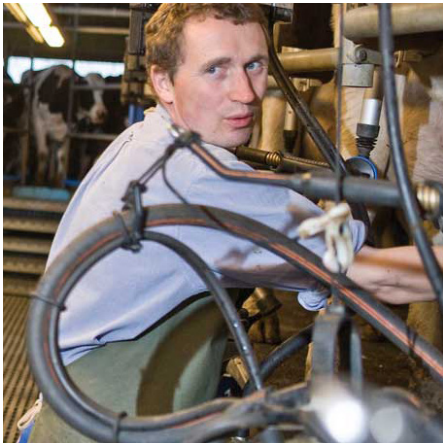


FOSS



Sustainability Report



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A Message from the CEO

We were immensely proud to have celebrated our 60th anniversary as a company this past year. It's a significant milestone, and we have come a long way from our humble beginnings. We have experienced solid growth over the years and are in a very strong position to help our customers address some of the complex global challenges in the food and agricultural industry.

A fundamental reason for our success as a company has been our focus on continuously developing innovative solutions in collaboration with customers and industry experts. Some examples of this include the new MilkoStream – a technology breakthrough that has involved close cooperation with the dairy industry. It improves the efficiency of milk standardization and reduces waste by improving yield and product quality. Another example is the CombiFoss™ 7, a new version of our CombiFoss analyser, which enables earlier detection of mastitis in dairy cattle, reducing milk wastage and improving animal welfare.

In addition to developing analytical solutions that provide real benefits to our customers and society, we believe in acting ethically and responsibly. FOSS became a signatory of the UN Global Compact in 2012, and I would like to state my company's continued support and commitment to the initiative and its ten universal principles in the areas of human and labour rights, the environment and business integrity. Information on our progress against the Compact's ten principles can be found at the end of this report.



A handwritten signature in blue ink that reads "Kim Vejlby H". The signature is stylized and fluid.

Kim Vejlby Hansen, CEO

About our Company

FOSS is the leading supplier of innovative analytical solutions:

- More than 1400 dedicated employees world-wide
- A Turnover of 2,122 million DKK in 2016
- 98 percent of FOSS' business is generated outside Denmark
- More than 100 patents
- More than 20 world-first introductions
- 10% of turnover invested in customer-driven innovation
- The 'top 100' companies in food and agriculture use FOSS solutions.

A global innovator

FOSS has more than 60 years of experience as the leading provider of analytical solutions to the global food and agricultural sectors. 80% of all traded grain on the world market and 85% of the world's milk are analysed with FOSS solutions. We have manufacturing, research and by more than 85 dedicated distributors spread over Europe, North, South and Central America, Africa, Asia, and Australia.

Our primary role is to develop and market analytical solutions that help our customers maximize efficiency, improve quality and ensure the integrity of the food chain.

Our business concept is quite simple: we follow food from the farm until it reaches supermarket shelves. During this process our instruments provide an objective analysis of the food to ensure fair payment, efficient food production, add value creation for our customers, while helping deliver high quality, safe products and minimizing food waste.

FOSS Mission

- We contribute to the sustainable use of our planet's agricultural resources and thus to the nutrition and health of the people of the world
- We provide the Industry's best Dedicated Analytical Solutions, which add value to our customers by improving quality and optimising food and agricultural production

This report

In preparing this, our fifth sustainability report, we referred to international best practice. We use the UN Global Compact as the framework for our sustainability program, and our annual Communication on Progress against the Compact's ten principles can be found at the end of this report. We also referred to the Global Reporting Initiative¹ G4 sustainability reporting guidelines. This report is intended to fulfill our Danish legislative and UN Global Compact reporting requirements and covers the 2016 financial year.

Using the UN Global Compact principles as a starting point we have identified the following priority areas:

- Health & Safety of employees
- Human and Labor rights - particularly in regards to the supply chain
- Business ethics
- The Environment

Maintaining a safe work culture

At FOSS we are dedicated to maintaining a safe workplace for our employees. Health and Safety is an important element of our Sustainability policy and we have dedicated teams in both our production facilities responsible for monitoring this area. We have established health and safety teams from various functions, who identify potential risks, review health & safety improvement plans and conduct inspections.

We also conduct comprehensive internal audits by quality personnel which consist of visual inspections, a documentation review, and interviews with key staff. Action plans, with designated responsibilities, are developed to address any audit findings or observations. Third party audits, in connection with our membership in SEDEX, were also conducted in 2016. Health and safety is a key component of these audits and their observations are included in our internal audit processes. We have developed materials outlining our requirements to contractors on our site, and our health and safety requirements are communicated to suppliers.

As the nature of our production consists mainly of assembling instruments, we do not have the number or severity of accidents seen in other industries. We had a total of 9 accidents in our production facilities over the past year. The types of accidents were primarily slips, trips or falls. One of these accidents resulted in 4-6 days of absence, 3 were between 1-3 days, and the remainder where less than one work day.

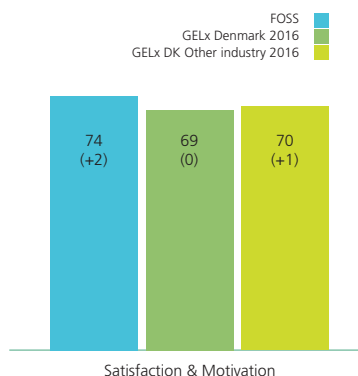
¹ <https://www.globalreporting.org>

Engaging with our staff

Having staff who are motivated and passionate about their work is critical to the success of our business. For us, employee engagement is a continuous process of working together to ensure that we have a great workplace. We want a work environment where people are inspired to attain company objectives and their own personal goals.

To measure our performance and to ensure we are on track, we regularly conduct employment engagement surveys of all staff. These consist of annual as well as smaller follow-up surveys. The results provide an indication as to how satisfied employees are and how well-managed FOSS is. They also identify the areas that have the highest importance for employee satisfaction and motivation.

We had a 95% staff response rate for our 2016 survey which indicates the strong commitment from employees to participate in this process. There was also an increase in employment engagement for the fifth consecutive year, achieving an index score of 74 overall. We experienced a rise of two index points in Satisfaction and one index point in Motivation. In comparison to the results of this year's Global Employee and Leaders Index (GELx),² the diagram below shows FOSS performing above the national level in Denmark as well as the comparable industry group. Although not shown in the diagram, the index level for the highest performing 25 international companies starts at 75.



We are very satisfied with the success of the past five surveys, as it shows that we as a team are more and more engaged, satisfied and motivated. However, we understand that there needs to be a continued focus on improvements as we strive to keep FOSS a great workplace.

As in previous years, managers will be communicating the results to their teams and developing plans for the next six months. The HR department will be working with various parts of the business to assist in lifting the lower scores and developing action plans.

² <http://int.ennova.com/home.aspx>

Promoting a diverse workplace

FOSS is a global company and the composition of our workforce reflects this. We foster diversity and inclusiveness because it provides real benefits to our business by providing insight into global markets, cultures, opportunities and challenges. In addition, a diverse workforce contributes to our business culture by bringing in new ideas and different perspectives, which are essential to the innovative process.

Our philosophy is that people should be solely assessed on their merits, qualifications and abilities. This position is clearly stated in our Sustainability policy: *we treat all employees equally in regards to recruitment, advancement and job training. All employees will have the same opportunities regardless of gender, age, race, ethnicity, sex, religion, sexual orientation, etc.* We also communicate this standpoint to our suppliers through our supplier code of conduct, and include it as a requirement in our procurement contracts.

We have taken a number of steps to increase the composition of females in our workforce. Female employees feature prominently on the career section of our website, making up roughly half of the employees. All advertisements for positions include information on our commitment to providing equal opportunities, and Human Resource personnel are involved in critical stages of the employment process to ensure that our sustainability policy is upheld. We strive to include at least one female candidate in the final selection of candidates for vacant positions if they have the necessary qualifications. Employees receive an exit interview questionnaire in SAP when leaving the company and are given the opportunity to be interviewed by an HR consultant. No instances of discrimination were raised during this process over the past year. We also communicate our Sustainability Policy in the on-boarding phase for new employees and have a dedicated Sustainability section on our intranet portal.

Reducing our footprint

In addition to developing innovative solutions which enable our customers to reduce their impacts, we take steps to reduce our own environmental footprint. As mentioned, our production consists mainly of assembling and testing products so our overall impacts are lower than many other industries.

Our focus is primarily centered on initiatives to reduce our electrical usage at our production facilities in Denmark and China. Our site in China, FOSS Suzhou, only uses electricity while Denmark uses oil, gas and district heating. Our objective in Suzhou is to reduce electricity usage by converting from fluorescent to LED lighting. Prior to 2015, about 20% of lighting was from LEDs, in 2016 that figure increased to 90%. Our goal is to reach 100% LED lighting in Suzhou by 2017. Depending on the wattage, energy savings of between 56 – 67% can be achieved in switching to LEDs.

Electricity usage accounts for the majority of our energy consumption in Denmark as well, where the replacing of fluorescent tubes with LED lighting is an ongoing process. Other potential areas to reduce energy consumption in Denmark, which were highlighted in an Energy audit, are currently being assessed.

	2013	2014	2015 ³	2016
Electricity (kwh)	3611321	3921931	2843363	3157277
Ratio ³		11%	-31%	-28%
Heating (kwh)	2.680.640	1.933.220	1.108.000	1.401.160
Ratio		-26%	-64%	-57%
Oil (liters)	19984	35487	26238	20479
Ratio		81%	15%	-15%
Gas (Nm3)	65556	34249	40946	44075
Ratio		-47%	-45%	-44%
Turnover⁴	1,756	1,722	2,010	2,122

In 2016, we experienced a rise in electricity consumption compared to 2015. In August electricity usage peaked in Suzhou which, in part, was due to a very hot summer where air conditioning was used for cooling. Electricity usage also increased in Denmark which was due to a number of factors such as a significant rise in the employment of new staff which meant more electrical equipment was being used. There was also an increase due to the production of certain instruments and installation of a cooling system for comfort in our offices. The winter in Denmark was also slightly colder than in 2015 which resulted in an increase in consumption of both heating and gas.

³ Minor adjustments were made to the 2015 data

⁴ The ratio calculation is energy source/turnover with a baseline of 2013. A positive figure indicates an increase compared to 2013 and a negative figure indicates a decrease.

⁵ In million kroner

Working with suppliers

In addition to having internal systems in place to manage CSR/Sustainability issues, we also engage with our suppliers in this area. Our expectations are detailed in contracts with our local and global suppliers which cover human and labour rights, the environment and business ethics. Our Supplier Code of Conduct, which was updated in 2015, is available in English and Chinese and workshops have been held with our procurement and quality teams on our supplier requirements.

In 2015 we began incorporating sustainability issues into our supplier audit process, which is conducted by our Quality personnel. Selected suppliers complete a CSR/Sustainability self-assessment questionnaire prior to being audited. If findings arise during an audit they are included in an improvement plan in agreement with the supplier.

Reinforcing Business Ethics

In 2016 we launched the Ethics E-learning tool to provide selected employees with a better understanding of our CSR/Sustainability policy, with a particular focus on business integrity and customer requirements. Our target groups were employees in our Sales & Marketing and Customer Sales and Support departments.

The interactive training module includes information on our CSR/Sustainability policy; presents participants with ethical business dilemmas; and tests participants' knowledge of the material with a quiz. A checklist is provided to assist participants in their decision-making, and information on how to raise potential concerns.

Thanks to the cooperation and assistance of managers and staff in both departments, we achieved a combined completion average of 97% with 525 employees passing the course. As expected there were employees who were not able to complete the course due to various reasons such as illness or leave. We expect to reach these people in the future with our follow-up activities. The course has also been included in the on-boarding process for new staff.



Sharing information with customers

At FOSS, we take pride in putting our customers first and meeting their requirements and expectations. One way we do this is by providing transparency on our Sustainability performance through the SEDEX (Supplier Ethical Data Exchange) collaborative platform. The platform enables its more than 38,000 members to share ethical supply chain data in four key areas:

- Labour Standards
- Health & Safety
- The Environment
- Business Ethics

In addition to completing a self-assessment questionnaire, FOSS has had third party SEDEX audits conducted at both its facilities in China and Denmark. The last audits were conducted between January and March of 2016 and showed significant improvements since the previous audits in 2013. In addition to enabling us to provide information on our performance to key customers, the audits assist us in our drive for continuous improvements in the sustainability area.





Human rights	
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and	Part of our Sustainability policy and our work with suppliers page 9
Principle 2: Make sure that they are not complicit in human rights abuses.	Part of our Sustainability policy and our work with suppliers page 9
Labour Rights	
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	Part of our Sustainability policy and our work with suppliers page 9
Principle 4: the elimination of all forms of forced and compulsory labour;	Part of our Sustainability policy. Also see page 9
Principle 5: the effective abolition of child labour; and	Part of our Sustainability policy. Also see page 9
Principle 6: the elimination of discrimination in respect of employment and occupation.	See pages 7 and 9
Environment	
Principle 7: Businesses should support a precautionary approach to environmental challenges;	Part of our Sustainability policy and our work with the environment
Principle 8: Undertake initiatives to promote greater environmental responsibility; and	See pages 8-9
Principle 9: Encourage the development and diffusion of environmentally friendly technologies.	Part of our policy. Also see page 4
Anti-corruption	
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.	See pages 9-10