

March 2, 2017

## Response to Swedwatch report from AAK

AAK appreciates the efforts put into the detailed and lengthy report by Swedwatch in drawing attention to human rights issues in Borneo, and in particular in relation to palm oil production. As a result of the issues identified we will reconsider our position regarding sourcing from Borneo, and in particular relating to human rights.

With respect to the focus on AAK in section 5.3 of the report, we acknowledge the comments made. However, we are surprised that Swedwatch has not made further reference to the palm sustainability progress of AAK more generally.

Key aspects of the implementation of AAK's sustainable palm oil policy are traceability to mill and risk assessment. AAK recognises that alone we cannot address all of the issues of the palm oil industry in all locations. We can, and do understand the sources of palm oil purchased and have a strong process for selecting those requiring further investigation and support. Moreover, given our position in the supply chain as a trader and refiner, owning no palm oil production or milling facilities ourselves, we must seek to implement change on the ground by working with our suppliers. In some cases this involves assessing whether their own sustainability programmes are aligned with our own, and where this is the case and we are able to track their progress, we may choose not to intervene directly. This is the case with our suppliers in Borneo.

AAK engages strongly with multi-stakeholder initiatives such as the RSPO to influence the palm oil industry as a whole. AAK also prioritises aspects of its own supply chain to make a real difference. Our current priorities, based on risk assessments by Proforest, do not include our suppliers from Borneo. The nature of such risk assessments is explained below. However, we do take note of the issues raised by Swedwatch and will include them in future assessments.

Proforest is a highly credible partner in our progress towards a sustainable palm oil supply chain. Proforest's risk assessment basis is explained in detail in our latest update reports on palm sustainability, which can be found at <http://www.aak.com/en/Documentation/Policies/>. We know that risk assessment in relation to human rights issues is less well developed than that in relation to environmental issues and look forward to a more sophisticated methodology to underpin this area in the near future.

We note that Swedwatch's criticisms of AAK relate to a lack of focus on human rights issues in Borneo, and a lack of transparency relating to both disclosure of suppliers and to due diligence work performed.

We accept that Borneo has not been a focus area for AAK, for reasons noted above, including the fact that a relatively small proportion of palm oil sourced by AAK originates in Borneo. We are aware that human rights have in many ways been less prominent in risk assessment and prioritisation exercises to guide sustainable palm oil verification than environmental issues, not only in Borneo. We see that is changing in the palm industry, with many NGOs constructively engaged in developing new processes, and we welcome the re-prioritisation.



AAK's policy is to not disclose publicly the names of suppliers, as we consider this to be commercially confidential information. We appreciate that this perceived lack of transparency is a frustration for those organisations such as Swedwatch who seek to understand in full the source of our palm oil supplies. It should be noted, however, that we do share this information with key stakeholders following the signing of an NDA. Nonetheless, the conclusion that there are human rights issues within AAK's supply chain in Borneo does not follow. We seek to maintain a balance in this area, and to report progress as transparently as possible within this constraint. In addition, we would note again that 97% of AAK's global palm oil, palm kernel oil and palm oil derivatives supplies are traceable to mill, including Borneo. We are happy to discuss further with Swedwatch the nature of the risk assessment and due diligence programmes, as well as the human rights issues in Borneo, and have previously invited them to discuss these matters with us directly, unfortunately without a response yet.

For a more balanced indication of the strong efforts of AAK within palm sustainability we would urge reading our most recent report on this subject. AAK does not claim to be perfect, but we are engaged in this important area, making progress in enhancing sustainability within the palm industry and working very hard to benefit local communities and the environment, to the extent that our objective is a competitive advantage with customers. We believe we are on the right track and a good example in our industry.

We welcome Swedwatch's contribution to the debate, but also ask that such a contribution is seen with a wider perspective in relation to AAK.

*AAK is a leading provider of value-adding vegetable oils & fats. Our expertise in oils & fats within food applications, our wide range of raw materials and our broad process capabilities enable us to develop innovative and value-adding solutions across many industries – Chocolate & Confectionery, Bakery, Dairy, Special Nutrition, Foodservice, Personal Care, and more. AAK's proven expertise is based on more than 140 years of experience within oils & fats. Our unique co-development approach brings our customers' skills and know-how together with our own capabilities and mindset for lasting results. Listed on the NASDAQ OMX Stockholm and with our headquarters in Malmö, Sweden, AAK has 20 different production facilities, sales offices in more than 25 countries and nearly 3,000 employees. **We are AAK – The Co-Development Company.***