



Co-developing  
for a sustainable  
future

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Sustainability  
Report 2018

**AAK**

PEOPLE

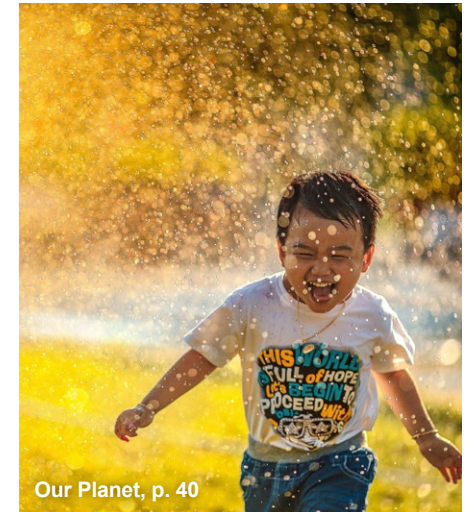


# Contents

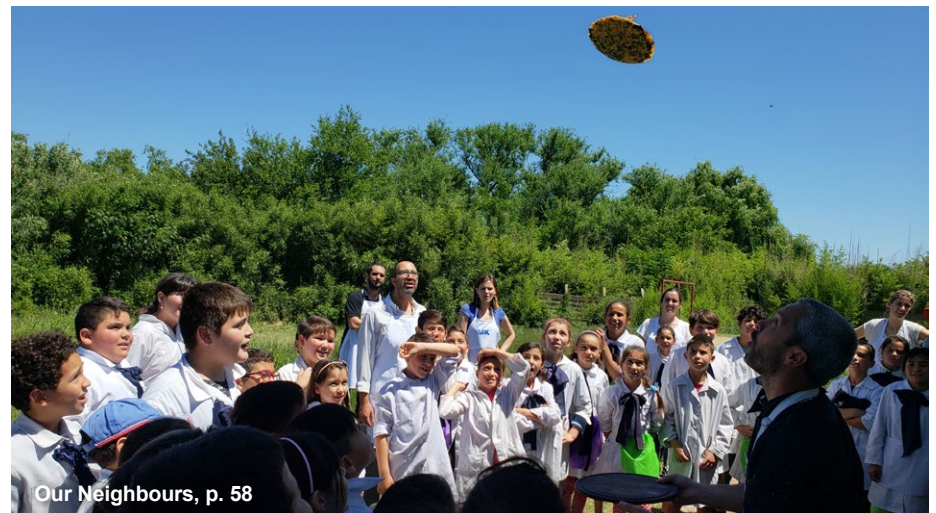
Introduction to AAK.....	2–5
Statement by CEO Johan Westman.....	6–7
Sustainable growth at AAK.....	8–9
UN Global Compact commitments.....	10–11
Contributions to the Sustainable Development Goals.....	12–13
Global sustainability achievements 2018.....	14–15
Our Customers.....	16–23
Our Suppliers.....	24–39
Our Planet.....	40–51
Our People.....	52–57
Our Neighbours.....	58–62
Sustainability approach.....	63–66
Global CSR organization.....	67
Global sustainability ambitions 2019+.....	68–69
Global Reporting Initiative Standards Index.....	70–74



Our Suppliers, p. 24



Our Planet, p. 40



Our Neighbours, p. 58



# First choice for value-adding vegetable oil solutions

## Sustainable growth

At AAK, sustainability is part of our DNA. Hand in hand with financial growth, social and environmental responsibility is key to our continued development and future success. This is what we mean by “sustainable growth”.

We believe that building sustainability into our everyday activities helps us achieve our vision of being the first choice for value-adding vegetable oil solutions.

AAK’s model for sustainable growth – House of Sustainability – covers five focus areas: Our Customers, Our Suppliers, Our Planet, Our People, and Our Neighbours.

## Global team effort

The annual preparation of our Sustainability Report is a global team effort involving staff from various functions at all sites. This report is inspired by GRI (Global Reporting Initiative) standard.

In line with this, our Sustainability Report is an achievement that also includes statements, initiatives, projects and views from the entire organization. In addition, it documents – for both stakeholders and ourselves – that Corporate Social Responsibility (CSR) is firmly anchored within our organization.

## Scope

This report covers the AAK Group including production sites, administrative offices, sales offices, customer innovation centers, and sourcing operations. Environmental data is restricted to the production sites only. Total environmental data is presented including our newest production sites in Brazil, China, India and USA (California). However, to keep the environmental performance comparable, the performance of the AAK scope 2016 sites is presented excluding our four new sites. They are included in the new baseline.

Throughout the report, AAK colleagues share stories about some of our many sustainability initiatives. The report aims at providing a clear picture of how we at AAK work with sustainability – our drive towards sustainable growth.

The report is available in English and Swedish and can be downloaded as a PDF at [www.aak.com](http://www.aak.com). To obtain a printed copy, please contact Corporate Communications at [comm@aaak.com](mailto:comm@aaak.com).

# AAK in 60 seconds

We develop and provide value-adding vegetable oil solutions in close collaboration with our customers, enabling them to achieve long-lasting business results. We do so through our in-depth expertise in oils & fats within food applications, working with a wide range of raw materials and broad process capabilities.

Through our unique co-development approach, we bring together our customers' skills and know-how with our capabilities and mindset. By doing so, we solve customer-specific needs 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. We have our headquarters in Malmö, Sweden, more than 20 production facilities and customization plants, and sales offices in more than 25 countries. Our more than 3,600 employees are dedicated to providing innovative value-adding solutions to our customers.

We are AAK – The Co-Development Company

Operational key figures (SEK million unless otherwise stated)	2014	2015	2016	2017	2018
Volumes, thousand tons	1,703	1,833	1,966	2,129	<b>2,239</b>
Net sales	17,814	20,114	22,057	26,436	<b>27,592</b>
Adjusted operating profit (EBIT)*	1,242	1,411	1,615	1,786	<b>1,956</b>
Operating profit	1,262	1,409	1,615	1,786	<b>1,956</b>
Operating profit per kilo, SEK	0.74	0.77	0.82	0.84	<b>0.87</b>
Cash flow from operating activities	692	1,736	1,213	1,099	<b>1,090</b>
Earnings per share, SEK**	3.53	3.70	3.95	4.71	<b>5.21</b>
Equity per share, SEK**	23.09	26.13	29.65	30.21	<b>35.11</b>
Dividend per share, SEK**	1.13	1.29	1.46	1.63	<b>1.85***</b>
Return on Capital Employed, R12m, %	16.0	15.7	15.8	15.6	<b>15.8</b>

\*Adjusted for non-recurring items and acquisition costs

\*\*Share data recalculated in accordance with the decided share split (6:1) by the Annual General Meeting on May 30, 2018

\*\*\*In accordance with the Board of Directors' proposal



# AAK in the world

## A global perspective

AAK provides tailored vegetable oil solutions to the global food, confectionery and cosmetics industries. Leading businesses worldwide rely on our expertise, experience and innovation to deliver lasting value in markets shaped by shifting consumer trends.

After more than a century in the business, we deliver the highest quality made from natural and renewable raw materials. Our products are derived from a wide range of raw materials, such as coconuts, palm fruits and kernels, rapeseed, shea kernels, soy beans and sunflower seeds, which are responsibly sourced from all over the world. AAK connects to a broad range of customers in markets worldwide through our global network of production sites, sales offices and network of agents and distributors.

We utilize and add value to the natural properties of vegetable oils and fats and then work closely with customers across the value chain to create solutions tailored to their product development goals.

## An essential ingredient

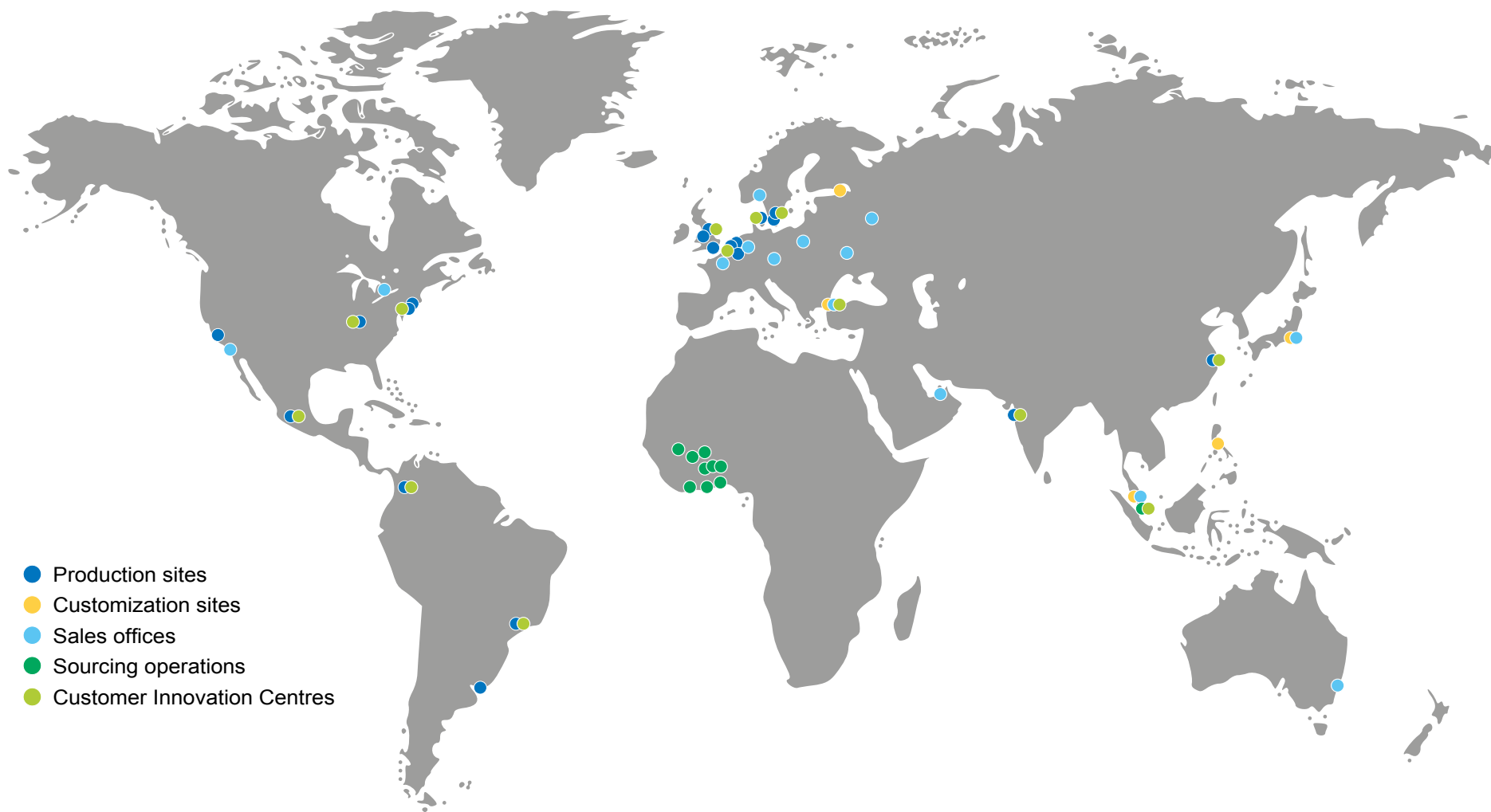
Fat is often misunderstood as a food ingredient. Contrary to popular belief, it is essential for us to maintain a healthy body. We need fat for energy, to absorb vitamins, produce hormones and to provide us with important fatty acids that our bodies are unable to synthesize.

Over many decades, AAK has developed an unparalleled depth of experience and know-how regarding the properties, benefits and attributes of fats. This allows us to create highly specialized solutions for customers that support their production process and enhance the quality and value of their end-products.

## Co-development creates value

One of AAK's greatest strengths is our unique co-development approach. This was born from our strong relationships with customers, where we bring the most value by working in close collaboration to deliver the most effective outcome at every stage.

This methodology enables us to work as an efficient team from idea to launch, drawing upon the right expertise at the right time to create solutions with better ideation, faster development times and more effective implementation.



- Production sites
- Customization sites
- Sales offices
- Sourcing operations
- Customer Innovation Centres

President and CEO:

# Sustainable growth – fundamental to AAK

**Continued progress on sustainability within our sourcing operations, a solid environmental efficiency performance, and workplace safety improvements at our production sites – these are some of AAK's sustainability highlights during 2018 that we proudly share with you in this annual sustainability report.**

Sustainable growth is fundamental to AAK's business and a key objective of our strategy. For us, sustainable growth is about our responsibility towards our key stakeholders – global and local customers, investors, suppliers, employees, and the communities in which we operate.

All of our policies and codes connected to our sustainability work are based on the United Nations Global Compact (UNGC) and furthermore aligned with our customers' requirements and values. We also play an active role in contributing to delivering on the 17 SDGs (Sustainable Development Goals).

To make continuous progress within sustainability, we have ambitions within five focus areas: Our Customers, Our Suppliers, Our Planet, Our People, and Our Neighbours. During 2018, we have made important progress within each of these areas.

## Our Customers

Our 2018 global customer survey verified that our customers appreciate us as a partner on sustainability which, of course, is very important to us. One crucial area to both AAK and our customers is food safety. We are therefore very proud that all of our production

sites are certified in accordance with at least one, often several, internationally recognized food safety standards.

Having successfully implemented our Code of Conduct with all employees and our Supplier Code of Conduct with our raw material suppliers, we are now making great progress with our Code of Conduct for Agents and Distributors as well.

During the year, we have also continued to develop our e-learning courses. This is an effective way to engage and train our colleagues within various sustainability areas, enabling them to be an even better partner to our customers.

## Our Suppliers

Sustainable sourcing of raw materials is another top priority, and also important to our customers. Here we have made important progress during the year. For example, we now have smallholder projects within our shea, palm, coconut and soy supply chains which all contribute to improved livelihoods for these farmers.

In Burkina Faso and Ghana, we have seen a continued increase in the number of women engaged in our direct shea sourcing program Kolo Nafaso. This means direct engagement with more than 134,000 women. We have also conducted a survey, covering almost 1,000 of these women. The survey verified that the women find our support very valuable and it has given us useful input on how we can further improve our collaboration in the future.

As for sustainable sourcing of palm oil, we continue our strong engagement with our suppliers to drive and ensure sustainability in the supply chain. The upgrade of the RSPO standard to include, among other things, a halt to deforestation was an important step forward. The changed geographic footprint of our volumes represents an opportunity for us to contribute to driving change in newer and more fast-growing markets with less of a tradition for prioritizing sustainability. This is done through strong engagement with suppliers and actively supporting local RSPO activities. However, it also represents a challenge for us to keep up our palm sustainability standard already evident in more established markets.

Increased transparency is a key tool for AAK in managing this challenge: on our website we now publish our universe of mills list as well as a grievance addendum. It is important for our key stakeholders and ourselves to openly communicate about and discuss our continuous improvement journey.

## Our Planet

We have seen a solid environmental efficiency performance during 2018 with improvements for most of our Key Performance Indicators. However, there have been challenges in certain areas, particularly related to harsh weather conditions.

For example, the East Coast of the United States, where we have two production sites, suffered significantly colder weather than usual, and the region where our production site in Karlshamn, Sweden is located



experienced extremely warm weather during 2018. These incidents led to an increased consumption of energy and other resources. To be better prepared for the future, we will perform a climate change risk assessment at all our production sites before 2020.

We have welcomed four new sites into our reporting – two greenfields and two acquisitions. This has changed our baseline for environmental efficiency measures. From our site in Colombia, acquired in 2014, we know that by sharing best practices globally we can make a real step change in a relatively short period of time. Our site in Colombia has improved by between 28 and 68 percent on all environmental efficiency measures over the last three years.

#### Our People

Our Global Safety Program, aimed at achieving a zero-accident culture and a risk-free workplace environment at AAK, has been off to a good start. Lost Time Injury Rate (LTIR), defined as the number of work injuries that result in one or more days of sick leave per 200,000 working hours, improved by 25 percent across our production sites. One third of our production sites did not have any Lost Time Injuries at all during 2018.

At our sourcing operations in West Africa, where conditions are very different, LTIR has unfortunately increased compared to the year before. Safety and first aid training are ongoing in the region to reduce those figures.

During 2019, our Global Safety Team will continue to execute and improve our Global Safety Program.

#### Our Neighbours

As a global company, we contribute to the development of the many local communities in which we operate by creating jobs, paying taxes and doing business with

local enterprises. But it takes more than that to truly become a part of the local communities. Therefore, we have been active in these communities for a long time through sponsorships or through direct participation in projects and activities.

In 2018, AAK engaged in a variety of local activities and we will continue to secure integration with the local communities going forward.

#### Recognized sustainability work

Our dedicated efforts to continuously improve our sustainability work have not gone unnoticed.

In early 2019, Corporate Knights Inc. released its 15th annual Global 100 list of the most sustainable corporations in the world. It ranked AAK as number 75. Corporate Knights, a Canadian based company specialized in media and investment research, had analyzed the sustainability performance of 7,500 companies.

We are of course very honored by this acknowledgment, which has been achieved thanks to our very dedicated and responsible AAK employees around the world. The recognition shows that we are on the right path with our determined and extensive sustainability work.

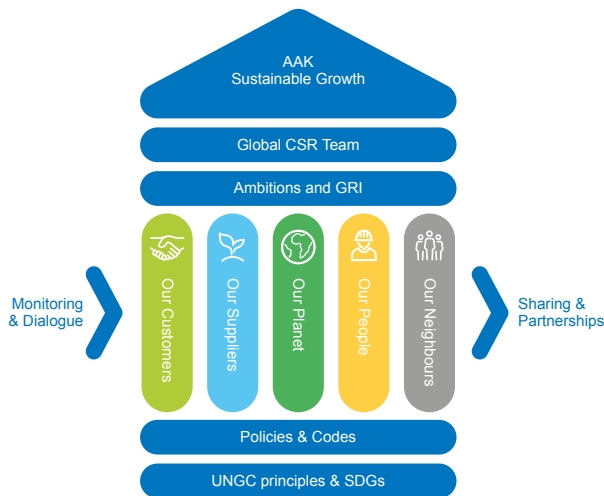
Whether resulting in awards or not, we will continue to drive our improvement work towards ambitions within our focus areas, we will continue to incorporate new AAK sites into our sustainability approach, and we will, above all, continue to grow our business in a sustainable and responsible way.

Johan Westman, President and CEO



# Sustainable growth in AAK

**Sustainable growth is the key objective of our strategy and essential to our vision of being the first choice for value-adding vegetable oil solutions. For us, sustainable growth is about our responsibility towards all of our key stakeholders – the local communities where we operate, our customers, our employees, our investors, and our suppliers. Our model for sustainable growth guides our sustainability work. The model has been slightly modified over the years and is today known as AAK’s House of Sustainability. Furthermore, the substance of the model’s individual elements has been continuously developed.**



## UNGC principles and SDGs

The UN Global Compact (UNGC) is a solid platform and a broad concept based on ten universal principles within Human and Labor Rights, Environment and Anti-corruption. It enjoys participation by all of the major players in global business and CSR, including the GRI (Global Reporting Initiative), ETI (Ethical Trading Initiative), ICC (International Chamber of Commerce) and OECD (Organisation for Economic Cooperation and Development). AAK has been a member of the UNGC since 2003.

In 2015, all member states of the United Nations adopted 17 goals – the Sustainable Development Goals (SDGs) – setting out to end poverty, protect the planet, and ensure prosperity for all. Each goal has specific targets to be achieved by 2030. As a global company AAK recognizes that businesses have to play an important role in that process and we have therefore included the SDGs in our model. We are developing further ways to support the process and monitor and report on our progress.

## Policies and codes

AAK’s sustainability policies and codes are based on the UNGC as well as on our own principles and are implemented globally for all AAK business activities. The policies and codes are aligned with many of our customers’ requirements and values, which strengthens our strategic alignment. AAK’s policies and codes are available at our website.

## Five sustainability focus areas

We have defined five sustainability focus areas – the “pillars” – that are important to our business: Our Customers, Our Suppliers, Our Planet, Our People, and Our Neighbours. They provide an overview and guide us in setting objectives and focus our resources.

## Sustainability ambitions and GRI

To maintain momentum and drive improvement, we define ambitions within each of the five focus areas. Achievements and future ambitions are publicly available in our Sustainability Report. Further, based on the Global Reporting Initiative (GRI) and the GRI Standard guidelines we globally monitor indicators of importance to our stakeholders and ourselves. To identify indicators of importance we use the materiality analysis methodology outlined in the GRI Standard.

## Global CSR team

The engine behind a lot of our sustainability activities is our decentralized global CSR team, established in 2007. It consists of local CSR teams possessing competencies covering our sustainability scope. The Global CSR Manager reports to the CMO (Chief Marketing Officer) who is a member of AAK’s Executive Committee.

## Sharing and partnerships

Sharing our knowledge, ambitions and achievements with our stakeholders is a fundamental part of our approach. In our annual Sustainability Report we share global information based on the GRI framework supported by a variety of local projects and initiatives

illustrating how our sustainability work comes alive. Further, we regularly report progress on the implementation of our Responsible Sourcing Policy or our responsible sourcing programs in AAK's progress reports on sustainable palm and shea. Reports and policies are publicly available at AAK's website.

The UN Global Compact encourages companies to engage in partnerships to tackle global challenges more effectively. AAK embraces the view that in partnerships you combine competencies and are likely to accomplish more than you could do on your own. Partnering with other businesses, NGOs and governmental agencies are ways to accomplish more. For example, AAK is participating in or partnering with RSPO (Roundtable on Sustainable Palm Oil), GSA (Global Shea Alliance) and Proforest.

#### Monitoring and dialogue

Our sustainability approach is not static, but adjusted to input from stakeholders such as customers, investors, NGOs and employees. We monitor new and upcoming legislation, follow trends in our communities, and benchmark our sustainability practices against those of retailers, customers and competitors.

#### AAK sustainable growth

Our overall objective is to grow AAK sustainably and progress within sustainability as a whole.

Watch this short animated video that explains our House of Sustainability

<https://player.vimeo.com/video/251287460>



# UN Global Compact commitments

The United Nations Global Compact is an initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption. With more than 9,900 company members in 160 countries, the UN Global Compact is the world's largest voluntary corporate sustainability initiative. AAK has been a member since 2003.



## Principles

## Examples of AAK commitments

### Human Rights



- ◆ Businesses should support and respect the protection of internationally proclaimed human rights; and
- ◆ Make sure that they are not complicit in human rights abuses.

- ◆ AAK Code of Conduct is understood, accepted and signed by all AAK employees (page 19).
- ◆ AAK Supplier Code of Conduct is an integral part of the approval system for suppliers and our direct suppliers have approved and signed it (page 25). Furthermore, AAK has implemented a Code of Conduct for Suppliers of Raw materials that applies to all actors in the supply chain back to the origin of the raw material (page 25).

### Labor



- ◆ Businesses should uphold freedom of association and the effective recognition of the right to collective bargaining;
- ◆ The elimination of all forms of forced and compulsory labor;
- ◆ The effective abolition of child labor; and
- ◆ The elimination of discrimination in respect of employment and occupation.

- ◆ AAK Code of Conduct regulates interaction with both our customers and suppliers (page 19).
- ◆ Labor rights are addressed in AAK's Sustainability Policy (page 57).
- ◆ AAK monitors labor rights issues globally (page 57).
- ◆ Modern slavery issues are addressed in AAK's statement on Modern Slavery Act (page 25).

## Principles

## Examples of AAK commitments

### Environment



- Businesses should support a precautionary approach to environmental challenges;
- Undertake initiatives to promote greater environmental responsibility;
- Encourage the development and diffusion of environmentally-friendly technologies.

- Local resource efficiency projects completed at all production sites (pages 41–51).
- The AAK scope 2016 sites decreased their energy consumption by 1.3 percent during 2018 (page 42), reduced their water consumption by 0.2 percent per processed unit (page 46), and reduced total CO<sub>2</sub> emissions per processed unit with 0.9 percent (page 44).

### Anti-corruption



- Businesses should work against corruption in all its forms, including extortion and bribery.

- Anti-corruption is addressed in AAK Code of Conduct, the Supplier Code of Conduct, the Code of Conduct for Suppliers of Raw materials and the Code of Conduct for Agents and Distributors.
- Two mandatory e-learning modules addressing anti-corruption have been passed by all employees at risk of encountering corruption (page 57).



# Contributions to the Sustainable Development Goals

In September 2015, the United Nations adopted the 17 Sustainable Development Goals (SDGs) relevant for all countries. AAK has a clear agenda on sustainability and we have welcomed the SDGs. We see the SDGs as an integrated part of our sustainability work and they are incorporated in our model, AAK House of Sustainability.

AAK plays an active role in supporting the delivery of the SDGs.

We have identified 10 SDGs that are most relevant for our business conduct. As a global producer of value-adding vegetable oils and fats solutions we have identified our global supply chains as an opportunity as well as a responsibility to do our part to achieve the SDGs. Therefore, we are monitoring our contribution towards achieving the SDGs and their specific sub-targets.

We have further ranked the 10 SDGs according to the possibility for AAK to make an impact. All the listed SDGs are of direct importance to AAK, but the ones scoring higher are the focus of AAK's sustainability and responsible sourcing strategy.

● High contribution ● Medium contribution ● Low contribution



**Target 1.2:** *Reduce poverty in all its dimensions according to national definitions*

**AAK contribution:** Smallholder inclusion in our supply chains for shea, palm, coconut and soy offers access to global markets (pages 30, 33, 35).

**Target 1.4:** *Equal right to economic resources, access to land, natural resources and banking*

**AAK contribution:** AAK continues to offer an increasing number of micro credits and bank accounts through our program Kolo Nafaso in West Africa (page 29).



**Target 2.3:** *Increase productivity and income for smallholders*

**Target 2.4:** *Ensure sustainable agricultural practices*

**AAK contribution:** AAK continues to educate the smallholders in West Africa, Malaysia, Indonesia and Mexico in good agricultural practices which improve their income (pages 30, 33, 35; please also see our palm and shea progress reports).



**Target 3.2:** *End preventable deaths of new-borns and children under 5 years of age*

**AAK contribution:** AAK produces customer co-developed oils and fats solutions for special nutrition products and continuously contributes to the research of optimizing these products.



**Target 7.3:** *Improvement in energy efficiency*

**AAK contribution:** Continuous improvement in our energy efficiency (pages 40–51).



**Target 8.4:** *Decouple economic growth with destroying the environment*

**AAK contribution:** AAK's Responsible Sourcing of Vegetable Oil Policy and Sustainable Palm Oil Policy require no deforestation or development of peatland (pages 27, 31–33).

**Target 8.6:** *Reduce the share of youth (pages 15–24) not in education, training or employment*

**AAK contribution:** AAK is investing in a global trainee program to give young people the best possible start to their careers.

**Target 8.8:** *Protect labor rights and ensure stable working environments*

**AAK contribution:** AAK has been a member of the UNGC since 2003 and AAK's Code of Conduct and Supplier Code of Conduct address labor rights and working environment (pages 10–11, 17, 19, 25).

**Target 8.10:** *Encourage and expand access to banking*

**AAK contribution:** AAK is opening bank accounts for the women group members of Kolo Nafaso (see our latest shea progress report as well as page 29).



**Target 9.1:** *Develop quality, reliable, sustainable and resilient infrastructure*

**Target 9.3:** *Increase the access of small-scale industrial and other enterprises to value chains and markets*

**AAK contribution:** AAK provides transport for smallholders connecting them to global markets within the shea and coconut supply chains (pages 29, 35).



**Target 12.3:** *Reduce food waste*

**AAK contribution:** With innovative vegetable oils and fats solutions and through our customer co-development approach, AAK focuses on, among other things, developing solutions that increase products' shelf life and reduce packaging through improved transportation solutions.

**Target 12.5:** *Reduce waste*

**AAK contribution:** AAK's target is that in 2018 less than 1.5 percent of the waste was disposed as landfill/deposit (pages 48–49).

**Target 12.6:** *Integrate sustainability in reporting cycle*

**AAK contribution:** AAK has published sustainability reports annually since 2009 and palm oil and shea progress reports twice a year since 2014 and 2018 respectively.



**Target 15.2:** *Stop deforestation. Reforest*

**AAK contribution:** AAK's Responsible Sourcing of Vegetable Oils Policy and Sustainable Palm Oil Policy require amongst others no destruction of forested areas and High Conservation Value areas (pages 27, 31).



**Target 16.5:** *Substantially reduce corruption and bribery in all their forms*

**AAK contribution:** AAK provides mandatory e-learning courses for all employees at increased risk of encountering corruption (page 57).



**Target 17.16:** *Global multi-stakeholder partnerships*


**AAK contribution:** AAK is engaged in several global partnerships including UNGC, RSPO, Global Shea Alliance, and Proforest (pages 10–11, 25, 31–33).



# Global sustainability achievements 2018

We are proud to present AAK's global sustainability achievements in brief. The achievements are commented on in more detail in the five sections to which they apply: Our Customers, Our Suppliers, Our Planet, Our People, and Our Neighbours.

Ambitions 2018+



## Our Customers

Achievements 2018


**Be a strong and knowledgeable partner on sustainability for our customers** .....>

Our global customer survey verified that we are an appreciated partner on sustainability. Many sustainability webinars and e-learning modules have been completed to strengthen the knowledge of AAK's employees.

**Full implementation of our Code of Conduct for Agents and Distributors** .....>

**97** percent, which is **15** percentage points higher than last year.

Ambitions 2018+



## Our Suppliers

Achievements 2018

**Further strengthen our direct cooperation with the shea-collecting women as well as with other shea suppliers** .....>

Many shea supplier engagement workshops were held. A survey was conducted in Burkina Faso and Ghana covering almost **1,000** women giving us input on how we can further improve our collaboration.

**Fully sustainable palm oil meeting AAK's policy requirements by 2020** .....>

In the US and Europe almost 100 percent of our suppliers signed up to the AAK Code of Conduct and the AAK Sustainable Palm Oil Policy. Progress in Latin America and Asia has been more challenging than anticipated and will be a priority for 2019.

**Continuously improve livelihoods of smallholders** .....>

AAK has smallholder projects within the shea, palm and coconut supply chains which all contribute to improved livelihoods.





**Ambitions 2018+**

**Our Planet**

**Achievements 2018**

**Less than 1.5 percent of waste disposed as landfill/deposit by 2018** → Based on our 2016 scope, 1.5 percent of the waste was sent to landfill, in line with our ambition set in 2015.

**Reduce net CO<sub>2</sub> emissions per processed raw material unit** → Net CO<sub>2</sub> emissions increased by 0.74 percent for the AAK scope 2016 sites. The main reasons are that the US East Coast suffered colder temperatures than usual in January–February requiring more energy than usual.

**Ambitions 2018+**

**Our People**

**Achievements 2018**

**Working towards a zero-injuries workplace** → Lost Time Injury Rate (LTIR):  
AAK production sites: LTIR at 0.6 – **25** percent improvement.

**Continuously improve the competencies and engagement of our people** → Significant training efforts globally and across functions. Both face to face and e-learning.

**Ambitions 2018+**

**Our Neighbours**

**Achievements 2018**

**All sites engage in relevant local projects and activities** → All sites were engaged in relevant activities with the local communities.



Our Customers

## Our customers come first

Our business is nothing without our customers. They form the backbone of our vision and the driver behind our goals. Each solution we co-develop is geared to solve a specific customer challenge and to deliver lasting business value that builds and protects their brand. In this respect, any interaction with customers is fueled by a genuine desire to help, to share our expertise, to support the development of strong brands and to achieve results based on sound business ethics and the highest standards of excellence.

Contributes to:



Over the years, AAK has established long-standing relationships with customers built on mutual respect and a detailed understanding of customer needs. Knowing your customers means knowing your markets, and that gives AAK a head start when responding to market trends. From time to time, AAK has even set new trends through the development of leading-edge solutions.

Oils and fats from AAK perform valuable functions in customers' products. They may ensure the right melt-down property, carry flavor, supply essential fatty acids, provide structure, and much more. In each case, AAK's understanding of customers' requirements is crucial when developing the right solution. In cooperation with our customers' key people, AAK's experts test applications, co-develop product and supply chain solutions and explore new production methods.

## Our Customers achievements

### AAK Code of Conduct for Agents and Distributors

After successfully implementing our Code of Conduct with all employees, and our Supplier Code of Conduct with our raw material suppliers, we began implementing our Code of Conduct for Agents and Distributors in 2014. In 2018, we achieved 97 percent implementation which is a 15 percentage points increase compared to the year before. The implementation percentage for 2018 also includes agents and distributors related to our joint venture in India.

### E-learning courses

Our e-learning module on responsible shea was launched during the fourth quarter of 2016 with the ambition that all relevant employees should have passed it at the end of 2018. By the end of 2018, 87 percent of relevant employees had passed the course.

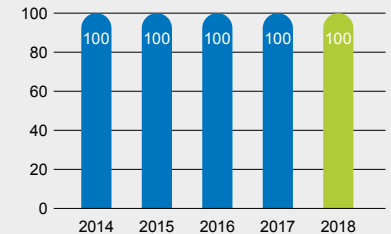
We launched our e-learning module on sustainability in AAK during the third quarter of 2017 with the ambition that all relevant employees should have passed it by December 31, 2018. By the end of the year, 83 percent of the target group had passed the course.

We continuously update the target group for the e-learning courses and add people throughout the year to make sure all relevant employees are given access to the training material.

## Key achievements

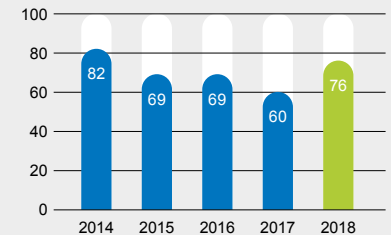
### Food safety certified

Percent of production sites



### Sedex\* members and passed SMETA audit

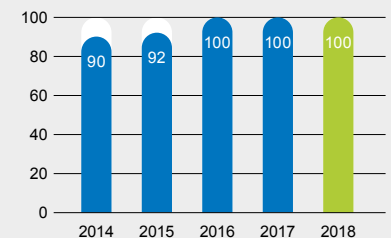
Percent of production sites



\* Sedex is a global membership organization to manage performance around labor rights, health & safety, environment and business ethics and SMETA is the corresponding audit.

### RSPO supply chain certification

Percent of production sites processing palm oil





## AAK receives highest possible sustainability rating by EcoVadis

In 2018, EcoVadis awarded AAK a GOLD rating for our work within sustainability. EcoVadis is a collaborative platform enabling companies to monitor the sustainable performance of their suppliers. AAK was assessed on Environment, Labor practices, Fair business practices, and Sustainable procurement, and our performance score placed us among the top 5 percent of all companies assessed. This was the second year in a row that AAK received a GOLD rating from EcoVadis.



## AAK among the 100 most sustainable corporations in the world

In January 2019, Corporate Knights Inc. released its 15th annual Global 100 list of the most sustainable corporations in the world, ranking AAK as number 75. The publication of the ranking took place in Davos, Switzerland, in connection with the World Economic Forum.

Corporate Knights, a Canadian based company specialized in media and investment research, analyzed the sustainability performance of 7,500 companies. The ranking is based on key performance indicators (KPIs) within resource management, employee management, financial management, clean revenue, and supplier performance. For full rankings and methodology details, please refer to <http://www.corporateknights.com/reports/global-100/>

Sustainability is part of AAK's DNA, and to continuously develop our systematic and focused sustainability work is critical – for our business, for our different stakeholders, for our planet. This great acknowledgement, only made possible by global and cross-functional team work, shows that we are on the right path.

Mads Feer  
Global CSR Manager



Contributes to:



## A matter of trust

The AAK Group vision is to be the customers' first choice for value-adding vegetable oil solutions. To achieve this vision, it is important to show customers that AAK is a responsible, trustworthy supplier that would never compromise their brands.

### AAK Code of Conduct

When it comes to meeting customers' needs and expectations, trust is just as important as products. AAK customers must be able to rely on AAK as a safe supplier, and particularly upon the company's commitment to working in an ethically sound manner.

The AAK Code of Conduct, which is understood, accepted and signed by all AAK staff, regulates interaction with both customers and suppliers. The Code is based on the same standards as the supplier codes that customers expect AAK to comply with, encompassing ILO conventions, human rights, OECD guidelines, and the UN Global Compact. The AAK Code of Conduct is AAK's guarantee to customers that the company acts responsibly, right across the organization.

### Food safety

Food safety is another area of high customer priority. To satisfy the requirements of customers as well as national and international legislation, AAK's production sites are certified in accordance with recognized food safety standards and subject to regular audit by third parties. AAK's quality control functions ensure and document that each and every delivery lives up to specifications and all food safety requirements.

## Third-party certification of AAK production sites

**100** percent of AAK sites are certified to one or more internationally recognized food safety standards (FSSC 22000/ISO 22000/BRC)

**100** percent of sites handling palm oil have RSPO Supply Chain Certification

**76** percent of sites are members of Sedex and have passed the ethical audit SMETA

**65** percent of sites are quality management certified according to ISO 9001

**41** percent of sites are environmentally certified according to ISO 14001

In addition, various production sites are also certified according to other standards such as national energy standards, the KRAV organic standard, feed safety, health and safety, Halal and Kosher production.



## Sharing knowledge with our customers

In interaction with customers, knowledge sharing is of great importance. AAK is focused on customer co-development where one important part is to run trials at our Customer Innovation Centers. This is done in order to offer the best possible solution

for the customer. Both the AAK ACADEMY™ and our customer magazine Insight are useful tools for sharing knowledge and to give the latest information available.

## Insight

**Henning Villadsen, Business Development Director at AAK, about Insight:**

### When was the magazine started?

It was launched three and a half years ago with the first issue published in 2015.

### What purpose does it have and who is it for?

The magazine helps customers and investors to learn more about AAK. It tells our unique stories from a variety of interesting perspectives, which in turn highlights our global capabilities with real-life examples of how we have created customer value.

### What has been done to revitalize the magazine?

We are embracing digital formats to create a more emotionally engaging experience, for example adding video-embedded features to bring our online version to life. In addition, we are also bringing the end consumer's voice more clearly to the forefront, to show how our solutions deliver results to the very end of the value chain.

### Why should you read it?

Insight is essential reading for those who want to learn how AAK can make a difference to their business, and who need to stay updated with the latest movements within the food and beverages market. Look out for upcoming editions that focus on the commercial advantages of our co-development approach.



## Valued product information for our customers

The minimum requirement for product information is usually stipulated by legislation and stated in the standard contracts used in our business. Requirements for further information depend on the type of delivery. For example, they vary according to whether the product is standard or highly refined, and whether an ingredient or a final consumer product.

AAK's product information sheets sometimes have different names in different countries, but in general, three types of information are available:

**Product Information Sheet/Product Specification** specifies the physical and chemical properties of the products and is often part of a contract.

**Material Safety Data Sheet** relates to safety issues, often concerning transport. This is a legal requirement for chemicals, but not for food. However, most customers demand this information.

**Quality & Product Safety Sheet** contains additional information related to the product such as allergens, GMOs, residues, country of origin, raw materials and additives, typical fatty acid composition, etc.

For some products, a Certificate of Analysis accompanies the delivery. The certificate is produced by the relevant AAK laboratory and confirms compliance with agreed product specifications.



## AAK ACADEMY™ – the knowledge center for lipid technology



Li Na Wong, Marketing Manager AAK Southeast Asia, on AAK ACADEMY™:

### What is the AAK ACADEMY™?

The AAK ACADEMY™ is an important part of AAK that organizes application-focused courses specific to customer needs. Usually held at our premises, but sometimes at a customer's own facility or on neutral ground, these courses take a holistic approach towards ideation, development, and production success.

### How does it work?

We keep the courses flexible to suit customers, segments or markets, but typically they have a formal set-up with a mixture of attendees from different companies. We focus on helping people to understand market trends and improve their product development in key areas, for example healthiness, sustainability, cost-efficiency, and new concept creation. We also organize customer-specific academies to engage key personnel from different divisions, such as R&D, QA, production and marketing.

### What do customers get out of it?

Each AAK ACADEMY™ course leaves attendees with a far greater understanding of the application of value-adding vegetable oil solutions and how to realize their impact across the value chain to give a better consumer experience. Through our AAK Co-Development days, we also facilitate the ideation of possible sweet spots and solutions by presenting new concepts and market trends as inspiration.

### What did you achieve during 2018?

We held several courses in Myanmar, Bangladesh, and Pakistan, focused on Chocolate & Confectionery and Bakery. These were a great success, largely because few suppliers in these regions are as willing to share their knowledge and expertise.





AAK UK

## Creating a new recipe for success

**Against new regulations by the UK government to combat rising levels of diabetes and obesity, a UK cake manufacturer turned to AAK to help create a new recipe with less sugar and no increase in cost.**

The need to reduce sugar in our diet has become a major health issue in the UK. Sugar is considered a major cause of type 2 diabetes and obesity, which costs the UK National Health Service over £1 billion a year.

In response, Public Health England published guidelines to the food industry in 2017 to reduce sugar levels by 20 percent by 2020 in several food categories, including biscuits and cakes. However, this is not an easy thing to accomplish due to the cost and technical implications involved. Furthermore, sugar substitutes, such as high-intensity sweeteners, polyols, stevia or inulin, all have their own cost and formulation issues.

### Perfectly positioned to help

Nevertheless, a major UK retailer challenged a large UK cake manufacturer to develop a line of healthier cakes with reduced sugar and no increase in cost. To make this possible, the cake manufacturer turned to AAK UK for help.

This level of sugar reduction had never been attempted before on a major private label cake line so



extensive research was an important part of the project. Fortunately, AAK UK had already conducted internal studies into the type of fat used in a product that could affect sweetness perception in baked goods.

### The perfect solution

AAK UK created a co-development program to minimize cost and increase the functionality of the sugar alternative ingredients. The solution involved replacing the butter with butter alternatives that had the same melt profile, flavor, color and emulsifying properties, were lower in saturated fat and cost, and also required less sugar alternatives to achieve the same sweetness.

### Outstanding results

The launch of the newly formulated cake recipe was a huge success and outsold the original recipe by 100 percent and earned an award for “successful new innovation from a retailer”. Following this, a second retailer introduced the same technology into their range of in-store cafe cakes and experienced an uplift in sales of 40 percent.

Innovation and collaboration are at the core of what makes AAK different. These results show how our unique co-development approach is invaluable in helping customers to overcome challenges and achieve their business goals.





## Customer survey – We listen, we care, we act!

In 2018, AAK conducted a global customer survey to assess whether we live up to our promise of being our customers' first choice for value-adding vegetable oil solutions, and to create lasting value for our customers.

More than 2,000 contacts were invited to participate in the survey. The response rate was high and the input

has provided us with key insights as to what we should do to further improve our abilities to deliver upon our customers' expectations. A concrete action plan has been put into place across business areas, regions, segments, customer company groups and customers.

In early 2020, we will re-engage with our customers with a follow-up survey to assess whether and to what extent we as a company have improved our customers' experience with AAK.

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## The partner for the right sustainable solution

At AAK, we put customers first and that is why “Our Customers” is the first pillar in our model for sustainable growth. Through our unique co-development approach, we are very close to our customers' businesses, and therefore we have a singular understanding of our customers' needs and what role we can play to meet them.

In 2018, we saw an even bigger increase in the demand for highly sustainable solutions. An increasing part of the dialogue with our customers was therefore focused on developing the right solutions with the right sustainability standards for their specific needs. This was especially the case for the global consumer goods companies as well as our European and North American customers.


The key topics were our responsible sourcing practices for our many raw materials, and the different solutions that we provide. As a multi-oil company, we have been approached for solutions beyond palm oil, especially for the European market. From a sustainability perspective it has proven important that we fully understand the needs and focus areas so we can guide our customers to the right solution, regardless if it's palm or non-palm based.

Our aim is to support our customers in safeguarding their brands and in making the best possible sustainability choices. Therefore, we have put a lot of effort into ensuring that our Sales Managers and Customer Innovation Managers can be good sparring partners for our customers. This has been done through training,

identifying champions in the organization to support them, and providing the right materials and tools to help them identify or develop the best solutions. Our many Customer Innovation Centers globally have also played a key role in ensuring that the solutions are right both from a sustainability point of view and with regards to the right functionalities for our customers' applications.

Anne Mette Olesen  
Chief Marketing Officer





Our Suppliers

## Responsible sourcing for trust in our supply chains

The vegetable oil solutions we create depend as much on their sustainability as their quality. It is crucial, therefore, that we only engage with producers of raw materials whom we can trust to farm responsibly and treat their workers with respect. At AAK, we take our commitment to responsible sourcing extremely seriously and have implemented a Code of Conduct for suppliers of raw materials that, alongside other policies and supplier support programs, ensures the highest standards and practices are always upheld within our supply chains.

Contributes to:



## Progressing on responsible sourcing

In 2018, we have made good progress within responsible sourcing of our supply chains. A key achievement is that we have further increased our direct engagement with shea-collecting women in West Africa to 134,261. To further strengthen our engagement with the women's we have also opened 2,616 bank accounts in total for the women groups. Besides shea we have also continued our strong smallholder engagement

within palm oil, coconut and soy. Within palm oil we have further progressed on our engagement with our suppliers to drive the sustainability standard. Additionally, we have together with Proforest conducted important supply chain risk assessments for our key raw materials shea, palm and coconut. These will serve as foundations for our progress towards even more sustainable supply chains in 2019 and beyond.

## AAK Supplier Code of Conduct

Introduced in 2009, the AAK Supplier Code of Conduct has been implemented with direct raw material suppliers.

During 2018, AAK adopted its Code of Conduct for Suppliers of Raw materials stipulating additional requirements for individual raw materials. The Code is an integral part of the approval system of new raw material suppliers and compliance with the Code is a prerequisite for final approval.

In West Africa, the Code has been implemented in a different way due to various linguistic and cultural challenges. Because ethical requirements in business relations are not a widespread tradition in the region, more meetings and explanations are required to achieve the necessary understanding.

The AAK supplier codes are available at our website.

## AAK Statement on Modern Slavery Act

AAK supports the United Kingdom Modern Slavery Act 2015 and its objective to eradicate forced labor and human trafficking in companies and their supply chains. The core of the act is a requirement for companies to publish an annual statement in which they explain the steps they have taken to prevent and combat human rights abuse such as slavery and trafficking in their supply chain – and in their own entities. The Act is applicable to companies doing business in the UK and consequently includes AAK.

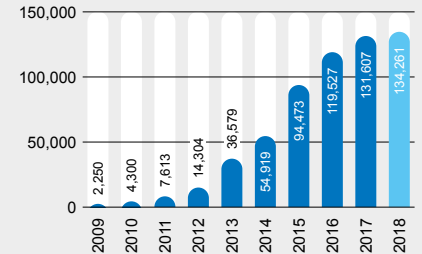
Since January 2017, AAK has published its Statement on the Modern Slavery Act describing the various initiatives implemented over the years originally derived from our membership and commitment to the principles of the United Nations Global Compact.

The AAK Statement on the Modern Slavery Act can be found at AAK's website under Sustainable growth / Statements.

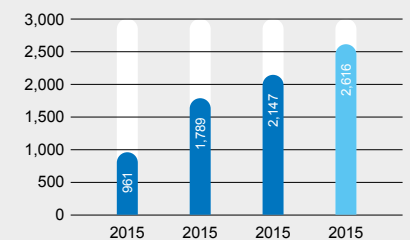
## Key achievements

### Shea direct engagement on women's groups level

Number of women enrolled in Burkina Faso and Ghana



### Number of bank accounts AAK has opened for the women's groups



### Supply chain risk assessments done by Proforest in 2018



Shea



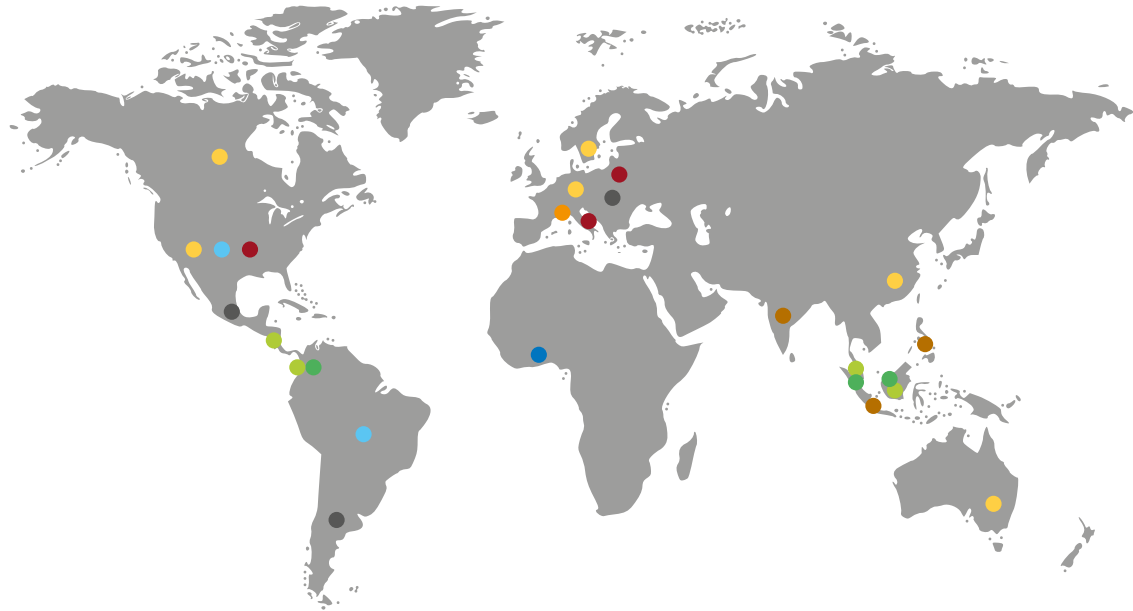
Palm



Coconut

## We source raw materials from all over the world:

We obtain our raw materials from rapeseed, palm, soya beans, shea kernels, sunflower, coconuts, and many other sources. Drawing on our extensive knowledge, and more than a century of experience, we utilize the properties of vegetable oils to add value to customer products within our target industries.



Rapeseed/Canola oil



Northern and Central Europe, Canada, United States, Australia, and China

Palm oil



Asia and Central and South America

Palm kernel oil



Asia and South America

Coconut oil



Indonesia, the Philippines and India

Soya bean oil



United States and South America

Sunflower oil



Eastern Europe, Mexico and Argentina

Shea kernels



West Africa

Corn oil



America and Eastern and Southern Europe

Olive oil



Southern Europe

Contributes to:



## Responsible sourcing of vegetable oils

In 2017, AAK launched a policy for responsible sourcing of vegetable oils. This policy applies to the procurement of all raw materials and sets the minimum requirements for our supply chains in order to protect our own and our

customer's brands. Wherever needed, a specific policy will be developed, as AAK has done for the palm oil supply chain.

AAK's objective is to ensure traceability in our raw material supply chains, sufficient to ensure that we achieve transparency of raw material origins

AAK is committed to zero tolerance for corruption in all its forms

Focus on: Freedom of association, forced labor, child labor and young workers, discrimination, working hours, wages and benefits, working environment and workplace violence

AAK will only source raw materials from growers with the necessary land rights

Smallholder inclusion in raw material supply chains is a key objective for AAK



Traceability



Legal Compliance



Anti-corruption



Human Rights



Labor Rights



Housing



Land Rights and Tenure



Environment



Smallholder

Suppliers shall operate in compliance with applicable national and local legal requirements

Suppliers shall support and respect the protection of internationally proclaimed human rights and ensure that they are not complicit in human rights abuse

Actors in our supply chain offering housing to employees shall ensure adequate housing

Suppliers shall strive to minimize the environmental impact of their activities through responsible management



Contributes to:



## Responsible sourcing of shea

### Shea as raw material

The shea tree is a wild tree growing in the shea belt, across Africa south of the Sahara. Shea is a very sustainable crop. The trees on which shea kernels grow require no use of fertilizers or pesticides. Traditionally, it is women who collect and process shea kernels. Part of the shea crop is sold, providing an important source of income. The women not only spend money earned to alleviate poverty and hunger, they also invest in their children's education and other income-generating activities.

### AAK as market leader

AAK has more than 60 years of experience sourcing shea kernels from West Africa. Working in close cooperation with shea traders and women's groups, AAK has built a solid and durable sourcing set-up across the shea production areas as well as logistical hubs in the

coastal areas. In 2018, AAK's supply chain in Benin and its production site in Aarhus, Denmark passed the ISCC (International Sustainability & Carbon Certification) audit and received certification for the third time.

The traditional supply chain for shea is long and complex, with many middlemen between AAK and the women in the bush. Many of these middlemen have a logistics function moving kernels from the rural areas to the bigger towns. It's a well-functioning supply chain, providing an income to millions of people in West Africa.

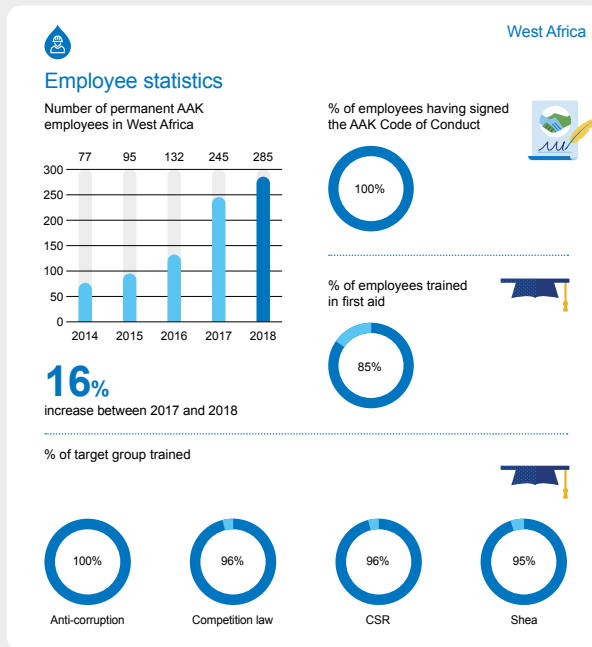
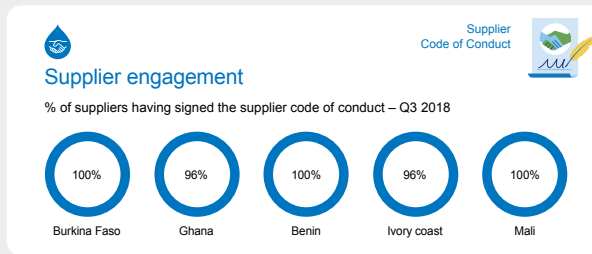
As market leader in the shea industry, AAK has taken responsibility and engaged directly with the women producers of shea kernels in our direct sourcing program called Kolo Nafaso.

AAK publishes a shea sustainability progress report twice a year, including a dashboard that tracks progress on both our traditional and women's groups supply chains.

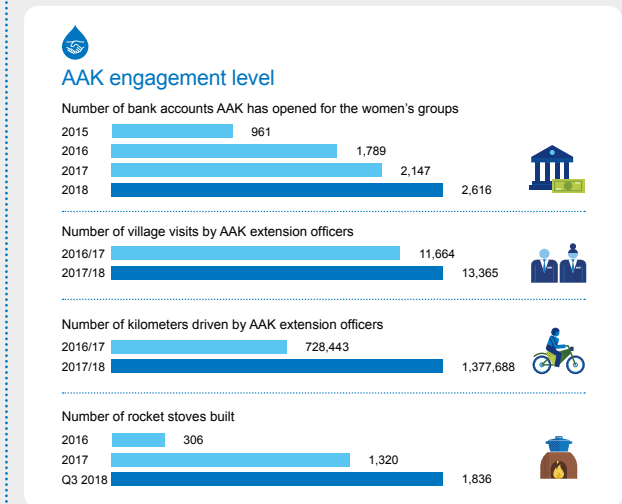
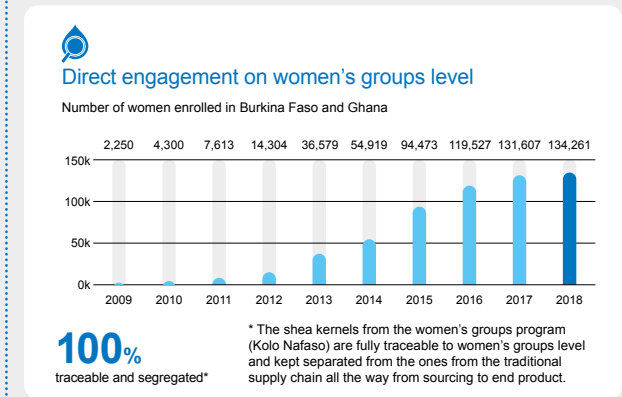


# Shea dashboard

## TRADITIONAL SUPPLY CHAIN



## KOLO NAFASO (women's groups)





## Kolo Nafaso – direct feedback from the women

**AAK regularly conducts surveys to receive feedback from the shea-collecting women we directly work with. In 2018, we conducted surveys in Burkina Faso and Ghana. Almost 1,000 women responded to our questionnaire.**

To conduct such a big survey we need to mobilize many resources. But for us, it is very important to reach out to the women and receive feedback so that we can improve our way of working. It is also a good opportunity for AAK to better understand the practices and challenges around shea collection and post-harvest practices.

The survey was also a good mean to do our due diligence on human rights, for example, by making sure there is no child labor in our supply chain.

- ◆ 78 percent of the women say that their children participate in collecting shea.
- ◆ 99.7 percent say it doesn't prevent them from going to school.

Two women from Ghana explained that a few mornings a year, during the peak of the shea picking season, they would take their daughters out of school and bring them to collect shea to contribute to the family's income. Then they would go back to the village and cook lunch for their daughters before sending them to school in the afternoon.

These girls do go to school and therefore we do not consider this child labor.

Another important fact to check for AAK is if the money from the sold shea goes to the women, or if their husbands, who own the land, are taking the money. Our survey shows that 94 percent of the money goes to the women which then will benefit the whole family.

The women invest in different small businesses such as producing and selling foodstuffs, soaps, clothes, which then generate a positive impact on the livelihoods of the households.



**70%**

of the money of the pre-financing is invested for future returns



**30%**

of the money of the pre-financing is spent to ensure food security and basic needs



**98%**

state that selling shea kernels is a good way to make money



**92%**

of the women are satisfied with the way AAK works with the group



Contributes to:



## Palm – progressing towards full sustainability

Sustainable sourcing of palm oil remains a crucial activity in our responsible sourcing journey and our engagement with suppliers.

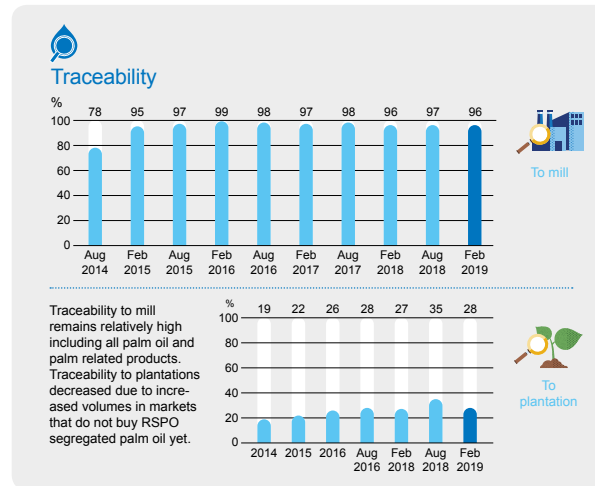
The scale of the crop globally as well as the multiple challenges ranking from environmental to social in the different regions ask for a consistent and structural approach and collaboration across the supply chain.

With the new RSPO standards approved in November 2018, we move into a new phase. The bar has raised again to meet the needs of its members reflecting amongst others, the zero deforestation commitments.

Very important elements in AAK's Sustainable Palm Oil Policy are to work with the RSPO, to work with its direct and indirect suppliers as well as to ensure the smallholders to remain part of its supply base.

## Increased transparency

As part of our continuous improvement journey we have published our universe of mills list and a grievance addendum at our website. The grievance addendum lists the companies that we have recorded a grievance against. This list will be updated and published on a more regular basis and highlights grievances in AAK's supply base as well as those linked to group or parent companies. We believe that with this initiative we better meet increased transparency needs of our customers, their customers and other stakeholders.



## Improving practices on the ground through supplier engagement

AAK works with its partner Proforest to identify priority suppliers, and then works with them to improve practices in environmental management, labor and other social issues.

Our approach to engagement includes:

- Conducting outreach workshops with mills, where we help them to understand our Sustainable Palm Oil Policy and requirements to ensure compliance;
- Technical training, where we train mill employees on specific aspects of our requirements, such as labor;
- Detailed site assessments where the mill is visited, gaps are identified, and action plans are created to improve practices.

In 2018, AAK focused on revisiting mills where site assessments had been conducted in previous years. Our partner Proforest revisited seven mills to follow up on how they were doing on their timebound action plans.

Several mills were found to have made considerable improvements. Highlights include:

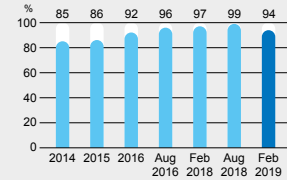
- The installation of effective greenhouse gas (GHG) management and monitoring systems;
- Development of policies on peat management, workers' rights and health and safety, and/or increased awareness of these policies among workers;
- Development of clear grievance procedures for workers;
- Improvements in workers' accommodation.

However, other mills were found to be struggling to implement necessary changes due to operational changes, and these mills will receive further visits in early 2019 to ensure that improvements are made. In 2019, AAK will continue to engage with mills to drive implementation and transformation on the ground.

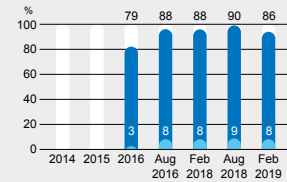
Alongside the follow-up visits in October 2018, AAK and Proforest conducted training in Peninsular Malaysia on human rights and workers' rights. A total of 42 participants (comprising mainly senior/middle management or technical staff) from 22 mills were present.

### Supplier engagement

Volumes covered by signed Supplier Code of Conduct:

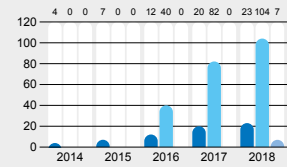


- Suppliers informed about AAK's Palm Oil Policy
- Signed AAK's Palm Oil Policy
- Has aligned Policy (verified by Proforest)



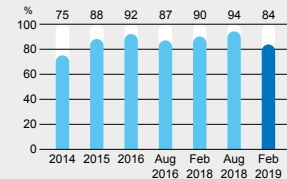
Higher priority suppliers invited to workshops facilitated by Proforest.

- Cumulative number of on-site audits
- Cumulative number of mills that attended a Proforest/AAK workshop
- Number of follow-up visits

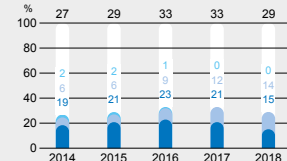


### RSPO status

We see a lower volume due to volume growth in regions where RSPO needs to gain momentum



- Relatively stable share of RSPO certified sourced volumes compared to previous year, despite volume increase
- Book&Claim
- Mass Balance
- Segregated





## Smallholder engagement

In November 2015, the Sabah state in Malaysia announced its intention to achieve 100 percent RSPO certification across the entire state by 2025. AAK financially supports Forever Sabah which works with the smallholders to realize the government's ambitions.

In 2018, the baseline study of 20 villages in four pilot districts has been conducted. Land tenure has been identified as one of the key gaps in achieving RSPO certification. Without land tenure smallholders have no access to running water because they need to prove legal ownership. Land tenure smallholders is also needed to get a loan from the bank in order to invest in the smallholdings.

To drive progress and on-the-ground transformation land tenure is an essential need. Together with Forever Sabah, AAK is supporting these smallholders to achieve legal ownership; one of the key focus areas for 2019.

In 2018, AAK has initiated another smallholder project, in collaboration with the NGO Solidaridad, in Mexico.





Contributes to:



## Coconut – progressing on responsible sourcing

### Coconut as a raw material

AAK has been sourcing coconuts from India and Sri Lanka since the 1930s. Nowadays, Indonesia, the Philippines, and India are the three biggest coconut producers with 70 percent of the global production. We source our coconut oil from the Philippines, Indonesia and partly from India.

Coconuts are classified into two types based on the stature of the trees: tall palms and dwarf palms.

Coconuts are harvested in bunches every 45–60 days. Coconut oil is made from the dried meat of the coconut (copra).

Coconut trees are often found along the shorelines of the tropics since they can tolerate saline and sandy soils, while other plants do not thrive under these conditions. This not only means that coconuts form an

important source of income growing on soil with limited fertility, but also that they take on a huge importance in protecting the sandy shorelines from erosion from the sea with their elaborate root system.

Coconut-growing countries in Asia-Pacific rely on the sale of coconut products as export income. The majority of coconuts are produced by smallholder farmers.

### Responsible sourcing of coconut oil

In 2018, AAK has identified coconut oil as one of the key raw materials for responsible sourcing together with shea and palm oil. For coconut oil the major risks in the supply chains still had to be identified and no industry-wide sustainability standard exists. Therefore, AAK has teamed up with Proforest to conduct a risk assessment for our coconut supply chains.

### Key findings of the coconut risk assessment:

- 1) Due to coastal growing areas, different islands and numerous middlemen involved, we concluded that traceability is the first concern when it comes to coconut supply chains. In AAK we do not see traceability as an achievement itself, but as a tool to understand the supply base and the different risks and issues related to it.
- 2) Furthermore, we found that coconut farmers are often poor and copra does not generate good prices for the farmers.
- 3) Lastly, we learned that about 90 percent of the coconut trees worldwide are reaching the end of their productive life cycle. Farmers are unlikely to invest in their coconut trees because they are not perceived as high-income crops. Available resources are rather invested elsewhere. In AAK we see the rejuvenation of trees as a collective challenge for the global coconut industry and we need to act now.



The main finding was that the traditional coconut supply chain is long and complex because the growing areas are far away from the mills that extract the oil from the dried coconuts (copra). Middlemen connect the farmers with the mills and deliver important logistical services. We have identified three main areas that need attention in the coconut supply chains.

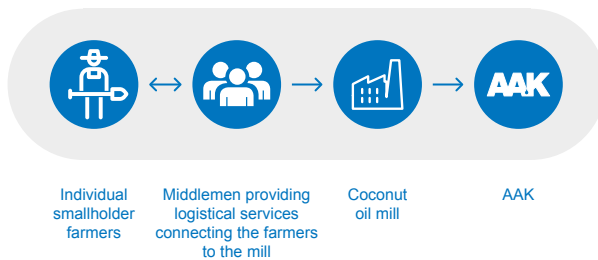
Based on Proforest's recommendations from the supply chain risk assessment we have developed a coconut supply chain risk mitigation plan. The plan will be tested on a pilot scale in 2019 and brought to full scale in 2020. The three key pillars for our risk mitigation plan are:

Supplier engagement

Smallholder impact

Market uptake

### Traditional coconut supply chain



### Progressing on responsible sourcing of coconut oil

As stated in our Policy for Responsible Sourcing of Vegetable Oils, in AAK, we actively include smallholders in our supply chains. In order to simplify the supply chain for the farmers and to ensure traceability we have started a direct sourcing project in Indonesia. Here our partner mill collects the copra directly from the village level, as a means to ensure that a bigger share of the value goes to the farmers. We will continue to work with this project in 2019 and develop it even further.

### AAK's direct sourcing supply chain



## Vegan coconut oil

AAK is the co-development company, closely working together with our customers and also closely monitoring trends in the markets. Coconut oil is a preferred ingredient for many plant-based applications like vegan ice cream or cheese. However, in 2018, together with one customer, AAK discovered that the vegan community was highly concerned that monkeys could have been involved in the harvesting of coconuts.

It is a common practice, mainly in Thailand and Malaysia, that pig-tailed macaques are trained to pick coconuts from the trees. This means that coconut oil coming from a supply chain where monkeys are involved in the harvesting process cannot be classified as vegan anymore by the standards of The Vegan Society.

AAK has been working closely together with our suppliers in 2018 to develop a supply chain that can verify that no monkeys have been involved in the harvesting process. Therefore, we are now able to provide products that can achieve The Vegan Society's trademark on end products.



## Rapeseed – an important raw material for AAK

### Rapeseed as raw material

Today, rapeseed oil is one of the most important vegetable oils used in food as well as biodiesel.

Rapeseed has become the oil plant of Northern Europe. Outside Europe, the dominant producers are Canada, China and Australia. Rapeseed is an annual crop planted either in autumn (winter varieties) or in spring (summer varieties). The winter varieties have a longer vegetation period and give a better yield, but can only be grown in areas with mild winter climate. In Europe, winter varieties are dominating, whereas in Canada only summer rapeseed is grown. The harvest period in the Northern Hemisphere for the winter varieties starts in late July, and in late August or early September for the summer varieties.

### The importance of rapeseed for AAK

Rapeseed is a very important raw material for AAK and is one of a few raw materials that AAK is crushing in its own facilities.

AAK can offer oils from traditional seeds and a range of speciality varieties. Much of the rapeseed used in AAK's products is grown in Sweden, where farms have increased their output in recent years. Through close cooperation with the farmers, AAK is able to maintain control of the entire value chain, from the production of raw material to finished products. The rapeseed meal that remains after oil extraction is used as animal feed.

The oil content of rapeseed is 40–45 percent which corresponds to approximately 0.8 MT/ha and is extracted either by pressing alone or by pre-pressing and solvent extraction.

With high oleic acid content, rapeseed oil has the lowest saturated fat content of all vegetable oils and is high in monounsaturated fatty acids. It also contains the essential fatty acids linoleic acid (omega-6) and alpha-linolenic acid (omega-3), as well as vitamin E (tocopherol) and vitamin K.

Its nutritional and functional properties mean that rapeseed oil is ideal for use as a cooking oil or ingredient. Food applications range from mayonnaise and salad dressings to baby food. In margarines and bakery products, rapeseed oil ensures the right consistency and an improved nutritional profile.

For high-temperature processes, high oleic acid-varieties of rapeseed are significantly more suitable. The advantages are a low saturated fat content together with good thermal and storage stability.

### Rapeseed sustainability

From an agricultural sustainability perspective rapeseed is a very suitable crop to include in crop rotations with, for example, wheat and corn. When including rapeseed in crop rotation cycles it improves drainage and soil water retention, soil structure and resilience, as well as future nutrient availability. The plants furthermore



provide up to eleven months of ground cover to restrict the harmful effects of wind and water erosion on soils over the vulnerable winter months. It can also provide valuable late summer protection against moisture loss. Rapeseed has additionally shown to have an overall positive effect on crop health and therefore causes a decrease in risks and costs on farm level.

From a broader environmental resilience perspective rapeseed can be beneficial for farmland wildlife. Its thick and relatively long-term overhead canopy with stiff stems provides an ideal environment for a wide range of bird species and populations of invertebrates.

However, large-scale farming of rapeseed can also pose a challenge for insects, since food is available in large quantities during a small period of time and scarce for a large period of the year. Buffer strips along the fields with wild flowers and shrubs are therefore highly recommended in order to increase insect biodiversity.

In AAK we are using Life Cycle Assessments (LCAs) to analyze the impact of our rapeseed supply chains globally, but also in comparison to other oil crops. This way we get full insight into the climate impact of our supply chains and can work towards minimizing it and offer the best solutions to our customers.



Contributes to:



## Soy – a versatile raw material

### Soy as raw material

The boom of soybean utilization for industrial purposes started in the 1940s, and has since then grown exponentially. The main producing countries are the US, Brazil, Argentina, India, and China, and the biggest consumers are China, the US, Argentina, and Brazil.

Soybean is a summer crop and its full cycle ranges from 90 to 120 days. Crop rotation is usually made with winter crops such as corn, barley, wheat, and black beans. Yields can vary but on average 1 hectare produces about 3,000 kg of soybeans and 0.4 MT of oil.

### Importance for AAK

The soybean oil is one of the most versatile commodities with a large number of applications besides food. The main one is as the source of SME (soy methyl esters), or biodiesel, but it is also used as raw material in feedstuff, pharma, paint, personal care, lubricants, plastics, resins, etc.

From an AAK perspective, soybean oil is rich in polyunsaturated fatty acids. It is mainly used in baking fats, mayonnaise, frying oils, salad and cooking oils, as an ingredient in margarine and within our segment Special Nutrition.

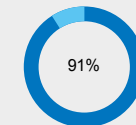
From a volume perspective, soy is a rather small commodity for AAK, but because of the sustainability risks in the supply chain, especially deforestation, it has been included to the list of key raw materials for responsible sourcing in 2018.

### Sustainable soy

According to the International Sustainability Unit, TFA, CDP and Climate Focus, soy is the second largest contributor, after beef, to global deforestation. It is not primarily produced for food, but the soy meal goes into the feed industry, and the oil is used for consumer goods products or biofuels.

The country in focus when speaking about deforestation linked to soy production is Brazil. After making significant progress in environmental protection alarming statistics have been published by Reuters, measuring the deforestation in Brazil between July 2017 and July 2018. A record high for the past decade was measured with a 13.7 percent increase compared to the previous year. This is a worrying development and calls companies like AAK to action.

We have set the target in our Policy for Responsible sourcing of Vegetable Oils, to only source raw materials that have been produced without High Carbon Stock deforestation, conversion of High Conservation Value areas, and development on peatland soils. Therefore, in 2018 we have mapped our supply chains and identified the traceability levels and risks of deforestation. 91 percent is free from risks of deforestation. In 2019, we will further work on improving this score.



Free from deforestation risks





## Smallholder engagement in soy

As part of our responsible sourcing approach AAK Kamani, our joint venture in India, has committed to actively include smallholders into our supply chains. This is one of the cornerstones of our Policy for Responsible Sourcing of Vegetable Oils.

At the end of 2018, AAK Kamani signed a Memorandum of Understanding (MoU) in the SMART project in Maharashtra, India. This stands for State of Maharashtra Agribusiness and Rural Transformation and is a productive partnership for Climate Resilient Agriculture headed by the World Bank and the Government of Maharashtra.

The key objectives of the project are:

- Supporting value addition in the post-harvest segment of agricultural value chains;
- Developing a mechanism for productive alliances involving various stakeholders in agricultural supply chains;
- Improving the current policy and regulatory framework in the agribusiness sector;
- Developing marketing and credit linkages with community-based organizations (CBOs) like farmer producer companies, cluster-level federations and farmer groups;
- Improving the efficiency in agricultural supply chains through private sector partnerships that can be scaled up through project interventions.

AAK Kamani's role in the project is to engage in the community-based purchasing of soy as well as groundnut through the SMART model. This creates a more direct supply chain, increases traceability and ensures improved control over quality and food safety requirements. On the other hand, the system empowers smallholder farmers to directly engage with buyers and to become part of contract farming agreements. The system also strengthens the local infrastructure that enables long-term capacity building for smallholders.

AAK Kamani has started the partnership with the Government of Maharashtra and the farmer producer companies in 2018 in order to increase the engagement during the planting season starting in April/May 2019. We are looking forward to deepening this partnership and seeing the results during the harvesting season in November 2019.



A young boy is running through a field of golden light, wearing a t-shirt that says "THIS WORLD IS FULL OF HOPE LET'S BEGIN TO PROCEED WITH POSITIVITY". The background is a bright, sun-drenched field with a bokeh effect of golden light spots. A large blue teardrop shape is overlaid on the left side of the image, containing text.

Our Planet

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## Reducing our environmental impact is our responsibility

AAK takes the responsibility that comes with being a speciality and semi-speciality vegetable oils and fats processing company. We are constantly striving to improve our production and to reduce the impact we have on the environment to maintain the balance. On our journey towards becoming a full speciality company we are sometimes experiencing challenges as extra production steps are added and therefore the impact becomes larger. But we are accepting this challenge and are working hard to become the best we can be.

Contributes to:



## Environmental efficiency

Overall on the AAK scope 2016 production sites, we have seen a good environmental efficiency performance in 2018. Most Key Performance Indicators (KPIs) have improved as we will outline later in this section. However, a few KPIs have been challenging due to unusual weather patterns in some areas of the world as we will explain.

The data including the four newest AAK sites in Brazil, China, India and USA (California) represents a new baseline from which we will track performance in the coming years.

## More frequent extreme weather

According to the 2019 Global Risk Report published by World Economic Forum, extreme weather events rank as the most likely and impactful global risk within the next ten years.

Also, at some of our production sites extreme weather events have been experienced in 2018. On the East Coast of the US, January and February were colder than usual. This resulted in an increased energy need in our production, mainly for heating the pipes to keep the oil liquid.

At the same time, the hot summer of 2018 in Sweden has warmed the sea water significantly so that it could not be used as cooling water. Therefore, we had to use municipal water for cooling purposes to be able to keep producing. This resulted in a higher water consumption than usual. We have initiated a project to avoid that from happening in the future.

Based on these events, we have decided to have climate change risk assessment conducted by an external partner for all our production sites before 2020. We have during 2018 already started with some production sites.

One of the sites that has been risk assessed was Karlshamn in Sweden. The outcome is for example that coastal flooding was a very high risk for the site. All other risks assessed were scored between very low to medium.

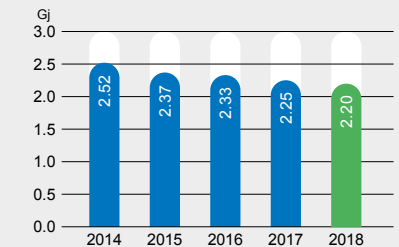
Site Karlshamn has a flood emergency plan in place describing all processes that should be followed in case of increase of the water above a certain level.

Furthermore, in 2018 we conducted a full water risk assessment of all our production sites. You can read more on this topic on page 47.

## Key achievements

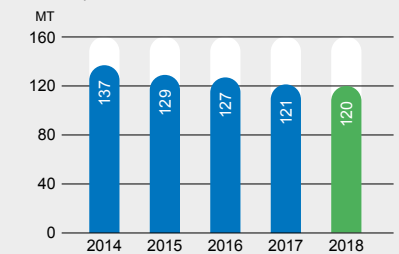
### Energy consumption

Per unit processed material



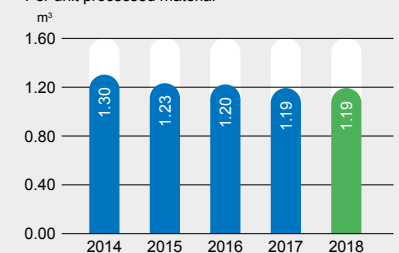
### Total direct CO<sub>2</sub> emissions

Per unit processed material



### Water consumption

Per unit processed material





Contributes to:



## Energy

Driven by the inclusion of four new sites and larger processed volumes in 2018, AAK's production sites had a combined direct energy consumption of 5,013,000 Gj, an increase of 14.2 percent compared to 2017. Direct energy consumption from renewable resources constitutes 23 percent which unfortunately is a step backwards from 27 percent last year due to new production sites having less renewable resources.

During the same period, and for the same reasons electricity and steam purchases (indirect energy consumption) increased by 15.3 percent to 1,025,000 Gj. The proportion of green electricity constitutes 34 percent.

So, total energy consumption reached 6,038,000 Gj, an increase of 14.4 percent.

### Energy efficiency

Total energy consumption per processed unit decreased with 1.3 percent on the AAK scope 2016 production sites.

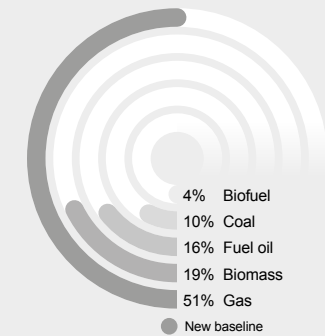
Progress has however been challenged by two factors:

1. A strategic decision to increase the production of highly refined products which require more energy to process.
2. An extra cold winter on the East Coast of the US requiring more energy in the production.

The new baseline including the four new production sites is 4.3 percent higher than in 2017.

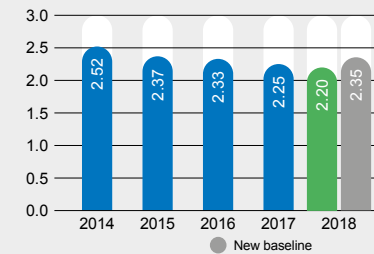
We have ongoing energy efficiency projects on all production sites and expect to keep progressing in the coming years.

Direct energy consumption 2018 – per energy

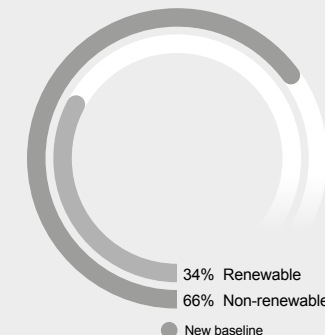


Energy consumption

Per unit processed material



Purchased electricity and steam 2018





AAK Karlshamn, Sweden

## Shining a light on sustainability

Environmental protection continues to be a top priority across the AAK Group and a focus area that is taken very seriously by our team in Sweden.

For many years, AAK Karlshamn has been using wooden pellets for steam generation. While this has been an effective and sustainable solution, we have explored alternative options that can help to reduce waste and harmful emissions even further. The best option was to install 350 m<sup>2</sup> of photovoltaic cells, with plans in place for more.

### Harnessing nature's energy

Managed from start to finish by a team from our engineering department, the new solar panels were installed on the roof of the main office building, and successfully commissioned in September 2018. With an estimated yearly production of 58,000 kWh (which is equivalent to five family bungalows), the initiative is already bearing fruit.

The solar cells are feeding into the local grid. From time of commissioning to year-end, we produced slightly less than 10,000 kWh, which is fully in line with expectations as Sweden typically has fewer sunlight hours during autumn.

### One step closer to sustainability

The solar cells installation project has been extremely successful and brings us closer to AAK's ambition of minimizing its environmental impact. We were also proud to work in cooperation with the Swedish government to ensure everything was completed properly and according to local regulatory guidelines.

With environmental protection remaining a key issue for AAK throughout 2019 and beyond, we aim to expand the number of solar panels we have and contribute even further towards being a truly sustainable business.



Contributes to:



## Air

In 2018, AAK generated 339,000 MT of carbon dioxide at its production sites, an increase of 19 percent compared to 2017 driven by the inclusion of four new sites and larger processed volumes.

Carbon emissions per processed unit decreased with 0.9 percent on the AAK scope 2016 production sites. The new baseline including the four new production sites is 8.7 percent higher. The increase is mainly due to our production site in India which uses coal as energy source.

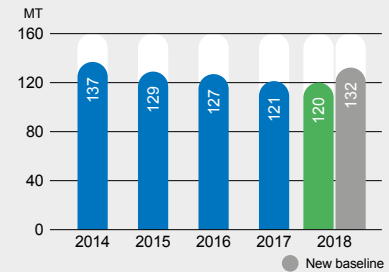
35 percent of direct carbon dioxide emissions stemmed from renewable resources on the AAK scope 2016 production sites while the new baseline including the new sites is 28 percent.

Due to the Group's use of fuels, its production sites emitted 192 MT NO<sub>x</sub> (nitrogen oxide) and 27 MT SO<sub>x</sub> (sulphur oxide). The significant decreases were due to a shift of fuel oil quality. There were 246 MT VOC (Volatile Organic Compounds) primarily emitted from sites that run extraction and solvent fractionation processes. VOC decreased by 6.2 percent between 2017 and 2018.

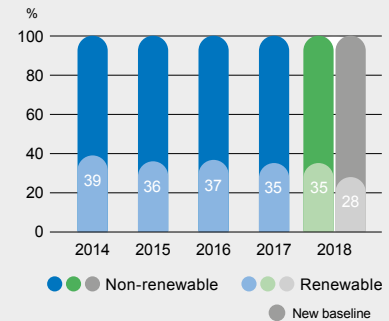
With our portfolio of CO<sub>2</sub> reducing projects, we will continue to focus on reducing our CO<sub>2</sub> emissions in the coming years.

### Total direct CO<sub>2</sub> emissions

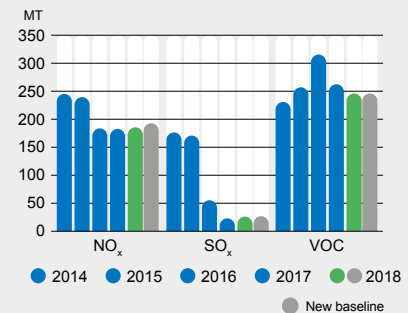
Per unit processed material



### Source of direct CO<sub>2</sub> emissions



### Total direct emissions



Hull, United Kingdom

## New deodorizer cuts CO<sub>2</sub> costs and brings flexibility

**Investment in new deodorizer technology at our site in Hull is being rewarded with many benefits, including more efficient production and a carbon emissions reduction of almost 10 percent.**

As well as the savings in energy and costs, investing in new equipment enables AAK to keep ahead of changing legislation while delivering greater flexibility in the products we develop. At AAK's site in Hull, UK, the installation of the new deodorizer in early 2018 was part of a strategic move away from commoditization of products and towards specialization.

The previous deodorizer was designed for commodity-scale production and the technology had also become dated. The new deodorizer enables the site to make frequent changes between different components and ingredients, so it can focus on producing shorter runs of a wider range of products.

### Better for customers and the environment

AAK Hull can now provide customers with a more responsive and agile service to help them meet an array of food industry challenges. For example, if a biscuit manufacturer needs several special trial products to support a move towards vegan diets, sugar or fat reduction, or a new product launch, the technology has the flexibility to make those products for them in small batches.



The installation of the new deodorizer also allows the site to stay ahead of changing legislation and has resulted in a carbon emissions reduction of 1,200 MT. Taking into account corrections for the baseload for general heating, this represents a reduction of almost 10 percent. At a time when EU carbon emissions allowances (the required amount to pay to offset emissions) continue to rise, this also means significant cuts in running costs.

### A win-win result

The new technology not only uses less energy by operating more efficiently, but also helps to support customer co-development initiatives more effectively. The AAK Hull team now has more flexibility and improved performance to help customers meet ever-evolving and unpredictable challenges.





Contributes to:



## Water

Even though most AAK products do not contain water when leaving the sites, vegetable oil processing requires large amounts of water, mainly for cooling and steam production.

### Water consumption

Combined, the Group's production sites use approximately 31,000,000 m<sup>3</sup> of surface water. This water, which is used for cooling, has no contact with products or pollutants and is returned to the source without any change in quality. The discharged water may, however, be slightly warmer than when entering the Group's system.

Ground water and municipal water used in processing totalled 3,000,000 m<sup>3</sup> which is 9 percent more than in 2017 driven by the inclusion of four new sites and larger processed volumes.

Water consumption per processed unit decreased with 0.2 percent on the AAK scope 2016 production sites. The improvement was small partly due to a summer with warmer temperatures in Sweden resulting in too high temperature of the the sea water that couldn't be used for cooling purposes. Municipal water had to be taken into use so that production could keep running.

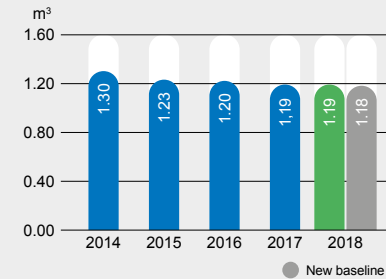
The new baseline including the four new production sites is 1 percent lower than in 2017.

### Water discharge

Processing water discharge in 2018 increased by 2.2 percent. However, calculated per processed material

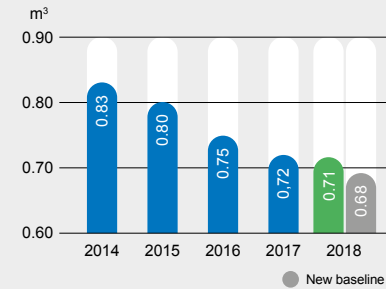
### Water consumption

Per unit processed material



### Water discharge

Per unit processed material



amounted to a 2 percent decrease for the AAK scope 2016 production sites. The new baseline including the four new production sites is 4.5 percent lower than in 2017.

Discharged processing water from AAK sites is treated at own or municipal water treatment sites and is subject to strict control by local authorities.

AAK has several projects ongoing to keep consuming less water in the future.





## Water risk assessment

AAK has started a journey to adapt our production to potential risks from climate change. The first step in this journey is a risk assessment of our production portfolio. AAK has chosen to focus on water risk first because of an increased number of extreme weather events reported globally linked to water as well as the potentially destructive power of water.

The World Resources Institute has made available the Aqueduct Water Risk Atlas (Aqueduct). It is a comprehensive and publicly available global database and interactive mapping tool that provides information on water-related risks worldwide. Twelve global indicators are being used to assess the water related risks for specific geographic locations and to give an overall water risk score between 1 and 5 (1 being the lowest possible risk and 5 being extremely high risk).

AAK has used the Aqueduct tool to create a global water risk map of all our production sites. None of our sites is exposed to extremely high or high risk. The highest scoring production sites in AAK's portfolio score medium to high risk.

A global meeting was held to introduce this tool to the production sites. Each site has received a detailed analysis of their overall score in order to be able to develop a water risk mitigation plan relevant to their specific situation in 2019.



Contributes to:



# Waste

During 2018, AAK's production sites generated 128,000 MT of waste. This is an increase of 6.6 percent compared to 2017 and is driven by the inclusion of new sites and larger processed volumes. Of the total amount of waste 99.4 percent was non-hazardous.

In waste disposal, there is a clear, very determined effort toward reducing waste going to landfill. In 2015, AAK set a waste ambition for 2018, targeting that less than 1.5 percent of the waste in AAK should be disposed at landfill. Looking at comparable conditions to when the ambition was set AAK reached the objective and 1.5 percent of the waste was disposed at landfill in 2018. However, changes in the US legislation regarding the classification and handling of used bleaching earth has meant that 1.5 percentage points extra waste had to be sent to landfill. The new baseline including the four new production sites adds 1.8 percentage points of waste to landfill.

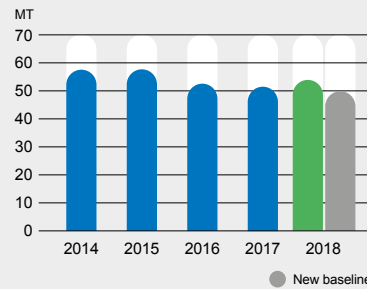
In total during 2018, 6,190 MT of waste was disposed at landfill, equal to 4.8 percent of the total amount of waste.

A large proportion of the waste is shea meal, which is the residual product when oil is extracted from shea kernels. Shea meal has no nutritional value and is used as biomass in power plants.

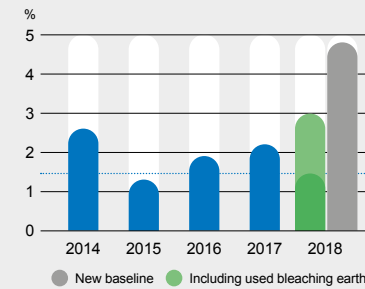
Waste reduction will remain a key focus area. This includes strengthening our practices at our new sites.

Waste intensity

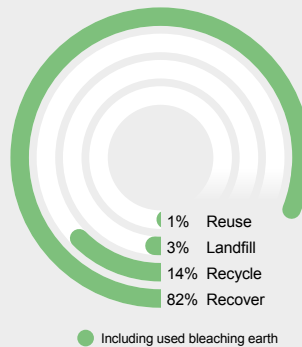
Per unit processed material



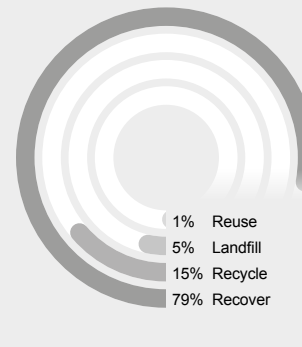
Waste to landfill



2018 waste disposal



2018 waste disposal – new baseline



AAK Brazil

## Achieves zero waste

**AAK had a global objective for 2018 to achieve less than 1.5 percent of its waste being sent to landfill. Making a vital contribution to this goal, AAK Brazil became a zero waste company in September 2018 through an innovative new initiative known as "Coproprocessing".**

Since 2016, AAK Brazil has endeavored to reduce the amount of waste it sends to the municipal landfill. However, over the last year, the site went much further – instead of simply reducing the waste, it found a way to dispose of it completely. As a result, AAK Brazil officially became a zero waste company in September 2018, setting a standard for all AAK sites to follow.

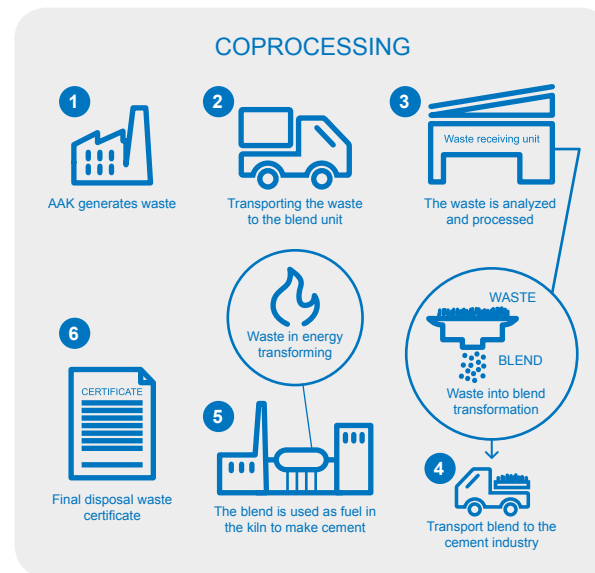
### Making waste useful

Until recently, even following various initiatives to reduce waste, AAK Brazil still shipped on average 3 MT a month of waste to landfill. It was discovered that this could be completely reversed thanks to a new process known as Coprocessing.

Coproprocessing is a technology that "blends" compatible waste into a product that can be incinerated to fuel cement kilns. This replaces fossil fuels and other raw materials typically needed for the cement manufacturing process and reduces the amount of harmful emissions it creates. Not only does this have clearly beneficial advantages for our environment, but it provides significant cost savings for cement producers.



Here's how it works:



### An example to follow

AAK Brazil has set an excellent example of what can be achieved. Today, approximately 97 percent of its waste is sent for recycling, reuse and composting, with the other 3 percent being sent for Coprocessing. As a global organization, AAK is constantly looking for better ways to reduce its environmental footprint by generating less landfill waste – and Coprocessing is proving to be one of the most effective.



AAK Colombia

## Improving quality and reducing emissions

**AAK Colombia has been finding better ways to measure and improve the performance of its refinery. In doing so, it has also been able to enhance product quality and – crucially – reduce GHG emissions.**

At AAK Colombia, we understand “refinement”. While on one hand this relates directly to the industrial process we manage, it also refers to our ongoing commitment for improvement on the other. In particular, over the last year we started to examine the performance of our boiler. In doing so we began to find small issues that, although only minor, we knew could be addressed to give a higher quality production outcome.

### Finding the trend

Working closely with our Maintenance department, we discovered an unusual trend with the gas supply to our boiler.

As shown here, the gas supply was oscillating with too much time in high flame and too many troughs down to zero. We knew that this temperature fluctuation would affect product quality. Furthermore, the subsequent production inefficiency would also be represented in our KPI indicator (around 13 m<sup>3</sup> natural gas/ton product) and in our daily gas consumption, which had risen above normal levels of 2,000 m<sup>3</sup>.

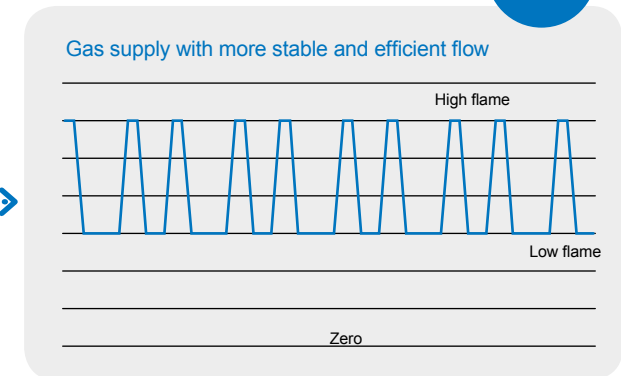
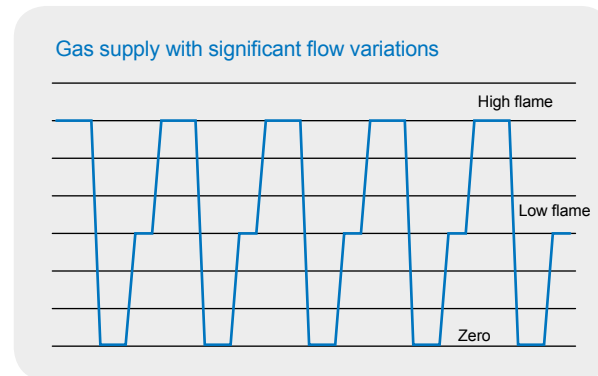
### An impressive result

Fixing this issue by making the gas supply more constant would not only reduce gas consumption, but also reduce the amount of GHG emissions (by improving fuel efficiency and the stability of the burning process). We took action and the results can be seen in the graph below.

We achieved a reduction to 9 m<sup>3</sup> natural gas/MT product and an average gas consumption of 1,400 m<sup>3</sup>

per day. This represents an impressive saving of about 50 kg of CO<sub>2</sub> every month.

However, for us this isn't good enough! We are now looking to achieve an even steadier process. This can be made possible by the replacement of our burner for one that controls the process in a modulating manner. If all goes to plan, we hope to additionally improve the process by a minimum of 10 percent.





## Onboarding new sites – Colombia sets the example

When AAK acquires new production sites, it often takes a few years before they align to the sustainability standards that AAK stands for. In 2014, AAK purchased FANAGRA in Colombia. During the Global CSR Manager's first visit, there was much room for improvement to be seen. The waste management, the water treatment, and water consumption were not done in an optimal way. There were many good opportunities for implementing energy efficiency projects.

The first years, the sustainability data did not look very good, but thanks to the support from Mexican colleagues who have been in AAK for many years, good practices were implemented and the positive change was initiated. The great efforts of the AAK Colombia team, in close collaboration with AAK Mexico, has resulted in great improvements which are shown in the graphs.

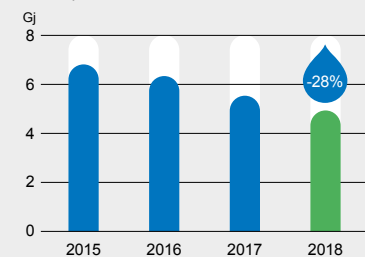
Energy consumption per processed unit decreased 28 percent between 2015 and 2018 and total direct CO<sub>2</sub> emissions decreased by 30 percent over the same period.

Water consumption per processed unit decreased by 68 percent between 2015 and 2018. The tonnage of waste generated per processed unit decreased by 55 percent over the same period.

These are amazing improvements done over a few years!

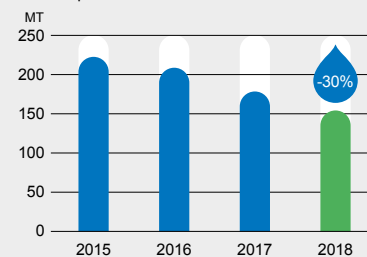
### Energy consumption

Per unit processed material



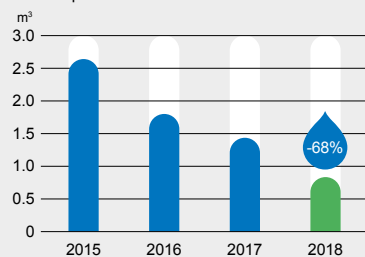
### Total direct CO<sub>2</sub> emissions

Per unit processed material



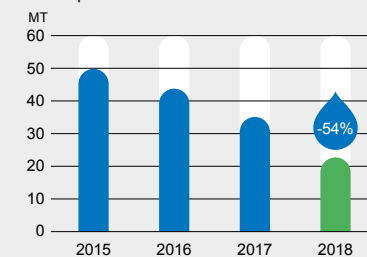
### Water consumption


Per unit processed material



### Waste

Per unit processed material





Our People

## Building innovation and value from within

AAK's most important resources are our employees. No matter what their position, location or level of expertise, every person across our global organization is highly valued. We are a diverse company that relies upon many different roles and abilities to help our customers succeed, so we go to great lengths to attract and retain the best talent in the business. We also focus on helping people to develop their skills and further their career, in order to build a stronger business for the future and that is based on enthusiasm, commitment and innovation.



## Safety is key

Any work-related injury is clearly unacceptable and AAK constantly strives to be a zero-injuries workplace. Since 2009, we have aligned definitions and measured injuries across the AAK Group. We have defined Lost Time Injury Rate (LTIR) as the number of work injuries that result in one or more days of sick leave per 200,000 working hours.

In 2017, AAK had a setback on LTIR and we decided to launch a Global Safety Program, which was done in 2018. As a result, LTIR at our production sites decreased from 0.8 to 0.6, which is a 25 percent improvement. One third of our production sites did not have any Lost Time Injuries during 2018. Lost Day Rate

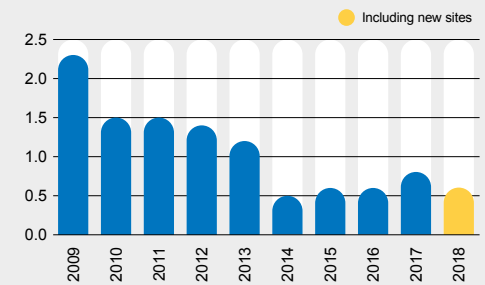
increased from 10.4 to 16.5, unfortunately indicating that the incidents have been more severe in 2018.

At our sourcing sites in West Africa, conditions and challenges are very different. For example, the AAK employees drive many kilometers on motorbikes on unpaved roads, which increases the risk of accidents. LTIR increased from 1.2 to 2.9, and Lost Day Rate increased from 24.3 to 54.1. Safety and first aid training is ongoing in West Africa to reduce those figures.

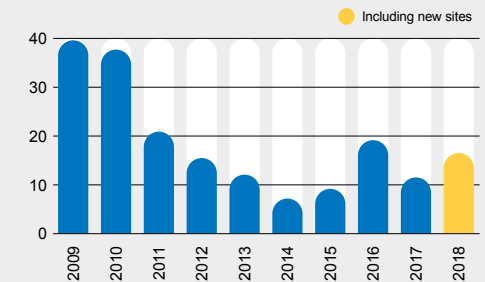
Our Global Safety Program is expected to continue the good progress in 2019, which you can read more about on page 56.

## Key achievements

Lost Time Injury Rate, production sites



Lost Day Rate, production sites



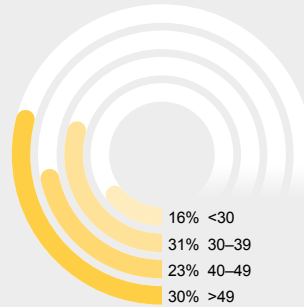
## The AAK workforce in numbers

As of December 31, 2018, AAK had a total of 3,594 employees within the scope of this report.

The average age of employees in Europe is significantly higher than in the rest of the world due to a more mature organization. Twenty-two percent of AAK's permanent employees are female. This is a lower percentage than in many other businesses and is explained by the fact that working in the production sites typically attracts more men than women. At managerial level, 22 percent of employees are female.

Seventy-four percent of AAK's employees are permanently employed, while 4 percent are on a temporary contract. The remaining 22 percent comprise trainees, agency staff and at-will employees. The latter is a doctrine of American law that refers to an employment relationship which can be broken by either party with no liability. Three percent of our employees work part-time.

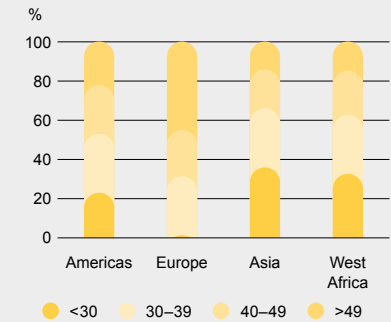
Employees\* by age, %



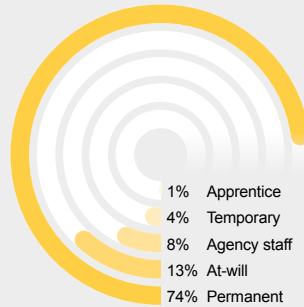
Employee\* category by age, %



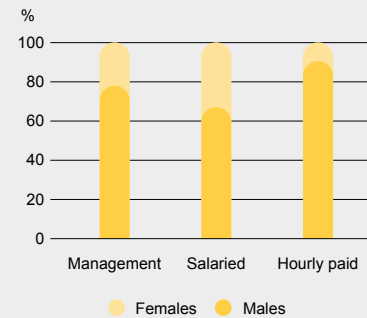
Employees\* by age, %



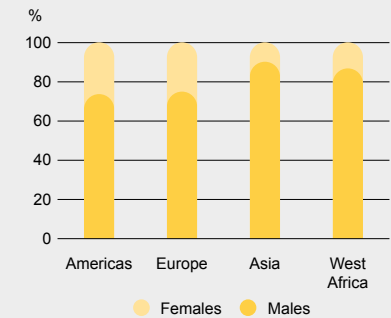
Employment contract type, %



Employee\* category by gender, %



Employees\* by gender, %



● Including new sites

\* Permanent and at-will employees



The AAK Way People project

## Investing in people is our future

**We strive to be an attractive employer with a high-performance organization, built on strongly aligned values with an increasing number of people carrying AAK forward.**

The AAK Way People project is at the heart of AAK's ambitions towards people engagement and development. Since it was started in 2017, it has given rise to a broad variety of initiatives and programs that have been pivotal to its success. Not only has this delivered very positive results internally and helped to promote an AAK "family" culture across our worldwide sites and offices, but it is contributing significantly towards the value we create for customers.

### A more unified business

The strategy focuses on four key areas that aim to create a unified business committed to delivering excellence and growth:

- 1) Revitalize our company values – our culture guides discretionary behavior and makes sure that we behave, internally as well as externally, in the way we promise our customers. We all make hundreds of decisions every day, and our company values are there to guide us.
- 2) Engaged and skilled people – to measure people engagement we conduct an employee engagement survey every two years.



The next survey will be conducted in 2019. We have also improved our process for learning and development and added several online training courses.

- 3) AAK Leadership – during 2017 and 2018, we delivered four days of leadership training for more than 350 managers and key employees worldwide, focusing on our leadership competencies and company values.
- 4) Organization for future growth – by identifying the specific competencies we need for future growth, we can make sure we either retain employees with these skills, or attract the right new talent into our business.

### An employer of choice

We recognize that people are our greatest resource, which is why we endeavor to attract, train and retain the best minds in the business. To this end, we have also introduced a policy, process and templates for workforce planning. The purpose of workforce planning is to secure management capacity and key competencies for future growth by looking at future organizational demands, succession planning and potential review.

By implementing what AAK stands for through the attitude and development of our employees, we can elevate our business by strengthening loyalty, fostering innovation and delivering a more passionate, tailored service.





## AAK Global Safety Program

### Working towards zero lost-time injuries

**At AAK, safety continues to be an integral part of our business strategy. For this reason, a decision was made in 2018 to relaunch the Global Safety Team initiative, formed by HSE Managers from all AAK sites and led in this occasion by AAK Mexico.**

The Global Safety Team comprises a group of professionals who represent more than 100 years of safety experience and who know their local strengths and weaknesses in terms of safety. The team's overall objective is to achieve zero lost-time injuries across the Group and to this end, it has developed a strategic program for continuous improvement which aligns the Group's global safety efforts.

#### Creating key safety parameters and goals

In April 2018, a Global Safety Team kick-off conference was held, giving everyone the opportunity to share their local initiatives and discuss ways to develop a strong Global Safety Program. A key outcome was to learn that we all share common safety issues and that the program should therefore have a global vision that is flexible to adapt to local needs.

Working seamlessly together at the conference, the team formulated the following agreements:

- 1) Key safety practices that outlined our global approach to reach zero lost-time injuries;
- 2) An AAK global safety model, with clear ambitions and objectives;
- 3) A new KPI structure with additional KPIs and a follow-up scheme for implementation.

#### A safer place to work

During 2018, AAK saw a LTI global reduction of 25 percent versus 2017. This accomplishment supports our ambition to achieve "a zero-accident culture where all risks are managed in AAK". For us, "safety first" is more than just a motto; it is a mindset for all employees to work towards, in order to protect our people and our facilities.

Looking to the future, we will continue to execute and improve our Global Safety Program to help make AAK "the safest place to work".



Contributes to:



## Anti-corruption

AAK has signed the UN Global Compact committing the company to establish anti-corruption measures. Anti-corruption is addressed in our Code of Conduct, the Supplier Code of Conduct, the Code of Conduct for Suppliers of Raw materials and the Code of Conduct for Agents and Distributors.

In 2018, we had one case of corruption at one of our production sites. It involved a conflict of interest and the person was dismissed.

Corruption still remains a common risk throughout the world for all companies, and a decision was made to internally promote awareness and knowledge of

this topic. To that end, e-learning modules addressing anti-corruption topics are ongoing. The modules have a length of approximately 15 minutes and end with a multiple-choice test. For employees at increased risk of encountering corruption, these modules are mandatory and must be passed.

During 2018, West Africa was identified as a geographical area with high risk of corruption. We therefore will conduct a suitable anti-corruption training in French and English for all employees in West Africa during 2019.

## Labor rights

Labor rights issues are governed by AAK's CSR Policy, which applies to all Group sites. Among other things, the policy states AAK's view on child labor and young workers, on forced labor, and on freedom of association and the right to collective bargaining. Forty-seven percent of AAK's employees are covered by collective bargaining agreements. In 2018, there were no strikes at AAK.

Giving staff equal and fair treatment is another focus

area of the CSR Policy. The ratio of basic salary for men relative to women is not reported, since interpretation of the data would not give a true picture. On average, AAK pays more in salary to male employees than to female employees, not because the basic salary for male employees is higher, but because male employees generally have jobs with a higher salary. For the same job, the salary for male and female employees is the same.





## Our Neighbours

# Making a difference to our community

As a global business, AAK has an impact on a large number of people in a large number of ways. That's why we take great responsibility towards local, regional, national and international communities that are affected by our actions. Each of our sites have developed different initiatives that help to support our neighbours and enable us to engage more proactively and positively with other organizations, such as local authorities and regulatory bodies. Our commitment to these causes is driven by our employees who take pride in working for a company that makes a noticeable difference.



## Local community involvement

As a global company, AAK contributes to the development of the local communities in which it operates by creating jobs, paying taxes and doing business with local enterprises. However, it takes more than this to truly become part of the community in which the Group operates.

Community engagement is based on diverse thinking, which leads to initiatives ranging from giving employees time off to engage in local activities and donating products and raw materials to providing used equipment and giving direct financial support.

AAK is very much aware of the impact the company has on the community when entering, operating in

or leaving an area. During 2018, no operations that required a special community impact assessment were established or terminated.

The impact of existing operations is continuously monitored through dialogue, open house events, hosting visitors, participation in local events and councils, giving presentations and participating in interviews. Media monitoring also provides a picture of local attitudes towards AAK.

Overall, AAK's community involvement helps secure a social license to operate, which is essential for AAK as both a company and a player in local business life.

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## Our Neighbours achievements

AAK has long been an active member of the communities in which it operates through sponsorship, or through direct participation in projects and activities. We see it as our responsibility and part of our social license to operate to maintain a good relationship with the

communities where we operate and to contribute where it makes sense. In 2018, AAK engaged in a variety of local activities, some examples are presented in this section. AAK will continue to secure integration with its local communities in the future.





AAK Kamani, India

## Giving children a better chance in life

**In 2006, the Mutually Beneficial Activities (MBA) Foundation created an Early Intervention Clinic and Prevocational Training Unit in Powai, India. The aim was to help children with disabilities from disadvantaged backgrounds whose families cannot afford to pay for therapy. Due to its proximity to our site and the positive impact it brings to the community, AAK Kamani is proud to support an additional facility, built in 2016, that focuses on educating the parents.**

The Powai facility provides much needed therapy, developmental assistance and even medical intervention for children who would otherwise simply not have access to this kind of care. Over the last year, AAK Kamani has been helping to support this much needed initiative, which has been a lifeline for many families in the area.

The Early Childhood Intervention Clinic focuses on children aged 2–11 years. Individual action plans are made for each child depending on their special needs, which are strictly followed with the help of occupational, physio, speech therapists and special educators. Regular progress reviews are held with parents, so that any course amendments can be affected immediately.

The Prevocational Training Unit is for disabled children aged 12–17 years, where they are taught many day-to-day skills such as clock reading, money usage, and shopping, which are essential for vocational skills training when they reach 18 years of age. Those who can be educated are also coached in the NIOS syllabus to write the tenth-class exams.

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### Raising awareness for parents

The clinic and training unit have proved invaluable and many children have shown great improvements in mobility, communication and other skills. However, in the region there is a general lack of awareness about the benefits that this kind of support can provide. Because of this, a new facility was set up in Sangarsh Nagar in 2016 to educate parents about their children's difficulties and the difference this kind of therapy can make to their lives.

The Sangarsh Nagar area comprises of more than 250 buildings built for lower-income families under the Slum Rehabilitation Scheme. With low levels of education amongst adults, it can be difficult to convince parents from the area about the benefits that early intervention therapy can offer. However, once they see the positive results in their children's development, everything changes.

### Supporting a brighter future

Today, there are 27 children who are being taken care of at the facility. Working with these children at an early age helps them to achieve the best possible level of development, so they can integrate into the community and improve their lives. At AAK Kamani, we will continue to support this wonderful institution and help disadvantaged children to achieve even more for their future.

AAK Uruguay

## Enriching children's lives in Uruguay

**For many years, AAK Uruguay has been supporting a local school that is situated in a low-income area close to our production site. Every year, we think of new ways in which we can work together to enrich the children's lives and help make the school a more engaging and fun place to learn and grow.**

At AAK Uruguay, we understand that importance of giving our time and energy to the local community. One of our most important projects is to support the public primary school located near the AAK factory.

During 2018, we continued to work with the school-children in the vegetable garden, where we helped to teach them how vegetables can contribute to a delicious and healthy diet. On one occasion, we were very fortunate to be joined by renowned Uruguayan chef, Diego Ruete, who is well known for teaching children the benefits of good gardening and cooking skills.

### Learning through fun

With a very interesting and engaging approach, Mr. Ruete first explained to the children how to use vegetables in three different recipes, including his famous "flying tortilla". Once the fun and laughter had

subsided, we were all ready to start cooking. Mr. Ruete gave an excellent speech about the importance of washing your hands and vegetables thoroughly and each student made their own vegetable stuffed bread. We finished the session by giving each child several gifts to take home, including an apron and a recipe book.

### A space to learn and play

Additionally, during 2018 we began refurbishing a classroom that had fallen into a very poor condition. When completed, the room will be a huge improvement for the school, as the children do not otherwise have a leisure space for cold or rainy days. Working alongside the school's management team, we are preparing the room to offer a wide variety of activities, including books, table games and a projector.

### Empowering a new generation

As we plan ahead for 2019, we aim to educate the children through a "reduce, reuse and recycle" program. We are currently working with environmental specialists to make sure this is implemented in the most effective way, so the children can take the knowledge home and use it outside the school as well. The good work continues!



## AAK as a global citizen

The impact of business goes beyond local communities. At a global level, AAK does its best to become involved in areas where the Group can make a difference – by utilizing our sphere of influence.

AAK is naturally a member of various national and international organizations that aim to improve the industry by, among other things, setting common standards and aligning analytical methods, and, in general, by safeguarding the interests of the vegetable oils and fats industry. Through these organizations, AAK interacts openly with authorities and aims to influence the legislation that governs our business.

## Examples of memberships that safeguard the interests of the industry

### National associations

- ◆ The Netherlands Oils, Fats and Oilseeds Trade/NOFOTA
- ◆ The Association of Dutch Oil Processing Industries/Vernof
- ◆ The Product Board Margarine, Fats and Oils/MVO
- ◆ The Confederation of Danish Industry/DI
- ◆ The Association of Danish Oil and Oilseed Processors/ADOP
- ◆ Asociación Nacional de Industriales de Aceites y Mantecas Comestibles/ANIAME
- ◆ Confederación Patronal de la República Mexicana/COPARMEX
- ◆ Asociación de Industriales del Estado de Michoacán/AIEMAC
- ◆ The Swedish Food Federation/LI
- ◆ The Swedish Plastics and Chemicals Federation/P&K
- ◆ The Seed Crushers' and Oil Processors' Association/SCOPA
- ◆ The National Edible Oil Distributors Association/NEODA
- ◆ The Association of Bakery Ingredient Manufacturers/ABIM
- ◆ The Swedish-American Chambers of Commerce/SACC
- ◆ The Institute of Shortening and Edible Oils/ISEO
- ◆ The American Fats and Oils Association/AFOA
- ◆ The National Confectioners Association/NCA
- ◆ The Uruguayan Chamber of Industries/CIU
- ◆ The National Federation of Palm Oil Growers/FEDEPALMA
- ◆ The Vanaspati Manufacturers Association/VMA
- ◆ The Solvent Extractors Association/SEA
- ◆ The Protein Foods and Nutrition Development Association of India/PFNDAI
- ◆ The Association of Food Scientists and Technologists of India/AFSTI

### International associations

- ◆ The EU Oil and Proteinmeal Industry/FEDIOL
- ◆ The Federation of Oils, Seeds and Fats Association/FOSFA
- ◆ FoodDrinkEurope
- ◆ The European Oleochemicals and Allied Products Group/APAG
- ◆ The National Institute of Oilseed Products/NIOP



# Sustainability approach

## Engaging with stakeholders

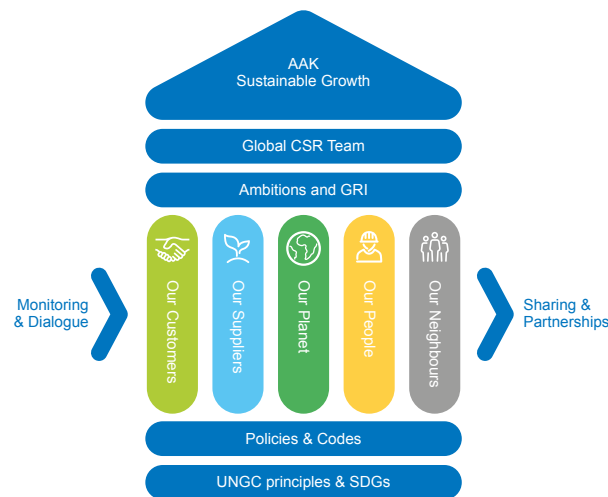
For AAK, sustainable growth is about responsibility toward all key stakeholders – the local communities where AAK operates, customers, employees, investors, and suppliers.

AAK's model for sustainable growth is a dynamic one, continuously enhanced by new knowledge, changes in the external environment and engagement with key stakeholders for their input.

Input from key stakeholders comes from ongoing dialogue, at both local and corporate levels, about their expectations of the AAK Group now and in the future. What do they expect from AAK as a good neighbour, a preferred supplier, an attractive workplace, a profitable investment and a valued customer? Their input guides us to where, and at what level, AAK should set its next objectives to drive future progress in this area.

An example of input from shareholders is their emphasis that sustainable sourcing is a key element when reviewing new investment options, since this affects the risk profile of their portfolio. This input has reconfirmed strong focus within this area, and has supported and guided AAK to maintain a high ambition level.

AAK regularly receives questionnaires, supplier codes of conduct and suchlike from our customers and investors, which we respond to in accordance with our policies. This type of input, combined with sustainability reports, materiality analyses, etc., serves as an important guide to priorities on our stakeholders' agendas, and supports our continuous, proactive efforts to maintain an up-to-date perception of what may be expected from us in the future. At the same time, we use materiality analysis as a tool to identify the most important focus areas for our sustainability work internally. This way "Monitoring & Dialogue" tells us where to focus our resources.





## Investor Relations

### Shareholders

AAK endeavors to generate an attractive return on investments for its shareholders. The largest shareholder is Melker Schörling AB, which indirectly owns more than 31 percent of AAK. In total, approximately 68 percent of AAK's shareholders are Swedish. More information about AAK's ownership structure is available at [www.aak.com](http://www.aak.com).

### Dialogue with shareholders

AAK's aim is for the shares to be valued on the basis of relevant, accurate and up-to-date information. This requires a clear strategy for financial communication, reliable information and regular contact with financial market stakeholders.

Contact with the financial markets takes place via presentations in conjunction with quarterly reports and meetings with analysts, investors and journalists at capital market days, seminars and visits to AAK's sites.

### Shareholder activities

- ◆ Capital market days
- ◆ Road shows
- ◆ Meetings with institutional investors
- ◆ Meetings with equity analysts
- ◆ Local meetings with the Swedish Shareholders' Association
- ◆ Annual General Meeting

During 2018, a capital market day was held in Sweden, and a large number of meetings were held with analysts and investors on site in Copenhagen, London and Stockholm.

AAK strives to facilitate current and potential shareholder assessments of our performance through the transparent communication of our financial results, and our work to enhance environmental and social sustainability. During the year, we engaged in dialogues with a number of socially responsible investment analysts and investors. Some investors have a particularly strong focus on sustainability and seek greater insights into how companies manage sustainability and corporate responsibility issues, particularly with regard to long and short-term risks affecting the business. AAK meets with such investors regularly, and provides information on our strategy and approach, risk management and anti-corruption programs, among other issues.

The intention is that the Group's annual Sustainability Report is the most appropriate and efficient channel for providing information about AAK's sustainability practices. For this reason, the aim is to answer the most common questions in this report. However, a constructive dialogue on risks, opportunities and strategies related to sustainability is valued.

## Maintaining momentum

An important aspect of the AAK Group's sustainability work is maintaining global momentum. To ensure this, the Global CSR Manager is in regular contact with all sites. Twice a year, consultation meetings with the CSR team leaders from each site are held where progress and challenges of the sustainability work is discussed. Furthermore, the Global CSR Manager visits the production sites frequently.

To promote the continued sharing of information, best practices and progress on sustainability ambitions on a more regular basis, monthly virtual conferences are held

with the participation of all CSR team leaders.

To make sustainability even more visible within the organization, an internal sustainability award is presented each year to the AAK site or business area that has demonstrated outstanding sustainability performances. In 2018, the production site in Zaandijk, the Netherlands received an award for their overall very strong sustainability track record including improving energy and water use efficiency per unit processed product.

## Increasing sustainability awareness

The introduction of dashboards is sharpening attention on progress made. These comprise a one-page presentation of data and graphics showing GRI indicators with high priority or under significant development. A global dashboard has been created for AAK's Executive Committee to follow global developments, while local dashboards illustrate and benchmark developments at individual production sites.

The global implementation of our AAK Code of Conduct is another promoter for the integration of sustainability in our business. The Code is fully implemented with all employees having read, understood, accepted and signed the Code. Further systems have been established to ensure that our Code is part of the introduction package for new employees.

Another successful initiative is our CSR Toolbox, a global one access-point to sustainability material established at our intranet and available to all AAK employees. The CSR Toolbox comprises materials such as policies and codes, presentations, training material, reports, videos and Q&As.

Furthermore, the short e-learning modules, introduced in 2014 and targeting specific topics have been embraced by our global organization and proven to be an effective way to ensure sustainability is embedded with our employees globally. We have a strong focus on being proactive and consequently, existing and new e-learning modules that need to be passed by defined target groups are constantly being reviewed, developed and launched.

## Sustainability inclusion of new sites

When AAK builds or acquires new production sites a grace period of one full year worth of production is given before they are being introduced to and integrated into the global CSR system.

After the first full year of production the site management is asked to appoint a CSR team leader and set up a CSR team. The team should have competencies within human resources, health, safety and environment, finance, sourcing, operations, and sales.

Once the new CSR team has been established it receives a first introduction to CSR in AAK and the company's "House of Sustainability". Furthermore, the team leader will be invited to monthly global virtual conferences where, among other things, best practices are shared.

The next step is the inclusion of the site into our annual global data collection. To that end the team is introduced to the Global Reporting Initiative (GRI), and in particular the definitions that have been established within the AAK Group. The spreadsheets that need to be completed immediately after the end of the year will be thoroughly reviewed with focus on the individual indicators.

These data together with other sites' data lay the foundation for our annual Sustainability Report in which the importance of the validity of the data is emphasized.

For some new sites this is not far from the way they are already working. For others it is a completely new approach. Whatever the case, new sites are warmly welcomed and receive all the support required, from the headquarters as well as from other sites, to integrate into the global CSR system in the best possible way.



AAK Zhangjiagang, China

## Teamwork streamlines the GRI process



After an onboarding period, the Zhangjiagang plant was asked to join all our other sites in contributing to the Global Reporting Initiative, an international independent standards organization that monitors impact on issues such as climate change, human rights and corruption. While some thought the reporting process would be complex, the experience was universally positive and efficient.

Zhangjiagang is located in China's Jiangsu province, and is one of the many ports along the famous Yangtze river. Workers at the new AAK site were initially apprehensive when invited to get involved with the Global Reporting Initiative and people were concerned it might be complicated or time-consuming to complete.

### Proactivity through training and support

Fortunately, these concerns were quickly put to rest. On one hand, the Global Reporting Initiative has been designed to be streamlined to alleviate any additional pressure on a company's reporting process, and on the other, Mads Jules Feer, Global CSR Manager of AAK, was on site to help manage the proceedings.

Mads was able to give face-to-face training to everyone involved and used a special "card game" to facilitate the group discussions. This enabled participants to easily understand the key areas needed to focus on and how to get them completed. In addition, the senior management in AAK China gave its full support and encouragement to the team, which gave an even greater incentive to do the best possible job.

# Global CSR organization

## Decentralized approach

We believe in the importance of anchoring our CSR efforts in the organization and in incorporating a sustainability mindset into our everyday working life. To that end, we have set up a decentralized global CSR organization responsible for CSR-related initiatives, progress, communication, and reporting.

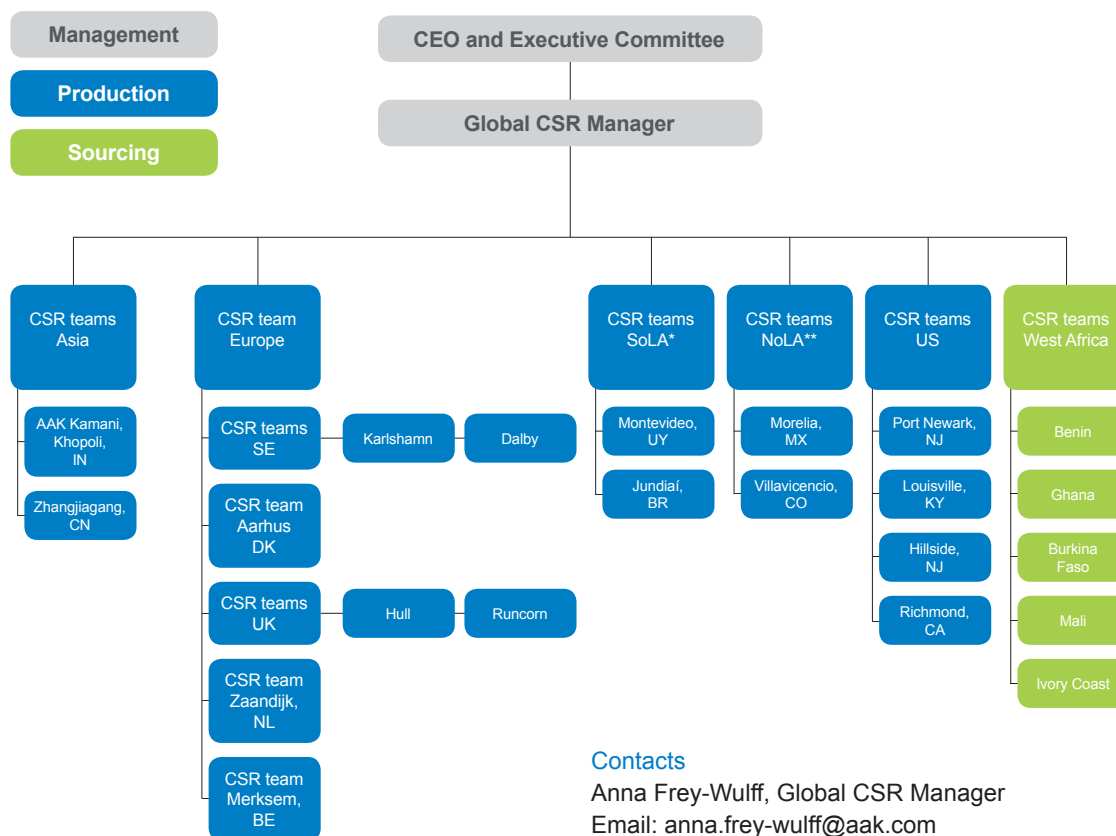
## Global CSR organization with local roots

The Global CSR Manager reports to the CMO (Chief Marketing Officer) who is a member of AAK's Executive Committee. The CMO's responsibilities include CSR, corporate strategy, and business development and marketing. At Board level, the Audit Committee is responsible for monitoring the follow-up and reporting of CSR topics, codes and policies.

Since the global CSR organization was established in early 2007, its objective has been to ensure breadth and diversity in the local teams, which are fundamental to our sustainability work. The teams possess competencies in human resources, health, safety and environment, finance, sourcing, operations, and sales. At our production sites, the teams consist of five to ten people led by a CSR team leader. The teams at our sourcing operations in West Africa have a different composition, and may draw on competencies from the major sites.

\* SoLA represents Southern Latin America and includes Uruguay and Brazil.

\*\* NoLA represents Northern Latin America and includes Mexico and Colombia.



## Contacts

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# Global sustainability ambitions 2019+

AAK's ambitions for 2019+ are here presented in brief. The ambitions are commented on in more detail in the five focus areas to which they apply: Our Customers, Our Suppliers, Our Planet, Our People, and Our Neighbours.

Ambitions 2019+



## Our Customers

**Be a leading and knowledgeable partner on sustainability for our customers**

Ongoing:

- Continuously co-develop sustainable solutions
- AAK Code of Conduct for Agents and Distributors signed by all agents and distributors
- Intro to Anti-corruption and Competition Law Compliance e-learning modules passed by all relevant employees

Ambitions 2019+



## Our Suppliers

**2020: Progressing on sustainability of each of our key raw materials**

**2020: All sourced palm oil meeting AAK's policy requirements**

**2019: Develop and launch e-learning on Code of Conduct for Suppliers of Raw Materials**

Ongoing:

- Continuously increase our impact on smallholders' livelihoods covering shea, palm and coconut
- AAK Code of Conduct for Suppliers of Raw Materials signed by all raw material suppliers
- AAK Palm Oil Policy and Actions and Responsible sourcing of Shea in AAK e-learning modules passed by all relevant employees

Ambitions 2019+



## Our Planet

**2030: Reduce GHG emissions per processed unit raw material by 22 percent (baseline 2012)\***

**2020: Climate change risk assessment of all production sites**

Ongoing:

- Less than 1.5 percent of waste disposed at landfill

Ambitions 2019+



## Our People

**Working towards an injury free workplace**

Ongoing:

- AAK Code of Conduct signed by all employees
- Improve the competencies and engagement of our people

Ambitions 2019+

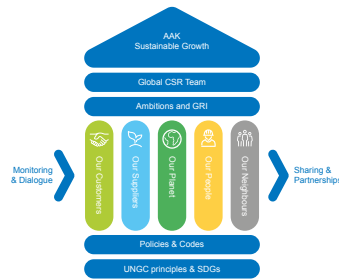


## Our Neighbours

**All sites engaged in relevant local community projects and activities**



\*) Including scope 1 and 2. Target is scientific based on the Paris agreement that suggests a 1.23% GHG reduction per year



## Global Reporting Initiative (GRI)

GRI is a network-based organization that pioneers the world's most widely used sustainability reporting framework. The reporting framework sets out the principles and performance indicators that organizations can use to measure and report their economic, environmental,

and social performance. The framework also addresses the United Nations Global Compact principles and the OECD's Guidelines for Multinational Enterprises.

See [www.globalreporting.org](http://www.globalreporting.org) for more information.

# Global Reporting Initiative Standards Index

The GRI table is based on GRI Sustainability Reporting Standards 2016 including the Food Processing sector supplement.

GRI Standard	Disclo- sure	Disclosure description	Page number and comments
GRI 101: Foundation 2016 – This report has been prepared in accordance with the GRI Standards: Core option			
GRI 102: General Disclosures 2016			
GRI 102:	102-1	Name of the organization	● p. 78
General Disclosures 2016	102-2	Activities, brands, products, and services	● Annual Report 2018: pp. 18–28
	102-3	Location of headquarters	● p. 78
	102-4	Location of operations	● p. 5
	102-5	Ownership and legal form	● Annual Report 2018: pp. 48–49
	102-6	Markets served	● Annual Report 2018: pp. 18–28
	102-7	Scale of the organization	● Annual Report 2018: pp. 3–4, 52–55, 81–82, 93
	102-8	Information on employees and other workers	● p. 54
	102-9	Supply chain	● pp. 28, 31, 34–35, 36, 38
	102-10	Significant changes to the organization and its supply chain	● Annual Report 2018: p. 37
	102-11	Precautionary Principle or approach	● pp. 25, 27, 57
	102-12	External initiatives	● pp. 10–13, 19
	102-13	Membership of associations	● p. 62
	102-14	Statement from senior decision-maker	● pp. 6–7
	102-15	Key impacts, risks, and opportunities	● Annual Report 2018: pp. 34–35, 9–43
	102-16	Values, principles, standards, and norms of behavior	● pp. 8–9, 19
	102-17	Mechanisms for advice and concerns about ethics	● pp. 9, 62 Whistle blower system part of AAK Code of Conduct
	102-18	Governance structure	● Annual Report 2018: pp. 107–116
	102-19	Delegating authority	● Annual Report 2018: pp. 108–111
	102-20	Executive-level responsibility for economic, environmental, and social topics	● Annual Report 2018: pp. 29–31 Sustainability report 2018: p. 23
	102-21	Consulting stakeholders on economic, environmental, and social topics	● Annual Report 2018: p. 109
	102-22	Composition of the highest governance body and its committees	● Annual Report 2018: pp. 44–46, 108–111



GRI Standard	Disco- sure	Disclosure description	Page number and comments
GRI 102: General Disclosures 2016	102-23	Chair of the highest governance body	● Annual Report 2018: pp. 44–46
	102-24	Nominating and selecting the highest governance body	● Annual Report 2018: p. 108
	102-25	Conflicts of interest	● Annual Report 2018: pp. 109–110
	102-26	Role of highest governance body in setting purpose, values, and strategy	● Annual Report 2018: pp. 107–115
	102-27	Collective knowledge of highest governance body	● Annual Report 2018: pp. 29–31
	102-30	Effectiveness of risk management processes	● Annual Report 2018: pp. 108–110, 113–114
	102-32	Highest governance body's role in sustainability reporting	● Board of Directors
	102-33	Communicating critical concerns	● Annual Report 2018: pp. 108–110
	102-35	Remuneration policies	● Annual Report 2018: pp. 84, 111
	102-36	Process for determining remuneration	● Annual Report 2018: pp. 111–112
	102-37	Stakeholders' involvement in remuneration	● Annual Report 2018: pp. 108, 112
	102-40	List of stakeholder groups	● Engaging few selective stakeholders
	102-41	Collective bargaining agreements	● p. 57
	102-42	Identifying and selecting stakeholders	● p. 64
	102-43	Approach to stakeholder engagement	● pp. 20–21, 30, 33, 35, 39, 63–64
	102-44	Key topics and concerns raised	● Supply chain sustainability
	102-45	Entities included in the consolidated financial statements	● Annual report 2018: pp. 39–43, 64–66, 71 Sustainability report 2018: p. 2
	102-46	Defining report content and topic Boundaries	● pp. 8–9, 63, 74–75
	102-47	List of material topics	● p. 63
	102-48	Restatements of information	● p. 76
	102-49	Changes in reporting	● pp. 2, 74
	102-50	Reporting period	● 01.01.2018–31.12.2018
	102-51	Date of most recent report	● 01.01.2017–31.12.2017
	102-52	Reporting cycle	● Annually
	102-53	Contact point for questions regarding the report	● p. 67
	102-54	Claims of reporting inspired by the GRI Standards	● p. 70
102-55	GRI content index	● pp. 70–73	
102-56	External assurance	● p. 76	

### GRI Content Index – material topics

Topic	Disco- sure	Disclosure description	Page number and comments
Standard: Economic Series 2016			
GRI 201: Economic Performance	201-1	Direct economic value generated and distributed	● Community donations: SEK 1,263,177
	201-3	Coverage of the defined benefit plan obligations	● Annual Report 2018: pp. 85–86
	201-4	Financial assistance received from government	● SEK 49,393,000
GRI 203: Indirect economic impacts	203-1	Infrastructure investments and services supported	● Annual Report 2018: p. 5
	FP 1	% of purchased volume from suppliers compli-ant with company's sourcing policy	● pp. 23, 26–27, 31–32
	FP 2	% of purchased volume verified to be in accor-dance with responsible standards, by standard	● p. 33
GRI 205: Anti-corruption	205-2	Communication and training on anti-corruption policies and procedures	● p. 57
	205-3	Confirmed incidents of corruption and actions taken	● In 2018, we had one case of corruption at one of our production sites. It involved a conflict of interest and the person was dismissed. p. 57
GRI 206: Anti-competitive behavior	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	● No incidents in 2018

GRI Standard	Disclo- sure	Disclosure description	Page number and comments
<b>GRI 300 Standard: Environmental Series 2016</b>			
GRI 301: Materials	301-1	Material used by weight or volume	● Processed raw materials: 2,571,000 MT Packaging materials: 67,000 MT Processing aids: 41,000 MT Additives: 6,900 MT
GRI 302: Energy	302-1	Energy consumption within the organization	● p. 42
	302-3	Energy intensity	● pp. 41–42
	302-4	Reduction of energy consumption	● pp. 41–42
	302-5	Reductions in energy requirements of products and services	● pp. 41–42
GRI 303: Water and Effluents	303-1	Interactions with water as a shared resource	● pp. 46–47
	303-3	Water withdrawal	● No significant impact, p. 47
	303-4	Water discharge	● p. 46 Total discharge: 1,765,000 m <sup>3</sup>
	303-5	Water consumption	● pp. 46–47
GRI 304: Biodiversity	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	● Hull, UK and Port Newark, US sites adjacent to protected areas. No significant impact on production
	304-2	Significant impacts of activities, products, and services on biodiversity	● No significant impact identified
	304-3	Habitats protected or restored	● pp. 28, 31–32
GRI 305: Emissions	305-1	Direct greenhouse emissions	● p. 44
	305-2	Energy indirect greenhouse gas emissions	● p. 42
	305-4	Greenhouse gas emission intensity	● p. 44
	305-5	Reduction of greenhouse gas emissions	● p. 44
	305-6	Emissions of ozone-depleting substances (ODS)	● 4,332 kg
	305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	● p. 44
GRI 306: Effluents and waste	306-1	Water discharge by quality and destination	● p. 46
	306-2	Waste by type and disposal method	● p. 48
	306-3	Significant spills	● Three minor spills of vegetable oil: one in Karlshamn, SE and two in Hillside, US. One spill of light fuel oil in Aarhus, DK and one spill of ammonia in Hillside, US required notification of the relevant environmental agencies. The spill in Hillside further required an environmental project to offset a fine. The details are currently still being defined.
GRI 307: Environmental compliance	307-1	Non-compliance with environmental laws and regulations	● The spill in Hillside requires an environmental project to offset a fine.
GRI 308: Supplier environmental assessment	308-1	New suppliers that were screened using environmental criteria	● pp. 25, 27, 29, 31–33, 38
	308-2	Negative environmental impacts in the supply chain and actions taken	● pp. 31–33

GRI Standard	Disclo- sure	Disclosure description	Page number and comments
<b>GRI 400 Standard: Social series 2016</b>			
GRI 401: Employment	401-1	New employee hires and employee turnover	● p. 54
GRI 402: Labor/Management relations	402-1	Minimum notice period regarding operational changes	● In line with national legislation and local agreements
GRI 403: Occupational health and safety	403-9	Work-related injuries	● pp. 53, 56
	403-10	Work-related ill health	● Two cases of occupational diseases have been recorded in 2018. One fatality was registered in Ghana. One of AAK's drivers lost control of a truck. The incident was investigated, and safety training was given to all of AAK's drivers to prevent such an accident from happening in the future.
	FP3	% of working time lost due to industrial disputes, strikes and or lock-outs by country	● p. 57
GRI 404: Training and education	404-2	Programs for upgrading employee skills and transition assistance programs	● Personal Development Plans (PDP) implemented globally
	404-3	Percent of employees receiving regular performance and career development reviews by gender and by employee category	● Personal Development Plans (PDP) implemented globally
GRI 405: Diversity and equal opportunity	405-1	Diversity of governance bodies and employees	● Annual Report 2018: p. 54
	405-2	Ratio of basic salary and remuneration of women to men	● p. 57
GRI 406: Non-discrimination	406-1	Incidents of discrimination and corrective actions taken	● p. 57 No incidents in 2018
GRI 407: Freedom of association and collec- tive bargaining	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	● p. 23 No incidents in 2018
GRI 408: Child labor	408-1	Operations and suppliers at significant risk for incidents of child labor	● p. 25 No incidents in 2018
GRI 409: Forced or compulsory labor	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	● p. 25 No incidents in 2018
GRI 411: Rights of indigenous people	411-1	Incidents of violations involving rights of Indigenous people	● pp. 29, 31–33, 35, 39 No incidents in 2018
GRI 412: Human rights assessment	412-1	Operations that have been subject to human rights reviews or Impact assessment	● pp. 19
	412-2	Employee training on human rights policies or procedures	● AAK Code of Conduct signed by all employees. No specific HR training
	412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	● None in 2018
GRI 413: Local communities	413-1	Operations with local community engagement, impact assessments, and development programs	● pp. 59–61
	413-2	Operations with significant actual and potential negative impacts on local communities	● p. 59 No incidents in 2018
GRI 414: Supplier social assessment	414-1	New suppliers that were screened using social criteria	● pp. 25, 32
	414-2	Negative social impacts in the supply chain and actions taken	● pp. 29, 31–33, 35, 39
GRI 416: Customer health and safety	416-1	Assessment of the health and safety impacts of product and service categories	● No incidents in 2018
	FP 4	Percentage of production volume manufactured in sites certified by an independent third party according to internationally recognized food safety management standards	● p. 19
GRI 417: Marketing and labelling	417-1	Requirements for product and service information and labeling	● p. 19
	417-2	Incidents of non-compliance concerning product and service information and labeling	● No non-compliance incidents
	417-3	Incidents of non-compliance concerning marketing communications	● No non-compliance incidents
GRI 419: Socioeconomic compliance	419-1	Non-compliance with laws and regulations in the social and economic area	● No non-compliance incidents

# Reporting criteria

## Scope and materiality

This is the tenth AAK Sustainability Report. The first was published in October 2010 and our aim is still to continue reporting on an annual basis. Due to Swedish legislation, future reports will be published together with the AAK Annual Report in the second quarter.

Since commencing structured reporting in 2008, we have been inspired by Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines, now following the current GRI Standards version. We have used GRI standard disclosures and sector disclosures for food processing with special focus on core indicators. Indicator numbers and titles in the GRI index are in accordance with the GRI Standards version.

Because GRI is an all-encompassing format, it is not relevant for us to report on all criteria. In 2010, we initiated an internal process to identify the issues relevant to our business and our stakeholders. This involved discussions with staff at all sites and feedback from other stakeholder groups. In 2013, we began using the materiality analysis tool to map our own priorities against our stakeholder priorities. Since 2016, we have been conducting materiality analysis workshops with the local CSR teams at all AAK sites. The exercise is coached by the global CSR Manager and the objective

is to identify economic, social and environmental issues important to the business success of the local sites.

To facilitate the process, 30 cards with one specific CSR issue on each are created. All CSR teams have to discuss whether the different CSR issues are important to the site or not. Those without importance are removed from the stack of cards. The CSR teams then have to pick ten cards with CSR issues most important to their business. Finally, they have to rank these ten cards according to importance.

By means of a simple scoring system, data from all the sites are then compiled into the x-axis of the materiality matrix. The second dimension of the matrix, the y-axis, is established based on stakeholder requirements and priorities. The materiality matrix then helps AAK to prioritize its resources and identify gaps between AAK and stakeholder priorities. We find it a very useful tool in identifying important focus areas. Our ambition is always to focus on reporting the information requested by stakeholders, or that of internal value.

This Sustainability Report is a supplement to the AAK Annual Report 2018 and, therefore, only contains a summary of financial performance figures and references to the AAK Annual Report. Both reports are available at AAK's website.

In general, the data in this report covers our activities from January 1 to December 31, 2018. Updated information for some 2019 events is included, since they are considered to be of material importance to our stakeholders.

Environmental data (GRI abbreviation: EN) relate to the fifteen AAK production sites that were fully operational in 2018 including the AAK products produced by our toll production partner Cousa in Montevideo, Uruguay. Other core data also include purchasing sites and sales offices. In 2018, we have introduced two new energy sources, steam at our production site in China and coal at our production site in India. Furthermore, site Karlshamn in Sweden is now selling solar electricity to the grid.

## Data and calculations

We release a GRI Report internally in the first quarter of every year. The report is based on information received from all sites, and contains both local and compiled global data. A section showing trends from the previous years is also included. Data and information from the GRI Report form the basis of our Sustainability Report, which is published externally.

The majority of data in the Sustainability Report are drawn from measurements. Air emissions data are based on direct measurements, calculations based on specific data or calculations based on default values. Information concerning purchased electricity from renewable resources is based on national grid information, if not purchased as green electricity. Information about employees, including numbers, gender, composition, etc., is calculated per December 31, 2018 and based on payroll information.

Some minor data errors have been identified since the 2018 Sustainability Report was launched. These data have been adjusted in the present report. From our experience of the reporting process, we expect corrections will also be necessary in future reports. Nevertheless, we believe that the trends and overall picture given are a true reflection of our activities.



## The auditor's opinion on the statutory sustainability report

To the annual general meeting of the shareholders in  
AAK AB (publ.), corporate identity number 556669-2850

### Assignment and responsibility

It is the Board of Directors who is responsible for the  
statutory sustainability report for the year 2018 and that it has  
been prepared in accordance with the Annual Accounts Act.

### The scope of the audit

Our examination has been conducted in accordance with  
FAR's auditing standard RevR 12 The auditor's opinion  
regarding the statutory sustainability report. This means  
that our examination of the statutory sustainability report  
is substantially different and less in scope than an audit  
conducted in accordance with International Standards on  
Auditing and generally accepted auditing standards in  
Sweden. We believe that the examination has provided us  
with sufficient basis for our opinion.

### Opinion

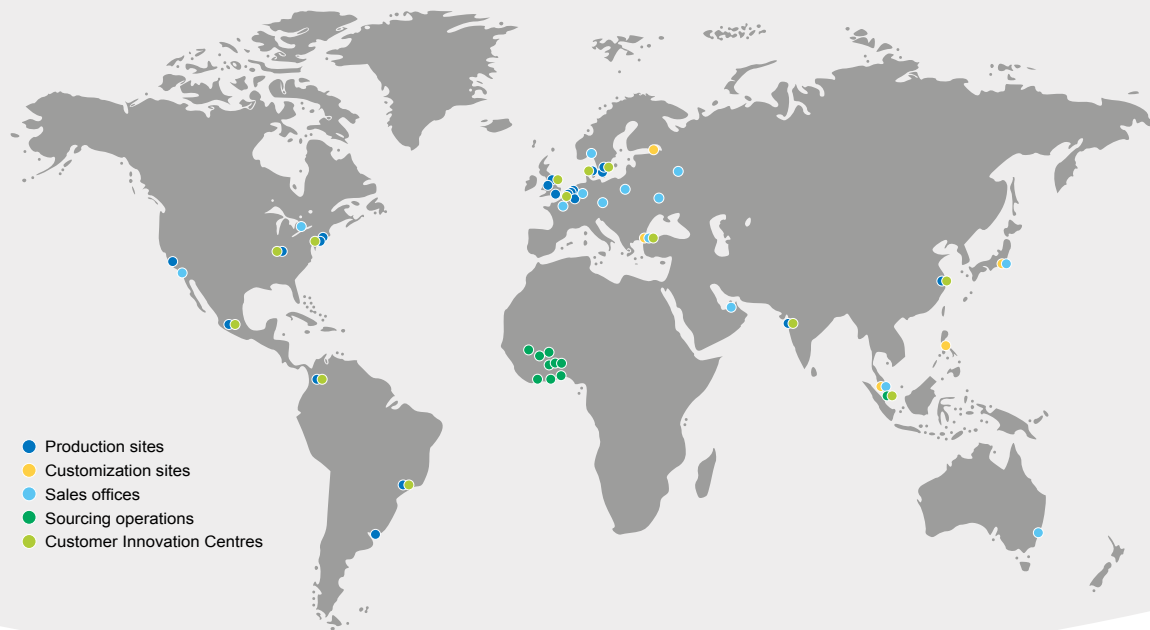
A statutory sustainability report has been prepared.

Malmö, April 10th, 2019  
PricewaterhouseCoopers AB

Sofia Götmar-Blomstedt  
Authorized Public Accountant  
Auditor-in-charge

Linda Corneliussen  
Authorized Public Accountant





# 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 more than 20 different production sites, sales offices in more than 25 countries and more than 3,600 employees.

We are AAK – The Co-Development Company.

