

3. Results and outlook

In the reporting period, KRONES AG and its German subsidiaries spent a total of €421,066 for charitable giving and sponsorship activities.

That amount breaks down as follows:

- Education, science and research: €31,155
- Culture and sports: €26,224
- Social welfare and environment: €309,737
- Events relevant to our business: €53,950



For 2018, we intend to expand the charitable giving and sponsorship strategy to cover all of KRONES' sites, thus achieving consistency and transparency across the entire group. A corresponding policy has already been developed. It was adopted in October 2017 and is binding for all members of the group. Under the policy, all members of the group must report their charitable giving and sponsorship activities to KRONES AG's charitable giving and sponsorship committee at the end of each financial year.

Furthermore, detailed controlling and monitoring measures are being implemented for sponsorship activities in 2018. These require that media analyses and participant surveys be conducted to assess the actual impact of sponsorships. The knowledge gained from this follow-up work will enable KRONES to optimise the efficiency and effectiveness of its sponsorship management.



Concept: Innovation

Developing innovative technologies, products, and solutions is the very basis for KRONES' sustainable growth. Innovation follows a uniform, clearly defined process, which ensures that KRONES' development activities meet our goal of creating significant benefit for KRONES' customers.

The innovation cycle at KRONES takes four years. That is because the drinktec trade fair occurs every four years. As the premier trade fair for beverage technology worldwide, drinktec is the most far-reaching opportunity for KRONES to demonstrate its innovative power.

The fair is not only a platform for presenting new products. The company also gains knowledge through in-person conversations with customers and other fair visitors, which then goes into the further development and evolution of the exhibited machines and systems and into our overall innovation planning.

1. Organisation

Germany is KRONES' development and innovation headquarters. The Central Research and Development department there develops the company's overarching innovation strategy for KRONES AG as a whole. It also serves as an important guide for development work performed by subsidiaries.

Strategic and operational responsibility for innovation lies with the Head of Corporate Research and Development, who reports directly to the Executive Board member responsible for Bottling and Packaging.¹ Because innovation is so critically important for KRONES, determining and maintaining the innovation strategy is done in close collaboration with the Executive Board as a whole.

2. Innovation process

KRONES' innovation process serves to identify development needs and to prepare the associated planning processes for the respective business lines. Its structure allows KRONES to

- Respond flexibly to market changes,
- Maintain and further expand its technological leadership,
- Use industry and research knowledge efficiently, and
- Produce cost-effectively.

¹ This applies to the reporting period 2017. Due to changes in the Executive Board, the Corporate Research and Development department will report to the CEO beginning in 2018.

The innovation process can be broken down into three sub-processes:



2.1 Early identification of technology needs

KRONES uses a variety of tools to identify technological trends and valuable development potential early on, including:

- Ongoing trend research
- Technological research
- Internal innovation workshops, developer fairs, and ideas competitions
- Knowledge transfer and cooperation with universities, research institutions, and suppliers

2.2 Product portfolio management

Our product portfolio management takes an interdisciplinary approach to uncover gaps and synergies between the individual areas of development. The knowledge gained provides us with a valuable basis of information for strategic innovation planning.

2.3 Innovation planning

Finally, innovation planning involves the prioritisation of and resource planning for current and future development projects. The results are captured in a unified innovation roadmap.

Further development of the innovations to production-readiness is then done in a technology research and product development process downstream.

3. Results and outlook

The drinktec 2017 trade fair was the latest test for KRONES' innovation strategy. The response from existing customers and potential new customers shows that KRONES addressed the industry's needs with the machines and technologies it exhibited. Highlights of the 11,000 square-meter exhibit area included:

- **Bottling on Demand:** An ultra-flexible line that fills and prints PET plastic containers on demand – with different products and designs as needed – down to a batch size of one
- **Brewery of the Future:** A concept that makes it possible for a brewery to be completely off-the-grid and carbon-neutral



- **Dynafill:** A completely new type of filling system that fills beer into bottles in record time, just 0,5 seconds
- **DecoType Select:** A digital direct printing system that can print different designs and text onto bottles individually – even onto areas that would not be possible for conventional labelling systems
- **Contipure AseptBloc E:** A compact line for sterile filling sensitive beverages into PET bottles, which uses electron beams to kill germs

KRONES' great innovative power is reflected in the new products presented at the drinktec and in the number of registered patents and utility models, which grew from 5,028 in the previous year to 5,484 at the end of 2017. To accomplish this, KRONES invested €172 million in research and development in the reporting period. That corresponds to 4.7 percent of consolidated revenue. Of that, €39.8 million in development costs were capitalised in 2017.

The conclusion of drinktec 2017 marks the beginning of a new innovation cycle at KRONES.

The new cycle's objectives are to

- Create the beverage factory of the future through digitalisation,
- Increase the sustainability of production operations,
- Inject more efficiency and flexibility into customers' processes, and
- Tap into new areas of growth for the KRONES Group.



Concept: Anti-corruption and bribery matters (compliance)

Within the KRONES Group, compliance stands as an umbrella term for behaviour and action that is in keeping with the law and regulations. However, the rules that apply within the company go far beyond the requirements of the law. They also include internal policies and moral values and norms that are aligned with KRONES' own ethics.

The material aspects that are relevant for our compliance culture can be summarised as follows:

- Documentation and transparency
- Clear, transparent relationships with customers
- Dutiful conduct and compliance with regulations and laws

In general, KRONES' compliance management aims to create a culture of integrity throughout the entire group and thus minimise compliance risks to the greatest extent possible.

1. Organisation

Strategic and operational responsibility for compliance management is bundled with the Head of Compliance and Corporate Governance¹ at KRONES AG and in an office of the same name at the group level. In 2016, additional compliance officers were appointed in KRONES' key sales, production, and service regions in order to support the office in operational terms. These officers know the group's central compliance requirements as well as the laws and regulations of their respective regions. This knowledge enables them to advise and support local employees on all aspects of compliance. A compliance committee also supports the Head of Compliance in an advisory capacity. The committee is made up of representatives of the top level of management from every compliance-relevant department.

2. Actions

2.1 Risk analysis

The compliance risk analysis covers risk relating to the following: active and passive corruption; horizontal cartels; market abuse; customs and exports; health, safety, and employment; money laundering; conflicts of interest; and data protection and privacy.

The results of the risk analysis are aggregated at the level of the business areas and the regions and visualised on a risk map developed specifically for each business area and region.

¹ Referred to hereinafter as Head of Compliance for better readability.

The analysis itself is conducted in three phases. First, the “gross risk” to KRONES is identified for each focus area. Second, a compliance health check is carried out. In this phase, we verify the appropriateness and the level of implementation of the respective control and monitoring processes intended to reduce the gross risk to the net risk. The third phase is a gap analysis, which examines the extent to which the net risk can be reduced even further. The gap analysis also helps us prioritise the recommended actions and establish a structured action plan.

2.2 Reporting

Clear lines of reporting apply to communication on compliance aspects. The compliance officers in the regions report to the Head of Compliance. The Head of Compliance, in turn, reports directly to the CEO and to the Chairman of the Supervisory Board.

In addition, the Head of Compliance reports at the quarterly meetings of the Compliance Committee on developments in the past quarter and presents further plans. The committee offers opinions in an advisory capacity.

2.3 Communication

Various KRONES communication channels are used to convey information to employees depending on the topic and target group. Policies and codes that have been set out in writing carry particular weight among the communications, as do training programmes on compliance and anti-corruption.

2.3.1 Policies and codes

These give employees binding, clearly worded instructions for action and behaviour. The Code of Conduct is the main such guide. It defines compliance for all employees and boards at KRONES. Various policies complement the Code of Conduct. They are based on the respective fundamental normative principles of the Code of Conduct and provide concrete guidance for specific applications, for example, for fair and proper competition and for fighting corruption and money laundering.

2.3.2 Training programme

We provide mandatory training programmes on compliance as part of our efforts to establish a culture of compliance throughout the entire company. Management-level employees attend in-person training while other employees learn the content by way of an e-learning programme. The latter was designed specifically for the needs of the KRONES Group and is available in five languages. Employees who do not have a PC at their workplace are instructed by their respective managers. A second training series is dedicated to the topic of anti-corruption. Here, too, the basic training occurs via e-learning while employees who are in regular contact with third parties must complete the training in person. Participation and completion (or non-completion) of the training programmes is documented. Employees who do not score sufficiently high on the final exam must retake the test to ensure that they have learned the content.



2.4 Help desk and whistle-blowing procedures

Several paths are available to group employees for seeking information about compliance-related matters or for reporting possible violations. Besides contacting the compliance officer, the Head of Compliance, or the compliance team directly, employees have especially made use of the telephone help desk. The help desk enables callers to remain anonymous and is therefore especially well suited for reporting possible rules violations. All compliance-related matters that are brought to the help desk are documented for further processing and evaluation.

2.5 Monitor, detect, respond

Besides regular standard audits, the Head of Compliance conducts spot checks – particularly of processes with increased compliance risk such as the reporting of travel expenses – to verify the effectiveness of our compliance culture. If the Head of Compliance detects a suspected or actual compliance incident, actions are taken. These include case management and disciplinary action. Knowledge gained through this process is used to develop and implement new actions as necessary and reasonable.

3. Results and outlook

Since its creation in 2014, KRONES' international compliance management organisation's initial priority has been to establish a stable culture of compliance throughout the group – first and foremost by sensitising employees to compliance matters. A total of 2,094 employees completed compliance or anti-corruption training in 2017. That brings the total number of employees who have received compliance-related training to 14.794.¹ Thus, we can now focus on the next phase, optimizing our operational activities.

The following actions are planned for 2018:

- Conduct internal audits to monitor adherence to compliance policies within the group in spot checks
- Implement IT-based due diligence processes for process-integrated monitoring of business partners in high-risk countries for compliance incidents

¹ This figure does not include interns, working students, and students who are writing their theses in the company.



Concept: Customer satisfaction

We deliver production equipment for a highly competitive and technologically sophisticated industry. Customers who invest in KRONES products enter into a partnership that endures for years, even decades. For that reason, we keep our customers' needs front and centre in everything we do.

Whether we are developing new technologies, broadening our service offerings, or expanding our international network of sites, our actions are guided by our customers' needs. Therefore, we do not have a separate strategy for ensuring customer satisfaction. Customer satisfaction is an integral part of the group strategy that is presented on pages 30 to 37 of our Annual Report and applies to every part of the company.

However, KRONES' sales organisation plays a prominent role in the big picture. As the central point of contact with our customers, our sales team ensures that customers receive long-term, personalised support and fast, individualised service. For that reason, we have chosen to highlight our "Sales Excellence" project in this report. This project contributes to the aspect customer satisfaction in our sales and marketing organisation.

1. Organisation

Launched in 2014, this project covers the entirety of KRONES' sales organisation. Strategic responsibility lies with the Head of General Sales Management and Marketing, who reports directly to the Chief Sales Officer (CSO). The Head of Sales Europe coordinates operational implementation of the project.

The project's objective is to position KRONES' various sales channels in such a way that every individual customer receives the best possible support, no matter which region that customer is located in or which technology that customer wishes to use.

2. Actions

"Sales Excellence" consists of several subprojects that are being implemented successively. In 2017, the projects focussed on optimising two areas:

2.1 Sales team member qualifications

The demands placed on our sales team members have increased greatly over the past several years. Our customers are producing a rapidly growing variety of products, processes within beverage plants are becoming increasingly complex, and KRONES' own portfolio is constantly expanding. In order to meet our customers' high expectations for consulting and support, we have launched a training initiative whose aim is to develop "360° sales" professionals who possess two key qualifications.



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- Comprehensive expertise on the entire House of KRONES – including all acquired subsidiaries.
- The ability to lead an interdisciplinary team of experts and manage all sales processes associated with a customer project.

In this way, we are able to provide our customers with a single contact person who manages all aspects of the project throughout its entire duration – even for highly complex turnkey plants that encompass multiple product lines and subsidiaries.

2.2 Customer satisfaction analysis

Feedback from our customers has always been an essential tool for KRONES, for systematically improving both our offerings and our processes. Until now, we have used customer surveys that are prepared, sent, and analysed by hand to evaluate customer satisfaction. However, given KRONES' growth in recent years, this method has reached the limits of its effectiveness. For this reason, we have developed an IT-based system that enables us to obtain and process customer feedback more quickly and purposefully.

3. Results and outlook

The Sales Excellence project was launched in 2014 and will be with us for many years due to its size and scope. We completed the following building blocks in the reporting period:

- In the fall of 2017, we completed a “Sales Professional Evaluation”, in which we evaluated the technical and personal skills of 144 members of our new-machinery sales force worldwide. Based on the results of these evaluations, we are now developing a comprehensive training programme that addresses each individual's level of knowledge and trains them to have 360° sales expertise.
- The processes and building blocks for an automated customer satisfaction analysis have been integrated into our customer relationship management system since December 2017. Thus, it is now possible to generate, send, and analyse feedback surveys automatically through the CRM system. The associated feedback process will roll out in 2018.

Because of the importance of order intake for our group strategy, as explained earlier in this report, this KPI serves as an overarching indicator for measuring and assessing customer satisfaction. By reaching our growth targets, we are demonstrating that our customers trust us as their supplier and want us to help them shape their futures. More details about order intake can be found on page 60 of our Annual Report.



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Operating profitably does not preclude careful stewardship of resources. On the contrary, the two go hand-in-hand. For this reason, KRONES has for years been working hard to find ways to steadily reduce resource consumption and optimise materials use. The results of our efforts are brought to bear in our own production operations and in our customers' production processes.

Concept: Environmental matters relating to production

Below, we explain our concept for reducing CO₂ emissions. Two further material issues, "energy and media conservation in production operations" and "making optimum use of production materials" are currently being examined at the qualitative level. The focus here is on various measures aimed at reducing water consumption and waste generation in production and on increasing material efficiency. In order to substantially reduce both specific energy consumption and greenhouse gas emissions, KRONES AG has set a CO₂ reduction target, to cut direct and indirect energy-related CO₂ emissions per €1 million in revenue by 30% to 40% by 2020.¹ A corresponding action plan was adopted alongside the CO₂ reduction target.

Our decision to focus on KRONES AG as opposed to the group stems from the fact that KRONES AG accounts for the lion's share of value creation within the group. Besides the action plan mentioned above, KRONES is also pursuing a number of additional initiatives to optimise energy and consumption. Due to the heterogeneous nature of the companies belonging to the KRONES Group, these efforts are coordinated at the respective sites, in accordance with local and regional circumstances, instead of centrally.

1. Organisation

The Executive Board approved and adopted the reduction target and associated action plan. The relevant departments are responsible for their implementation. The measures are coordinated and monitored by designated team members within the framework of our overarching energy management efforts. In addition, results and status are reported to the CSR Committee annually. Our annual CSR reporting and our annual report to the Carbon Disclosure Project as well as other rating agencies ensure the necessary level of transparency.

2. Actions

An analysis of energy consumption across KRONES AG revealed the most promising potential for reduction in the following areas:

- Lighting
- Compressed air
- Pump systems and motors
- Heating systems
- Ventilation systems

¹ Using 2010 as a baseline.

Concrete measures have been developed for each of these areas. They will be implemented successively at all sites.

2.1 Data collection process

To ensure maximum transparency about our consumption, our designated team members initiate data collection within the integrated management system (IMS). They query the primary and secondary energy consumption data (Scope 1 and Scope 2) of the respective KRONES AG sites each month before making it available in a monitoring report. Besides those figures, which are presented in kwh, the monitoring reports also include updates on measures relating to our reduction target. In a second stage, the Energy Manager and our Environment, Health and Safety department evaluate and consolidate the data and measures. The data, presented in kwh and metric tonnes of CO₂, are then passed to our CSR Team, which establishes performance indicators. The final KPIs are assessed once again and communicated as part of our annual sustainability reporting.

3. Results and outlook

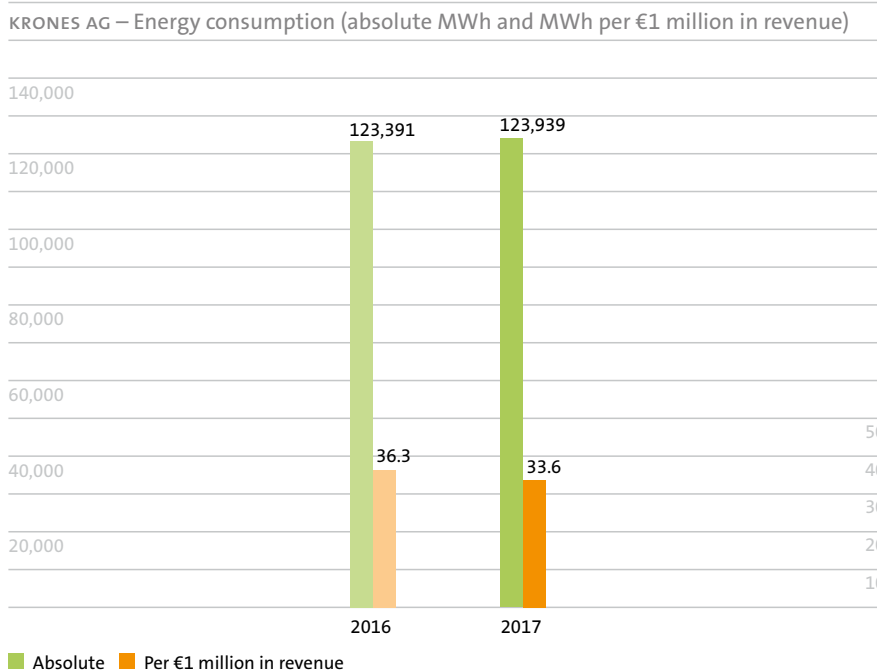
Thanks to improvements in our energy mix and continuous increases in revenue, we were already able to reach our CO₂ reduction target as of the end of the 2017 financial year. The consumption figures were based on consolidated revenue. As part of our efforts to expand our sustainability concepts across the entire group, we will undertake an emissions analysis and develop a new reduction target for the years ahead.

Action plan for reducing CO₂ emissions through 2020 (current for 2017)

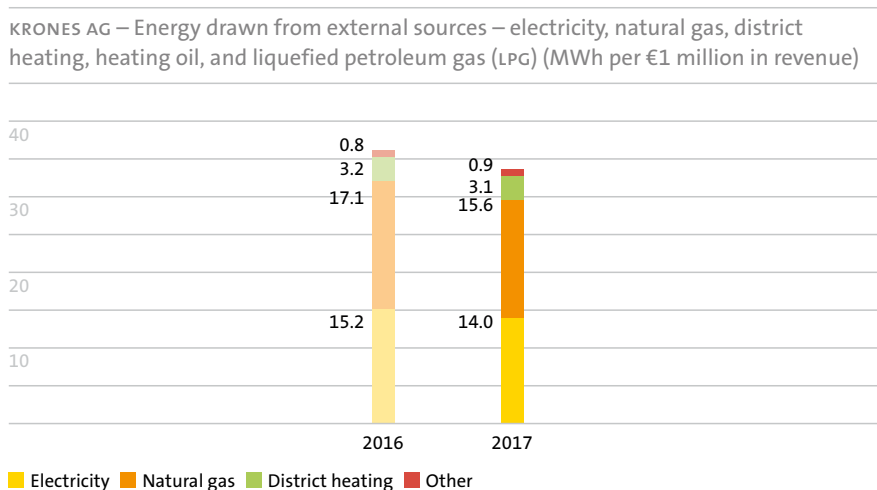
	Energy savings in MWh/J forecast	Energy savings in MWh/J actual	Energy source
Lighting	2,725	114	Electricity
Compressed air	639	528	Electricity
Pump systems, motors	147	220	Electricity
Air conditioning and cooling water installations			Electricity
Heating systems	706	553	Natural gas, district heating
Ventilation systems	350	414	Natural gas, district heating



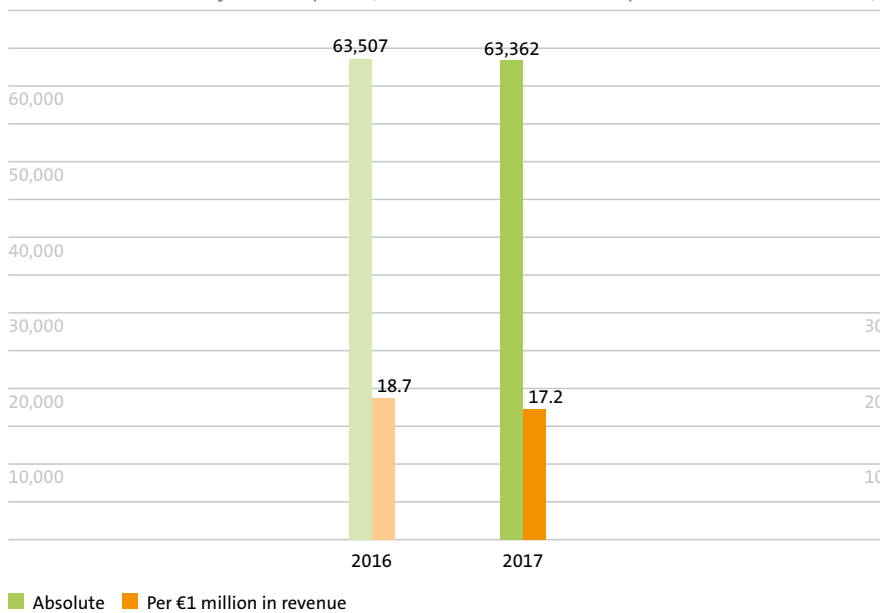
We used generally accepted conversion and emission factors to calculate the energy values and direct energy-related CO₂ emissions.



The consumption figures presented here relate to the operation of our machinery and equipment as well as buildings within KRONES AG. They do not include fuel used for our vehicle fleet. The figure for energy drawn from natural gas is based on estimates.

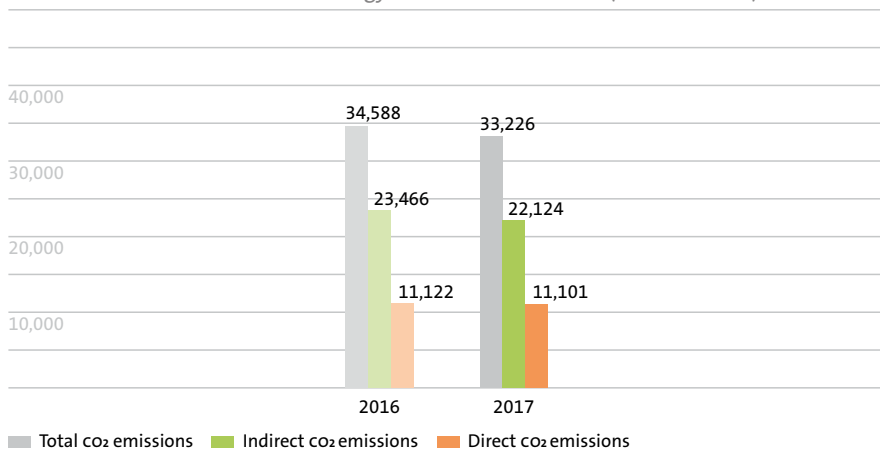


KRONES AG – Electricity consumption (absolute MWh and MWh per €1 million in revenue)



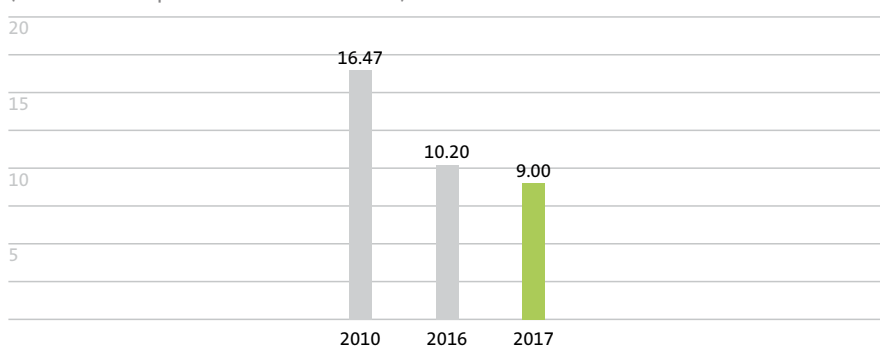
The direct emissions do not include KRONES AG's fleet of company cars.

KRONES AG – Direct and indirect energy-related CO₂ emissions (metric tonnes)



The emission factors for indirect energy-related CO₂ emissions are based on data provided by the respective utilities providers.

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



Concept: Environmental matters relating to products

In order to increase the environmental sustainability of our own products, KRONES created the enviro product line. It consists of machines and systems that are especially energy and media efficient and environmentally friendly. The processes that guide the development and classification of enviro products are laid out in the enviro management system.

The enviro management system covers the entire product development process, from fundamental research and preliminary developments to order fulfilment. Its components and structures are specified in the enviro manual.

1. Organisation

At the heart of our enviro organisation is our designated enviro Officer, who plans enviro strategy, coordinates its implementation, and monitors outcomes. That all happens in close collaboration with the management of our Central Research and Development department, which in turn reports to the Executive Board member responsible for Bottling and Packaging Equipment.¹

Because KRONES' portfolio is very broadly diversified, every production area also has a designated point person, who is responsible for bringing the actions and goals of our general enviro strategy into his or her respective area.

2. Actions

2.1 enviro in the product development process

To ensure that new developments are guided by the principles of environmental sustainability, enviro is part of the product development process, right from the beginning.

All potential development projects at KRONES are assessed and prioritised on the basis of "lighthouse" criteria. The enviro requirements are compiled within the "environment" criteria set and given a weighting of 20% within the overall assessment.

Ongoing development projects are managed by a milestone committee, which takes the enviro requirements into account in its decision-making process and determines the timeline for testing. The enviro point persons from the respective product divisions are also involved in the entire development process.

2.2 enviro product classification and testing

Before a product can bear the blue enviro label, its energy and media efficiency and environmentally friendly operation must be proven in a pre-defined and well-documented testing procedure.

¹ This applies to the reporting period 2017. Due to changes in the Executive Board, the Corporate Research and Development department will report to the CEO beginning in 2018.

To ensure the testing procedure's objectivity, a mandatory benchmark has been defined for each enviro-relevant aspect of a product, such as compressed air or water consumption. The benchmark criteria ensure that the enviro products

- Conform at least to the EME standard¹ defined by TÜV SÜD and
- Offer KRONES customers the best available technology.²

Because technology is always advancing, these benchmarks have to be regularly reviewed and adjusted as needed. As a result, a benchmark automatically loses its validity after three years and must be replaced with a more up-to-date set of criteria.

2.3 Application

Under the enviro programme, all products that carry the KRONES name must undergo the testing procedure described above. The only exceptions are products for which energy consumption, media consumption, and environmental compatibility do not play a significant role. These are primarily services and IT solutions.

The testing procedure is an integral part of the product development process for all new developments. We are reviewing existing products for enviro compatibility. Since the enviro programme is aimed at providing the broadest possible range of environmentally sustainable products, the testing procedure is also an important part of continuous optimisation efforts. If an existing product cannot meet enviro requirements in its current configuration, a targeted effort is made to identify modifications that make it possible to achieve the same level of functionality while conforming to enviro specifications. In this way, we are continually unlocking and utilizing potential for further improvements to our product portfolio – with sustainable effects. Many of the technological options that were initially developed or selected for enviro products will go into the configuration of standard machines in the medium term.

2.4 Certification

The enviro management system and the associated testing procedure have obtained third-party verification from TÜV SÜD. To maintain certification, an external monitoring audit must be performed annually and recertification must be done every three years.

¹ EME is an abbreviation for Energy and Media Efficiency, Environmental Sustainability.

² "Best available technology" is defined as under Directive 2010/75/EU.



3. Results and outlook

In our 2016 CSR Report, we had stated the aim of increasing the share of products assessed under enviro to 84% of the total enviro-relevant portfolio by the end of 2017. In fact, we were able to complete assessments of 91% of our enviro-relevant products,³ thus meeting and exceeding that target. We are also satisfied with the results of the assessments. Of the products tested, 79% have the potential to earn the enviro label.

Thus, we are able to offer KRONES customers the option to choose energy and media-efficient and environmentally friendly technology for almost every process step within their production operations. To ensure that the largest possible share of beverage producers make use of this opportunity for sustainable production operations, our next step will be to market the enviro portfolio more successfully. To that end, we are working to define and implement a set of processes and measures in 2018 that will enable us to establish a concrete revenue target for enviro in the years that follow.

³ 12% of the portfolio either could not be made to meet the criteria or was already deemed unsuitable for enviro before being subjected to more detailed testing.



Concept: Sustainability in our supply chain

Doing business in a sustainable, socially responsible manner is an integral part of KRONES' corporate philosophy and, therefore, also part of our supplier management policy. KRONES is a member of the UN Global Compact and committed to the ten principles of doing business sustainably. We actively strive to ensure that these standards are adhered to in all of our business processes and expect the same of our business partners, as laid out in KRONES' Supplier Code.

KRONES AG's supplier management consists of six stages. Each stage is a process in and of itself. In order to bundle all of the processes centrally and establish transparency across the entire supply chain, we are deploying a comprehensive, integrated IT solution known as Supplier Lifecycle Management (SLC). It will roll out in three stages: The content of the first stage has already been mapped to the software. Corresponding user training was completed by early 2018 and the project can now move into the next stage.

1. Organisation

Within the company's organisation, supplier management is an interdepartmental function. The tasks and responsibilities lie with the respective Purchasing teams and the Quality Management team as well as with the product lines, which serve as "end customers". Strategic Purchasing, whose management reports directly to the CFO, serves as the key contact point.

2. Actions/processes

2.1 Registration

During the registration process, potential suppliers are asked to provide general information about their company. In this first step, they must also agree to both KRONES' general terms and conditions and to the content of KRONES' Supplier Code and vow to uphold them. That ensures that a supplier shares and abides by the same ethical values that are important to KRONES even before that supplier is brought on board.

2.2 Qualification

After registration is complete, the next stage is supplier qualification. The depth and requirements of this stage vary depending on the product group involved. Among other things, it will involve further questions on all aspects of sustainability. For example, suppliers are asked to respond to questions about environmental protection or occupational safety and health. A potential supplier must pass this qualification in order to be approved as a supply partner. The scope of the qualification measures varies and is determined on a case-by-case basis. Mandatory criteria apply to individual product groups.



2.3 Evaluation

When we enter into a business relationship with a supplier, we take on an obligation to evaluate the supplier on a regular basis. These reviews are conducted by our Purchasing department in collaboration with the relevant technical departments. These evaluations involve various measures, including product and system audits. The process and performance of the audits are the responsibility of our central Quality Management team. The audit covers the supplier's environmental management, occupational safety, and quality management systems. Besides weaknesses, risks, and potential for improvement of the respective management systems, the audit also examines the supplier's compliance with KRONES' Code of Conduct and Supplier Code.

The necessary response measures are determined by the audited organisation and coordinated with those responsible for carrying out the measures. In 2017, a total of 73 system audits and 46 product audits were conducted on suppliers to KRONES AG.

2.4 Classification

Our supplier classification system maps the most important characteristics of individual suppliers to a single overview. That facilitates supplier selection and development and makes it possible to compare suppliers in a transparent process.

2.5 Development

The development of suppliers can be initiated by Strategic Purchasing, the product lines, or Quality Management. It is based on collaboration with the responsible departments to determine and implement individual measures aimed at increasing or securing supplier performance.

2.6 Phase-out

Phase-out is the process used to end a supplier relationship. Possible grounds for such action include insufficient implementation of agreed improvement measures or a strategic reorientation of KRONES AG in the respective product group.

3. Results and outlook

In order to bundle all processes centrally and establish transparency across the entire supply chain, we are deploying a comprehensive, integrated IT solution known as Supplier Lifecycle Management (SLC).



Concept: Respect for human rights

Fairness, mutual respect, and tolerance are fundamental values that inform KRONES' culture. Every member of the group is expected to respect these values and use them as a guide for their own actions. That expectation is unequivocally stated in the group-wide standards laid out in KRONES' mission statement, leadership guidelines, and Code of Conduct.

Respect for human rights and adherence to applicable standards and laws are an integral part of our ethical consciousness. These maxims are imperative and every member of the group must comply with them, without exception. Because we hold these expectations not only of ourselves but also of our business partners, we have established them in the KRONES Supplier Code.

1. Organisation and actions

In 2017, we introduced a personal disclosure requirement for top-level managers group-wide. For this purpose, the Human Resources and Corporate Compliance and Governance departments developed a questionnaire in collaboration with the CEO. In completing the questionnaire, the managers of companies belonging to the KRONES Group disclose relevant information on their personal and financial situations. They also sign a commitment to comply with local laws as well as the KRONES Code of Conduct. In the event of violations, appropriate sanctions are levied.

2. Results and outlook

The disclosure form was distributed group-wide in the fourth quarter of 2017. The disclosures made by the managing directors of all German subsidiaries have already been collected and analysed. We expect to complete collection of the data from the international subsidiaries by the end of the first quarter of 2018.

To the Supervisory Board of KRONES AG, Neutraubling

We have performed an independent limited assurance engagement on the Combined Separate Non-Financial Report of KRONES AG and the Group (hereinafter “KRONES”) as well as the sections “Fundamental information about the group”, “Risk and opportunity report”, “KRONES in figures” and “Strategy and management system” of the Consolidated Management Report, which has been qualified as part of the Combined Separate Non-Financial Report (hereinafter “Report”) by reference, according to Sections 315b and 315c in conjunction with 289c to 289e HGB (German Commercial Code) for the business year from January 1 to December 31, 2017.

Management’s Responsibility

The legal representatives of the entity are responsible for the preparation of the Report in accordance with Sections 315b and 315c in conjunction with 289c to 289e HGB.

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the Report and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, this responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the Report in a way that is free of – intended or unintended – material misstatements.

Independence and Quality Assurance on the Part of the Auditing Firm

We are independent from the entity in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

Our audit firm applies the national statutory provisions and professional pronouncements for quality assurance, in particular the Professional Code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

Practitioner’s Responsibility

Our responsibility is to express a conclusion on the Report based on our work performed within our limited assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): “Assurance Engagements Other than Audits or Reviews of Historical Financial Information” published by IAASB. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance of whether any matters have come to our attention that cause us to believe

¹ Our engagement applied to the German version of the Report. This text is a translation of the Independent Assurance Report issued in German, whereas the German text is authoritative.



that the Report of the entity has not been prepared, in all material respects, in accordance with Sections 315b and 315c in conjunction with 289c to 289e HGB. We do not, however, provide a separate conclusion for each disclosure. In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is subject to the auditor's own judgement.

Within the scope of our engagement, we performed amongst others the following procedures:

- Inquiries of personnel at the corporate level, who are responsible for the materiality analysis, in order to gain an understanding of the processes for determining material sustainability topics and respective reporting boundaries of KRONES
- A risk analysis, including a media search, to identify relevant information on KRONES' sustainability performance in the reporting period
- Evaluation of the design and implementation of the systems and processes for determining, processing and monitoring of disclosures relating to environmental, employee and social matters, respect for human rights, and combating corruption and bribery, including the consolidation of the data
- Inquiries of personnel at the corporate level who are responsible for determining disclosures on concepts, due diligence processes, results and risks, for conducting internal controls and consolidation of the disclosures
- Evaluation of selected internal and external documentation
- Analytical evaluation of data and trends of quantitative disclosures, which are submitted by all sites for consolidation at the group level
- Evaluation of local data collection, validation and reporting processes as well as the reliability of reported data based on a sample at the site in Neutraubling
- Assessment of the overall presentation of the disclosures

Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the Report of KRONES, for the business year from January 1 to December 31, 2017, is not prepared, in all material respects, in accordance with Sections 315b and 315c in conjunction with 289c to 289e HGB.

Restriction of Use / Clause on General Engagement Terms

This assurance report is issued for the purposes of the Supervisory Board of KRONES AG, Neutraubling, only. We assume no responsibility with regard to any third parties.



Our assignment for Supervisory Board of KRONES AG, Neutraubling, and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer (German Public Auditors) and Wirtschaftsprüfungsgesellschaften (German Public Audit Firms) (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this assurance report, each recipient confirms having taken note of provisions of the General Engagement Terms (including the limitation of our liability for negligence to EUR 4 million as stipulated in No. 9) and accepts the validity of the attached General Engagement Terms with respect to us.

Munich, April 12, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

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[German Public Auditor]

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Hell



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This English language report is a translation of the original German KRONES Konzern Nichtfinanzieller Bericht 2017. In case of discrepancies the German text shall prevail.

