



Sustainability Report 2019

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DELAVAL AND SUSTAINABILITY

01

This is DeLaval's sustainability report for the period 2019 in accordance with the EU directive 2014/95/EU, including its statutory sustainability report according to the requirements in the Swedish Annual Accounts Act (ÅRL). The sustainability report includes DeLaval Holding AB, corporate registration number 556258-6981, and its subsidiaries.

Business Model

We are a global full-service supplier to dairy farmers and other professional food producers. We develop, manufacture and distribute equipment and systems for milk production and animal husbandry. Services, accessories, knowledge sharing and consultancy are also key aspects of our operations and offerings. We sell our products and services via certified DeLaval partners but also directly to dairy farmers.

Our vision is "we make sustainable food production possible." This means that we find ways to help our customers – dairy farmers and food producers – create sustainable operations. We strive to make it possible for our customers to produce more food while reducing their relative resource use, environmental impact and costs.

Our Take on Sustainability

We look at sustainability from three main perspectives.

We have refined our approach to sustainability to ensure it covers everything we do, both within our company and externally with our customers.

Based on direct customer insight and our materiality analysis, we developed a new sustainability model in 2019. The model focuses on three main perspectives; Environment, Food and Animal Welfare, and Social and Economic.

Environment

The greatest environmental contribution we can make is on the farms of our customers as we strive to reduce the environmental impact of every litre of milk produced. This typically involves providing solutions that improve efficiency and milk yield.

Within our own operations, we are committed to constantly finding ways to reduce waste, energy consumption and water consumption. We are committed to contributing towards a low carbon economy by taking action to combat climate change and its impacts.

Food and Animal Welfare

Contaminated milk presents obvious risks to both consumer health and the operations of our customers. Food safety is critical for all parts of the dairy value chain. We work with food safety through stringent compliance controls but also by promoting animal welfare.

A healthy animal provides more milk, at a better quality and for more years. By providing better conditions for animals, farmers can improve the animal's health and longevity while at the same time maintaining or improving farm profitability and reducing their environmental impact.

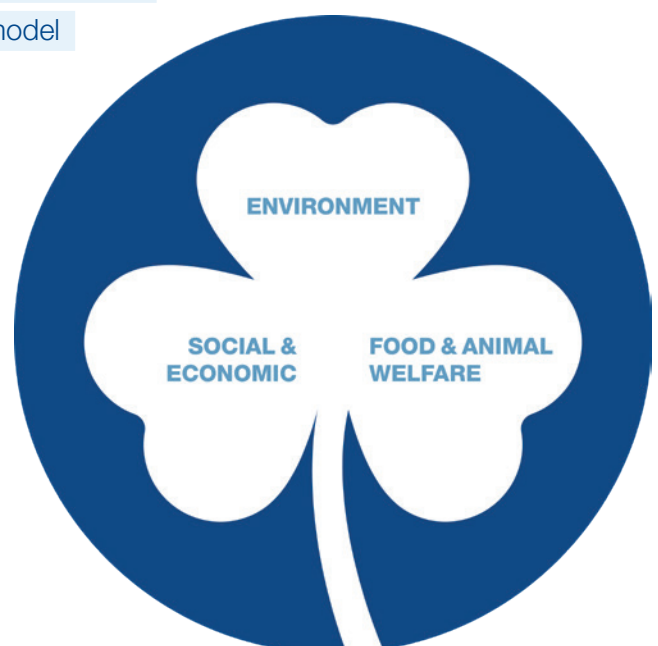
Social and Economic

Social sustainability includes respecting and advancing human rights as they are defined by the UN. Economic sustainability is how we create long-term economic growth without negatively impacting social or environmental sustainability.

Our Corporate Governance framework including the Code of Business Conduct guides us in this work.

Through innovation we provide solutions to dairy farmers to make their lives easier and their farms more profitable whilst lowering their environmental impact.

DeLaval
sustainability
model



WHAT IS MATERIAL
TO US?

02

DELAVAL WHAT IS MATERIAL TO US?



- Environmental
- Food and Animal Welfare
- Social and Economic

In 2018 we conducted a number of interviews with key stakeholders in the dairy industry as well as with employees at DeLaval. We looked at what was material for both our customers' operations and our own.

The external stakeholders included dairy processors, industry associations, global organisations, academic institutions, NGO's and customers. Internally, we carried out interviews with a wide audience of employees across DeLaval including key individuals

from Group Management, our business units and services organisation, sales, supply chain, our Milk Quality and Animal Health division, R&D as well as other internal experts.

In late 2019, we re-named the categories in this materiality analysis so that they align with the three main sustainability perspectives we work with. In addition, we engaged in in-depth discussions in 2019 with farmers across Europe via the EDF (European Dairy Farming) organisation.

The result of these discussions showed us the main sustainability challenges facing European dairy farmers. These topics are also relevant for our customers in other parts of the world. The topics with the person icon represent their main challenges.

The Global Dairy Market

In early 2019, the Food and Agriculture Organisation of the United Nations (FAO) released a report showing that total milk production volumes had grown by 30% from 2005 to 2015 whilst absolute emissions had grown by 18%. Without the productivity gains made by the industry and without farms making investments into more efficient farms, the absolute emissions would have grown by 38%.

At the same time, there was still an increase of 18% and the goal must be to reduce emissions even if volumes increase.

The report also showed that the CO₂ emissions per kg of milk varied depending on the geographic location of the dairy operations. A kilogram of milk produced in sub-saharan Africa for example releases 6.6 kg of CO₂ whereas the corresponding figure in North America is 1.29 kg.

This gives us at DeLaval a very clear indication that we can make a significant difference in reducing the CO₂ emissions per kg of milk and that this kind of work has a significant environmental impact on dairy farming globally.

DeLaval's Key Sustainability Challenges

Based on the customer's main challenges and our own materiality index, we have identified 12 key sustainability challenges outlined below. Each challenge is driven by a member of our Group Management. During 2020 we will work on setting targets for these challenges.

Environment

Waste and recycling

Sustainable waste management and recycling policies.

Emissions to air

Reduction of carbon emissions throughout the whole value chain.

Natural resources

Usage of materials in a way that does not lead to depletion of natural resources.

Water use

Responsible water use in both products and processes.

Food and Animal Welfare

Food safety

Meet all regulations regarding food safety to ensure milk is safe to consume.

Animal welfare

Extend longevity and improve milk yield by creating the best possible living standards for cows on farms.

Product development

Develop products that increase productivity to help farmers do more with less.

Partnerships

Ethical business partnerships that can help us achieve our corporate goals.

Social and Economic

Diversity and inclusion

An inclusive work environment with equal opportunities for all.

Employee satisfaction & wellbeing

A safe and healthy work environment with an ambition to have zero accident and no work-related illness.

Work efficiency

Develop products and processes that result in more efficient use of resources, while ensuring data security.

Profitability

Make sure both our own operations and our customers' businesses are profitable in the long-term.

DeLaval and the United Nations Sustainable Development Goals

The United Nations has set 17 sustainable development goals as a blueprint to achieve a more sustainable future for all. These goals address the global challenges we face today covering areas such as poverty, inequality and climate change. At DeLaval, we have looked at how we can contribute to these goals based on the challenges facing our customers and our industry as seen in our materiality index. These goals, along with our materiality index and customer sustainability challenges give us a platform to work from and help us focus on our sustainability work.

Within our three sustainability categories, we have identified the following UN Sustainable Development goals and the specific targets that the UN has set for each goal where we believe we can contribute the most.



The United Nations 17 sustainable development goals.

Where DeLaval Can Have an Impact

At DeLaval we believe we can have the biggest impact within the following UN sustainable development goals. Underneath each goal are the specific targets the UN has set for that goal where we believe we can contribute the most:

UN GOAL 2 – ZERO HUNGER

2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.

UN GOAL 5 – GENDER EQUALITY

5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision making in political, economic and public life.

5.C Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels.

UN GOAL 6 – CLEAN WATER AND SANITATION

6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.

UN GOAL 7 – AFFORDABLE AND CLEAN ENERGY

7.3 By 2030, double the global rate of improvement in energy efficiency.

UN GOAL 8 – DECENT WORK AND ECONOMIC GROWTH

8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors.

8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead.

8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

UN GOAL 12 – RESPONSIBLE CONSUMPTION AND PRODUCTION

12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimise their adverse impacts on human health and the environment.

12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

UN GOAL 13 – CLIMATE ACTION

13.2 Integrate climate change measures into company policies, strategies and planning.

13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

UN GOAL 17 – PARTNERSHIPS FOR THE GOALS

17.17 Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

In 2020, we will review and set goals aligned with the UN Sustainable Development Goals.



The goals where DeLaval can have an impact.

RISK MANAGEMENT

03

Risk Management at DeLaval is primarily related to the DeLaval business itself. Below are the risks we have seen from a sustainability point of view and based on our materiality analysis.

Environmental Topics

Risk	Risk Mitigation
TRUST FOR MILK AS A FOODSTUFF The global population is growing and the need for highly nutritious foods is increasingly important to combat global hunger. At the same time, there are growing public concerns over milk, both from an environmental and health perspective.	We work with associations and academic institutions to provide varied scientific facts regarding the nutritional value of milk.
CARBON FOOTPRINT An increasing carbon footprint is risking the environment we work in and the world at large. The dairy industry is also under pressure from consumers to reduce its carbon footprint.	Healthy cows produce more milk per day which can reduce the relative carbon footprint. This aligns with our business objectives: providing products and solutions that let farmers do more with less. Our product development teams have a list of conditions to bear in mind for every new project (see below under Environmental Sustainability). We make demands on our suppliers in this area also.
CHEMICAL SPILL AT OUR FACTORIES This would have a negative environmental impact in the local area but could also have a negative impact on DeLaval's reputation and business.	All necessary precautions are taken to avoid any chance of a chemical spill. We have full and audited environmental controls. We conform to the local legal regulations of the country where our factories are based. We use external independent experts in addition to our staff to improve procedures. We also carry out additional controls with external partners. Our facilities are designed to contain a spillage should it occur and prevent it from reaching the natural environment.
CHEMICAL HAZARDS New evidence concerning hazards with existing chemicals. New potential risks are discovered regularly regarding the use of certain chemicals in processing, whether its potential risk is for the factory operators or in the use of the final finished product.	We work with a Restricted Substances List and keep it updated by monitoring all published material identified of relevance. We comply fully to the REACH regulations.

Food and Animal Welfare Topics

Risk	Risk Mitigation
MILK QUALITY AND FOOD SAFETY Contaminated milk presents obvious risks to consumers, our customers and to our own brand. Food safety is critical for all parts of the dairy value chain.	Our compliance and R&D teams work to ensure that no hazardous or potentially hazardous materials and chemicals are used in or involved in the production of our products. We are using recognised food standards such as food grade stainless steel as specified in food contact legislation.
ANIMAL WELFARE High prevalence of production related diseases in cattle herds.	Focus on development of animal friendly solutions, availability of farm advisors and well trained staff for advice on herd-specific best solutions and support in problem solving.

Social and Economic Topics

Risk	Risk Mitigation
BREACH OF POLICY There is always a risk that our Business Code of Conduct and our policies are not adhered to.	We have a 'whistle blower' policy in place to allow staff report breaches of policy in confidence. We conduct audits and self assessments to ensure that we stick to our Corporate Governance Framework. Our Corporate Governance eLearning course is mandatory for all new employees.
EXCHANGE RATE FLUCTUATIONS These can have a major impact on the consolidated result and shareholder's equity.	Measures are taken to control and mitigate the impact of such fluctuations on contracted and projected operational cash flows, revaluation of foreign subsidiaries' net assets and cash flows related to loans and investments.
FRAUD RISKS This can be fraud in general, electronic fraud and or forgery of financial orders or of signatures on financial documents.	We mitigate this risk via our Internal Control Framework.
CORRUPT BUSINESS PRACTICES We see risks when working with suppliers but also customers operating corrupt business practices.	Our Ethics and Sustainability Principles are also used to mitigate corruption from suppliers. See Corporate Governance below – 'Supplier and distributor commitments' Our Code of Business Conduct is used to mitigate corruption within DeLaval. See Corporate Governance below.

Risk	Risk Mitigation
HEALTH AND SAFETY There is always a risk for accidents whether employees are working – In our factories and offices – On customer's farms	We have safety procedures in place at our own facilities and monitor workplace accidents carefully. We cannot control our customer's environment and operations but have established a new reporting procedure should an accident take place on the customer's premises.
CHILD LABOUR Child labour can occur across the dairy value chain.	We don't accept child labour of any sort. We cut all ties with any business partners that we know are using child labour.
GENDER DIVERSITY Our gender diversity is uneven and is a long-term risk as we are not attracting all the available talent on the market. Gender diversity is an issue for the dairy industry as a whole.	We have several measures in place to deal with the imbalance. Our HR Policy outlines how we encourage gender diversity. Several products we sell make life easier for those working on farms from an ergonomic perspective eliminating the need for physical strength to carry out farm tasks.
ATTRACTING THE NEXT GENERATION There is a generation shift occurring within the dairy industry. The industry, including DeLaval, must be an attractive employer for this new generation of farmers. We already have a gender imbalance and risk missing out on recruiting the best qualified people.	We work together with various branch organisations to promote the industry. Several products we sell make life easier for those working on farms from an ergonomic perspective eliminating the need for physical strength to carry out farm tasks. Our HR policy outlines how we work to create attractive working conditions at DeLaval.

ENVIRONMENTAL SUSTAINABILITY

04



How We Work With Environmental Sustainability

Our work with environmental sustainability is guided by our vision and environmental policy, local laws and by sustainability frameworks.

Based on our materiality analysis we have identified the following as our most important environmental challenges.

- Water use
- Waste and recycling
- Emissions to air
- Natural resources

We look at environmental sustainability from two aspects

1. How we can affect our customer's environmental sustainability
2. The sustainability of our own operations

Our Customers Operations

Our customers are among the five million dairy farmers globally with ten cows or more.

We develop products and solutions that help our customers reduce their environmental footprint, while they improve food production, increase profitability, and enhance the wellbeing of people and animals. It is in the product development phase, that all our main environmental challenges are tackled. That is, we set requirements for water use, waste and recycling, emissions to air and natural resources when developing new products (see *Product Development* on page 24).

Many of our products have shown proven benefits in terms of increased and more efficient milk production, reduced energy consumption and improved animal welfare. When cows are healthy and productive they produce more milk per kg of feed and grass they eat which means the water and land used to produce the feed and to maintain grazing fields are used more efficiently.

It's on the customer side of our business that we believe we can have the biggest impact in contributing to lowering the environmental impact within dairy farming.

All four of our most important environmental challenges men-

tioned above are looked at closely throughout our value chain. See more on *Product Development* on page 24.

Results

Below are a couple of examples of how our latest innovations improve the environmental sustainability of our customers operations.

- The DeLaval Evanza™ milking cluster uses the Clover™ cartridge, which has a lifespan twice as long as conventional liners, reducing waste. Milk flow has been shown to be 9.3% higher on test farms.
- The DeLaval VMS™ milking system V300 has proven on test farms to reduce water consumption by up to 18% and power consumption by up to 34.3% compared to previous models.

Reduces water consumption by up to

-18% 

Reduces power consumption by up to

-34.3% 

Our Operations

Within our own operations we have, to date, chosen to focus on the work at our own factories and distribution centres. In all of our factories we measure waste, water consumption and energy consumption.

We have 14 factories and 8 distribution centres around the world split into:

- Chemical factories. We have eight factories producing chemical products such as udder hygiene teat dips, acid and alkali cleaners as well as sanitisers for milking installations.
- Manufacturing and assembly factories. These eight factories are manufacturing milking and cooling equipment.
- We have eight centres that warehouse our products before delivering to the customer.



How We Measure Environmental Footprint

In 2017, we revised and updated our environmental baseline for all factories and distribution centres. In 2019, we have looked at the accumulated waste, water and energy consumption across all factories and distribution centres to give us a better overview of the entire DeLaval organisation.

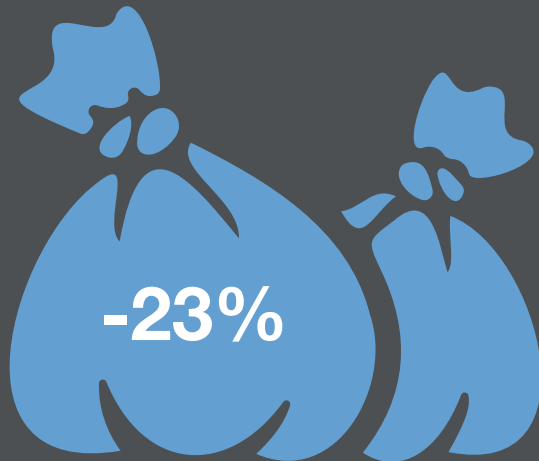
We continue, however, to look at each of our factories on an individual basis and look at our chemical factories, manufacturing and assembly factories and distribution centres separately as there are fundamental differences in waste, water and energy consumption in each. For example, our chemical factories are reliant on water consumption because the products manu-

factured in these factories are mostly water-based. Even within the relatively similar chemical factories there are distinct differences in product output.

The geographical location of our factories also affects the energy consumption due to heating and cooling costs. Additionally, consumption is likely to increase if the volume of an individual location increases. The many variables have led to us measuring factories on an individual basis.

Since 2014 all units have set specific targets for the following year to further drive improvements.

Waste, Water and Energy Results

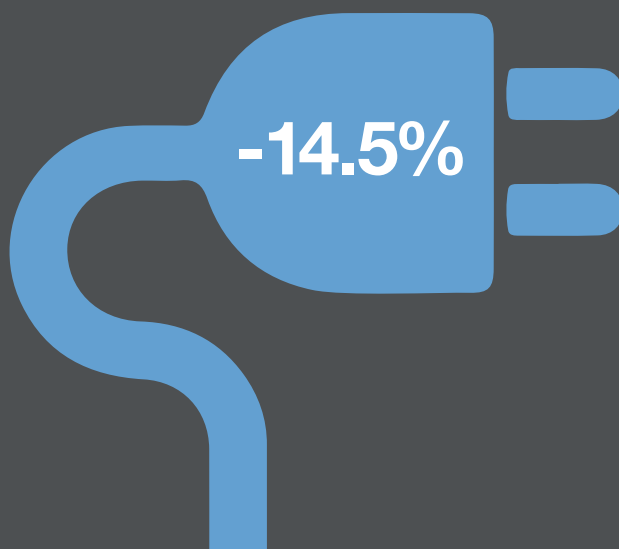


WASTE

- One percent increase compared to 2018, despite production volume increases.
- 23% decrease of waste in our chemical factories.

WATER

- Stable consumption overall. The percentage of waste water continues to decline.
- Our chemical factories consume the most water as they manufacture water-based products such as teat dips, cleaners and sanitisers for milking installations.
- Our manufacturing and assembly factories consume low amounts of water and it comes mainly from employees taking showers.



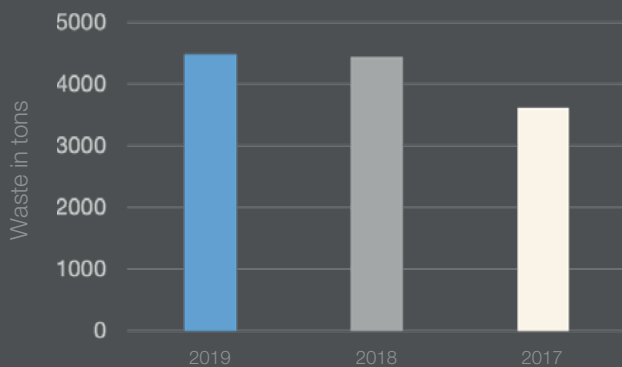
ENERGY

- The total energy consumption for 2019 is the same as 2018, despite production volume increase.
- 14.5% down from 2017.

DELAVAL ENVIRONMENTAL SUSTAINABILITY

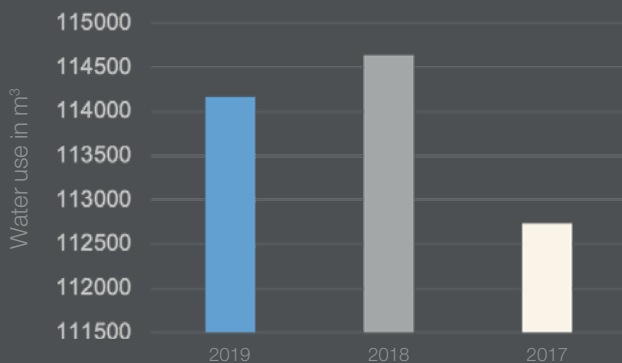
There are fundamental differences in waste, water and energy consumption at DeLaval depending on the factory. Our chemical factories are reliant on water consumption because the products manufactured in these factories are mostly water-based. Despite this, the process cannot be considered as a 'high water consumption' process. The manufacturing and assembly factories consume low amounts of water.

Additionally, factors such as the geographical location of our factories also affects the energy consumption due to heating and cooling costs. Consumption is also likely to increase if the volume of an individual location increases. The many variables have led to us measuring factories on an individual basis. Since 2014 all units have set specific targets for the following year to further drive improvements.



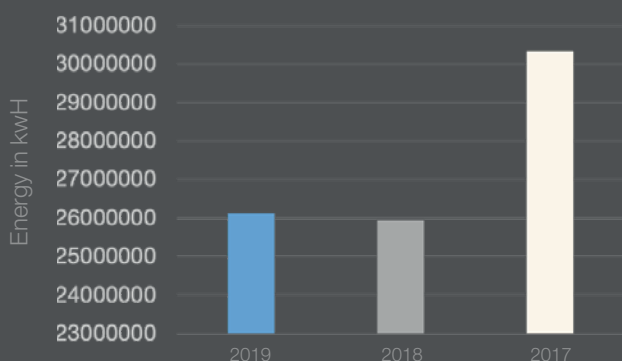
WASTE IS

- Down 23% in our chemical factories.
- Up 10% in our manufacturing and assembly factories due to production increases.
- Up 13% in our distribution centres due to an assortment reduction process.



WATER CONSUMPTION

- Stable consumption in our chemical factories. The percentage of waste water continues to decline.
- Consumption down 2.3% in our manufacturing and assembly factories.
- 24% reduction in water consumption at our distribution centres.



ENERGY CONSUMPTION

- Up 7.5% at our chemical factories due to production volume increases.
- Down 5.5% in our manufacturing and assembly factories despite production volume increases.
- Up 11% in our distribution centres due to increased filter production, picking and packing activities.

Results

Every individual factory and distribution centre initiates its own activities to reduce waste, water and energy use. These include improving insulation, tightening leakages from equipment, replacing lamps with LED lighting, better system management and streamlining of processes. A couple of concrete examples are outlined below.

- 9.2% reduction in plastic foil use at our Wrocław factory.
- Purchase of two new heat exchangers at Grand Prairie factory to eliminate overnight mixing of Chloro and Alkali batches.
- Replacing water chiller and installing new heat exchangers in Des Plaines to reduce water and electricity use.
- 7.6% energy consumption reduction in Tumba head office due to new ventilation.

Actions We're Taking

Each factory has also set targets for 2020. These targets vary depending upon the potential at each factory. The targets include concrete reduction goals and specific activities. For example:

WASTE

- 90% of all pallets to be recycled at the Chillicothe plant.
- Reduce solid waste from GMP production in Tianjin by 52%, repairing damaged wood pallets instead of selling to third parties.
- Investing in a new low-pressure distillations system to help reduce solid waste at our chemical factories.
- Continuing to reduce paper and foil waste in Tumba.
- Optimising consumables used for cooling tanks cleaning in Wrocław.
- Implementing waste classification at Tianjin and El Trébol.

WATER

- Improving CIP (clean-in place) procedures in Jaguariuna.

- Upgrading soft water system in Des Plaines.
- Changing the calibration process on cooling tanks with aim to reduce water consumption by 10% in the Wrocław cooling factory.

ENERGY

- Evaluating new sources of electric energy supply at our chemical plant in Jaguariuna.
- Continuing the implementation of 'Off duty, power off' rule in Tianjin.
- Reducing electricity consumption by 5% in the Gallin distribution centre.
- Completing Environmental Site Assessment to free-up old buildings for future sales at the El Trébol site.

Carbon Footprint

In late 2019, a project began at DeLaval to measure the carbon footprint of the DeLaval supply chain. The goal is to map out the carbon footprint today within parts of the supply chain. This includes transport of goods to and from our factories and distribution centres and internal travel. It also includes emissions at our premises such as energy consumption, waste and packaging.

We will also be looking at the emissions from the materials used in our products and the processes required to produce them.

When this project is complete, we hope to have a clearer picture of our carbon footprint in the supply chain and intend to set targets to reduce the footprint. We aim to complete this project in 2020.

Reducing Emissions

- At our Gallin distribution centre, we have already changed our packaging material which will reduce our carbon footprint in 2020 by 17 000kg CO_{2e} and eventually by 25 000kg CO_{2e}.

FOOD AND ANIMAL WELFARE



05

Our work with food and animal welfare is guided by our vision, local laws and by sustainability frameworks. Based on our materiality analysis we have identified the following as our most important issues with Food and Animal Welfare.

There are four specific areas where we can support animal welfare in the herds of our clients:

- Food Safety
- Animal Welfare
- Product Development
- Partnerships

Food Safety

Food Safety is a critical topic for everyone in the dairy industry. Our work with food safety revolves around ensuring that any product we launch on the market has no negative effect on the milk coming from a farm. This means that we, among other things, follow food contact compliance legislation rigorously. See *product development page 21*.

Compliance with international regulations is also an important part of food safety. Our compliance team works to ensure that all regulations are adhered to and this means working through the supply chain to the suppliers of raw materials or incoming material.

To ensure chemical safety in DeLaval products, all bought components shall live up to the DeLaval Restricted Substances List (RSL) which consolidates the high demands on our products based on chemical legislation, regulations and global agreements, such as REACH, RoHS and POPs (Stockholm convention). The RSL is distributed to suppliers on a regular basis and suppliers are asked to declare in accordance to legislative amendments. For parts in contact with milk in our assortment, DeLaval requires that the materials, additives and colourants used are according to legislation for the applicable regions. For each food contact part, suppliers must provide a self-declaration, based on the requirements stated in the DeLaval Requirements, on materials and products in contact with foodstuffs.

Connected Services

Successful pilot farm projects in the Netherlands, Poland and Sweden will lead to the launch of a connected service to monitor milk temperature and cooling systems in 2020. This will allow farmers make better decisions for servicing, ensure quality and avoid milk wastage as well as quality assurance throughout the value chain to ensure the milk has been handled correctly.

Animal Welfare

Animal welfare is not just important in its own right, but has a direct affect on other high scoring topics in our materiality analysis such as 'long-term profitability,' 'milk quality and food safety' as well as 'product development to improve customer productivity.'

There are four specific areas where we support animal welfare in the herds of our clients:

- Ensuring animal welfare is an integrated part in the development of our products and solutions
- Offering client support through dairy advisors
- Continuous education and training internally and externally
- Research collaborations with universities and organisations

"Food Safety is a critical topic for everyone in the dairy industry. We follow food contact compliance legislation rigorously."

While it is the farmer's responsibility to manage his or her cows and ensure a high level of welfare and health, DeLaval can help by providing solutions that support the farmer in achieving that goal. We include scientific knowledge in our product development to provide solutions that:

- Milk cows efficiently and gently
- Monitor cows for early disease detection and efficient reproductive performance
- Prevent diseases through animal-friendly barn environment solutions
- Prevent diseases through measures that reduce the risk of infections originating from the cow environment or the milking system

Innovations in Robotic Milking

In 2019, we upgraded our latest DeLaval VMS™ with the DeLaval VMS™ 310, the first milking system that automatically confirms pregnant cows. This can result in healthier cows and reduced veterinarian costs due to cows becoming pregnant at the right time with more productive lactations.

LONGEVITY – PRODUCTIVE LIFETIME YIELD

Healthy and happy cows are profitable cows and also fulfills consumer and society expectations on animal welfare. Increased lifetime productivity also increases environmental sustainability, as resource and emissions intensities, per kg of milk harvested, are reduced.

How We Measure Progress Within Animal Welfare

We lack a global goal for measuring progress within animal welfare as the measurement must occur on our customers premises and each farm will have specific conditions that can affect an animal's wellbeing. It is therefore difficult to collect consistent information on animal welfare from farms and even more difficult to evaluate progress.

However, our cow comfort assortment for example, is developed based on the latest scientific findings. The assortment is developed to:

- Improve lifetime productivity
- Reduce disease, lameness, fertility and nutritional problems
- Indirectly reduce the use of antibiotics on a farm

Results

While no globally available data on animal welfare progress in our customers' farms is yet available, we can see what improvements have been made in individual farms through information from our dairy advisors, field studies, service and other close collaboration with our customers.

Actions We're Taking

- We had 63 dairy advisors in 2019. These advisors help our customers globally and focus on animal welfare, production efficiency and cow longevity.
- We have a protocol in place in the US for how to deal with a farm when we witness poor animal welfare. This methodology has been created together with the American Farmers Association. We are looking at how to apply this to other regions.
- Cluster EMEA launched a marketing campaign to raise awareness of how cow longevity can boost profit. The customer-targeted campaign focused on longevity, cow cooling, farm management and reproduction.
- All of our products that are being developed always start with the health and welfare of the cow. This is always number one as a healthy cow is a productive cow.

PRODUCT DEVELOPMENT

Every time a new product is developed at DeLaval, a large set of requirements are made in the earliest development phase. Throughout development, a series of checkpoints and gates are put in place to ensure all requirements are being met.

Within this large number of requirements are sustainability issues such as energy consumption, consumption of detergents, running costs, compliance requirements, safety requirements etc. Sustainable food production is central to all product development.

We have seen that our latest DeLaval VMS V300™ results in 10-15% more milk, which in turn means that the farmer can produce more milk with a smaller footprint.

Additionally, we strictly follow all global compliance requirements. This relates to both food compliance standards but also the use of chemicals and materials as well as recycling. The list of global requirements constantly change and we have a team in place monitoring the added requirements made by different nations and organisations. Many of our own internal requirements go beyond the global requirements that exist. For example, we add in an additional series of energy and water consumption requirements ourselves.

Below is a list of some of the categories our product development teams look at:

- Electricity consumption of the product when in use
- Fresh water consumption and the waste water impact related to the use of the product
- Use of all materials in the solution and production of the product to ensure no potentially hazardous substances are used
- Assurance that applicable laws are complied with
- Assurance that milk quality is high and the food is safe to consume
- Assurance that products and processes are safe to use for our customers, suppliers and our own employees
- Working conditions related to the operation and service of the solution
- Prevention and reduction of waste
- Animal welfare improvements resulting from the use of the solution

PARTNERSHIPS

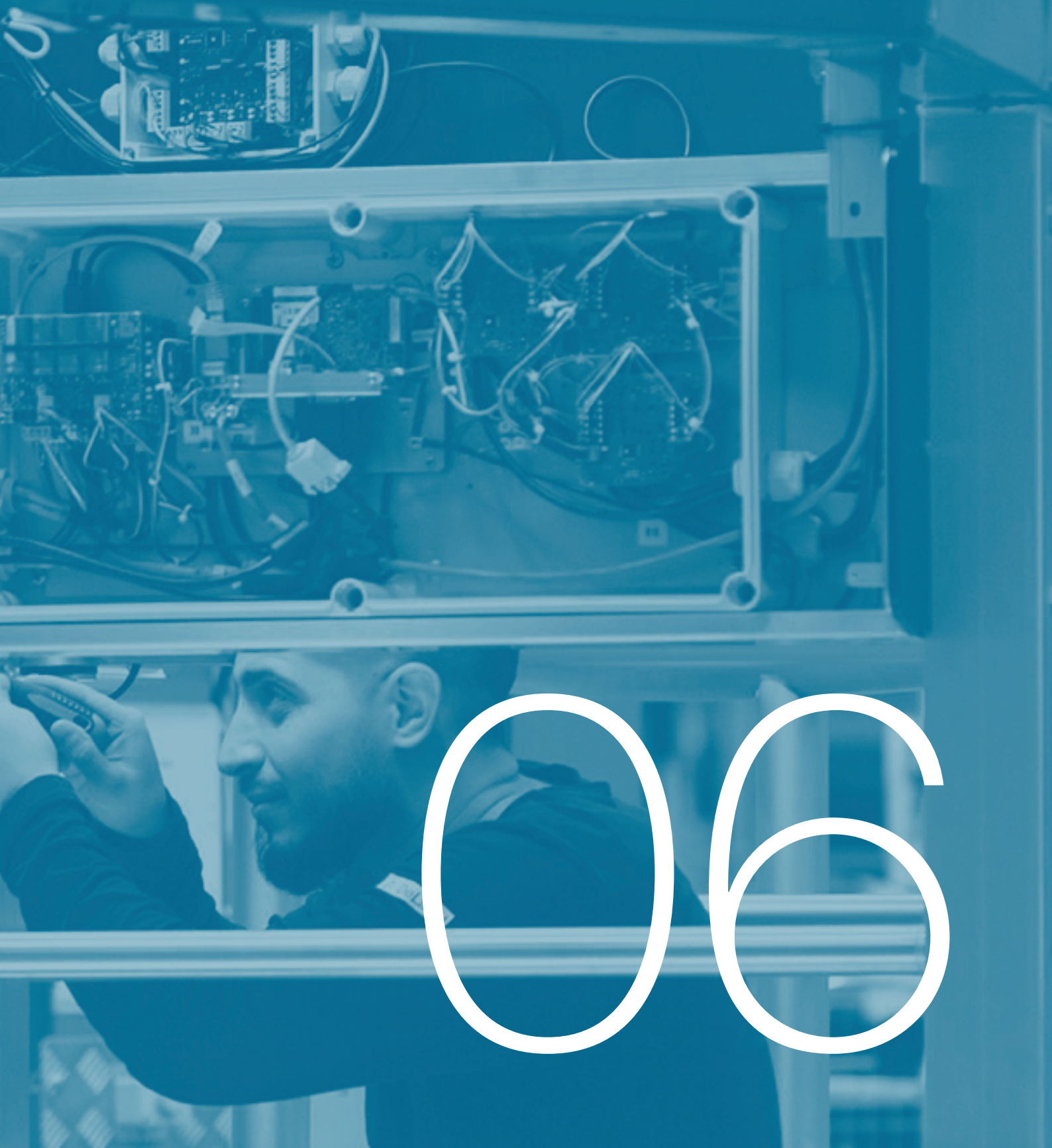
We work in partnership with a number of organisations and academic institutions to help us realise our vision to make sustainable food production possible. This includes associations such as the International Dairy Federation (IDF), Global Dairy Platform (GDP) and European Dairy Farmers (EDF).

We work with universities across the world such as Kiel University in Germany, Cornell University in the US and the Swedish University of Agricultural Sciences.

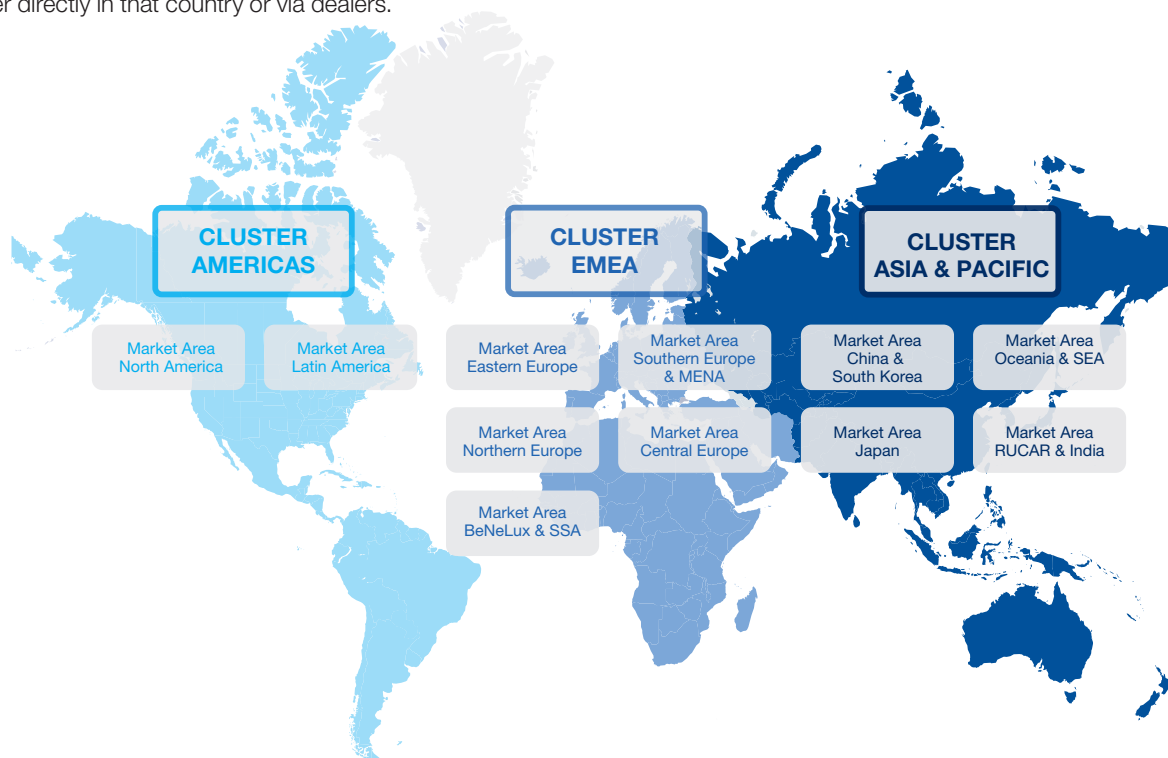
We are also part of the Tetra Laval Food for Development Program.

In addition, we work in partnership with many suppliers. See more under *Social and Economic Sustainability*.

SOCIAL AND ECONOMIC SUSTAINABILITY



There were 4 697 employees at DeLaval on 31 December 2019. We serve over 100 countries globally working either directly in that country or via dealers.



How We Work With Social and Economic Sustainability

Our work with social and economic sustainability issues are guided by our vision but in more practical terms, by our Corporate Governance Framework that includes our:

- Code of Business Conduct
- Corporate Governance Policies
- Other policies and guidelines such as HR policy, policy on whistle blowing, occupational health and safety policy, etc.

“All new DeLaval employees take a Corporate Governance e-learning course. This is available in 11 languages.”

Corporate Governance

The Corporate Governance Framework of DeLaval (the Framework), sets the baseline for how we act in our operations worldwide, internally as well as in our external relations.

The Framework is key to the sustainable and successful business of DeLaval. It is developed and mandated by the Board and implemented by DeLaval’s Group Management. The Framework consists of the following components:

- Roles and Responsibilities
- The Code of Business Conduct
- Corporate Governance Policies
- Controls

ROLES AND RESPONSIBILITIES

The Roles and Responsibilities define the areas of responsibility of different bodies and functions within DeLaval. Through the Roles and Responsibilities, the Board delegates to our CEO the responsibility to implement and enforce compliance with the Code of Business Conduct, the Corporate Governance Policies and all other parts of the Framework.

Top-level operational commitment to the Framework is secured by assigning a Group Management team member as owner of each Corporate Governance Policy. A Corporate Governance Council, reporting to Group Management, supports the governance of the Framework and the management of corporate governance matters in DeLaval.

THE CODE OF BUSINESS CONDUCT

The Code of Business Conduct covers, amongst other areas, compliance with laws and regulations, health and safety in the workplace, anti-discrimination, confidentiality and information management, conflicts of interest, anti-corruption and anti-bribery, prevention of child labour and forced labour, export control and trade compliance.

CORPORATE GOVERNANCE POLICIES

The Code of Business Conduct is further supported by the Corporate Governance Policies, which in more detail sets standards for DeLaval’s operations in the various areas covered by the Code of Business Conduct.

The Corporate Governance Policies include policies on areas such as Confidentiality and Information Management, Risk Management, Conflicts of Interest, Whistle Blowing, External Audits and Internal Audits.

Below are extracts from our policies dealing with the issues of anti-corruption and human rights.

Anti-Corruption

Under our anti-corruption commitment, we require all employees and companies of the DeLaval Group to refrain from offering, paying, requesting or accepting any form of illegitimate contribution. It equally bans the requesting of any customer or supplier to do the same.

Human rights

DeLaval supports and respects the principles set out in the Universal Declaration of Human Rights as well as the Children's Rights and Business Principles.

The Code of Business Conduct, Corporate Governance Policies and other supporting documents and information within the scope of the Framework are easily accessible to all our staff through our intranet.

CONTROLS AND TRAINING

The Controls set the framework for the controlling and supervising of the adherence to the Code of Business Conduct, the Corporate Governance Policies and other supporting policies and guidelines.

The yearly Management Declaration signed by our CEO and Group Management assures the Board the conformance to the Framework. The CEO and Group Management in turn verify conformance through signed Management Declarations, annual Control Self Assessments and quarterly confirmations regarding compliance with specific corporate policies, submitted by the managing director of each DeLaval legal entity.

The internal audit team of Tetra Laval, in addition to external auditors, provides further comfort that the Framework is adhered to across the DeLaval Group.

Our staff is encouraged to escalate breaches of the Framework or other serious inappropriate behaviour that comes to their knowledge. Such escalations may be made to higher level management, HR, Legal Affairs or under our whistle blowing policy. An employee "blowing the whistle" in good faith is explicitly protected from disciplinary actions or other consequences related to the whistle blowing. In mid-2019, we imple-

mented a new whistle-blowing tool to facilitate and enable employees to report issues more easily. The new tool is available in more languages than our previous system and is easier to use.

Since implementation, we have seen very little use of the tool and are working on communicating its existence internally to increase awareness, but also recognise that concerns are raised and addressed in the line organisation and support functions, which we continue to encourage.

As part of the onboarding program, all new DeLaval employees take a Corporate Governance e-learning course. This e-learning training is available in 11 languages and covers areas such as anti-corruption, workplace safety, conflicts of interest, non-discrimination, protection of assets and confidential information. In addition, a key element of the training is to explain how suspected non-compliance can be reported, e.g. through whistle blowing.

A global web-based compliance program was launched during 2018. Some of the courses were launched to all DeLaval staff globally while others were offered to targeted units or groups in DeLaval. The program consists of training in various domains, including a general corporate governance training, occupational health and safety and data privacy. The targeted areas in 2019 included whistle blowing, professional conduct in the workplace and conflict of interest. In 2019, 72% of all DeLaval employees completed the Corporate Governance e-learning course.

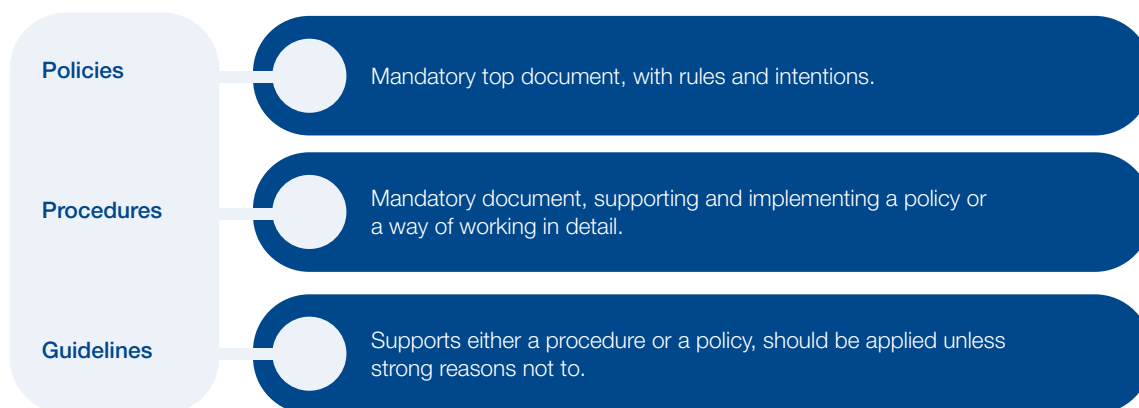
SUPPLIER AND DISTRIBUTOR COMMITMENTS

In an integrated value chain, we believe customers and suppliers must work closely together to reduce end-to-end impacts. DeLaval therefore requires its suppliers and distributors to commit to a high standard of performance in relation to sustainability, including environmental protection, anti-corruption, freedom of labour, compliance with laws and regulations, product safety and compliance with regulatory requirements. This commitment is a contractual obligation of the suppliers and distributors of DeLaval. A breach of this undertaking is considered a material breach of contract.

We request that all our suppliers sign and live by our Ethics and Sustainability Principles. We either have signed agreements with our suppliers (85% of the total spend by the Global Sourcing team) or we purchase from suppliers under our General Terms of Purchase that also includes our Ethics Sustainability principles.

Policies, Procedures and Guidelines

Each policy, procedure and guideline can be valid globally or locally. Every document has an owner, shall have a documented approval and be subject to regular review after release.



Our Key Social and Economic Challenges

Our key challenges based on our materiality analysis are the following:

- Diversity and Inclusion
- Employee Satisfaction and Wellbeing
- Work Efficiency
- Profitability

Diversity and Inclusion

This topic includes gender and age diversity and equal opportunity. The companies within the DeLaval Group recruit, employ and promote employees on the sole basis of their qualifications and ability. There shall be no discrimination on the grounds of religion, social standing, origin, gender, sexual orientation or political belief. DeLaval promotes the idea that all employees shall be treated with equal respect and dignity and shall be provided with equality of opportunity to develop themselves and their careers. Diversity benefits DeLaval's continuous development and innovation and we promote an inclusive and diverse culture.

The DeLaval Group does not tolerate physical or mental harassment or abuse in the workplace. Equality also entails zero tolerance of sexual harassment and other gender-based offences. DeLaval does not tolerate behaviour, including gestures, language and physical contact, that is sexually coercive, threatening, abusive or exploitative in the workplace.

Results

Age distribution

We monitor age distribution on various levels throughout the company. Overall, we have a healthy age distribution.

Gender distribution

The percentage of female employees at DeLaval remains at 21%, the same as 2018. The percentage of female managers is also at 21% and this is an increase on the year before (18%). Our gender distribution remains stable but is imbalanced and we need to improve significantly.

Actions We're Taking

Following on from our diversity inclusion strategy in 2018, we have initiated several activities in 2019.

- We have worked a lot with awareness-raising activities including webinars on the topics of unconscious bias, inclusive leadership and common myths about diversity and inclusion.
- An updated recruitment policy to help eliminate unconscious bias. The policy now includes a guideline stating that when shortlisting, an equal number of male and female candidates are on the shortlist.
- We have established three Employee Resource Groups focusing on Gender Diversity. Women in Blue (US), DAWN (Swe) and One DeLaval Diversity and Inclusion Group (China). These groups are working on ensuring equal opportunities and room to grow with a focus on female employees.
- We have set the goal that 25% of our workforce will be female by 2025 with the same percentage of female managers.

Employee Satisfaction & Wellbeing

This topic includes occupational health and safety, the working environment, employee satisfaction and engagement, income and psychosocial work environment.

Occupational Health & Safety is a high priority. DeLaval operates in an industry that is challenged with many potentially dangerous situations. Not only in our industrial operations but also for our sales staff, installation teams and service technicians on farms who often operate in remote and challenging conditions. DeLaval has a clear ambition to achieve zero incidents and accidents.

We have safety procedures in our own facilities that are under constant review and we adjust whenever improvements are apparent. We follow all the legal regulations of the country in which we are present. We receive regular audits and in addition use external partners to provide extra consultation and auditing.

“Our goal is zero work-related illnesses and accidents.”

Actions We're Taking

A dedicated Global Occupational Health and Safety Director was employed in 2019 to tackle the issue of Occupational Health and Safety. A clearer and easier way to report accidents and incidents was also introduced. In addition, a new governance structure was put in place to allow employees have a say in how they can operate in the safest way.

We also offer online training to all staff in the area of Occupational Health and Safety.

In 2019, we introduced an e-learning course in Professional Conduct which is mandatory for all staff. Code of Conduct

e-learning training is also mandatory for all new employees. 75% of all employees have taken both courses to date.

Results

STAFF TURNOVER

Staff turnover in 2019 was 12.7%. This is a slight reduction from 2018 (14%). One third of our staff turnover was involuntary and the remainder voluntary.

EMPLOYEE ENGAGEMENT

A new employee engagement survey was carried in 2019. 87% of all staff responded to the survey, a figure much higher than the average in corresponding companies.

87% responded that they believe DeLaval is a company free of discrimination and harassment. This figure is 22% higher than the average.

92% of our employees are favourable to understanding how the work that is done on a day to day basis impacts our customer and how the department contributes to the success of the company.

HEALTH AND SAFETY

62% of employees believe DeLaval is a safe place to work. This is 9% higher than the manufacturing average. We believe however that this figure must be improved and are taking actions to do so. See below.

No accidents causing permanent disability or worse have occurred since 2010.

There were 36 accidents in 2019 that resulted in an employee being absent from work for one day or more. These range from small cuts to bruised and broken fingers to serious car accidents. This figure is higher than 2018 (17) and similar to 2017 (37).

For the majority of accidents, new safety measures are introduced as a result or existing safety measures are reinforced. Most accidents occur due to unsafe behaviours or unsafe conditions.

Work Efficiency

We strive towards developing products and processes that result in less resources being used and boosting profits.

Work efficiency is also a key topic for environmental sustainability and social and economic sustainability as it revolves around doing more with less. The heart of our work at DeLaval is focused on developing products and improving processes so that less resources can be used and our customers and our own profits can improve. Much of our business strategy revolves around this topic. Improving efficiency provides environmental benefits but is also aimed at ensuring the long-term profitability of our own operations and that of our customers.

Actions We're Taking

Internally, we recognise that we need to improve the timeliness of our decision-making and move faster from idea to implementation. One of the ways we plan to improve upon this is by changing our own organisational structure to allow for more timely decision-making. We're also reviewing our corporate governance structure to allow for this.

The 2019 employee engagement survey also confirmed that this is an area of improvement that warrants attention.

Results

We have countless innovations on the market that have been proven to improve the efficiency of farm operations from automated milking and feeding systems to better and gentler liners that improve milk extraction and animal welfare. Please check: <http://www.delavalcorporate.com/our-products-and-services/>

Profitability

We work to make sure both our own operations and our customers' businesses are profitable in the long-term. Farm profitability is an important part of long term sustainability.

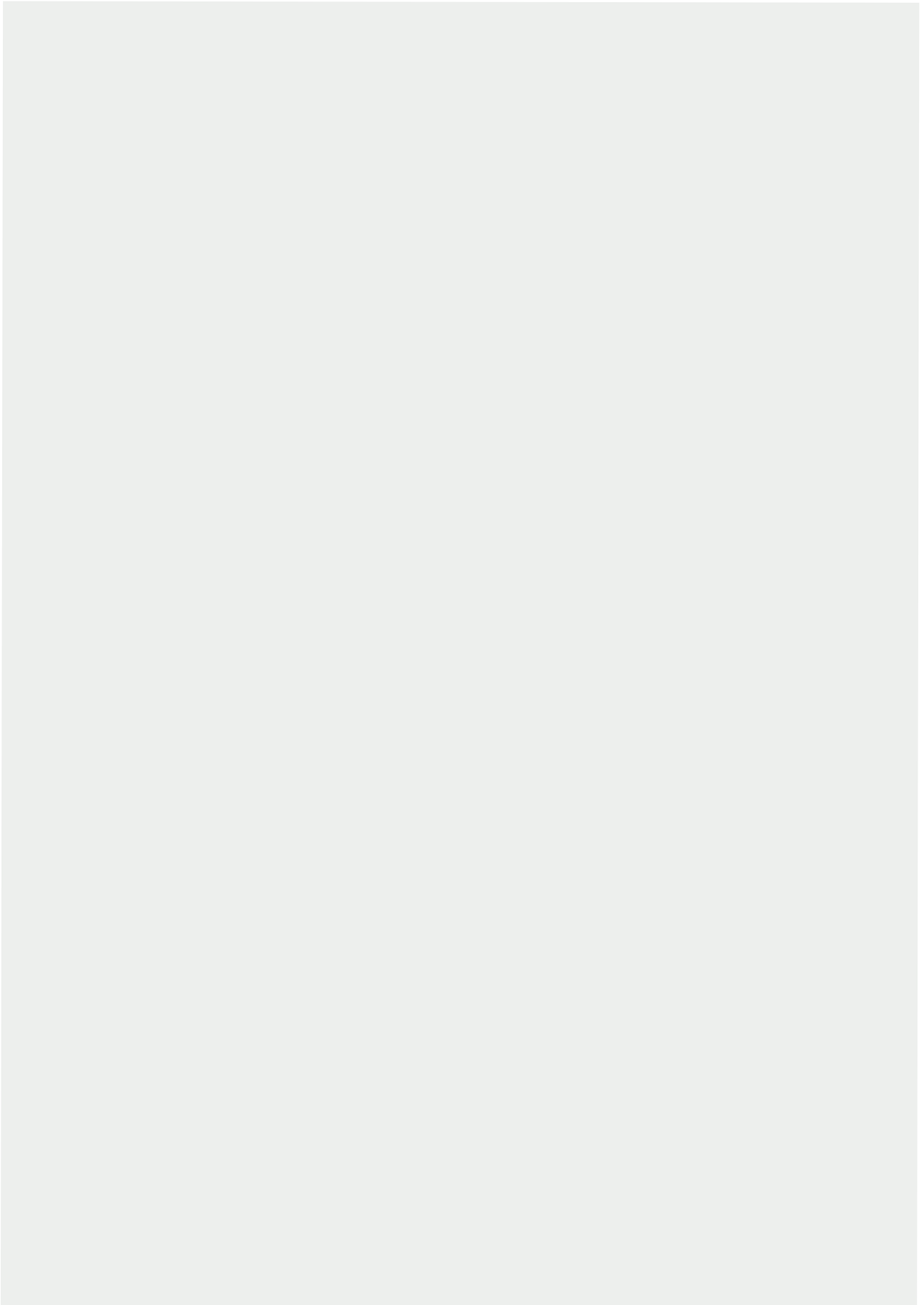
Our sustainability model is based on helping our customers and ourselves maintain a profitable business in the long-term. By providing farmers with solutions that make their farms more efficient, we provide a way of creating more environmentally sustainable operations but also more profitable operations. These two factors align as farms that produce more milk per cow have a lower environmental footprint and at the same time are more economically sustainable businesses.

Animal welfare, mentioned above, is also a key factor in this model as the better a farm takes care of its animals, the more productive those animals are. Healthy animals also require less medical intervention and can help a farmer reduce costs in this area. Better quality milk also leads to higher milk prices for the farmer and therefore improved income.

Our products and solutions are developed to meet the above criteria.

Read more about the financial year at DeLaval here: <http://www.delavalcorporate.com/DeLaval-company-about/>







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