SUSTAINABILITY REPORT 2015 of the MEGGLE Group

The MEGGLE Group's Report on Corporate Social Responsibility (CSR)
“Acting in a sustainable manner means taking responsibility and ensuring the best prospects for future generations.”

TONI MEGGLE
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“ACCEPTING RESPONSIBILITY FOR THE FUTURE – THIS APPROACH HAS TRADITION AT MEGGLE.”

As a commercial enterprise, it is naturally our goal to produce products that satisfy our customers’ quality and price expectations; this is something we have managed to do successfully for many decades. We have developed from a small business, which supplied local markets with milk, cheese and butter, into an internationally active supplier of a broad range of products, which include so much more than just the standard dairy products.

We have also been committed to another goal for many years: our responsibility to society, or, as it is often referred to today, our Corporate Social Responsibility (CSR). We accept sustained responsibility for the environment and the society in which we live and operate, i.e. not just for today’s generation but for all those that are to follow.

When we at MEGGLE started developing our CSR concept, the main focus was on our responsibility towards our employees, neighbours, customers and suppliers; ensuring that our environment remained intact went without saying in the rural surroundings of our family company. Today, we have long since introduced our own environment management system. This system is audited on a regular basis to verify its efficiency and the audit results are issued in a public report.

We also accept that our company management has a special responsibility within the CSR system, as it sets the course for providing secure employment, introducing environmentally-compatible production processes or making sensible investments in the healthy economic future of our company. In addition, we make generous donations to social institutions, churches, cultural events sports events and clubs.

In this, our first Sustainability Report, you can find out how and what funds we use to implement our CSR principles on a daily basis.

On this note, I hope you enjoy reading this informative brochure!

Toni Meggle
1. Sustainability at MEGGLE – Our Principles

FUTURE IN THE BEST TRADITION

Over the past 127 years, MEGGLE has developed from a small business into an international corporation. This development is, and has only been possible, thanks to entrepreneurial initiative that focussed on success in the long-term. It is especially important for a family company like MEGGLE to think in terms of generations. Sustainable development is what counts, not short-term profit maximisation.

In practical terms, this means our goal is to secure the company’s survival by means of solid business models and investments in the future.

At the same time, we also protect the interests of today’s and also future generations in terms of the standard of living and quality of life. Therefore we look at each important decision we make to identify its short-term effects and also the long-term impact on profitability, resource consumption, the environment, our employees and society in general.

Weberhof, Molkerei MEGGLE, Wasserburg am Inn.
2. THE COMPANY
2.1 COMPANY PROFILE

SUSTAINABLE MANAGEMENT IS A FAMILY TRADITION

MEGGLE is a family-run international dairy processing company. We stand for tradition, innovation, quality and success. Successful cross-generation management really is part of MEGGLE’s identity, as underscored by the fact that Toni Meggle, the grandson of the company funder, still holds 100% of the shares in MEGGLE AG. We operate in three segments for our customers; we make milk, cheese, cream, and yoghurt products for the regional European market, plus butter and butter specialities and baguettes with fillings for both bulk and end consumers in our own facilities. In addition, powdered milk products are produced and distributed worldwide as speciality goods for the processing pharmaceutical and food industries.

FIRMLY ROOTED IN BAVARIA, AT HOME ACROSS THE WORLD

MEGGLE has production sites, sales offices and agencies in 25 countries across the globe. Its headquarters are still located in Wasserburg am Inn, the town in which it was founded in 1887 where MEGGLE’s success story began.
AGENDA:
Production Sites
Sales Offices
Agencies

GROUP KPIS 2012–2014

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales:</strong></td>
<td>991.9</td>
<td>1,064.9</td>
<td>1,095.7</td>
<td>million EUR</td>
</tr>
<tr>
<td><strong>Equity capital rate:</strong></td>
<td>40.1</td>
<td>37.3</td>
<td>35.4</td>
<td>%</td>
</tr>
<tr>
<td><strong>Investments:</strong></td>
<td>34.4</td>
<td>82.6</td>
<td>75.8</td>
<td>million EUR</td>
</tr>
<tr>
<td><strong>Employees:</strong></td>
<td>2,238</td>
<td>2,457</td>
<td>2,544</td>
<td>people</td>
</tr>
</tbody>
</table>
A SUSTAINABLE SUCCESS STORY

1887
Company is founded; registered as a cheese dairy by Josef Anton Meggle I.

1913
Josef Anton Meggle II takes over the company at the age of 18. His overriding principle: only the very best quality leads to success in the long-term.

1929
The birth of the first MEGGLE logo: the three-leafed clover.

1941
A benevolence fund is set up for employees in need on the initiative of Anna Meggle.

1946
Voluntary formation of a Works council.

1948
Whey processing is started, including demineralisation and drum drying; until this time, the whey had only been fed to pigs.

1954
The first cogeneration power system goes into operation to generate power and steam.

1959
Introduction of the company pension scheme on the initiative of Toni Meggle.

1963
Foundation of the St. Antonius housing estate where inexpensive plots of land for building homes were made available to company employees.

1968
Upon the initiative of Josef Anton Meggle II, herb butter is developed for the German market. This forms the basis for many other butter specialities.

2.1 Company profile

Company is founded: registered as a cheese dairy by Josef Anton Meggle I. The first cogeneration power system goes into operation to generate power and steam.

Josef Anton Meggle II takes over the company at the age of 18. His overriding principle: only the very best quality leads to success in the long-term.

The birth of the first MEGGLE logo: the three-leafed clover.

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Foundation of the St. Antonius housing estate where inexpensive plots of land for building homes were made available to company employees.

Introduction of the company pension scheme on the initiative of Toni Meggle.
2.1 Company profile

1970 MEGGLE develops Tabletose from pharma-lactose which is used for rational direct tablet compression in the pharmaceutical industry.

1973 Toni Meggle takes over the sole management of the company. This is also marked by a change of style: from a patriarchal management style to a co-operative one.

1977 MEGGLE is the market leader for functional dry products and is the first Western dairy industry to enter the Japanese market independently.

1985 Cellactose 80 is the first compound produced for the pharmaceutical industry.

1990 The fall of the Iron Curtain marks the start of the company’s expansion into Eastern Europe and entry into the ‘white line’.

1996 The birth of the cooled herb butter baguettes – invented and made by MEGGLE.

1996 Introduction of an energy management system in compliance with DIN EN ISO 50001 at all German sites.

2002 The company is restructured into a public limited company; Toni Meggle becomes the chairman of the supervisory board.

2011 Start of production of pharmaceutical lactose in the USA.

2012 MEGGLE celebrates its 125th anniversary. To mark the occasion, the MEGGLE Young Enterprise Award is awarded for the first time to promote young entrepreneurs in the Wasserburg region.

2012 MEGGLE develops Tabletose from pharma-lactose which is used for rational direct tablet compression in the pharmaceutical industry.

2013 Start of production of pharmaceutical lactose in the USA.
2.2 ORGANISATION AND MANAGEMENT

TRADITION AND EXPANSION UNDER ONE ROOF

MEGGLE AG was founded in 2002. It is located in Wasserburg am Inn from where all operative activities of the MEGGLE Group are managed. It is purely a financial holding.

The operative business is managed by 3 sub-holdings: Molkerei MEGGLE Wasserburg GmbH & Co. KG, MEGGLE Eastern Europe GmbH and MI MEGGLE International GmbH

THINKING STRATEGICALLY, ACTING SUSTAINABLY

MEGGLE is headed by an international team of managers who consistently drive the expansion of the company forward. The chairman of the supervisory board is Toni Meggle, company owner in the 3rd generation. He likes to describe himself as the 'assistant to the management boards', to emphasise how he uses his years of experience of the dairy industry in the company.
2.3 Products and product strategy

QUALITY IS THE BEST POLICY

Sustainable company development is only possible if it is based on long-term product strategies – we take this approach for all our product and process development work. Our top priority here is to produce excellent products of the very highest quality which focuses on the benefit to the customers. At MEGGLE, this product strategy goes hand-in-hand with a coherent brand strategy.

All of the three product groups, MEGGLE Consumer Products West, MEGGLE Consumer Products East and MEGGLE Functional Products, offer a broad range of dairy products, partially for regional markets and partially for the global market. Intensive communication among the three divisions and sharing of know-how and experience ensures that the company takes a broader view and also creates synergies that flow into our product development and ultimately benefit our customers.

MEGGLE Consumer Products West primarily concentrates on butter and butter specialities, baked goods with butter speciality fillings as well as vegetable fat spreads. The range also includes products for food retailers, wholesalers and restaurants.

MEGGLE Consumer Products East is primarily active in the markets in Central and Eastern Europe. Six production facilities and seven sales offices supply practically all the countries in the region. The product range primarily covers what is commonly known in the dairy industry as the ‘white line’, i.e. drinking milk (UHT and ESL), yoghurts, yoghurt drinks, cream products, cream cheese and soft cheese.

The Functional Products division is divided into three segments. The Business Group Excipients & Technology is a global leader in the production of pharmaceutical lactose as a carrier substance in many medicines, and is active in more than 100 countries with authorised representative offices. MEGGLE Food Systems is another business group that specialises in the development, production and global sales of functional milk and whey-based compounds for the food industry. The third member of this division is the Business Group Single Ingredients which is responsible for the production and worldwide distribution of compounds and semi-finished products for the feed industry, based on partially de-sugared whey powders which are a by-product of lactose and casein production.
For MEGGLE, milk and whey are much more than just raw materials. They are our livelihood. We can only produce top quality products that satisfy our customers and secure our long-term success if we use the best possible milk and whey. This is why we choose our suppliers very carefully and only purchase milk and whey from controlled farming operations.

**ORIGIN DETERMINES THE FUTURE**

RAW MATERIALS AND RAW MATERIAL SOURCES:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Milk</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bavarian Alps and foothills</td>
<td>231</td>
<td>243</td>
<td>247</td>
<td>million kg</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>325</td>
<td>320</td>
<td>330</td>
<td>million kg</td>
</tr>
<tr>
<td>Of this, the Rajo site in Bratislava</td>
<td>185</td>
<td>180</td>
<td>179</td>
<td>million kg</td>
</tr>
<tr>
<td><strong>Raw materials for butter production at the Wasserburg site</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cream from own whole milk</td>
<td>23</td>
<td>24</td>
<td>24</td>
<td>million kg cream</td>
</tr>
<tr>
<td>Bought in, primarily from Bavarian dairies</td>
<td>40</td>
<td>45</td>
<td>47</td>
<td>million kg cream</td>
</tr>
<tr>
<td>*<em>Whey <em>)</em></em></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From own casein production</td>
<td>13,000</td>
<td>14,000</td>
<td>14,000</td>
<td>t dry mass</td>
</tr>
<tr>
<td>Bought in from dairies, primarily as a concentrate</td>
<td>110,000</td>
<td>115,000</td>
<td>120,000</td>
<td>t dry mass</td>
</tr>
<tr>
<td>Total:</td>
<td>124,000</td>
<td>129,000</td>
<td>134,000</td>
<td>t dry mass</td>
</tr>
</tbody>
</table>

*) In 2014, this whey – converted into whey with a 6% dry mass – equated to 2.2 billion litres which, for transportation reasons and to save energy, is almost always only delivered in a pre-concentrated form.
EXCELLENT PERFORMANCE

You can rely on excellent above-average performance from MEGGLE, not only in respect of the products, but also, for instance, with respect to our qualities as a producer. This has been recognised by numerous national and international awards.

A small selection:

**DLG:**
MEGGLE butter specialities have received gold, silver and bronze awards from the DLG for decades.

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**ECOBIS Bihac 2012:**
At the environment fair ECOBIS in Bihac, MEGGLE was awarded a gold medal for corporate behaviour and various gold medals for excellent product quality.

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**ECOBIS Bihac 2013:**
MEGGLE was voted the most sought-after employer and received a prize for assuming social responsibility.

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**International Butter Championship 2012:**
The best sample comes from MEGGLE. All three submitted samples received the maximum number of points, thereby taking first place.
2.4

COMPANY POLICY

SUSTAINABILITY BLACK ON WHITE

Sustainability at MEGGLE in an integral part of the company policy and a permanent management task, which is why we have documented our sustainability standards and goals in the Management Manual of the Molkerei MEGGLE Wasserburg GmbH & Co. KG. In addition, the company’s Code of Conduct is also documented in MEGGLE’s business ethics.

Customer orientation
We want to satisfy our customers’ requirements to the highest degree possible. The satisfaction and loyalty of our customers is the benchmark for all our actions.

Products
We want to develop, produce and sell optimised products and services – products that not only satisfy all the relevant legal and safety requirements, but also the set quality standards.

We produce and supply food for end consumers, semi-finished products for the food industry, pharmaceutical aids and feed. We are fully aware of our responsibility to protect consumers, patients and ‘Feed for Food’ by complying with GMP and GDP.

Profitability and earning power
Our mission as a company is to secure the profitability and earning power of the group and to improve our market position.

Any actions taken in pursuit of these goals always observe the following principles: compliance with ethical principles for customers, suppliers, employees, society and the environment; compliance with legal and safety requirements.

Sustainability
We want all our actions to be sustainable in everything we do. Our sustainability strategy is based on commercial success with solid business models and investments in the future, responsibility for individuals and society at large, today and for future generations, as well as the long-term responsible use of the environment, including all raw materials, water, energy, air and the soil.

Company organisation and management
The organisational structure of our company plays an important role in our commercial success.

We strive to establish simple structures with clear spheres of competence and responsibility.

We understand that professional competence and personal skills are an important competitive factor in the market. It is an important management task to ensure that skills are continuously developed in all areas of the company.

Our performance standards are distinguished by setting clearly-defined goals; these goals are supported and monitored by competent management. Target-oriented communication, both within the company and also externally, marked by close identification with the company, helps us achieve our goals.

We strive for continuous improvement: every employee, every day, everyone’s responsibility.

We see faults in products and processes as an opportunity to remain true to our commitment to continuous improvement and to avoid faults in the future.
MEGGLE has always based its growth on three pillars: commercial success, alignment to the needs of society and conserving an intact environment. All company decisions are made on the basis of these three pillars. In this way, we can avoid imbalance and create a solid basis for the future: especially as all three aspects are so closely interlinked. Commitment to society and investment in the environment are not possible without adequate commercial success. On the other hand, society’s expectations are oriented on the commercial success of the company and its commitment to the environment—ultimately, an intact environment is essential for society at large and our company’s livelihood.

Internationally, this is often referred to as the three Ps: People, Planet, Profit. Each pillar comprises several components. The following chart shows a simplified illustration of the most important components at MEGGLE.
3. ENVIRONMENT
3. ENVIRONMENT

ALL SYSTEMS GO

In keeping with the motto „Everyone is an environmental officer“, we are committed to further expanding our environmental efforts on all levels of the company because we believe that the implementation of our environment policy is a permanent management task. For instance, we encourage good environmental protection ideas by means of our company suggestion scheme. We have so-called environmental teams who are responsible for educating and raising awareness who provide information about current environment KPIs and operating conditions on information terminals in the production departments.

Handling our natural environment carefully – in practice this means that we continuously optimise all production steps in terms of raw material and product losses, residual materials and the use of air, water and energy. For this purpose, we have established a „continuous improvement“ work group who find structured solutions for any identified tasks.

QUOTE FROM THE ENVIRONMENT POLICY AT WASSEBURG:

We undertake to further expand environmental awareness on all levels of the company and to declare the implementation of our environment policy as a permanent management task. The environmental awareness of our employees should be the cornerstone of all our activities. The motto „Everyone is an environmental officer“ obligates everybody to play an active role.

All production steps are optimised in terms of potential raw material and product losses, any generated residues and the use of air, water and energy. Our decisions focus on ensuring the lowest possible impact on the environment, e.g. pollutants or noise.
EXAMPLE: THE CHP POWER PLANT IN WASSERBURG

Processing and drying whey in Wasserburg is a highly energy-intensive process. In addition to its attempts to keep the energy consumption in the production processes to a minimum, MEGGLE also opted for CHP power generation methods very early on in its development because it is the most efficient form of energy generation.

Today, MEGGLE operates one of the most efficient CHP power plants in Germany with an overall efficiency level of 90% compared to conventional power generation methods with rates of 30–40%.

Thus, MEGGLE is making a significant contribution to climate protection and the turnaround in energy policy. It actually manages to feed enough power into the public grid to run a small town with approx. 10,000 households.

WHAT IS A GAS AND STEAM SYSTEM?

In a gas and steam system, natural gas is converted into electrical power and heat in a two-stage process. The gas first drives a gas turbine with a generator to produce power. The flow of exhaust gas from the gas turbine is used to generate high-pressure steam. In a second stage, this then drives a steam turbine with a second generator. Thanks to this system MEGGLE can remain operational at the site in Wasserburg even if there is a general power failure.

1954 First cogeneration plant (CHP) using a steam engine from Spilling
1960 First steam turbine (steam generation with coal)
1977 Expansion of the cogeneration plant to an electrical output of 6.3 MW (light oil, later natural gas)
2000 Gas and steam system with an electrical output of 14 MW and a thermal output of 50 MW; power is fed into the public grid
3.1 INPUT-OUTPUT BALANCE SHEET OF THE MEGGLE GROUP

LESS IS MORE

When we at MEGGLE draw up our balance sheet, we do not just list our assets and liabilities, we also look at environmental protection. For years, we have mapped the flows of materials to Wasserburg, our headquarters and the largest production facility, in the form of an input-output balance sheet. In 2012, we also began charting the most important environment-relevant material flows for the other production sites.

AGENDA:

1) Converted to MWh, less the amount fed into the public grid.
2) In biogas, recycling and thermal disposal.
3) Household waste.

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Input</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw materials</td>
<td>1,116,282</td>
<td>1,146,364</td>
<td>1,154,600</td>
<td>t</td>
</tr>
<tr>
<td>Gas</td>
<td>537,548</td>
<td>557,808</td>
<td>533,387</td>
<td>MWh</td>
</tr>
<tr>
<td>Electricity/power</td>
<td>57,189</td>
<td>60,559</td>
<td>67,731</td>
<td>MWh</td>
</tr>
<tr>
<td>Heating oil</td>
<td>1,017</td>
<td>981</td>
<td>1,037</td>
<td>thousand l</td>
</tr>
<tr>
<td>District heat</td>
<td>11,606</td>
<td>11,426</td>
<td>11,496</td>
<td>MWh</td>
</tr>
<tr>
<td>Total energy consumption MEGGLE Group *)</td>
<td>592,943</td>
<td>619,121</td>
<td>610,300</td>
<td>MWh</td>
</tr>
<tr>
<td>Total energy consumption per tonne of product *)</td>
<td>0.937</td>
<td>0.945</td>
<td>0.901</td>
<td>MWh/t</td>
</tr>
<tr>
<td>Water</td>
<td>4,143</td>
<td>4,313</td>
<td>4,476</td>
<td>million m³</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Output</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production quantities</td>
<td>632,850</td>
<td>654,953</td>
<td>677,593</td>
<td>t</td>
</tr>
<tr>
<td>Waste-water 1)</td>
<td>3,023</td>
<td>3,196</td>
<td>3,430</td>
<td>thousand m³</td>
</tr>
<tr>
<td>Recyclable waste 2)</td>
<td>3,946</td>
<td>4,335</td>
<td>5,668</td>
<td>t</td>
</tr>
<tr>
<td>Disposable waste 3)</td>
<td>2,961</td>
<td>3,348</td>
<td>3,276</td>
<td>t</td>
</tr>
<tr>
<td>Power (Fed into the public grid)</td>
<td>23,570</td>
<td>20,478</td>
<td>12,680</td>
<td>MWh</td>
</tr>
</tbody>
</table>

Special attention should initially be paid to those flows where savings projects would have the biggest impact: this applies to so-called dried products because they require more than 50% of the total thermal energy consumed by the company.

Raw materials are supplied in a liquid or pre-concentrated form. The thickening and drying processes are primarily steam powered. Thanks to a whole package of individual measures, we have been able to reduce the specific steam consumption in this highly-complex thermodynamic process by more than 21% over the past 12 years.
3.2

IMPORTANT ENVIRONMENT-RELEVANT PROJECTS IN THE 2012–2014 PERIOD

Historical figures are one thing, but what is more important are projects that serve to improve our environmental footprint in the long term. Here are some examples:

'25-TONNE HIGH CONCENTRATOR' IN WASSERBURG

One of the steps in the whey treatment process involves increasing its dry mass from 30% to 60%. MEGGLE uses a new energy-efficient high concentrator for this at Wasserburg. Energy requirements are cut significantly by switching from the previous thermal vapour compression method to a mechanical one. Annual energy savings are around 27,400 MWh per year. This equates to the heat requirements of around 1,500 households. CO₂ emissions are also cut by around 5,000 t per year.

FIRE PROTECTION AT THE MEGGLE GROUP

Fire protection policies are not just about keeping employees safe, they are hugely important for environmental protection and ensure lower insurance premiums, too. Between 2012 and 2014, we worked closely with our fire insurance company, FM Global, to complete 34 projects aimed at improving fire protection. These projects included organisational steps, such as regular maintenance, tests and checks on relevant systems or the thermographic monitoring of the systems. The package of measures also included closing wall and ceiling openings, installing fire alarm and extinguishing equipment, as well as thermographic examinations of electrical systems.

CENTRAL COOLING SYSTEM IN WASSERBURG

A central cooling system offers ecological and economic benefits. It can be adjusted to meet the specific needs of the consumers allowing optimised compensation of peak loads at different times. These were the reasons why we developed and installed a central cooling system at our site in Wasserburg in a three-stage process. Ammoniac is used as a cooling agent because it is a climate-neutral medium that does not impact on the ozone layer or contribute to the greenhouse effect.

INTRODUCTION OF AN ENERGY MANAGEMENT SYSTEM IN COMPLIANCE WITH DIN ISO 50001

MEGGLE has been able to make significant energy savings in the past, thanks to internal projects. Between 2012 and 2014, we also introduced DIN ISO 50001-certified and site-specific energy management systems at our German sites in Wasserburg and Gebesee. We believe that the systematic inclusion of all employees, and consistent efforts to raise their awareness, will lead to continuous further savings.
NEW FILTER BUILDING FOR THE POWER PLANT IN WASSERBURG

Each production location has its own specific climatic conditions; Wasserburg, for instance, lies in the foothills of the Alps. This fact was taken into account when replacing the old two-stage air intake filter of the local power plant with a customised three-stage filter system with highly efficient pocket and cassette filters. This system guarantees low pressure losses in the intake air whatever the weather conditions, thereby significantly improving the performance and efficiency of the system. The gas consumption rate for the system dropped by approximately 500 MWh and the annual CO₂ emissions were cut by about 90 tonnes.

NEW FILTER FOR STORK SPRAYING TOWER IN WASSERBURG

The new filter system in the so-called Stork spray tower at the Wasserburg site was commissioned at the end of 2013. The residual dust concentration in the exhaust air from the four cyclones of the spray tower has been reduced to a minimum, thanks to the downstream filter-dust extraction system. Additional energy efficiency has been made possible by the installation of a filter that recovers thermal energy from the exhaust air.

SECOND SECONDARY SEDIMENTATION TANK IN WASSERBURG

MEGGLE has operated its own sewage treatment plant for treating the waste-water from the dairy in Reitmehring near Wasserburg since 1981. This relieves the strain on the local sewage facilities, and the generated sludge is practically free of germs so that it can be used as a fertiliser.

NEW FULLY AUTOMATIC BOILER BUILDING IN BRATISLAVA, SLOVAKIA

The new, fully-automatic boiler building has increased efficiency by 11% compared to the old system. It has been possible to completely eradicate any failures in the supply of steam due to malfunctions.

NEW CIP SYSTEM IN OSIJEK, CROATIA

The new CIP system (CIP = Clean in Process) cuts the annual water consumption by 33% to 120,000 m³. The amount of cleaning agents required was also cut by more than 50%.

A3-SPEED FILLING SYSTEM WITH ELECTRON BEAM STERILISATION IN BRATISLAVA, SLOVAKIA

In the newly-installed filling system for 1-litre Tetra-Paks at the site of our subsidiary in Rajo, packaging materials are sterilised by means of electron beams. This completely replaces the conventional method of using harmful hydrogen peroxide (H₂O₂). In addition, this system requires 30% less power than its conventional counterparts. Rajo is the first company in the world to use this technology and, to date, more than 100 million units have been filled using this environmentally-friendly and energy-efficient system.
3.3 Important environment-relevant projects planned for 2015–2017

3.3 IMPORTANT ENVIRONMENT-RELEVANT PROJECTS PLANNED FOR 2015–2017

SYSTEMATIC ANALYSIS OF THE EVAPORATION SYSTEMS IN WASSERBURG

The focus of our energy management plan of action for the years 2015 to 2017 is on the evaporation systems. All of these systems will be systematically analysed to identify, recognise and implement procedural and technical optimisation potential.

WIND POWER PLANTS IN GEBESEE, THURINGIA

There are plans to erect two wind power plants at our site in Gebesee to cover our own power needs. The concept has been drafted and will be incorporated into the 2016 regional land use plan for Central Thuringia. The implementation of the project depends on the how the current legal situation develops.

REVERSE OSMOSIS SYSTEM IN WASSERBURG

The partially desalinated water required for our new ultra-filtration systems is produced from the UF permeate in a reverse osmosis system. This means that there is less permeate for evaporation, thereby reducing both the volume of permeate for evaporation and the energy requirements. At the same time, less polluted water is sent to the company’s own sewage treatment plant.

RETROFITTED OR NEW SEWAGE TREATMENT PLANTS IN OSIJEK, BIHAC AND KRAGUJEVAC

Our sites in Croatia, Bosnia-Herzegovina and Serbia are partially working with their own sewage treatment plants. New installations or retrofitting of the existing plants will further relieve the strain on the local waste-water systems at the respective locations in the future.

FUSION OF FOUR DAIRIES IN SALZBURG

Short paths for environmental protection: The planned fusion of four smaller dairies into a cheese competence centre in Lamprechtshausen will improve the infrastructure in the future. This will lead to significant energy, transport, water and waste-water savings.

ENERGY-EFFICIENT ICE WATER SYSTEM IN KRAGUJEVAC, SERBIA

We are currently planning a new energy-efficient ice water system using the cooling medium, ammoniac, for our Serbian plant in Kragujevac. This will not only cut energy consumption, but is also good for the climate because ammoniac does not damage the ozone layer or contribute to the greenhouse effect.
4. PEOPLE, SOCIETY
4.1 EMPLOYEES

THE MOST IMPORTANT CAPITAL IS NOT LISTED ON THE BALANCE SHEET

Excellent results can only be achieved by a team that functions well and, in turn, this necessitates that everyone treats each other fairly and with respect. This is why we believe that creating optimised workplaces is not just a matter of fulfilling our statutory duties or minimum ethical requirements, but is the key to global growth and the success of the company.

We back this up with an extremely effective personnel strategy that not only takes into account the requirements of the company, but also the rights and needs of our employees, as well as their talents and qualifications. The fact that many employees have followed their parents and their grandparents into employment with us, bears witness to the enduring success of this strategy.

One of the challenges MEGGLE faces is to find solutions today to combat the expected shortage of skilled personnel in the future. This is why we regularly take part in job, university and trainee fairs. However, our approach to solving the generation change problem is not just to hire external staff, but also to continuously mentor employees already in our company to train them for future tasks.

For instance, we are planning to introduce an international talent management system, as well as a staff development concept in 2015. This will not only increase employee satisfaction, but will also promote longer-term working relationships with our company.

"The most important asset is not listed in the books; namely our employees who work loyally for our company."

TONI MEGGLE
4.1.1 HEALTH AND FAMILY

HEALTHY GROWTH IN EVERY RESPECT

“Health is our most valuable asset” – every one of us would vouch for this. To protect and enhance our employees’ health, we take forward-thinking, efficient and sustainable action, which includes regular monitoring of workplace ergonomics, personal consultations with our work’s doctor, a mobile massage service, spine training courses and much more. In recognition of our efforts, we were awarded the AOK-BGF Award for exemplary commitment to company health prevention and promotion in 2010.

Another issue close to our hearts is the work-life balance. We offer our employees a variety of innovative working hour and part-time models, as well as assistance with finding suitable childcare, for example.

4.1.2 HEALTH & SAFETY AT WORK

SAFETY IMPROVES PERFORMANCE

Safe workplaces form the basis for satisfied and motivated employees, which is why we continuously strive to minimise risks at all workplaces in the MEGGLE Group companies. The health & safety officers work together with the security officers on site and the departments to implement measures aimed at preventing accidents and reducing occupation-related risks.

Health & safety teams review the health & safety systems on site during regular tours of the facilities. If an accident should occur, it is analysed in detail in close co-operation with the state offices and professional associations, and improvement programmes and prevention steps are developed.

We also go one step further and continuously update risk analyses for all workplaces. This is accompanied by training programmes for managers and employees alike. For example, 110 first aiders have been trained at the Wasserburg site in recent years.
4.1.3
FURTHER TRAINING AND PROFESSIONAL DEVELOPMENT

THINKING ABOUT TOMORROW TODAY

Further training and professional development is an investment in the future of our company. We currently have 45 apprentices at our site in Wasserburg, which equates to a training rate of 5%. Our training programme also includes dual study courses which involve intense periods of practical experience in the company.

The training situation at our Eastern European sites demands different measures because many countries lack a formal training system that links practical experience with the necessary theory. In light of this, we have established a previously unknown dairy specialist training programme at our site in Bratislava in Slovakia. Designed as a 52-week dual study course, it has been organised in co-operation with the Technical Secondary School in Bratislava. In another project, we are training employees from our facility in Bratislava in collaboration with German vocational school partners. Company-specific training takes place in Bratislava and Wasserburg and is concluded by passing the ‘German’ final examination. We intend to extend this project to include other MEGGLE sites.

In addition to vocational training, we also believe in continuous further training and professional development. MEGGLE offers support to employees seeking to study for an MBA or take Chamber of Industry and Commerce qualifications. In its capacity as a global player, MEGGLE also offers targeted language and intercultural courses. Posting employees to our international sites helps enhance inter-company networks and secures the sustainable transfer of know-how.
4.1.4
THE MEGGLE CODE OF CONDUCT

RESPECT NEEDS RULES

Whether in society as a whole, or in a company with thousands of employees, certain rules need to be obeyed and a culture needs to be installed that determines how we treat each other. This culture also needs to protect people’s interests and ensure mutual respect. It was with this in mind that the company management and the works council draw up the MEGGLE Code of Conduct. It obligates compliance with statutory regulations, e.g. in terms of health & safety at work and working hours, and also lays down guidelines for everyday dealings in the company.

Any employee who feels that these rules have been breached and that they have been treated unfairly can contact a compliance officer who will look into this issue.

The MEGGLE Code of Conduct initially applies to the Wasserburg site; however, it is also anchored in the MEGGLE business ethics. There are plans to introduce this system uniformly throughout the MEGGLE Group as of 2015. We also plan to obtain certification in compliance with the SMETA Best Practice Guidance, starting with the Wasserburg site.
4.2
SOCIETY AND CULTURE

THINKING GLOBALLY MEANS HELPING LOCALLY

MEGGLE has played an active role in the social environments around its company sites across the world for many decades. The focus is on the respective national companies’ support of local projects, seeking to help people by actively supporting the development of the economy, the local infrastructure, or cultural and sporting events at the company sites.

Consequently, MEGGLE has funded more than 300 projects over the past 3 years; for instance, the Wasserburg site has provided support for a multigenerational house, collected donations for regional flood aid and is the main sponsor of the 1st ladies basketball team of the club TSV Wasserburg. One particular highlight is the MEGGLE Young Enterprise Award that is awarded for entrepreneurship in the region. At an international level, we have also offered financial and moral support to victims of the tsunami in Japan, traumatised children and children with cancer in the Philippines and Africa, and for mine-clearing projects in Bosnia-Herzegovina.

Our commitment to social projects is only possible if our responsibility to society is anchored in the minds of each and every manager and member of staff in the company. This is a process which begins at a very early stage in our company; the trainees in Wasserburg help with the children’s summer camp activities, thereby learning what it means to assume responsibility.

CLEARING MINES IN BOSNIA-HERZEGOVINA

Toni Meggle sets an example to employees in the company in terms of assuming responsibility. After learning about the mine clearing project run by the DEMIRA organisation at the Olympic hill in Bjelasnica, it was natural for him, as one of the local companies, to immediately become involved. In his words: “Clearing mines in this country is an essential step forward for the people in Bosnia-Herzegovina, allowing them to move freely in their country. I have a vision that the people in Bosnia-Herzegovina can walk freely without fearing for their lives every step they take. I want to play a part in ensuring that this country and its people can blossom.” These are not just empty words either: thanks to the donations received, large areas contaminated during the war have already been cleared.
MEGGLE encourages young SME entrepreneurs from the Wasserburg region with the MEGGLE Young Enterprise Award; this is because, according to Toni Meggle, who is himself a third-generation entrepreneur, “the pioneering spirit allied with staying power is true entrepreneurship.” He goes on to add: “Small and medium-sized firms are the backbone of our economy and they thrive on new ideas and the people who put these ideas into practice.” Entrants for the MEGGLE Young Enterprise Award submit their projects/business models, whereupon a top-class panel of judges decides on the prize-winners who, in turn, will receive prizes of between 10,000 and 25,000 euros.
4.3 CUSTOMERS

THE CUSTOMER IS OUR SOVEREIGN

We focus on our customers in all our activities – be they retailers, industry, wholesalers or end consumers. Their needs are what drives us and determines our work. Day in, day out. We always keep one objective in sight: customer satisfaction.

We achieve this by means of quality and partnerships marked by trusting and successful working relationships. This is the legacy of our long-term employees, who have built up trust and give the customers a sense of security by offering them sound product and sales advice, as well as maximum reliability along the entire delivery chain. In addition, we offer our customers support with innovative marketing concepts and the option of tailor-made production – two other important elements that help achieve the highest possible level of customer satisfaction.

4.3.1 PRODUCT SAFETY AND QUALITY

 ALWAYS ON THE SAFE SIDE AS FAR AS QUALITY IS CONCERNED

Excellent product safety and quality is paramount for gaining the trust of our customers and consumers, which is why we at MEGGLE have introduced a highly-developed quality management system. It covers all areas from the raw materials, to processing, right through to the customers. We voluntarily allow independent experts to check this system in extensive external certification audits. In fact, many of our customers have also carried out their own audits at our sites to check our high quality standards.

Last but not least, official inspections are carried out to check compliance with food laws and food safety.

IN 2013 ALONE, THE MEGGLE GROUP SITES UNDERWENT:

- 40 external certification audits
- 42 customer audits
- 110 national and international official inspections
### CERTIFICATION STANDARDS - MEGGLE GROUP

<table>
<thead>
<tr>
<th>Country</th>
<th>Company Name</th>
<th>Certifications/Standards</th>
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<tbody>
<tr>
<td>Deutschland</td>
<td>Molkerei MEGGLE Wasserburg GmbH &amp; Co. KG</td>
<td>EN ISO 9001 (Management system)</td>
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<td></td>
<td></td>
<td>IFS (International Featured Standard Food)</td>
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<td></td>
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<td>EXCiPACT GMP+ GDP-Pharmaceutical Excipients</td>
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<td>RSPO (Round Table for sustainable Palm Oil)</td>
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<td>Bio-certification,</td>
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<td>NOP (Bio, USA) certification</td>
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<td>Halal (ONR 142000)</td>
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<td>Kosher OU</td>
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<td>Q+S quality and safety (German quality standard for the production of feedstuffs)</td>
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<td>GMP+ B2 (Dutch quality standard for feedstuffs)</td>
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<td></td>
<td>FAMIQS (European Code of Practice for Feed Additives and Premixture operators)</td>
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<td>SalzburgMilch (Salzburg) GmbH</td>
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<td>FSSC 22000 (Food Safety System Certification)</td>
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<td>GM-free certification</td>
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<td>SalzburgMilch (Seekirchen) GmbH</td>
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<td>GM-free certification</td>
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<td>Rajo a.s. Bratislava</td>
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<td>IFS (International Featured Standard Food)</td>
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<tr>
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<td>Albania</td>
<td>MEGGLE Albania Sh.p.k., Rhogozhine</td>
<td>HACCP (Food Safety System, Hazard Analysis of Critical Control Points)</td>
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4.3.2
SERVICE AND USER SUPPORT

BETTER SUPPORT CREATES ADDED VALUE

Even the safest and highest quality products are worthless for customers, if they are left alone with them. Real added value is created by offering accompanying services and additional support. This is why we pay close attention to providing perfect service for our products, for instance, the wealth of information on our website. Customers can also contact us by Facebook, or via one of the customer forums, to discuss new ideas or provide critical feedback.

What also makes our service so special is the user and application support in the business-to-business field for specialities and systems. This is a two-stage process: when contacted for the first time, we offer extensive advice about the properties of a particular product and how it can be used in the production process or application. During the joint development phase, after delivery, and throughout the entire lifecycle, our specialists will work on-site to ensure that the product is aligned perfectly to the specific requirements.

APPLICATION SUPPORT IN THE PHARMACEUTICAL FIELD

The pharmaceutical field and its highly complex products requires a lot of support because of safety issues. This is why MEGGLE employs application consultants, not only at its offices in Wasserburg but also in our regional and national offices; these men and women have close professional ties with this sector and the strict safety and quality standards.
4.4 Suppliers

4.4.1 Farmers and Industrial Raw Material Suppliers

Above Average Across the Board

In a way, milk producers and milk processors share a common destiny that can only be lastingly successful if they pull together and work closely. We have cultivated these kinds of partnerships with our dairy farmer suppliers for many years, in some regions for over 80 years.

Since time immemorial, MEGGLE has also employed staff to take care of the milk producers. Company developments, the milk market, political and socio-political conditions, as well as issues of milk quality, are discussed on site or at meetings. The advice on quality for the milk suppliers focuses on feeding, hygiene, the absence of residues in milk and the udder health of cows. The success of this advice is reflected in the Bavarian and nationwide above-average quality of the milk. Regular checks of the milk – in particular the germ content, cell count, ingredients and freedom from residues – are carried out by an external organisation, the Milchprüfring Bayern (Bavarian milk testing organisation), who confirm the high level of quality. In particular, the cell content of the milk, a measure of the health of the animals, which is approx. 150,000 cells per ml, is an excellent measurement and allows conclusions to be drawn on the welfare of the cows.

The expertise in Wasserburg, with respect to the supervision and support of milk producers, is also discussed at regular intervals with colleagues from the subsidiaries in Eastern Europe. In this way, we not only improve the quality of the milk there, but also help to support the farmers’ suppliers and their families at the same time.

Moreover, the payments made to the milk suppliers are usually above average. This is our contribution to ensuring the commercial stability of the dairy farms. MEGGLE maintains close commercial ties with many whey suppliers that go above and beyond the usual supplier-customer relationship. For instance, MEGGLE initiated and pre-financed an evaporation system for concentrating whey at the premises of an Italian whey supplier. This cut back the freight volume of the company by around 70%, which equates to 740 trips of 550 km each every year.

The environment, too, plays a role, especially in milk collection and in collaboration with the milk producers. Round programme planning, which takes volumes and routes into account, is being optimised with the objective of ensuring further improvements in effective fuel consumption.

4.4.2 Other Suppliers

Exemplary Sustainability

We want to set a good example to our suppliers in terms of sustainability, which is why our corrugated cardboard transport packaging contains a large percentage of recycled material. We also participate in various recycling systems, such as the Green Dot and REPASACK.

In addition, we encourage our partners to actively assume a sustainable approach by carrying out sustainability checks on new suppliers and auditing existing suppliers on a regular basis. Business relations between the MEGGLE Group and its suppliers are oriented on the BSCI-Codex (Business Social Compliance Initiative) which lays out detailed sustainability principles and associated requirements. It is an integral part of the supplier selection process and is integrated in all purchase agreements throughout the group.
5. PROFITABILITY
5. PROFITABILITY

A MODEL WITH A FUTURE

Companies must accept social responsibility, both in terms of the environment and social commitments; however, this is impossible without commercial success. Our focus is not on short-term profit maximisation, but ensuring the stability of the company in the long-term. This is based, on the one hand, on earnings in the shape of profits and, on the other, on healthy growth and development to sustainably secure profits: this actually then completes the circle, because it is these profits which are required for further investment and future growth.

5.1. INVESTMENTS IN THE FUTURE

INVESTMENT TODAY, PROFIT TOMORROW

Before you can earn anything in the future, you have to invest in the present: in product development, production systems, marketing, logistics and much more. MEGGLE finances these investments from its profits from ongoing business and also with a solid borrowing policy, and because investments tie up company capital for a long time, each and every investment is subjected to a thorough sustainability check that analyses the impact on profitability, the environment and society in general.

IMPROVING THE PERFORMANCE OF THE WASSERBURG POWER PLANT

One investment in the future is the on-site power plant at our headquarters in Wasserburg. As our production volume has constantly grown over the years, the CHP plant at the site had reached capacity. Increasingly, steam needed to be generated with the old reserve boilers without the cogeneration system and this proved to be much less efficient.

The ingenious and also efficient engineering solution that was found, was to improve the performance of the waste-heat recovery boiler by installing an additional fan; this raised the combustion capacity from 55 to 65 t/h. The overall efficiency of the system was so significantly improved that the annual gas consumption was reduced by around 4,000 MWh and the CO₂ emissions were cut by around 700 t whilst, at the same time, increasing the power created with the cogeneration system by about 400 MWh per annum; this equates to approximately 100 households.
5.2. CONTROLLING ECONOMIC EARNING POWER

EVERYTHING UNDER CONTROL

MEGGLE draws up detailed short, medium and long-term plans. We also take long-term strategies and the short-term effects of volatile markets, changes to underlying conditions and other factors into account.

Our multi-dimensional controlling approach, which reviews market movements, sales activities, price fixing, product portfolios, customer and supplier relations, stock management, investments, cost structures, and practically all decisions taken by the company in terms of their commercial impact, is therefore extremely important for the company’s sustainability policy.

MEGGLE is currently introducing an integrated IT system which will allow it to effectively steer the commercial processes throughout the group. This is an investment in the future and our economic earning power.

5.3 BALANCED SWOT MANAGEMENT

THE BIG PICTURE

Anyone wanting to make use of the opportunities available in new or existing volatile markets in today’s competitive environment needs to invest in product development, market development or production capacities. This requires the courage to take risks, because reliable prognoses are rare and, however enticing the outlook may be, the company’s existence must never be jeopardised, even in the worst case scenario.

This is why MEGGLE operates an IT-supported risk management system so that it can mitigate the risks. The system is used to analyse the risks in terms of total damage and probability of occurrence, and to identify and realise action that will reduce the overall net risk. The risks are assessed before (gross), and after (net) risk minimisation action has been taken. All risks are continuously monitored. The situation is reassessed at regular intervals so that the focus remains on the current risks.
5.4 SOLID FINANCING

SAFETY FIRST

MEGGLE’s definition of solid financing is to ensure that the ratio of equity capital, reserves and external financing is balanced. We therefore secure our corporate planning, not only with equity capital, but also with solid financing models that are stable enough to ride out even difficult economic situations. In particular, this involves long-term borrowing at fair conditions, by means of promissory notes, for example.

BORROWING USING PROMISSORY NOTES

In addition to bank loans and bonds, promissory notes are a further form of long-term borrowing. In this case, institutional investors act as creditors and grant a borrower a loan without the borrower having to avail him or herself of the organised capital market and the associated risks. On 19th February 2014, MEGGLE AG signed a promissory note to finance future investments by the entire MEGGLE Group.

The loan volume totals 65 million euros, with a term of seven and ten years. The loan was arranged by UniCredit Bank, an institutional investor in Munich. During the subscription phase, the excellent reputation that MEGGLE enjoys as a profitable and solidly financed company became apparent, because the promissory note was, despite the excellent conditions in favour of our company, clearly oversubscribed. There was an excess of interested investors.

From left to right:
Christian Sedlatschek – Chief financial officer (CFO)
Drs. Sil H. van der Ploeg MBA – Chairman of the Board (CEO)
Georg Schillmaier – Head of Treasury
6. **LOOKING TO THE FUTURE**

**A COMPANY HAS A RIGHT TO ITS OWN FUTURE**

In a family-run company like MEGGLE, thinking in generational timescales is engrained in the company’s genetic makeup as it were, which is the reason why sustainability is so hugely important to us. Many of our projects and initiatives will only come into fruition in the distant future. This is a stark contrast to modern-day thinking that is restricted to legislation periods or even 3-monthly reporting periods. However, this is how we lay the foundations for growth in the future, including for the following generations of managers in our own company. Whilst the entrepreneur certainly shapes the company, it is the employees and managers who are responsible for its development and who invest a great deal of time and energy in the company; MEGGLE is very well set for the future thanks to this.

“A company has a right to its own future!”
TONI MEGGLE

7. **INFORMATION ON THE REPORT**

This report looks at the companies presented in the consolidation circle of the MEGGLE Group (see section 2.1). All the figures provided in the report are group figures. Any figures pertaining to specific locations are expressly identified as such.

The core statements of the report always refer to the company group. All described system elements and processes have been introduced at the headquarters in Wasserburg. At some sites, in particularly those that are new to the group, these systems have been installed, partially installed, are currently being introduced or are planned.

All the completed actions are listed as examples in the separate chapters; they demonstrate the sustainability aspects and/or developments in the company. Any goals for the next three years, if specified, are also listed in the individual chapters.

Reporting period: 2012–2014
Planned reporting cycle: every 3 years

The structure and the content of the report are not subject to any specific form, although they are roughly oriented on the GRI reports and GRI guide on sustainability reporting issued by the Global Reporting Initiative.

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