



2022 Materiality Guide for U.S. Dairy

A Support Resource for Dairy Cooperatives and Processors

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This guide contains references to and citations from the GRI Sustainability Reporting Standards. The Global Reporting Initiative (GRI) is the independent international organization - headquartered in Amsterdam with regional offices around the world - that helps businesses, governments and other organizations understand and communicate their sustainability impacts. The GRI Standards are developed with true multi-stakeholder contributions and rooted in the public interest. Learn more at [globalreporting.org](https://www.globalreporting.org).

FOREWORD

The Materiality Guide for U.S. Dairy aims to help dairy companies conduct their own materiality assessment based on the **2021 Materiality Assessment for U.S. Dairy**.

In 2021, the Innovation Center for U.S. Dairy conducted a refresh of the 2019 national materiality assessment. The process was designed to review the topics from the 2019 assessment and to consider any necessary changes to ensure that the latest insights and stakeholder expectations and interests were reflected. The 2021 Materiality Assessment for U.S. Dairy remains aligned with the 11 Global Criteria of the **Dairy Sustainability Framework (DSF)** as well as with principles and methodologies within the **Global Reporting Initiative's Sustainability Reporting Standards (GRI Standards)**. The assessment is also recognized by the Sustainable Agriculture Initiative Platform (SAI Platform) within the **Sustainable Dairy Partnership (SDP)** supply chain assurance model.

A materiality assessment provides the foundation for a company's sustainability strategy and its corporate reporting. It brings attention to what matters most. By conducting a structured and sound materiality assessment, companies can identify and better understand their sustainability impacts and prioritize them to inform strategic, management and reporting decisions. Companies also can better communicate with the growing number of stakeholders that are interested not only in an organization's sustainability priorities but also in the way they were determined.

The national assessment outlines U.S. dairy sustainability priorities based on more than a decade of industry and external insights, research, stakeholder engagement and collaboration. Based on well-recognized impacts along the dairy value chain and reinforced by broad stakeholder input, the national assessment serves as a strong foundation

for dairy cooperatives and processors. The topics are likely to be material for most dairy companies to address. The prioritization grouping for most topics will also be similar across companies; however, the relative ranking of the topics might vary by organization. The guidance helps companies consider and evaluate organizational factors, such as business activities, relationships and location-specific aspects, to complete their individual assessment.

In this way, the guide serves as a companion to the national assessment to help companies meet the company-specific materiality assessment requirements within the SDP and other stakeholder expectations related to materiality disclosure, thereby simplifying the overall process. It outlines key steps for dairy companies to use the national assessment to complete a credible and beneficial assessment at the organizational level. The assessment process in the guide references the GRI Standards, the most widely used framework for sustainability reporting worldwide.

We hope you find the guidance and insights valuable in supporting your ongoing sustainability efforts. Your comments and questions are welcome. Please get in touch at innovationcenter@USDairy.com.

A materiality assessment or analysis is the process of identifying and prioritizing the economic, environmental and social issues that matter most to an organization and its stakeholders. This makes it a valuable management tool.



Learn more about the U.S. Dairy Stewardship Commitment at commitment.usdairy.com.

INTRODUCTION

About Materiality

Materiality is about what matters most to decision-makers. Although it is a common concept used in business, financial, legal, regulatory and sustainability settings, different definitions exist that reflect the unique context and purpose of each setting.

Despite the differences, strong commonalities are clear. In its *Statement of Common Principles of Materiality*, the Corporate Reporting Dialogue indicates that most materiality definitions agree that “material information is any information which is capable of making a difference to the evaluation and analysis at hand.” This alignment appropriately emphasizes the central role of materiality in decision-making. In recent years, concepts of materiality have developed to address considerations of significant positive or negative impacts on people, the environment and the economy, as well as sustainability matters that are financially material or create or erode enterprise value.

The marketplace increasingly expects dairy companies not only to report on sustainability progress but also to disclose how priorities are determined through a materiality assessment. A materiality assessment is the process of identifying and prioritizing the economic, environmental and social issues that matter most to an organization and its stakeholders and influence long-term value creation. This makes it a valuable management tool. When done well, the process delivers a range of well-recognized benefits to the organization and its stakeholders (see sidebar).

“Materiality is foundational to the Sustainable Dairy Partnership (SDP). The U.S. Dairy Materiality Assessment reflects shared insights from a broad stakeholder group and over a decade of collaborative action throughout the dairy community. U.S. companies can use this assessment to streamline and simplify the creation of their own assessment not only to meet expectations of the SDP but also to affirm and inform their company’s overall sustainability strategy and actions.”

– Patricia Garcia Diaz
Livestock Director, SAI Platform

Benefits

A robust, credible materiality assessment process delivers multiple benefits:

- **Deepens a company’s understanding** of its current and potential sustainability impacts
- **Brings focus** to the topics that impact long-term value creation
 - > Provides valuable input to strategy development, risk management, product and service development, reporting and communications, and decision-making in other areas
 - > Enables the business to concentrate resources and energy on what matters most
 - > Helps build and strengthen the foundation of an organization’s sustainability strategy
- **Supports relationship building** through its emphasis on stakeholder engagement
 - > Stimulates dialogue with individuals across organizational units/divisions and with external stakeholders such as suppliers, customers, investors and advocacy groups
 - > Builds confidence and buy-in
- **Defines the key topics to be reported** and communicated
 - > Improves the quality of the sustainability report and the relevance of its content
 - > Increases the credibility of the report by demonstrating that the company hasn’t cherry-picked topics
 - > Supports the reliability of the information covered in the report
- **Supports the integration of sustainability** considerations across management systems

Materiality Within the GRI Standards

This guide outlines steps for U.S. dairy companies to use the national assessment to complete a materiality assessment that meets the requirements for widely recognized ESG (environmental, social and governance) frameworks and programs, including those within the Sustainable Dairy Partnership. Various programs, including the SDP, call for conducting a materiality assessment in line with international standards such as the **GRI Standards**.

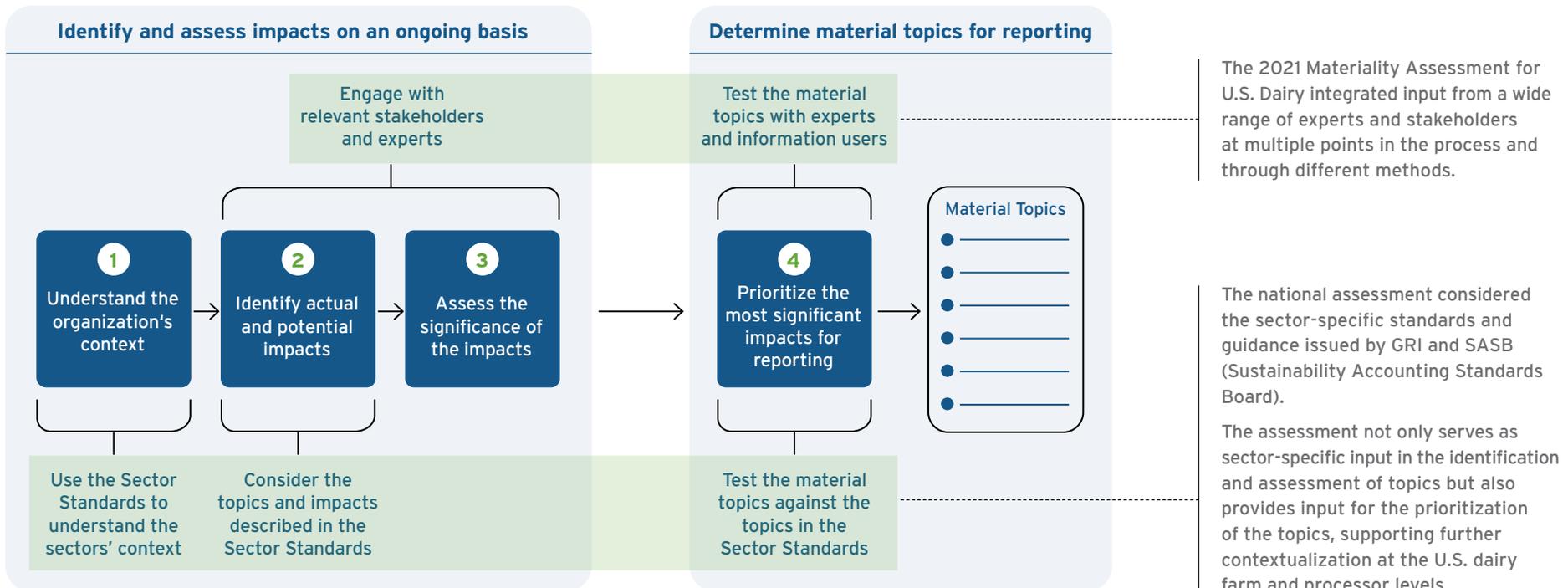


The first and most widely used global standards for sustainability reporting, the GRI Standards provide a comprehensive framework for organizations across sectors, sizes and types to report on a range of economic, environmental and social impacts.

GRI is an independent international organization that helps businesses, governments and other organizations understand and communicate their sustainability impacts. GRI promotes best practices in impact reporting. The GRI Standards' principles-based guidance for determining material topics helps companies identify and consider their main sustainability impacts and prioritize topics and issues for reporting, as well as informing other organizational decisions.

The U.S. Dairy Materiality Assessment applies a GRI-aligned process, and this guidance references the process to determine material topics within the GRI Universal Standards 2021 (GRI 3: Material Topics 2021, 102). The diagram on page 6 highlights the application of the GRI process in the national assessment and within the guidance.

Figure 1. GRI Process to Determine Material Topics



Source: Global Reporting Initiative. GRI Universal Standards. GRI 3: Material Topics 2021, 102.

Using This Guide

The purpose of this guide is to help U.S. dairy cooperatives and processors conduct their own materiality assessment based on the 2021 Materiality Assessment for U.S. Dairy. This resource is further intended to provide general guidance to conduct an assessment in line with the requirements of global ESG reporting frameworks and programs such as the Sustainable Dairy Partnership. It is not exhaustive, and the process presented should be adjusted to fit the needs and context of each individual organization.

While the intended primary readers are individuals at companies that have adopted the U.S. Dairy Stewardship Commitment, the content in this guide can be applied across the dairy value chain. The word “you” in the guide refers to anyone in an organization helping to lead or facilitate the materiality assessment process. Their organizational roles vary from dedicated sustainability positions to diverse functions in areas such as strategy, operations, quality and communications.

Scope

The guide covers the topics, boundaries and prioritization in the national assessment. High-level guidance is provided for consideration of topics outside of the scope of the national assessment.

Structure

The sections in the guide move from high-level to more detailed information for conducting a materiality assessment, with the latter providing an overview for documenting the process. The section on the GRI disclosures related to materiality is also of value for those developing a GRI-based sustainability report.

The Appendix contains an overview of the pilot assessment conducted to inform the development of the guide along with definitions of key terms.

Companion Resources

- **2021 Materiality Assessment for U.S. Dairy**
- Additional resources are available at usdairy.com/research-resources.

Key Points

The following points are important to keep in mind as you use the guide:

- **A GRI-based materiality assessment is a principles-based, rather than prescriptive, process.** This brings flexibility: The specific approach and methods you take can be customized and scaled based on your organization and its resources and needs. The process can be as simple or complex as needed, and it can be refined and expanded over time. In addition, it allows for integration with other management processes, which increases the value of the assessment.
- **The process in the guide leverages the results of the national assessment for U.S. dairy.** The assessment is based on the extensive body of evidence on dairy’s economic, environmental and social impacts. Its results incorporate input from experts and stakeholders and align with multiple frameworks and standards, which also incorporate input from multistakeholder processes. The topics and prioritization groupings are therefore likely to be material for most dairy companies to address, while the relative ranking of the topics might vary. This makes the U.S. Dairy Materiality Assessment a solid starting point for U.S. dairy companies.
- **Integration with other guidance and frameworks is encouraged.** The recommended process is complementary with and considers other frameworks for sustainability, such as the United Nations Sustainable Development Goals (UN SDGs), and leading standards and guidance for ESG and nonfinancial reporting. Specific reference is made to the GRI Standards, the SASB Standards and their sector-specific guidance.
- **Additional resources are plentiful.** The development of the 2019 guide and this updated version drew from many of the publications on this subject. In addition, through the Innovation Center for U.S. Dairy and your organization’s involvement in collaborative Innovation Center programs, you and your organization have a solid foundation and a wealth of resources to support the materiality assessment process. Refer to the **Innovation Center’s Research and Resources page** for updated information.

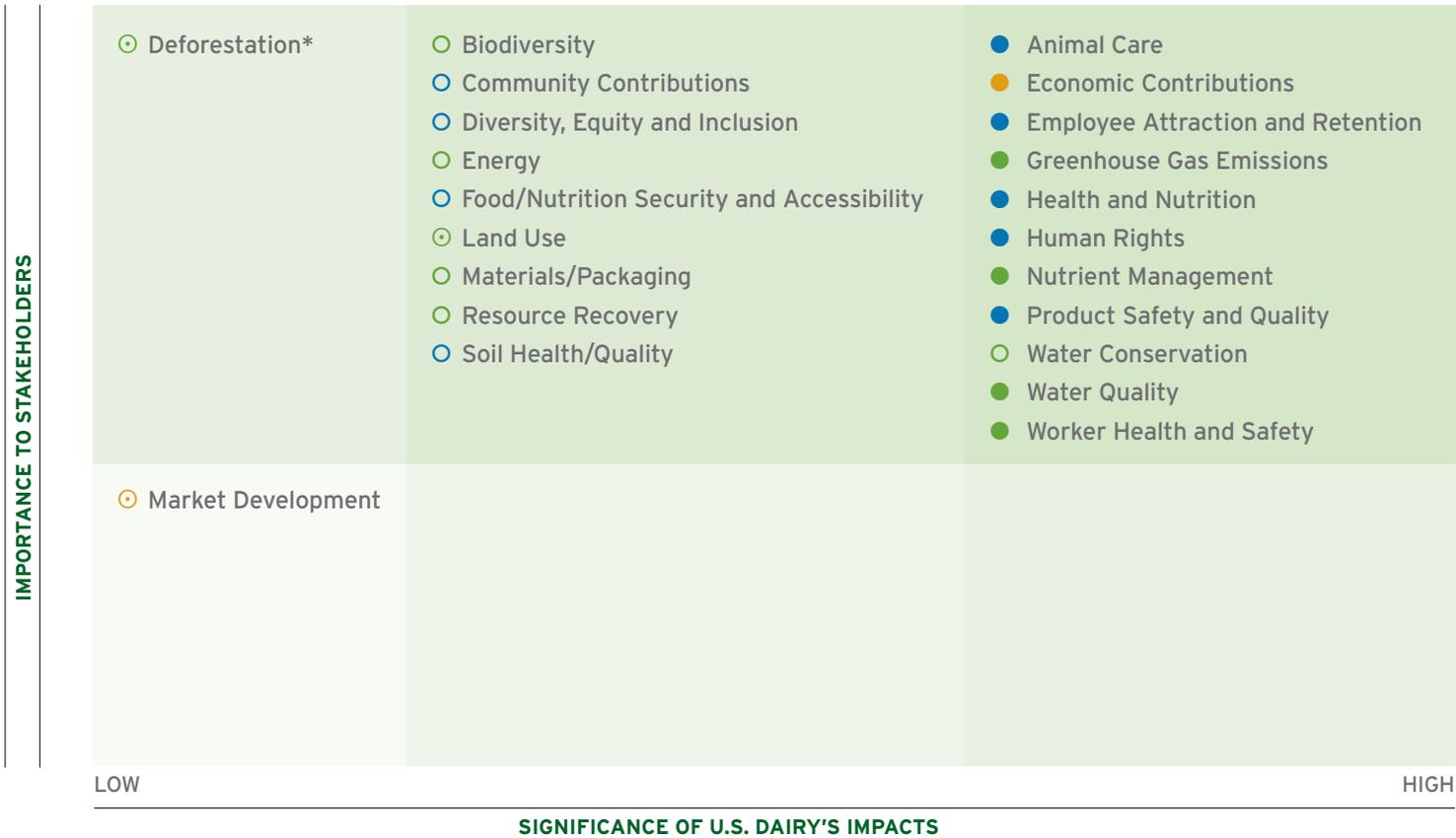
Materiality Assessment Overview

The process outlined in the guide was designed as a simplified approach for dairy companies to conduct an initial organization-level assessment by leveraging the results of the national assessment.

Figure 2. 2021 U.S. Dairy Materiality Grid

The following grid from the national assessment categorizes topics based on level of importance to stakeholders, significance of U.S. dairy’s impacts, and influence of U.S. dairy, with the highest priorities in the upper right. All topics other than market development (as defined by the global Dairy Sustainability Framework)

and deforestation (insignificant material impact by U.S. dairy but noted due to importance to stakeholders) were deemed material in consideration of strategic initiatives and industry efforts. Refer to the Topics Overview in the 2021 Materiality Assessment for U.S. Dairy for topic summaries.



This guide references the prioritization results as the basis for dairy companies conducting their own materiality assessment. By considering their specific circumstances and context, companies can confirm applicability of the results, deem topics not material or adjust the prioritization.

Environmental | Social | Economic | Influence of U.S. dairy rated ● high | ○ medium | ⦿ low

Topics within each box are alphabetized.

*At a national level, deforestation is not seen as materially impacted by U.S. dairy, but it is noted due to importance to stakeholders.

U.S. Dairy Materiality Assessment in Context

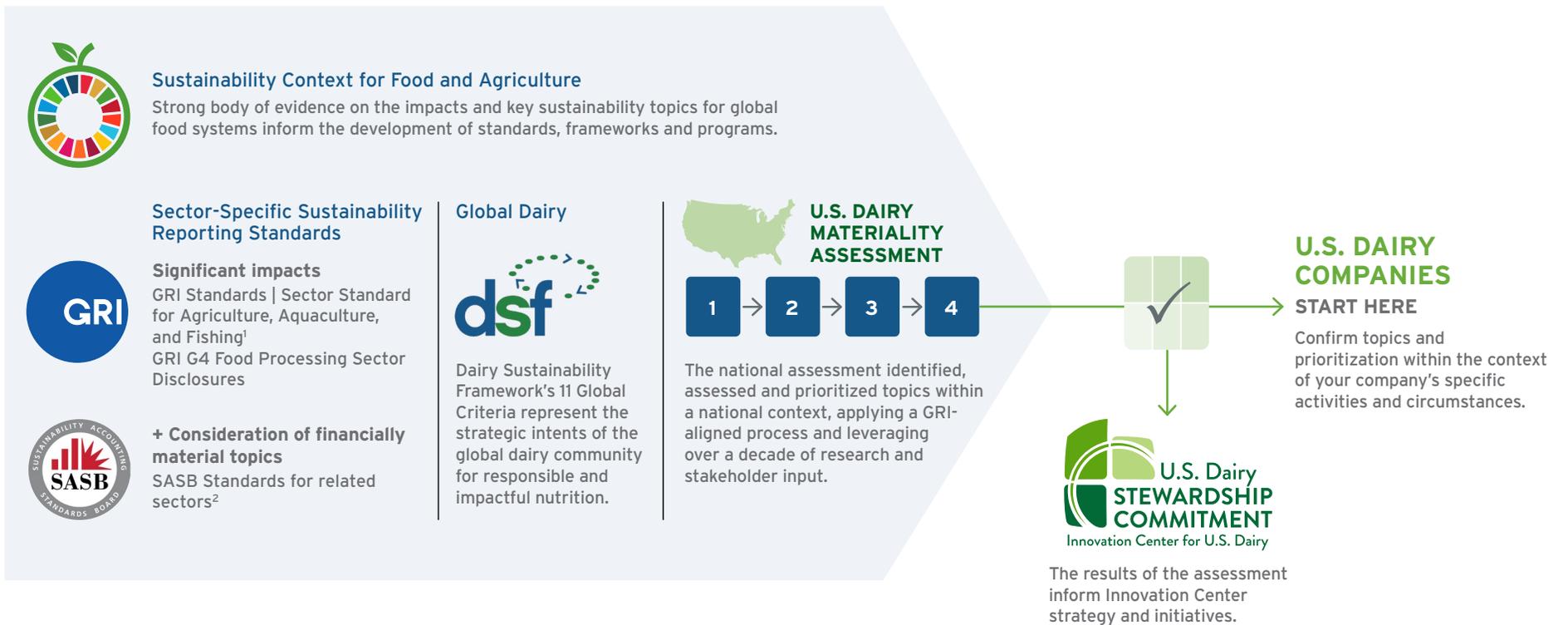
The 2021 national assessment, which built on the 2019 initial assessment, applied GRI's process to determine material topics. The assessment considered (and its results align with) the likely material topics identified by leading reporting standards applicable to the dairy value chain.

Furthermore, the national assessment is aligned with the 11 Global Criteria within the Dairy Sustainability Framework and includes the foundational topics required within the SDP. These topics are relevant for dairy farms and processors worldwide; however, the significance of the associated impacts and prioritization of topics might vary at regional and organizational levels.

The Materiality Assessment for U.S. Dairy identified, assessed and prioritized topics within a national context, thereby serving as an appropriate starting point for U.S. dairy companies. Based on the above integration and broad consensus across standards, frameworks and stakeholders, there is strong likelihood that the material topics identified in the national assessment will apply to most U.S. dairy companies and that the prioritization will be similar.

The placement of topics within the prioritization groups might change based on each company's specific context (activities, business relationships, locations, etc.). The aim of the guide, therefore, is to help companies consider their unique circumstances in relation to the national assessment to determine their material topics and designate their specific organizational priorities.

Figure 3. National Assessment as Starting Point for U.S. Dairy Companies



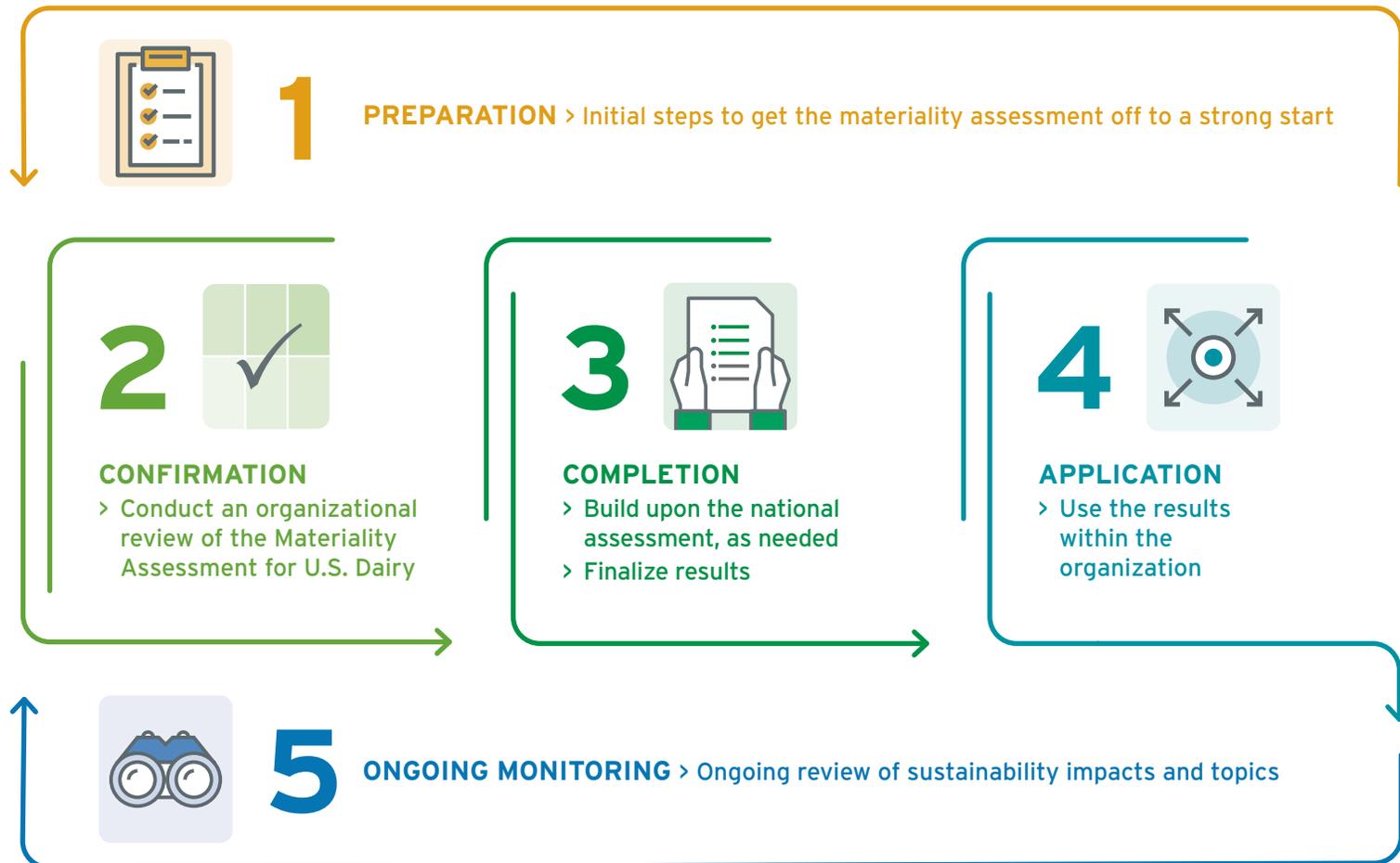
¹ GRI published GRI 13: Agriculture, Aquaculture and Fishing Sectors 2022 in June 2022, after the completion of the assessment and the development of this guide. The assessment referenced GRI's 2021 exposure draft for public comment, which identified likely material topics.

² SASB Standards for Agricultural Products; Meat, Poultry and Dairy; Processed Food; and Food Retailers and Distributors.

Materiality Assessment Process

The diagram below outlines the stages of a simplified approach for dairy companies to conduct an initial organization-level assessment by leveraging the results of the Materiality Assessment for U.S. Dairy. The process involves five main stages (Preparation, Confirmation, Completion, Application and Ongoing Monitoring).

Figure 4. High-Level Assessment Process



Process Summary

The following summary outlines the key steps within each stage for conducting your own assessment based on the national assessment.

| STAGE | STEPS | OUTPUT | PAGE |
|---|---|--|-------|
| 1. PREPARATION: Set up your materiality assessment for success. | | | 9 |
| | <i>Participants: Internal stakeholders</i> | | |
|  | <ul style="list-style-type: none"> 1.1. Assemble the materiality assessment team. 1.2. Define objectives for the output. 1.3. Determine stakeholders to engage in the process. | > Initial plan for the materiality assessment | |
| 2. CONFIRMATION: Conduct an organizational review of the Materiality Assessment for U.S. Dairy. | | | 10-13 |
| | <i>Participants: Internal stakeholders plus invited subject matter experts and external stakeholders</i> | | |
|  | <ul style="list-style-type: none"> 2.1. Understand the organization's context. 2.2. Confirm the national assessment's applicability to your organization. 2.3. Determine material topics and prioritization. | > Updated prioritization of the topics in the national assessment | |
| 3. COMPLETION: Build upon the national assessment, as needed, and finalize results. | | | 14 |
| | <i>Participants: Designated internal and external stakeholders</i> | | |
|  | <ul style="list-style-type: none"> 3.1. Identify, assess and prioritize any additional topics or impacts. 3.2. Discuss the results with designated stakeholders. 3.3. Obtain executive approval of the list of prioritized material topics. | > Approved list of prioritized material topics | |
| 4. APPLICATION: Use the results to inform organizational decisions and define content for reporting. | | | 15 |
| | <i>Participants: Leadership and internal teams</i> | | |
|  | <ul style="list-style-type: none"> 4.1. Integrate findings into strategic and operational management systems to manage sustainability impacts and determine areas for improvement. 4.2. Use the list of material topics to develop sustainability report content, including documenting the assessment process. | > Updated strategy and objectives, improvement initiatives, report content, etc. | |
| 5. ONGOING MONITORING: Continue to gather feedback and monitor sustainability topics for changes in impacts and stakeholder interests. | | | 16 |
| | <i>Participants: Internal teams and designated stakeholders</i> | | |
|  | <ul style="list-style-type: none"> 5.1. Set up and follow a process to detect meaningful changes. | > Input for future materiality assessments | |



1. PREPARATION: Set up your materiality assessment for success

This initial stage covers some upfront considerations and decisions to help set up your company's materiality assessment for success. After you review the full process in this guide, return to these steps to get ready for the assessment.

General steps

1.1. Assemble the materiality assessment team

Determine and recruit the individuals who will lead and manage the process for your organization. Team members will help plan, conduct, facilitate and document the assessment. This internal team can be one or more people within an organization and might include outside support from sustainability specialists. The team members' company roles vary by organization but often involve individuals responsible for leading and overseeing sustainability initiatives or serving in strategic management and enterprise risk management positions.

1.2. Define objectives for the output

Materiality is about what matters to decision-makers. Consider how the results of the materiality assessment will be used and what decisions the results will inform. The team can work with executive leaders, managers and other stakeholders who can benefit from the results to set objectives for the materiality assessment.

An objective for some dairy companies using this guide will be to conduct an assessment in line with SDP implementation requirements. In addition, the output is often used to define content for reporting to stakeholders. Materiality assessments also identify areas with associated environmental, social and governance risks and opportunities. This provides input into strategic management, resource planning, enterprise risk management and improvement initiatives, and other management areas. Those who use the materiality assessment as a management tool gain the most benefit from it.

1.3. Determine stakeholders to engage in the process

Stakeholder inclusion is a key aspect of a strong, well-informed materiality assessment. Involving stakeholders such as shareholders, management, employees, customers, suppliers and community members in the materiality assessment helps organizations identify and better understand their sustainability topics. The process can also strengthen relationships, increase trust and build buy-in.

- The national materiality assessment considered input from a wide range of relevant stakeholders, experts and information users. By using the national assessment, your company's assessment will include these multiple perspectives. It is recommended that you also consider your own unique stakeholders in the process. Involvement of internal stakeholders such as your employees, for example, will be important to integrate.
- After you have reviewed the process, take time to identify who should be involved in the assessment and how they will be involved. Factors such as stakeholder input already collected and time, resources and budget for the assessment can influence your decisions.

OUTPUT | Initial plan for the materiality assessment

CLOSER LOOK | Stakeholder Inclusion

Engaging with stakeholders enables organizations to understand their expectations about sustainability topics, management practices and performance. GRI defines a stakeholder as an "individual or group that has an interest that is affected or could be affected by the organization's activities" (GRI 1: Foundation 2021, 31). Broader definitions consider individuals, groups or organizations that affect and/or could be affected by an organization's activities, products or services and/or those whose actions could affect the organization's ability to implement its strategy.

More than 150 representatives from over 100 organizations nationwide provided input for use in the national assessment.

The 2021 Materiality Assessment for U.S. Dairy considered the views of a wide range of relevant stakeholders. The assessment team requested and considered input from representatives across the dairy value chain, including dairy farmers, processors, retailers and brands. You or individuals from your organization - and your customers - might have directly contributed feedback. Input from experts and stakeholders beyond the dairy community also was incorporated.



2. CONFIRMATION

This stage describes how you can perform your assessment by considering the results of the Materiality Assessment for U.S. Dairy in relation to your organization's specific circumstances.

General steps

2.1. Understand the organization's context

The 2021 Materiality Assessment for U.S. Dairy considers U.S. dairy within the wider context of sustainable development. You can use the national assessment (and other dairy-related resources) to understand the context for U.S. dairy within sustainable food systems.

You can then consider the results of the national assessment within your organization's context to determine their applicability (step 2.2) and overall prioritization (step 2.3). While presented sequentially, there is overlap with these steps.

- Review the 2021 Materiality Assessment for U.S. Dairy, which incorporates the sustainability context (see "Closer Look | Sustainability Context" on page 11).
- Map your direct operations along the dairy value chain (see page 12).
- Gather input for the assessment.
 - Develop a high-level overview of your organization's activities, key relationships and stakeholders.
 - Consult existing material, such as company reports, input for other organizational assessments, marketing material, etc. Information from departments and functions across the organization, such as human resources, legal and compliance, marketing and sales, procurement, research and development, and investor relations, can inform this step.
 - If your company has already conducted a materiality assessment, you can reference the information used for that assessment and determine whether any updates are needed. You can then compare the results of that assessment with the national assessment (step 2.2).

CLOSER LOOK | Organizational Profile

Information about your organization and its specific circumstances helps you identify, better understand, and evaluate impacts and who is impacted.

- Organization's purpose, mission and core values
- Business model, strategy and objectives
- Description of organization's value chain
- Locations of direct operations and assets, and key entities along the value chain (suppliers, business partners, customers, consumers, etc.)
Note: While the assessment focuses on the U.S., this geographic footprint supports further evaluation of impacts and associated risks and opportunities.
- Types of activities it carries out (e.g., milk production, product manufacturing, marketing, distribution, etc.) and value chain activities
- Products and services offered and markets, including description of customer segments and the geographic locations where products and services are available
- Stakeholders and business relationships
- Employee profile, including number of employees, employment types and categories, union representation and demographic characteristics (e.g., age, gender, geographic location)
- Workers who are not employees
- Regulatory context
- Policies and management systems in place and processes to remediate negative impacts and comply with laws and regulations
- Commitments to external initiatives

CLOSER LOOK | Sustainability Context

Organizations should understand the sustainability context of their activities and business relationships and how they contribute to sustainable development. Sustainable development has been defined as development that “meets the needs of the present without compromising the ability of future generations to meet their own needs.”¹ Understanding the sustainability context provides important information for conducting a materiality assessment as well as for managing and communicating impacts.

The sustainability context for global food systems and for dairy’s contributions and impacts within them has been well studied and documented. At the broadest level, the Sustainable Development Goals (SDGs) within the 2030 Agenda for Sustainable Development provide a holistic representation of the objectives for peace and prosperity for people and the planet, now and into the future.

The figure below highlights the sustainability context for global dairy by mapping three key resources:

- The Global Sustainable Development Report 2019 identified building sustainable food systems as one of six key “entry points” where focused and collaborative action by various stakeholders can accelerate progress toward the achievement of the SDGs (described also as systems that underlie the SDGs).
- The 2021 Food Systems Summit identified five interconnected objectives, which provide an effective high-level overview of the sustainability context and underscore the importance of a holistic approach across economic, environmental and social dimensions.
- The 11 Global Criteria of the Dairy Sustainability Framework, upon which the national assessment and the SDP are based, describe global dairy’s role within sustainable food systems.

The Materiality Assessment for U.S. Dairy builds on this global view to provide the national context for U.S. dairy companies.

Figure 5. Sustainability Context for Dairy in Global Food Systems

6 ENTRY POINTS TO ACCELERATE PROGRESS TOWARD THE UN SDGS

- Strengthening human well-being and capabilities
- Shifting toward **sustainable and just economies**
- **BUILDING SUSTAINABLE FOOD SYSTEMS** and healthy nutrition patterns
- Achieving energy decarbonization and universal access to energy
- Promoting sustainable urban and peri-urban development
- Securing the **global environmental commons**



5 INTERCONNECTED OBJECTIVES OF THE UN FOOD SYSTEMS SUMMIT

- Ensure access to **safe, nutritious food** for all
- Shift to sustainable consumption patterns by **reducing waste** and creating demand for healthy diets
- Boost **“nature-positive production,”** entailing **reduced emissions** and energy usage and **protection of ecosystems**
- Advance **equitable livelihoods**, including **raising incomes** and promoting **decent work**
- Build **resilience** to vulnerabilities and shocks

The alignment with the strategic intents of the DSF Global Criteria, **bolded in green** above, is strong and highlights the importance of considering the interconnections among objectives.

Sources: *Global Sustainable Development Report 2019: The Future is Now - Science for Achieving Sustainable Development*, *UN Food Systems Summit* and the *Dairy Sustainability Framework*

¹ World Commission on Environment and Development. (1987). *Our Common Future*, 16.

CLOSER LOOK | Summary of Topics Along the Dairy Value Chain

In the analysis of significance of U.S. dairy's impacts and the influence of U.S. dairy, the team leading the assessment considered where impacts occur along the dairy value chain. Figure 6 highlights where impacts associated with each topic occur along the steps in the value chain.

Companies should identify the areas they manage directly and where they have varying levels of influence, which inform their specific management approaches.

This information helps companies consider impacts caused by their activities, those they contribute to (activities that lead/facilitate another entity to cause the impact), and/or those directly linked to their activities, products or services, or relationships.

Refer to the materiality assessment template for an editable version, which can be updated for documentation purposes.

Figure 6. Dairy Value Chain Overview

KEY: ○ Impacts occur at this stage of the value chain, or this key segment plays a role in food/nutrition security. | ● Impacts occur and national programs and/or Stewardship Commitment metrics are in place at this stage. The solid circle does not reflect actions that may be taken at all individual farm, cooperative or processor levels. ■ Shaded columns represent the field, dairy farm and processor levels covered within Innovation Center national programs. | □ The milk transportation, packaging and distribution stages are covered when they are part of the specific dairy company's operations.

| | TOPIC | FEED PRODUCTION | MILK PRODUCTION | MILK TRANSPORTATION | PROCESSING | PACKAGING | DISTRIBUTION | RETAIL | CONSUMER |
|---------------|---|-----------------|-----------------|---------------------|------------|-----------|--------------|--------|----------|
| SOCIOECONOMIC | Animal Care | | ● | | | | | | |
| | Community Contributions | ○ | ○ | ○ | ● | ○ | ○ | ○ | ○ |
| | Diversity, Equity and Inclusion | ○ | ○ | ○ | ○ | ○ | ○ | ○ | |
| | Economic Contributions | ○ | ○ | ○ | ○ | ○ | ○ | ○ | |
| | Employee Attraction and Retention | ○ | ● | ○ | ● | ○ | ○ | ○ | |
| | Food/Nutrition Security and Accessibility | | ○ | ○ | ○ | | ○ | ○ | ○ |
| | Health and Nutrition | | | | ○ | | | ○ | ○ |
| | Human Rights | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| | Product Safety and Quality | ● | ● | ○ | ● | ○ | ○ | ○ | ○ |
| | Worker Health and Safety | ○ | ● | ○ | ● | ○ | ○ | ○ | |
| ENVIRONMENTAL | Biodiversity | ● | ● | | | | | | |
| | Energy Use | ● | ● | ○ | ● | ○ | ○ | ○ | ○ |
| | Greenhouse Gas Emissions | ● | ● | ○ | ● | ○ | ○ | ○ | ○ |
| | Land Use | ● | ○ | | | | | | |
| | Materials/Packaging | | | | | ○ | | | |
| | Nutrient Management | ● | ● | | | | | | |
| | Resource Recovery | ○ | ○ | | ● | ○ | | ○ | ○ |
| | Soil Health and Quality | ● | ○ | | | | | | |
| | Water Conservation | ● | ● | | ● | ○ | | | |
| | Water Quality | ● | ● | | ● | ○ | | | |

General steps, continued**Central Question**

Are there any company-specific factors/considerations that would change the prioritization of the sustainability topics in the national assessment (i.e., raise or lower the prioritization)?

- Business activities and processes
- Locations and local laws and regulations
- Stakeholders and business relationships
- Organizational strategy
- Performance
- Other factors that you identify

2.2. Confirm the national assessment's applicability to your organization

The national assessment identified relevant topics and assessed the significance of actual and potential impacts, which informed the determination of material topics and their prioritization. The material topics identified in the Materiality Assessment for U.S. Dairy are likely to be material for most U.S. dairy cooperatives and processors.

You can review the results to confirm the relevance of each topic within your organization's context. The information gathered in step 2.1 and existing company materials provide input for this step.

- Consider the topics/impacts in the national assessment to determine their applicability to your organization's activities and business relationships.
 - The assessment team can facilitate discussions with cross-functional representatives and other stakeholders and experts.
 - Consider the organization's relationship to the impacts; i.e., whether they cause, contribute to and/or are linked to impacts (see Figure 6 on the previous page). This affects how companies mitigate negative impacts and promote positive impacts.
- Document the applicability of the topics/impacts to the organization.
 - If any topics were determined not to be relevant based on your specific circumstances, the reason for that determination should be described.
 - Impacts that are outside of the scope of the national assessment (e.g., impacts associated with nondairy ingredients, or locations and business relationships outside of the United States) can be documented and assessed as part of the Completion stage.
- As part of your review, you can update the labels and descriptions of the topics and group them into categories based on those used within your company.

2.3. Determine material topics and prioritization

The national assessment placed the topics within three prioritization groups (low, medium and high) based on the significance of U.S. dairy's impacts, along with considerations of the level of importance to stakeholders and influence of U.S. dairy. Those in the medium and high groups were determined to be material for taking action to address and for communicating to stakeholders.

- Review the assessment prioritization in the context of your organization to determine whether their relative placement should be higher or lower, based on the impacts associated with your specific activities, relationships and locations.
- Document any changes in prioritization and the reasons for the adjustments.
- Optionally, you can further sequence topics within the prioritization groups based on your organization's circumstances and processes for prioritization. Prioritization of topics is important when it is not feasible to take action to address all impacts at once. It enables an organization to focus on what matters most or where improvement is most needed (GRI Standards, 107). While this level of prioritization for strategic and operational purposes is beyond the scope of this guide, it is an important step to focus attention on areas for ongoing improvement.

OUTPUT | Updated prioritization of the topics in the national assessment



3. COMPLETION

This stage outlines steps to finalize the assessment based on the objectives established. The steps conclude with executive-level approval of the prioritized topics.

General steps

3.1. Identify, assess and prioritize any additional topics or impacts

While conducting the review of the Materiality Assessment for U.S. Dairy, reviewers might identify topics and impacts beyond the scope of the national assessment. Additional topics might be associated with key nondairy ingredients or with locations and business relationships outside of the United States.

- Determine, assess and prioritize any additional impacts and topics.
- As applicable, extend the review outside of the U.S. and beyond dairy.

3.2. Discuss the results with designated stakeholders

While the results of the national assessment were vetted by a range of stakeholders and subject matter experts, the company can consult with its own stakeholders to validate its material topics and priorities.

3.3. Obtain executive approval of the list of prioritized material topics

It is recommended that the highest governing body or senior executive review and approve the list of material topics. This sign-off often occurs at the board level or by the chief executive officer or a group of senior executives in the organization.

“Going through the process affirmed and validated the foundational work that the co-op began long before formalizing our sustainability efforts. The national assessment priorities aligned in almost every aspect with Northwest Dairy Association’s and Darigold’s internal priorities, with a few minor adjustments.

The assessment process was beneficial in helping streamline our internal practices by enhancing efficiency while reducing confusion. Additionally, it identified key priorities with well-established metrics and validation processes and highlighted areas with continuous improvement opportunities. There is value in reducing duplicative work with stakeholder surveys and establishing common definitions and baselines, which promote consistency and shared understanding throughout the value chain.”

**– Antone Mickelson
Director, Farm Practice, Northwest Dairy Association**

OUTPUT | Approved list of prioritized material topics



4. APPLICATION

The value of the materiality assessment increases when the results are applied in multiple ways. This stage varies based on the objectives you set, as the results can be used to inform strategic, management, communications and reporting initiatives.

General steps

4.1. Integrate findings into strategic and operational management systems to manage sustainability impacts and determine areas for improvement

Many companies use the materiality assessment as an input into their strategic planning and goal setting processes. The prioritization can sequence improvement efforts when it is not feasible to address all topics at once. The findings of the assessment can also serve as input to your enterprise risk management system; spur management, product or service innovation; and determine topics for reporting and communicating to stakeholders.

4.2. Use the list of material topics to develop sustainability report content, including documenting the assessment process

For reporting purposes, the list of material topics represents those that should be reported. For example, for each material topic in a GRI sustainability report, the company is expected to discuss why it is material, where the impacts occur, and the associated management approach, along with topic-specific disclosures. Refer to the Documenting the Process and Results section on page 16 for related information.

OUTPUT | Updated strategy and objectives, improvement initiatives, report content, etc.

“Working with the Innovation Center for U.S. Dairy to use the updated 2021 Materiality Assessment for U.S. Dairy as a foundation for our own review has been incredibly valuable and very efficient. Having contributed input and feedback to the national assessment, it’s a logical progression to then complete our own assessment in order to identify priority areas that are uniquely important to our organization and in our region.”

– Steve Matzen
Senior Vice President, Northwest Dairy Association



5. ONGOING MONITORING

Materiality is dynamic, changing in response to shifts in the internal and external landscapes in which companies operate. This stage describes the need for methods to identify and consider impacts and topics on an ongoing basis.

General steps

5.1. Set up and follow a process to detect meaningful changes

After completing a full assessment, many companies choose to perform an update or refresh of their assessment according to their reporting cycle (typically yearly or every other year). Others set a longer period, such as every three to five years. The Innovation Center for U.S. Dairy continues to conduct an updated materiality assessment at least every three years, which can then inform the assessments at the organization level.

Companies are encouraged to apply due diligence to assess and mitigate negative impacts associated with new business activities or relationships.

Such changes can involve new products, services, processes/technology or locations, or changes in suppliers or customers, among other developments. New research findings can also affect the significance of an impact, and the interests of stakeholders can change over time. The frequency of materiality assessments, therefore, should be sufficient to respond to changes in the organization's context and associated impacts and risks.

Integration with other management systems can enable the multidirectional flow of information throughout the year and help detect meaningful signals and emerging trends that can impact a topic's significance or influence stakeholders' views.

Documenting the Process and Results

GRI 3: Material Topics 2021 within the GRI Standards covers disclosures related to the process for determining material topics and its outcomes. The information within these disclosures also provides useful guidance for reports developed under other sustainability/ESG frameworks.

- **Disclosure 3-1 The process to determine material topics** asks for a description of how the organization determined material topics, including details on how the organization determined actual, potential, positive and negative impacts on the economy, environment and people, including impacts on human rights across organizational activities and business relationships. This disclosure also requires the organization to specify the stakeholders and experts who informed the process of identifying material topics.
- **Disclosure 3-2 List of material topics** requests the list of material topics for reporting along with a description of any changes to the material topics compared to the previous reporting period. The topics are often grouped within relevant categories, which reflect the organization's sustainability framework or reporting structure.

- **Disclosure 3-3 Management of material topics** requires the organization to describe the positive and negative impacts associated with each material topic, which helps readers understand their significance, and how the organization manages the topics and related impacts. Aspects of the management approach include policies or commitments, actions taken to manage the related impacts, information about how the organization tracks the effectiveness of those actions, and a description of engagement with stakeholders to inform the actions taken and evaluate their effectiveness.

It can be helpful to keep these disclosures in mind as you conduct and document your materiality assessment. Refer to **GRI 3: Material Topics 2021** for specific disclosure requirements and additional guidance.

APPENDIX

KEY TERMS AND PILOT OVERVIEW



Key Terms

As cited, many definitions are from the GRI Standards.

business relationships

Relationships that the organization has with business partners, with entities in its value chain including those beyond the first tier, and with any other entities directly linked to its operations, products, or services.

Source: UN *Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework*, 2011; modified

Note: Examples of other entities directly linked to the organization's operations, products, or services are a non-governmental organization with which the organization delivers support to a local community or state security forces that protect the organization's facilities.

(GRI Standards Glossary 2021, 4)

dimensions of materiality

The aspects that are evaluated and quantified in determining materiality; for example, the significance of the associated economic, environmental and social impacts.

impact

Effect the organization has or could have on the economy, environment, and people, including on their human rights, which in turn can indicate its contribution (negative or positive) to sustainable development.

Note 1: Impacts can be actual or potential, negative or positive, short-term or long-term, intended or unintended, and reversible or irreversible.

Note 2: See section 2.1 in GRI 1: Foundation 2021 for more information on 'impact'.

(GRI Standards Glossary 2021, 11)

materiality threshold

The level at which topics become material based on the criteria the organization determines.

material topic

Topics that represent the organization's most significant impacts on the economy, environment, and people, including impacts on their human rights.

Note 1: See section 2.2 in GRI 1: Foundation 2021 and section 1 in GRI 3: Material Topics 2021 for more information on 'material topics'.

(GRI Standards Glossary 2021, 12)

Material information is related to significant sustainability matters that are relevant to decision-making by the organization and its stakeholders. Such information

is considered to be reasonably likely to make a difference to the conclusions of decision-makers in reviewing related information.

stakeholder

An individual or group that has an interest that is affected or could be affected by the organization's activities (GRI Standards Glossary 2021, 17).

Broader definitions consider individuals, groups of individuals or organizations that affect and/or could be affected by an organization's activities, products or services, and/or those whose actions could affect the organization's ability to implement its strategies and achieve its goals.

sustainable development / sustainability

Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Source: World Commission on Environment and Development, *Our Common Future*, 1987

Note: The terms 'sustainability' and 'sustainable development' are used interchangeably in the GRI Standards.

(GRI Standards Glossary 2021, 18)

sustainability context

The broader societal, economic and environmental circumstances in which an organization's operations can be fully understood and assessed.

When capitalized, Sustainability Context refers to one of the GRI Reporting Principles for defining report content, which reflects an understanding and reporting of an organization's performance in the wider context of sustainable development.

(GRI 101: Foundation 2016, 9)

value chain

The range of activities carried out by the organization, and by entities upstream and downstream from the organization, to bring the organization's products or services from their conception to their end use.

Note 1: Entities upstream from the organization (e.g., suppliers) provide products or services that are used in the development of the organization's own products or services. Entities downstream from the organization (e.g., distributors, customers) receive products or services from the organization.

Note 2: The value chain includes the supply chain.

(GRI Standards Glossary 2021, 19)

value chain analysis

An assessment of where an organization's sustainability impacts occur along the value chain, which helps identify not only direct impacts under operational control but also areas of influence upstream and downstream.

Pilot Overview

The Innovation Center for U.S. Dairy conducted a pilot assessment with Darigold and Northwest Dairy Association (collectively referenced below as Darigold) to inform the development of the 2022 Materiality Guide for U.S. Dairy.

The objective of the pilot was to gain in-practice learning by applying the approach in the draft guide to complete a company-level materiality assessment based on the 2021 U.S. Dairy Materiality Assessment. The process helped confirm the streamlined approach developed for the 2022 guide and provided a case study on the national assessment's high level of applicability for U.S. dairy companies.

The following overview summarizes the process taken for the pilot assessment in relation to the five main steps outlined in the guide.

Summary of Pilot Activities by Step



1. PREPARATION: Set up the materiality assessment for success

- The team was made up of five members representing perspectives across Darigold operations and its main product categories (dairy products and ingredients).
- The lead from the Innovation Center and the sustainability consultant held an initial meeting with the team to go over the national materiality assessment and the purpose and scope of the pilot and to discuss Darigold's objectives for participating in the pilot assessment.
- Ahead of the meeting, the team reviewed the **2019 Materiality Guide for U.S. Dairy**, upon which the updated guide was based.



2. CONFIRMATION: Conduct an organizational review of the Materiality Assessment for U.S. Dairy

- The team participated in biweekly working sessions facilitated by the sustainability consultant.
- Information gathering and internal discussions occurred between the biweekly sessions.
- The team used a shared file to store company and topic-level information and document decisions.

Pilot Team Overview

- The Innovation Center's vice president, sustainability initiatives, coordinated and attended the sessions, providing insights on the national assessment and Innovation Center-led sustainability initiatives and programs.
- The Darigold team participated in working sessions, reviewed output from the process and/or provided interim feedback as needed during the assessment, completed/coordinated requests for information and provided review feedback on a draft of the assessment guide.
- The sustainability consulting firm that supported both national assessments and the development of the 2019 and 2022 guides helped coordinate the pilot assessment and facilitated the biweekly sessions.

Sessions Summary

Overview of GRI Standards updated approach for materiality

Review of the 2021 Materiality Assessment for U.S. Dairy within the context of the Darigold

- Ahead of the session, the team members reviewed the assessment report and identified questions or requests for clarifications on the topics.
- Through this initial review, the team confirmed the relevance of topics to Darigold.

Understanding the organizational context

- The discussions during the initial sessions concentrated on the organizational context/profile to understand potential and actual impacts associated with its activities and relationships.
- The team considered impacts and activities along the dairy value chain to identify the areas Darigold manages directly and where it has varying levels of influence.
- Between sessions, the team gathered supporting information, which was added to an assessment tracking file.

Topic-level review and consideration of organization-level prioritization

- The team sequenced the review of environmental and socioeconomic topics, as they considered the central question: Are there any company-specific factors/considerations that would change the prioritization of the sustainability topics in the national assessment (i.e., raise or lower the prioritization)?
 - The discussion for most of the topics was straightforward, because they reflect areas already identified as organizational priorities. In this way, the assessment reinforced both the company's overall management strategies and the strong likelihood of the applicability of the results of the national assessment to U.S. dairy companies.
- Factors considered included:
 - Management approaches, including measurement and goals
 - Performance considerations, such as current level of performance and trends over time for key metrics associated with the topics
 - Location-specific factors, including regulatory context
 - Stakeholder factors, such as interests and concerns of customers and employees
- In between sessions, the team met internally and performed an evaluation of management approaches at the farm and processor levels, using a five-point rating scheme they developed. This review enabled the team to confirm the maturity of systems for high-priority areas and identify some areas to target for improvement initiatives.
- During the discussions, the team identified areas beyond the scope of the national assessment, such as nondairy ingredients or activities/relationships outside of the U.S., which they noted for further evaluation.
- The team met internally to finalize the prioritization groupings, including noting some differences at the farm and processing levels. For the combined assessment, the higher prioritization was used.
- The team shared updates on internal discussions during the biweekly sessions and documented topic-level results in the shared assessment file (e.g., topic review notes, management system rating, and changes in prioritization grouping for each topic).



3. COMPLETION: Build upon the national assessment, as needed, and finalize results

Final review and approval

- Darigold determined the approach it would take for the final review and approval of the prioritization results in line with SDP requirements and the scope of the national assessment.

Review of topics beyond the scope of the national assessment and guide

- The scope of the pilot was the topics within the national assessment. Other topics that were identified and discussed during the working sessions were noted for future consideration outside of the pilot assessment.



4. APPLICATION: Use the results to inform organizational decisions and define content for reporting

While the scope of the pilot was prioritizing the topics within the national assessment, the team will work to further prioritize areas for action within the high and medium categories.

The basis for prioritization includes:

- Current or pending regulatory requirements and/or customer expectations
- Key strategic factors (as reflected in initiatives already underway)
- Performance and opportunities for improvement (as identified through the initial review)
- Connection to voluntary commitments (e.g., the Stewardship Commitment for U.S. Dairy)

The results will also inform communications and reporting strategies.



5. ONGOING MONITORING: Continue to gather feedback and monitor sustainability topics for changes in impacts and stakeholder interest

This step applies to future actions beyond the initial assessment; therefore, it was not part of the pilot.

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