

KRONES Group

# Non-financial Report 2018



## About this report

This report is the combined separate consolidated non-financial report for both the KRONES Group and KRONES AG for the financial year 2018 in accordance with Sections 315b and 315c of the German Commercial Code (Handelsgesetzbuch, HGB) in conjunction with Sections 289b through 289e HGB.



The Non-financial Report 2018 is publicly available at KRONES' website under Company/Responsibility/Sustainability/Download.

The combined separate non-financial report for the KRONES Group and KRONES AG for the financial year 2018 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 the 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 289b through 289e HGB.

## Key Facts about the Non-financial Report 2018

### Medium

As of 2018, the Non-financial Report for the KRONES Group will serve as the central means for transparently presenting KRONES' sustainability performance. The Sustainability Report for KRONES AG, which has been published each year since 2007, will no longer be published separately since our aim is to bundle all non-financial information in a single, compact publication. For the sake of transparency, we will report the most important non-financial figures as "Additional information" following each of the respective concepts covered in this report. To date, this data has been collected at the level of KRONES AG only. However, we intend to expand our data collection and establish solid non-financial figures for the group in the years ahead.

### Content

The content relates to the financial year 2018 and has been derived directly from the KRONES Group's materiality matrix.

### Scope

Any management concepts for which data is already available for the KRONES Group as a whole are reported as such. Some concepts currently apply to KRONES AG only. Wherever this is the case, we have indicated it clearly. Information about the consolidated group can be found on pages 131 to 132 of the KRONES Group Annual Report.

### Content verification

Unless otherwise noted, all content, data, and figures are disclosures required under the German CSR Directive Implementation Act and have been audited for their accuracy. Details of the verification process can be found under the heading "About this report". Additional data is presented for some topics of material interest in order to lend greater transparency for our stakeholders but is not subject to verification under the CSR Directive Implementation Act. This unaudited information is provided as "Additional information" directly following the respective topic and is set against a shaded background for easy identification.

### Alignment

This report is based on the Global Reporting Initiative's Sustainability Reporting Standards (GRI Standards).

### Risks

In collaboration with the management and experts from the various departments, we conducted an analysis of risks with the potential to have a severe negative impact on the non-financial aspects. No reportable risks within the meaning of the German Commercial Code (HGB) were identified.

### Key performance indicators

Non-financial key performance indicators have not yet been tracked for the concepts presented here.

### Connection to items reported in the consolidated financial statements

Only in the area of innovation is there any correlation between the concepts presented here and amounts reported in the consolidated financial statements. Details can be found on page 53 of the KRONES Group Annual Report.

### References

All references made in this report are to supplementary information, with the exception of references to the group management report.



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INNOVATION

# 1

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## Foreword



*Volker Kronseder*  
Chairman of the Supervisory Board



*Christoph Klenk*  
Chairman of the Executive Board

Dear Readers,

Our Annual Report for 2018 bears the title “Investment in the future”. In many areas – whether product strategy, budgeting, or ensuring the company’s sustainable development – we must make important decisions now in order to remain successful in the long term and continue our steady growth.

The same applies to KRONES’ sustainability performance. With our values-based company culture, efficient production, and enviro sustainability programme for our products, we have been on the right track for several years now. However, as the demands of our markets and our stakeholders increase, so too do our expectations for our own performance. We have taken the entry into force of Germany’s CSR Directive Implementation Act at the start of 2017 as an opportunity to re-examine our current CSR management. As of 2018, we are now investing in two main areas: systematisation and internationalisation.

We have been working hard to systematise our sustainability management. In practice, that means assigning responsibilities, making processes more professional, and making progress measurable. Our aim is to give structure to the many various measures and actions KRONES undertakes in an effort to meet its responsibilities and promote sustainability. That also ultimately benefits KRONES economically by way of improved customer satisfaction, employee loyalty, and risk prevention.

Internationalisation is a top priority for our CSR team. Until 2017, our CSR management focused primarily on KRONES AG alone. Our subsidiaries and plants in the regions worldwide were largely responsible for their own sustainability activities. As much as this decentralised approach made sense in the past, the group’s enormous growth and changing circumstances have compelled us to acknowledge that the time has come for KRONES to establish a uniform framework for CSR management worldwide. We took the first steps in that direction in 2018.

The systematisation and internationalisation of our CSR management are the two main pillars of our efforts to improve our sustainability performance. They will serve as the foundation for our future groupwide sustainability strategy, in which we will invest considerable time and energy in the years ahead. In so doing, we will systematically roll out the strong basis for KRONES AG’s sustainability performance across the entire KRONES Group.

This Non-financial Report is a record of the progress our CSR management has made so far and of our sustainability performance in the non-financial areas material to our business.

Volker Kronseder  
Chairman of the Supervisory Board

Christoph Klenk  
Chairman of the Executive Board

## Our business model

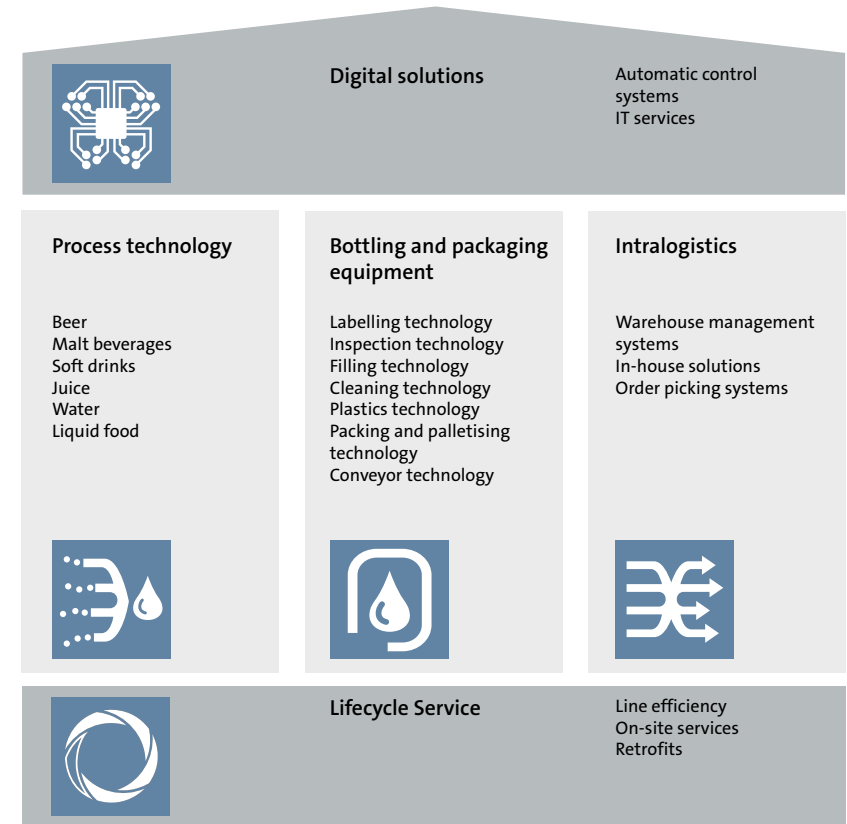
### Business model, business areas, and organisational structure

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

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

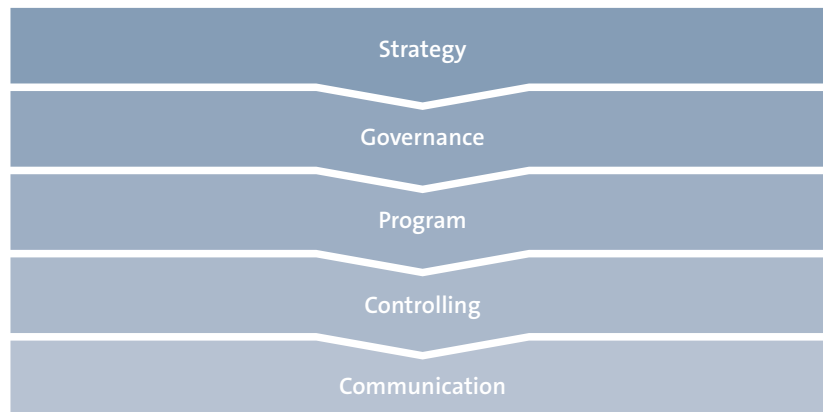


*More information about KRONES' business model can be found in the group management report beginning on page 36 of the Annual Report.*



## Sustainability at KRONES

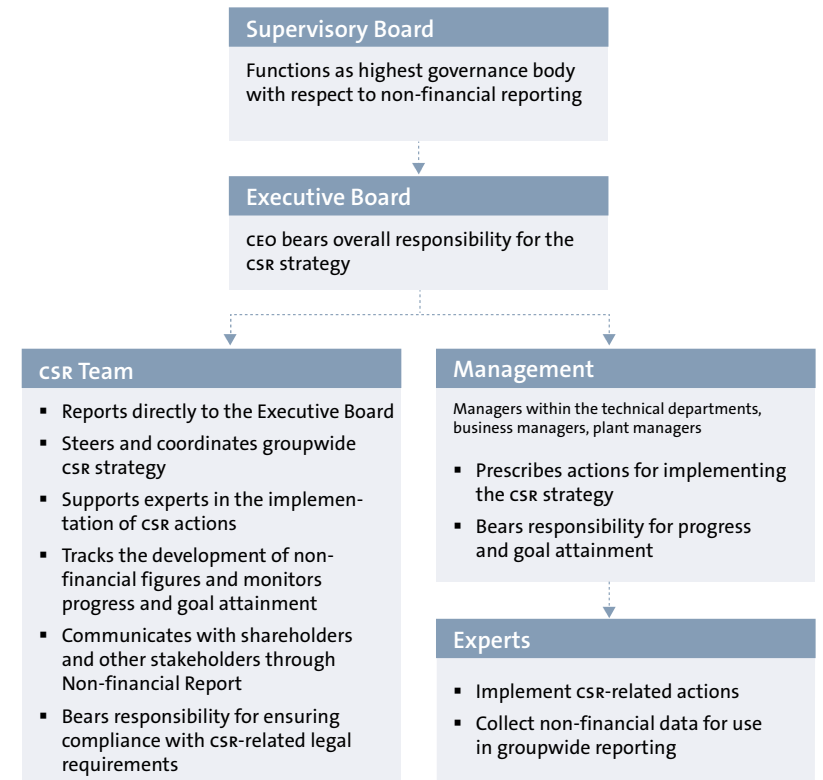
At KRONES, corporate social responsibility (CSR) means doing business sustainably. By actively managing our CSR efforts, the KRONES Group is doing its part to ensure sustainable development. We must make sustainability a part of all material decisions in order to identify risks early, reduce our ecological footprint, and expand our positive influence on society. The KRONES Group is aware of the responsibility it bears, not only for its economic performance but also for the impact its activities have on the environment, its employees, society as a whole, and future generations.



The CSR management process illustrates how we will systematically manage sustainability at KRONES in the future: A comprehensive strategy and organisational embeddedness are the bedrock of sustainability management within the KRONES Group. It is on this basis that we decide what measures and actions to take and then regularly review them. Our non-financial reporting lends transparency for shareholders and stakeholders alike.

## Organisation

KRONES AG's CSR team is the central point of contact and coordinates sustainability efforts groupwide. All material non-financial information and activities from the various departments converge in this team. The team collaborates closely with the relevant experts and managers in the technical departments within KRONES AG, at our subsidiaries, and at our major international sites and supports their efforts to implement CSR-related actions. The CSR team reports directly to the CEO.





## Our path to a groupwide sustainability strategy

Continuity and sustainability have always been important to KRONES. At the same time, we view the new statutory CSR reporting requirements as an opportunity to refine and, perhaps, redefine our CSR strategy – not only with respect to KRONES AG but across the KRONES Group.

Until now, KRONES AG, the plants abroad, and subsidiaries have each born responsibility for non-financial aspects and targets individually. Sustainability activities were largely decentralised and self-contained, in part to ensure flexibility and minimise bureaucracy and thus enable our sites to respond to local or regional circumstances. However, when it comes to major sustainability topics like emissions management and occupational safety, a groupwide approach offers clear advantages for KRONES as well as for our investors and other stakeholders.

That is why we began rolling out certain CSR topics in waves at our sites and subsidiaries worldwide in 2018. The first wave focuses on establishing uniform practices and processes for collecting data, since consolidated non-financial information and figures are essential to effective groupwide CSR management. Establishing a systematic approach and expanding it to our sites worldwide will lay the foundation for a new groupwide sustainability strategy.

### Milestones and next steps

Besides the activities and actions undertaken to address specific topics, we are always working to further develop our sustainability management. We reached important milestones in our efforts to establish a systematic approach at our sites worldwide in 2018 and have set various priorities for 2019:



## KRONES materiality matrix

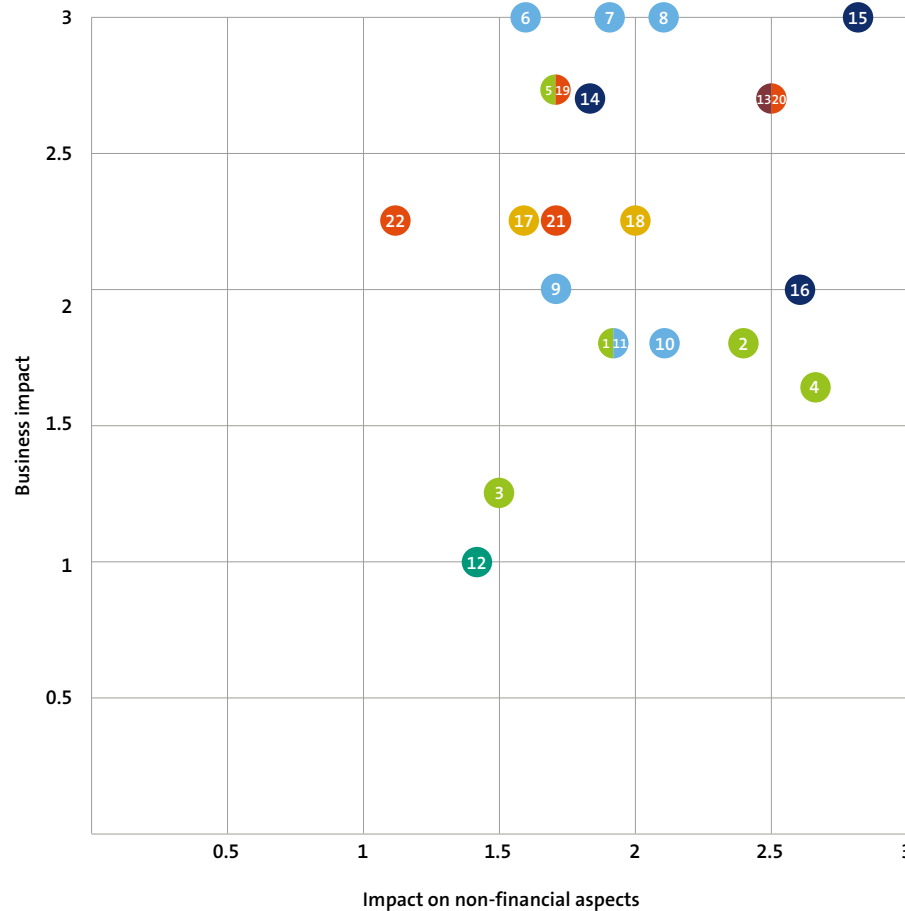
### Materiality analysis

The materiality matrix serves as the fundamental guide for sustainability activities within the KRONES Group. It is based on a thorough materiality analysis conducted in 2017 using GRI criteria and the definition of materiality under Section 289c III of the German Commercial Code (HGB). The horizontal axis represents the impact on non-financial aspects. It is based on the results of a stakeholder survey that was conducted as part of our materiality analysis to ascertain our key stakeholders' priorities. The vertical axis shows how sustainability topics stand in terms of their business impact. This information was gathered by surveying the top managers in the respective departments. This materiality matrix for 2018 has been approved by the Executive Board and reviewed by our CSR team.

For 2019, we intend to update the current materiality matrix on the basis of a new materiality analysis.

### 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 Germany's CSR Directive implementation Act 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.



**Environmental matters**

*Environmental matters relating to production*

- 1 Reducing pollution and hazardous materials
- 2 Energy and media conservation in production operations
- 3 Making optimum use of production materials

*Environmental matters relating to products*

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

*Sustainability in our supply chain*

- 5 Sustainability in our supply chain

**Employee-related matters**

*Capable, motivated workforce*

- 6 High level of employee loyalty
- 7 Sustainable, purposeful training and continuing education
- 8 Recruiting the right people

*Occupational safety and health*

- 9 Effective health management
- 10 Effective occupational safety management

*Diversity*

- 11 Balanced employee structure (diversity)

**Social matters**

- 12 Social commitment (corporate citizenship)

**Respect for human rights**

- 13 Respect for human rights

**Anti-corruption and bribery matters (compliance)**

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

**Customer satisfaction**

- 17 Fast, individual service for customers
- 18 Long-term, personalised relationships with customers

**Innovation**

- 19 Responding flexibly to market changes
- 20 Technological leadership
- 21 Use of industry knowledge and research findings
- 22 Lean manufacturing (TPM)

# 2

## ENVIRONMENTAL MATTERS

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Operating profitably does not preclude careful stewardship of resources. On the contrary, it depends on it. For this reason, KRONES has for years been working hard to find ways to steadily reduce resource consumption and optimise materials use.

We continue to focus our efforts on reducing greenhouse gas emissions in our production operations. We will report on our concept and current status in this section. We examine the topics “Energy and media conservation in production operations” and “Making optimum use of production materials” at the qualitative level. *Key information and numbers are provided in the Additional information for this section, on page 17.*



## Environmental matters relating to production – Concept

In order to substantially reduce both specific energy consumption and greenhouse gas emissions, KRONES AG has set itself a CO<sub>2</sub> reduction target. We aim to cut direct and indirect energy-related CO<sub>2</sub> emissions per €1 million in revenue by 30% to 40% by 2020, from a 2010 baseline. The Executive Board adopted a corresponding action plan alongside the CO<sub>2</sub> reduction target. Besides the measures laid out within the action plan, we are conducting a number of additional initiatives and projects to optimise energy and consumption in specific instances.

The reduction target applies only to KRONES AG, for several reasons. First, the parent company still accounts for the lion’s share of value creation within the group – and thus also generates the majority of emissions. Second, due to the heterogeneous nature of the companies belonging to the KRONES Group and the very different local and regional circumstances under which they operate, environmental strategy has thus far been decentralised.

### 1. Organisation

Our carbon reduction target and action plan have been adopted by the Executive Board. 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. The CSR Team reports on them regularly to the CEO. Our annual non-financial report and reporting through various sustainability ratings ensure transparency for our shareholders and other stakeholders.

## 2. Actions and processes

### 2.1 Energy conservation priorities

Although we achieved our emissions reduction target at the end of 2017, the measures implemented remain in place in order to continue to reduce our greenhouse gas emissions for the long term. The following areas offer the greatest reduction potential:

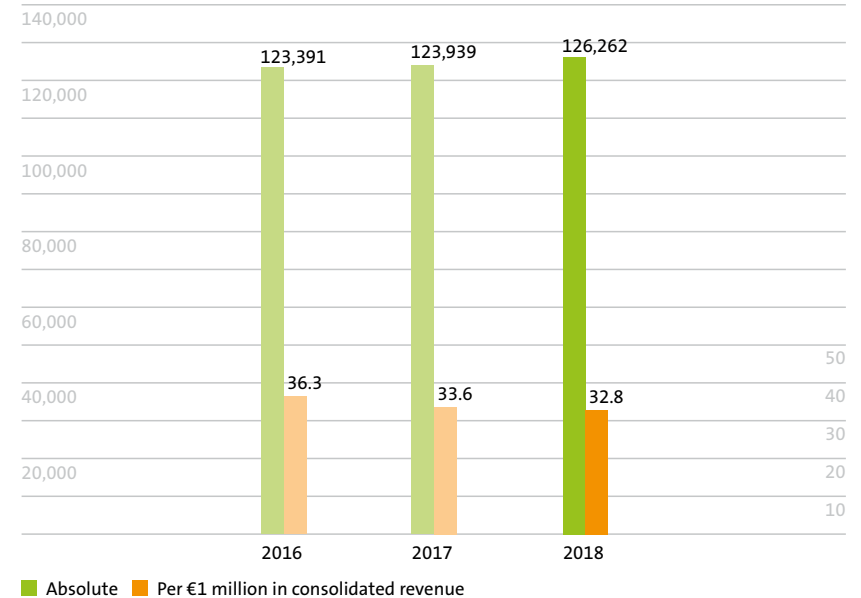
- Lighting
- Compressed air
- Pump systems and motors
- Air conditioning and cooling water installations
- Heating
- Ventilation systems

Concrete measures have been developed for each of these areas. They will be implemented in waves at all KRONES AG sites.

KRONES AG – Action plan for reducing CO<sub>2</sub> emissions through 2020 (as of 2018)

	Energy savings in mwh per year, planned	Energy savings in mwh per year, achieved	Energy source
Lighting	2,725	1,239	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

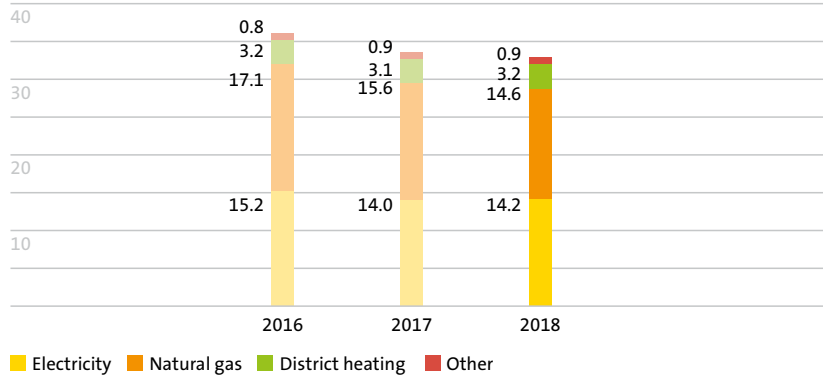
KRONES AG – Energy consumption (absolute mwh and mwh per €1 million in consolidated revenue)



*We used generally accepted conversion and emission factors to calculate energy values and direct energy-related CO<sub>2</sub> emissions.*

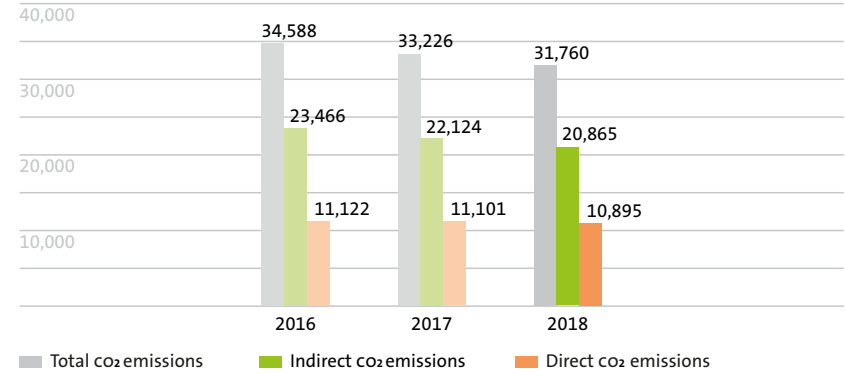
*The energy savings reported here include all of the action plan projects implemented thus far. The data presented is for energy savings per calendar year. Actions that were completed before the end of the calendar year are reported on a proportionate basis.*

KRONES AG – Energy drawn from external sources (MWh per €1 million in consolidated revenue)



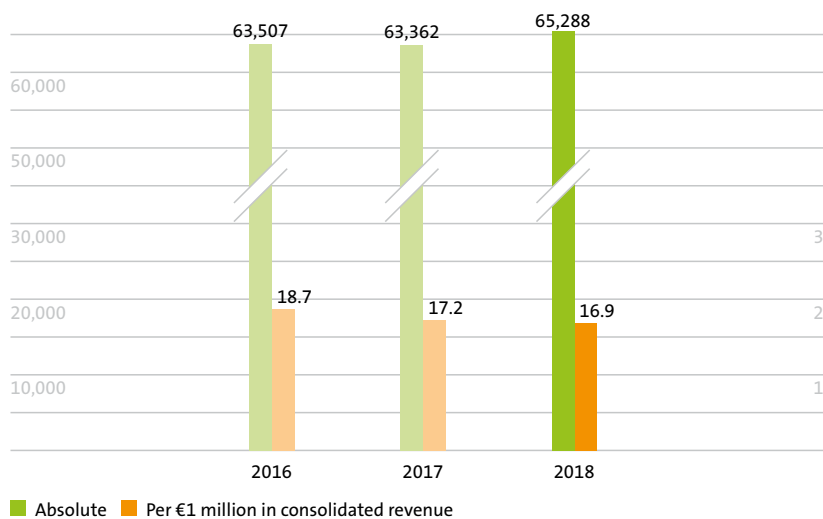
The consumption figures presented here relate to the operation of machinery and equipment as well as buildings within KRONES AG. They do not include fuel used for our vehicle fleet. About 1 percent of the figure for energy drawn from natural gas is based on estimates.

KRONES AG – Direct and indirect energy-related CO<sub>2</sub> emissions (metric tonnes)

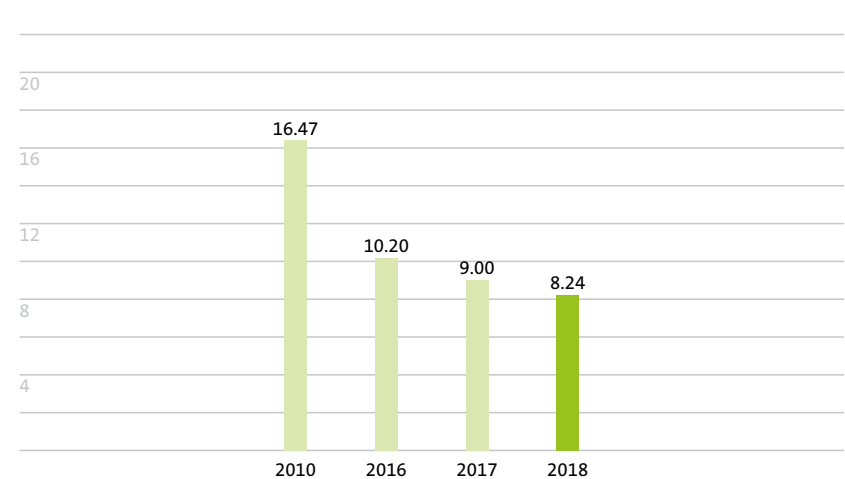


The direct emissions do not include KRONES AG's fleet of company cars. The emissions factors for direct emissions are taken from the Bavarian Environment Agency's emissions calculator, last updated in 2016.

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



KRONES AG – Direct and indirect energy-related CO<sub>2</sub> emissions (metric tonnes per €1 million in consolidated revenue)



The emissions factors for indirect energy-related CO<sub>2</sub> emissions are based on data provided by the respective utilities providers.

## 2.2 Data collection processes within KRONES AG

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 and then make it available in a monitoring report. Besides those figures, which are presented in kWh, the monitoring reports also include updates on the progress and effectiveness of 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 actions taken. The data, presented in kWh and in metric tonnes of CO<sub>2</sub>, are then passed to our CSR Team, which establishes performance indicators. The final figures are assessed once again and communicated as part of our annual sustainability reporting.

## 2.3 Internationalisation as part of the CSR Rollout

Energy and emissions are a major focus within the groupwide CSR rollout. We are using the non-financial reporting policy to establish uniform data collection for Scope 1 and Scope 2 emissions. Our aim is to establish a groupwide measure for direct and indirect greenhouse gas emissions in the years ahead which can then serve as the indicator for an updated, groupwide reduction target.

## 3. Results

Thanks to improvements in our energy mix and a continuous increase in revenue, we were already able to reach our CO<sub>2</sub> reduction target as of the end of the 2017 financial year. The consumption figures were based on consolidated revenue.

## 4. Goals

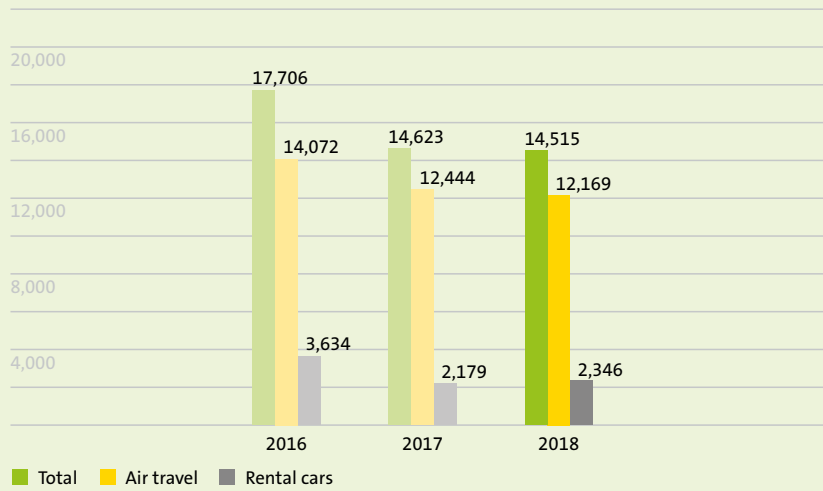
- International rollout: Continue to expand data collection and management processes for energy and emissions across the group
- Update reduction target: Continue to analyse our emissions in the years ahead and update and develop our existing reduction target



## Environmental matters relating to production – Additional information

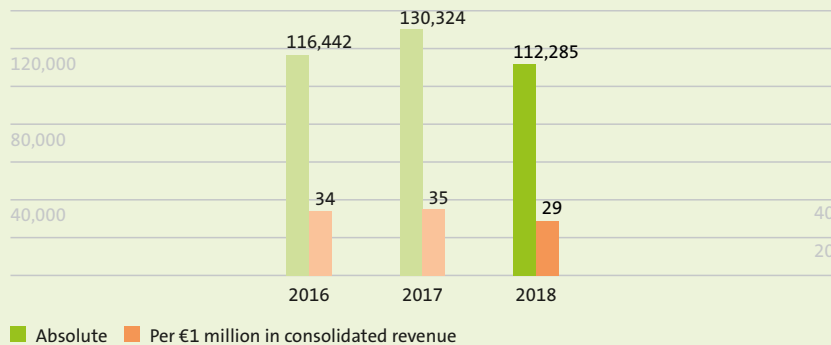
### Reducing pollution and hazardous materials

KRONES AG – CO<sub>2</sub> emissions resulting from work-related travel (metric tonnes)



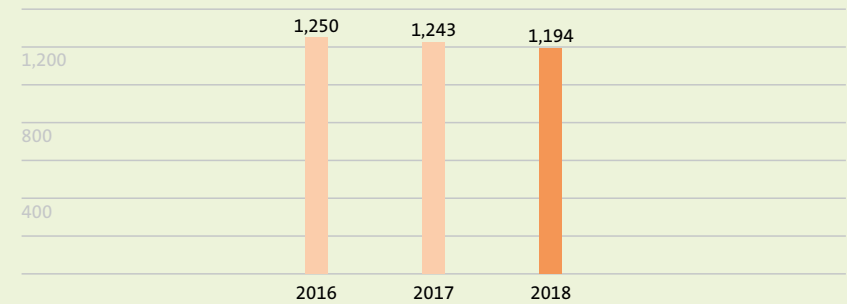
### Energy and media conservation in production operations

KRONES AG – Water consumption (m<sup>3</sup> and m<sup>3</sup> per €1 million in consolidated revenue)

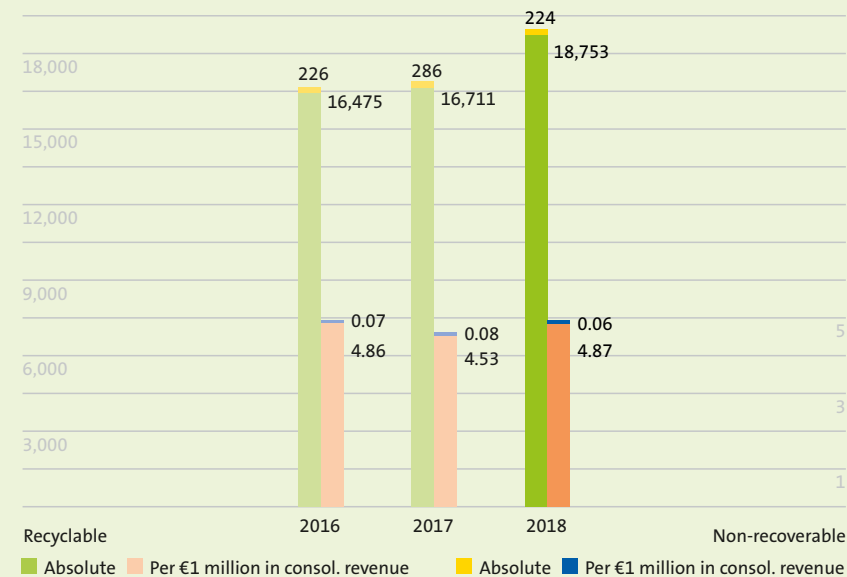


### Making optimum use of production materials

KRONES AG – Hazardous waste (metric tonnes)



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



## Environmental matters relating to products – Concept

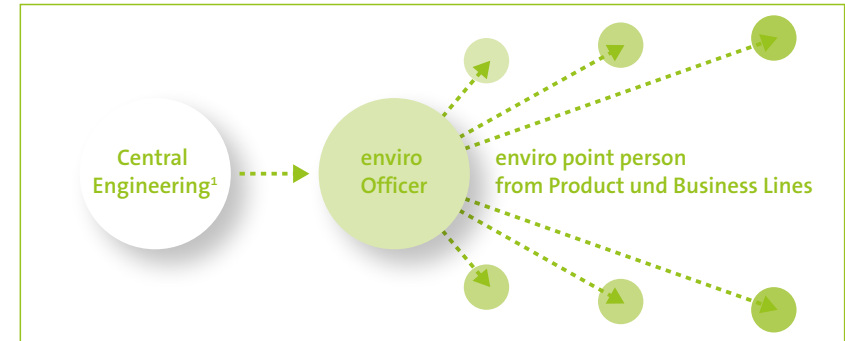
When KRONES develops environmentally friendly, media-efficient products, we are not only furthering our own sustainability. Our sustainable, high-quality machines and services also help our customers to produce their goods cost-effectively and achieve their own ambitious sustainability targets. We maintain close, ongoing dialog with our customers so that we can bring their needs into the further development of environmentally friendly products and technologies.

All KRONES products meet the highest standards of quality and efficiency. KRONES created the enviro sustainability programme to continually increase the environmental sustainability of our own products. Under the programme, machines and systems are developed 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, which covers the entire product development process.

All KRONES-branded products undergo a special review process under enviro (see point 2.2). The only exceptions are those products for which energy consumption, media consumption, and environmental compatibility do not play a significant role. These are primarily services and IT solutions.

### 1. Organisation

Because KRONES' portfolio is very broadly diversified, each production area has a designated enviro point person, who plans the respective enviro strategy, coordinates its implementation, and monitors outcomes. This point person is also responsible for bringing the actions and goals of our overarching enviro strategy into his or her respective area – in close collaboration with the central enviro Officer. The management is involved in key subprocesses such as setting goals and monitoring outcomes.



### 2. Actions and processes

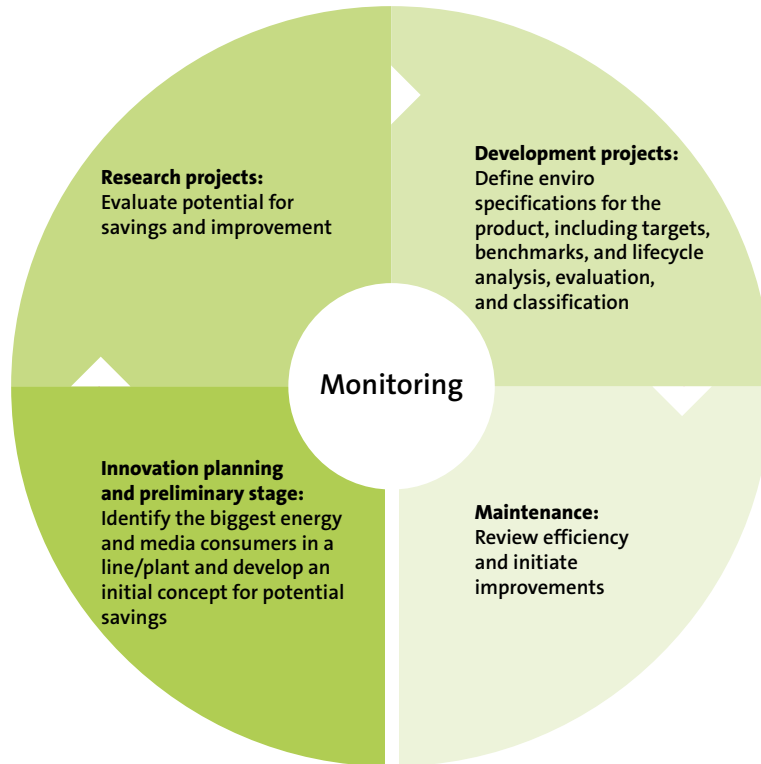
#### 2.1 enviro in the product development process

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

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

The sustainability programme is a strong driver of innovation for numerous KRONES products. Many of the technological options initially developed or selected for enviro products become part of the machines' standard configuration in the medium term. Thus, the enviro programme improves the energy and media efficiency and environmental compatibility of our product portfolio.

<sup>1</sup>since 1 January 2019, previously Corporate Research and Development



## 2.2 enviro product classification and testing

Before a KRONES machine can bear the enviro label, its energy and media efficiency and environmentally friendly operation must be proven in a prescribed, well-documented testing procedure.

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 environmental sustainability. The benchmark criteria ensure that the enviro products conform at least to the EME (Energy and Media Efficiency Environmental Sustainability) standard defined by TÜV SÜD.



## 2.3 Certification

The enviro management system and the associated testing procedure have obtained third-party verification from TÜV SÜD. To maintain the certification, an external monitoring audit must be performed annually. Recertification must be done every three years. The most recent recertification was done in 2018.

## 3 Results

As indicated in our last Non-financial Report, our focus in 2018 was on marketing enviro products more successfully. To that end, we have optimised our internal processes for preparing bids. The person preparing a bid can now more easily see whether a specific product meets enviro criteria in the configuration requested by the customer and, if not, whether and how it can be brought up to the enviro standard. Processes have already been transitioned for some products on a pilot basis. After seeing positive results with those products, we plan to transition the bidding and order management process for our entire range of bottling and packaging equipment to this new model in 2019.

## 4. Goals

- Develop a measure for evaluating success: Establish a new measurement, based on customer demand, that KRONES can use to assess the efficacy and success of the enviro management system
- Define internal targets: Develop individual internal measures and targets for the respective enviro product areas to reveal additional potential for improving the efficiency and environmental sustainability of individual products

## Environmental matters relating to products – Additional information

### Energy consulting for entire factories

Depending on the location and reduction targets, a variety of actions can be taken to optimise energy and media consumption along a plant's value chain:

- Integrate water recycling systems
- Combine heat sources and heat sinks, for example using heat pumps or free cooling concepts
- Deploy process-specific heating and cooling technologies, e.g. trigeneration (combined cooling, heat, and power – CCHP)
- Apply overall energy concepts for greenfield and brownfield projects
- Integrate renewables like photovoltaics or solar heat – as applicable given regional circumstances
- Right-size utilities



## Sustainability in our supply chain – Concept

Sustainability is a responsibility that runs the entire length of our value chain. KRONES is a member of the UN Global Compact and is committed to its ten principles of doing business sustainably. We actively strive to ensure that these standards upheld in all of our business processes and expect the same of our business partners.

KRONES' Supplier Code is an essential underpinning of the relationship between KRONES and our suppliers. It lays out our most important expectations of our business partners with respect to sustainability topics.

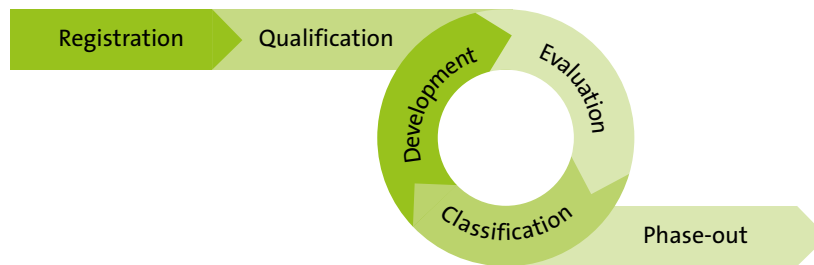
### 1. Organisation

Supplier management is an interdepartmental function within the group's organisation. The tasks and responsibilities lie with the respective Purchasing teams and the Supplier Quality Management team as well as with the Product Lines, which serve as "end customers", and their respective points of contact within the organisation. Strategic Purchasing, whose management reports directly to the CFO, serves as the key point of contact.



## 2. Actions and processes

Key actions and processes are governed by a procurement policy that applies groupwide. KRONES AG and its subsidiaries implement the provisions of this policy, taking into account business- and region-specific considerations. Our supplier management consists of six stages. Each stage is a process in and of itself. The aim of the processes is to ensure transparency across the entire supply chain.



### 2.1 Registration

During the registration process, potential suppliers are asked to provide general information about their company. In this first step, they must agree to KRONES' general terms and conditions and to the content of KRONES' Supplier Code and vow to abide by them.

### 2.2 Qualification

Suppliers are then vetted on the basis of specific criteria depending on the product group. Topics relating to sustainability, such as environmental protection and occupational safety, are also part of this process. Suppliers are generally only approved after they have been completely vetted and deemed qualified.

### 2.3 Evaluation

Once a business relationship is established, the supplier is subject to regular evaluations. Targeted product and system audits are conducted to review such items as the supplier's environmental, occupational safety, and quality management. 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. Any necessary remedial actions are determined by the audited organisation and coordinated with those responsible for carrying out the actions. Purchasing, Central Quality Management, and the respective departments collaborate closely on the reviews that make up the audit.

### 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

Supplier development can be initiated by Strategic Purchasing, the Product Lines, or Quality Management. Individual actions are closely coordinated in order to increase or ensure supplier performance.

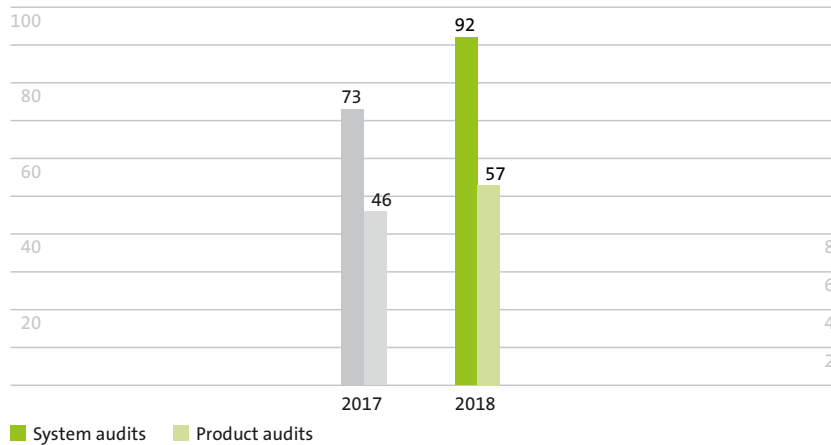
### 2.6 Phase-Out

Phase-out is the process of ending 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

The introduction of a global IT solution, Supplier Lifecycle Management (SLC), which was slated for 2018, has been temporarily halted. The reason for the postponement is that adjustments to internal software structures have resulted in incompatibility with the new tool. While we continue to search for alternative IT solutions, we are running all supplier management processes and documentation manually for the time being.

KRONES AG – Number of system and product audits on suppliers

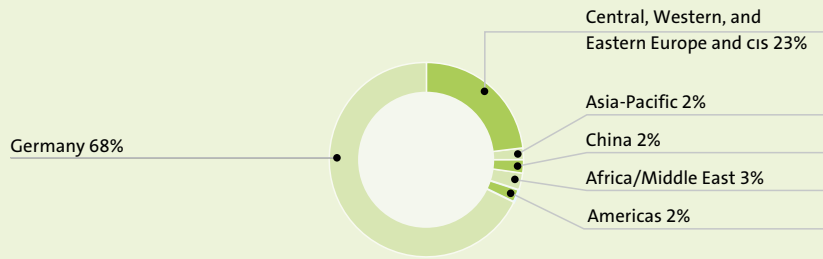


### 4. Goals

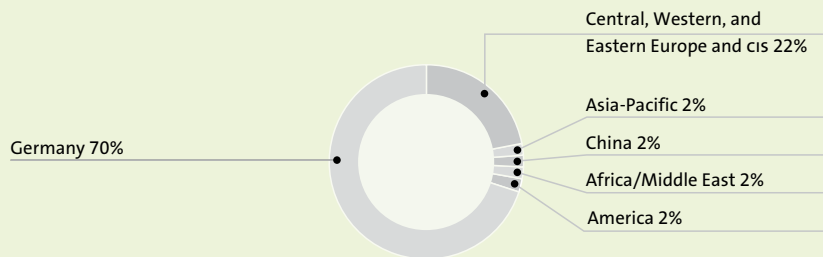
- Decentralise local procurement: As part of our efforts to expand our global footprint, we plan to increase the volume of goods supplied outside Germany. We are also decentralising more and more strategic functions depending on the level of development. Governance will continue to be managed and implemented through the group's corporate offices.

### Sustainability in our supply chain – Additional information

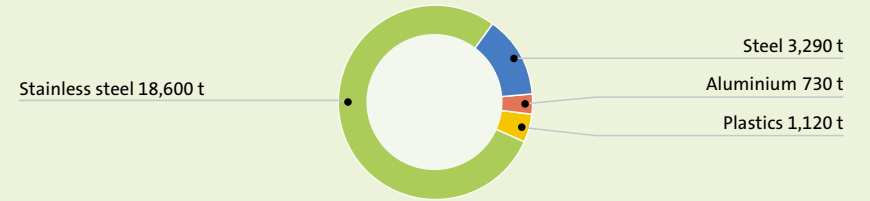
KRONES AG – Purchasing volume by region of origin (% of total) in 2018



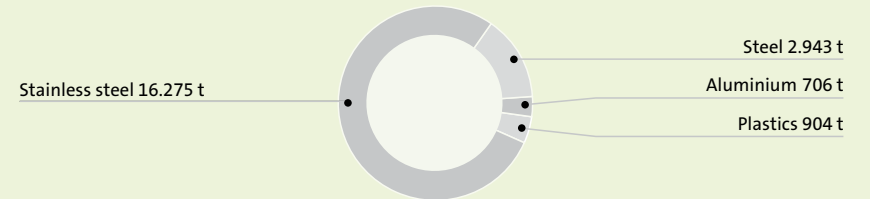
KRONES AG – Purchasing volume by region of origin (% of total) in 2018



KRONES AG – Key raw materials sourced in 2018 (metric tonnes)



KRONES AG – Key raw materials sourced in 2017 (metric tonnes)





# 3

## EMPLOYEE-RELATED MATTERS

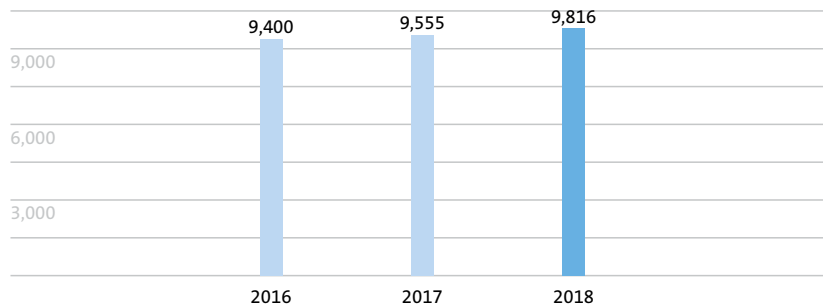
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In our last report, we explained why we have consciously decided not to pursue a uniform management approach to employee-related matters worldwide: The group consists of a large number of individual companies that operate in very different regions 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 HR management with their own needs and local circumstances.

Although this decentralised strategy has served KRONES well and we will continue to follow it, we believe that our group's continued growth and the new challenges it presents will necessitate uniform HR governance structures worldwide in the medium term. We have already begun work on establishing these structures. However, it will take some time yet for us to draft a clear, unequivocal set of rules that can be applied across the group without placing undue constraints on individual regions.

Thus, as in the previous year, this section focuses on employee matters within KRONES AG unless indicated otherwise. With 9,816 employees, KRONES AG accounts for the largest share of the group's total workforce and therefore nevertheless offers a representative picture of the group.

KRONES AG – Employees (employees covered by and exempt from collective agreements, apprentices, trainees)



## Capable, motivated workforce – Concept

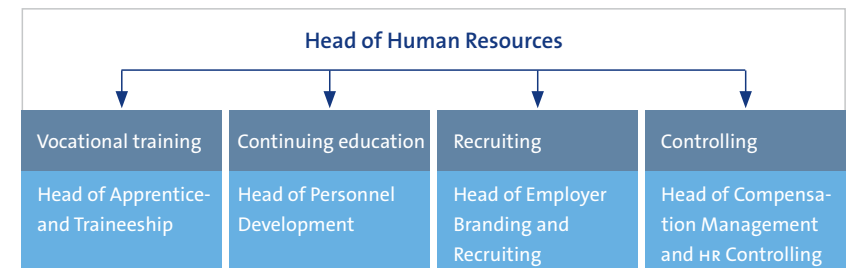
KRONES develops and manufactures capital goods that are technologically highly complex – for an intensely competitive market whose demands are constantly changing. Because we have set ambitious growth targets despite this challenging environment, effective human resources policy is a major priority. 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
- Sustainable, purposeful training and continuing education

### 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:

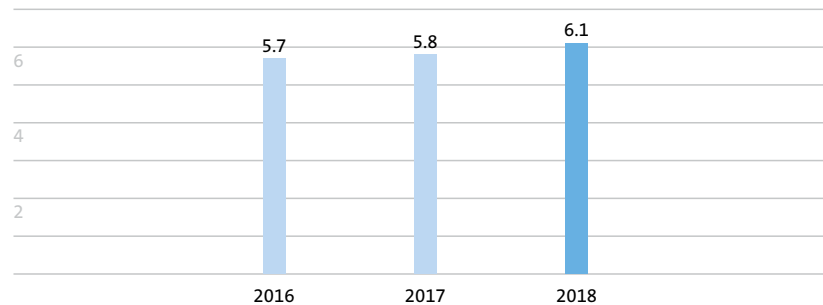


## 2. Actions and processes

### 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. The rate of new hires for the year 2018 was 6.1%.

KRONES AG – New hires rate (% , employees covered by and exempt from collective agreements)

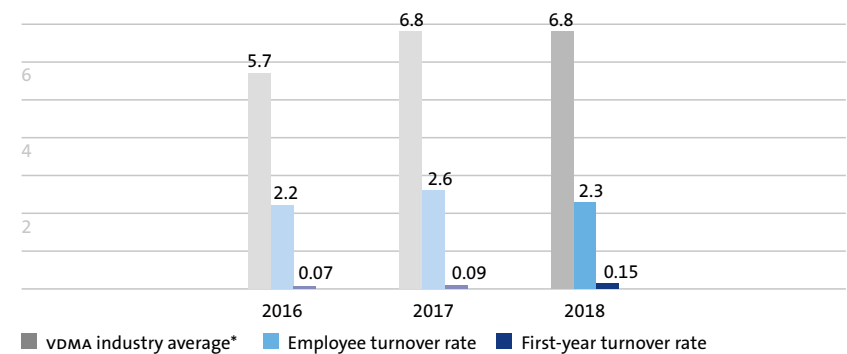


To position KRONES even more successfully in the competitive market for qualified new talent, we have revamped our Employer Branding and Recruiting department. After internal analysis, the recruiting management processes have been streamlined and crossover points with other departments reduced where reasonable. These optimisation measures give the team the flexibility they need to focus more on their core tasks: establishing a strong employer brand and recruiting new people from the various target groups.

### 2.2 Employee loyalty

KRONES' work culture is based on fairness and appreciation, which is manifest in many of our actions, from the framework collective agreement for the metal-working 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 December 2017 by adopting a company agreement on job security<sup>1</sup> that applies through 2022. Employee approval of KRONES as an employer is evidenced by the company's consistently very low employee turnover rates. We once again accomplished our aim of keeping employee turnover at least two percent below the industry average (per VDMA) in 2018.

KRONES AG – Employee turnover and first-year turnover (% , employees covered by and exempt from collective agreements)



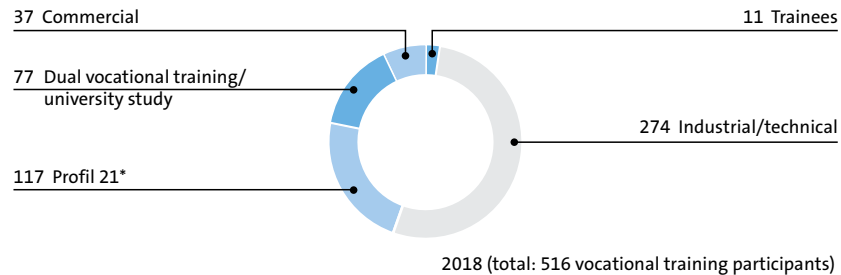
\* The German Engineering Federation (VDMA) measures average employee turnover among companies in the machinery sector on a three-year cycle. Thus, the figure for 2016 stems from the 2014 measurement, and the figures for the other two years are from the 2017 measurement.

<sup>1</sup> The corresponding company agreement applies to employees and apprentices at all KRONES AG locations and to the subsidiaries KIC KRONES, EVOGUARD und ECOMAC.

### 2.3 Training and continuing education

Because of the high expectations KRONES has of its employees, needs-based staff development programmes are a high priority. That begins with vocational training and carries over across each employee's entire career.

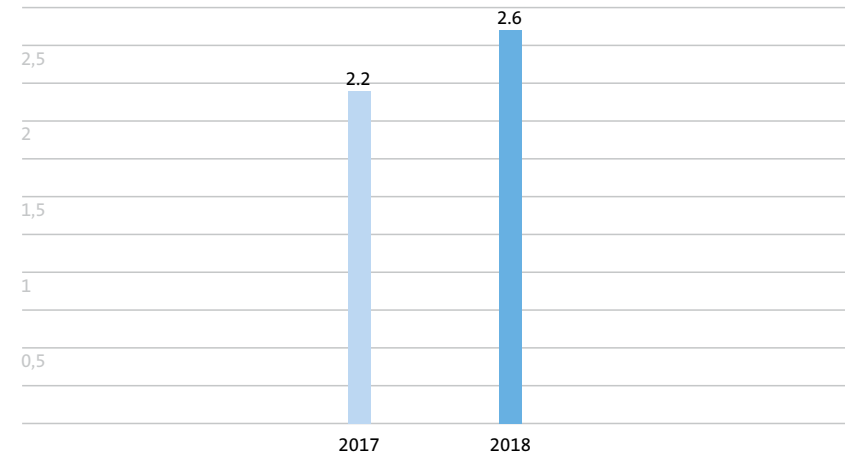
KRONES AG – Vocational training participants by field in 2018



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

To address changes in the markets and technologies, KRONES AG is expanding the range of careers for which it offers vocational training – particularly adding fields related to the Internet of Things (Industry 4.0). We have also added the option of continuing the Profil 21 training model for international service technicians to the master craftsman level. The need for qualified personnel worldwide is increasing across the group as we continue to grow our global footprint. For that reason, we have launched training programmes that combine vocational or professional schooling with practical, on-the-job training following the German model in nine additional countries. These programmes are supported by the developPP.de programme.

KRONES AG – Expenditure for training and continuing education (€ million)



KRONES spent €2.6 million on training and continuing education for its employees in the reporting period. We continually review and adapt the entire range of training opportunities to meet current and future needs. The share of e-learning programmes is very high, particularly in technical fields. We are currently working to further expand the e-learning opportunities in non-technical areas.

As stated in our previous report, our focus for 2018 was on revamping our professional development programme for management employees. The aim here is to equip our managers to master the challenges presented by an increasingly complex world and new forms of collaboration. In 2018, more than 250 managers participated in the new management training programme. We will continue to roll out the new programme with another 250 managers in 2019.

### 3. Results

In the first wave of the rollout of the integrated HR software tool in 2018, we migrated our target-setting and payroll processes to the new software and piloted competency management in various areas of the company. Due to higher personnel and materials costs across the group in 2018, this project will be pursued far more narrowly in 2019. If circumstances allow, we will push ahead with the integration of more HR processes into the new software in 2020.

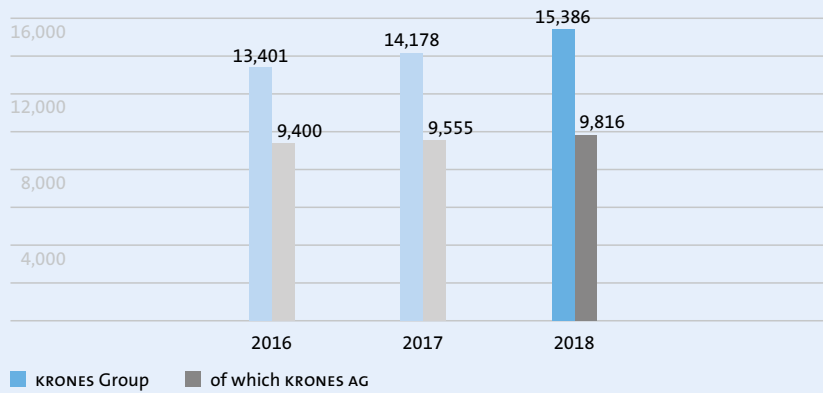
Based on the company's strategic goals and the results of a company culture analysis, we have designed a new development programme for management employees, which has been rolled out across the highest levels of management. To complement that effort, we have also launched a mentoring programme groupwide, which pairs employees who are embarking on a managerial role for the first time with an experienced manager. The mentoring process has already been integrated into the new HR software tool.

### 4. Goals

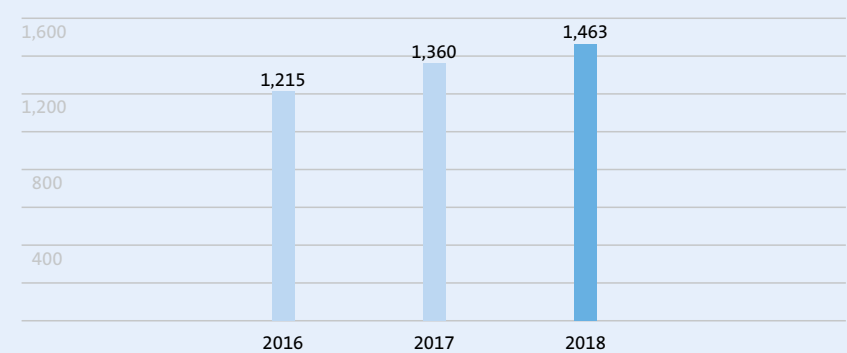
- Employee turnover rate: Keep employee turnover consistently low, ideally two percentage points below the industry average
- Develop and roll out uniform HR governance guidelines worldwide: In the first phase, the three units – Human Resources and Social Affairs, Compliance and Corporate Governance, and Corporate Development – will collaborate to define the underlying structures. In late 2019, the regulatory outline should be complete, which will then be fleshed out across the group in the years that follow.
- Professionalise employer branding activities: Now that we have established the organisational framework, our aim for 2019 is to use a strong employer brand to reach and recruit the qualified people we need

**Capable, motivated workforce – Additional information**

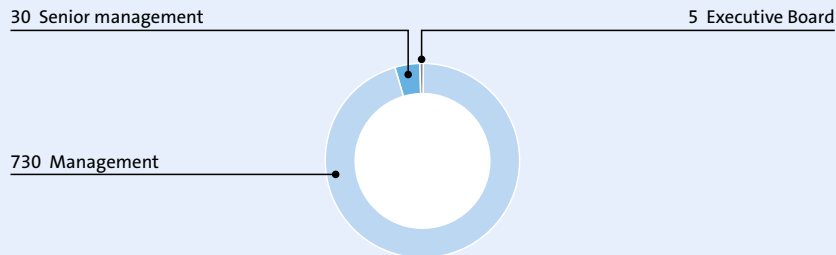
KRONES Group – Employees (employees covered by and exempt from collective agreements)



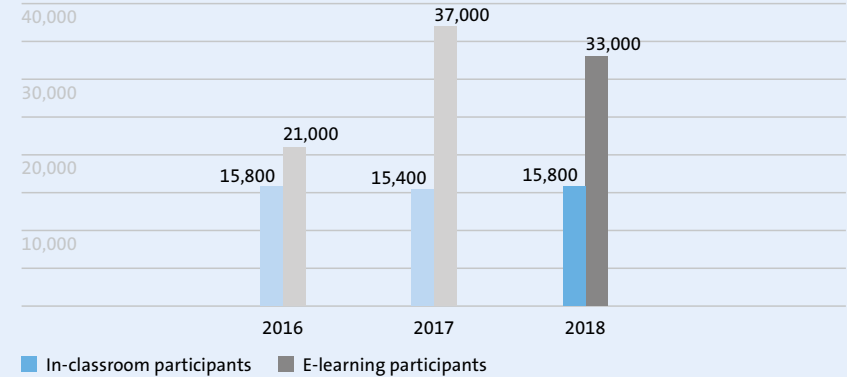
KRONES AG – Temporary workers



KRONES AG – Management structure in 2018



KRONES AG – Participation in continuing education opportunities



## Occupational safety – Concept

Occupational safety and health at KRONES is based on an occupational safety and health management system that currently extends across all of KRONES AG and is gradually being expanded across the group. Our aim is to protect KRONES employees from work hazards and keep the number of work-related accidents as low as possible. Thus, the underlying strategy relies heavily on prevention. We must be proactive, identifying potential risks and hazards and developing and implementing effective countermeasures. Occupational safety activities within KRONES AG meet the internationally recognised OHSAS standard 18001 and have been expanded to cover the sites in the USA, Brazil, and China that are certified under our Integrated Management System (IMS).

### 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 and processes

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 2018:

#### 2.1 Consistent communication

As in the previous year, “pre-committees” were formed in 2018 in addition to the Workplace Safety Committees that are required by law. In the pre-committees, 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.

#### 2.2 Machine safety

All production equipment at all KRONES AG plants has been evaluated for 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 on the machine. In certain cases, a machine may also be decommissioned. The milling machines were evaluated in 2018, and safety-related retrofits were started in early 2019.

Our occupational safety and health management includes two preventive process steps that are intended to ensure the safety of production machines that are purchased new. On the one hand, the minimum machine safety requirements are defined and made mandatory criteria in the centralised technical specifications that our Purchasing department uses as the standard for ordering. On the other, all newly purchased production machines undergo rigorous safety testing before they are put into operation.

#### 2.3 Groupwide rollout and definition of performance indicators

As indicated in 2017, our occupational safety and health management will be rolled out to the entire KRONES Group in the years ahead. As a first step, we will establish a unified data structure based on our non-financial accounting policy. We will then build on that, consolidating our occupational safety and health management groupwide in order to establish an even more effective system of preventive and corrective measures.

## 2.4 Health management

Developments in the world of work such as demographic change, longer working lives, and rising expectations of employees' flexibility and ability to work under pressure present new challenges for companies and their employees. In order to better master these challenges in the future, we established occupational health management as part of the new organisational unit HR Health Management in October 2018. The aim is to develop effective health management for all German plants.

The HR Health Management team plans actions and coordinates the interdisciplinary collaboration between HR, the in-house medical service, Counselling Service, the Occupational Safety and Health team, Works Council, and KRONES' company health insurance fund (BKK). The actions taken so far focus heavily on prevention. For example, the pilot project in Nittenau included topics such as exercise, relaxation, and back health at work. For the future, we plan to conduct a comprehensive analysis as the basis for the further development of our occupational health management and the associated offerings.

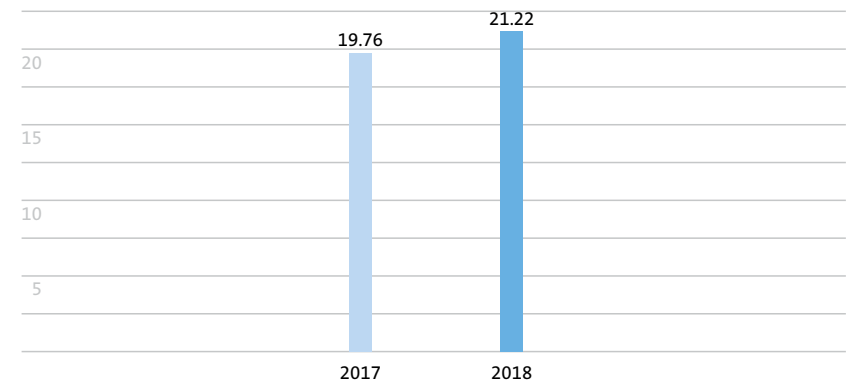
## 3. Results

The effectiveness of our occupational safety and health management was reviewed on the basis of monthly reports to management in 2018. The reports included accident statistics, lost days, costs associated with accidents, and pending actions.

As part of our efforts to expand CSR across our organisation worldwide, the data collection processes were rolled out to the first sites and subsidiaries in Germany and abroad in 2018. Until we introduce the new performance indicators, the most important figure here remains the rate of accidents per 1,000 employees resulting in one or more days of lost time. In 2018, this figure was 21.22. As indicated in our last report, we launched a new system for assessing hazards in

2018 to increase the effectiveness of our prevention efforts. The new system provides objective, detailed insights.

KRONES AG – Rate of accidents per 1,000 employees (employees covered by and exempt from collective agreements)



## 4. Goals

- **Groupwide rollout:** In 2019, the international rollout to gradually consolidate our occupational safety and health management will continue. Two new figures will be introduced that will better enable us to make international comparisons and more effectively counteract potential risks and hazards
- **Certification:** Replace the existing OHSAS 18001 standard with the new ISO 45001, both within KRONES AG and at our IMS certified sites
- **Hazard assessments:** The system for assessing hazards that was developed in 2017 and launched in 2018 will be expanded in 2019 to cover additional hazard groups



## Diversity – Concept

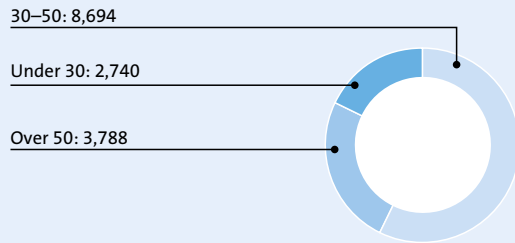
Diversity is an important topic for KRONES and our stakeholders. KRONES signed the Diversity Charter back in 2010, thus clearly expressing the company's sense of responsibility for promoting diversity within the group. Until now, however, these efforts have been limited in scope. We are still a number of steps away from accomplishing our goal of establishing a comprehensive management concept.

Because diversity is itself a vague term and thus allows for different interpretations, we held workshops in 2018 to consider what concrete definition of diversity should serve as the basis for KRONES' concept. We then explored which areas our diversity management would focus on. We have now completed the groundwork for building this concept. We intend to finalise the concept in 2019 and present concrete actions and goals in our 2019 Non-financial Report.

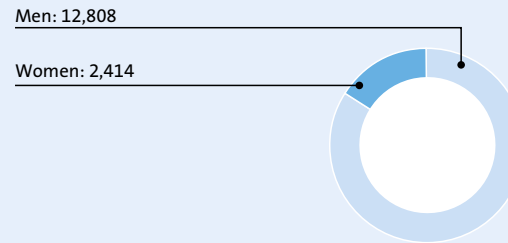
For the sake of transparency, we provide some current numbers on the topic of diversity that are currently being managed by way of several targeted actions.

### Diversity – Additional information

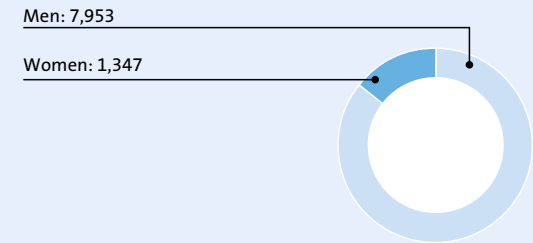
KRONES Group – Age structure 2018\*



KRONES Group – Gender ratio 2018\*



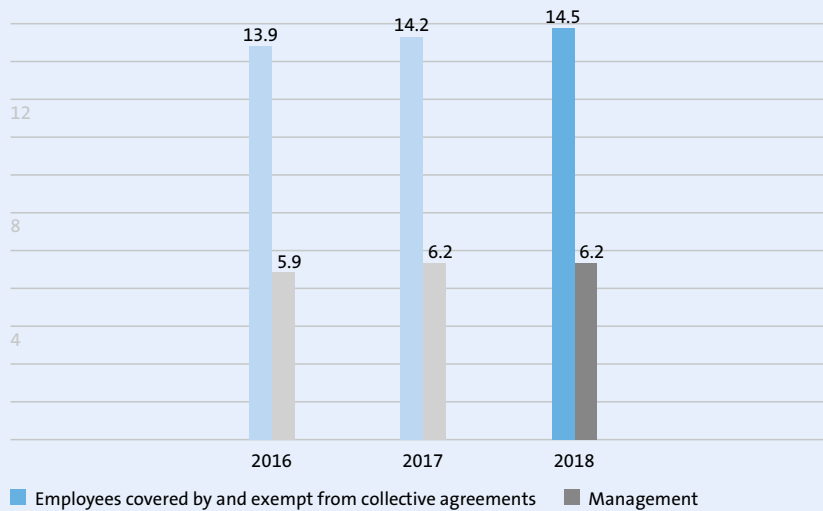
KRONES AG – Gender ratio 2018\*\*



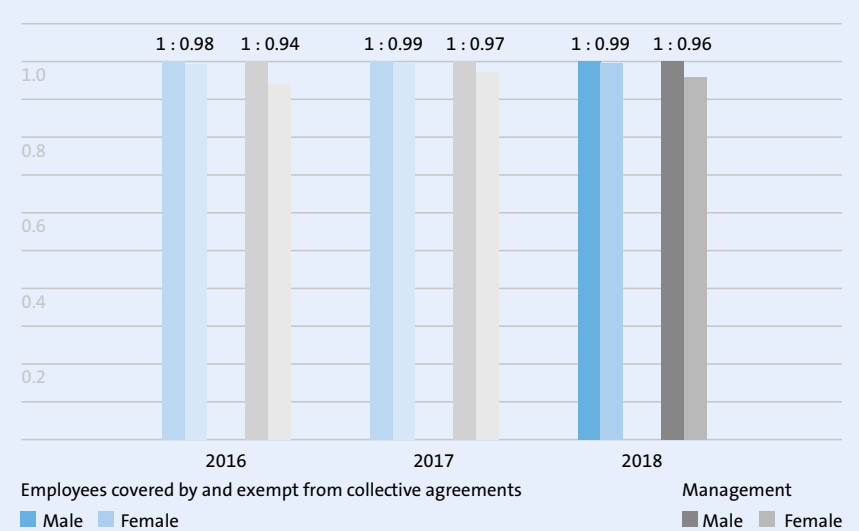
\*A few smaller subsidiaries have not yet provided concrete numbers for these figures. As a result, the figures listed here may differ from the number of group employees listed on page 30.

\*\*Employees covered by and exempt from collective agreements

KRONES AG – Gender ratio 2018: Share of women (%)



KRONES AG – Gender ratio 2018 – Base salary and pay of men to women



# 4

## SOCIAL MATTERS

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## Social commitment (corporate citizenship) – Concept

KRONES maintains over 100 locations around the world and is thus an integral part of many local communities. The cities and counties around our plants and sales offices are the foundation on which our business activities stand. That is why KRONES AG supports clubs, organizations, events, and initiatives that seek to promote charitable causes local to one of our KRONES sites. Our sites and subsidiaries outside Germany also have the freedom to become involved in their local communities.

KRONES' charitable giving and sponsorship strategy is laid out in our groupwide charitable giving and sponsorship policy. Its primary aims are to

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

As part of the groupwide CSR rollout, the topic of charitable giving and sponsorships will be expanded to our sites abroad in accordance with the policy. We will also be introducing a groupwide KPI for this concept. The sites and subsidiaries will largely manage individual activities and funding autonomously.

### 1. Organisation

The charitable giving and sponsorship committee serves as the central decision-making and advisory body for contributions within KRONES AG. 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, up to two additional members, from Human Resources and/or Sales, may be involved, depending on the subject

matter or the potential partner for the sponsorship. In other KRONES Group companies or sites, plant or company management serves as the central decision-making body.

Contributions are awarded in accordance with a clearly defined, transparent process. All requests are reviewed for their merit by those responsible in accordance with KRONES' charitable giving and sponsorship strategy. A uniform set of criteria are used for this assessment. That, in turn, is based on the charitable giving and sponsorship policy, which is binding for all and makes up part of KRONES' anti-corruption programme.

### 2. Actions and processes

#### 2.1 Sponsorship priorities

In general, KRONES' engagement focuses on three areas:

- Education, science and research
- Culture and sports
- Social welfare and the environment

Recipients of charitable contributions – whether monetary or in-kind donations – may be individuals, groups of individuals, or organisations. However, political parties and political organisations are 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. Sports clubs or events will only receive support if they have a charitable purpose or are open to active participation by KRONES employees.

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

## 2.2 Controlling and Monitoring

In 2018, we began reviewing and assessing sponsorship activities to determine whether and to what extent they served the expected purpose. The review consists of media analyses and surveys that are specifically designed for employees, customers, and event organisers and are distributed to a random sampling of respondents after KRONES-sponsored events. Our aim is to clearly and transparently document the concrete benefits of the sponsorship activity – for the recipient and for KRONES.

Introducing the system has brought us a great step closer to our goal. However, after our pilot year 2018 we have determined that, because of the broad range of very different sponsorship activities, we need to further refine our methodology. That is on the agenda for 2019.

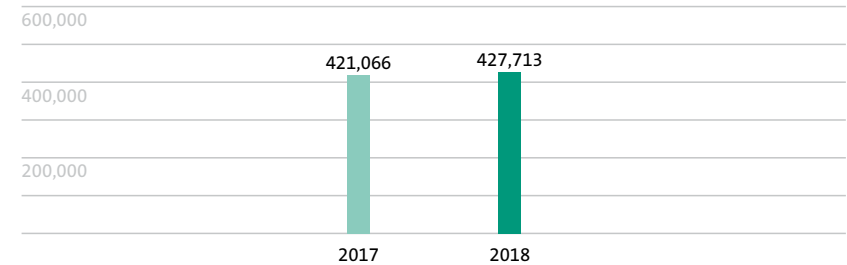
## 2.3 Internationalisation

In 2018, we began to systematically roll out central CSR topics to sites and subsidiaries outside Germany. The first phase of the rollout, which included expanding our charitable giving and sponsorship strategy to cover the entire group, has already been completed. The individual offices and plants will decide for themselves to what extent they will implement the strategy in concrete financial support of projects.

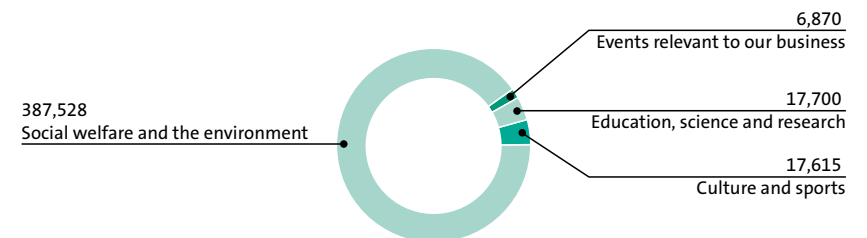
To make each unit's spending on local communities transparently measurable, we will launch a new performance indicator – Charitable Giving and Sponsorships within the KRONES Group – worldwide by 2021. The figure will then be recorded for all major plants and offices on a regular basis.

## 3. Results

KRONES AG – Expenditure for charitable contributions and sponsoring (€)



KRONES AG – Expenditure for charitable contributions and sponsoring, by area (€)



## 4. Goals

- Internationalisation: Continue to roll out the charitable giving and sponsorship strategy across the group and introduce a groupwide performance indicator as part of our global expansion of CSR
- Streamline processes: Review and improve controlling and monitoring measures in order to ensure that funds contributed achieve the greatest possible benefit for both sides

## Social commitment (corporate citizenship) – Further information

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. These teams enable us to maintain ongoing dialogue with these interest groups and track and follow up within the company on important issues that arise.

### Customers

- 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

### Shareholders

- 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

### Scientists and academics

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

### The general public and the media

- Information about the company
- A culture of openness
- Presentation of industry-specific topics
- Awareness of cultural issues and involvement in projects
- Financial support of projects

## Our stakeholders' expectations

### Employees

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

### Suppliers

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

### Associations, NGOs, and policy-makers

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

# 5

## RESPECT FOR HUMAN RIGHTS

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## Respect for human rights – Concept

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 clearly and unequivocally stated in both the KRONES mission statement and our leadership guidelines, which apply across the group.

Because we do business globally, we consider protecting human rights imperative, an obligation that every single member of our group must fulfil. To ensure that this requirement is met across our entire value chain, we have integrated it into our Code of Conduct and our Supplier Code.

We base our human rights due diligence primarily on the following guidance:

- UN Global Compact
- International Labour Organization (ILO)
- Base Code of the Ethical Trading Initiative (ETI)
- OECD Guidelines

## 1. Organisation



Respecting human rights is a responsibility that applies across all departments at KRONES. The management concept is governed by the CSR Team, in close collaboration with the compliance experts and contacts in the HR department.



## 2. Actions and processes

### 2.1 Human rights within KRONES' Code of Conduct

We revised the KRONES Code of Conduct in 2018.<sup>1</sup> The new version, which is slated for release in 2019, has been expanded to include a separate section on human rights. The section serves both to describe and to prescribe standards of behaviour. It uses fictional examples to clarify what a human rights violation might look like. It also obligates all group employees to respect human rights and report any violations. The Code of Conduct is binding for all employees. It has been developed in accordance with Germany's National Action Plan (NAP) on Business and Human Rights and presents our human rights policy statement as required under the NAP.

### 2.2 Human rights within the KRONES Integrity reporting system

The KRONES Integrity<sup>2</sup> online portal went live in mid-2018. Integrity is a platform through which employees and third parties can submit tips about violations of laws or internal rules – either anonymously or including their contact information. Parallel to the launch, we also made preparations for adding human rights as a reporting category within the system. As of 2019, it is now possible to clearly identify tips about human rights violations as such and thus for responders to handle them appropriately. Information submitted is reviewed by our CSR, Compliance and Corporate Governance, and Human Resources teams. If a violation has, in fact, occurred, suitable action is taken to remedy the situation as quickly as possible.

## 3. Results

The top-level managers of all international subsidiaries had complied with the personal disclosure requirement that had been introduced in 2017 by the end of 2018 as scheduled. Besides disclosing relevant personal and business relationships, the disclosure includes respect for human rights by way of the Code of Conduct as the managers sign a commitment to comply with local laws as well as the KRONES Code of Conduct. The completed questionnaires have already been reviewed by our HR department. The results will be used to fine tune our internal processes.

## 4. Goals

- Expand the management concept “Respect for human rights”: Identify and develop actions with which we can sensitise employees, customers, and suppliers to the topic in a targeted manner
- Align with NAP: Meet our obligation to carry out human rights due diligence in accordance with the requirements of the National Action Plan (NAP) on Business and Human Rights

<sup>1</sup> More information on our Code of Conduct can be found in the Compliance section of this report, on page 44.

<sup>2</sup> More information on KRONES Integrity can be found in the Compliance section of this report, on page 44.

# 6

## ANTI-CORRUPTION AND BRIBERY MATTERS (COMPLIANCE)

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## Anti-corruption and bribery matters (compliance) – Concept

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 understanding of compliance can be summarised as follows:

- Documentation and transparency
- Clear, transparent business relationships
- 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 Governance<sup>1</sup> 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 regions 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 and processes

#### 2.1 Risk analysis

The compliance risk analysis covers risks 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 overview developed specifically for each business area and region. The results are also bundled into our groupwide risk analysis.

#### 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, who in turn reports to the Supervisory Board's Risk and Audit Committee once a year. The Head of Compliance also regularly reports to the Executive Board and the Compliance Committee at the Compliance Committee's quarterly meetings, presenting developments in the past quarter and further plans. The committee offers opinions in an advisory capacity.

<sup>1</sup> Referred to hereinafter as Head of Compliance for better readability.

## 2.3 Communication

Various KRONES communication channels are used to convey information to employees depending on the topic and target group.

### 2.3.1 Compliance policies and codes

These give employees binding, clearly worded instructions for action and behaviour. KRONES' Code of Conduct is the main such guide. It defines compliance for all employees and boards at KRONES. Various compliance 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 compliance training 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 and is designed especially for employees in Sales and Purchasing. 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 of the training programmes is documented.

## 2.4 Help desk and KRONES Integrity

Group employees seeking information about compliance-related matters or for reporting possible violations can speak with their immediate superior or use any of three additional channels:

- Contact the Compliance Officer, the Head of Compliance, or the Compliance team directly
- Call the telephone help desk or email [compliance@krones.com](mailto:compliance@krones.com)
- Submit a report through the KRONES Integrity online portal

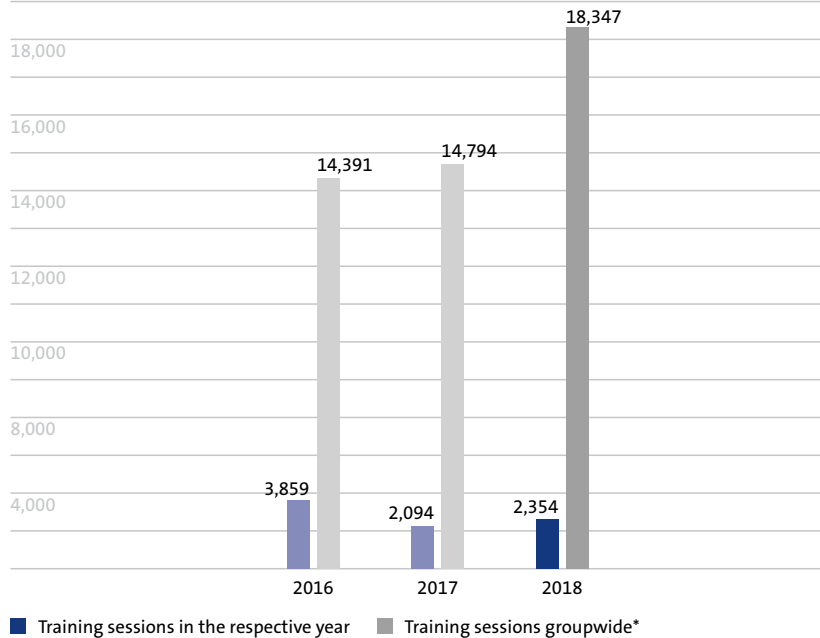
The latter two options enable users to remain anonymous and are therefore especially well suited for reporting possible rules violations. The KRONES Integrity online portal is available to group employees and to third parties who identify compliance gaps relating to KRONES. To ensure the highest level of accessibility and data protection for users and to ensure encrypted content and a secure connection, the system is operated by an independent third-party provider. All compliance-related matters and tips that are brought to the help desk or KRONES Integrity 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

KRONES Group – Compliance and anti-corruption training



\* The number of participants includes all employees who participated in a compliance or anti-corruption training session, or both, at KRONES.

The compliance measures that were announced in last year's report were carried out as planned: Internal audits were conducted to monitor adherence to compliance policies within the group in spot checks. We also began to implement semi-automated due diligence processes for process-integrated monitoring of business partners in high-risk countries for compliance incidents.

In 2018, we also began the process of updating our Code of Conduct, which applies across the group. The update includes adding a section on human rights. In addition, we designed an e-learning module as a refresher course for employees who have previously completed compliance training. Both measures will roll out in 2019.

### 4. Goals

- Code of Conduct: Roll out revised version and new e-learning refresher course
- Risk analysis: Review its appropriateness and expand to include current topics relating to fraud and governance
- Internationalisation: Conduct reviews of those service and sales sites, subsidiaries, and brands where the compliance rollout has already been completed
- Compliance in our supply chain: Expand existing supplier audits to include specific compliance topics in the respective questionnaires

# 7

## CUSTOMER SATISFACTION

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## Customer satisfaction – Concept

KRONES' actions are guided by our customers' requirements. Therefore, our aim is to deliver the highest quality at all points along our value chain, from product development to manufacturing and installation to Lifecycle Service at the customer's site. KRONES' sales organisation functions as a central point of contact with our customers.

In order to continuously improve our sales channels, KRONES launched a programme entitled Sales Excellence. The programme aims to offer our customers long-term, personalised care that includes fast, individual service worldwide. The sales project, which has been ongoing since 2014, fine tunes key aspects to achieve continual, targeted improvement. In 2018, we began to systematically measure customer satisfaction for the first time. This measure will serve as an indicator of our performance.

### 1. Organisation

The Sales Excellence programme extends across KRONES' entire sales organisation. It provides the framework for developing a consistent, long-term sales strategy, not only for KRONES AG but also (and particularly) for the individual sales regions. The continuous evolution of the Sales Excellence programme is the responsibility of the Head of General Sales Management and Marketing. Strategic and operational implementation across the House of KRONES product range is done in the respective sales divisions and regions.



## 2. Actions and processes

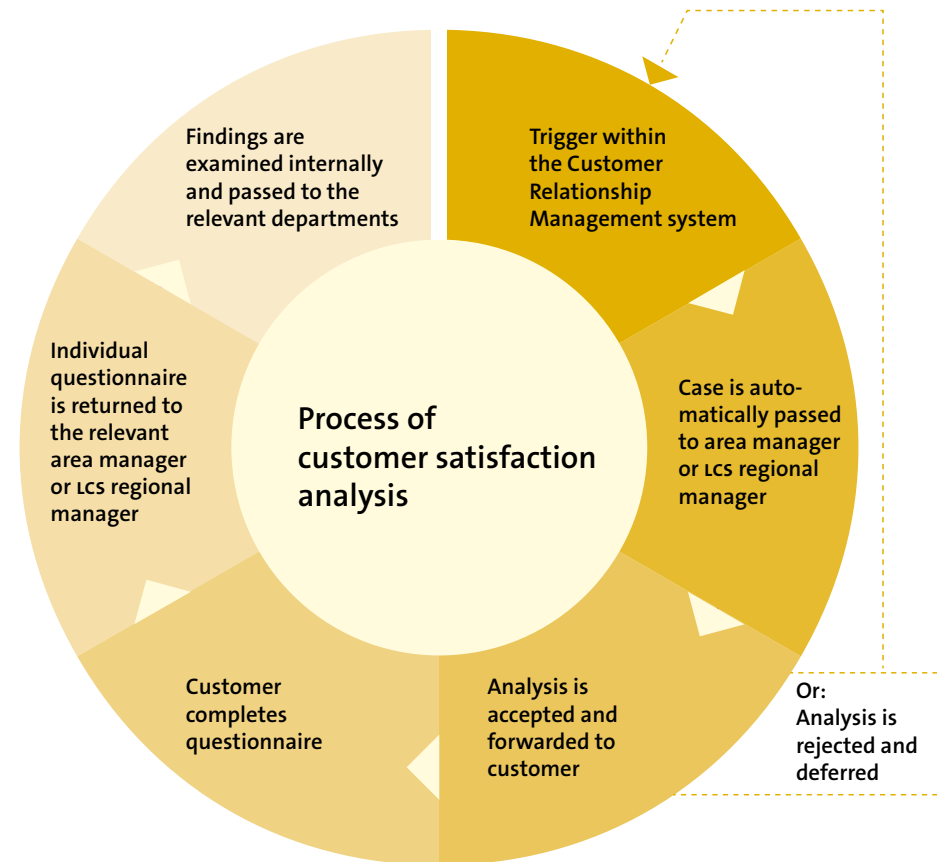
“Sales Excellence” consists of several subprojects that are being implemented in waves. In the 2018 reporting period, a customer satisfaction analysis was rolled out systematically.

Feedback from our customers has always been an essential tool for KRONES, for continually improving both our offerings and our workflows. Until now, we have used customer surveys that were prepared, sent, and analysed by hand to evaluate our customers’ satisfaction. Because KRONES’ business has grown internationally, we launched an IT-based system for this process in 2018 which enables us to obtain feedback from our customers faster and in a more targeted manner.

### 2.1 Customer satisfaction analysis process

The process for the analysis is automated and clearly structured by way of our customer relationship management (CRM) system. The analysis process begins the moment a new machinery or retrofit project is completed.

The results of the individual surveys are not, first and foremost, for the sales organisation but rather for the respective project leads and persons responsible within the entire group. The area managers and LCS regional managers pass the information gained from the surveys to the persons responsible for the respective projects at our offices and subsidiaries and to colleagues in the Product Lines.





## 2.2 Content of our customer satisfaction analysis

The customer satisfaction analysis consists of three survey modules:

- Satisfaction
- Loyalty
- Project fulfilment

The results can then be visualised in such a way that it is easy to see the progression of each customer's satisfaction index with a colour-coded system of categorisation.

## 3. Results

In our customer satisfaction analysis for 2018, we received a total of 353 completed feedback surveys from customers. That is a response rate of 11.7%. The survey results are continually incorporated into our efforts to optimise our processes and products in KRONES' PDCA (Plan, Do, Check, Act) cycle. Thus, the customer satisfaction analysis benefits not only our sales organisation but also the entire company.

Because of the correlation to our group strategy, order intake serves as an overarching indicator for measuring and assessing customer satisfaction. When we reach our growth targets, we demonstrate that our customers trust us to be their supplier and want us to help them shape their futures. *More details about order intake can be found on page 69 of our Annual Report.*



## 4. Goals

- Streamline processes: Continually improve our customer satisfaction analysis as relates to project-specific and technical processes
- Interpret the results with new performance indicators: Establish a thematic evaluation of the analyses based on specific figures as an alternative to the project-based evaluation used thus far

# 8

## INNOVATION

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## Innovation – Concept

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

Innovation at KRONES follows a four-year cycle. That is because the drinktec trade fair occurs every four years. As the premier trade fair for beverage technology worldwide, drinktec is the biggest stage for KRONES to demonstrate its innovative power.

The fair is not only a platform for presenting new products. It is also an opportunity for the company to speak directly with customers and other fair visitors and gain important input that we then inject into the further development of the exhibited machines and systems and into our overall innovation planning.

### 1. Organisation

Germany is KRONES' development and innovation headquarters. The Corporate Research and Development department there develops our overarching innovation strategy. It also serves as a 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 Equipment. Because innovation is so critically important for KRONES, defining and tracking the innovation strategy is done in close collaboration with the Executive Board as a whole.

### 2. Actions and processes

#### 2.1 Innovation process

Within KRONES' innovation process, we identify development needs and prepare the associated planning processes for the relevant Business Lines. The structure allows KRONES to

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

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



#### Early identification of technology needs

Identify technology trends and promising development potential through

- Trend research and technology studies
- Internal innovation workshops and developer conferences
- Cooperation with universities, research institutions, and suppliers

#### Product portfolio management

- Uncover gaps and synergies between the individual areas of development

## Innovation planning

- Prioritise projects and plan resource allocation
- Generate a unified innovation roadmap

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

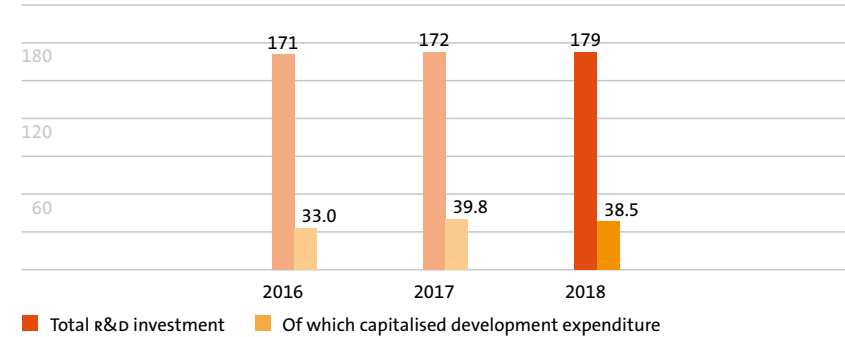
### 2.2 InnoDays internal developer conference

In 2018, our Corporate Research and Development department organised our first-ever internal technology and developer conference for employees. The conference aim was to foster interdepartmental sharing across all KRONES departments and at the same time build enthusiasm for KRONES' innovative power among employees. The focus of the two-day event was on research projects in the area of digitalisation, for example artificial intelligence, virtual reality, cloud solutions, and voice-activated robotic arms. In all, 51 topics on all aspects of the latest inventions and ideas were presented and explained in layman's terms. The conference was a resounding success in terms of interest and attendance and will therefore be held once again in 2019.

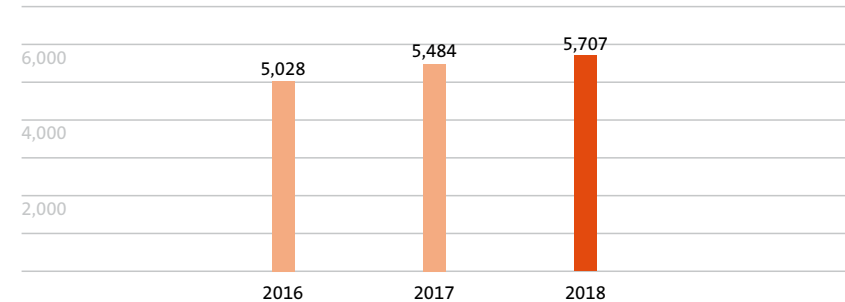
## 3. Results

KRONES' innovation process is considered to have been successful when the technologies developed move from prototype to product – and ultimately gain acceptance on the market. Once again in 2018, we moved a number of innovations from the lab to the production hall. The most recent example is the Con-tiform 3 Speed, a stretch blow-moulder designed to produce up to 2,750 containers per cavity per hour while operating at an exceptional level of energy efficiency.

KRONES AG – Expenditure for research and development (€ million)



KRONES AG – Number of registered patents and utility models



## 4. Goals

- Across-the-board portfolio management: Establish a strategic framework and coordinate development activities across the entire KRONES Group with the aim of strengthening the company's position as a supplier of complete solutions
- Research and development ecosystem: Purposefully expand technological expertise by strengthening internal and external partnerships, for example by building expert teams for promising innovation topics
- Agile product development: Continue and optimise our use of the agile approach in development projects

## Limited Assurance Report **of the Independent Auditor** regarding the Combined Separate Non-Financial Report

### 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 “**KRONES at a glance**” and “**Research and development (R&D)**” of the Consolidated Management Report, which has been qualified as part of the Combined Separate Non-Financial Report by reference (hereinafter “**Report**”), according to Sections 315b and 315c in conjunction with 289b to 289e HGB (German Commercial Code) for the period from January 1 to December 31, 2018.

### Management’s responsibility

The legal representatives of **KRONES** are responsible for the preparation of the Report in accordance with Sections 315b and 315c in conjunction with 289b 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. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of a Report that is free from material misstatement, whether intended or unintended.

### Independence and quality assurance on the part of the auditing firm

We are independent from the company 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 that the Report of the entity for the period from 1 January to 31 December 2018 has not been prepared, in all material respects, in accordance with Sections 315b and 315c in conjunction with 289b 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 significantly 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 suitability of the definitions developed by the company
- 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 Rosenheim
- 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 cause us to believe that the Report of the KRONES for the period from 1 January to 31 December 2018 has not been prepared, in all material respects, in accordance with Sections 315b and 315c in conjunction with 289b 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 the 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](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, 9 April 2019

KPMG AG  
Wirtschaftsprüfungsgesellschaft

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This English language report is a translation of the original German KRONES Konzern Nichtfinanzieller Bericht 2018. In case of discrepancies the German text shall prevail.

The Non-financial Report 2018 is also available in German. You can find it on our website under the heading Sustainability.



## Contact

KRONES AG

Nico Irrgang  
CSR Officer

Böhmerwaldstrasse 5  
93073 Neutraubling  
Germany

Telephone +49 9401 70-3395

Fax +49 9401 70-93395

E-mail [csr@krones.com](mailto:csr@krones.com)

Internet [www.krones.com](http://www.krones.com)

