

A woman wearing a red and white floral patterned long-sleeved shirt, a blue and gold batik sarong, and a red headscarf with a floral pattern is sitting on the ground in a palm oil plantation. She is smiling and looking towards the camera. To her left is a large white sack. The background is filled with lush green palm trees and foliage. A large blue teardrop-shaped graphic is overlaid on the left side of the image, containing the title and subtitle.

AAK's progress report on sustainable palm oil – August 2017

The Co-Development Company

AAK

AAK's progress on sustainable palm oil

Responsible sourcing of raw materials is fundamental to AAK and reflected in our strategy. We want to make a clear difference to the environment and to the local communities where our raw materials are grown and harvested. Palm oil being the highest volume as well as the most productive vegetable oil in the world is a crucial raw material in feeding an ever-growing global population. Therefore, producing palm oil sustainably is of utmost importance. In this progress report, we share with you AAK's part in the development towards a fully sustainable palm oil industry.

Palm oil achievements

Traceability

- Traced 98 percent of palm oil, all palm kernel oil and derivatives back to mill origin;
- Updated all mills traceability data;

Risk assessment

- Completed a qualitative risk assessment of all suppliers;
- Completed geospatial risk assessment of 100 percent supplier mills;
- Identified mills for our on-site verification program and completed three verifications in 2017 so far, fifteen in total;

Supplier engagement

- Engaged in a dialogue with all our suppliers as regards progress of policy implementation, including the signing of AAK Palm Oil Policy;
- Completed one palm oil supplier engagement workshops, engaging ten mills so far in 2017;
- Developed a new KPI on volumes sourced from suppliers engaged in sustainability programs;

Smallholders

- Identified different options for smallholder projects;
- Initiated a smallholder engagement project in Sabah;
- Developed a Code of Practice for smallholders together with Proforest;

Processes and tools

- Further developed our internal dashboard for detailed monitoring of progress and an external dashboard for communicating our achievements;
- Finalized implementation of palm oil grievance procedure;
- Strengthened palm oil competencies among our global sales force through training and supportive materials;

Customer support

- High level of support to our customers and the retailers.

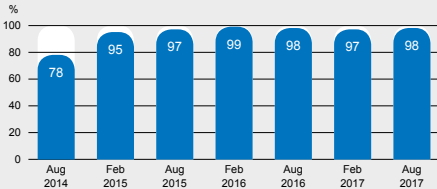


Palm oil DASHBOARD

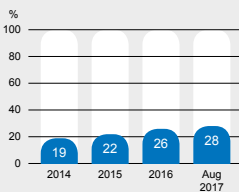


Traceability

To mill



To plantation



Traceability to mill remains high despite new AAK factories in the USA, India, China and Brazil that require time to implement AAK's Palm Oil Policy and high standard of traceability.



Risk management

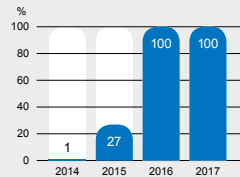
Desktop risk assessment



Percentage of AAK's palm suppliers risk assessed by Proforest:

100%

Geospatial risk assessment

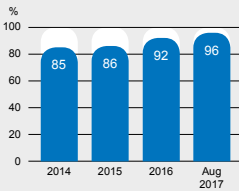


Volume covered by geospatial risk assessment.



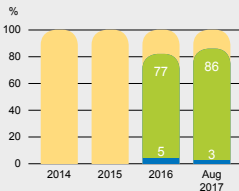
Supplier engagement

Supplier Code of Conduct



Volumes covered by signed Supplier Code of Conduct.

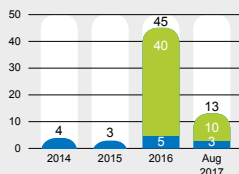
Palm Oil Policy



- Suppliers informed about AAK's Palm Oil Policy
- Signed AAK's Palm Oil Policy
- Has aligned Policy (verified by Proforest)

Higher priority suppliers invited to workshops facilitated by Proforest.

Mill engagement

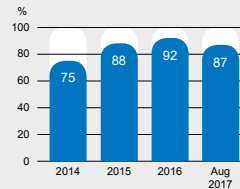


- Number of mills who attended a Proforest/AAK workshop
- Number of on-site audits



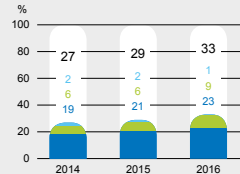
RSPO status

Volumes from RSPO members



It is our policy to source palm oil only from RSPO members. Some challenges remain in some parts of the world where we have factories and certification is not always a priority for growers. The temporary decline is also due to a change in sales footprint.

CSPO demand



All our palm oil is under our Palm Oil Policy, risk assessed by Proforest.

- Book & Claim
- Mass Balance
- Segregated

Other

7

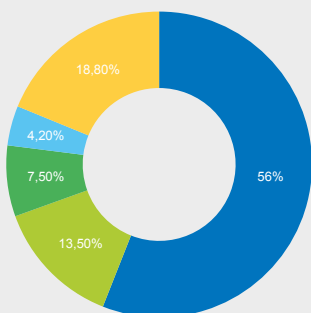
Number of progress reports

416

Number of AAK employees trained in AAK's Palm Oil Policy and Actions



Volumes from suppliers engaged in sustainability programs (assessed by Proforest)



- Indirect engagement (volumes from suppliers with own sustainability programs – approved by Proforest)
- Direct engagement (volumes from suppliers engaged in sustainability programs with AAK/Proforest)
- Not yet engaged (lower priority)
- Not yet engaged (medium priority)
- Not yet engaged (higher priority)



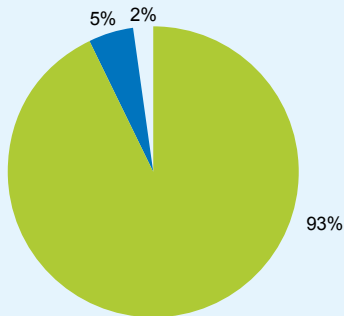
Traceability update

We continue to demonstrate strong progress on traceability within our palm oil supply chains. A strong level of traceability is a good foundation for not only knowing where our oils are originating from, but also for being able to assess our supply chain, making sure it meets the standard stipulated in our sustainable palm oil policy. The increasing focus on sustainable practices within the palm oil supply chains

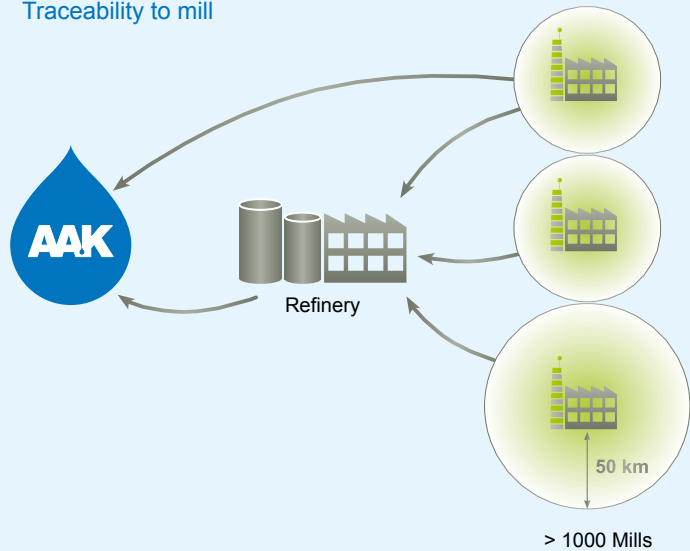
has helped pushing more of the industry players towards higher standards. This has also lead to an increase in transparency, which we welcome very much. Our strong progress on sustainability within palm kernel oil has been maintained via close cooperation with our selected suppliers of palm kernel oil and its fractions.

Traceability to mill status – August 2017

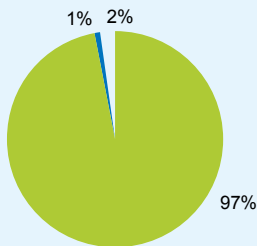
Overall progress 98%



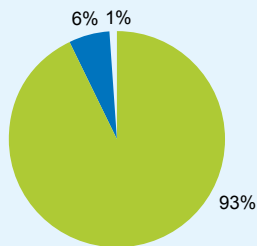
Traceability to mill



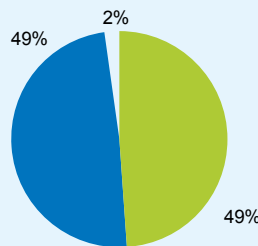
Palm oil from origin 98%



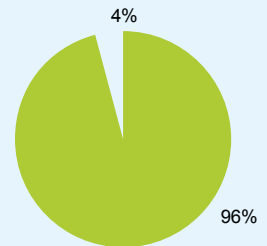
Palm kernel oils 99%



Palm oil – others



Derivatives 96%



Traceable to known source
AAK has a list of mills where the oil can come from which relates to a specific refinery.

Indirectly traceable
Our oil suppliers have their own traceability policies which have been verified by Proforest and which we trust.



Traceability with suppliers in India and China

As we are ramping up our new factories in both Brazil and China, the focus has been a lot on ensuring that our new entities follow the same standard as the established AAK sites. We clearly see how local markets around the world play a vital role in maintaining traceability. In China, a large proportion of imported oil is being blended and sold as traded parcels. It's a challenge which we, as much as any other producer of palm oil in China, are facing. We are convinced that our strong engagement with our suppliers will enable us to show strong traceability for these new markets, once our plants are fully up and running.

We have learned that ensuring traceability in local markets is possible. In India we have improved significantly on traceability for the oils which we source locally. This is thanks to our local supply chain teams who engage with our suppliers, explaining our need for being able to demonstrate traceability.

Within this year, we have worked hard on ensuring that not only do we have traceability, but also that the information we have is considered reliable. This is part of ensuring that the risk assessments which are produced by Proforest are done on credible data, in order to produce constructive assessments as a basis to address and manage those risks.



Updated methodology on risk assessment

Tier 1 supplier prioritization

During Q1, Proforest conducted a prioritization and risk assessment exercise across all AAK Tier 1 suppliers. The objective is to identify priority suppliers for engagement through AAK's sustainability program to ensure the sustainable palm oil policy commitments are being met. Due to the large number of suppliers it is impossible to actively engage with all of them simultaneously, so the prioritization allows AAK to focus efforts more strategically.

The risk assessment is founded on three pillars:

1. *Environmental and social risk assessment based on the sourcing location of each supplier;*

This pillar is based on two elements. The first is the specific mill geospatial risk assessments relating Tier 1 suppliers, as conducted by Proforest for all AAK mills in 2016. The second element is an estimate of social risks related to palm oil production where the Tier 1 supplier sources from. Specifically, the social risks include child labour, forced labour, and working conditions. This data is taken from the GMAP tool (The Global Map of Environmental & Social Risk in Agro-commodity Production), developed and hosted by IFC.

2. *The volumes sourced*

Volumes are an important factor in the prioritization, as they show where AAK is mostly exposed and also where they have most leverage to engage with and support change with their suppliers where necessary.

3. *Supplier-specific information*

This is a broad category that takes in factors that help us understand how the supplier aligns with AAK's sustainability commitments and where there are certain risks. Information assessed includes whether the supplier is a member of the RSPO, if it has a policy aligned with AAK's and the evidence available about its implementation, and if there are any grievances within its supply chain.

This assessment is done on an annual basis and this is the third year it has been conducted. The methodology has evolved as better information has become available and can be factored into the analysis. This year, the mill geospatial risk assessment results have been used to obtain a more granular picture of environmental risks such as deforestation, peat, and fires, as they are now available for 100 percent of AAK mills.



Social risk assessment – development of new tool with Proforest

It is increasingly important to assess the risk of negative social impacts among palm oil suppliers, particularly related to labour and land rights abuses. The rise of such important issues is welcomed by AAK providing an appropriate balance with environmental concerns. These issues are increasingly and rightly under the spotlight among NGOs and consumers, and understanding the possibility of human rights risks in the supply chain is of growing interest for global manufacturers and retailers. Being able to identify the countries, regions and production models which present the most salient human rights risks will allow AAK to more effectively target interventions; whether that be greater levels of scrutiny of mills and suppliers identified as higher risk, or being able to target support interventions to particular regions with greater impact.

To date, Proforest has used a combination of established indices, information on mills and their parent groups, grievance information and expert knowledge and intelligence on local contexts and events. There are a small number of existing index tools that provide an assessment of social risk, such as GMAP or the Global Slavery Index. These tools typically give results only at country level and rarely cover the range of social issues of concern to buyers or target specific commodities such as palm oil.

It is also possible to identify present risks by collating information on grievances and other reported cases of poor practices (e.g. labour or land rights abuses). However, over-reliance on such information can bias assessments towards areas where NGOs or researchers are active and can lead to missing risk elsewhere, or 'false negatives'.

In general, there is a lack of assessment tools, either open source or proprietary, which provide systematic social risk assessment at the subnational or landscape level, particularly for large numbers of suppliers at scale. Proforest has begun work on a social risk assessment methodology designed to respond to the needs of supply chain actors in understanding and mapping the relative risks of poor compliance with best practice on social responsibility in agricultural commodity production. Some aspects of the methodology will be applicable across agriculture and forestry commodities but it will be focused on oil palm production. AAK is supporting and contributing to the development of this methodology and will be able to apply it to its own supply chains once it is developed and tested, likely from 2018 onwards.

Grievance activities

Grievance management is an important part of our sustainability program, and was discussed in more detail in our February 2017 progress report.

New activities since then have involved developing a streamlined grievance tracker to inform of the latest developments on key grievances of third-party suppliers in our supply chain, and more actively engaging with some of our Tier 1 suppliers regarding the grievances.



Update on dialogue with suppliers

We have in 2017 set a new approach for how we follow up with our suppliers of palm oil. Instead of a reactive approach on a case-by-case basis, we have initiated a plan for how we proactively work with suppliers for regular follow-ups on outstanding topics raised by stakeholders. By leveraging our close relationships, we are convinced that this will support us in understanding how the industry is addressing current as well as future challenges. We see this as our responsibility not only towards our customers but towards all our stakeholders. We intend to approach major suppliers at a minimum every three months for status as well as follow-up on outstanding actions.

In order to create a joint understanding with the upstream part of our supply chain on what is important in order to achieve transformation towards sustainable standards, we organize and participate in workshops with palm oil mills who supply into our supply chain. By engaging with the upstream

part of our supply chain, we learn about the challenges which millers as well as plantations are facing and how they address these. We also use this as an opportunity to explain our needs and why we find these to be essential for the way we source our palm oil.

California Oils Corporation

Immediately after the acquisition of California Oils Corporation September 5, 2016 AAK released a statement committing to an accelerated implementation of our Sustainable Palm Oil policy.

The statement sets out an objective for full policy implementation with all direct palm oil suppliers by March 31, 2017.

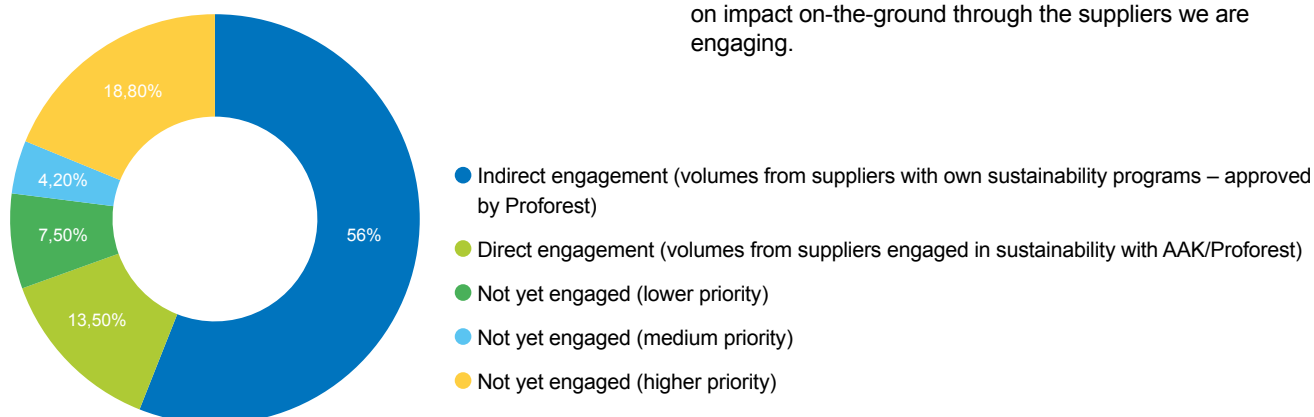
This objective has been achieved and California Oils Corporation is now integrated in our general palm oil program and will be part of our progress report.

Volumes sourced from suppliers engaged in sustainability programs

Together with AAK, Proforest has developed a set of KPIs to reflect efforts to implement the policy commitments for the palm oil that AAK sources. A high proportion of the palm oil that AAK sources comes from suppliers and producers with credible sustainability programs. These programs are evaluated by Proforest based on publicly available information, and account for 56 percent of AAK's volumes. The remaining 44 percent is prioritized (see section on Tier 1

supplier prioritization) for engagement by AAK and Proforest directly. To date, 13.50 percent of suppliers by volume have been involved in our supplier engagement activities, either through workshops, mill verifications, or both. These engagement activities are taking place in Southeast Asia and Latin America.

This KPI measures the level of supplier engagement regarding implementation of the AAK sustainable palm oil policy. The next objective for KPIs is to measure and report on impact on-the-ground through the suppliers we are engaging.





AAK engagement with smallholders

The palm oil sector strongly relies on the contribution of hundreds of thousands of smallholder farmers and independent growers producing Fresh Fruit Bunches (FFBs). It is estimated that smallholders produce about 40 percent of the palm oil on the national Indonesian and Malaysian markets. This represents 20 million metric tons. Other production regions, such as Thailand, Latin America and West Africa, account for an even higher contribution, up to 80 percent, of smallholder production to their respective national palm oil supply. Therefore, smallholders are crucially important for the palm oil industry but they experience lower yields.

Supporting smallholders in improving their production methods and obtaining an RSPO certification offers huge opportunities to increase the overall social and environmental sustainability of the global palm oil sector. Supporting smallholders involves a large number of challenges; smallholders mostly work in decentralized community clusters and therefore often lack access to markets, agricultural training and expertise on sustainable practices and certification.

Up to today, projects aiming at scaling up smallholder capacity building and certification have generated insignificant results. In 2015, the RSPO members therefore decided to develop a 'Comprehensive Smallholder Strategy', which is being done at the moment. AAK has actively contributed to the development of this strategy, highlighting the pressure

and high requirements a certification process is asking from smallholders. These requirements can be unobtainable for smallholders without formal training or knowledge of the procedure. AAK advocated that a stepwise approach should be included into the strategy and that smallholders should be recognized for efforts and smaller improvements along the way.

In order to take a proactive approach AAK has partnered with Proforest to create the AAK Smallholder Code of Practice (CoP). The aim of the code is to raise the standards of oil palm production by smallholders, whilst reducing the environmental, social, and legal risks associated with its production, without setting high pressure on the smallholders.

The CoP structure is twofold; the first section includes responsible production baselines such as deforestation and land conversion, land rights, labour rights and working conditions. Section two covers improving smallholder livelihoods with focus on improving yields and ensuring food security.

The CoP was field-tested by Proforest in July 2017. This practicality test has resulted in an improved and applicable set of guidelines which we hope will be used beyond AAK's own supply chain to guide the RSPO and other industry players to define an entry level for smallholders in their own supply base and help them to improve their livelihoods.

Jurisdictional approach in Sabah

In order to further support sustainable palm oil development for independent smallholders, a key objective in AAK's sustainable palm oil policy, AAK has identified the innovative jurisdictional approach to palm certification, as practiced in Sabah, Borneo as a highly effective approach to improve palm oil production from smallholders. AAK is the first palm oil supply chain contributor to this pioneering approach in East Malaysia relating to independent smallholders.

'Jurisdictional Sustainability', is defined as follows:

"We define jurisdictional sustainability as the successful transition to sustainable development—encompassing social, environmental and economic dimensions —across an entire political geography, such as a state, province, county, district or nation. Success is measured "wall-to-wall" across the entire jurisdiction and therefore encompasses the full range of activities, production systems, ecosystems and actors." (EarthInnovation.org, 2017)

Sabah, which is situated in the northeastern part of Borneo, is responsible for 12 percent of global palm oil production, of which an estimated 30–40 percent is produced by tens of thousands of smallholders. Partnering with Forever Sabah, the initial proponent for the Sabah commitment and now facilitator of the smallholder certification process, AAK seeks to help the state reach its ambitious target of RSPO certification of all its palm oil production by 2025. The current stage of this project for independent smallholders comprises four pilot districts (Telupid, Tongod, Beluran and Kinabatangan (TTBK)) with a sampling of 20 villages and an estimated 2,000 independent smallholders, to develop and design the process template for Sabah's 25 districts.

The overall project has been divided into three distinct goals:

1. Zero deforestation
2. Zero conflict
3. Smallholder livelihoods

Involving smallholders who are operating in remote and frequently high-poverty areas is a key focus of AAK. Therefore, we will focus our contributions on the smallholder livelihood goal of the project. The number of independent smallholders involved in the project is yet unknown (mapping is a critical part of the project). This indicates the scale of the challenges that lie ahead. A five-year action plan has been agreed upon, and includes the following targets:

1. Identify all mills in Sabah and their supply base of smallholders by end 2017
2. Trial the Sustainable Smallholder Communities program in TTBK by end 2017
3. Big industry mills to "adopt" their direct smallholder base and provide Best Management Practices (BMP) training by end 2017
4. Develop the Smallholder Facilitated Land Application Process (FLAP) for communities with existing palm by 2019
5. Capacity building in oil palm Best Management Practices (BMP) for the Department of Agriculture (DoA) Sabah by end 2017

Land tenure is one of the major local concerns in Sabah at the moment. The project will work with the Sabah Lands and Surveys Department (LSD) to facilitate land registration applications for smallholders in TTBK with the target to roll out FLAP to the rest of Sabah subsequently.

Jurisdictional certification is a multi-stakeholder project. The success of this ambitious mission relies on the contribution of strong partners. AAK is proud to be part of the project at this early stage and takes its responsibility seriously to help make the pilot period and the whole project a success.





Forever Sabah's Cynthia Ong on AAK's role and commitment

What kind of different stakeholders come together to work on the Forever Sabah project?

Forever Sabah works across all sectors: government, the private sector, civil society, indigenous communities, and science.

How important is it for the project that a stakeholder like AAK commits to it?

It is of course invaluable and very meaningful for the project that a progressive stakeholder such as AAK is committed. It signifies a sharing of responsibility in the sustainability cycle and recognizes that local and international processes and outcomes are intimately linked with each other.

What does it mean for Forever Sabah that AAK, as first supply chain contributor, has joined the project at this early stage?

It sends a signal to us in Sabah that our preferred markets appreciate what we are doing, it helps to build international industry confidence, and, hopefully, it paves the way for more such partnerships in the future.

How do you see AAK's role in the project?

We see the local-global dynamic and interface as central to the change and transformation process. When a diversity of groups joins efforts in sincere, inclusive and trust-building processes, great things can happen that would not be possible in isolation.

What are your hopes for the collaboration?

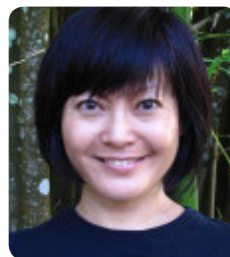
We wish the collaboration to be a real partnership where partners are equals and where all are committed to stay the course.

What challenges do you see for the project?

Our biggest challenge is to build the partnerships that Sabah needs to bring things to fruition at the scale necessary given the vision and targets we have set for ourselves.

How can AAK help to overcome these challenges?

By building visibility and the potential for collaboration for the jurisdictional process amongst its industry peers.



*Cynthia Ong,
Executive Director – Forever Sabah*

AAK and the RSPO

The RSPO continues to be the benchmark for palm sustainability and a platform for all stakeholders to meet and resolve issues. There are some signs of real progress in RSPO processes, enhancing its credibility further, in particular in relation to complaints. Membership continues to grow, approaching 3,500. The infrastructure and both sector and geographic reach which the RSPO has established mean that it remains the most important multi-stakeholder initiative for palm oil.

As a joint founder of the RSPO in 2003, and an ever-present member of the Board of Governors, AAK strongly supports the RSPO, at the same time recognizing that it must build on its strengths and address its weaknesses if it is to achieve its vision of sustainable palm oil being the norm.

With 21 percent of global palm production RSPO certified, the RSPO compares well with similar initiatives in other industries. However, there are justifiable fears that a plateau has been reached in certified production. In the short term progress on ambitions to develop further is unlikely to be demand led from the major palm oil consuming regions of India, China and Indonesia (even though some better signs of movement are evident in China and Indonesia in recent months). As a consequence there is a risk that RSPO certified palm oil remains a niche product, which may mean that premiums remain relatively high for growers already certified. However, it is to the interest of the industry as a whole which we must look, rather than the interests of those already certified under the RSPO standard (while appreciating the steps those growers have taken). The objective must be to increase sustainable supply of palm oil, which will benefit the image of palm oil in sensitive demand areas, and be to the benefit of the global palm industry.

The role of the RSPO

AAK supports the proposals currently being discussed to expand the role of the RSPO beyond being perceived as only a certification body. The RSPO is in a unique position to act as the forum to lead debate around sustainability in palm oil. It is the meeting point for all stakeholders, both physically at roundtable conferences and as a general forum, at which theoretical development and practical application can be debated and at which solutions can be agreed. Formal recognition and promotion of the RSPO's role in this respect, which it effectively takes already, is overdue and can be a means to take forward critical issues.

The RSPO should in addition be an advocate for change, pushing solutions with local, national and international governance bodies, and also working much more closely with other advocates. Malaysian Sustainable Palm Oil ("MSPO") and Indonesian Sustainable Palm Oil ("ISPO") are both good examples of mandatory schemes which have some differences from RSPO certification but also represent significant steps forward for around 85 percent of the palm oil produced in the world, most of which is not RSPO certified. Appropriate implementation of these schemes, and if possible shared

governance and reporting would be strong signals to the naysayers. The RSPO is in a unique position to facilitate such cooperation.

RSPO and smallholders

As indicated elsewhere in this and previous AAK reports, smallholders comprise around 40 percent of global palm oil production and so are critical to any sense of transformation. AAK is delighted that the RSPO has adopted a new smallholder strategy which seeks to address the issues around smallholders and sustainable palm oil, most notably the requirement for livelihoods as part of the solution and gradual change from a fixed starting point. Nobody should expect smallholders, particularly independent smallholders, to meet the full requirements of RSPO certification overnight. A gradual move towards certification is enough. The new RSPO strategy appears to acknowledge this issue, together with a desire to learn from the many individual smallholder initiatives being implemented by RSPO members and others. There remains a long path to travel, but the first steps to inclusivity of smallholders have finally been taken.

Growth of the RSPO in Latin America and Africa is promising. It is also critical that the RSPO maintains the confidence and support of major, global end users of palm oil. However, such end users must be held to account by the RSPO in the same way as growers in demonstrating that they are meeting their obligations as RSPO members.

RSPO going forward

AAK is also pleased that the RSPO is addressing governance issues. Without anticipating the outcome of the governance review in progress, there is no doubt that such a review is overdue. Many structures and practices have evolved over time without appropriate benchmarking or a full understanding of the implications and would benefit from reworking. This is an appropriate time to restructure and streamline RSPO decision-making and accountability.

Finally, the RSPO review of Principles and Criteria is underway, with strong and appropriate calls for simplification. This review is not any easy task, but is achievable with goodwill, as participants in the task force seek to raise the floor of certification as well as the ceiling, effectively replacing RSPO Next, which has had a very slow start, but can effectively be used as a prologue to the P&C review process.

The RSPO somehow always seems to be at a critical point, and once again that appears to be the case. However, AAK prefers to see the RSPO more optimistically as a force for good in this world, and with its glass half full (or maybe a little more). The opportunity is there for the RSPO to move forward as an inclusive organization facilitating and driving change.

Tim Stephensen
Member of RSPO Board



AAK's dialogue with retailers: Tesco as an example

AAK has for some time been working with key retailers to support their sustainability commitments. In particular, we have been building a successful relationship with Tesco since 2008.

Jonathan Gorman, Group Sustainable Sourcing Manager at Tesco Stores Ltd, believes that for Tesco, sourcing products sustainably is a core part of the business, because it's the right thing to do and because Tesco's customers expect the company to source responsibly.

"While we recognize the great potential for the palm oil industry to meet future demand for sustainable vegetable oil and socio-economic benefits to millions of farmers, we, at the same time, recognize the significant environmental and social challenges that exist today within the industry and the need to work together to find and implement solutions", says Jonathan. "We believe it is important to work with AAK, supporting their commitment to sustainable palm, through their Sustainable Palm Oil Policy, to help achieve this goal."

When asked about AAK's and Tesco's palm oil policies, Jonathan says that their core principles are aligned but the need for full transparency in the implementation of zero deforestation policies is becoming increasingly important.

"The benefits of full visibility of the palm oil supply chain is that it provides us with a deeper understanding of the challenges and the opportunities. For AAK, we believe that this visibility strengthens external confidence that their business is delivering on their Sustainable Palm Oil Policy", he says.

Jonathan acknowledges the work of Proforest which has conducted risk assessments of all suppliers to gauge the level of compliance with AAK's palm oil policy, including visits

to the mill, plantations, and any external parties supplying fresh fruit bunches to the mill. Proforest has also completed geospatial mapping of each supplier, which clearly shows where forest has been removed – valuable information for Tesco, which has a commitment to zero deforestation in its supply base by 2020.

Supporting smallholders

Smallholder engagement in sustainable palm is also critical to the development of a sustainable palm oil industry, and a concern for Tesco.

"Finding innovative, scalable ways in which smallholders can engage and adopt sustainable palm oil cultivation practices is a pressing challenge; we won't achieve our commitment without this change", says Jonathan. "Communicating the benefits of sustainable palm, developing new finance models that support smallholder investment and looking at ways to enable smallholders to adopt good practice on a path towards certification are all ways in which can encourage this uptake."

Taking a lead

Jonathan remarks that retailers in the UK and Europe have taken a lead on sustainable palm and will continue to push for further faster progress with a clear signal to the market for zero deforestation palm oil.

"Our customers expect and trust us to source our products and ingredients in a responsible way. We are committed to working with other retailers, with AAK and others until all our palm oil meets this objective."

AAK and CERES indicators

In January 2017, CERES, a non-profit organization based in the US, published a document titled *Reporting Guidance for Responsible Palm*, and input was gathered from a range of influential civil society organizations. The document aims to “increase understanding, transparency, and accountability regarding responsible palm oil production by providing a shared set of reporting guidance for companies across the supply chain.” It does not expect companies to report against the indicators it sets out separately, but rather that they use them to guide communications through existing channels such as annual sustainability and progress reports, and to help structure dialogue with external stakeholders. In the spirit of increasing transparency and offering consistency to stakeholders, AAK decided to assess how what we already report measures up against the CERES recommendations.

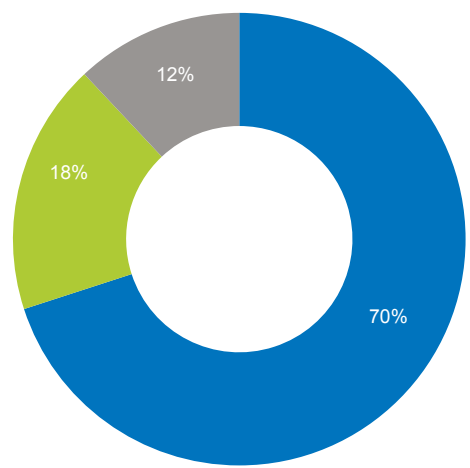
Out of 21 indicators, AAK already reports fully against 12 of them; partially against three; and not at all against only two. Four of them are not applicable to AAK, as they reference company-owned mills and plantations (AAK does not own any mills or plantations). Excluding the indicators that are not applicable, AAK therefore achieves the following level of compliance against the CERES indicators:

Proforest's review of AAK's reporting according to CERES guidelines

Scope		
1	Scope of the palm oil policy	●
Supply chain transparency		
2	Oil palm landbank	●
3	Traceability to mill	●
4	Traceability to estates >25ha	●
5	Maps with coordinates	●
6	Names of suppliers	●
Monitoring and engagement		
7	Grievance process + list	●
8	Monitor & Support legal land tenure	●
9	Methodology for risk assessment	●
Land acquisition and development		
10	Reporting land conflicts	●
11	Procedures for new planting	●
Environment		
12	Set aside areas	●
13	Monitoring of fires/deforestation	●
14	GHG emissions	●
Human rights		
15	Prevent human rights issues	●
16	Human rights reporting	●
Smallholders		
17	Program to support smallholders	●
18	% volumes from smallholders	●
Compliance		
19	Third-party verification	●
20	Certified supply	●
External initiatives		
21	Participation in external initiatives	●

- AAK reports fully
- AAK partly reports
- AAK does not report
- Not applicable (AAK has no plantations)

AAK compliance against CERES indicators (not applicable removed)



- AAK reports fully
- AAK partly reports
- AAK does not report

The two indicators that AAK does not currently report against are:

6. Report the names of the company's direct palm oil suppliers

- AAK does not publicly disclose the names of our direct suppliers for reasons of commercial confidentiality

18. Report the percent of the company's total palm oil supply that is from smallholders

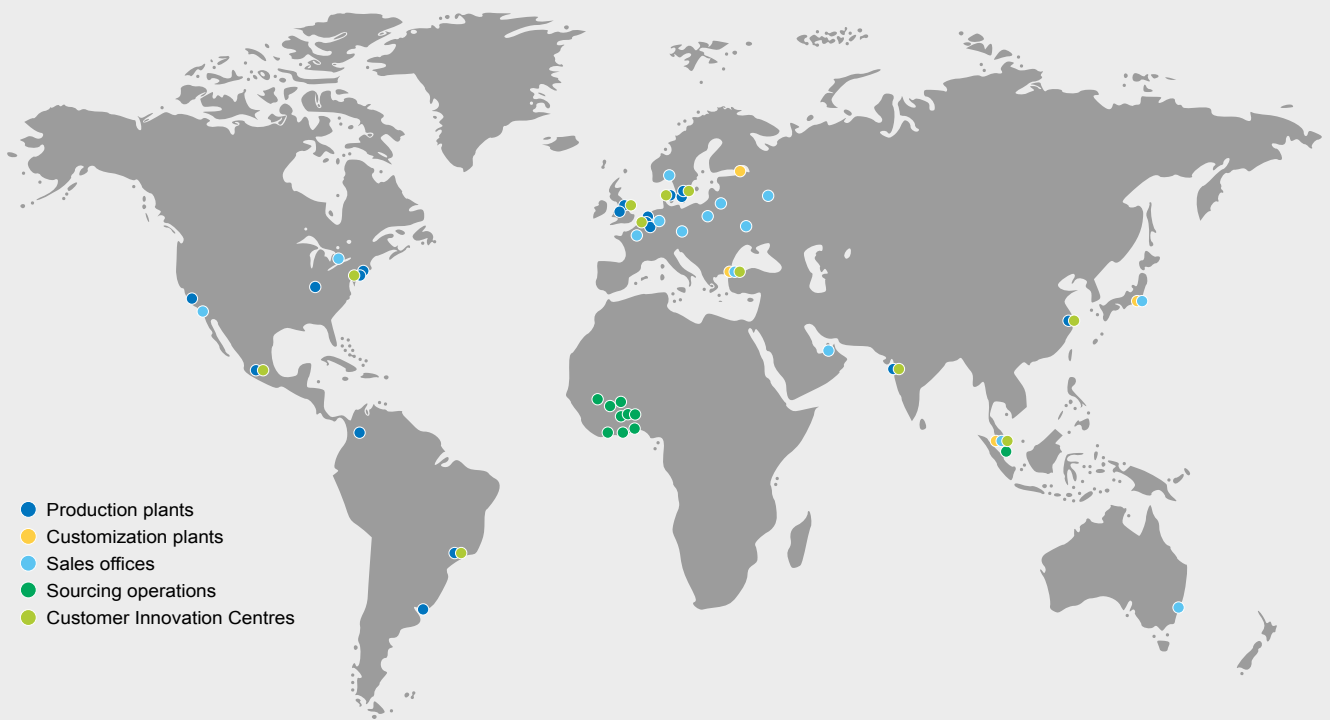
- AAK has over 1,000 mills in its supply base and that supply base is not static, i.e. new mills come onboard and others leave periodically. Whilst we know the percentage sourced from smallholders from a number of individual mills, currently we cannot accurately estimate that percentage for our total supply. However, as we progress towards our target of 100 percent traceable to plantation by 2020, we expect to be able to report against this in the future.

Key next steps for AAK

AAK will

- pursue its overall objective of 100 percent traceability to mill origin for palm oil, palm kernel oil and residuals
- risk assess new suppliers and continue to keep risk assessment updated on existing suppliers
- identify mills most at risk of non-compliance with the AAK Sustainable Palm Oil Policy
 - identify those origins where there is significant risk of policy non-compliance
 - continue the geospatial risk assessment for the whole supply base
 - continue the mill verification of higher-risk mills
 - focus greater scrutiny on higher-risk mills, including field-based verification
- follow up on identified non-conformities/non-compliances and ensure closure as soon as possible
- proactively manage any potential grievance issues
- continue to increase our active engagement with suppliers to ensure policy compliance, including targeted workshops with supplier mills and continue to report progress on volumes from suppliers engaged in sustainability programs
- pursue our engagement in the Sabah smallholder project, as we believe making a real difference with smallholders is at least as important as raising the bar for the top performers, with a potentially more significant impact on palm oil sustainability





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