



Sustainable Growth

AAK Sustainability Report 2016/2017

AAK

The first choice for value-adding vegetable oil solutions

Sustainable growth

At AAK, sustainable development is fundamental to our business. 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 in value-adding vegetable oil solutions.

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

Global team effort

The annual production of an internal GRI report is a global team effort involving staff from various functions at all sites. The GRI report forms the foundation of our Sustainability Report.

In line with this, our Sustainability Report is a global team 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 AAK’s entire organization within the scope, including production plants, administrative offices, sales offices, innovation centers, and sourcing operations. The environmental data is restricted to the production plants only.

Data from our newly built factories in Jundiaí, Brazil, and Zhangjiagang, China, are not part of the scope for this report. Similarly, data from acquisitions in Belgium and the US, and established partnerships in Japan and India during 2015 and 2016, are not included. For more information on inclusion of new sites, please refer to page 56.

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

The report is available in English and Swedish and can be downloaded as a PDF at www.aak.com. To obtain a printed copy, please contact Corporate Communications at comm@aaak.com.



AAK

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 – Bakery, Chocolate & Confectionery, Dairy, Foodservice, Special Nutrition, Personal Care, and more.

AAK's proven expertise is based on more than 140 years of experience within oils & fats. With our headquarters in Malmö, Sweden, 20 production facilities and customization plants, our more than 3,000 employees are dedicated to providing innovative value-adding solutions to our customers.

So no matter where you are in the world, we are ready to help you achieve long-lasting results.

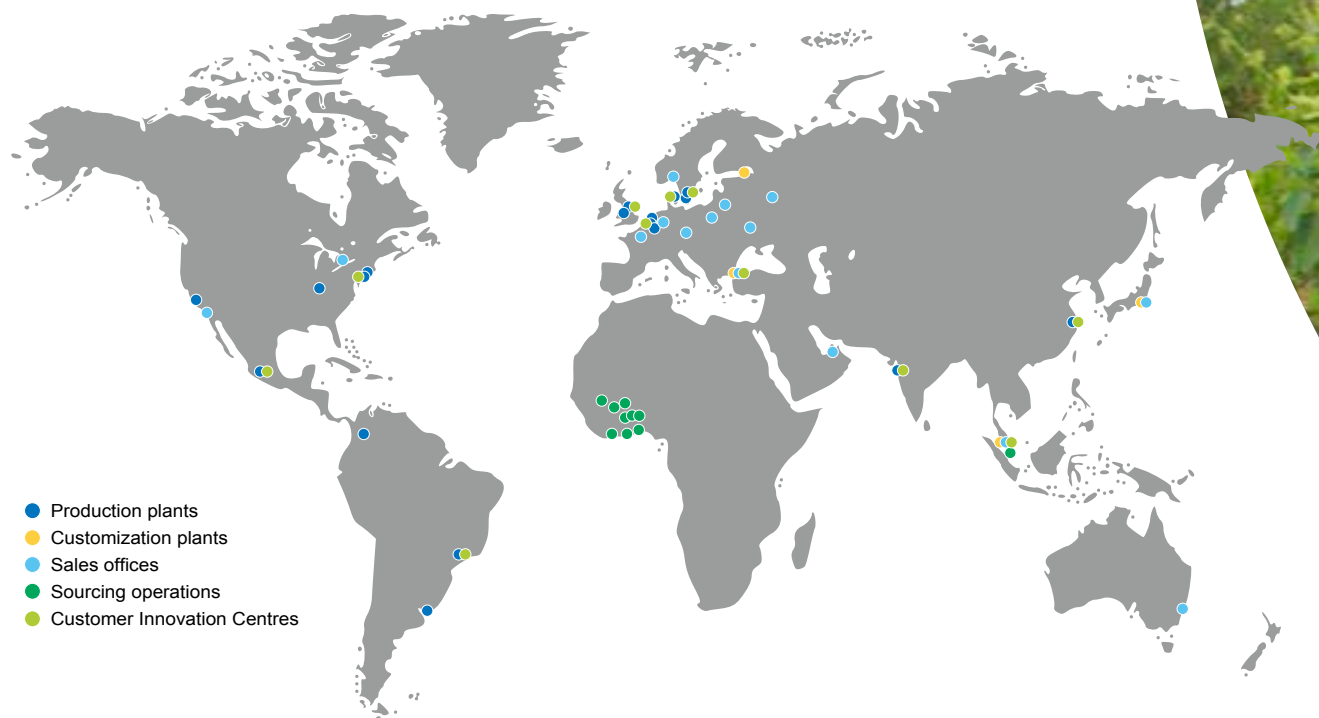
[We are AAK – The Co-Development Company.](#)

Operational key figures (SEK million unless otherwise stated)	2012	2013	2014	2015	2016
Net sales	16,911	16,537	17,814	20,114	22,057
Adjusted operating profit (EBIT)*	1,003	1,127	1,242	1,411	1,615
Operating profit (EBIT)	975	1,117	1,262	1,409	1,615
Operating profit per kilo, SEK	0.66	0.69	0.74	0.77	0.82
Cash flow from operating activities	1,539	1,300	692	1,736	1,213
Earnings per share, SEK	15.66	17.87	21.15	22.17	23.71
Equity per share, SEK	95.32	105.76	138.51	156.77	177.87
Dividend per share, SEK	5.25	6.00	6.75	7.75	8.75
Return on capital employed, %	14.2	16.4	16.0	15.7	15.8
Return on equity, %	17.6	18.5	18.0	15.1	15.1

* Adjusted for non-recurring items and acquisition costs



AAK in the world



Our reason for being

AAK's core business is the production of vegetable oils and fats solutions based upon natural, renewable raw materials. Produced in our plants in Europe and the Americas, our solutions reach global markets through our sales offices in key locations throughout the world and our close network of agents and distributors.

We use raw materials, such as rapeseed, soya bean oil, shea kernels, sunflower oil and palm oil, primarily sourced in Northern Europe, West Africa, Southeast Asia and Latin America. Some raw materials – seeds and kernels – are crushed and the oil is extracted at our production plants, while others are bought as crude oils or semi-refined oils, which we then process and refine further.

Drawing on our extensive knowledge and experience, we utilize and add value to the natural properties of vegetable oils and fats, and this has been our speciality for more than a century.

A vital ingredient

Fat is essential to human life. We need it for energy, to absorb vitamins, to produce hormones and to provide us with essential fatty acids that our bodies are unable to synthesize. However, following the rise in obesity and obesity-related diseases, fat is often seen as harmful and something to be avoided.

At AAK, we work continuously to develop healthy types of oils and fats that meet the requirements of customers and consumers.

Part of daily life

Close customer co-development is central to our work, whether identifying the right solution for an application or developing new products. As a supplier to a wide range of manufacturers of branded goods in the food, cosmetics, animal feed and technical industries, we interact with very different customers who have very different needs.

However, all our customers have one interest in common: applying value-adding vegetable oils and fats in their products. As a result, vegetable oils and fats from AAK are present in many of the products we all use and consume on a daily basis.



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CEO and President:

Building sustainability – today and tomorrow

Corporate social responsibility plays a more significant role today than ever before as we see an increased focus on sustainable business practices. Some of the recent sustainability trends that have gained a lot of attention include sustainability and transparency of supply chains, levels of greenhouse gas emissions, and labour rights – tremendously important challenges that are all addressed in this annual sustainability report from AAK.

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

All of AAK's CSR policies and codes are based on the UN Global Compact (UNGC) of which we have been a member since 2002. To drive sustainability progress we focus our efforts within five areas – Our Customers, Our Suppliers, Our

Planet, Our People, and Our Neighbours. We continuously set and achieve objectives within these areas based on market analyses, our stakeholders' objectives and our own ambitions and priorities.

In 2015, the United Nations adopted 17 Sustainable Development Goals (SDGs) relevant for all countries. With a very clear agenda on sustainability, we at AAK welcomed these goals and we have incorporated them in our model for sustainable growth. Going forward, we intend to play an active role in contributing to SDG initiatives relevant to our business.

Our Customers

Over the years, we have established long-standing customer relationships built on mutual respect and a thorough understanding of our customers' needs. An area of major importance both for our customers and us is food safety. We are therefore very proud that all of AAK's production sites are food safety audited and certified in accordance with one or more internationally recognized food safety standards. In addition, 100 percent of our sites handling palm oil are RSPO (Roundtable on Sustainable Palm Oil) supply chain certified.

Ethical business conduct is another key priority for AAK and our customers. We share our ethical information and ethical audit reports through the Sedex platform.

Our Suppliers

Sustainable sourcing of raw materials is another top priority among our customers and we continue to increase our focus on environmental and social challenges in the supply chain. Our Supplier Code of Conduct, which is implemented with all of our direct raw material suppliers, addresses important areas such as labour and human rights, environment, and corruption.

In addition to our support and full engagement in the RSPO, we continue to implement our own sustainable palm oil policy. The policy outlines our commitments on sustainable palm in general and specifically requirements for no deforestation and no development on peatlands. There has been strong progress on the implementation of our policy over the last year, especially on our traceability to mill, our supplier risk assessment process, and our commitment to help to transform the supply chain. This is, of course, something we're very proud of.

We have also continued our relentless work in West Africa towards a more sustainable and efficient supply chain. Our Kolo Nafaso program, which started out as a project in 2009, focuses on support, interest-free micro credits, training and trading directly with the women collecting shea kernels. The program continues to progress and more than 115,000 women are now included in Kolo Nafaso. This is a 27 percent increase compared to last year and we will continue to develop this very successful program.

Our Planet

Our overall resource efficiency has improved for a number of years and 2016 was no exception. Energy consumption, calculated per MT produced, decreased by 6.1 percent despite a strategic decision to increase the production of highly refined products which, all other things being equal, require more energy to process.

Direct carbon dioxide emissions per MT processed decreased by 4.7 percent compared to 2015, and both water consumption and water discharge, calculated per processed unit, were down by 2.2 and 6.7 percent respectively.

These great achievements have been delivered by a very dedicated and responsible global operations organization.

Going forward, we will continue to minimize our use of natural resources as well as emissions.

Our People

At our production sites, Lost Time Injury Rate (LTIR) remained at 0.6 with nearly half of the sites not having any Lost Time Injuries at all during 2016. Unfortunately, Lost Day Rate, which is a measurement of the severity of the incidents, increased quite significantly due to two incidents. This matter is being addressed with further initiatives from our Global Safety Team that constantly strives to make AAK a zero injuries workplace.

At our sourcing sites in West Africa, where conditions and challenges are very different, both LTIR and Lost Day Rate decreased significantly. This is a result of widespread safety training aiming to change the culture into a "safety first" mindset.

During 2016, first aid training has been completed at all production sites ranging from basic aid courses to training in the use of AED (Automated External Defibrillator). In West Africa, where the availability of professional assistance can be scarce, these courses have been of utmost importance.

Our Neighbours

As a global company, AAK contributes to the development of the local communities it operates in by creating jobs, paying taxes and doing business with local enterprises. But we also strive to be a good corporate citizen by taking issues such as health and safety, diversity, labour standards, and our environmental impact seriously.

However, we realize that there are a variety of other ways to further engage actively with the local communities. I'm very pleased to see the many ways in which our employees truly engage with their local communities, and the initiatives presented in this report are only a few of those conducted by AAK employees.

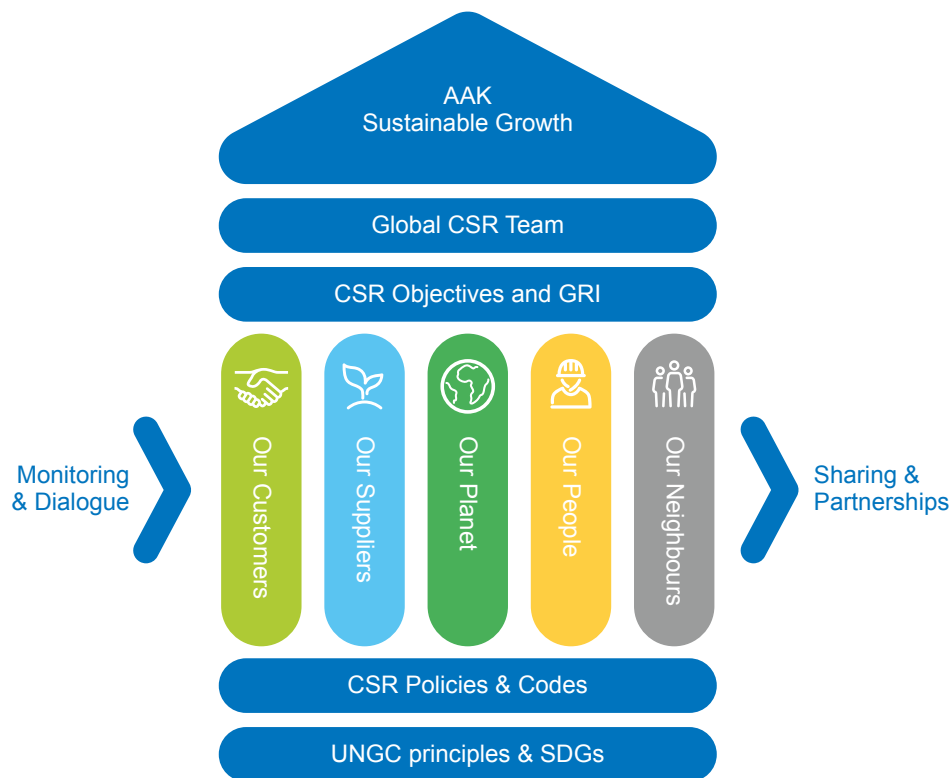
Sustainability going forward

It is with a lot of pride we share with you, in this report, all of the significant achievements we continue to make across all of our focus areas. Responsible behavior is both a shared and an individual commitment, and as a global company AAK strives to play its part.

Building sustainability is a continuous job and there are still many challenges ahead of us, working towards full sustainability in the palm oil supply chain being one of the more significant ones.

Going forward, we will continue to incorporate and integrate new AAK production sites in our global CSR system, we will continue to set and achieve objectives within our focus areas, and we will, above all, continue to grow our business in a sustainable way.

Arne Frank
CEO and President



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. In 2012, we developed a visual model for sustainable growth to guide our global CSR 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 continuously been adjusted.

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 Labour 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 2002.

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 decided to include the SDGs in our model. AAK will further develop ways to support the process and monitor and report on our progress.

CSR policies and codes

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



Five CSR focus areas

We have defined five CSR 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.

CSR objectives and GRI

To maintain momentum and drive improvement, we define objectives within each of the five focus areas. Achievements and future objectives are publicly available in our Sustainability Report. Further, based on the Global Reporting Initiative (GRI) G4 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 G4.

Global CSR team

The engine behind all of our CSR activities is our decentralized global CSR team, established in 2007. It consists of local CSR teams possessing competencies covering our CSR 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, objectives 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 CSR work comes alive. Further, we frequently report progress on the implementation of our palm oil policy in AAK’s Progress Report on Sustainable Palm Oil. Reports and policies are publically 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 more likely to accomplish more than you could do on your own. Partnering with other businesses, NGOs and governmental agencies are ways to accomplish more. To name a few examples, AAK is participating in or partnering with RSPO (Roundtable on Sustainable Palm Oil), GSA (Global Shea Alliance), ProForest, Danida in Denmark, and the British organization TREE AID.

Monitoring and dialogue

Our CSR system is not static, adjusting instead 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 CSR 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.



Member of the UNGC since 2002

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, labour, environment and anti-corruption. With more than 9,000 company members in 164 countries, the UN Global Compact is the world's largest voluntary corporate sustainability initiative. The principles are:



Principles		Examples of AAK commitments
<p>Human Rights</p> 	<ul style="list-style-type: none"> Businesses should support and respect the protection of internationally proclaimed human rights; and make sure that they are not complicit in human rights abuses. 	<ul style="list-style-type: none"> AAK Code of Conduct is understood, accepted and signed by all AAK employees (page 16). AAK Supplier Code of Conduct is an integral part of the approval system for suppliers and all direct raw material suppliers have approved and signed it (page 19).
<p>Labour</p> 	<ul style="list-style-type: none"> 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 labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation. 	<ul style="list-style-type: none"> AAK Code of Conduct regulates interaction with both our customers and suppliers (page 16). Labour rights are addressed in AAK's Sustainable Palm Oil Policy (page 27). AAK monitors labour rights issues globally (page 43).
<p>Environment</p> 	<ul style="list-style-type: none"> Businesses should support a precautionary approach to environmental challenges; undertake initiatives to promote greater environmental responsibility; and encourage the development and diffusion of environmentally-friendly technologies. 	<ul style="list-style-type: none"> Local resource efficiency projects completed at all production sites (pages 32–39). AAK decreased its energy consumption by 6.1 percent during 2016, and water consumption by 2.2 percent per processed unit (page 32).
<p>Anti-corruption</p> 	<ul style="list-style-type: none"> Businesses should work against corruption in all its forms, including extortion and bribery. 	<ul style="list-style-type: none"> Two e-learning modules addressing anti-corruption need to be passed by all employees at risk of encountering corruption (page 42).

Sustainable Development Goals

“Achieving the SDGs requires the partnership of governments, private sector, civil society and citizens alike to make sure we leave a better planet for future generations”

United Nations Development Programme

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

AAK intends to play an active role in supporting the SDGs and while AAK already addresses many of the targets in the 17 goals through our CSR work, Codes of Conducts and policies, we continuously seek to further understand where we can collaborate and fulfill selected initiatives moving forward.

As an introduction we have assessed the 17 SDGs and the 169 targets and identified areas where AAK already contributes to the goal. To follow up, we will identify areas where we can improve and contribute further – focusing on clear objectives and targets for selected SDGs.

SUSTAINABLE DEVELOPMENT GOALS





End poverty in all its forms everywhere

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

AAK contribution to the target: Interest-free micro credits through our program Kolo Nafaso in West Africa (page 31).



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

Target 2.3: *Increase productivity and income for smallholders*

Target 2.4: *Ensure sustainable agricultural practices*

AAK contribution to the targets: AAK is, together with Proforest, developing a smallholder code of practice which will seek to engage with smallholders by improving livelihoods and push forward sustainable practices (page 26).

AAK educates the women in West Africa in producing better-quality shea kernels which improve their income (page 31).



Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all

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

AAK contribution to the target: AAK's Sustainable Palm Oil Policy requires no deforestation or development of peatland (page 27).

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

AAK contribution to the target: AAK's Code of Conduct and Supplier Code of Conduct address labour rights and working environment (pages 16 and 19).



Ensure sustainable consumption and production patterns

Target 12.3: *Reduce food waste*

AAK contribution to the target: 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.

Target 12.5: *Reduce waste*

AAK contribution to the target: AAK's objective for waste to landfill (page 59).

Target 12.6: *Integrate sustainability in reporting cycle*

AAK contribution to the target: Published sustainability reports annually since 2009.



Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation, and halt biodiversity loss

Target 15.2: *Stop deforestation. Reforest*

AAK contribution to the target: AAK's Sustainable Palm Oil Policy requires no destruction of High Conservation Value areas (page 27).



Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable and inclusive institutions at all levels

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

AAK contribution to the target: AAK provides e-learning courses mandatory for all employees at increased risk of encountering corruption (page 42).



Strengthen the means of implementation and revitalize the global partnership for sustainable development

Target 17.16: *Global multi-stakeholder partnerships*

AAK contribution to the target: AAK is engaged in several global partnerships including UNGC, RSPO, Global Shea Alliance, and Proforest (pages 7, 20 and 24).

Global CSR achievements 2016

The achievements for AAK for 2016 are presented below in brief. The achievements are commented on in more detail in the five sections to which they apply, namely Our Customers, Our Suppliers, Our Planet, Our People, and Our Neighbours.

Global CSR objectives 2016+
Our Customers
Global CSR achievements 2016

CSR training

- 2016: E-learning module on CSR work in AAK launched in 2016

→

We have postponed the launch to 2017 due to the revision of our CSR model

Responsible palm oil training

- 2016: E-learning module passed by 100 percent of all relevant employees

→

We achieved **100** percent passed

Responsible shea training

- 2016: E-learning module passed by 50 percent of all relevant employees

→

We achieved **51** percent passed

AAK Code of Conduct for Agents and Distributors

- 2016: Implemented with minimum 80 percent of AAK's agents and distributors including 2015 acquisitions

→

We achieved **80** percent implemented, excluding India

Global CSR objectives 2016+
Our Suppliers
Global CSR achievements 2016

Palm oil traceability

- 2016: Maintain full traceability to palm oil supplier mills
- 2017: All palm oil supplies 100 percent traceable to plantation level

→

We kept **97** percent traceability

We achieved **26** percent and decided to postpone the objective to 2019

Palm oil compliance

- 2016: Qualitative risk assessment completed with all suppliers
- 2016: Geospatial risk assessment completed with all supplier mills
- 2016: Complete at least five on-site verifications of supplier mills

→

All suppliers qualitative risk assessed

All supplier mills geospatial risk assessed

5 on-site verifications completed

Palm oil RSPO certification

- 2018: All crude palm oil purchased as RSPO certified
- 2020: All palm oil, palm kernel oil and derivatives purchased as RSPO certified

→

The 2018 objective is now part of the 2020 objective

33 percent overall purchased as RSPO certified

Shea supply chain

- 2016: At least 90,000 women enrolled in AAK's women's groups program in West Africa

→

More than 115,000 women were enrolled in our program, an increase of **27** percent

Global CSR objectives 2016+



Our Planet

Global CSR achievements 2016

Waste

- 2018: Less than 1.5 percent of waste disposed as landfill/deposit



Waste to landfill amounted to **1.9** percent

Global CSR objectives 2016+



Our People

Global CSR achievements 2016

Safety

- Any work-related injury is unacceptable and AAK is constantly working towards a zero injuries workplace. We monitor and report globally Lost Time Injury Rate (LTIR)



Lost Time Injury Rate (LTIR):

Production sites: LTIR at **0.6**

West Africa: LTIR at **0.7**

First aid training

- 2016: First aid training completed at all production sites
- 2016: First aid training completed at sourcing operations in West Africa



First aid training completed at all production sites and sourcing sites in West Africa

Global CSR objectives 2016+



Our Neighbours

Global CSR achievements 2016

Local engagement

- 2016: Engaging in relevant local projects and activities
- 2016: Initiate a palm oil smallholder support project



All sites engaged in local community activities

AAK initiated a number of potential projects

Additional global CSR achievements 2016

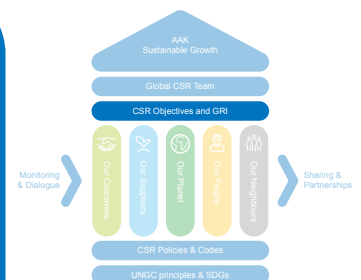
Relentless efforts to use resources more efficiently resulted in additional achievements in 2016, such as:

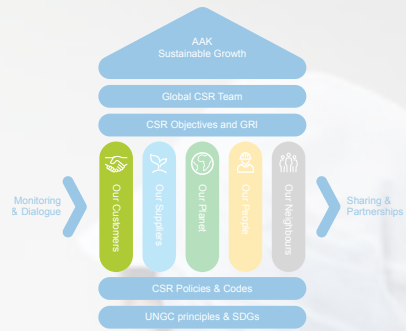
6.1 percent decrease in energy used per processed unit

4.7 percent reduction of total direct CO₂ emissions per processed unit

2.2 percent reduction of water consumption per processed unit

6.7 percent reduction of water discharge per processed unit

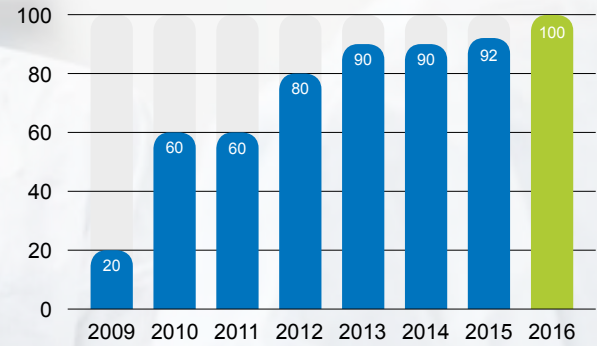




Key achievements

RSPO supply chain certification

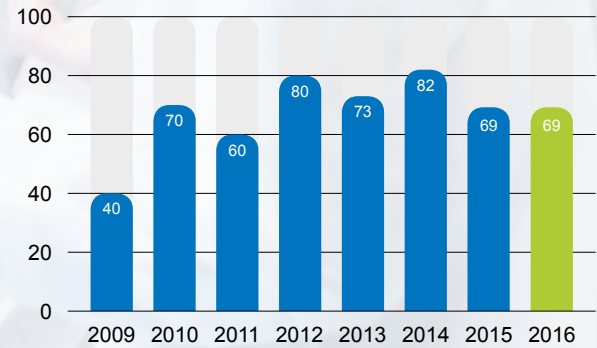
Percent of production sites*



*Sites processing palm oil

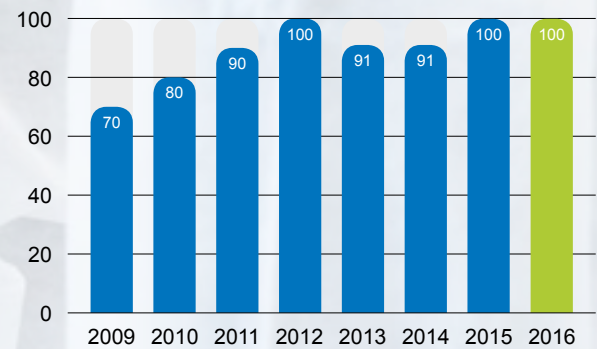
Sedex members

Percent of production sites



Food safety certified

Percent of production sites



Our Customers



Our Customers covers all areas in which AAK interacts with customers. It includes products, product development, food safety, product information and market communication. Interaction with customers is based on sound business ethics and a deep understanding of the company's responsibility for safeguarding customer brands. As a supplier of ingredients for some of the world's best-known brands, AAK recognizes its role and its customers' expectations and see these as key elements in the way the AAK company program is executed.

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 even has 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 flavour, 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 solutions, and explore new production methods.

Our Customers achievements

AAK Code of Conduct for Agents and Distributors

After successfully having implemented 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 2016, we achieved 80 percent implementation which is the same as the year before. However, the implementation now includes agents and distributors related to our sites in Turkey, Japan, Brazil, and China. Our joint venture in India is still not part of the scope.

E-learning courses

All employees in the palm oil target group have passed our e-learning module on responsible palm oil.

Our module on responsible shea was launched during the fourth quarter 2016 with the ambition that 50 percent of the target group should pass before the end of that year. This was just achieved as 51 percent had passed at the turn of the year.

For priority reasons we decided to postpone the launch of our CSR introduction module to 2017.



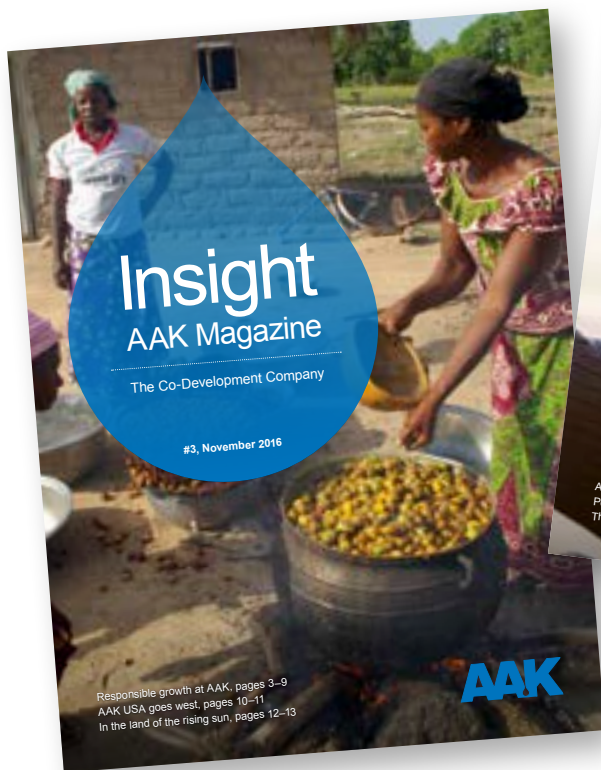
Sharing knowledge with our customers

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 the pilot plants 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 – AAK's customer magazine

At AAK our aim is always to inspire our customers and give them an insight into our capabilities and solutions. One way of doing this is through our customer magazine Insight. The content of the magazine varies, but usually includes features which for example shed light over market dynamics, and stories in which we go behind the AAK scenes to explain how new products have been developed. In every edition there is a section providing customer success stories originating from our unique co-development approach. We also include stories from external sources that may relate to trends or scientific publications which impact our value proposition to the market – the delivery of value-adding ingredients.

The magazine is highly appreciated among customers, and investors also see it as a good way of receiving information about AAK. It is available both in a printed version and as an e-book that can be found at our website, www.aak.com. It is distributed globally and is used as a marketing and sales tool in the dialogue with our customers – at trade fairs, exhibitions or regular customer meetings.





AAK ACADEMY™ – the knowledge center for lipid technology



Over the course of more than 140 years we have gathered extensive knowledge on the functionality of value-adding vegetable oils as an important food ingredient. At the AAK ACADEMY™ we want to share our knowledge about oils and fats technology when applied within specific food applications. Our ambition is that this will strengthen the cooperation between our customers and us and create lasting business value for both parts.

Whether customers are looking into elevating the healthiness of their products, securing that edge of sustainability, launching new products with unique functional and organoleptic characteristics, or improving the cost efficiency of their production, the AAK ACADEMY™ will equip them with the tools and knowledge that are needed to upgrade or enlarge the product portfolio. A successful AAK ACADEMY™ leaves our customers with a more holistic understanding of the application of value-adding vegetable oil solutions and how to realize that impact across the value chain, resulting in an even better consumer experience.

The two-day AAK ACADEMY™ strikes a balance between theoretical lectures and practical hands-on sessions in our specialized customer innovation centers for the following industry segments:

- ◆ Chocolate & Confectionery
- ◆ Bakery
- ◆ Dairy & Ice cream
- ◆ Special Nutrition (Infant, Medical and Senior Nutrition)
- ◆ Personal Care

We also offer a tailor-made AAK ACADEMY™ for individual customers upon request.





A matter of trust

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 follow, 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 plants 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.

The AAK Group vision is to be the customers' first choice in 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.

Third-party certification of AAK production plants

- 100** percent of AAK plants 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
- 69** percent of sites are members of Sedex and have passed the ethical audit SMETA
- 54** percent of sites are quality management certified according to ISO 9001
- 46** percent of sites are environmentally certified according to ISO 14001

In addition, various production plants 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.



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 awards and honors

2016 was, in many respects, a very successful year for AAK. It was also a year where we, on many occasions, were recognized for our innovative and sustainable work. Here are some examples of awards and honors that AAK received during 2016.

Louisville, Kentucky, USA

– 2016 BAMA's Paul Marshall Excellence Award for creating value

BAMA is a US based innovator and manufacturer of bakery products and one of AAK's largest customers in the US. The AAK facility in Louisville, Kentucky was awarded "The Paul Marshall Excellence Award" for the creation of value and contributions to BAMA's growth and success.

Hillside, New Jersey, USA

– Outstanding Member for 2016

The 173 foodservice distributors that make up the Legacy Buying Group voted AAK Foodservice as their Outstanding Member for 2016. This award is given to foodservice manufacturers that have worked during the year to continuously improve their performance and find ways to assist individual members in growing both their own and their customers' business.

Mexico

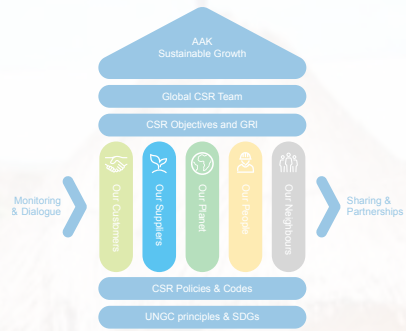
– Best Quality Supplier 2016

During an event in McDonald's Mexico's corporate headquarters in March 2017, AAK Mexico was awarded Best Quality Supplier in 2016. The aspects that were assessed for the recognition of AAK were: a fill rate above 99 percent, zero rejections, ideal McDonald's audit results, and Key Performance Indicators (KPIs) at 100 percent.

United Kingdom

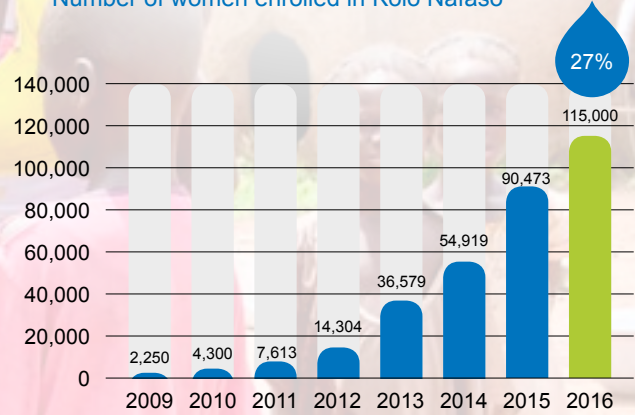
– Premier Foods' praise Supplier Individual of the Year 2016

Leading UK food company Premier Foods recognized Customer Innovation Manager Gary Hughes' contribution to its business, naming him Supplier Individual of the Year 2016 – a great example of AAK's dedication to creating customer value. The accolade came one year after AAK as a business won Premier Food's Supplier of the Year Award for its co-development work with the company, whose brands are bought by 95 percent of British households.

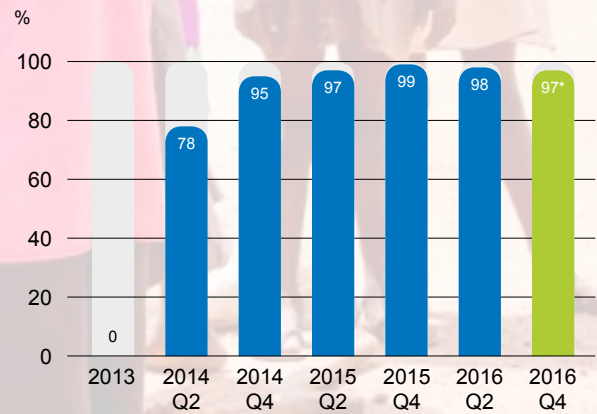


Key achievements

Number of women enrolled in Kolo Nafaso

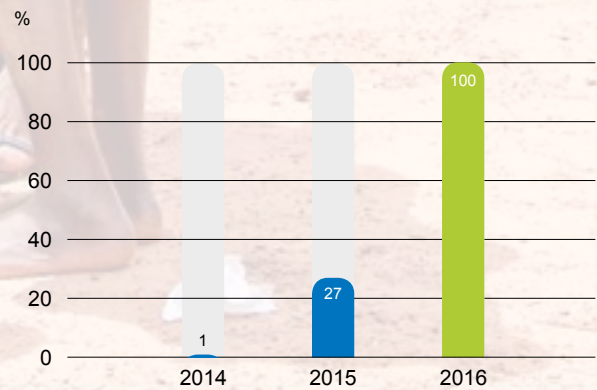


Overall palm oil traceability to mill



* Due to inclusion of new sites and a natural variation when taking a snapshot of a process.

Geospatial risk assessment palm oil volume





Our Suppliers

Our Suppliers covers activities related to the sourcing of raw materials that AAK uses in its production plants. Sustainable sourcing of raw materials is the backbone of AAK's business and a key element in our strategy. The combination of the right raw materials and our co-development approach is key to the wide range of solutions offered. Just as it is vital for AAK to obtain the right raw materials, AAK places equal emphasis on how our raw materials are produced. For this reason AAK has implemented a Supplier Code of Conduct that, together with other policies, applies to AAK's direct raw material suppliers worldwide.

AAK Supplier Code of Conduct

Introduced in late 2009, the AAK Supplier Code of Conduct is now implemented with all direct raw material suppliers. The Supplier Code of Conduct is an integral part of the approval system of new raw material suppliers and compliance with the Code is a prerequisite for final approval.

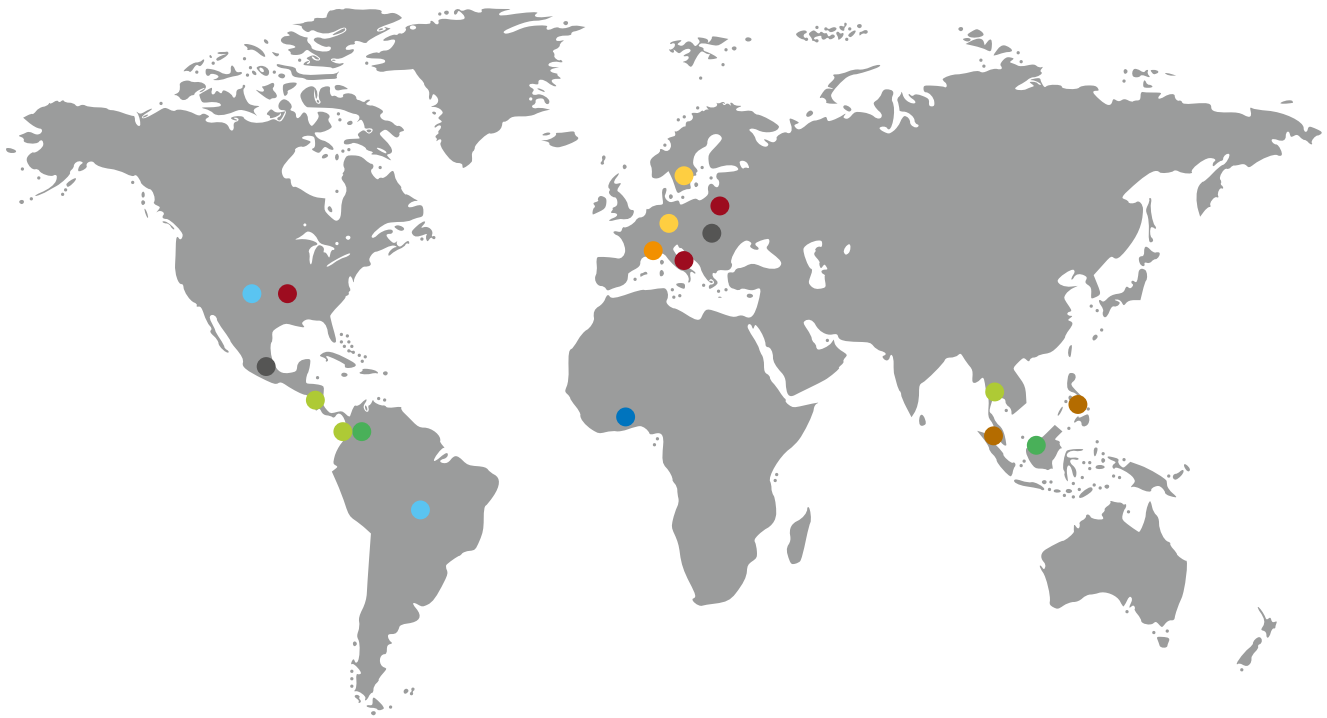
In West Africa, the Code has been implemented in a different way due to various linguistic and cultural challenges. Because ethical requirements in business relations are not a widespread tradition in the region, more meetings and explanations are required to achieve the necessary understanding.

The AAK Supplier Code of Conduct stipulates requirements with regard to the following:

- | | |
|-----------------------|--------------------------|
| ◆ Human rights | ◆ Housing |
| ◆ Child labour | ◆ Young workers |
| ◆ Working hours | ◆ Remuneration |
| ◆ Working environment | ◆ Freedom of association |
| ◆ Environment | ◆ Corruption |
| ◆ Forced labour | ◆ Notification |
| ◆ Discrimination | ◆ Workplace violence |



We source raw materials from all over the world:



● **Rapeseed and rapeseed oil**



Northern and Central Europe

● **Palm oil**



Asia and Central and South America

● **Palm kernel oil**



Asia and South America

● **Olive oil**



Southern Europe

● **Soya bean oil**



US and South America

● **Sunflower oil**



Eastern Europe and Mexico

● **Shea kernels**



West Africa

● **Corn oil**



America and Eastern and Southern Europe

● **Coconut oil**



Malaysia and the Philippines

Natural raw materials

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

Palm



– sustainable palm oil in high demand

Globally, palm oil is the most produced and consumed vegetable oil, accounting for 30 percent of the world's vegetable oil production. The oil palm has the highest yield of all oil crops – six to ten times more than other oil seed crops.

However, palm oil production has raised serious concerns relating to deforestation and the elimination of endangered animals, to name two. As a consequence, the Roundtable on Sustainable Palm Oil (RSPO) was established in 2003. AAK is one of the founding members and continues to be very engaged in the RSPO, and its Board.

However, RSPO is not perfect. Many are of the opinion that plantation expansions raise concerns with regards to

environmental and social issues. AAK shares these views and has consequently adjusted its palm oil policy with additional requirements that build upon RSPO Principles & Criteria. Palm oil traceability to origin is key to these requirements as a means to be able to assess if the requirements are met.

Based on the RSPO requirements combined with the additional requirements in our policy, we expect our palm oil supply base to become fully sustainable.



AAK's progress on sustainable palm oil

Responsible sourcing of raw materials is fundamental to AAK and reflected in our strategy. We want to make a clear difference to the environment and to the local communities where our raw materials are grown and harvested. Palm

oil being the highest volume as well as the most productive vegetable oil in the world is a crucial raw material in feeding an ever-growing global population. Therefore, producing palm oil sustainably is of utmost importance.

Palm oil achievements

Traceability

- ◆ Traced 97 percent of palm oil, all palm kernel oil and derivatives back to mill origin*;
- ◆ Updated all mills traceability data.

Risk assessment

- ◆ Completed a qualitative risk assessment of all suppliers;
- ◆ Completed geospatial risk assessment of 100 percent supplier mills;
- ◆ Identified mills for our on-site verification program and completed five verifications in 2016, twelve in total.

Supplier engagement

- ◆ Engaged in a dialogue with all our suppliers as regards progress of policy implementation, including the signing of AAK Palm Oil Policy;
- ◆ Completed two palm oil supplier engagement workshops, engaging 40 mills in total.

Processes and tools

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



Customer support

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

Smallholders

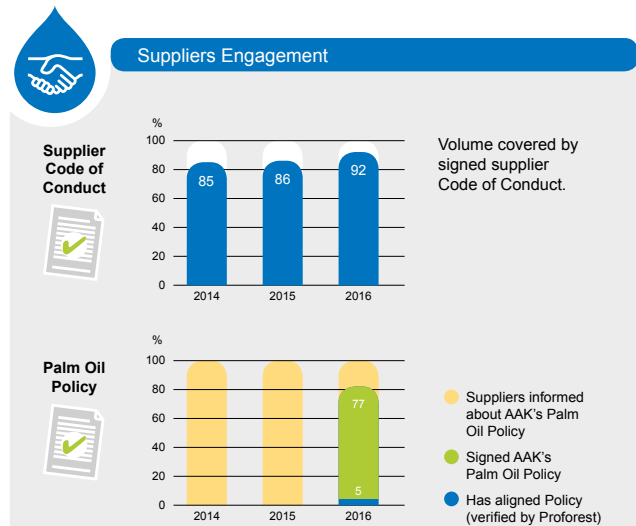
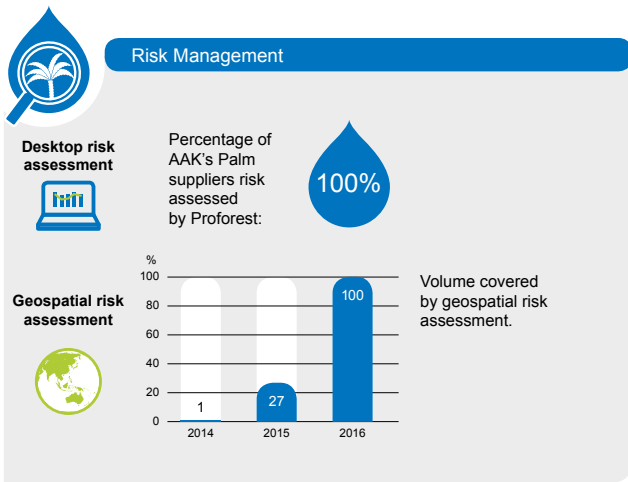
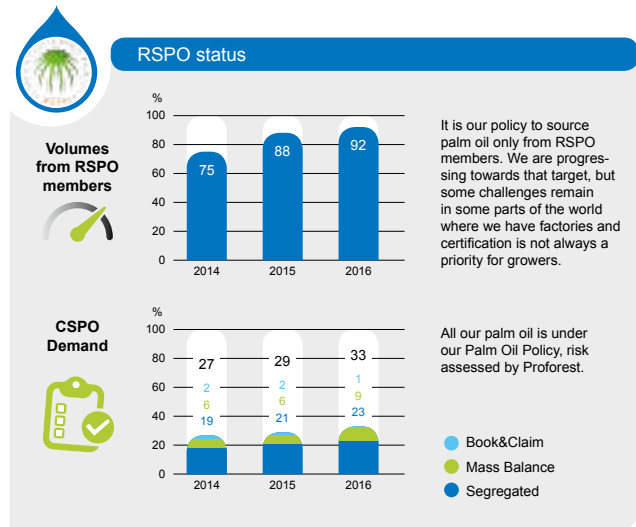
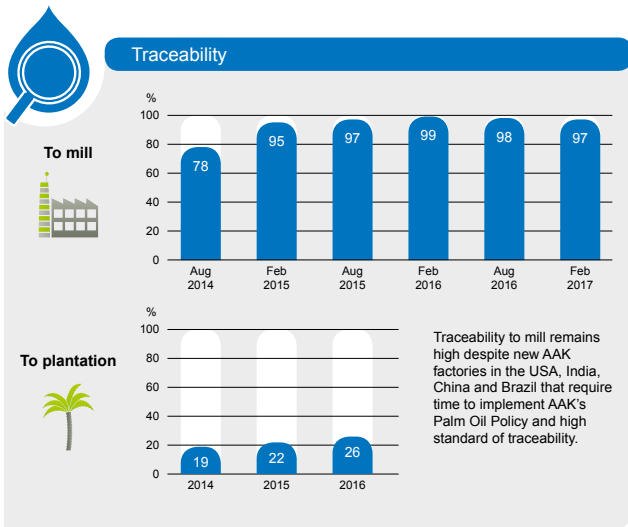
- ◆ Identified different options for smallholder project.

* The variations in traceability data reported is due to a combination of including new sites into our program and the natural variation always present when taking a snapshot of a process.

Palm oil dashboard

To give a good overview of the company's progress on sustainable palm oil AAK has developed a dashboard. Our internal version of the dashboard is used for detailed monitoring of our progress and for taking decisions as where to focus our resources. We have also developed an external

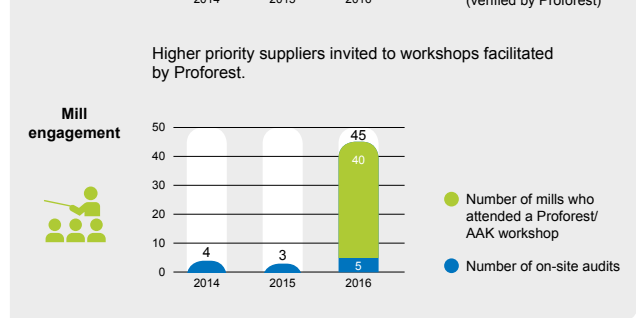
version that communicates our progress on sustainable palm oil to external stakeholders. The purpose of this version is to visually show our progress, explaining the latest development.



Other

6 Number of progress reports

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



Strong progress on traceability

For AAK, traceability to plantation is defined as follows:

Palm oil and palm oil by-products in AAK products are traceable via the upstream supply chain to the supply base of the identified crude palm oil mill, including:

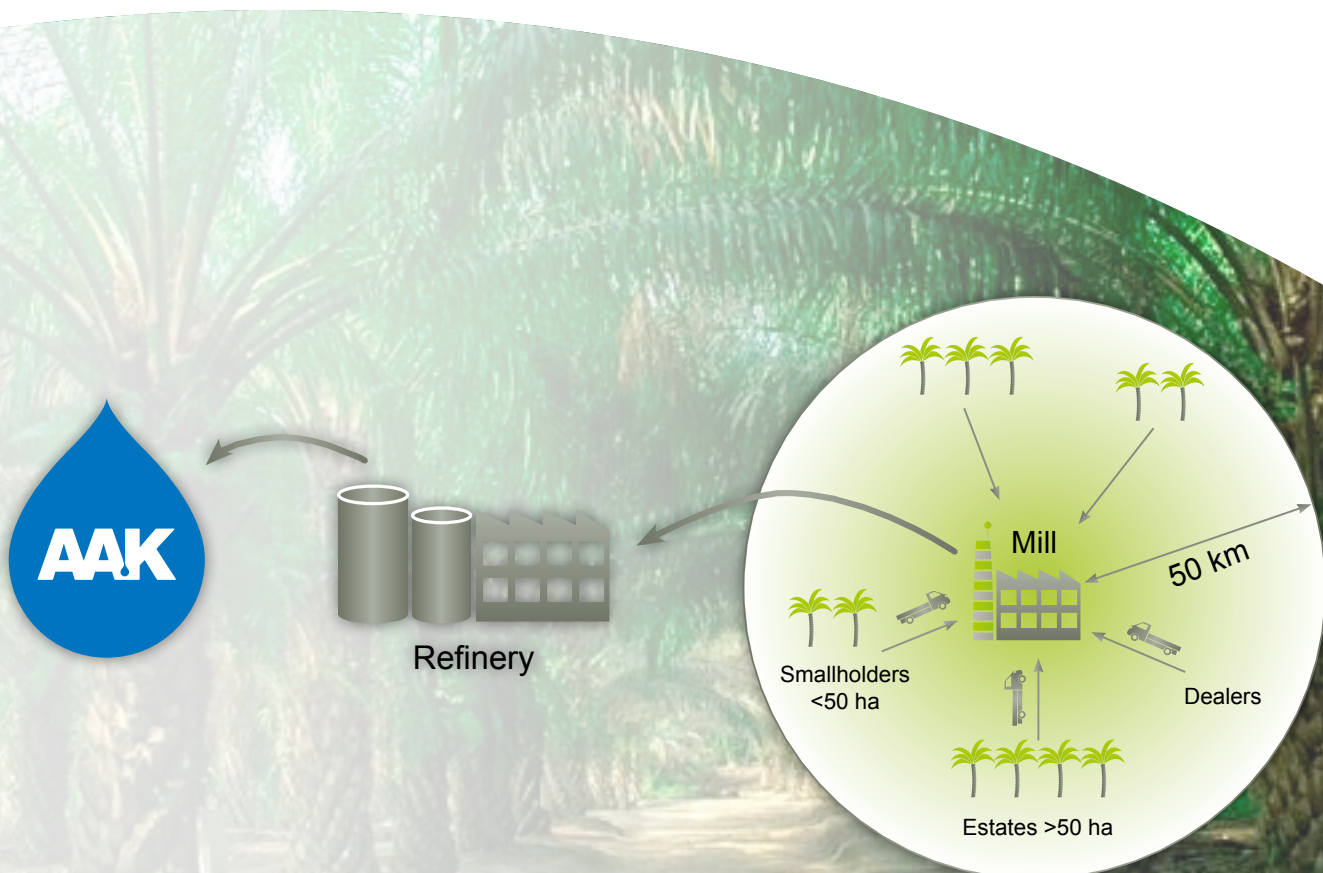
- Estate information (> 50 ha): estate names, parent company names, certification status, percentage of overall FFB tonnage to mill and a GPS point coordinate
- Dealers: dealer names and percentage of overall FFB tonnage to mill
- Smallholders (< 50 ha): number of smallholders, certification status and percentage of overall FFB tonnage to mill

AAK has focused most palm sustainability efforts on establishing traceability to mill, followed by Proforest's risk assessment of suppliers and mills, engagement with suppliers, and on-site mill assessments for those identified as the highest priority. It is generally agreed that more than 90 percent of fresh fruit bunches delivered to a mill derive from growers located within 50 kilometers of that mill. Hence, focus on mill traceability and assessment provides very good coverage of growers too.

Taken together with the large number of mills in AAK's extended supply chain (more than 1,000) and difficulties in identifying unique names for mills, the identification and recording of names, parent company names and GPS coordinates for every grower supplying those mills is a Herculean task which AAK judges to have far less impact than tracing to mill and the subsequent risk-based approach adopted.

However, AAK does expect mills in its supply chain to maintain such records to provide basic traceability to plantation, and on-site mill assessments seek to verify this is in place. Such traceability to plantation is important since there are – as recent reports on the Leuser ecosystem in the Aceh province of Indonesia show – non-compliant third-party growers which may find ways (for instance through intermediary dealers) to have their production enter the supply chain.

AAK has made significant progress on traceability to mill, subsequent risk assessment and policy implementation. But we are not yet satisfied. Traceability to plantation by the end of 2017 was a challenging target. AAK has made a positive decision to maintain traceability to plantation as an objective, but to defer the target date for 100 percent traceability from 2017 to an ambition of 2018/19. AAK will undeterred pursue full traceability to plantation and continue to report regularly on progress.





AAK risk assessment activities

By the end of 2016 all AAK mills had undergone a geospatial risk assessment on a global level using our updated methodology (for details see our palm oil progress report at AAK web). In 2017 this data will be analyzed at different relevant scales, including by supplier, and on national and subnational levels where required or appropriate. The Tier 1 supplier risk assessment methodology will also be updated to incorporate new thinking and new data, and all of AAK's Tier 1 suppliers will be reassessed in Q1 2017 to identify priority companies to engage with.

This engagement will take the form of workshops to raise awareness of AAK policy commitments, and to build capacity of key staff at suppliers and mills in order to implement the changes required. The program of in-depth mill-level verification visits will also be continued from last year. The diagram below illustrates the process.



Grievance activities

AAK has no direct grievances to report relating to plantations, because AAK does not own plantations. We source from a range of suppliers incorporating more than 1,000 mills. We are committed to tracking activity in the marketplace, and monitoring numerous NGO reports and scorecards to identify non-compliance with our policy.

Many of our suppliers are proactive and work to identify potential issues before they arise, or address them as early as possible.

Should a grievance relating to the AAK supply chain be raised through the RSPO grievance process, AAK will monitor the prescribed RSPO process.

As an additional approach, we established our own grievance procedure to enable stakeholders to highlight any perceived issues in AAK palm oil supply chains, and to ensure they are approached in a timely, transparent and systematic manner.

AAK also includes reviews of third party (in particular NGO)

reports in order to proactively identify potential grievances against suppliers. Examples of such reports include recently released documents by Amnesty International, Greenpeace, Mighty Earth and others, as well as particular issues relating to human rights in Borneo which have been brought to our attention by Swedwatch.

The procedure applies to AAK operations worldwide and to all third-party palm oil suppliers. It covers the following steps:

- ◆ Recording grievances and communicating with relevant parties;
- ◆ Developing plans to investigate a grievance;
- ◆ Deploying a field verification team where appropriate;
- ◆ Creating and implementing action and monitoring plans to resolve grievances.

If a supplier breaches AAK policies and is not able to resolve the issue related to the grievance, AAK will terminate commercial relations with that supplier.

AAK welcomes feedback from stakeholders on the grievance procedure, in order to measure the effectiveness of our policies and continue to improve them.

Smallholders

AAK is very aware that smallholders comprise around 40 percent of global palm oil production, and likely a similar proportion of AAK's palm oil purchases. Smallholders form a relatively small proportion of RSPO certified production, particularly independent smallholders, and have very specific requirements regarding sustainability. From a social perspective there is a requirement for smallholders, often supporting extended families, to be allowed and assisted to make a reasonable living from the land they farm.

At the same time there are issues around land ownership, communal rights, labour (for absentee smallholders for instance), deforestation, burning and development on peat. This is a complex issue.

AAK's new approach is to balance these requirements. We are developing a smallholder code of practice, together

with Proforest, which will seek to engage with smallholders by improving livelihoods, and seek to move in parallel to push forward sustainability practices. We will seek continuous improvement as a goal in itself, which may or may not lead to RSPO certification. We are currently discussing with suppliers specific projects to apply this approach in different continents.

Simultaneously we seek to influence the RSPO's approach to smallholder certification during the current strategic review. We will continue to seek support for our approach, which is similar to some others adopted, and to lobby for appropriate changes.

GreenPalm – the success story

After eight years of supporting the RSPO by providing an innovative certificate trading system and related support and marketing, the contract of GreenPalm (owned by AAK) with the RSPO has been terminated.

GreenPalm ceased to operate as a certificate trading system on March 31, 2017, being replaced by PalmTrace.

It is appropriate to recognize the benefits which GreenPalm has provided to the RSPO, growers, manufacturers and retailers over this period.

GreenPalm

Certificate trading for RSPO certified suppliers conceived, administered and managed by AAK from 2008 to 2016.

Achievements:

- ◆ 19 million certificates traded (3.9 million alone in 2015)
- ◆ US\$19 million paid to the RSPO, supporting administration and growth
- ◆ US\$115 million paid to growers, incentivizing further certification
- ◆ The only transparent pricing mechanism for RSPO supply chains
- ◆ The best access to market for certified independent smallholders, with a separate premium market
- ◆ The only access to support certified supply for many manufacturers and retailers
- ◆ Direct marketing and helpdesk for RSPO supply chains
- ◆ Replaced by the RSPO's own PalmTrace in 2017





Update of AAK's Sustainable Palm Oil Policy

In June 2014 we saw the need to launch a policy specifically focusing on our commitment towards obtaining a fully sustainable palm oil supply chain. During our move towards a fully sustainable palm oil supply chain we have overcome many challenges and achieved significant progress towards our objectives.

In January 2017 we updated our palm oil policy. The main changes are:

- Traceability to plantation: AAK will achieve full traceability to plantation as soon as practically feasible with an ambition of achieving this goal in 2018/19 while still regularly communicating on progress.
- New commitment to support smallholders: during our journey towards a fully sustainable supply chain, we have recognized that the many smallholders that constitute a significant proportion of the palm oil production need special focus.

Smallholder inclusion in the supply chain is a key issue which is why we in our revised policy have included a new commitment to support smallholders.

Our updated palm oil policy is available at AAK web.



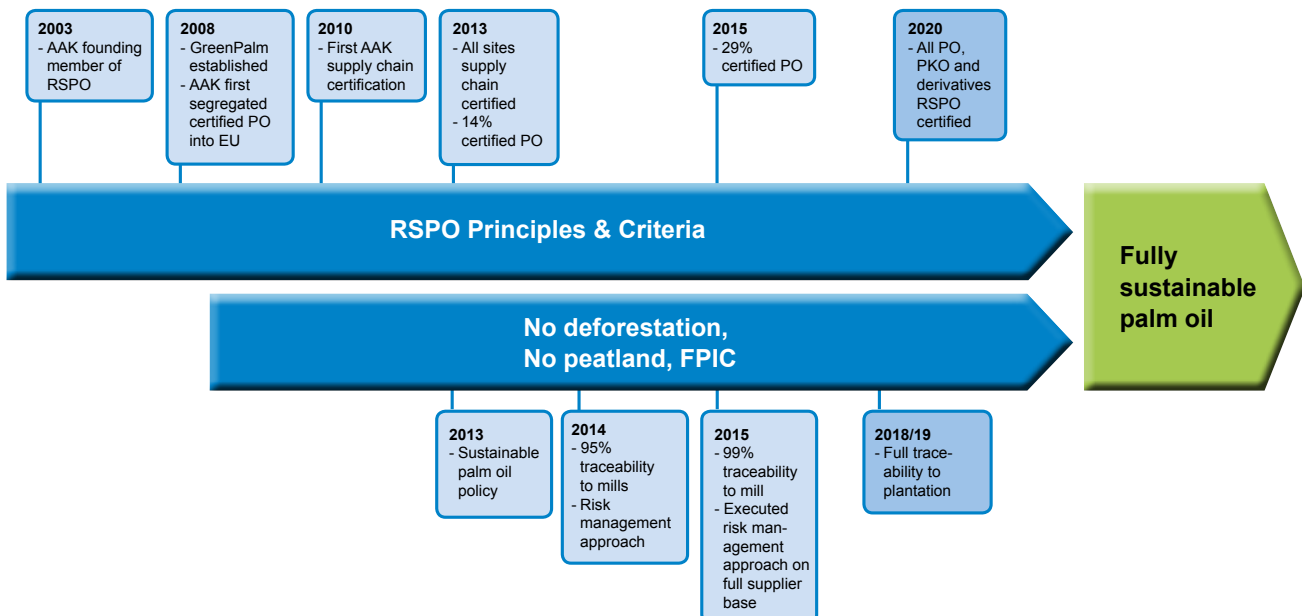


Key next steps for AAK

In 2017 AAK will

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

Towards sustainable palm oil





Rapeseed

– a raw material of utmost importance

Rapeseed is an important raw material at AAK. Thanks to local seed suppliers and in-house processing, AAK can offer oils from traditional seeds and a range of speciality variants. 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.

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.





Shea

– a sustainable raw material

The shea kernel, not very well-known to most people, is only about two and a half centimeters in diameter. But what it lacks in size it makes up in oil concentration – and a unique history.

The shea tree is a wild tree growing in a belt, the shea belt, across Africa south of the Sahara. Countries with the highest population of shea trees, which are indigenous to Africa, include Benin, Burkina Faso, Ghana, Ivory Coast, Mali, and Togo.

Shea is a very sustainable crop. The wild trees on which the shea kernels grow require no use of fertilizers or pesticides. The shea trees do not grow in plantations, partly because of the very long maturity period. However, the trees are allowed to grow in the crop fields in a farming system called agroforestry. This farming system has existed for centuries and has proven to be very sustainable.

Traditionally, it is the women who collect and process the shea kernels. The edible fruit fall from the trees in a period when there are nearly no crops being harvested, which makes shea an essential nutrition source. Part of the shea crop is also sold by the women. This provides an important source of income to the women’s families. The women not only spend the money to alleviate poverty and hunger, they also invest in their children’s education and other income-generating activities.



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 2016, AAK’s supply chain in West Africa was ISCC certified, confirming that shea kernels are a sustainable raw material.



” Kolo Nafaso – empowering women through business

In 2009, AAK initiated a project of further enhancing responsible sourcing of shea kernels in Burkina Faso. The initial project was designed as a win-win concept between the women collecting the shea kernels and AAK. It was called Kolo Nafaso, meaning “the house of benefits of shea kernels”. The project grew bigger and became an integrated way of doing business for AAK and thus not just a CSR project. Deemed a success in Burkina Faso, a similar program was set up in Ghana in 2015, showing commitment to continue the way of working directly with the women.

AAK works with the women on organizing themselves and benefiting from standing stronger as a group and thereby building capacities within the local communities, which can be applied outside shea as well. An essential part of the relationship is AAK’s interest-free micro credits given in the months when crops are limited and income scarce. To underline the relationship, AAK enables the women to open up bank accounts with reputable banks, which is how the micro credits as well as payments are facilitated. These accounts can also work as a basis for the women to make savings in the future.

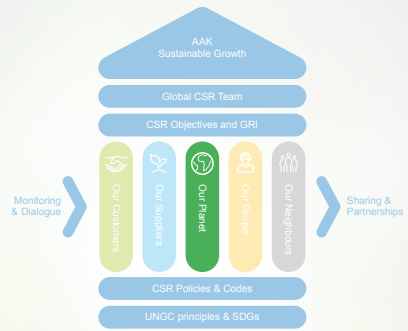
The number of women being enrolled in the Kolo Nafaso program has grown gradually over the years. More than 115,000 women – an increase of 27 percent – are now part

of the Kolo Nafaso family and there are still many who would like to join the program. However, the number of women is not a criterion in itself. As a responsible company we ensure that we grow gradually and maintain the quality at the same time. In a sustainable way we continue to create and increase job opportunities for more people, both outside and within our organization. Our extension officers, who work directly with the women in the bush, are constantly educating both new and more experienced women’s groups in how to process shea kernels to obtain a good-quality product in order to optimize the women’s income.

Every second year, AAK conducts a questionnaire study. In 2016, 497 women responded. The feedback helps the program to improve the way we interact, the way we conduct business, and the way we shape the future together with the women. The ambition with the questionnaires is to reach out to even more women in the years to come.

Kasper Torup-Villadsen
Head of Sourcing & Logistics, West Africa

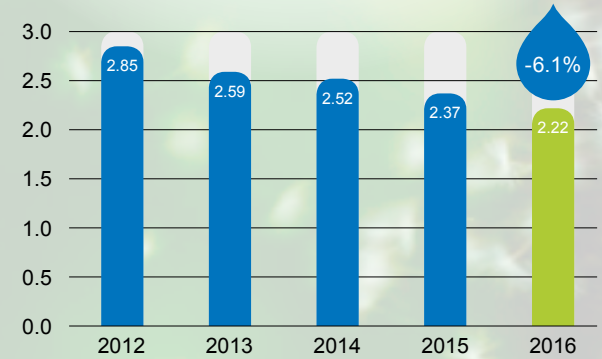




Key achievements

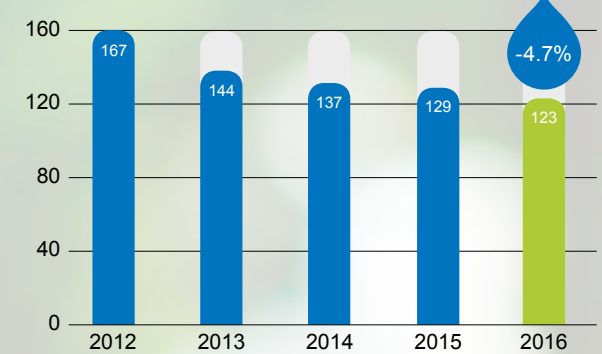
Energy consumption

Per unit processed material



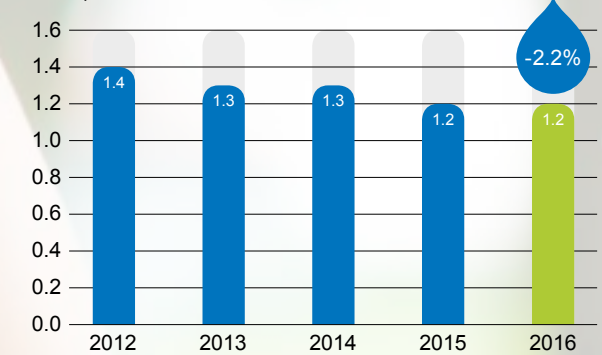
Total direct CO₂ emissions

Per unit processed material



Water consumption

Per unit processed material





Our Planet

This focus area covers AAK's impact on the environment in terms of consumption and emissions from our production plants. It is a top priority for us to minimize our use of natural resources and emissions per processed final product even though our stronger focus on speciality drives a higher degree of processing. We have over the years been able to create strong improvement within areas such as GHG emissions, water consumption and waste treatment. To make this section easier to navigate, it has been divided into four sub-sections: Energy, Air, Water and Waste.

AAK's production plants differ in size, capacity and the types of processes used. Processing vegetable oils is both complex and energy-intensive.

AAK is very much aware of the footprint that production plants leave on the environment. Therefore, the company constantly strives to reduce its consumption of energy and water, and to reduce waste and emissions. The aim is to become more environmentally-friendly – and improve even more day by day.

To achieve this, environmental projects are implemented, consumption and emissions are monitored, and best practices are identified by benchmarking production plants against each other and against other players in the industry. A handful of AAK's various environmental projects are described in this section, presented by the employees who are directly involved in achieving the results.



Energy

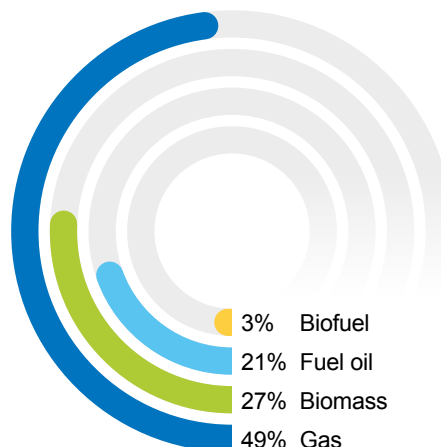
In 2016, AAK's production plants had a combined direct energy consumption of 3,640,000 Gj, a decrease of 1.5 percent compared to 2015. Direct energy consumption from renewable resources constitutes 30 percent.

During the same period, electricity purchases (indirect energy consumption) remained at the same level at 779,000 Gj. The proportion of green electricity constitutes 36 percent.

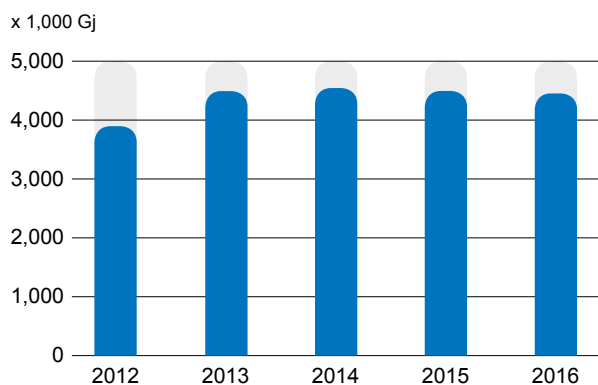
Energy consumption decreased

Overall, total energy consumption reached 4,440,000 Gj, a decrease of 1.2 percent. Calculated per MT produced, energy consumption has decreased by 6.1 percent (page 32) despite a strategic decision to increase the production of highly refined products which, all other things being equal, require more energy to process.

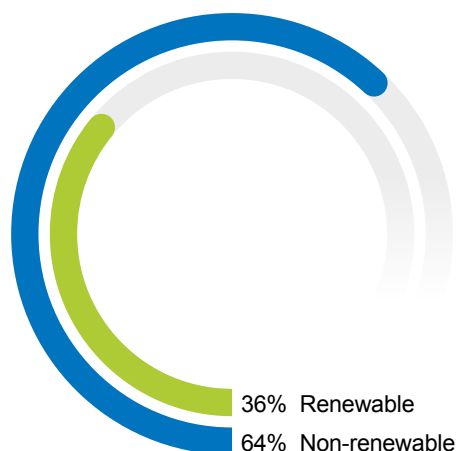
Direct energy consumption 2016 – per energy



Total energy consumption



Purchased electricity 2016





” Optimizing transportation with GPS units

The AAK Foodservice transportation department in Hillside, New Jersey has recently installed GPS units in all fleet vehicles. This new software will allow the transportation department to track KPIs such as miles per gallon, idle stop, truck speed, hard breaks, violations, and hours of service. As metrics are collected, we will be able to track current performance and make improvements in real time.

One of the most exciting features of the GPS units is the ability to measure engine idle time. Idling vehicles reduce the air quality in the immediate area and is a major contributor of CO₂ in the atmosphere. Idling also causes additional wear and tear on a vehicle and an hour of idling uses up, on average, one gallon of gasoline.

Being able to track engine idle time will allow the transportation department to make cost-saving changes. In addition, the data gathered can be broken down by driver, giving us the opportunity to educate our drivers on the importance of keeping idling times to a minimum.

Though impossible to completely eliminate engine idling we can, with our new GPS software, gather and analyze data to ensure that all members of our fleet are working in the most cost-effective and environmentally-friendly way possible.

Max Katz
EH&S Manager, AAK USA



” Reduced NO_x, SO_x and dust emissions

AAK's production site in Denmark has its own power plant that produces steam and energy used for production. Mainly fossil-based fuel is used in the power plant, but also some biofuel/residuals from the production. Due to new legislation, AAK Denmark has substituted heavy fuel with a newly developed low-sulphur light fuel with a maximum of 0.1 percent sulphur. Due to this substitution AAK Denmark has managed to reduce NO_x emissions with 46 percent, SO_x emissions with 69 percent, and dust emissions with 79 percent.

In addition, AAK Denmark has implemented an energy management system and obtained certification according to ISO 5001. This means that AAK Denmark now has two to three ongoing energy-saving projects.

Marian Kjærgaard
HSE Manager, AAK Denmark

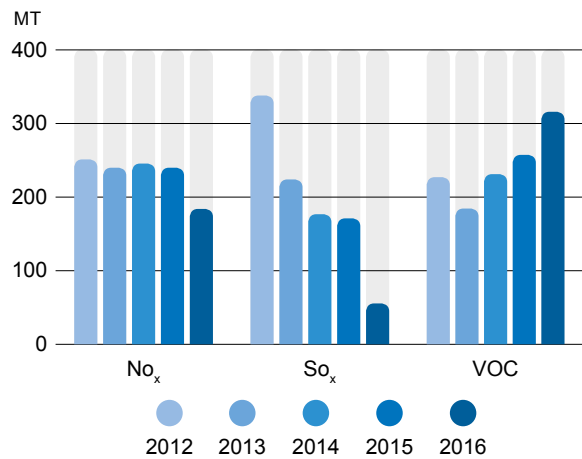


Air

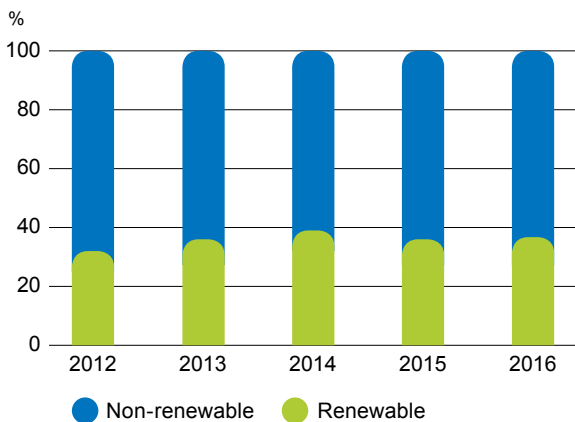
In 2016, AAK generated 244,000 MT of carbon dioxide at its production plants, the same volume as in 2015. However, per processed unit emissions reduced by 4.7 percent (page 32). And further, direct carbon dioxide emissions from fossil fuel per MT processed decreased by 4.9 percent compared to 2015. Thirty-seven percent of direct carbon dioxide emissions stemmed from renewable resources.

Due to the Group's use of fuels, its production plants emitted 184 MT NO_x (nitrogen oxide) and 56 MT SO_x (sulphur oxide). The significant decreases were due to a shift of fuel oil quality. There were 317 MT VOC (Volatile Organic Compounds) emitted from plants that run extraction and solvent fractionation processes. Compared to 2015, VOC increased 23 percent due to an unintended release of hexane.

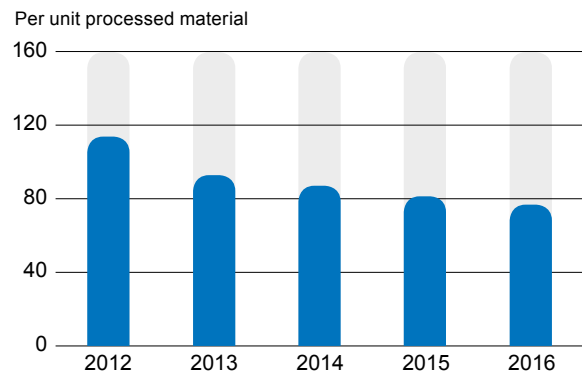
Direct emissions



Direct CO₂ emissions



Net direct CO₂ emissions



Waste



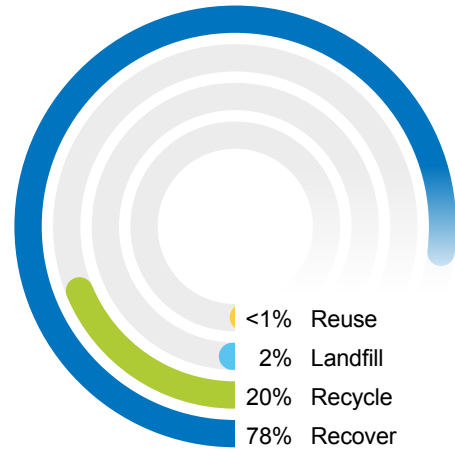
During 2016, AAK's production plants generated 105,000 MT of waste. This is a decrease of 2.1 percent compared to 2015. Of the total amount of waste 99.5 percent was non-hazardous.

In waste disposal, there is a clear, very determined effort toward reducing waste going to landfill. New acquisitions joining the AAK Group have had less waste disposal focus and options and their challenge have been to improve waste management. Changes to US legislation regarding the classification and handling of used bleaching earth are also presenting a challenge.

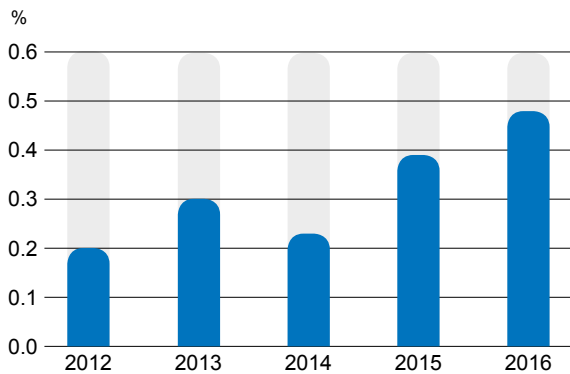
During 2016, 1,943 MT of waste was disposed to landfill, equal to 1.9 percent of the total amount of waste. AAK's objective for 2018 remains less than 1.5 percent going to landfill and we are dedicated to obtain that.

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.

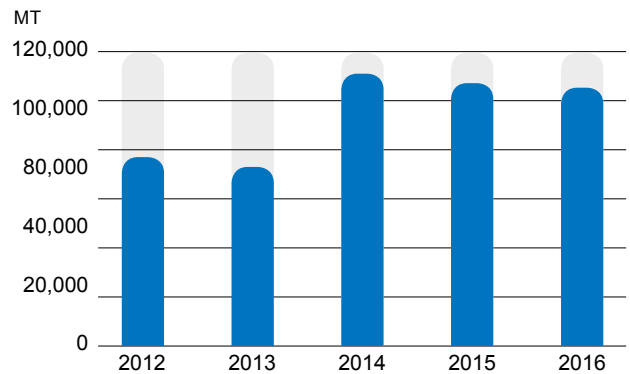
2016 waste disposal



Hazardous waste



Total waste



Increased productivity and reduction of waste to landfill

In 2016, the Port Newark, New Jersey refinery made a switch to one of their process filtering aids. The primary reason for this change was to increase efficiency with larger production demands. During on-site trials, the data showed that the new filtering aid was more efficient and less expensive than the old one in both hydrogenation and interesterification processes. By using the more efficient processing aid, we were able to cut the amount of bags used per batch in half. Additionally, less processing aid was

purchased, each bag weighing approximately 5 kilograms less than the old processing aid bag.

By changing to the new filtering aid we have increased productivity while at the same time reduced waste to landfill with approximately 43 MT per year.

Max Katz
EH&S Manager, AAK USA

Water

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

Water consumption

Combined, the Group's production plants use approximately 24,000,000 m³ 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.

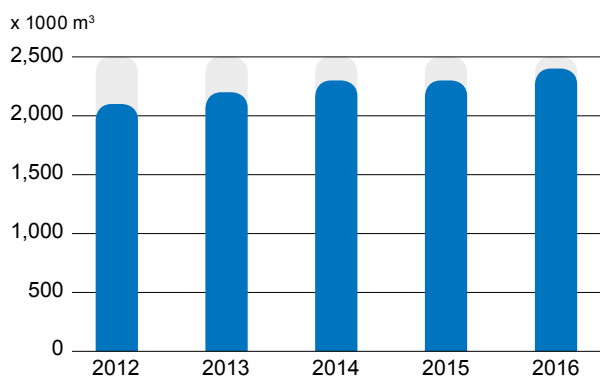
Ground water and municipal water used in processing totalled 2,400,000 m³, slightly more than last year. However, calculated as processing water per MT processed, consumption decreased by 2.2 percent (page 32).

Water discharge

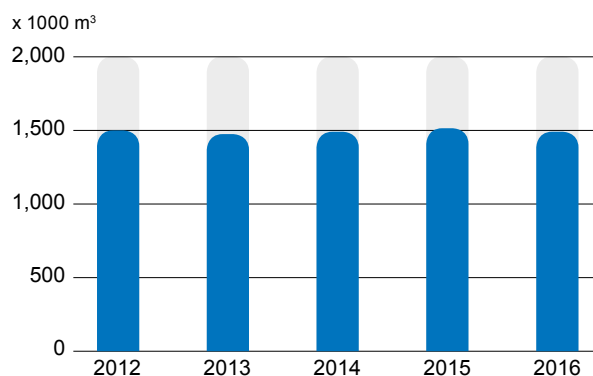
Processing water discharge in 2016 decreased by 1.8 percent. Calculated per processed material amounted to a 6.7 percent improvement.

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

Water consumption



Water discharge





” Reduced water consumption in AAK Colombia

When operations in AAK Colombia started and we began to analyze the different processes, we detected several areas in our water system that could be improved. With new equipment, controls and measurement methods we were able to accurately identify how we were using our water and where we could be more efficient.

We decided to focus on three aspects to improve water consumption:

1. The following actions combined resulted in a reduction of purges, less leaks and a better water use: a new plant for water treatment, a new filter train that doesn't need as much water in the backwashing, improved installations, better control of equipment, and taking good care of the quality water.
2. Improvements of the circuit for the cooling water system were made. Here we redefined our needs and after an analysis was made, we designed a new water circuit. At the same time the new operation practices and several improvements of the cooling towers led to less water reposition, less purges and to an overall optimization of the circuit.
3. We also focused our efforts on recuperating the condensed water from the main points of generation, achieving, in a few months, about 20–30 percent more recovered water. This represents approximately 7,000 m³ per year.

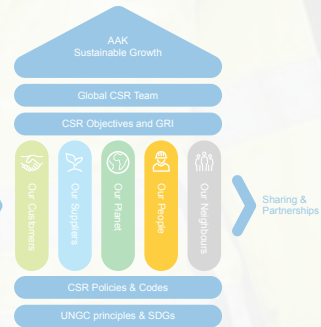


Not only the investments in equipment, but also the valuable contributions from colleagues around AAK Colombia have helped us to keep an eye on water consumption. They have also contributed to the proper operation of the equipment and by constantly looking for opportunities in order to detect any anomalies and take action in time – measure all that can be measured, analyze data, and then take appropriate action.

Pierre Sebastián Ovalle
Service Manager, AAK Colombia

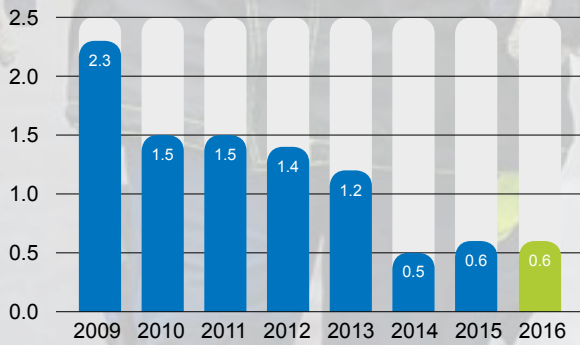
Ezequiel Pérez
Project Manager, AAK Colombia



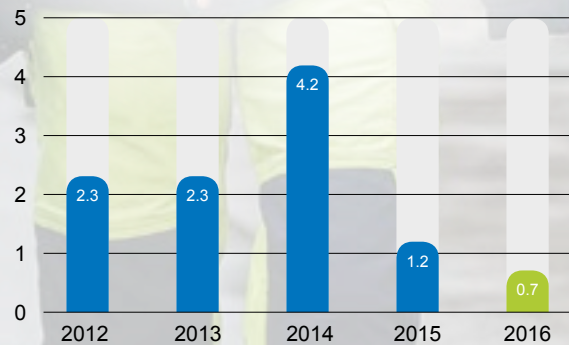


Key achievements

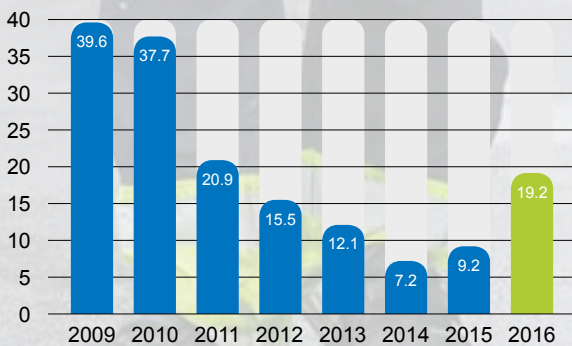
Lost Time Injury Rate, production sites



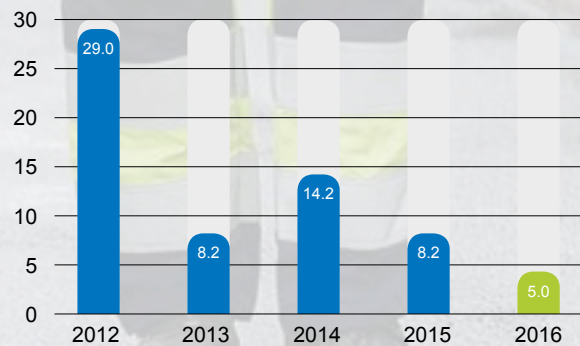
Lost Time Injury Rate, West Africa



Lost Day Rate, production sites



Lost Day Rate, West Africa





Our People

This focus area is about working life at AAK: how to remain an attractive workplace for employees, and to make sure that everybody is healthy and safe. AAK's employees are the company's most important resource. With employees in many different locations across the globe – in production plants, sales offices and sourcing operations – AAK is a diverse company with many different job functions. Common to every employee is the company's values and Code of Conduct, which govern the way in which business is conducted and how employees interact with each other and the company's stakeholders.

Our People achievements

Safety

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/shifts of sick leave per 200,000 working hours.

At our production sites, LTIR remained at 0.6. Forty-six percent of our production sites did not have any Lost Time Injuries during 2016. Lost Day Rate – a measurement of the severity of incidents – increased significantly from 9.3 to 20.9 due to a couple of incidents. These incidents have been thoroughly scrutinized to learn and establish measures to prevent recurrences.

At our sourcing sites in West Africa, conditions and challenges are very different. However, LTIR decreased from 1.2 to 0.7 and Lost Day Rate dropped from 8.2 to 5.0. This is, amongst other initiatives, the result of widespread safety training aiming to change the culture into a “safety first” mindset.

First aid training

During 2016, first aid training has been completed at all production sites ranging from basic aid courses to training in the use of AED (Automated External Defibrillator).

In West Africa, where the availability of professional assistance can be scarce, these courses are of utmost importance. You can read more about the training in West Africa in this section.





Staying healthy

Safety in the workplace is also about maintaining health. AAK is present in many countries with very different cultures, varying degrees of health awareness and different health initiatives by local or national authorities. For this reason, there is no uniform approach to maintaining health, activities are instead guided by local decision-making, based on a needs assessment. Most initiatives focus on employees. Examples of AAK's health initiatives and offers include:

- ◆ First aid and safety training
- ◆ Widespread protective equipment
- ◆ Computer glasses
- ◆ Health checks and vaccinations
- ◆ Access to sports facilities
- ◆ Company sporting events
- ◆ Healthy food offers

For employees in West Africa, AAK offers include free mosquito nets, annual information on risk control, vaccination against yellow fever, meningitis and cholera, and health insurance – again based on a local needs assessment.

AAK Mexico also operates health facilities and offers consultation for employees' family members and the local community as a whole.

E-learning on 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 and the Code of Conduct for Agents and Distributors.

However, 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 have been launched. 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 were passed by all target group members by the end of 2015.





Labour rights

Labour 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 labour and young workers, on forced labour, and on freedom of association and the right to collective bargaining.

Forty-one percent of AAK's employees are covered by collective bargaining agreements. In 2016, there were no strikes at AAK sites but in Montevideo, Uruguay, production was closed down due to local union meetings, leading to six days of lost production. Further, in Colombia a new government law relating to taxes on trucks led drivers to block highways around the country. The consequence for our plant in Villavicencio was eight days of lost production.

Giving staff equal and fair treatment is another focus area of the CSR Policy. During 2016, one incident of

discrimination was recorded. An employee in Louisville, Kentucky claimed that he was treated differently, subjected to a hostile work environment, and subsequently dismissed because of his Guatemalan origin.

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.



” First aid and security training in West Africa

In January 2017, an extended version of a first aid and security training for AAK’s managers and some of the drivers located at our facilities in West Africa was held in Tamale, Ghana.

The training focused on CPR, the stopping of massive bleeding and other first aid training scenarios that could happen in West Africa, and on the security aspects about being in West Africa, including the do’s and don’ts. Since AAK operates in remote areas of West Africa, sometimes far away from appropriate hospital services, this first aid training was very relevant to the target group.

During the first aid training, which lasted for one day, a lot of exercises were carried out for managers and drivers with the stress level slowly increasing from exercise to exercise. The training was great and gave all participants a lot of useful learnings.

The training continued with three and a half days focusing on security aspects and a lot of related exercises. Among other things, the training included how to exit a car lying on its side with little space to maneuver.

All managers in West Africa now have their own first aid kit, and all personal cars are equipped with extended versions of first aid kits. All in all this was a very useful first aid and security training that for sure highlighted some very important issues of day-to-day operations in West Africa.

Henrik Vingaard
Sourcing & Trading Director





The AAK workforce in numbers

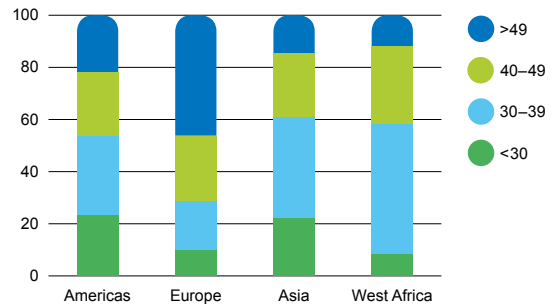
As of December 31, 2016, AAK had a total of 2,788 employees within the scope of this report. Among permanent employees, approximately 14 percent left the company.

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 plants typically attracts more men than women. At managerial level, 17 percent of employees are female.

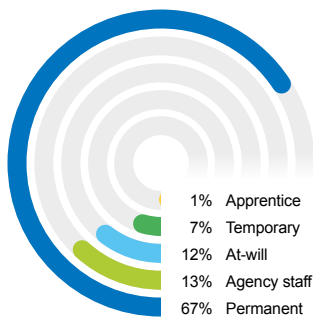
Seventy-one percent of AAK's employees are permanently employed, while 8 percent are on temporary contracts. The remaining 21 percent comprise trainees, agency staff and at-will employees. The latter is a doctrine of American law

that refers to an employment relationship which can be broken by either party with no liability. Two percent of our employees work part-time.

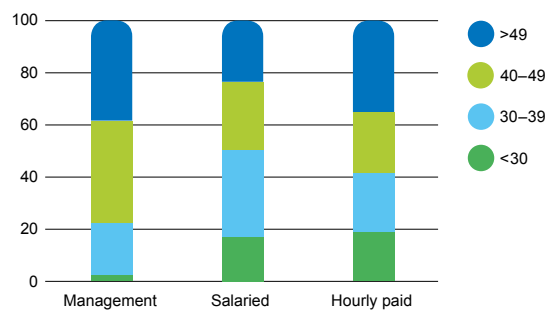
Employees* by age, %



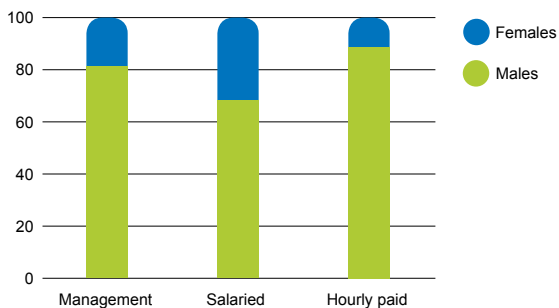
Employment contract type, %



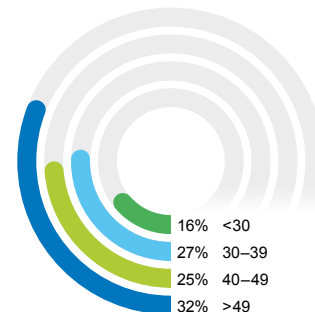
Employee* category by age, %



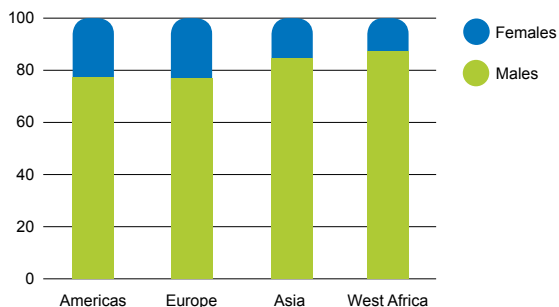
Employee* category by gender, %



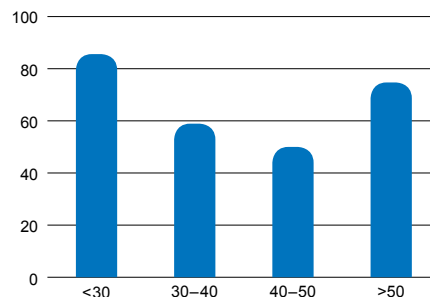
Employees* by age, %



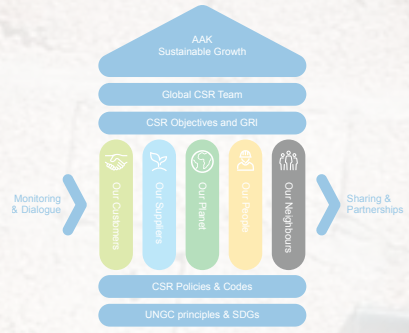
Employees* by gender, %



Employee* turnover by age, number of employees, %



* Permanent and at-will employees



Our Neighbours



This focus area covers activities that AAK initiates and engages in, be they local, regional, national or international, in order to play our part and act responsibly in society. Contributing to, and being part of, the community in which AAK operates is essential for maintaining a positive relationship with neighbours, politicians and authorities. Which community activities we engage in is dependent on what is relevant and adds most value to the local community. Through a commitment to community causes, AAK is also instrumental in creating a workplace with highly motivated 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 2016, 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.

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. In 2016, AAK engaged in numerous local activities, some of which are presented in this section. AAK will continue to secure integration with its local communities in the future.

Palm oil smallholders

During our journey towards a fully sustainable palm oil supply chain, we have recognized that the many smallholders that constitute a significant proportion of the palm oil production need special focus. Their inclusion in the supply chain is a key issue which is why we are committed to support smallholders. During 2016, we have identified different options for smallholder projects.



” AAK sponsor and winner of the FoodTech Challenge

In November 2016, AAK sponsored a team of five international university students competing in the international innovation competition FoodTech Challenge that was held in Herning, Denmark in connection with FoodTech, Northern Europe's largest trade fair for food technology.

The purpose of FoodTech Challenge, which was first held in 2014, is to give the participating students the opportunity to improve their network, skills and future job opportunities in an international environment, and for the participating companies to gain considerable insights into specific project ideas. More than 1,800 students from around the world had applied to take part in FoodTech Challenge, in which ten companies participated.

The AAK Challenge that was given to the five students representing the company was the following: “What will the future look like for a global portfolio of healthy, tasty, ‘plant-based dairy’ products?” which the students quickly turned into the tag line “Go green or go to Mars”.

During the competition's three days the team had to develop a business model for plant-based dairy products, answering the question of how AAK's value-adding vegetable oils can be a key ingredient in supporting the developments within this specific category. The team managed to develop



a great answer to all the required elements, qualifying for the final with top scores, finishing off with an outstanding presentation in plenum, and winning the challenge.

*Henning Villadsen
Marketing Director, Dairy*

” Improved efficiency and safety with rocket stove project

AAK in Burkina Faso has developed a “rocket stove”, which is essentially a village stove made of natural materials available such as termite soil, cow dung, straw, and water. The rocket stove is more efficient than the traditional three-stone stove, as less firewood is used.

Tests have shown that, on average, 68 percent of firewood can be saved through the improved stoves, mostly because of the closed nature of the fireplace. Effectively, this means that for every 1,000 kilograms of shea kernels prepared in the bush, 850 kilograms of firewood is saved. In addition, the rocket stove is deemed safer as the source is closed off and risks of fire burns are reduced.

In 2016, AAK did a pilot project of the rocket stove in certain villages where direct sourcing is done through Kolo Nafaso, the company's women's groups program in the region. 283 women were trained and 306 stoves were built. The project brought valuable learnings and improvements and AAK plan to further develop the rocket stove project in 2017 together with customers and, hopefully, other partners.

The ambition with the project is to make life easier for the women, enabling them to spend time on other value-adding tasks than collecting wood. Further to that, the project assists



in bringing down CO₂ emissions as well as deforestation, this by reducing the amount of firewood used for preparing the shea kernels as well as in the general household.

*Kasper Torup-Villadsen
Head of Sourcing & Logistics, West Africa*



” AAK Mexico’s annual health fair

Prevention, healthy habits and nutrition make a big difference in people’s life quality, and that is why AAK Mexico focuses its actions on the support and encouragement of these things towards our neighbouring community.

For more than 20 years we have had a doctor’s office in the neighbourhood, providing free-of-charge medical consultation for community families. We have an average of 100 visits per month, advising patients on how to change their health habits and, on many occasions, providing medication at no cost. This is a relevant contribution to encourage prevention, since this is the key for timing detection and solution, before it gets more complicated.

In October 2016, we once again had our “Annual health fair” where we invited drugstores, nurse schools, dentists, and other medical services provided by mobile units from the city government, to participate and perform free-of-charge tests for disease detection, to give presentations on addiction prevention, nutrition, and development of healthy habits. Using the mobile unity is part of the strategy to attract people, and it counts with the necessary medical equipment in good condition and technology.

We promote this health fair among the people in the neighbourhood and we have done it year after year uninterruptedly, with an average participation of 250 persons in 2016, which benefited from the services that were offered.

The activities are organized by employees at AAK Mexico, with the intention to benefit our neighborhood and contribute with the responsibility we have as a society.

The works towards the community health is a small contribution compared to the needs that surround us, but working on this is a motivation to innovate and search for new ways and alliances to support and improve the conditions of our neighbours and their families.

Our challenge for 2017 must be focused on improving all actions we have had in previous years, adding more activities such as sports, to complement the benefit in health, to improve the lifestyle of the people, both physically and mentally, and to try to reduce stress.

Ramiro Corona
Human Resources Manager, AAK North Latin America





” School support in Montevideo

One of the most important initiatives of AAK Uruguay’s CSR activities in 2016 focused on a government-funded primary school (Public School 150) near the Paso de la Arena plant in the outskirts of Montevideo.

The school, located in a very low-income neighborhood, is overcrowded and space is a big concern as classrooms have been used to store heating equipment needed in the winter.

AAK Uruguay’s main contribution was the purchase and installation of a customized shipping container to be used as a warehouse in order to generate space for teaching purposes in the school building. The container was installed, “decorated” and hand-painted by AAK employees, the students’ parents and personnel from the school. Everyone

was so enthusiastic that a decision was made to re-paint the old metal playground equipment as well.

The second part of the initiative was the total renovation of the school vegetable garden, to which new seedlings, plants and even a funny-looking scarecrow was added. The vegetable garden will be an important contribution to the school kitchen that serves lunch to the children every day.

These important initiatives will definitely make a big difference in the day-to-day activities of Public School 150.

*Victoria Laporta
Office Administrator, AAK Uruguay*



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

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

CSR approach

Engaging with stakeholders

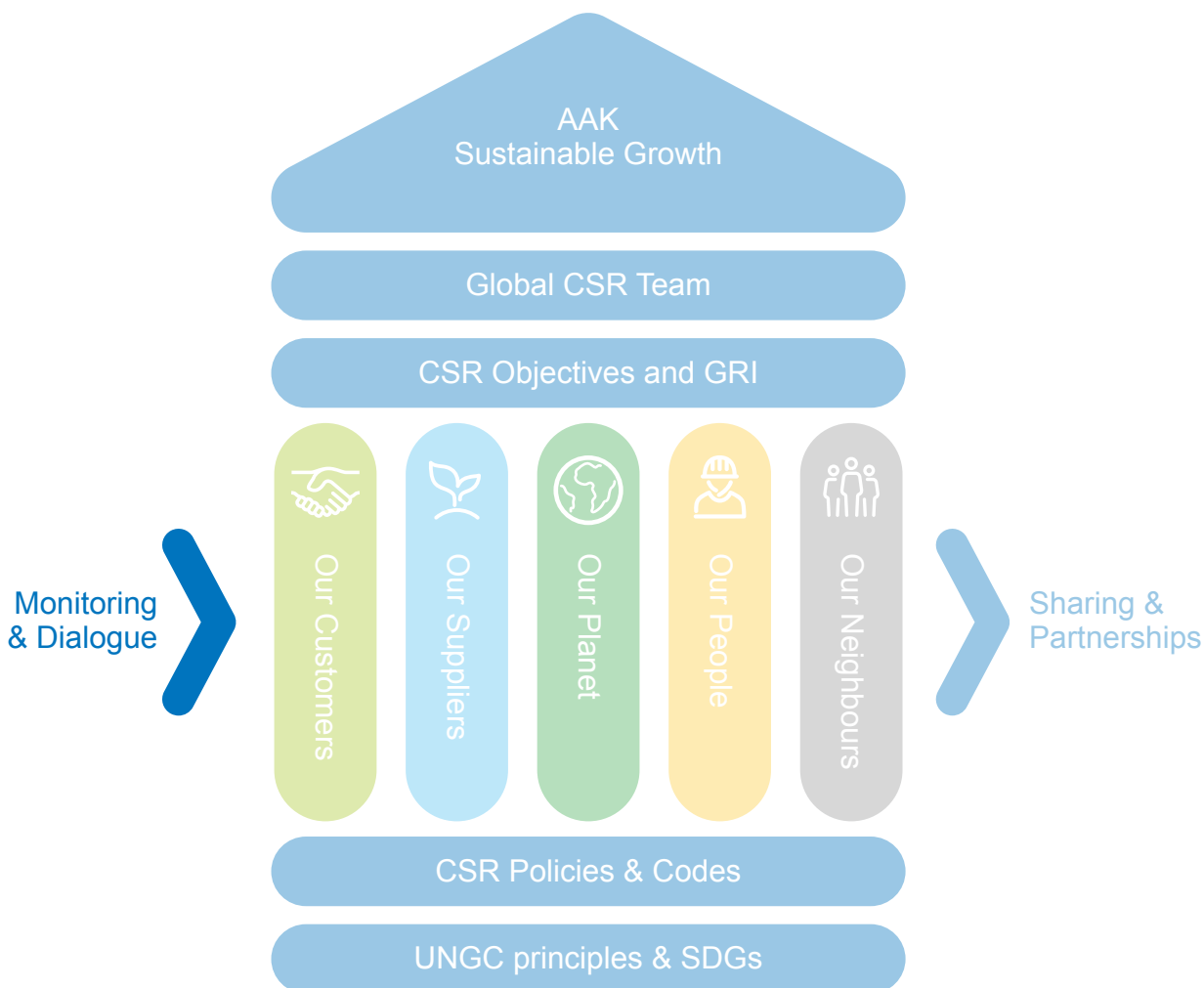
For AAK, sustainable growth is about responsibility toward all key stakeholders – the local communities where AAK operates, customers, employees, investors, and suppliers.

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 conducts 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. This valuable guide tells us where to focus our resources.





Materiality analysis

In 2016, a materiality analysis workshop with the local CSR teams was conducted at all AAK sites. The exercise was coached by the global CSR Manager and the objective was to identify economic, social and environmental issues important to the business success of the local sites.

To facilitate the process, which generated lively debates at all of our AAK sites, 30 cards with one specific CSR issue on each were created. All CSR teams had to discuss whether the different CSR issues were important to the site or not. Those without importance were removed from the stack of cards. The CSR teams then had to pick ten cards with CSR issues most important to their business. Finally, they had to rank these ten cards according to importance.

By means of a simple scoring system data from all the sites was then compiled into the x-axis of the materiality matrix. The second dimension of the matrix, the y-axis, was 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.

The analysis identified food safety a top priority, both for our customers and AAK. The next priorities were health and safety, employee development, resource efficiency, and business ethics. In general, our stakeholders have an increased focus on human rights and responsible sourcing, and AAK will remain its strong focus on these important issues going forward.

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 33 percent of AAK. In total, approximately 75 percent of AAK's shareholders are Swedish. More information about AAK's ownership structure is available at 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 divisions.

Shareholder activities

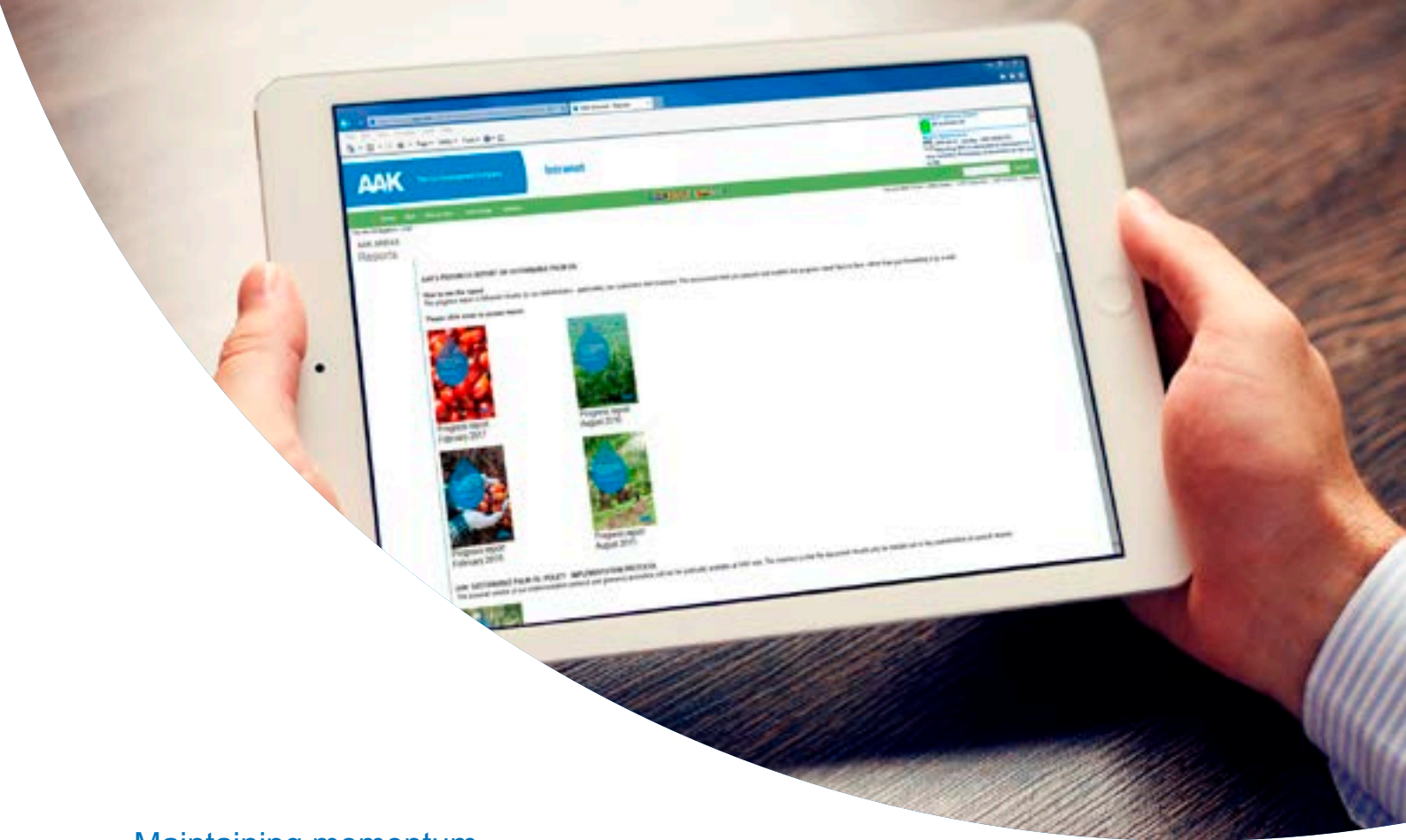
- ◆ Capital market days
- ◆ Road shows
- ◆ Meetings with institutional investors
- ◆ Meetings with equity analysts
- ◆ Local meetings with the Swedish Shareholders' Association
- ◆ Annual General Meeting

During 2016, a capital market day was held in Stockholm, and a large number of meetings were held with analysts and investors on site in Frankfurt, Copenhagen, London, New York, 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 CSR, 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 program, 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 CSR 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 CSR and sustainability is valued.





Maintaining momentum

An important aspect of the AAK Group's CSR work is maintaining global momentum. To ensure that this happens, the Global CSR Manager visits all production plants annually. These visits have multiple purposes, besides the value of face-to-face meetings. During workshops with the local teams, local plans are completed, feedback is given on the locally reported GRI data, potential contributions to our Sustainability Report are discussed, and objectives, projects and initiatives for the coming period are presented. The special theme on this year's tour was the local materiality analysis.

To promote the continued sharing of information, best practices and progress on CSR objectives on a more regular basis, monthly virtual conferences are held with the participation of all CSR team leaders.

To make CSR even more visible within the organization, an internal CSR award is presented each year to the AAK site or business area that has demonstrated outstanding CSR performance. In 2016, the production site in Kentucky, USA received an award for significantly improved key indicators such as energy and water consumption, CO₂ emissions, Lost Time Injury Rate, and for an outstanding reduction of waste to landfill.

Increasing CSR 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 plants.

The global implementation of our AAK Code of Conduct is another promoter for the integration of CSR 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 CSR 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 and Q&As.

Furthermore, the introduction of short e-learning modules in 2014 targeting specific topics has been embraced by the organization and proven to be an effective way to train employees globally. Consequently, more e-learning modules that need to be passed by defined target groups are constantly being developed and launched.



CSR inclusion of new sites

When AAK builds or acquires new production sites a grace period of one year worth of production is given before they are being introduced to and integrated into the global CSR system. This is because new sites typically have many other priorities to take care of, such as product alignment, food safety, commercial integration etc.

After one year of full 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.

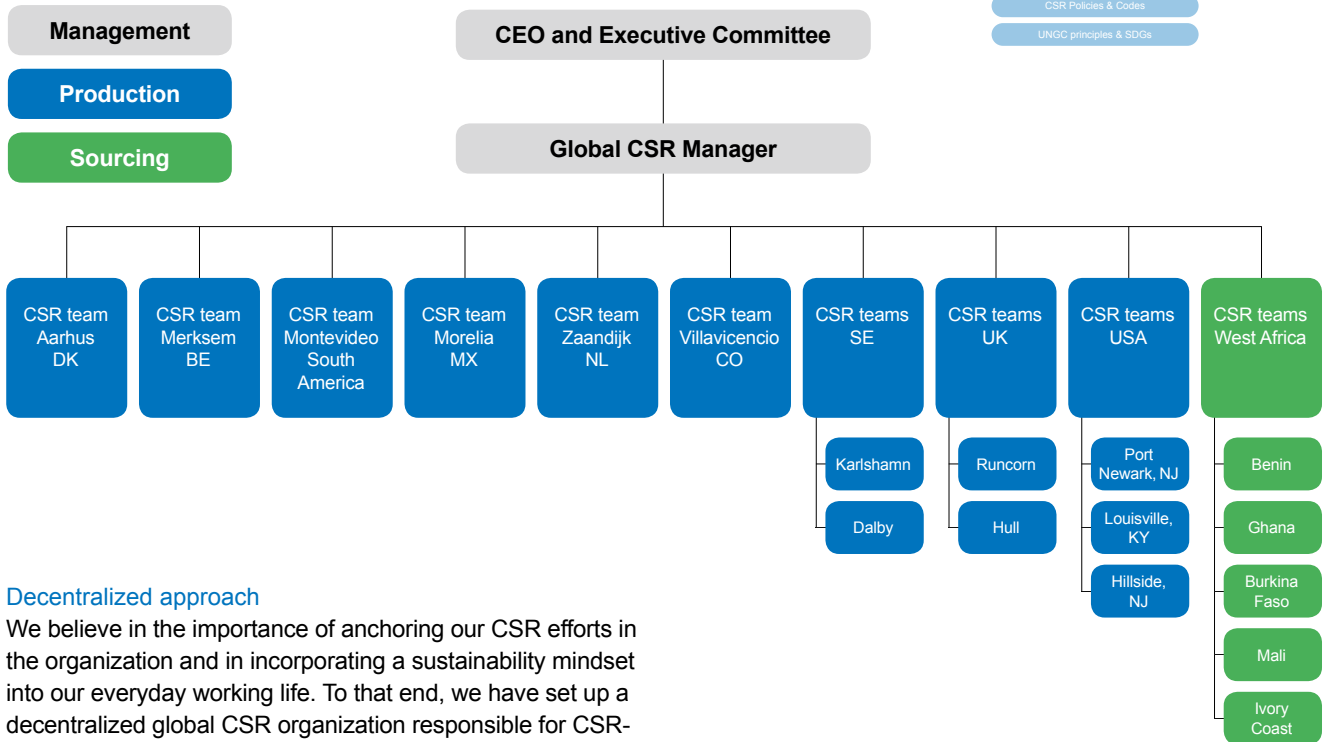
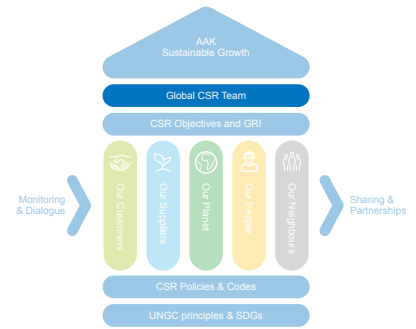
Once the new CSR team has been established it receives a first introduction to CSR in AAK and the company's "House of Sustainability". Furthermore, the team leader will be invited to monthly global virtual conferences where, among other things, best practices are shared.

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 receives 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.

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, 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 CSR work. The teams possess competencies in Human Resources, Health, Safety & 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.

Contacts

Mads Jules Feer, Global CSR Manager
Email: mads.feer@aak.com

Anne Mette Olesen, Chief Marketing Officer

Or e-mail: sustainability@aak.com

Global CSR objectives 2017+

The objectives for AAK for 2017+ are presented below in brief. The objectives are commented on in more detail in the five focus areas to which they apply, namely Our Customers, Our Suppliers, Our Planet, Our People, and Our Neighbours.

Global CSR objectives 2017+



Our Customers

CSR training

- 2017: E-learning module on CSR passed by 80 percent of all relevant employees

Responsible shea training

- 2017: E-learning module passed by 100 percent of all relevant employees

Sustainable sourcing

- 2017: E-learning module developed

AAK Code of Conduct for Agents and Distributors

- 2017: Implemented with minimum 80 percent of AAK's agents and distributors, including 2015 acquisitions

Global CSR objectives 2017+



Our Suppliers

Palm oil traceability

- 2017: Maintain full traceability to palm oil supplier mills
- 2019: Full traceability to plantation

Palm oil compliance

- 2017: Risk assessment completed with all suppliers and their mills
- 2017: Complete at least five on-site verifications of supplier mills

Shea supply chain

- 2017: At least 100,000 women enrolled in AAK's women's groups program in West Africa

Global CSR objectives 2017+



Our Planet

Waste

- 2018: Less than 1.5 percent of waste disposed as landfill / deposit

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Resource efficiency projects

- 2017: Each site identifies at least one project and reports its impact

Global CSR objectives 2017+



Our People

Safety

- Any work-related injury is unacceptable and AAK is constantly working towards a zero injuries workplace. We monitor and report globally Lost Time Injury Rate (LTIR)

Global CSR objectives 2017+

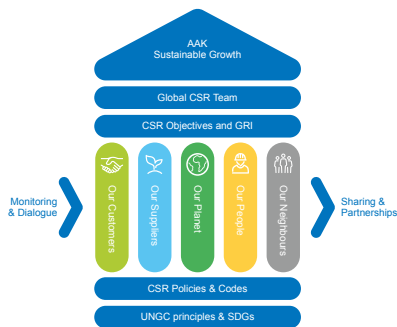


Our Neighbours

Local engagement

- 2017: Engaging in relevant local projects and activities
- 2017: Further develop AAK's smallholder approach





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 for more information.

Global Reporting Initiative G4 Index

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2	Description of key impacts, risks and opportunities	● Annual Report 2016: pp. 22–23, 37–39
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3	Name of the organization	● p. 64
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5	Location of headquarters	● p. 64
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17	Entities and boundaries	● p. II
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19	Material aspects identified	● p. 53
20	Aspect boundary within the organization	● No reporting
21	Aspect boundary outside the organization	● No reporting
22	Restatements	● p. 63
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Stakeholder engagement		
24	List of stakeholders engaged	● Engaging few selective stakeholders
25	Selection of stakeholders	● p. 52
26	Approach to stakeholder engagement	● pp. 15, 26, 47, 52–54
27	Key topics raised by stakeholders	● Supply chain sustainability
Report profile		
28	Reporting period	● 2016-01-01 – 2016-12-31
29	Date of previous report	● 2015-01-01 – 2015-12-31
30	Reporting cycle	● Annually
31	Contact point for questions	● p. 57
32	GRI content index	● pp. 60–62
33	External assurance	● None
Governance		
34	Governance structure	● Annual Report 2016: pp. 79–83
35	Delegating authority	● Annual Report 2016: pp. 80–81
36	Responsibility economic, environmental and social topics	● Annual Report 2016: pp. 32–33
37	Consultation between stakeholders and the Board	● Annual Report 2016: p. 80
38	Composition of the governance body	● Annual Report 2016: pp. 30–31, 80–81

39	Relationship between the Chair and executive officers	●	Annual Report 2016: pp. 30–33
40	Nomination and selection of the governance body	●	Annual Report 2016: pp. 79–80
41	Conflict of interest	●	Annual Report 2016: p. 80
42	Roles developing purpose, values and missions	●	Annual Report 2016: pp. 80–83
43	Knowledge of economic, environmental and ethical topics communicated to the Board	●	Annual Report 2016: pp. 26–27
44	Evaluation of the Board performance with respect to economic, environmental and ethical topics	●	No reporting
45	Role of the Board identifying risks within economic, environmental and ethical topics	●	Annual Report 2016: pp. 80–81
46	The Board's review of risks	●	Annual Report 2016: p. 83
47	Frequency of the Board's review	●	Annual Report 2016: pp. 80–81
48	Highest approval of the Sustainability Report	●	CEO
49	Reporting critical concerns to the Board	●	Annual Report 2016: p. 80
50	Critical concerns raised	●	No reporting
51	Remuneration policies	●	Annual Report 2016: pp. 64, 81
52	Remuneration process	●	Annual Report 2016: pp. 81–82
53	Stakeholders' views regarding remuneration	●	Annual Report 2016: pp. 79, 81
54	Ratio of compensations	●	No reporting
55	Ratio of percentage increase in compensations	●	No reporting
Ethics and integrity			
56	Values, principles, Code of Conduct	●	pp. 4–5, 16
57	External advice on ethical and lawful behaviour	●	pp. 5, 51
58	Mechanisms for reporting unethical or unlawful behaviour	●	Whistle blower system part of AAK Code of Conduct
EC Economic			
EC1	Direct economic value generated and distributed	●	Community donations: SEK 562,000
EC3	Coverage of the defined benefit plan obligations	●	Annual Report 2016: pp. 65–66
EC4	Financial assistance received from government	●	SEK 25,828,000
EN Environment			
EN1	Percentage of materials used that are recycled input material	●	Processed raw materials: 1,994,000 MT Packaging materials: 57,721 MT Processing aids: 28,900 MT Additives: 5,742 MT
EN2	Energy consumption within the organization	●	No reporting
EN3	Energy consumption outside the organization	●	p. 34
EN4	Energy intensity	●	No reporting
EN5	Reduction of energy consumption	●	pp. 32, 34
EN6	Reductions in energy requirements of products and services	●	pp. 32, 34–35
EN7	Total water withdrawal by source	●	p. 32
EN8	Water sources significantly affected by withdrawal water	●	p. 38
EN9	Water recycled and reused	●	No significant impact
EN10	Water recycled and re-used	●	p. 39
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity	●	Hull, UK and Port Newark, US sites adjacent to protected areas. No significant impact on production
EN12	Description of significant impact on biodiversity	●	No significant impact identified
EN13	Habitats protected or restored	●	pp. 21–28, 30
EN15	Direct greenhouse emissions	●	p. 37
EN16	Energy indirect greenhouse gas emissions	●	p. 34
EN17	Other indirect greenhouse gas emissions	●	No reporting
EN18	Greenhouse gas emission intensity	●	p. 36
EN19	Reduction of greenhouse gas emissions	●	p. 36
EN20	Emissions of ozone-depleting substances (ODS)	●	1,449 kg
EN21	NOx, SOx and other significant air emissions	●	p. 36
EN22	Total water discharge by quality and destination	●	p. 38 Total discharge: 1,487,000 m³
EN23	Total weight of waste by type and disposal method	●	p. 37
EN24	Total number and volume of significant spills	●	No significant spills. Minor spills in Aarhus, DK and Karlshamn, SE
EN27	Extent of impact mitigation of environmental impact of products and services	●	pp. 27, 32–39
EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	●	No fines in 2016
EN32	New suppliers that were screened using environmental criteria	●	pp. 19, 22–25
EN33	Significant actual and potential negative environmental impact in the supply chain and actions taken	●	p. 25
EN34	Number of grievances about environmental impacts filed, addressed and solved through formal grievance mechanisms	●	p. 25

LA Labour practices and decent work performance indicators

LA1	Total number and rates of new employee hires and employee turnover by age group, gender, and region	●	p. 45
LA5	Minimum notice period regarding operational changes	●	In line with national legislation and local agreements
LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of fatalities by region	●	pp. 40–41 Four case of occupational disease registered. No fatalities
LA9	Average hours of training per year per employee by employee category	●	Inadequate recording globally
LA10	Programs for skills management and life-long learning that support the continued employability of employees and assist them in managing career endings	●	Personal Development Plans (PDP) implemented globally
LA11	Percent of employees receiving regular performance and career development reviews by gender and by employee category	●	Personal Development Plans (PDP) implemented globally
LA12	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity	●	p. 45
LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	●	p. 43
LA14	Percent of new suppliers that were screened using labour practices criteria	●	p. 19
LA15	Significant actual and potential negative impact for labour practices in the supply chain and actions taken	●	pp.19, 25
LA16	Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms	●	No grievances in 2016

HR Human rights

HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	●	None in 2016
HR2	Total hours of employee training on human right policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	●	AAK Code of Conduct signed by all employees. No specific HR training
HR3	Total number of incidents of discrimination and actions taken	●	p. 43
HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	●	p. 19 No incidents in 2016
HR5	Operations and suppliers identified as having significant risk for incident of child labour and measures taken to contribute to the effective abolition of child labour	●	p. 19 No incidents in 2016
HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measure to contribute to the elimination of all forms of forced or compulsory labour	●	p. 19 No incidents in 2016
HR8	Total number of incidents of violations involving rights of Indigenous people and actions taken	●	p. 27 No incidents in 2016
HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessment	●	p. 16
HR10	Percentage of new suppliers that were screened using human rights criteria	●	p.19
HR11	Significant actual and potential negative human rights impact in the supply chain and actions taken	●	pp. 19, 25
HR12	Number of grievances about human rights impacts filed, addressed and resolved through formal grievance mechanisms	●	No incidents In 2016

SO Society

SO1	Percentage of operations with implemented local community engagement, impacts assessment and development programs	●	pp. 11, 26, 47–50
SO2	Operations with significant actual and potential negative impact on local communities	●	None
SO4	Communication and training on anti-corruption policies and procedures	●	p. 42
SO5	Confirmed incidents of corruption and actions taken	●	No incidents in 2016
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcome	●	No incidents in 2016
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	●	No non-compliance incidents
SO9	Percentage of new suppliers that were screened using criteria for impact of society	●	pp. 23, 25
SO11	Percentage of new suppliers that were screened using criteria for impact of society	●	No incidents in 2016

PR Product responsibility

PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for Improvement	●	p. 16
PR3	Type of product and service information required by the procedures for product and service Information and labeling and percentage of significant product and service categories subject to such information requirements	●	p. 17
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and	●	No non-compliance incidents

FP Food processing sector supplement

FP1	Percentage of purchased volume from suppliers compliant with company's sourcing policy	●	pp. 19, 22–27
FP2	Percentage of purchased volume which is verified as being in accordance with credible internationally recognized responsible production standards, broken down by standard	●	p. 23
FP3	Percentage of working time lost due to industrial disputes, strikes and/or lockouts, by country	●	p. 43
FP5	Percentage of production volume manufactured in sites certified by an independent third party according to internationally recognized food safety management standards	●	p. 16

Reporting criteria

Scope and materiality

This is the eighth AAK Sustainability Report. The first was published in October 2010 and our aim is still to continue reporting on an annual basis. Due to European legislation future reports will be launched in the second quarter.

Since commencing structured reporting in 2008, we have followed the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines, now following the current G4 version. As this is the most widely used reporting framework, we believe many readers will already be familiar with its principles and find them helpful when searching for information. 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 G4 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. That has been further developed over the years and 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 2016 and, therefore, only contains a summary of financial performance figures and references to the AAK Annual Report. Both reports are available on AAK's website.

In general, the data in this report covers our activities from January 1 to December 31, 2016. Updated information for some 2017 events is included, since they are considered to be of material importance to our stakeholders.

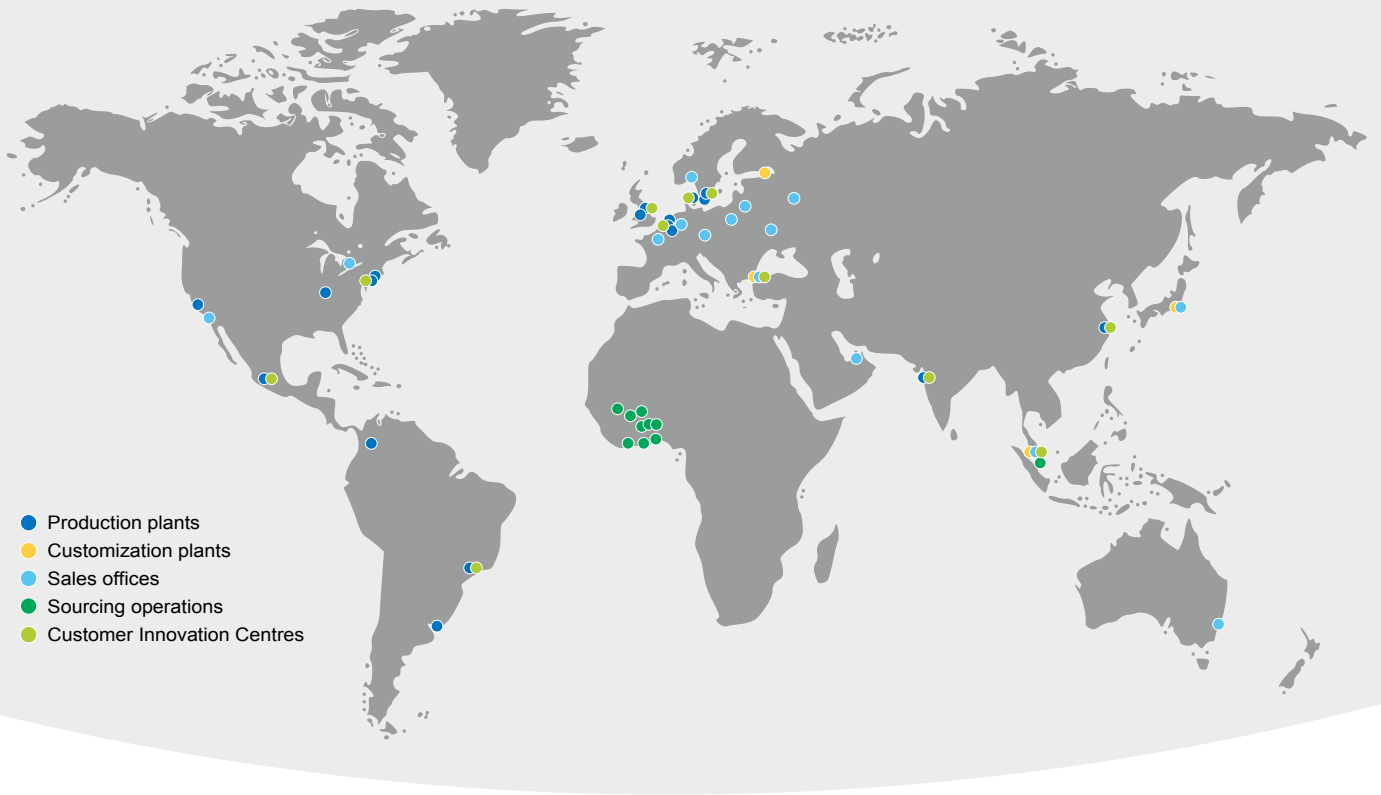
Environmental data (GRI abbreviation: EN) relate to the thirteen AAK production plants that were fully operational in 2016 including the AAK products produced by our toll production partner Cousa in Montevideo, Uruguay. Other core data also include purchasing sites and sales offices.

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 year 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, 2016 and based on payroll information.

Some minor data errors have been identified since the 2015/2016 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 first choice for value-adding vegetable oil solutions

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. With our headquarters in Malmö, Sweden, 20 production facilities and customization plants, and sales offices in more than 25 countries, more than 3,000 employees are dedicated to providing innovative value-adding solutions to our customers.

So no matter where you are in the world, we are ready to help you achieve long lasting results.



We are AAK – The Co-Development Company.

Head office

AAK AB (publ.), Skrivaregatan 9, SE-215 32 Malmö, Sweden
 +46 40 627 83 00 | www.aak.com | info@aaak.com
 Registered office: Malmö | Reg. No. 556669-2850

