

# GOODVALLEY

Since



1994

Home of Quality

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## **Statutory statement of corporate social responsibility, cf. section 99 a and b of the Danish Financial Statements Act**

This statement is part of the management report in Goodvalley A/S' annual report 2017, covering the period from 1 January to 31 December 2017.

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# Goodvalley A/S Statutory CSR report 2017

## 1. Introduction

In 2017, Goodvalley assesses the Group's CSR efforts and achievements on the eighteen measuring points, which have been used for this purpose since 2014. For the Goodvalley Group, CSR has always played a significant role for many good reasons other than simply wanting to do the right thing; We can't sustain our high effectivity in production if we don't treat our animals well, we can't attract and retain our highly qualified staff if we fail to invest in their development and fail to keep them safe and we can't expand our production if we have a reputation of polluting our surroundings and not helping out when the local communities call for it. In other words, CSR makes sense – also form a business point of view. Below, some highlights from the 2017 CSR report:

## 2. Summary

In 2017, Goodvalley became a certified agricultural producer in the Global GAP (Good Agricultural Practice) system. The Global GAP certificate, also known as the Integrated Farm Assurance Standard, is the most widely accepted private sector food safety certificate in the world and entails annual independent third-party audits of our production facilities, animal welfare and food safety as well as access to Global GAP's capacity building tools, education resources and network.

This year, as always, there are improvements and points where we are doing worse than last year but with an improvement/status quo rate of 55% (improvement on 8 out of 18 points and status quo on 2) we consider the result to be satisfactory.

We are happy to report significant decreases on the environment and climate measuring points in the pig production; consumption of water and electricity per ton live weight pig sold.

Also, on the environmental note, our operations in Poland, which account for more than 50% of the Group's turnover, were certified Co<sub>2</sub> neutral by German TÜV for the fifth year in a row. We are very proud of the fact that our entire production in Poland does not contribute negatively to climate change and we have set ourselves a target to become Co<sub>2</sub> neutral on Group level - that is in all countries of production. This means, that when we build a new farm, we strive to build a biogas plant as well, and – when the economies of scale allow it – a slaughterhouse.

Also, we report a very positive development on one of our animal welfare measuring points; rejection of pigs at slaughter house due to injuries and also an improvement on another animal welfare parameter – livability.

Furthermore, we seem to have broken the high employee turnover-trend, where especially our Ukrainian operations, which have seen the highest employee turnover in the Group are showing a significant improvement compared to last year. In Ukraine, we are particularly challenged by negative factors which are out of our control, such as war and economic crisis so it remains yet to be seen whether the positive development on this very important measuring point is sustainable.

A key element of decreasing the high employee turnover is the resources we put into education and development of our

employees, which is why we report a significant increase of education hours per employee for 2017.

On the negative side, despite our efforts to continue a trend of a declining number of accidents we see an increase in the number of accidents as well as an increase in the days away from work caused by these accidents. Also, we report an increase on the sick leave parameter.

As for women in management positions, we still struggle with a relatively low number and record a status quo compared to 2016. This CSR report is an integral part of the management report in the Goodvalley A/S annual report for 2017.

## 3. Goodvalley at a glance

Goodvalley is a vertically integrated food producer with operations within pig farming, slaughtering and meat processing, arable and feed mills as well as biogas production. Headquartered in Denmark, we operate modern facilities with the most advanced technology and farming methods in Poland, Ukraine and Russia. We apply Danish pig farming principles of sustainability and efficiency in countries with less expensive land prices, oversupply of crops, lower labour costs and prospects of meat consumption and pig price increases. We are among the most efficient manufacturers with leading operating KPIs in terms of pigs sold per sow, meat yield per sow and feed conversion ratio relative to both the average in EU and North America. Founded in 1994, Goodvalley has a successful track record of revenue growth – both organically and through acquisitions – as well as improving profitability and growing market shares, even in times with historically low world market prices for pigs.

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## 3. Organization of the CSR area



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## 4. Key commitment areas

### 4.1 Animal Welfare

**Animal welfare goal:** *“To ensure that our animals are healthy and safe at all stages in their life cycle”*

In Goodvalley, we are committed to the wellbeing and humane treatment of all animals in our care. We also believe that animal welfare and high-quality products go hand in hand in modern animal production. In 2015, we decided across the group to strictly follow Danish animal welfare standards and procedures to the extent that they do not conflict with local legislation, thereby meeting some of the highest welfare standards in the world. We expect all our farms to be fully compliant during H1 2018. To ensure that these high standards are maintained, we have issued an animal welfare policy according to which we educate and train all our employees in proper care and handling procedures concerning our animals. All employees involved with the handling of our animals must comply with company policies and understand their responsibilities to ensure the welfare of the animals in their care.

Our welfare procedures and operational facilities undergo at least two annual audits; internally by the Goodvalley Internal Audit Department and externally by representatives of our

international shareholders. Furthermore, as mentioned above, from 2017 Goodvalley is a certified a member of Global GAP, meaning that Goodvalley’s production methods and units are certified according to the internationally acknowledged rules and principles of this organisation, and will undergo annual audits from Global GAP experts.

#### 4.1.1 2017 level and 2018 targets for animal welfare

In 2017, we continue to measure the level of animal welfare on three parameters: Livability, meaning the total percentage of animals born on our farms that are sold to third parties or make it to the slaughterhouse, number of pigs rejected at slaughterhouses and the number of animal welfare related fines issued by the veterinary authorities where we work.

As can be seen from the table, livability is slightly up compared to 2016 which is satisfactory, although previous years have shown that we are able to perform above that level on this very important parameter for our business.

The second animal welfare parameter, rejections at slaughter house due to injuries has declined by 27% which is obviously a very positive development, and one that derives from a thorough

analysis of the reasons for the rejections and measures taken to mitigate these.

Thirdly, we report zero fines from veterinary authorities which is a status quo compared to all previous years.

ANIMAL WELFARE	2014	2015	2016	2017	2018 TARGET
Liveability	84.3%	84.2%	82.6%	83.2%	85%
Rejections at slaughterhouse	1,230 heads (0.16% of sold heads)	2,704 heads (0.24% of sold heads)	2,262 heads (0.18% of sold heads)	1,650 Heads	1,000 Heads
Fines	0	0	0	0	0

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## 4.2 Environment and Climate

**Environment and climate goal:** *“To reduce the negative impact of our business on the environment to a minimum”*

We recognize that our business has an impact on the environment and the climate and one of our main CSR commitments is to reduce this impact to an absolute minimum while sustaining growth and profitability. By applying state of the art technologies and best practices in our field, we strive to achieve this.

So far, Goodvalley owns and operates 9 biogas plants in Poland and Ukraine, with plant number 10 underway in Ukraine, which not only reduces the CO<sub>2</sub> footprint of the Group but also ensures a reliable, cheap and sustainable source of electricity. In Poland, where we have the majority of the biogas plants, we are proud to be producing CO<sub>2</sub> neutral pig meat, which as mentioned earlier

was certified by the German TÜV in 2017 for the fifth year in a row. This means, that we are self-sufficient with energy (KWh) on all pig farms in our biggest country of production and as a matter of fact in the entire group if we were able to supply energy across borders to other group members. We plan to establish more biogas plants in the future, which will contribute further to the sustainability of our business.

Apart from using animal manure from our farms for biogas production, we are constantly developing our recyclable waste management, which mainly consists of different biomass and in general, we put an effort into using every resource efficiently. Furthermore, we replace the machinery and equipment, which we use for cropping the land on a regular basis meaning that we use the most energy efficient technology the market has to offer. To keep track of our impact on the environment and climate we have a self-monitoring system regarding ground water quality, gasses and dust emissions, fuel consumption etc. Monitoring results are subsequently checked by environmental authorities.

### 4.2.1 2017 level and 2018 targets for environment and climate

In 2017, we continue to measure our impact on the environment and climate by consumption of water and electricity:

**Water:**

**Pig production:** *Water consumption in m<sup>3</sup> per sold ton of live weight pigs*

**Slaughterhouse:** *Water consumption in m<sup>3</sup> per ton processed meat*

**Energy:**

**Pig production:** *Energy consumption in KWh per sold ton of live weight pigs*

**Slaughterhouse:** *Energy consumption in KWh per ton processed meat*

Note that the energy consumption is NET consumption, i.e. only the energy purchased from external sources is included.

Furthermore, **we measure consumption of fuel per hectare** that we crop.

As can be seen in the table below, water consumption per sold tons live weight is down 10.5%, whereas the water consumption per ton processed meat from the slaughter house is up 4.6% due to a higher level of processing the meat at our slaughter house in Poland. Electricity consumption is down a massive 46% in the primary production, whereas we report a 12% increase in the slaughter house electricity consumption, which is also related to level of processing.

ENVIRONMENT AND CLIMATE	2014	2015	2015 NET (NEW!)	2016	2017	2018 TARGET
Water consumption (production/slaughterhouse)	14.8 m <sup>3</sup> per ton/ 6.5 m <sup>3</sup> per ton	13.7 m <sup>3</sup> per ton/ 6.2 m <sup>3</sup> per ton		17.1 m <sup>3</sup> per ton/ 6.5 m <sup>3</sup> per ton	15.3 m <sup>3</sup> per ton/ 6.8 m <sup>3</sup> per ton	13 m <sup>3</sup> per ton/ 6 m <sup>3</sup> per ton
	408 KWh per ton/ 246 KWh per ton	466 KWh per ton/ 240 KWh per ton	108 KWh per ton/ 240 kwh per ton	231 KWh per ton/ 261.2 KWh per ton	124 KWh per ton/ 290 KWh/ton	100 KWh per ton/ 235 KWh per ton
Diesel consumption per ha	123 liters	105 liters		105 liters	113 liters	100 liters

\*Note that the energy consumption is NET consumption, i.e. only the energy purchased from external sources is included.

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## 4.3 Labor safety

**Labor safety goal:** *“To keep our employees safe and healthy”*

Safety is a key point for us. Goodvalley aims to maintain a safe and healthy working environment for all employees, temporary staff, contractors, clients and visitors. Achieving this is a common responsibility for all employees of the Group.

Goodvalley introduced LEAN as a management tool in 2016, which helps keeping a strict focus on labor safety by introducing a more systematic approach to this important KPI. Introducing the concept of “potential accident” in all production units has generally had a positive impact on the number of accidents. A potential accident is not an accident but a dangerous situation which could have led to an accident. By recording and analyzing such situations with employees on a regular basis we constantly educate each other thereby avoiding that potential accidents become real.

### 4.3.1 2017 level and 2018 targets for labor safety

In 2017, we continue to measure labor safety as **number of accidents, days away from work and labor safety related fines** issued by relevant authorities. Hours of safety training per employee has been merged with hours of food safety and quality training per employee into a general Education KPI appearing under HR & Gender.

In 2017, Prime Food is once again leading the way by decreasing the number of accidents even further from 9 in 2016 to 4 in 2017, showing that the labor safety initiatives work. The Polish production company Poldanor is status quo on accidents compared to 2016 and the Ukrainian production company Danosha is up one accident compared to last year. However, on group level, as the below table shows, the number of accidents increased by a disappointing 24% compared to last year as well as a 50% derived increase in days away from work due to accidents, which is clearly not acceptable. The increase comes almost

entirely from the operations in Russia which underwent some fundamental changes in production management as well as general management during the year, but the reasons are currently being analyzed thoroughly and measures will be taken to improve the situation.

Regarding labor safety fines, we record zero fines from authorities for 2017 as was the case in 2016 and 2015.

LABOR SAFETY	2014	2015	2016	2017	2018 TARGET
Accidents	42	34	29	36	Decrease to a minimum
Days away from work	1,750	1,473	692	1,042	Decrease to a minimum
Fines	10 (total value 142 EUR)	0	0	0	0

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## 4.4 Food safety and quality

Food safety and quality goal: *“To produce safe, healthy and tasty products for our customers”*

Producing safe products of high quality for our customers is essential to us. As Prime Food, our slaughterhouse and meat processing company in Poland, is the only entity in the Group which process the meat that we produce and sell to retail and end-consumers the goals and targets in this category concern Prime Food only. Prime Food works with food quality and safety within the framework of their own Visual Management System, which is based on LEAN principles. According to this system, key safety and quality parameters are monitored and visualized on whiteboards daily, and incidents as well as potential incidents are discussed on morning meetings. Tasks are assigned to relevant persons, deadlines are set and follow up is performed at the next meeting or when agreed.

### 4.4.1 2017 level and 2018 targets for food safety and quality

In 2017, we continue to measure food safety and quality as the number of recalls in tons.

As the below table shows, Prime Food has seen an 8.4% decrease in recalls compared to 2016, which is positive, but efforts will continue to bring the number further down.

However, in 2017 one incident of listeria bacteria was found during a random laboratory check in a batch of sausages, which led to the destruction of approx. 145 tons of sausages. We take this incident very seriously and immediately took technical and hygienic measures as well as implemented regular microbiological tests on reference samples of each batch on the last day of its shelf life. Among the specific measures taken were: reconstructing the floor in the packaging department, fixing leaks in machines, introducing an extra disinfection of production equipment using level four ammonium compounds and disinfection of the production environment using a vaporized peracetic acid solution. Furthermore, we created an internal working group who has initiated a co-operation with the Swiss Institute of Food, Nutrition and Health.

FOOD SAFETY & QUALITY	2014	2015	2016	2017	2018 TARGET
Recalls	75 tons (0.2% of total)	20.7 tons (0.02 % total)	29.9 tons (0.05% of total)	27.4 tons (0.05% of total)	Decrease by 10%

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## 4.5 Community

**Community goal:** *“To contribute positively to the communities where we work”*

Goodvalley puts an effort into being a good neighbor and we support the communities where we work. We realize that being a significant player in, quite often, a relatively small community puts a special responsibility on our shoulders as business-people, landowners, employers, taxpayers etc. Therefore, we engage in various projects and social activities, supporting local communities.

### 4.5.1 2017 level and 2018 targets for Community

In 2017, we continue to measure our impact on the community as our total **donations to the community** and the number of **complaints** that we receive from people who feel negatively affected by our business.

As can be seen from the below table we have increased our donations to local communities where we work by 14%, whereas our activities still give rise to complaints from our surroundings primarily regarding smell from the manure, noise and damaged roads due to our heavy machinery. We take every complaint seriously be it on our hot lines or in writing and every one of them is handled through our grievance mechanism. In 2017, the number of complaints rose by 14%.

In 2017, as always, we have had a high level of interaction with local stakeholders in the areas where we work, including municipalities, village councils, and ordinary people like neighbors. In Ukraine, our social fund has supported 41 projects ranging from maintenance of municipal buildings, roads and other infrastructure to energy-saving projects and support to local sport clubs. Also, to interact more closely with our surroundings, a number of “open-farm” days were held, attracting great

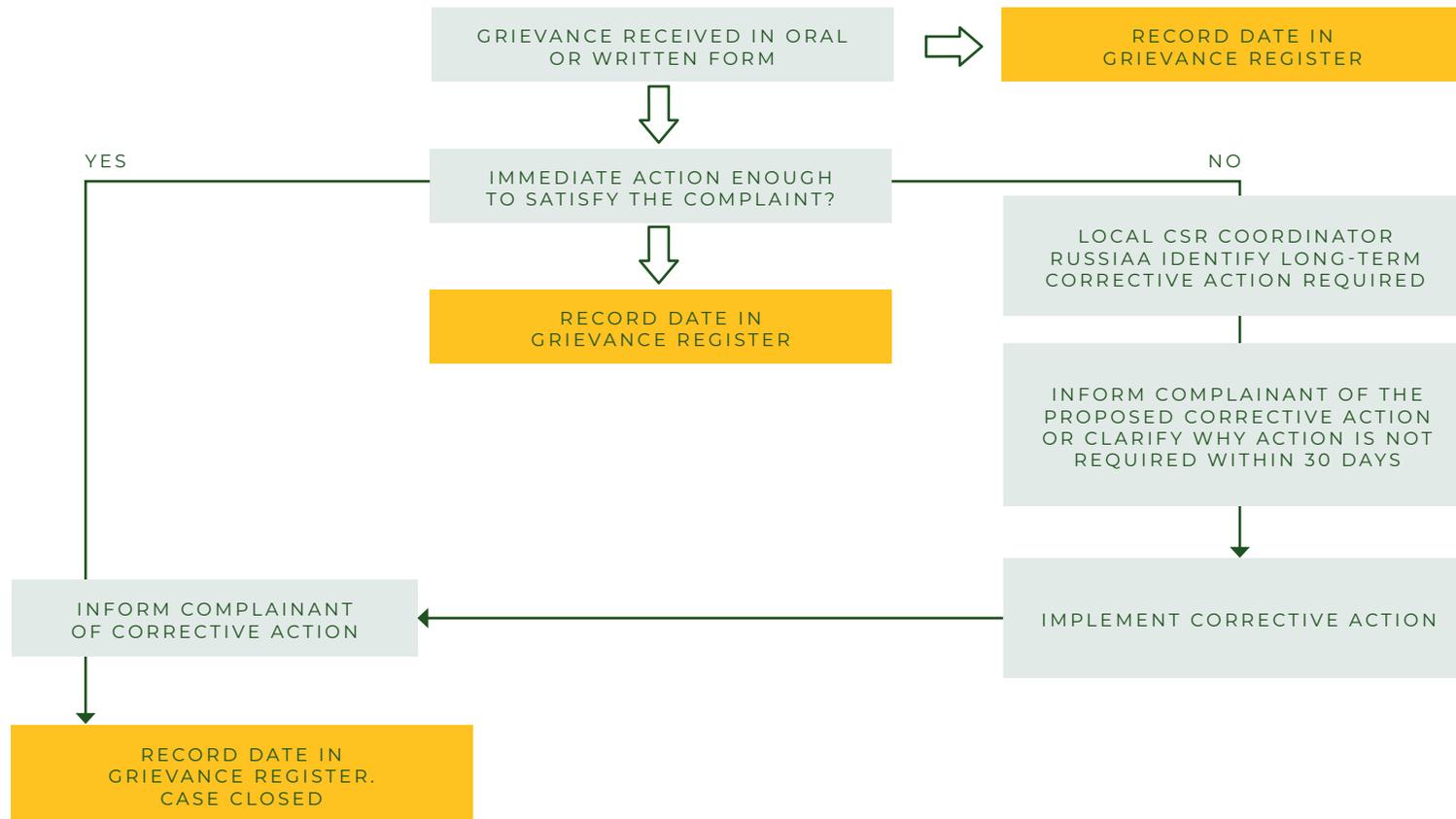
attention and giving our neighbors a chance to see what and how we do. In Poland, for the fifth year in a row, Prime Food was organizing the biggest event in the local area; the Prime Food Triathlon Przechlewo with approx. 800 participants and 250 volunteers, not to mention the thousands of spectators.

Goodvalley's Polish pig production company, Poldanor, successfully involved neighbors and other stakeholders in several tree planting projects and financially supported the publishing of a book for children about environmental awareness as well as collaborated with local conservation organizations like the League for the Conservation of Nature and The Polish Birds Association. In Russia, Goodvalley subsidiary, Dan-Invest supported the local football club, a sports school and a local folklore ensemble.

COMMUNITY	2014	2015	2016	2017	2018 TARGET
Donations	176,118 EUR	243,777 EUR	222,206 EUR	269,106 EUR	Increase
Complaints	45	111	65	74	Decrease to a minimum

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## Goodvalley Grievance Mechanism



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## 4.6 HR, Gender and Human Rights

**HR, gender and human rights goal:** *“To help our employees use their full potential and remain an attractive employer everywhere we work”.*

We know that the main asset of our company is our employees and we work hard to ensure that Goodvalley is and remains an attractive and safe place to work. We do this by constantly educating, involving and developing our employees to make sure that everyone uses his or her full potential to the benefit of the company and the employee. In 2017, our employees received 23.4 hours of education on average during the year. The education of our employees ranges from labor safety and quality to management training and LEAN-education.

We believe that applying the LEAN management principles is the way for Goodvalley to ensure quality in production and management and to keep the focus on the key parameters that are crucial for our business. Whiteboards have been introduced in all production departments from the pig stables to the biogas plants and the slaughter house and virtual software-based whiteboards are used in the group level administrative departments.

We care about human rights. We welcome memberships of unions among our employees and we do not tolerate discrimination of any kind, be it about nationality, gender, age, sexual orientation or other. And we do not tolerate violence neither physical nor psychological against either employees or management. The protection of our employees' human rights is

embedded in our HR policies and practices described below in this section, and the results are reflected in our HR targets. Furthermore, in 2018 we will focus on data protection which will hopefully contribute even more to our employees feeling safe and protected in our company.

### 4.6.1 2017 level and 2018 target for HR, Gender and Human Rights

In 2017, we continue to measure on **employee turnover, sick leave and gender diversity**.

Please note:

- Turnover is calculated as number of employees who left during the year/(number of employees at the beginning of the year + number of employees at the end of the year)/2 x 100.
- Sick leave is calculated as number of days off due to sick leave/total calendar days x 100

As mentioned earlier, for 2017, we report a slight improvement of 1% on the employee turnover, which gives hope that we will be able to break a negative trend primarily driven by our operations in Ukraine where we have experienced a massive outflux of human resources to Western Europe during recent years.

On the sick leave parameter, we see an increase by 0.8 percent points which will be one of the focus point in 2018.

Women in management shows a status quo on 24% which is not enough and consequently, this is also an area of focus for the years to come. The agricultural sector and especially the management positions in the sector is still heavily male-dominated

HR & GENDER	2014	2015	2016	2017	2018 TARGET
Employee turnover	27.3%	23%	26%	25%	20%
Sick leave	4.74%	3.7%	4.6%	5.4%	3.5%
Women in management positions	24%	26.1%	24%	24%	Increase number of women in management positions
Education	n/a	16.5 hours per employee	20.2 hours per employee	23.4 hours per employee	Increase number of hours per employee

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but given the very positive experience we have with female managers in the Group we are determined to break this trend. We do this by ensuring the inclusion of women in leadership and talent programs, mentor programs and internal marketing using the female role models that we have among our colleagues. Furthermore, we welcome and facilitate flexible work hours with the aim of improving the work-life balance for both women and men.

Education hours per employee is up a satisfactory 16% and we intend to keep this positive trend.

The Goodvalley Board of Directors, set a declared target in 2014 to have at least one woman on the board by 2018 and according to this plan, Helle Okholm was elected a board member in 2017. The Board will continue to set targets according to a Gender Diversity Policy which is currently being considered by the Goodvalley Board of Directors.

## 4.7 Anti-corruption and fair play

We understand that corruption has considerable impact on business: impeding growth, escalating costs and posing serious legal and reputational risks. In Goodvalley, integrity and honesty are core values and we know that we can be the best and win without cheating. We are bound by our name and our word and we want everyone to know that they can count on us and what we say as partner, customer, competitor and corporate citizen.

We play fair on the market and believe that healthy competition is the key to advancing societies economically, socially and culturally.

Goodvalley has an advanced IT-based whistleblower platform enabling employees and third parties to report incidents of corruption, theft or other misconduct directly to the Goodvalley Audit Committee and completely anonymously. All such reports are handled according to Goodvalley's Whistleblower Policy. In 2017 no reports were filed.

## 5. CSR risks

Some of the CSR measuring points are part of Goodvalley's risk management reporting as well.

The animal welfare risk primarily entails the risk of diseases hitting our herds, the main one being African Swine Fever, an extremely contagious disease with no cure for it, currently sweeping across Eastern Europe and into Western Europe. When a herd is hit by this disease it must be destroyed entirely, including healthy animals. The virus is spread by physical contact between the pig and the source of contamination, be it wild boars, manure from contaminated pigs, dirt and even blood transported by mosquitos. Goodvalley seeks to mitigate this risk by having extensive biosecurity protection of its production sites as well as very strict biosecurity rules in place for the employees handling pigs. Should the risk materialize, we have contingency plans in place for handling such a situation efficiently and according to all regulations.

HR risk is an issue for Goodvalley and other large agricultural producers in Eastern Europe due to a combination of an inherent lack of prestige in animal farming, crisis, war and increasing globalization not to mention the free movement of labor inside the European Union. These factors cause scarcity of labor and high employee turnovers and pose a real threat to expansion of a business like Goodvalley. We seek to mitigate this risk by offering development opportunities, education and a stable competitive salary as well as branding Goodvalley as an attractive employer.

There is a reputational risk connected to most of the areas covered in this report, and we believe that mitigating this risk is first and foremost done by being good corporate citizens wherever we work, by being honest, and transparent with our surroundings thereby protecting our good name. However, should incidents occur, we have internal communication and PR departments in all countries of operation as well as an external communications adviser and contingency plans in place to mitigate such situations.