



Sustainability Report 2018

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This is DeLaval's sustainability report for the reporting period 2018 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 complete 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 four main perspectives.

Animal Welfare is about extending the productive lifetime of the cow. This is one of the best things we can do to reduce environmental impact in the dairy sector. Animal Welfare is the part of our sustainability model that is specifically related to our customers.

By providing better conditions for the animals, farmers can improve the animal's health and thereby the farm's operations in several ways such as:

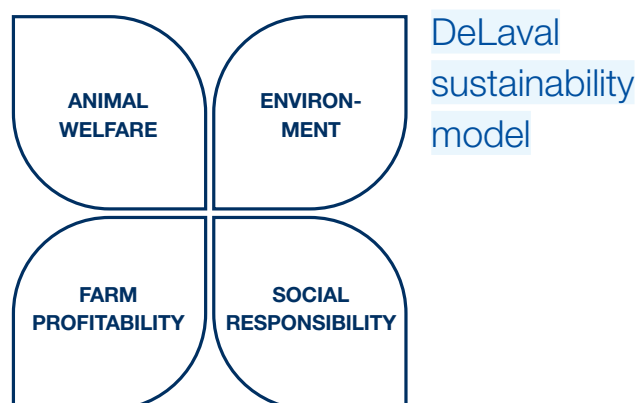
- Improved milk yield
- Better milk quality
- Less waste
- Less use of pharmaceuticals

Environmental sustainability is about taking a long-term perspective while using the latest scientific insights and technologies to improve the resource efficiency of our customers' operations and also our own. The aim is that common natural resources and materials are used to provide sustainable, safe and healthy lives for all humans.

Economic sustainability is about helping our customers and ourselves maintain a profitable business in the long term.

It means ensuring a steady revenue, reducing costs and improving cash flow while minimising financial risks.

Social sustainability is about respecting and advancing Human Rights as they are defined by the UN. For us social sustainability means creating good working conditions for our employees and for those working on farms. Food Safety also falls under this category. Sustainable food production can only occur if the food is safe to consume.



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 1.29kg.

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 impact on the environmental impact of dairy farming globally.

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 delegate 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 examples of our policies in the areas 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 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 under our whistle blowing policy. An employee "blowing the whistle" in good faith is explicitly protected from disciplinary actions or other HR consequences by reason of whistle blowing.

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, eg. 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 include whistle blowing, harassment in the workplace and conflict of interest. In 2018 72% of all DeLaval employees completed the Corporate Governance e-Learning course.

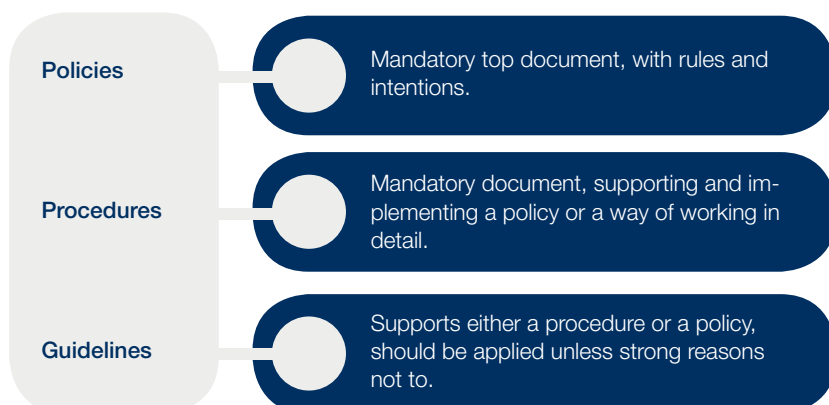
SUPPLIER AND DISTRIBUTOR COMMITMENTS

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.

Policies, Procedures and Guidelines

On top of our fundamental Corporate Governance Policies, DeLaval has specific policies, procedures and guidelines to further support our work. This includes, among others, an Environmental Policy, Health & Safety Policy, HR Policy, Product Safety and Food Safety Policy.

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.



WHAT IS MATERIAL TO US?



In 2018 we conducted a new series of interviews with key stakeholders in the dairy industry as well as with employees at DeLaval. Previously, we looked at both our customers' operations and our own. We have now come up with a new list of sustainability topics, which differ somewhat from previous years.

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. We also spoke to key individuals from Group Management, our Business Areas and services organisation, Sales, Supply Chain, our Milk Quality and Animal Health division, R&D as well as other internal experts.

This updated materiality index is used in our day to day running of the organisation and will be incorporated in our business strategy.

Together with our stakeholders, the graph shows what topics we believe are most important to us. They are divided into four categories.

- Dairy specific
- Social
- Responsible Business
- Environmental

UNDERSTANDING THE INDEX

The illustration above shows that the topics highest up on the illustration (the y-axis) are ones that are most important to our stakeholders. The topics on the far right (x-axis) are the ones that we at DeLaval believe we can make the biggest impact.

For example, the Dairy Specific topics have been highlighted by our stakehold-

ers as highly important. They also rank highly internally at DeLaval. In this area there is no discrepancy between what we do and what our stakeholders believe we should do.

The Responsible Business topics are deemed to be somewhat less important to our stakeholders compared to the Dairy Specific topics. At the same time,

they are an integral part of our own operations that we work with on a daily basis.

The Environmental topics are ranked highly by our stakeholders and are clearly important for us but we also see that we have a limited impact in this area as we are very much dependent on what happens on the farm.

DELAVAL

RISK MANAGEMENT

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.
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.

Dairy Specific 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.

Responsible Business 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. All new DeLaval employees take a Corporate Governance eLearning course.
Exchange rate fluctuations 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 above – Supplier Commitment. Our Code of Business Conduct is used to mitigate corruption within DeLaval. See Corporate Governance above.

Social Topics

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.

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 issues.

- Water
- 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

We have more than one million customers around the world. 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.

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.

PRODUCT DEVELOPMENT

Our product development teams consider the following categories, depending on the product is being developed.

- 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.
- Working conditions related to the operation and service of the solution.
- Prevention and reduction of waste.
- Animal welfare improvement resulting from the use of the solution.

OUR OPERATIONS

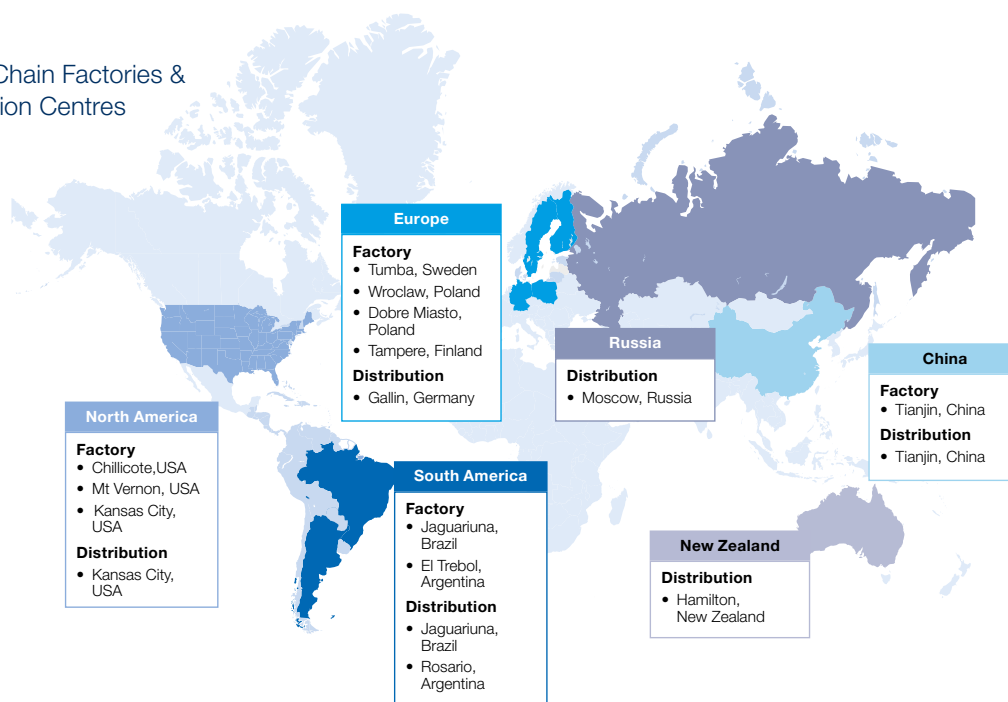
Within our own operations we have chosen to focus on the work at our own factories and distribution centres. This is where we believe we can make the biggest impact on our own environmental footprint.

In all of our factories we measure waste, water consumption and energy consumption.

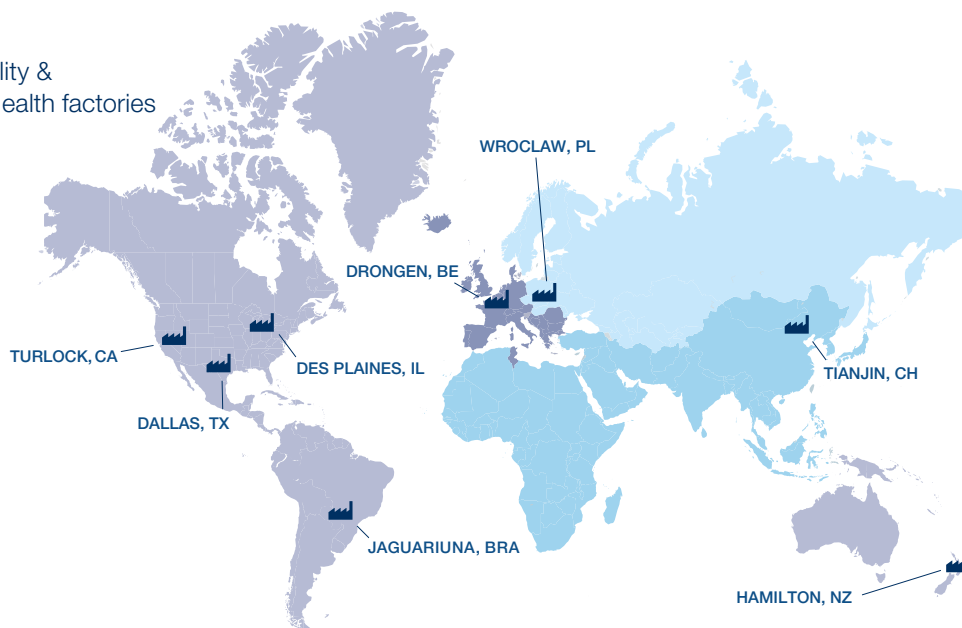
We have 18 factories and 7 distribution centres around the world split into:

- Milk Quality and Animal Health (MQAH) factories. These eight factories are producing chemical products such as udder hygiene teat dips and acid and alkali cleaners and sanitisers for milking installations.
- Supply Chain factories. These ten factories are manufacturing milking and cooling equipment, ie. hardware for dairy farms.
- We have seven centres that warehouse our products before delivering to the customer.

Supply Chain Factories & Distribution Centres



Milk Quality & Animal Health factories



How we measure environmental footprint

In 2017, we also revised and updated our environmental baseline for all manufacturing and distribution centres. We will be working with this baseline for future measurement. In other words, we have no global measurements for waste, water and energy consumption but rather each individual factory has had its own method of measuring, making year on year improvements independently.

There are fundamental differences in waste, water and energy consumption when comparing the MQAH factories to the Supply Chain factories. For example, our MQAH 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 Supply Chain factories consume low amounts of water.

Even within the relatively similar MQAH 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

Below is a list of the waste, water and energy consumption from our factories and distribution centres. The figures almost always reflect the size of our factories. That is, the larger factories are the ones with the bigger footprint in all of the categories below.

Waste

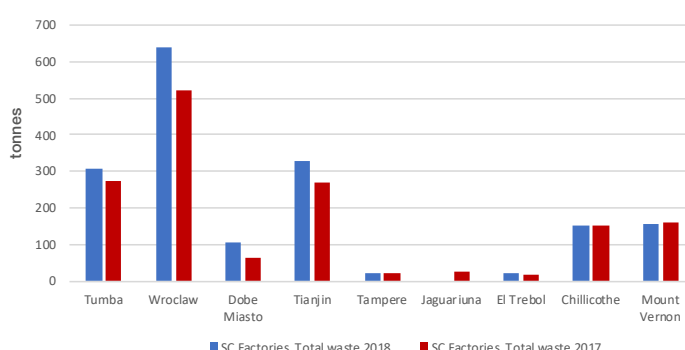
SUPPLY CHAIN FACTORIES

Our Wrocław factory is by far the biggest and this is reflected in the results. Total waste in Wrocław increased by 18.4% compared to 2017. This is mainly due to a 24% increase in production volumes.

Waste in the Dobro Miasto factory increased by 41% compared to 2017. This was due to three main factors: Production volumes increased by 14%. The facility went from two to three painting services in 2018 resulting in more cleaning. Active carbon is used for cleaning of the painting services.

There were also increases in metal scrap. We have changed our processes here. We are now cutting more metal ourselves and therefore handling more waste. Previously, this cutting was done by subcontractors and the waste was managed there.

Supply Chain Factories, Total waste



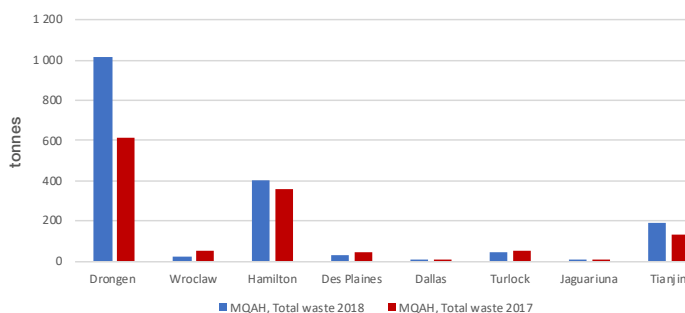
MILK QUALITY ANIMAL HEALTH FACTORIES

Solid waste including packaging is very limited from all plants due to the nature of the materials used and the recycling of materials in place.

Drongen and Hamilton, and to some degree Tianjin have higher reported waste due to the fact that a proportion of their waste water is treated offsite by a certified third party. Drongen has seen a rise in waste output in 2018 as additional rinsing protocols have been added for one range of products.

The Environmental Protection Agency (EPA) in the US no longer considers Des Plaines, the largest MQAH chemical factory in the group, a waste water producer or hazardous waste generator due to initiatives taken in last three years.

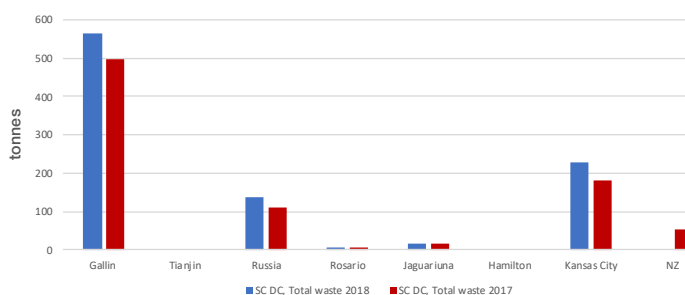
MQAH Factories, Total waste



DISTRIBUTION CENTRES

Gallin is by far the biggest distribution centre covering an area of 57,000 m². The energy figures in Gallin for 2017 also include the energy consumption at the Glindé distribution centre which was shut down in 2017. However, total production volumes have increased in 2018 compared to 2017 resulting in a marginal rise in waste at Gallin.

Distribution Centres, Total waste

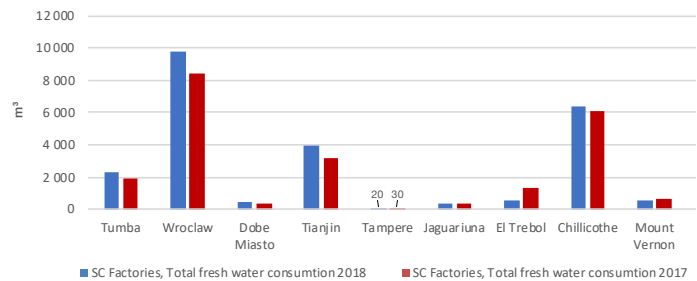


Water Consumption

SUPPLY CHAIN FACTORIES

Water consumption in our factories comes mainly from employees taking showers. We have more than 300 employees in Wroclaw and less than 50 in most of the other factories.

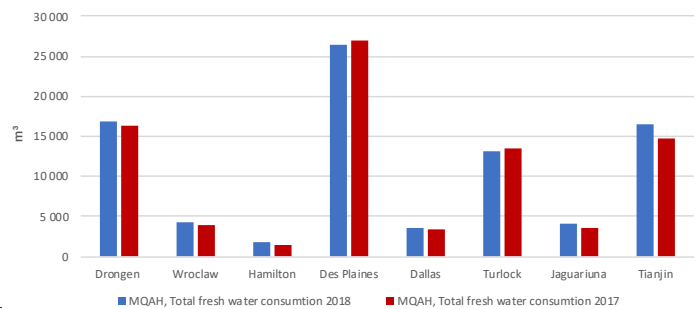
Supply Chain Factories, Total fresh water consumption



MILK QUALITY ANIMAL HEALTH FACTORIES

Drongen, Des Plaines and Turlock are higher total water consumers due to the volume of production at those factories. Tianjin uses a significant percentage of total water for cooling towers which are not used in other factories. Additionally, fresh water consumption increased in Tianjin in 2018 due to a 40% increase in production output.

MQAH, Total fresh water consumption

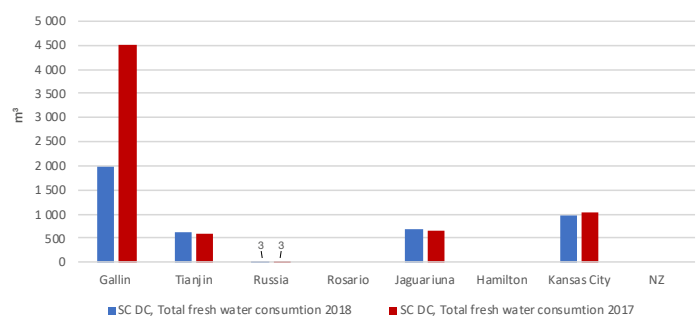


DISTRIBUTION CENTRES

See the comment regarding waste for the distribution centres above. The same applies here.

On top of the parallel operation with Glinde, Gallin was operating in three shifts for roughly four months to eliminate a backlog. In 2018 the operation was back to two shifts again, so the water consumption was significantly lower than in 2017.

Distribution Centres, Total fresh water consumption.



Energy Consumption

SUPPLY CHAIN FACTORIES

Wroclaw is the largest factory and thereby consumes the most energy. There are also different kinds of processes at our factories. Wroclaw runs a lot of equipment that consume energy while our Tumba factory works only with assembly.

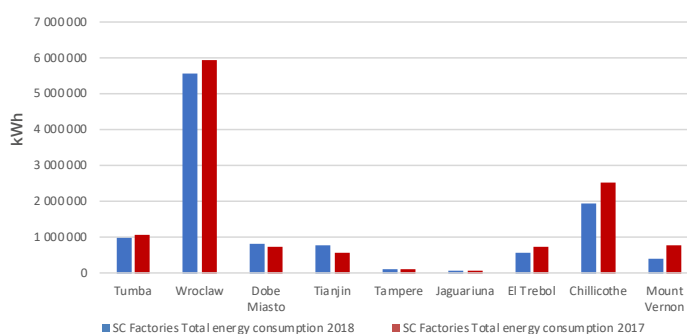
Total Energy consumption in our Wroclaw factory was reduced by 7% compared to 2017.

Electric energy consumption increased by 14.6% due to a 24% increase in production volumes but energy consumption from heating was reduced by 34% due to a dedicated energy reduction initiative; the insulation of pipes at the factory. See below in 'Actions We're Taking'.

In Dobre Miasto, energy consumption increased by 9.3% due to a 24% increase in production volumes.

In Chillicothe, energy consumption was significantly reduced by 23% due to preventive maintenance work at the plant.

Supply Chain Factories, Total energy consumption



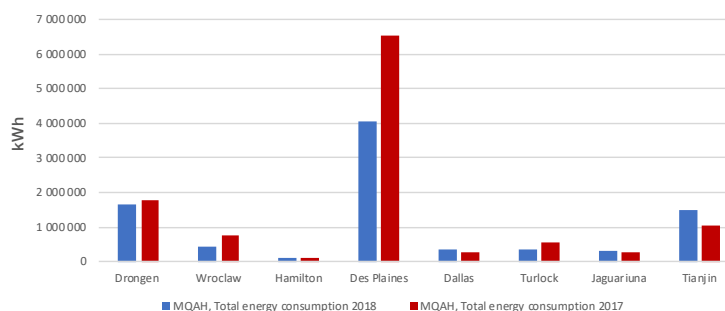
MILK QUALITY ANIMAL HEALTH FACTORIES

Drongen, Des Plaines and Tianjin all use surfactant chemicals in high volumes. These need to be stored at a high temperature (in hot boxes) which is the main consumer of energy at these factories. In addition, Des Plaines and Tianjin are situated in geographical areas that need heating in the winter periods.

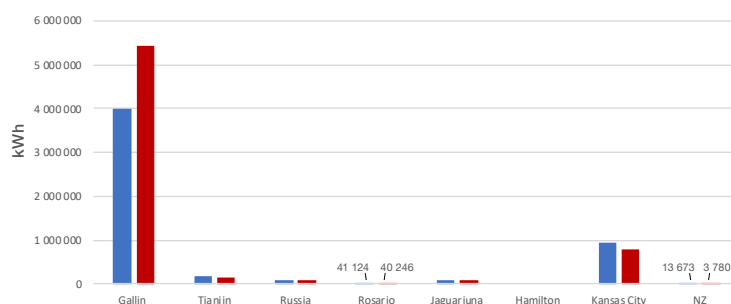
In Tianjin, energy consumption increased in 2018 due to a 40% increase in production output.

In Des Plaines, the energy consumption figures are considerably lower than the previous year due to a re-evaluation of energy consumption flows at the facility. The 2018 figure reflects a better allocation of energy consumption at the facility.

MQAH, Total energy consumption



Distribution Centres, Total energy consumption



DISTRIBUTION CENTRES

See the comment regarding waste for the distribution centres above. The same applies here.

Actions We're Taking

Every factory and distribution centre has its own specific actions. Below is an example of some of the actions being taken in our factories.

WASTE

- Reducing packaging materials and using more reusable packaging.
- Changing production technology at Dobrze Miasto and Wrocław to reduce the use of plastic foil that is used to protect stainless steel during processing. Despite the volume increases in 2018, the amount of foil was reduced by 3.3 tonnes, a 9.2% reduction on the previous year.
- Reducing packaging materials and using more steel carriers for bulky material with reusable covers.
- Paper cups and plastic cups for water and coffee generating 150 kg of waste each week at the Tumba factory. These are being replaced by reusable ceramic cups and refillable water bottles.
- Repairing damaged pallets and reducing non-standard pallets in our Polish Supply Chain factories has led to a 12% reduction in wood scrap compared to 2017.
- Optimising the warehouse management system at Gallin to find the best (ie. smallest) package for every delivery.

WATER CONSUMPTION

- Greywater usage for toilets.
- High-efficiency flush fixtures.
- More efficient tank washing procedures and batch production to reduce water waste in the MQAH factories. Improvements in CIP (Clean in place) cleaning is ongoing and showing results in selected factories.
- Reducing heating & changing the concept of gate closure during cold months at Gallin.
- Tap water aerators implemented in our Polish Supply Chain factories.
- Very limited grass watering at our Turlock and Tianjin facilities.

ENERGY CONSUMPTION

- Replacing older lighting systems with LED lighting systems. This is ongoing in our MQAH factories with Jaguariuna achieving a 1.5% reduction in electricity usage for the 12 months following the change.
- Using gas energy for hot box heating. Changes have been made in Des Plaines with a clear drop in energy consumption.

- Additional fans will be placed in the ceiling in the Tumba Factory to create a better climate and save energy.
- Plan to put in measuring equipment in the Tumba Factory for electrical consumption on several units to see where and how much power is used in order to work with improvements.
- Heating system Wrocław plant: Pipes insulation replacement, lockers on radiators where it is necessary, better system management, reduced temperature in departments where it is where possible.
- Electric energy Tumba plant: replacing old lighting system on LED lamps, new more efficient machinery, overall better light supervision, strict rules for air conditioning usage.

PLANS FOR 2019

A large range of activities will take place across DeLaval during 2019 in a bid to reduce waste, water and energy consumption. Below is a list of examples.

Waste

- Attempts will be made to better clarify small streams of solid waste such as metals to see if recycling alternatives can be investigated in the MQAH factories.
- Continue with wood and foil reduction initiatives: standardise used pallets and wooden transportation brackets.
- Volatile organic compounds reduction. We are optimising the consumables used for cleaning cooling tanks and standardising cleaning processes.

Water consumption

- MQAH factories will continue to work on CIP (clean in place) cleaning methods with particular attention where GMP cleaning validation requirements for new products are leading to new pressure on extra washings.
- Fresh water usage reduction at the Wrocław plant. We're changing the calibration process on cooling tanks.

Energy consumption

- A full scale Solar implementation is being investigated as a pilot option for one of the MQAH factories.
- We're replacing the lighting system in selected departments and investing in more efficient machinery.

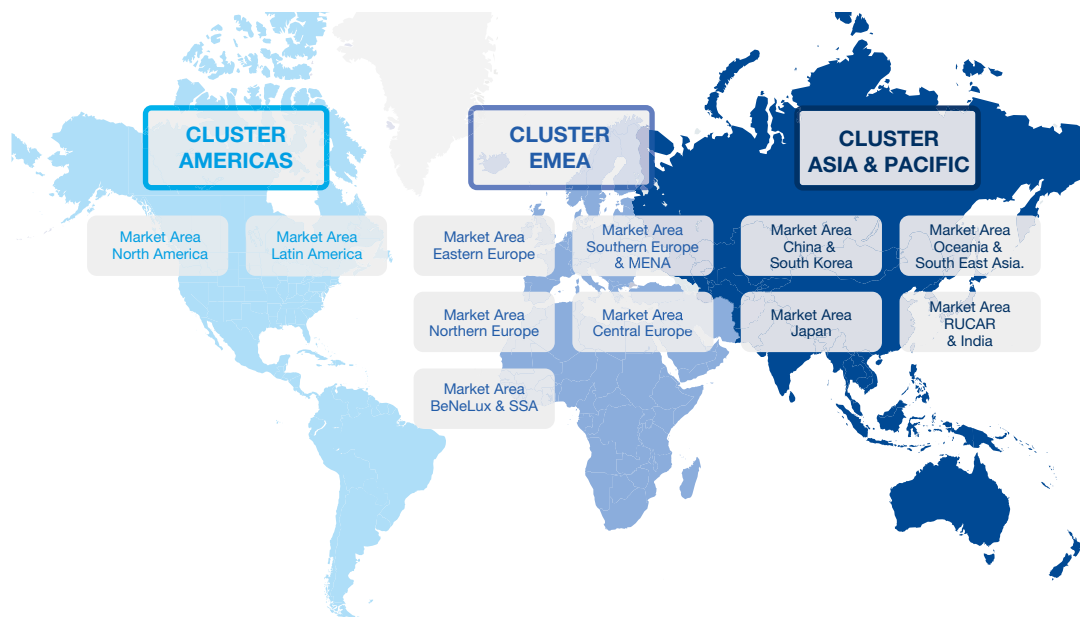
Of the 18 manufacturing units reported on, nine are certified in accordance with both ISO 9001 and ISO 14001 and seven are certified for Good Manufacturing Practices (GMP).

How we work with Social Sustainability

There are approximately 4,500 employees at DeLaval. We serve over 100 countries globally working either directly in that country or via dealers.

DeLaval around the world

Three clusters and 13 market areas serving our customers



Our work with social 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, Health and Safety Policy, etc.

Based on our materiality analysis we have identified the topic 'Employee satisfaction and wellbeing' as our most important social issue. This topic includes occupational health and safety, employee satisfaction and engagement, diversity, equal opportunity, income and psychosocial work environment

EMPLOYEES

Our HR Policy states: DeLaval's employees are the backbone and foundation for the company's success and its future development. All employees are expected to be treated in a fair and respectful manner. It is therefore important that decisions affecting people should be made objectively, in a consistent manner and with a level of impartiality. It is also essential that short-term tactical decisions are made in line with longer-term business requirements.

Below are excerpts from several of our policy documents to give a clearer picture as to how we work with our employees.

WORKING ENVIRONMENT

"DeLaval is committed to providing safe and healthy working conditions for its employees in all parts of the world..." DeLaval's objective is to proactively avoid any physical or mental illness caused by the work environment.

HEALTH AND SAFETY

Our Health and Safety policy regulates how to help protect the health and safety of our employees. The following three principles are critical:

- Prevent any harm to the health and safety of the workforce
- Maintain the physical and mental wellbeing of the workforce
- Maintain optimum working conditions

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.

EQUAL OPPORTUNITIES AND DIVERSITY

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 we promote a culture of diversity.

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.

SUPPLIER CONDUCT

To live up to our Code of Business Conduct commitment and pursue the DeLaval vision – we make sustainable food production possible – whilst at the same time fulfilling our business objectives, we ensure that the products we place on the market are safe and satisfy the laws and regulations governing product and food safety.

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 colorants 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 DeLaval Requirements, on materials and products in contact with foodstuff which consolidates the latest legal requirements on food contact materials, ie. recipe demands, testing and also traceability and good manufacturing practice.

These requirements span over the entire Supply Chain, from producers, manufacturers, factories and eventually to customers. DeLaval requirements regarding product and food safety is distributed to all suppliers on a regular basis to be declared in accordance to legislative amendments.

HOW WE MEASURE PROGRESS WITHIN SOCIAL SUSTAINABILITY

We have chosen to measure the following parameters within the area of social sustainability.

- Staff turnover
- Age distribution
- Gender distribution
- Workplace accidents

DeLaval is committed to providing safe and healthy working conditions for its employees in all parts of the world.

Results

STAFF TURNOVER

There were 4585 employees at DeLaval on December 31st 2018. Staff turnover was 14%, of which 9% was voluntary and 5% involuntary due to the continued focus on productivity via the Transformation Program. The involuntary turnover is slightly higher than the previous year. We continue to monitor reasons for leaving and address these as needed.

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 is 21%. This is a slight decrease compared to 2017 and we continue to focus on diversity and inclusion at DeLaval. 18% of our Managers are female and 82% are male. This is a stable statistic compared to 2017 but also one that we still need to improve significantly.

WORKPLACE ACCIDENTS

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

There were 17 accidents in 2018 (37 in 2017) that resulted in an employee being absent from work for one day or more. These range from small cuts to bruises and broken fingers.

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 behaviour (more than 80%) as opposed to an unsafe environment (less than 20%).

EMPLOYEE ENGAGEMENT

Our most recent Employee Engagement survey was distributed

in 22 languages to all employees of DeLaval. Some of the results are shown below. The figures include those that agree or strongly agree with the statement.

DeLaval is socially and environmentally responsible – 77% (79% in 2015).

Employees are treated equally and fairly regardless of gender, age, race, disability, religion or sexual orientation at DeLaval – 78% (76% in 2015).

I am treated with dignity and respect at work – 79% (78% in 2015).

I am satisfied with this company's efforts to maintain a safe and secure work environment – 80% (79% in 2015).

This survey is repeated biannually to secure that improvements are made.

SUPPLIER CONDUCT

We request that all our suppliers sign and live by our Ethics and Sustainability Principles. In 2015 we focused on getting the biggest suppliers to sign our Ethics and Sustainability principles. The target was to reach suppliers that account for 85% of the total spend by the Global Sourcing team.

We reached 88% in 2017. In 2018, we included the chemical assortment amongst the total spend and still managed to keep the initial target of 85% of all direct materials.

Actions We're Taking

STAFF TURNOVER

We continue to monitor voluntary staff turnover from several perspectives: gender, time in company and age. Where we see trends that are moving in the wrong direction, we take actions, which will vary depending on the situation. We also recognise the importance of employee development and career opportunities and continuously evaluate how to strengthen and improve our offerings in these areas.

GENDER DISTRIBUTION

We are not satisfied with our numbers and see this as a key sustainability challenge given the number of females active in the workplace as well as the need to reflect our customer base. In general, our support functions have a better gender balance, some of which nearly reach an even 50-50 gender balance.

In 2018, we created a diversity inclusion strategy. The global non-profit organisation Catalyst is supporting us with this to help us improve inclusion and gender distribution.

OCCUPATIONAL HEALTH AND SAFETY

A unified way of reporting all accidents was created in 2017. Now, every part of the organisation reports accidents in the same way with a report that includes a description of the accident, what containment actions can be made immediately to prevent the accident from occurring again and what long-term measures can be taken. This is one of the steps being taken to create a better 'safety' culture in the organisation.

Group Management has placed safety at the top of its Management Team meeting agenda and has appointed an Occupational Health & Safety Director due to begin in 2019.

The number of serious accidents is low at DeLaval, and the number of incidents that require a person being absent from work for a day has gone down in 2018 compared to 2017. At the same time, we need to work more at creating a culture of 'safety' throughout the organisation. This means making it easy for staff to report an incident but also encouraging the reporting of such incidents.

Healthy cows improve working conditions which also fulfills consumer and society expectations on animal welfare.

How we work with Animal Welfare

Animal welfare is one of the most important topics we have identified in our materiality analysis. Additionally, animal welfare has a direct affect on other high scoring topics in the 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 can support animal welfare in the herds of our clients:

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

While it is the farmer's responsibility to manage their 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

We also have a growing team of dairy advisors within health and production management. They support our customers globally and focus on animal welfare, production efficiency and cow longevity.

Apart from ethical reasons, the profitability of a farm is highly

dependent on the wellbeing of cows. An increased lifetime production of cows as a result of good management is an essential ingredient for successful dairy farming. Good cow comfort, efficient herd and feeding management, proactive herd health and breeding programs are all critical factors to ensure a profitable and sustainable dairy production.

LONGEVITY – PRODUCTIVE LIFETIME YIELD

Healthy cows improve working conditions which 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 extremely difficult to collect reliable 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.

How we work with Economic 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.

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.

RESULTS

Read more about the financial year at DeLaval here:

<http://www.delavalcorporate.com/DeLaval-company-about/>

Auditor's report on the statutory sustainability report

To the general meeting of the shareholders in DeLaval International AB, corp. id 556012-3928
Engagement and responsibility

The Board of Directors is responsible for that the statutory sustainability report on pages 3-20 in this document has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination of the statutory sustainability report has been conducted in accordance with FAR's auditing standard RevR 12 *The auditor's report on the statutory sustainability report*. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinion

A statutory sustainability report has been prepared.

Stockholm, 26 February 2019

Ernst & Young AB


Jennifer Rock-Baley

Authorised Public Accountant



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