

FOSS



SUSTAINABILITY REPORT 2019

ANALYTICS BEYOND MEASURE



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CEO Statement

It has been projected that by 2050, the global population will reach close to 10 billion people and the middle class will double in size. The world will be facing challenges such as food safety, limited natural resources and climate change. At FOSS, we believe our technology and innovative solutions play an instrumental role in addressing these challenges. We are on a mission for the sustainable use of our planet's agricultural resources and this journey started back in 1956 when our company was established. From the beginning, we have been in the business of developing solutions to safeguard the quality of food products and improve production efficiency.

The biggest contribution we can make is to continue developing solutions and analytics that help the largest companies become more sustainable operations. We do this through innovation and collaboration. In our workplace we value diversity and working in teams to solve challenging problems. Externally, we have developed strategic relationships with leading universities collaborating in the areas of research, development and education. We also engage with various players in the food and agriculture sectors, such as customers, peers and competitors. We believe innovation thrives in collaborative environments.

In addition to developing solutions for our customers to become more sustainable operations, we believe in acting responsibly and ethically wherever we operate in the world. I would like to state our continued support of the UN Global Compact. As an active member, we are committed to upholding the ten universal principles in the areas of human and labour rights, the environment and anti-corruption. Our Communication on Progress against the principles can be found at the end of this report.



A handwritten signature in blue ink that reads "Kim Vejlby H".

Kim Vejlby Hansen, CEO



A global outlook

FOSS was established in 1956 by Nils Foss and remains a family-owned company. We have grown steadily over the years and are now the leading global provider of analytics for the food and agricultural sectors. Approximately 85% of milk and 80% of grain traded on the world market today is analysed using FOSS solutions, and our customers include the top 100 food companies. We work in a number of food and agricultural industries: Dairy, Feed and Forage, Grain, Flour Milling & Oilseed Processing, Laboratories, Meat, Raw Milk Testing and Wine.

FOSS provides a range of analytical solutions from laboratory to at-line and in-line solutions. Across a number of industries, FOSS helps optimise the use of food and agricultural resources around the world. We do so by enabling customers run intelligent data-driven production, based on fast, easy-to-use and dedicated analytics.

Our analytics measure the level of protein in dairy products, scan meat to determine fat contents and check for unwanted objects such as bone splinters; measure sugar levels in grapes, the moisture in grain,

and help determine whether cows get the right feed, are healthy, and produce good and nutritious milk. We invest 10% of revenue in innovation every year and develop advanced digital solutions for cost and value optimisation.

Facts and Figures

- FOSS Group turnover of 2,155 billion DKK in 2019
- AAA-rated by D&B
- More than 100 patents and 20 world-first products
- Approximately 1,500 employees worldwide
- 99% of FOSS' business is generated outside of Denmark
- Manufacturing in Denmark, Hungary and China and R&D facilities in Denmark, Hungary and Russia
- FOSS sales and service companies in 32 countries and more than 75 distributors



Our sustainability programme

Our sustainability journey started with the founding of our company in 1956. Although much has changed since then, sustainability remains just as important to FOSS. Our mission is to ensure the sustainable use of the world's valuable food resources. In addition to creating solutions that provide sustainable benefits to our customers, we believe in conducting business in an ethical and responsible manner. In 2012, we joined the UN Global Compact, the world's largest corporate sustainability initiative. As an active member we are committed to aligning our efforts with ten universal sustainability principles and strategies in the areas of human rights, labour standards, the environment and anti-corruption. In addition, we are committed to advancing societal goals and embedding sustainability into our operations.

Using the UN Global Compact as a starting point, we have identified the following areas most material to our business and key stakeholders:

- Health and Safety of employees
- Human and Labour Rights particularly in the supply chain
- The Environment with a focus on our energy usage and enabling customers to minimise their environmental impacts
- Business Ethics in the Sales and Service areas

Each year we report on our Communication on Progress (COP) against the UN Global Compact's ten principles in our sustainability report. Our sustainability reports, sustainability policies, Supplier Code of Conduct, and our annual Modern Slavery statement can be found at:

<https://www.fossanalytics.com/en/about-foss/sustainability>

In addition to the UN Global Compact, we support the Sustainable Development Goals. The most pertinent for our business are:



SDG 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture

SDG 3: Ensure healthy lives and promote well-being for all at all ages

SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

SDG 12: Ensure sustainable consumption and production patterns

This report fulfils our Danish legislative and UN Global Compact reporting requirements, and covers the 2019 financial year.

Maintaining a Safe and Healthy Working Environment

We have a responsibility to ensure that staff work under safe conditions in our production, labs and offices. As our production mainly involves monitoring, testing and assembling, the incidents that do occur are mainly of a minor nature. The biggest health and safety risks we face are slips, trips, falls and improper lifting. Nevertheless, we do take health & safety seriously in our business. We have dedicated Health and Safety organisations at our three production facilities in Denmark, China and Hungary. They are responsible for identifying and assessing hazards or risks in the workplace, as well as developing action plans to address potential issues.

As a member of the SEDEX¹ initiative, we conduct annual internal audits of the health and safety area, and 3rd party audits are conducted every 2-3 years.

¹ <https://www.sedexglobal.com/>



Both the internal and external audits include a visual inspection of our buildings, labs and production, employee interviews, and a documentation review. Findings and learnings from these audits are used in our drive for continuous improvements. In 2019, six minor injuries took place at our facilities. Four of those incidents resulted in less than one day's absence from work. One injury resulted in four day's absence; the last resulted in nine day's absence and required a hospital visit.

Improving fitness and health

In 2019, we launched a programme to advocate an active and healthy lifestyle for staff in Denmark. A healthy lifestyle has a number of advantages and provides short and long-term benefits. It improves mental well-being, and reduces the risks of diabetes, cancer and cardiovascular disease.

The focus of the programme is:

- Eating healthy
- Stop smoking
- Exercise
- Avoiding obesity

We ran a series of free courses and presentations throughout the year promoting a healthy lifestyle, and employees were encouraged to propose ideas and suggestions. Our intention is to get as many employees involved in the programme as possible, from novices to people in advanced levels of fitness. The series of courses and presentations include: Running for beginners, Myths about dieting, Quitting smoking, Lasting weight loss, Fitness training and Heavy lifting. Courses and presentations are conducted by trained professionals and vary in duration from a few hours to up to six weeks. The Lasting Weight course includes individual sessions with a dietician, an individual diet plan and group sessions. When we moved into the new part of our Innovation Centre in 2019, employees



gained access to much better fitness facilities. We also made a corporate agreement with a national fitness centre enabling staff to join at a favourable price. This was just the first wave of initiatives and more will take place in the future.

Reducing our energy consumption

At FOSS, our energy consumption is different from many companies due to the nature of our business. Most of our production entails assembling, monitoring and testing instruments, rather than heavy manufacturing. However, like many companies, there is a risk that climate change and extreme weather conditions could result in an increase in energy consumption for cooling and thus higher CO₂ emissions and higher energy costs for our business. A large percentage of our energy consumption is heating and electricity and climate conditions have an effect on the energy we consume. We use more

energy in colder months for heating offices and buildings, and for cooling in the summer months.

Our facilities in Denmark account for the majority of our company's energy usage. As we have expanded our Innovation Centre with a new building, we have ensured that both the old and the new buildings are as energy efficient as possible.

For example, we have installed 580 m² of solar cells on the roofs of our Innovation Centre, which generate 105 KWh of electricity, and have installed outdoor sun shading devices on our building facades to keep our buildings cool in the summer.

Every three years energy consultants conduct an audit of our facilities to meet the EU Energy directive requirements. The audit is an assessment of our energy usage and includes buildings, processes, and transportation. The audit results assist us in identifying opportunities to save energy and reduce costs. The last energy audit was conducted in the last quarter of

2019, and we are currently in the process of reviewing the recommendations.

Our production in Suzhou only use electricity as an energy source and account for less than 20% of our total electricity consumption. Their focus has been on reducing energy usage in lighting. In 2015, Suzhou began transitioning from fluorescent to LED lighting. Converting to LEDs not only provides energy savings of between 56-68 %, but also reduces the demand on power stations, resulting in less greenhouse emissions. In 2019, Suzhou achieved 100% LED conversion and cost savings of 40,000 RMB. In 2020, they will be upgrading some of the older LEDs to

further reduce electricity consumption and energy costs. In 2019, Suzhou's electricity consumption fell roughly 14% compared to 2018. Consumption peaked in the colder and warmer months of the year - January, August, and December.

In Denmark, gas usage increased in 2019 and peaked in the colder months of January, February and March. The expansion from 14,000 sqm. to 24,000 sqm is also a factor that has increased energy usage. A number of employees have been relocated to our Innovation Centre, and although the building is energy efficient, this has also resulted in an increase in overall energy consumption.

Total energy consumption at our production sites²

	2013	2014	2015	2016	2017	2018	2019
Electricity (kwh)	3611321	3921931	2843363	3157277	3112946	3181097	3346622
Ratio ³		11%	-31%	-28%	-32%	-31%	-24%
Heating (kwh)	2680640	1933220	1108000	1401160	1403170	1379440	1313150
Ratio		-26%	-64%	-57%	-59%	-60%	-60%
Oil (litres)	19984	35487	26238	20479	25272	19098	21965
Ratio		81%	15%	-15%	-1%	-25%	-10%
Gas (Nm3)	65556	34249	40946	50452	45897	56485	80890
Ratio		-47%	-45%	-36%	-45%	-33%	+0.1%
Turnover	1,756	1,722	2,010	2,122	2,222	2,243	2,155

Optimising packaging and reducing waste

Our policy is to reduce risks to the environment by recycling and reusing materials/packaging whenever possible, and managing waste in a safe and

responsible manner. In 2018, the FOSS Packaging Design Manual was developed with the purpose of standardising packaging design and process for FOSS

² Energy costs in Hungary, where we employ 65 people, are not available as they are included in the rental agreement of the building. Data will be provided in the future when we relocate to new premises.

³ The ratio calculation is based on energy source/turnover with a 2013 baseline. A positive figure indicates an increase compared to 2013, a negative figure indicates a decrease. Turnover is in million kroner.

instruments. The manual follows best practice making it easier to develop the right packaging option once key dimensions of instruments have been determined.

All packaging for new FOSS instruments must follow this manual in order to streamline solutions and ease sourcing and production flow. It also results in an increase in the reuse of existing packaging boxes. Next year a new plywood packaging solution will be implemented for the MeatMaster II, which is repackaged 33% of the time to meet airfreight requirements. The new plywood solution would mean the same packaging could be used all the way from the manufacturer of the instrument cabinet to the end customer. This would result in annual cost savings of 250,000 DKK and reduce the use of 2 tonnes of corrugated cardboard.

We are also investigating the use of the same packaging for our NIRS DS2500 Dairy and Liquid instrument when it is shipped from our production facilities in Suzhou to the end customers, rather than having it repackaged in Denmark. This change will potentially result in a reduction of 23.9 m³ of foam material per year, which presently goes to landfill. The packaging solution has already been redesigned so that manuals and accessories are no longer included in the shipment.

Addressing human and labour rights risks

Our work with human and labour rights focuses primarily on our global supply chain, which poses the largest risk. The FOSS Supplier Code of Conduct, which is available in both English and Mandarin, addresses labour and human rights areas including: forced labour, health and safety, child labour, salaries, freedom of association, and working hours. All



suppliers must sign off on our Code of Conduct or produce documentation, which demonstrates that they have comparable policies in place. We also include human and labour rights in our due diligence of suppliers, which is undertaken by our sourcing and quality teams. Non-compliance with our Supplier Code of Conduct can result in termination of the business relationship. We have undertaken audits of our suppliers based on our Supplier Code of Conduct and self-assessment questionnaire and have not detected serious non-compliances during the year. We are, at present, developing a new risk-based approach to managing sustainability issues in our supply chain. Each year we produce a Modern Slavery statement to meet international legislation, which details our efforts in preventing slavery from occurring in our operations.



A diverse workplace

We employ roughly 1,500 employees - many of whom have scientific or technical backgrounds. As a global company working in the analytics and technology area, we see diversity as a real benefit for our organisation. Firstly, it is important to have employees who have an insight into the cultures and markets we operate within, but it is also important to have a workforce with different perspectives and competencies. Diverse teams working together and sharing ideas and knowledge are key to our future.

Our sustainability policy that is based on the UN Global Compact guarantees equal rights for all employees regardless of ethnicity, gender, religion, and sexual orientation in regards to recruitment, advancement, job training and salary. Our policy clearly states that discrimination and harassment will not be tolerated in our business. Our position is that people should be judged on their merits and the role profile for the job they are applying for.

We are also firmly committed to fostering an inclusive and diverse workplace. We emphasize that in our work environment we treat each other as equals, regardless of position. Furthermore, our employment section on our website profiles both male and female employees, as well as employees with different nationalities.

Over the years, we have seen the composition of our employees change in Denmark, where approx. 40% of our employees are located. In 2019, roughly 50% of our new hires were female, whereas females made up 34% of employees in 2014. Employees with a non-Danish background make up roughly 18% of our new hires. As a growing company, there will be opportunities for advancement for employees, as we aim to fill 50% of leadership positions internally.

Our HR teams are involved in the employment process to ensure our equal opportunities policy is followed,

and our goal is to have at least one female candidate in the final stages of the selection process, granted they have the necessary qualifications. All employees leaving the company are given the opportunity to have an exit interview to discuss the reasons for the decision and to give us an idea on how we can improve. We also regularly conduct employee surveys to gauge satisfaction and motivation – over the past seven years satisfaction has improved with ten index points. We do not see any significant difference between the satisfaction among our male and female employees. FOSS also has a whistleblowing mechanism in place for employees, as well as external stakeholders, to report on any behaviour not in line with FOSS policies. No concerns were raised during the year related to discrimination in our workplace.

Embedding good ethical behaviour into our business

In line with our belief that business should be conducted responsibly and with integrity, our business ethics policy prohibits bribery and corruption in all its forms, and addresses areas such as conflict of interest, gift-giving, facilitation payments, and charitable as well as political donations. To reduce the risk of any of our employees being involved in unethical behaviour, it is imperative that they understand our high standards and what we stand for as a company.

We recently rolled out our updated Ethics E-learning program, which was initially launched three years ago. Our focus is on our global Sales and Service functions as they have been identified as groups that could potentially experience unethical encounters. The course is compulsory for those employees in both functions who have customer interface. The phased global rollout took place from September through November 2019.



Not only has the module been updated to reflect new developments, but it also has been enhanced with audio to guide participants through the course. Our board chairman Peter Foss, who emphasises how important business ethics is to our business and reputation, introduces the course.

As in the earlier version, the module includes information on our sustainability program, customer sustainability requirements, and presents participants with “real life” scenarios where they must weigh the pros and cons of their options. A checklist is provided to assist them in taking the appropriate course of action.

The course concludes with a quiz to test the participants’ understanding and comprehension of the presented material, as well as information on our whistleblowing system.



Our objective was to reach a global completion rate of 95% by the end of 2019. By the end of the year over 600 staff had completed the training and we surpassed that goal. Both our Sales and Service teams will be required to re-take the Ethics training every two years and in the future, completion of the ethics module will be a mandatory part of our online on-boarding curriculum for both departments. In addition to our ethics training, our whistleblowing system enables employees to raise concerns about violations of our policies including the ethics area. No issues were raised over the past year.

Driving continuous improvements through SEDEX

FOSS is a member of SEDEX (Supplier Ethical Data Exchange), the world's largest collaborative platform for sharing responsible sourcing data on supply

chains. It is used by more than 60,000 members in 180 countries to manage sustainability performance around labour rights, health & safety, the environment and business ethics. As a member, our production facilities are audited once every 2-3 years by a 3rd party and the results are shared with multiple customers to meet their supplier sustainability requirements. As SEDEX reviews and updates the audit on a regular basis to meet the current needs of responsible sourcing and legislation changes, our participation enables us to improve our performance continuously.

Collaborating to improve sustainability in the food chain

At FOSS, collaboration is critical to the success of our business as well as for our mission to develop solutions that contribute to a more sustainable use of the world's food resources. Over the years, we



have been at the forefront of analytical technology and have developed solutions that provide tangible sustainable benefits for customers in a range of industries. However, with population growth and scarcity of resources, global food production faces enormous challenges. To address these challenges we need to collaborate and innovate with a range of stakeholders including academia, industry and governments.

Our late founder, Nils Foss, was a passionate advocate of innovation in the field of analytical technology and its application to improve productivity in food, feed and agriculture. To honour his memory and achievements, FOSS established the Nils Foss Excellence Prize and Talent Prize. The awards, which were established in 2016, acknowledge the work of established scientists and young talents. The awards are presented to scientists who have demonstrated exceptional innovative research, and upcoming talents who have shown promising results in the scientific fields around safe and sustainable food production. The Award Committee includes members from the Danish scientific and the food production.

The recipient of the 2019 European Excellence award received EUR 100,000 of which at least 75% must be used for further research, and the recipient of the Talent Prize received EUR 15,000 without any limitations. Through the Nils Foss Excellence Prize and Talent prize, we acknowledge, support and hope to stimulate research in the development of technology to improve value and sustainability in the food supply chain.

In 2019, FOSS also entered into a strategic partnership with the Technical University of Denmark with the purpose of collaborating in the areas of research, development and education. The university is one of the highest ranked technical universities in Europe where education, scientific advice, and innovation rest on a solid foundation of excellent research. The focus of the engagement will be artificial intelligence in food and agriculture, food and agriculture analysis, food and agriculture safety, and finally sensors and measurement technologies. Our goal is to create a mutually rewarding relationship and sharing of knowledge to develop sustainable solutions in the food and agricultural sector.

Our UN Global Compact Progress report



Human rights	
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and	See our Sustainability policy on our website: https://www.fossanalytics.com/
Principle 2: Make sure that they are not complicit in human rights abuses	See pages 5,6,7,10 and 11
Labour	
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	See our Sustainability policy and our website. Also see page 10
Principle 4: the elimination of all forms of forced and compulsory labour;	See our Sustainability policy, page 10 and Modern Slavery statement on our website.
Principle 5: the effective abolition of child labour; and	See our Sustainability Policy and page 10
Principle 6: the elimination of discrimination in respect of employment and occupation.	See our Sustainability Policy and page 11
Environment	
Principle 7: Businesses should support a precautionary approach to environmental challenges;	See our Sustainability Policy and pages, 8, 9 and 10
Principle 8: Undertake initiatives to promote greater environmental responsibility; and	See our Sustainability Policy and pages, 8, 9 and 10
Principle 9: encourage the development and diffusion of environmentally friendly technologies	See pages 8, 9 and 10
Anti-corruption	
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery	See our Sustainability Policy and pages 5 and 12