



Growing Responsibly Together

Sustainability Report 2015

CSR management

In 2013 we drew up our CSR policy so as to make our CSR performance and goals transparent and measurable. This policy, entitled Growing Responsibly Together, has three pillars: our suppliers, our company and our customers. Our Sustainability Officer is responsible for coordinating our CSR policy. We have also appointed a Sustainability Officer Dairy, who leads our comprehensive milk Sustainability Programme. Responsibility for our sustainability goals, more than 30 in 2016, lies with the members of the management team (MT). Progress is discussed on a quarterly basis with the MT and the Board. Furthermore, the CSR policy is reviewed and enhanced at least once a year during a meeting with the Board and the MT, partly on the basis of the results of interviews with stakeholders.

Vreugdenhil adheres to GRI guidelines

Vreugdenhil has drawn up this CSR report and selects and collects data in accordance with the guidelines of the Global Reporting Initiative (GRI), version 4. This report deals with the material topics to be addressed by Vreugdenhil and its stakeholders. No changes have been made to definitions or measurement methods. There were no acquisitions or divestments in 2015. The GRI table is posted on www.vreugdenhil.nl/duurzaamheid, which also contains a stakeholder document, a CSR survey with the value chain and the glossary, which completes the reporting concerning 2015.

External audit of sustainability performance

Besides stakeholders, we also have independent parties assess our sustainability performance:

- **CSR management:** Every year Lloyds checks whether our CSR management system is effective and how far ahead we are in terms of sustainability. This two-day inspection will replace our CSR Performance Ladder certification as of 2016; with this inspection we are introducing a tailored inspection which will prevent the following audits/checks being duplicated.
- **Working conditions, the environment and business practices:** In 2016 SGS will conduct a 4-pillar SMETA audit for our production sites in Gorinchem and Scharsterbrug. SMETA is based on existing standards such as the internationally recognised ETI code of conduct.
- **Food safety:** Our production sites are certified by Lloyds according to internationally recognised food safety standards: FSSC22000 in Scharsterbrug and Barneveld and ISO22000 in Gorinchem.
- **Transparency regarding CSR:** The Dutch government ranks the transparency of companies' social reporting by means of the Transparency Benchmark. In the latest ranking (concerning 2014) we were ranked 113th of the 500 largest companies in the Netherlands (and 12th of the 49 food companies).
- **Sustainable dairy farming:** The outdoor grazing and sustainable indoor livestock elements of our Sustainability Programme are monitored by Q-lip.

Colophon

Nijkerk, May 2016

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We bring you the best of milk

We aim to nourish the growing world population with tasty and nutritious milk powders. Our mission is to bring the best of milk. The dairy market is growing around the world and we are growing along with it in a responsible manner. It is our firm belief that a healthy business and a healthy world can only be maintained through corporate social responsibility together with our employees and supply chain partners. That growth was clearly visible in 2015. With the opening of our energy-efficient factory in Gorinchem we will increase our capacity. We received more milk from our dairy farmers and produced 7% more milk powder. Our workforce grew too. And finally, we will open our new sustainable headquarters in early 2016.

Challenging dairy market

The high milk production - caused, among other things, by the milk quota being abolished - and reduced demand led to a fall in milk prices for our dairy farmers in 2015. However, we expect milk prices will eventually go up again, because of the growing world population's increasing demand for nutritious and tasty food.

Sustainability performance in 2015

The percentage of dairy farmers who participate in our Sustainability Programme, which makes ever more exacting demands, rose again in 2015. Farmers whose operations surpass statutory requirements in terms of animal welfare, outdoor grazing, the environment and the climate received a higher payout for their milk. We ran on 100% green electricity, 39% of which was obtained through the purchase of green certificates from our dairy farmers who own wind turbines. We also used 100% sustainable palm oil and soy lecithin and the CO₂ emissions generated by our transport decreased, as did the number of product quality complaints. Our energy consumption rose in 2015 due to the construction and commissioning of our new factory in Gorinchem. We expect to achieve our 30% reduction target by 2020 by investing in energy efficiency. We put a lot of time into getting employees engaged in sustainability

by means of a prize contest, workshops and calling attention to CSR in our communications. Two trainees started studies, one into the reuse of our tins and the other into enriching our products with vitamins and minerals for Africa. And finally, the first water well was drilled for our 'litre for a litre' project. With this project we aim to mirror the water we extract during the production of milk in the Netherlands, via the production of clean drinking water in Africa, which is a big market for us.

Focus on safety and health in 2016

We are not pleased with the rise in sickness absence and the number of accidents in 2015. These matters will be given top priority in 2016. In 2016, after a year of growth, we will focus on our basic mission: producing the highest quality milk powder in a challenging, safe and healthy working environment.

In this sustainability report we render account for our sustainability performance and sustainability goals. Should you have any questions about or ideas for our policy, please do not hesitate to contact us at mvo@vreugdenhil.nl.

Jan Vreugdenhil, Chairman

Albert de Groot, CEO



Sustainable dairy farming

1. Our suppliers

"It is important that we produce healthy milk powders not only today, but in the future for next generations as well. We therefore reward our dairy farmers who take a revolutionary approach to sustainable milk production."

Marjolein de Kreij

Milk Supply Coordinator, Nijkerk

82% of our dairy farmers participated in our Sustainability Programme

The Dutch Dairy Association and LTO Netherlands have set ambitious targets within the Sustainable Dairy Chain for 2020 (www.duurzamezuivelketen.nl). Vreugdenhil has translated those goals into a sustainability programme, in which our 891 Dutch dairy farmers will be financially rewarded for efforts that surpass statutory requirements. In this programme we also invest through workshops and tools in awareness and the transfer of knowledge. To qualify for a financial reward, farmers must achieve at least half the total number of programme points.

Grazing premium

Every extra effort is recognised by means of a financial reward of up to €1.00 per 100 kg of milk. This incentive motivated 67% of dairy farmers to complete the energy scan and 69% to participate in the Cow Compass programme in 2015. Cow Compass is an instrument with which veterinarians map the welfare and health of the animals and advise on improvement steps. Furthermore, 86% of dairy farmers practise some kind of outdoor grazing. This percentage is higher than the Dutch average of 78%, but unfortunately lower than our result in 2014. Consequently, starting in 2016 we will pay out a separate grazing premium to farmers that practise full outdoor grazing. We hope that this higher financial reward will stimulate dairy farmers to continue practising grazing or even to change to outdoor grazing rather than keeping cows indoors. Besides our sustainability programme we also demand, for instance, that only responsibly grown soy is purchased for cattle feed.

Dilemma: Production growth versus phosphate and greenhouse gas targets

2015 was a year full of uncertainty due to the abolition of the milk quota and the uncertainty about the new regulation. As a result, our dairy farmers, who supply more than two-thirds of our milk, milked substantially more animals in 2015. This production growth enables us to meet the growing market demand resulting from an increase in the (prosperity of the) world population. But in the short-term, because of insufficient knowledge and techniques, that high milk production is a threat to the sector achieving

its goals as regards to climate-neutral growth, ammonia and phosphate production. These goals are important for the protection of nature and the environment and climate. It is highly important that Vreugdenhil gets clarity on the regulations around phosphate production, which is a leading aspect in our policy.



86% OF OUR DAIRY FARMERS PRACTISE OUTDOOR GRAZING

Animal health and welfare as a key priority

Dairy farmers have administered significantly lower quantities of antibiotics in recent years. Antibiotics are now used exclusively for curative purposes and not as a preventative measure. In 2015, 99% of our dairy farmers met the standard of the Veterinary Medicines Authority: less than six days of antibiotics per cow annually. Animal health and welfare will remain a key priority for Vreugdenhil in 2016. Therefore, a new element in the 2016 sustainability programme is to reward dairy farmers whose cows live longer than average and dairy farmers who work to stay or become free of IBR (Infectious Bovine Rhinotracheitis) and BVD (Bovine Viral Diarrhoea). In 2016 we will also examine how we can reward dairy farmers based on results rather than effort, such as in terms of greenhouse gas emissions, which is very important in order to reduce our environmental impact.



Fair and environmentally friendly purchasing

1. Our suppliers

"The fact that we have been adding 100% responsible soy lecithin to our products since November 2015 is something to be proud of. The soy lecithin is certified according to the ProTerra certification programme and the soybeans are grown sustainably in Brazil. This means, for instance, that people and nature are protected through the safe use of plant protection products."

Rob van Rooijen

Purchaser, Nijkerk

Our approach focuses on more than milk

Besides the milk we buy from our dairy farmers, we also scrutinise our other purchases. We discuss CSR initiatives with suppliers, both ours and theirs, and ask them to sign our Supplier Code of Conduct containing human rights and environmental requirements. In terms of volume, 97% of our dairy and ingredients suppliers and 99% of our packaging suppliers (mainly tins, paper and plastic) have already signed the Code. We then examine how we can improve the sustainability of purchases that carry (major) environmental and social risks. In 2015 a progress document, including improvement options, was drawn up for centrally purchased goods and services. One improvement is to include sustainability in our supplier assessment system as from 2016. CSR is also included in the related audits (approximately 20 per year).

Research into the environmental impact of tins

In 2015, we achieved a slight reduction in our packaging material. There are, however, limits to thinning down packaging, as we want our products to reach our customers safely and free of dents. The environmental impact of our packaging is reduced if it is recycled. Our influence in that respect is limited given the links in the supply chain and the physical distance between us and our end users. In 2015, we started researching the environmental impact of tins in conjunction with a client and a student of the Van Hall Larenstein University of Applied Sciences. Tins represent 80% of our packaging in terms of weight and are mainly used for exports to Africa. The purpose of the research is to map the life cycle of the tins after use and to identify possibilities for recycling. The results will be available in 2016.

Sustainable palm oil

Since late 2014, we buy only sustainable palm oil (Roundtable on Sustainable Palm Oil mass balance). Our palm oil producers therefore meet criteria such as: no deforestation, low use of pesticides and proper treatment of employees. We incorporate palm oil in our affordable milk powders. We replace milk fat with vegetable fat, retaining the nutritional value.

Responsible soy lecithin

Soy lecithin, which we incorporate into some of our products, ensures that our milk powder dissolves quickly in water. 50% of this soy was already grown sustainably; however, since

November 2015 we use ProTerra certified 100% responsible soy lecithin. This means that the soybeans are cultivated sustainably - in our case in Brazil. Sustainable cultivation protects workers, small farmers and vulnerable regions.



Water transport

In 2015, 93% (in 2014: 95%) of the container transport organised by Vreugdenhil was transported by ship from the factory in Gorinchem to the ports of Rotterdam and Antwerp. A pilot project was launched in 2015 to have as many containers as possible transported by ship from Scharsterbrug as well. Prior to 2012 containers were transported from Gorinchem exclusively by road, resulting in higher CO₂ emissions. Partly because of that water transport, CO₂ emissions in 2014 were 14% lower than in reference year 2011 (the figures for 2015 will be available in mid-2016). Our goal is a 20% reduction in CO₂ emissions by 2020 compared to 2011. The transport of milk from our dairy farmers to the production sites and other road transport will also become more efficient through environmentally friendly lorries and optimised transport planning. CO₂ emissions from the transport of milk fell in 2015 by 10.3% compared to 2013 (target is a 20% reduction between 2013 and 2020).



Healthy and engaged employees

2. Our company



"To ensure safety, we make sure that all production employees wear special ear and eye protection. Hair and beard nets are also essential. Hygiene is given priority so as to make the best quality milk powders. And with fresh fruit provided at all locations we stimulate a healthy lifestyle."

Jan Brouwer

Assistant Head of Production, Scharsterbrug

Pleasant and professional work

Our workforce grew by 16% from 295 to 342 employees in 2015. Our employees generally stay with us for many years. At the end of 2015 the average employment duration was 10 years. One-third of our employees are over 50 years of age and 16% are women. It is important to us that our employees enjoy working (together) in a professional manner. In 2016 we will conduct an employee survey to measure this. Also, a 4-pillar SMETA audit will be carried out in our factories in Gorinchem and Scharsterbrug. This is an independent, internationally recognised audit to check our working conditions.

Focus for 2016: Health and safety

Healthy employees make healthy businesses. Unfortunately, the sharp drop in sickness absence in 2014 did not continue in 2015. Sickness absence (sick for up to two years) increased from 5% in 2014 to 5.4% in 2015. On the other hand, there was a drop in short-term sickness absence. Our goal to reduce sickness absence to below 4% by 2020 remains in full force. We expect that the health project we are launching in 2016 will help us achieve this goal. Safety is also high on the 2016 agenda. We aim to reduce the risk of accidents. We counted 47 accidents in 2015, nine of which were accidents resulting in sickness absence (we counted four such accidents in 2014; the higher number in 2015 is partly due to improved registration). Safety training is now in place and risk analyses have been performed. In addition, a group in our talent training programme is working on the safety theme.

Courses

Employee training and development is essential for employee engagement and for the success of our company. In 2015, 85 employees were trained for the new factory in Gorinchem. A personal development programme commenced for young, talented employees with a higher vocational and academic background. The first group of employees from various locations presented a plan to the Board and Management for improving cooperation between the business units. The second group is working on a plan to improve safety.

Health project wins CSR prize contest

Raising enthusiasm for sustainability was a key goal for 2015. Measures to this end were workshops (a total of over 100 participants), soapbox presentations, CSR signs with pictures of employees, weekly emails and the new staff magazine. We also organised a CSR prize contest. The six judges received approximately 50 ideas for turning Vreugdenhil into a more sustainable company. After assessing feasibility, originality and impact, the jury nominated three ideas:

- Health project in factory: Make it easier for shift employees to live a healthier life by means of daylight bulbs, training on healthy eating habits at night or healthier meals.
- Green Teams: At each location appoint Green Teams comprising employees from various departments. Each team meets every month to discuss how we can work in a more environmentally and people friendly manner.
- Recycle condensate water: Study whether we can reuse the water we evaporate from milk for cleaning, washing hands or flushing toilets, for instance.



IN 2015, OUR WORKFORCE
GREW BY 16%, FROM 295
TO 342 EMPLOYEES

240 employees voted on these ideas. The ultimate winner, the person who came up with the winning health project, may travel to Ethiopia in 2016 to visit our drinking water project. We will set to work on all three ideas.



Environmental friendly factories and offices

2. Our company

“We can produce more milk powder in our new factory in Gorinchem. My day-to-day responsibility is to oversee the machines in order to safeguard the high quality of our milk powders while consuming as little energy as possible. But saving energy is mainly a matter of using energy efficient machines, which we have in place.”

Naim Charif

Process Operator, Gorinchem

Highest sustainability requirements applied to new buildings

Our energy consumption per tonne of product increased in 2015, partly due to the construction and commissioning of the new factory in Gorinchem. Testing the factory lines consumes a lot of energy, but produces a low yield. We expect that the energy consumption per tonne will eventually drop thanks to the new factory's energy efficiency, through its reuse of heat and cold, for instance. The electric motors in the new tower are the most energy efficient in their class. And finally, we use LED lighting and motion sensors.

Since 2005 the production site in Scharsterbrug has consumed over 30% less energy per tonne of product. In 2015, however, energy consumption increased, mainly due to the commissioning of the third evaporator and the related tests for the new operating procedure. We successfully completed this process at the end of 2015. All in all, we consumed 16% less energy per tonne of product in 2015 than in 2005. We have set ourselves an ambitious goal: 30% less energy per tonne of product by 2020 compared to 2005. It is important that we achieve this goal if we want to reduce our impact on the environment.

In 2015 we consumed 2.6 m³ of water per tonne of product, which is approximately the same as in 2014. So once the new plant is fully operational, we expect our water consumption to drop.

Finally, a new waste policy was introduced in Barneveld. Properly separated waste helps the waste company to recycle more waste. Almost all of the waste is ultimately recycled. The water and energy figures and goals apply to the Gorinchem and Scharsterbrug sites, which together account for 99% of our energy and water consumption (conversion factors: 1 kWh electricity = 3.6 MJ and 1 m³ gas = 35.17 MJ).

Wind energy generated by our dairy farmers

In 2015, 100% of our electricity was green. 39% came from wind turbines owned by six of our dairy farmers through the purchase of their Guarantees of Origin (GOs). With a premium for green certificates we aim to encourage other dairy farmers as well to deliver their GOs to us. The remaining green electricity came from wind energy from Scandinavia.

Dilemma: Investing in the greening of our gas consumption

By purchasing 100% green electricity, our percentage of renewable energy comes to 11%.

Our goal, as agreed in the Sustainable Dairy Chain, is to achieve 16% renewable energy by 2020. The remaining 89% of our energy consumption is gas, much of which we use to evaporate water from milk. However, green gas is scarce. In 2016 we will start offsetting the CO₂ emissions from our gas consumption by buying CO₂ credits in developing countries. However, we prefer to have renewable energy generated in the dairy chain. Manure fermentation is an option, although not an easy one because of permits and high costs. We did not focus on this last year due to the many other investments within our company. Renewable energy is the future, however, so during the next few years we will investigate the best options.



Opening of sustainable office in Nijkerk

We will move into our new office in the early part of 2016. Sustainability measures there are insulation and thermal energy storage, solar panels (providing 25% of our electricity consumption), charging stations for electric vehicles, use of rainwater for toilets, ergonomic office furniture manufactured in the Netherlands and natural ventilation. These measures make our office a very pleasant place to work and our building one of the most sustainable office buildings in the Netherlands. That is to say, environmentally friendly and with a pleasant work environment. We expect to receive proof of this in 2016, namely the 5 star BREEAM-NL New Construction certificate, which is the highest BREEAM rating.



Nutritious and tasty products

3. Our customers

"At Vreugdenhil we constantly work on the quality and food safety of our milk powders. In 2015 we paid special attention to these aspects on several fronts, resulting in a drop in the number of customer complaints, for example. We also set up a training programme to ensure that our employees work in a uniform manner in order to guarantee the quality and food safety of our products."

Stephanie de Vries

Quality Assurance Officer, Barneveld

Enrichment of milk powder and fewer complaints

Our products provide important nutrients such as protein, calcium, zinc, vitamins A and B. We produce affordable and tasty milk powders with which we can help to reduce vitamin and mineral deficiencies. Approximately two billion people suffer these deficiencies (hidden hunger), mostly in Africa - an important market for us. The most common deficiencies are iron, zinc, iodine, folic acid and vitamins A and B.

Research on the enrichment of products for consumers around the equator

In 2015 we started to look into enriching our products with vitamins and minerals so as to make a greater contribution to health. Together with a client in the Angolan market and a student of Wageningen University & Research Centre, we are conducting research into the nutritional needs of consumers in Angola and the optimal vitamin and mineral composition of our enriched products. We are also studying to what extent the results apply to other African countries. The study will be concluded in 2016 with a recommendation.

Working on quality, day in, day out

Safe products are a prerequisite for contributing to the health of consumers. That might seem obvious, but it means that quality is given priority every day. Our production sites are certified

according to internationally recognised food safety standards (FSSC22000 in Scharsterbrug and Barneveld, ISO22000 in Gorinchem). Since 2014 dairy farmers who meet increasingly stringent additional quality demands receive a premium for their milk.



IN 2015, WE COUNTED 16% LESS PRODUCT QUALITY COMPLAINTS THAN IN THE PREVIOUS YEAR

A measure of our success is the number of customer complaints. We aim to reduce that number by ten percent per year. In 2015 we counted 16% fewer product quality complaints than in the previous year. We also set up a Customer Service department. With this expansion, we hope to optimise the service we provide to our customers.



Clean drinking water

3. Our customers

I won the CSR competition with the plan for a health project for colleagues working in shifts. Think of healthy nutrition, good sleep and coping with stress. With this idea I won a trip to Ethiopia where we, together with our partners Made Blue and World Vision, will provide clean drinking water to over 4,000 people over the next 20 years. It is indescribably good to see people being intensely happy with the arrival of this basic necessity of life.

Jippe Cornelissen

Technologist, Gorinchem

A litre for a litre

We extract water from milk to produce our milk powders. Consumers then put water back into our products. But clean drinking water cannot be taken for granted in Africa, where many of our consumers live. That is why in 2014 we started to finance water projects in Africa. 'A litre for a litre' is our motto for these projects. As from 2020 we aim to give back one litre of water to severely water stressed African countries where our milk powders are sold, in return for every litre of water we extract in the Netherlands from the milk for our consumer milk powders destined for Africa.

Clean drinking water for more than 4,000 Ethiopians

In 2014 we entered into a partnership with World Vision and Made Blue. This means that in the next 20 years (technical life of infrastructure) we will produce at least 525 million litres of clean drinking water in a region in Ethiopia that suffers a shortage of clean drinking water. A well with a depth of approximately 130 metres was drilled in 2015. The water is led to four consumption points, among which a school and a health centre, in the village of Guramba Bata. A group of people are being trained to maintain the water infrastructure. Coaches are also being trained to encourage people to change their hygiene behaviour. Approximately 4,000 inhabitants in total will have structural access to clean drinking water for at least 20 years. The collaboration with Made Blue also means that the agreed litres Vreugdenhil evaporates are fully and measurably mirrored by creating access to drinking water in developing countries.

Water filter

In 2016 we will start offsetting the CO₂ emissions from our gas consumption by buying CO₂ credits in developing countries. This is an internationally

recognised practice for the greening of energy consumption. We have opted to achieve the offsetting by means of a water project, as water is an important theme to us. By funding ingenious water filters (Life Straws) in areas that have no clean drinking water, there is no longer any need for people to boil their water. This in turn prevents the emission of CO₂, meaning that we also help to counteract climate change. Since climate change is a risk to the future of our company, we must also consider how we can use only renewable energy in our own chain in the long term.



IN TOTAL, OVER 4,000 PEOPLE WILL RECEIVE STRUCTURAL ACCESS TO CLEAN DRINKING WATER FOR AT LEAST 20 YEARS

Sponsoring

We also sponsor other (health) projects in developing countries, of such organisations as Word and Deed (poverty alleviation), ZOA (refugee aid) and Doctors without Borders (humanitarian emergency support).

"A healthy and productive life depends on access to clean drinking water. Without that access, children are unable to attend school because they have to walk for hours to fetch water. And that water is often contaminated, which makes them ill. Polluted drinking water is the main cause of the high infant mortality rate in developing countries. We are thrilled that Vreugdenhil understands the importance of water and is taking responsibility in this respect."

Frank van der Tang

Founding partner Made Blue

Mission and vision

Vreugdenhil

Mission: We bring you the best of milk

The demand for healthy food is increasing around the world. As a Dutch producer of powdered milk, we are meeting this need by providing dairy products and dairy-based ingredients for nutritious and tasty products.

The best of milk. Thanks to our years of experience in producing and distributing powdered milk, we now have the best raw materials, an efficient infrastructure and the capacity to supply global markets. This enables us and our supply chain partners to make the difference for millions of consumers around the world. This is more than a mission; it's a calling.

Vision: We are world class

We want to be the most sustainable producer of powdered milk in the world. We do this by growing our business responsibly, with our employees and partners. Our business processes are geared to enable us to respond quickly and flexibly to market demand. We promise pleasant and professional collaboration. And the highest quality milk powders, of course. We are worldclass.



"We believe it is important that people can experience what goes on in the farmyard. Take, for instance, the 80 schoolchildren who witnessed cows being let out to pasture in the spring. It's a great thing to see. We want to show that we, as professionals, take good care of our animals and that good animal health and a good result go hand in hand."

The Van Oort family, dairy farmers in Biest-Houtakker