



A circular blue graphic overlays the image, containing the title text.

AAK's progress report on sustainable palm oil – February 2018

The Co-Development Company

AAK

Reflections

AAK's ambition for 2018 is to remain at the forefront of palm sustainability and to make a difference. We recognize that our direct influence is limited by our position in the supply chain with limited direct contact with palm oil growers and mills since we mainly buy refined oils and fractions. Nevertheless, AAK still make a difference by building on the very sound foundations of previous years; by leveraging our position as a buyer of palm oil and related products and by working closely with suppliers and with customers. We will continue to engage with industry initiatives where this can have a significant impact, for instance in the RSPO and national initiatives.

As well as continuing with our program of mill assessments, we will in 2018 specifically focus on revisiting the mills we verified earlier to assess progress and to check whether time-bound action plans are in place. We will continue to build on supplier engagement workshops, with a particular new emphasis on social issues in Peninsular Malaysia. We are already supporting Proforest as they develop a new social impact risk assessment tool.

Our work with smallholders in the past has been extensive, particularly through the GreenPalm certificate trading platform. Smallholder sustainability has to a large degree been overlooked by the palm industry. There have been too many instances of relatively small projects focused on individual smallholder groups, which provide publicity to the promoters but do not make a significant difference to the smallholder population as a whole. Some signs are now emerging of serious engagement with larger groups, which is more encouraging.

Subject to appropriate progress being made, AAK will continue to support financially Forever Sabah as the state of Sabah in East Malaysia moves towards full jurisdictional RSPO certification. AAK's support is directed towards work with the thousands of independent smallholders in Sabah, a state which produces around 12 percent of the global production of palm oil in a highly sensitive area, and which is showing leadership in driving sustainability. We would encourage more support from the supply chain for these groundbreaking efforts which impact many thousands of smallholders.

AAK recognizes that it cannot force through change alone, and relies on in particular engaging with, influencing and supporting others such as the RSPO, governments, industry bodies and the major processors to develop more widespread acceptance of sustainability criteria by growers and producers of palm fruit, as well as by end users.

Politicians in consumer markets too must be educated as to the benefits of sustainable palm oil, from a social and environmental perspective. AAK does not support the use of palm oil in biodiesel, and does not distinguish between palm oil and other vegetable oils in that respect. The message sent by the European Union parliament following the recent vote on palm oil in biofuels is at best very disappointing. There can be little surprise that grower countries complain of protectionism.



Content:

1. Reflections.....	2–3
2. Sustainable palm achievements	4
3. Continuous improvement	5–8
i. Dashboard	5
ii. Traceability and supplier engagement progress 2017	6–7
iii. Grievance management	8
4. On-the-ground impact and smallholder engagement	9–13
i. On-the-ground workshops and training.....	9–10
ii. Smallholder Forever Sabah, interviews	10–13
5. Stimulating market uptake.....	14
6. Key next steps	15



AAK will continue to strongly support the RSPO. The RSPO still has a pivotal role to play in sustainable palm oil, as well demonstrated in the recently published Theory of Change, going beyond certification. We recognise the risk of RSPO certified palm oil becoming a niche rather than the norm, stifling the very positive potential impact of more widespread RSPO certification.

So long as there is a significant cost associated with buying RSPO certified palm oil, and so long as significant sectors of end users are unwilling to pay that premium, AAK and others must pursue and implement their own policies of traceability, risk assessment and verification. However, it must be recognized that verification is a less strong alternative to certification, without independent assessments and the associated independent structure of control, complaints and transparency. AAK recognizes that verification works best when supplementing certification.

2018 is a year in which AAK will continuously improve its process of traceability, risk assessment and in particular of implementation. Grievance monitoring and higher-risk mills will come under even greater scrutiny. Smallholders will be supported more effectively, through jurisdictional approaches and step-wise certification.

Great progress has been made in the palm oil industry, but there is a long way to go. Let's be positive about the impact of sustainable palm oil, for the benefit of all – people, planet and prosperity.

Further details relating to these issues, including AAK's smallholder engagement, are included on subsequent pages of this report.

Tim Stephenson
Director Finance & Global Trading, AAK AB

Sustainable palm oil achievements

Traceability

- Achieved traceability to mill origin of 96 percent;
- Updated all mills traceability data;

Risk assessment

- Completed a qualitative risk assessment of all suppliers;
- Completed geospatial risk assessment of all mills;
- Identified mills for our on-site verification program and completed five verifications;

Supplier engagement

- 90 percent of our volumes sourced are from suppliers that are members of the RSPO;
- Increased number of suppliers that signed up for the AAK Code of Conduct and 88 percent of suppliers that signed the AAK Palm Oil Policy and 8% of suppliers that have an aligned policy;
- 70 percent of volume is sourced from suppliers that are directly engaged in AAK's sustainable palm program or indirectly engaged in sustainable palm programs equivalent to AAK's;

Processes and tools

- Implemented a formal and proactive grievance management process as well as a monthly grievance tracker for detailed monitoring of progress;

Impact:

- Completed palm oil supplier engagement workshops and training with participants from 42 mills;
- Tested the AAK smallholder Code of Practice to help the stepwise approach for smallholders to become RSPO certified;
- Provided direct and substantial financial support for the jurisdictional certification approach in Sabah, impacting thousands of smallholders.

Most of the above is supported by charts from the dashboard.

AAK's Palm Oil Policy is founded on the following pillars:

- support for the Roundtable on Sustainable Palm Oil (RSPO)
- traceability to mill and plantation
- no development on High Conservation Value (HCV) areas
- no High Carbon Stock (HCS) deforestation
- no development on peatland
- Free, Prior and Informed Consent (FPIC)
- inclusion of smallholders in the supply chain

AAK policies, definitions and progress reports can be found at our website, www.aak.com.

AAK is committed to a fully sustainable palm supply chain by 2020, meeting AAK's policy requirements

AAK's sustainable palm strategy comprises three main areas:

1. Continuous improvement

- Traceability progress
- Supplier engagement
- Compliance progress to AAK's Palm Oil Policy
- RSPO certified volumes sourced
- Grievance management
- Risk management

2. On-the-ground impact and smallholder engagement

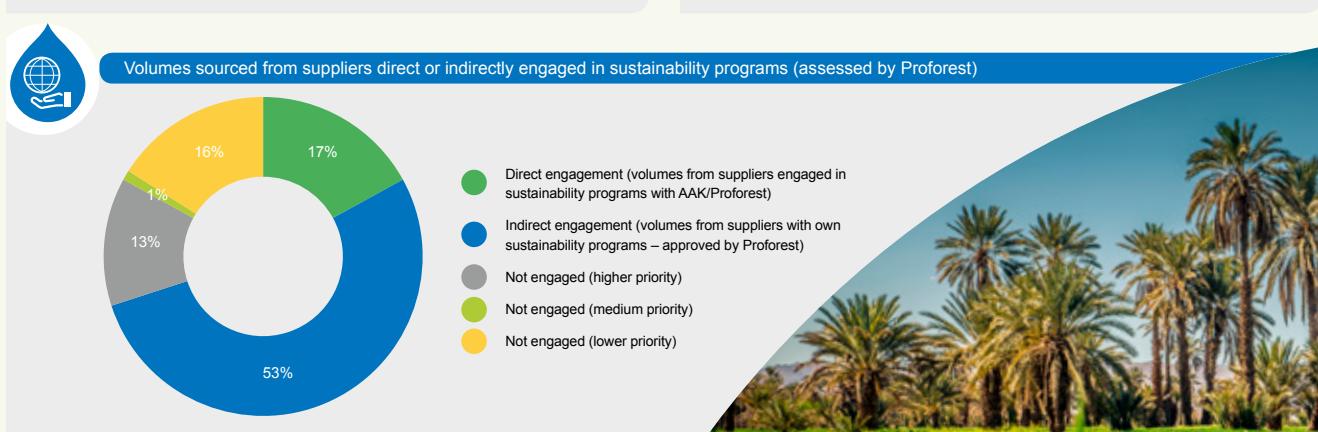
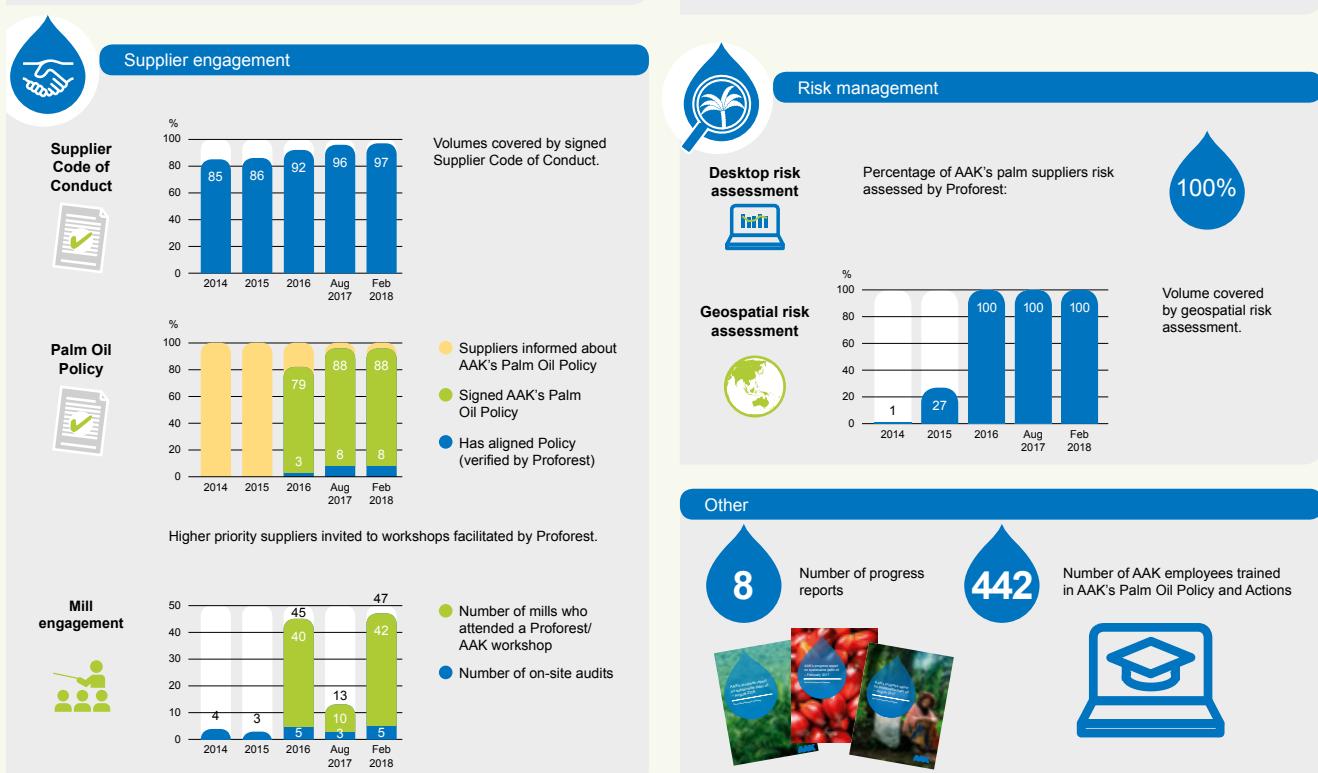
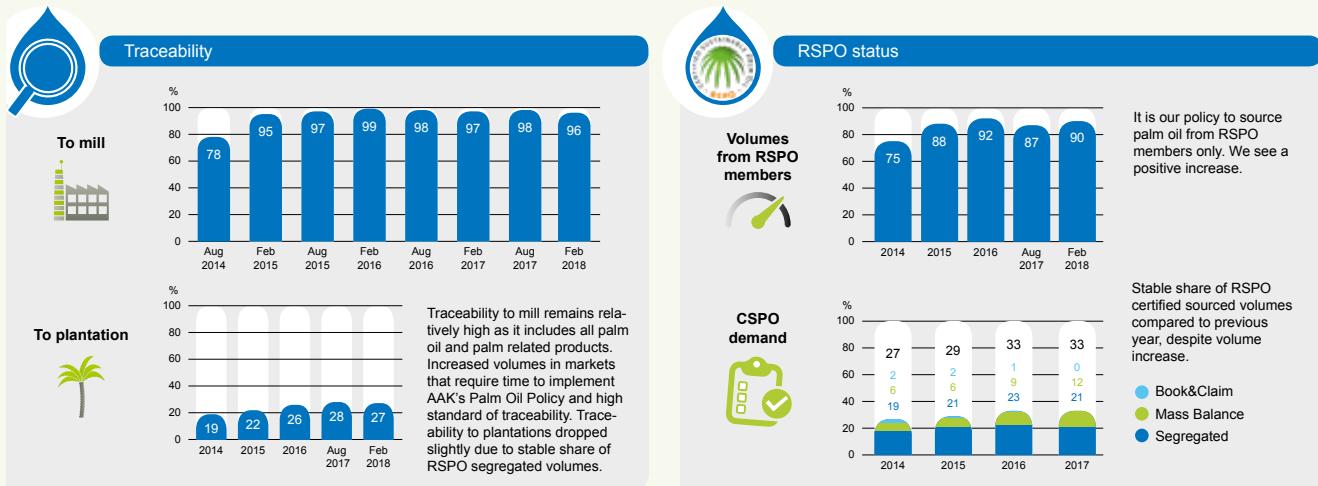
- Workshops
- Technical training
- On-site verifications and follow-ups
- Specific smallholder programs

3. Stimulating market uptake

- Customer engagement
- Participation in national or regional initiatives
- Active engagement in RSPO standing committee's trade & traceability and communications



Palm oil DASHBOARD



Increased transparency

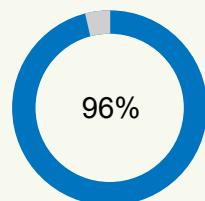
As part of our continuous improvement journey we have decided to increase our transparency by publishing our universe of mills list at our website. We believe that with this initiative we meet the increased transparency needs of our customers, their customers and other stakeholders.

Our updated approach will be:

- ◆ to publicly disclose all mills in our supply chain – name and coordinates at our website
- ◆ to allow our customers to publish this information
- ◆ to allow our customers to publicly identify AAK as their tier 1 supplier

Traceability to mills

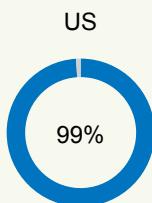
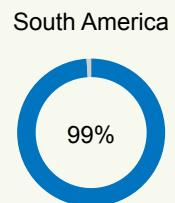
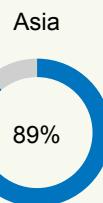
AAK group level



Explanation

Traceability to mill remains relatively high, despite 20% volume increase overall and growth in China and India, regions that require time to implement AAK's Palm Oil Policy

Regional traceability



Traceability by category



Supplier engagement

Sustainable palm oil sourcing and supplier engagement is an integrated responsibility of our tropical oil sourcing and trading teams across the world in the different regions that AAK is present.



Supplier engagement

MUST HAVE!



Signed AAK
Code of Conduct



Signed AAK
Palm Policy

RSPO

Roundtable on Sustainable Palm Oil
Membership of RSPO



GPS Coordinate of
mills in supply chain

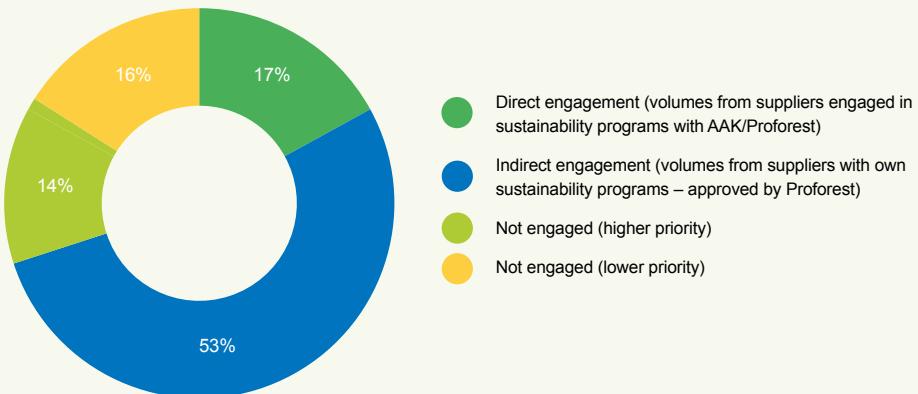
IDEAL TO HAVE!



GPS Coordinate of
palm oil estates

All buyers are responsible of getting this from their supplier

**2018 focus on
14% high priority**



2017:

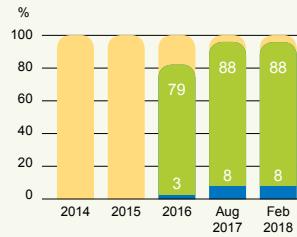
97% Signed AAK's
Code of conduct, 96%
have signed AAK Palm
oil policy or have an
aligned palm policy.

**2018:
Target 100%**

Supplier Code of Conduct



Palm Oil Policy



Yellow bar: Suppliers informed about AAK's Palm Oil Policy

Green bar: Signed AAK's Palm Oil Policy

Blue bar: Has aligned Policy (verified by Proforest)

Grievance management

Despite concerted efforts by growers, buyers as well as other actors across the industry and the palm oil supply chain, there are still many laggards comprising a significant proportion of the producers and buyers of palm oil, which means that poor practices and breaches of No Deforestation, No Peat, No exploitation (NDPE) policies still occur. Organizations such as Greenpeace, Rainforest Action Network (RAN), Environmental Investigation Agency (EIA), and Amnesty International have played an important role in highlighting grievances and catalyzing solutions from various players within the sector. This push has also lead to a demand for more disclosure relating to individual company grievances and what action is being taken to push for a resolution.

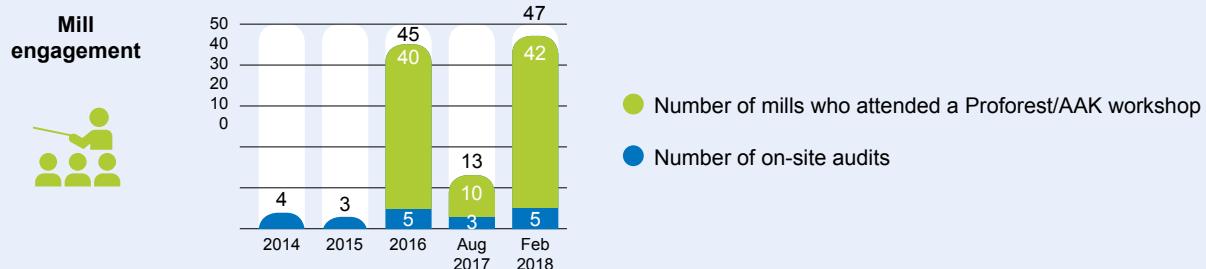
Typically, grievances will be in the supply chains of numerous downstream companies including retailers, manufacturers, extending back up to processors (sometimes several layers) and, of course, growers. Downstream actors do not always have significant leverage in order to ensure resolution of grievances, as they will likely have no direct commercial relationship with the producers. Instead, they must exert influence back up the supply chain through their own direct suppliers.

We at AAK have clear visibility of which mills and parent companies are in our supply chain, and through which of our Tier 1 suppliers their products reach us, due to the ongoing traceability work we do and report on publicly. Any grievances we become aware of can therefore be linked back to our supply chain. During 2017, we upgraded our grievance management procedure to ensure that both our suppliers and our customers know the process we follow and what our expectations are in terms of actions from our suppliers. Many other companies in the sector did likewise. This has led to a convergence of approaches to dealing with grievances that has resulted in a sharper focus and greater pressure being exerted on companies that are the subject of grievances, and ultimately to a more timely resolution. However, there remain multiple issues which are unresolved, or where progress has been relatively slow. Continued focus remains critical to drive progress and solve the issues on the ground.



On-the-ground impact and smallholder engagement

IMPACT: Supplier engagement and smallholder projects



Supplier engagement program

Engaging with strategic suppliers is a key part of AAK's Palm Oil Policy implementation program. Together with Proforest, AAK compiles and reviews supplier profiles on an annual basis to determine the priority suppliers to engage with for maximum impact. Key criteria in this prioritization process include geospatial and social risk assessments, volumes, and organizational information. Details on this process were provided in our progress report on sustainable palm oil from August 2017.

As with many companies in the palm oil sector, AAK has a large number of suppliers from around the globe, so a focus on reaching significant numbers through our sustainability program has been important. However, delivering at scale means nothing without achieving impact. In 2017, AAK has been working on a specific engagement program to implement the policies and the common vision of palm sustainability. The implementation activities have been threefold:

- Outreach workshops to mills: to sensitize mills to the requirements of AAK's Palm Oil Policy and what this means in practical terms. Proforest has run a series of

day-long workshops in different locations. These have been attended by managers from mills and plantations of over 20 mills and 13 different parent companies.

- Technical training: Focus has been on labor-related aspects of palm sustainability, as this has been identified as a salient issue in Peninsular Malaysia. Representatives of over 40 mills attended these training sessions.
- Mill-level verification visits: These visits permit a deeper understanding of the progress of implementation of sustainability commitments at mill and plantation levels. These visits take the form of an audit using a checklist and criteria, resulting in a report that highlights areas of and provides recommendations for continuous improvement, against which action plans are developed to close the gaps identified. At the end of January 2018, twelve mills have received these visits.

In addition to continuing to engage new parts of our supply base, AAK will in 2018 be focusing on securing and measuring the impact of previous engagement activities, be they workshops, technical training, or mill-level site verifications, and providing further support to suppliers where necessary.



AAK has already received testimony from key direct and indirect suppliers about the value of the workshops and technical training:

"We were delighted to be given the opportunity to collaborate with AAK again in hosting two Supplier Engagement Workshops at our refineries.

These workshops bring together leading local palm oil millers, representatives from Malaysia Palm Oil Board (MPOB) and Malaysia Palm Oil Refiners Association (PORAM), and the industry sustainability specialists to a roundtable platform for sustainability discussions, with the aim to positively influence the millers on adopting the right approach to improve corporate social responsibility practices. This is no ordinary discussion; it is a dynamic dialogue platform between all stakeholders – to show that the possibility of embracing sustainable milling practices is there.

It is an awesomely great experience to see the diverse stakeholder groups as a whole to share knowledge, skills and expertise. We believe this is certainly a valuable achievement for AAK who always seek to building sustainability in its supply chain." – Direct supplier

"Our delegates so enjoyed attending the event and the content fitted so well with what we do. The seminar was interesting and the event was a real pleasure to attend."
– Indirect supplier

Positive feedback and anecdotal evidence of an impact on practices is very satisfying, but as AAK moves towards 2020 we will increasingly seek to measure real impact as a result of our supplier engagement activities, develop relevant KPIs, and report on them in these progress reports.

Scaling up smallholder capacity with Forever Sabah;

The work plan for the Sabah jurisdictional certification of palm oil to the RSPO standard by 2025 has commenced. It is a huge project with high ambitions to achieve RSPO certification for the whole of Sabah. AAK supports the work of Forever Sabah, the organization tasked with heading up the smallholder element of the overall project. Its work remains focused on the four trial districts – Telupid, Tongod, Beluran and Kinabatangan (TTBK) and covers 20 pilot villages estimated to involve 2,000 independent smallholders.

The initial baseline study exercise is near completion with the report due to be issued imminently. Teams have completed land mapping in Telupid and will extend this exercise to the other districts in Q1 2018.

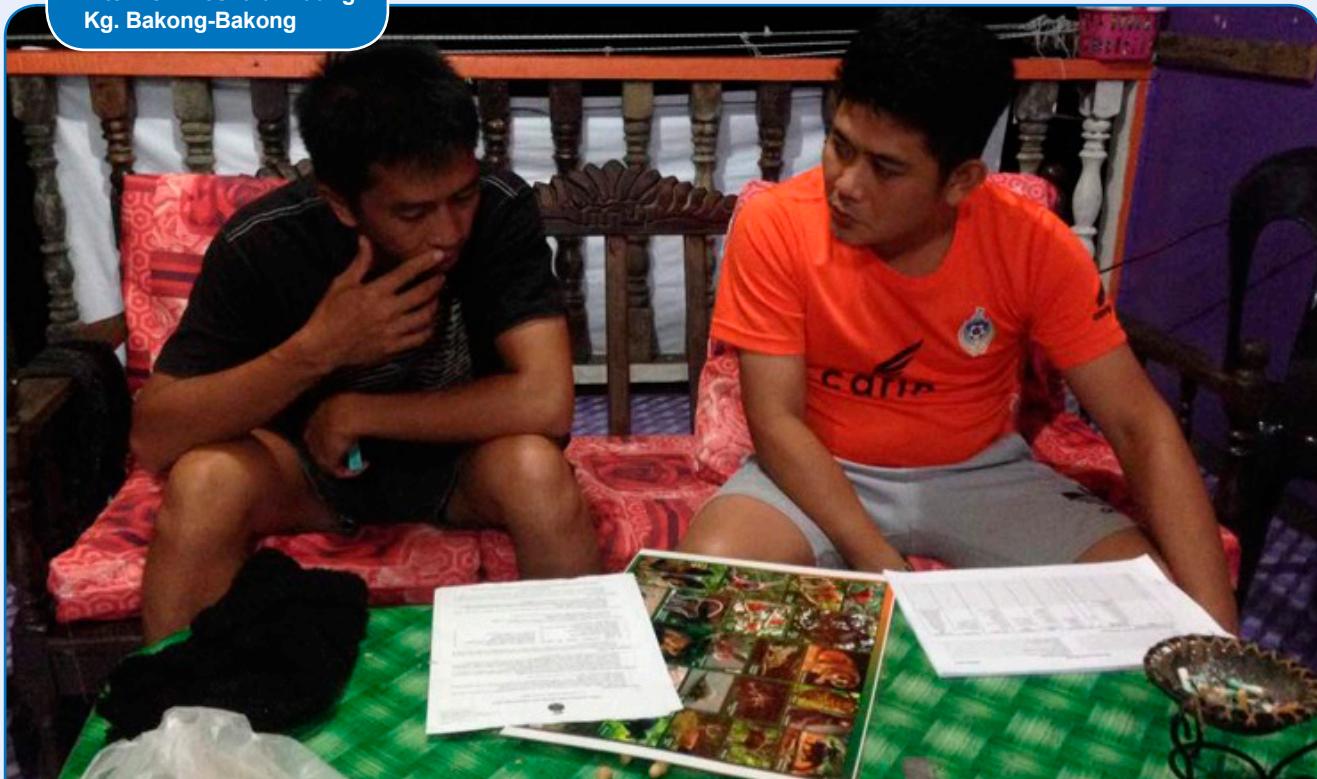
Smallholders had the opportunity to share their experiences at the Heart of Borneo International Conference (October 24–25, 2017) in Kota Kinabalu. Two representatives from each of the four TTBK districts delivered their message to an international audience after an introduction by Forever Sabah Chief Executive Cynthia Ong and project coordinator Phillip Chin. Their stories were based on surveys from 160 respondents representing over 9,000 villagers in TTBK.

The issues in Telupid are related to land legality and the complex human-elephant relationship. The human-elephant relationship is mainly focused to three villages: Liningkung, Bauto and Gambaron, which are about 15 kilometers from Telupid town. Elephants have in the past two years started to reappear in these villages after over two decades of having moved elsewhere. Over in Tongod, yields were highlighted as a major issue impacting on income. On average, one hectare yields 0.62 tons a month of fresh fruit bunches. Comparing this to the national average yield of between 1.66–2.0 tons/ha per month there is clearly a significant opportunity to better the livelihoods of smallholders by employing Better Agricultural Management Practices.

AAK interviewed several smallholders from the village of Kampung Bakong-Bakong, in the Telupid district, to first-hand understand their situation, the impact the project has on them and their ambitions.



Interview Roshaidi Baung
Kg. Bakong-Bakong



Roshaidi Baung (left) interviewed by Chris Isham (right) Field Coordinator of Forever Sabah. The interview take place at Roshaidi's house.

How long have you and your family farmed your smallholding?

I have farmed the smallholding for about 18 years. I replanted oil palm in 2013, supported by MPOB.

Can you confirm the size of your smallholding and comment on its ownership status?

My smallholding is 2.30 hectares of Native Title and it is a family heritage.

What is your current yield and what is your ambition?

My current yield is 1.5 tons and I have an ambition to increase it.

What type of support do you receive from local mills and government agencies?

I get support in oil palm replanting from government agencies such as MPOB. This includes one day of training on planting oil palm, and contribution of fertilizer.

We also receive support from industry authorities, Lembaga Industri Getah Sabah (LIGS) and Rubber Industry Smallholder Development Authority (RISDA) in opening a new farm. So far, we do not receive any support from local mills.

Do you have good access to local markets to sell your FFB and do you get a fair price?

I sell my FFB to the nearest weighing center, PL Sawit which is 5 kilometers away from the village.

The price given is RM550 per ton. It is still reasonable but I really hope that the price will not go down.

What are the main challenges you face?

The main challenges in oil palm management are pests, wildlife issues such as long-tailed macaque and bearded pig, and weather factors such as flooding.

What do you want as an outcome of this process?

I hope that the relevant agencies monitor the areas for improvement and I also want a higher price for my oil palm.

I also hope that the villagers will continue to be able to re-practice the way of planting traditional food crops, since they are still planting traditional medicine.

A good outcome would be the improvement of the road into the village and smallholding and the full utilization of the land for cultivation of both oil palm and food crops.

Do you have any other comments or opinions you would like to share?

The RSPO should not be too strict on smallholders. They should consider the smallholder situation. They also should create job opportunities for those who are qualified.

**Interview Awang Basuni
Kg. Bakong-Bakong**



Awang Basuni (centre) talking to Maslianah (2nd from left) former Field Coordinator of Forever Sabah.



Awang Basuni shows how to load the FFB.

How long have you and your family farmed your smallholding?

I have been planting oil palm since 2012 and farmed the smallholding for five years now.

Can you confirm the size of your smallholding and comment on its ownership status?

The total smallholding is 14.5 acres.

What is your current yield and what is your ambition?

My current yield is 4–6 tons and it is my ambition to produce the maximum yield of the smallholdings.

What type of support do you receive from local mills and government agencies?

I receive support from government agencies such as MPOB in seedling, fertilizer and briefing about planting oil palm and chemical usage. So far, I haven't received any support from local mills. I have been trained by a consultant of previous oil palm companies that I worked for during 12 years.

Do you have good access to local markets to sell your FFB and do you get a fair price?

Yes. I sell my FFB to the nearest weighing center, Kurnia which is approximately 2 kilometers away from the village. The price given is RM540 per ton which I am satisfied with.

What are the main challenges you face?

The main challenges of implementing RSPO among smallholders are monitoring, documentation for record, yield and cost for waste. These things are difficult since smallholders lack documentation knowledge and tools to do the cost calculation.

What do you want as an outcome of this process?

That smallholders in Sabah become knowledgeable in sustainable agriculture, that we can be sustainable whilst maintaining our culture. And that the quality and price of the oil palm increase.

It will be good if there is an organization to collect the waste, to monitor the river, to make sure land legality is in place and there is a permanent and RSPO certified collection center for continuous improvement.

The land use will be more organized and well managed.

Do you have any other comments or opinions you would like to share?

I would like to be RSPO certified, as I believe RSPO certification is good for the smallholders' future.



How we make progress contributing to the Sustainable Development Goals

In September 2015, the United Nations adopted a set of 17 Sustainable Development Goals. These global goals lay out a 15-year agenda to “mobilize efforts to end all forms of poverty, reduce inequality and tackle climate change.” AAK’s sustainability and CSR efforts incorporate these goals in the model for sustainable growth. The goals have been assessed and areas have been identified where AAK can make an impact.



In the execution of our sustainable palm commitment, we would like to highlight one specific goal in this progress report and explain the contribution we can have through our impact programs.

Goal 2: Zero hunger

Increased productivity and income for smallholders go hand in hand with ensuring of sustainable practices (2.3/2.4).

It is estimated that about 40 percent of the palm oil produced globally is produced by smallholders. The production of palm oil is for many smallholders their main source of income. By supporting the jurisdictional approach in Sabah, AAK in collaboration with Forever Sabah aim to reach 20 villages and an estimated 2,000 smallholders. Although smallholders face challenges with productivity, working together with Forever Sabah helps them to get access to the



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

expertise they need. This aims to improve the smallholders’ agricultural practices and working towards RSPO certification, thereby improving productivity and getting more income for the same amount of land. Stabilizing and improving this income help families to send children to school – a double win for all partners in the supply chain.

Stimulating market uptake

Co-development for a sustainable future

Working with our customers is not just about developing new products, but also working to deliver sustainable growth. Sustainable growth is essential to our vision of being the first choice for value-adding vegetable oil solutions. Helping our customers to meet their sustainable palm requirements, meeting the RSPO requirements combined with the execution of AAK palm oil policy, will enable the transformation to become fully sustainable.

The AAK palm champion network, together with our sustainable palm expert team is there to support you with all aspects of this sustainable palm journey. We are able to translate your specific needs to solutions that fit your sustainable palm sourcing policy. We are looking forward to continue to be your transparent trust worthy and knowledgeable partner in palm sustainability.



Key next steps for 2018:

1. Continuous improvement

- Completed and updated risk assessment of full 2017 supply base by Q1;
- Focus on 100 percent traceability to mills;
- Focus on medium- and high-priority suppliers and regions;
- 100 percent of our suppliers signed up to Code of Conduct and either signed or have an aligned sustainable palm oil policy;
- 100 percent Indonesian volumes covered by engagement;
- 100 percent sourced from RSPO members;
- 100 percent of grievances covered by systematic action plans;

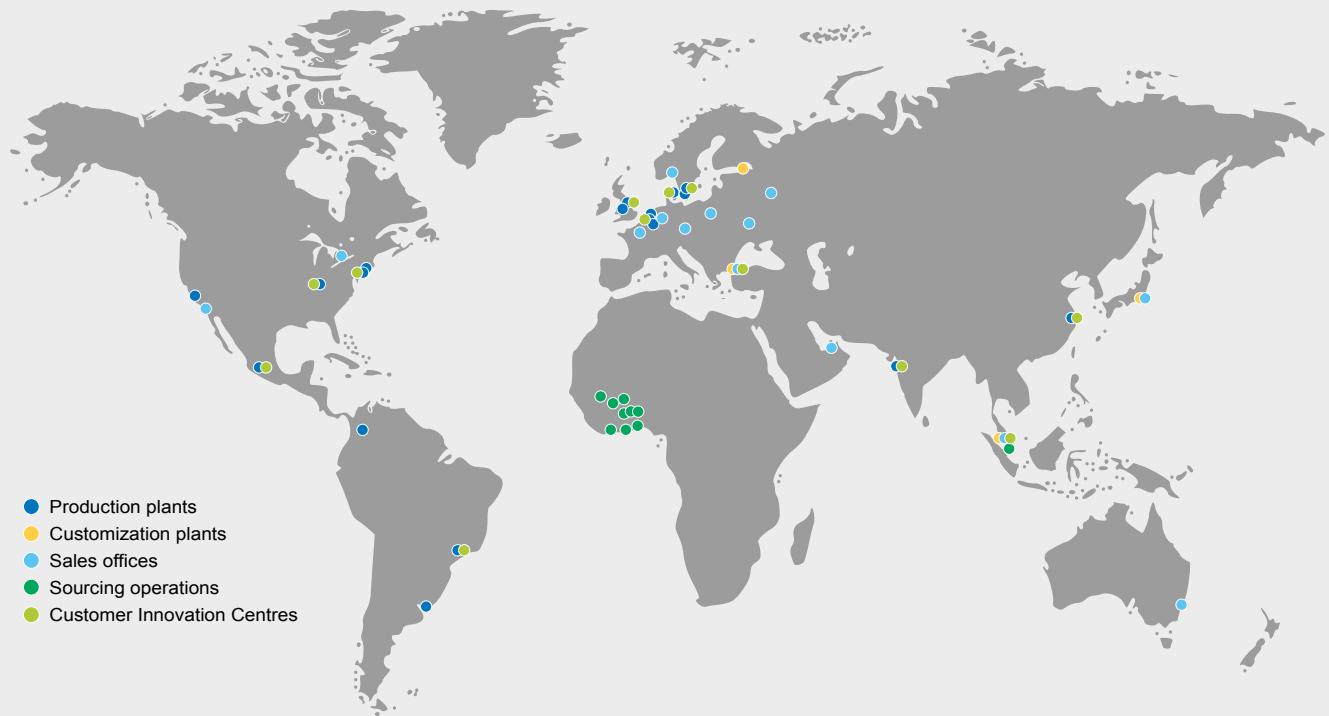
2. On-the-ground impact and smallholder engagement

- Action plan for workshops and training sessions in place by Q1;
- Follow up on on-site verifications, ten mills and three new mill verifications;
- Deploy the AAK piloted smallholder Code of Practice;
- Continue to drive progress with the Forever Sabah engagement;
- Explore other smallholder support projects;

3. Stimulating market uptake

- Continue to be the trusted and knowledgeable partner for our customers in sustainable palm.
- Right tools and training for sales teams and customer innovation teams;
- Partner with customers in smallholder impact projects;





We are AAK

AAK is a leading provider of value-adding vegetable oils & fats.

Our expertise in lipid technology within foods and special nutrition applications, our wide range of raw materials and our broad process capabilities enable us to develop innovative and value-adding solutions across many industries – Chocolate & Confectionery, Bakery, Dairy, Special Nutrition, Foodservice, Personal Care, and more.

AAK's proven expertise is based on more than 140 years of experience within oils & fats. Our unique co-development approach brings our customers' skills and know-how together with our own capabilities and mindset for lasting results.

Listed on the NASDAQ OMX Stockholm and with our headquarters in Malmö, Sweden, AAK has 20 different production facilities, sales offices in more than 25 countries and more than 3,300 employees.

We are AAK – The Co-Development Company.

Explore more at
www.aak.com

AAK