



AAK's progress report
on sustainable shea
– May 2018

The Co-Development Company

AAK

Introduction

An invaluable raw material

For more than 60 years AAK has been a key player in the shea industry. This is also how long we have been sourcing this important raw material from the so called shea belt in West Africa. Since the early 2000s, we have increased our presence and our activities in the region. We have built up sourcing units in the major regions of the shea belt and built strong direct relationships with shea suppliers, including more than 130,000 women collecting shea kernels.

Some 95 percent of the shea is being used in the chocolate and confectionery industry while the remaining 5 percent is used in the cosmetics industry. Shea is not only an invaluable raw material for AAK; it also provides an income for in particular millions of women in West Africa. We have built our supply chain based upon strong relationships which enables us to build strong sustainability practices. We are committed to continuously improve our responsible sourcing activities and follow up as well as communicate on the progress we are making.

Because of our unique, long and very important relationship to shea, we have decided to publically share our ambitions, results and many great efforts in West Africa. In this report, we will first introduce shea as a raw material and its meaning to AAK. Then we'll describe our different shea supply chains. We'll introduce a shea dashboard showing our continuous progress on the ground in West Africa. And finally we will share a few examples of positive impact stories related to our business activities. These are put in the context of the Sustainable Development Goals (SDGs). We're very proud to present this first shea progress report; we sincerely hope you will enjoy reading it.

Anne Mette Olesen, Chief Marketing Officer including CSR, AAK Group
Torben Friis Lange, Chairman Global Sourcing and Trading and President Asia, AAK Group

What is shea?

Shea as a raw material

The shea tree is a wild tree growing in the shea belt, which stretches across Africa south of the Sahara. Countries with the highest population of shea trees include Benin, Burkina Faso, Ghana, Ivory Coast, Mali, Togo, and Nigeria (see map page 6).

The shea trees produce edible fruits. Inside the fruit there is a kernel containing 50% fat.

Shea as a crop has many sustainable attributes. The trees on which shea kernels grow require no use of fertilizers or pesticides. Shea trees do not grow in plantations, partly

because it takes around 15 years for the trees to bear fruit. However, trees are allowed to grow in 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 women who collect and process shea kernels. Edible fruit fall from the trees in a period when there are few other crops being harvested, which makes shea an essential source of nutrition. Part of the shea crop is also sold, providing an important source of income. The women do not only spend the earned money to provide essential food and cover basic needs for their families. They also invest in their children's education and other income-generating for themselves and the community they live in.

In the AAK shea supply chain, there is zero waste. All parts of the shea kernels are being used. The oil is extracted from the kernels and fractionated into stearin and olein, and the shea meal remaining is used as biomass for producing energy.

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An industry continuously developing

Even though the shea tree takes a very long time to yield fruit, the industry is not static at all, rather developing year after year.

In 2017, the Global Shea Alliance (GSA) and United States Agency for International Development (USAID) initiated an independent study to evaluate the growth of the shea industry. The study, conducted by LMC International, a global agribusiness consulting firm, found that shea exports have increased from 50,000 tons to more than 350,000 tons shea kernels equivalent annually over the last 20 years. The growth is due to an increased utilization of shea in global food and cosmetics industries.

The subsequent local economic impact has been significant as well. The LMC study estimates that the increased exports are delivering USD 200 million in direct and indirect income for shea-producing communities. If the growth continues, more lives will be touched in the future. As of today, it is estimated that over four million women partake in the shea industry related to export in West Africa.

The actual number of women involved in the shea industry could however be up to four times bigger. Increasing demand and export in the coming years will, everything else being equal, bring opportunities to even more people.

“We know well the benefits of increased trade for rural communities across Africa”, says Alex Deprez, USAID/ West Africa Mission Director. “The Global Shea Alliance is pioneering efforts to grow markets and improve the livelihoods of rural women and their families that stand at the base of the shea value chain. We are proud to partner in their activities.”

In a growing industry there will be ongoing opportunities for improvement. Engagement with suppliers throughout West Africa is essential in order to support the growth and improve women’s empowerment and environmental conservation across the production area.

At AAK, we anticipate that the industry will blossom even more in the years to come and we are looking forward supporting this development.

AAK as a key player in the shea industry

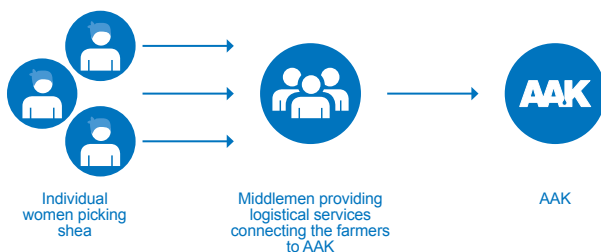
AAK has more than 60 years of experience sourcing shea kernels from West Africa. Working in close cooperation with shea traders and women’s groups, AAK has built a solid and durable sourcing set-up across the shea production areas as well as logistical hubs in the coastal areas. In 2017, AAK’s supply chain in Benin and its production site in Aarhus, Denmark passed the ISCC (International Sustainability & Carbon Certification) audit and received certification for the second time.

The traditional supply chain for shea is long and complex, with many middlemen between AAK and the women in the bush. Many of these middlemen have a logistics function moving kernels from the rural areas to the bigger towns.

It’s a well-functioning supply chain, providing an income to millions of people in West Africa.

As a key player in the shea industry, we have taken responsibility and engaged directly with the women producers of shea kernels. We conceived a new business model and supply chain based on the fair trade principles. Additionally, we are employing extension officers who train the women in order to maximize quality and good practices. We are in direct contact with more than 130,000 women in Burkina Faso and Ghana. We call our program women’s groups Kolo Nafaso, meaning the house of benefits of shea kernels. We run this program in parallel with the traditional supply chain.

Traditional shea supply chain



AAK's women's groups supply chain



Traditional and women's groups supply chain (Kolo Nafaso)

The vast majority of the shea that AAK sources originates from the traditional supply chain while the remaining is sourced through Kolo Nafaso, our women's groups program.

Traditional supply chain

For the traditional supply chain we are very dedicated in our work with our suppliers who have all signed the AAK Group Supplier Code of Conduct. We hold meetings with suppliers regularly and we build long-term relationships with them. They have become true partners of AAK.

Within the traditional supply chain, we employ dedicated drivers, mechanics, accountants, warehouse keepers and laboratory technicians to staff our yards in which we receive the shea kernels. In 2017, we had more than 100 permanent employees in West Africa. These employees have all signed our AAK Group Code of Conduct, thereby ensuring that they understand the AAK values as well as the dos and don'ts. On top of the permanent employees, AAK also employs many seasonal employees during the peak of the shea season.

In 2017, 85 percent of our employees participated in first aid training. This was very appreciated, since this knowledge can be used both at work and outside work. Using e-learning modules, we also train relevant employees in areas such as anti-corruption, competition law, CSR, and responsible sourcing of shea.

Women's groups supply chain (Kolo Nafaso)

Within Kolo Nafaso, we register and monitor the number of women enrolled every year in our program. As can be seen in the graph (see page 5), this figure has increased exponentially over the last years, showing the success of the

program. Today, we have enough critical mass to segregate the shea coming from Kolo Nafaso's women's groups from the shea coming from the traditional supply chain. This means that we are able to deliver segregated shea from our women's groups to our customers.

To work directly with so many women's groups involves quite some challenges. One of them is safe and fast payments for the kernels to the women. Our solution to this was to facilitate the opening of bank accounts for the women (see page 5 and 7). In 2017 we had opened 2,147 accounts in total. There are many benefits for the women to have access to a bank account. One example is when AAK pays the annual bonus to the women's groups. That bonus goes to the whole group and they have to decide together how to use that money. They often decide to invest in projects that benefit the whole community.

In 2016/17, AAK's extension officers paid more than 11,000 village visits to organize the work with the women, driving more than 700,000 kilometers on their motorbikes. This really shows the strong presence AAK has at bush level in the shea-growing areas (also see page 8).

AAK's most recent successful initiative in West Africa is the rocket stove project. With locally available and sustainable building materials, and at zero cost, we teach the women to build stoves that consume up to 65 percent less wood than traditional stoves. The rocket stoves have many benefits for the women, which are brought up later in this report (see page 12). In 2016, around 300 stoves were built and in 2017, more than 1,300 stoves were built. This sustainable initiative has been a great success with many positive impacts for the women as well as for the environment.



AAK Shea DASHBOARD



TRADITIONAL SUPPLY CHAIN

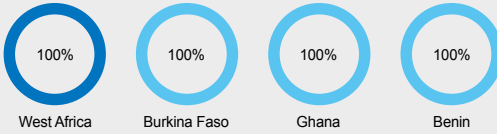


Supplier engagement

% of suppliers having signed the supplier code of conduct



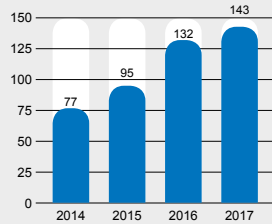
Supplier Code of Conduct



Employee statistics

West Africa

Number of permanent AAK employees in West Africa

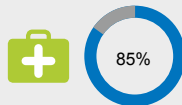


86% increase between 2014 and 2017

% of employees having signed the AAK code of conduct



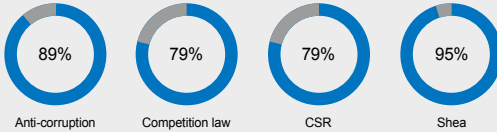
% of employees trained in first aid



% of target group trained



Training

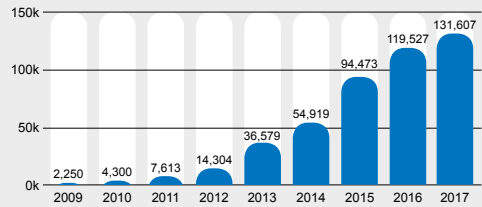


KOLO NAFASO (women's groups)



Traceability to women's groups level

Number of women enrolled in Burkina Faso and Ghana



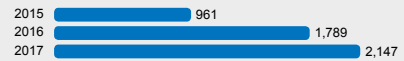
100% traceable and segregated*

* The shea kernels from the women's groups program (Kolo Nafaso) are fully traceable to women's groups level and kept separated from the ones from the traditional supply chain all the way from sourcing to end product.

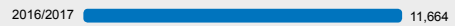


AAK engagement

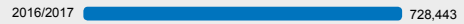
Number of bank accounts AAK has opened for the women's groups



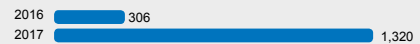
Number of village visits by AAK extension officers



Number of kilometers driven by AAK extension officers



Number of rocket stoves built



Traceability as an important tool

Traditional supply chain

From AAK's perspective traceability is an important tool to ensure that our supply chains meet the sustainability standards that we require. Our AAK Group Policy: Responsible Sourcing of Vegetable Oils sets the requirements for all of our suppliers of raw materials. Amongst a fundamental range of social and environmental standards it requires traceability in all of our supply chains to a level that enables us to ensure that our sustainability requirements are met. For our traditional shea supply chain this means that we need to know the regions where our shea kernels have been grown.

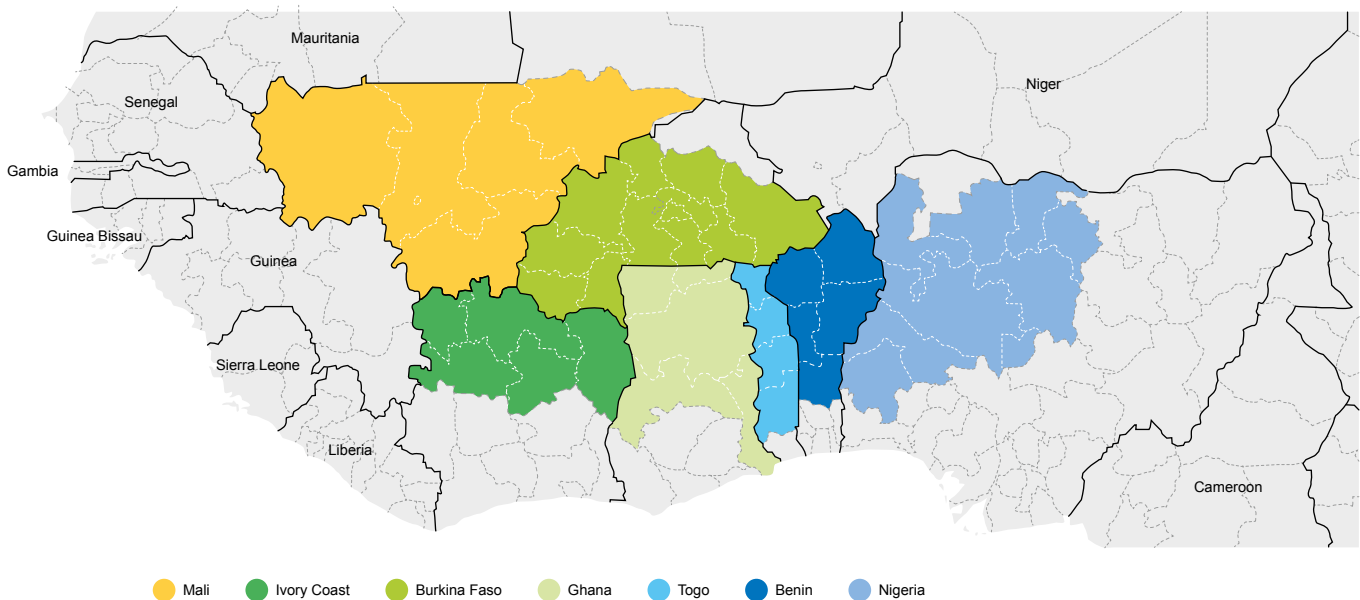
We have developed a supply base map, together with our suppliers, delivering the needed level of traceability in our full traditional shea supply chain.

Each delivery to AAK comes from one or more regions in this supply base; the kernels from our supply base are mixed. Our supply base is verified every year on trust-based interviews with our suppliers – suppliers that we have been working with closely for many years – as well as through yearly field assessments.

All of our suppliers have accepted and signed our AAK Group Supplier Code of Conduct and are important players in the supervision of local compliance with our responsible sourcing policy.

Our shea supply base map will be updated at least once a year, following our traceability meetings with our shea suppliers.

AAK shea supply base map



Women's groups supply chain (Kolo Nafaso)

AAK's women's groups supply chains (Kolo Nafaso) are fully traceable and segregated from women's group level to AAK's production facility in Denmark. The oil that AAK delivers to its customers is physical oil from our women's groups in West Africa.

The women's group program is based on a direct sourcing approach without any middlemen involved. AAK's extensive

logistical infrastructure in West Africa allows the kernels to be fully segregated at origin.

AAK enables traceability to women's group level through a system of unique traceability codes attached to each shea bag. The codes also enable AAK to link the quality of the kernels to the particular women's groups and to assist them with it if needed.

Bank accounts for the women's groups (Kolo Nafaso)

Many of the women's groups that AAK works with are located in remote rural areas, often far away from a town. The roads in West Africa are not always safe and it is risky to transport cash through the bush.

Therefore, AAK has facilitated the opening of bank accounts for the women who supply us. So far, we have opened more than 2,147 bank accounts for the women's groups in Ghana and Burkina Faso. These bank accounts are savings accounts with high savings interest rates so the women can save their profits in a safe place. Furthermore, we are able to make fast payments, which are highly appreciated by the women.

In fact, within many of the groups that AAK works with, the bank accounts have fostered solidarity between members. In many groups, a solidarity system has been put in place after a group opened a bank account.



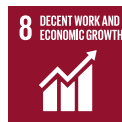
"Since we have a bank account we are thinking about asking the bank for a loan for a common project."

*Somé Christine
Président of the group Igné
Village Dissin, Burkina Faso*



"We are a group of 30 women. We have worked with AAK for three seasons. During the first season, we had access to a bank account together with other groups of our village. It was really difficult to deal with because the other groups did not respect the agreement. At that stage, we were very happy not to carry cash around, avoiding dangerous situations. We were happy to feel safer. Two years ago, we opened our own bank account with the help of AAK. Before, we did not know what to do with the profit of our activities. We were used to distribute it to the members. Now we keep it in the bank account. When a member of the group is in need, for example if she has to buy medicine for her child, we can give her or lend her some money from the bank account, and she will reimburse when she is able to."

*Somé Adèle, Secretary of the group Igné, and
Dabiré Elisabeth, Treasurer of the group
Village Dissin, Burkina Faso*



The many bank accounts that AAK has helped the women to open support Sustainable Development Goals 1, No poverty, 8, Decent work and economic growth and 9, Industry innovation and infrastructure, more specifically target 1.4, Equal rights to economic resources, access to land, natural resources and banking, target 8.10, Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all, and target 9.3, Increase the access of small-scale industrial and other enterprises to value chains and markets.



Meet Tabiim – one of AAK’s extension officers



Our extension officers are key employees in handling the day-to-day contact with the many women we work with in our shea supply chain.

Tabiim Kwabena Nidoni is one of them and he is based in Northern Ghana. Tabiim has been with AAK for one and a half years, and together with his team he is responsible for supporting more than 85 women’s groups. This includes more than 4,000 women!

Before joining AAK, Tabiim worked for “Integrated Development Center”, a Ghanaian NGO working with local communities, and he therefore brought a lot of relevant experience into the job as an AAK extension officer.

“Working for AAK is in many ways very similar to my previous experience, in the sense that both organizations work on a local level. Managing groups and community engagement was also something I did in my former organization. Of course, AAK has a business mindset which is different from my previous employer, but the similarity is that both organizations empower the local level and try to improve lives.”



“Since I started working for AAK back in November of 2016 it’s been like a family. In my team we don’t just work as individuals, but we work as a family, we look after each other.”

Tabiim (right) with team colleague Simon.



Making a difference

Tabiim and his colleagues spend most of their working hours in the bush, meeting and talking with the women, so they are also the first ones to see the impact of AAK’s women’s groups program.

“Via the system of pre-financing the women’s groups program makes resources (money) available to the women at a moment when they most need it. Working in groups also brings the women closer together and exposes them to new things. Most of them have never visited a bank before, so they’re presented to areas of society where they have had no previous knowledge. The bonus system gives them a possibility to make an impact on their own communities as a group, which also increases their standing within their communities. So we’re generating positive impacts in many different ways.”

Communication experts

Driving thousands of kilometers on a motorbike on dirt roads, managing relations with so many women’s groups, is of course not always easy.

“We have to be communication experts. Things that we may think are logical and easy to understand are not always understood by the women. Many of them are uneducated and illiterate, so they don’t always comprehend things in the same way. If we don’t present things in the right way, we risk getting into unnecessary discussions with the women. We have to respond quickly and adapt if we find out that there are misunderstandings among the women.”

Looking ahead

Being out in the bush also means that Tabiim and his colleagues are in a unique position to provide input on the future development opportunities for the program as well as on the biggest challenges we are facing.

“Protection of the shea trees is something that is really needed. Despite what we already do, we need to help the communities even more to protect the trees so that the women can maintain their business. I believe we can also improve by expanding group dynamics training to include others from the community, since it will help the women if the rest of the community better understand the impact of their work.”

Pre-financing to support the women in times of need



When the shea picking season starts around April or May, the women have few sources of income while the expenses for seeds and other farming inputs need to be covered. The need for money often results in the women selling their shea kernels early to speculators. That usually happens at low prices for the women, as the kernels do not have time to dry properly, resulting in a lower quality.

AAK supports the women of Kolo Nafaso during that hard time of the year. We give the women an interest-free micro credit that we call pre-financing. More than 130,000 women receiving pre-financing in times of need have a big impact on the fight against poverty in the rural areas.

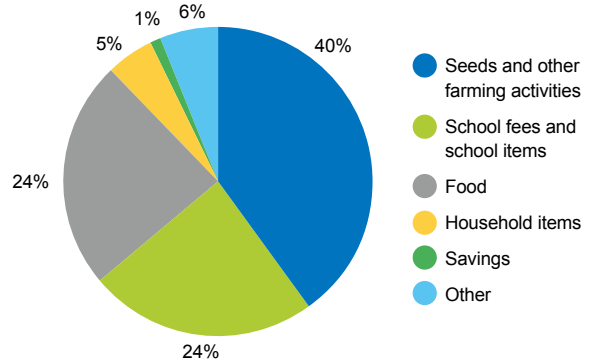
Our pre-financing is therefore a much-welcomed supplement to the women and their households, and an important aspect of why being a part of one of the Kolo Nafaso's women's groups is so popular among the women.

Selling the kernels later in the season rather than earlier benefits both AAK and the women. Selling later is likely to result in a higher market price for the women, and AAK receives better-quality (drier) kernels than if we buy during the rainy season. In 2016, we surveyed almost 500 women asking them, among other questions, what they had spent the pre-finance money on. As can be seen in the chart below 64 percent of the women spend the money on investments for the future like seeds and school fees. 24 percent of the women use the money to provide food for their families.



AAK's pre-financing supports Sustainable Development Goal 1, No Poverty; more specifically target 1.4, Equal rights to economic resources, access to land, natural resources and banking.

Investments of pre-financing capital



In our interactions with the women we emphasize that we represent a commercial business that wants to source shea kernels in a sustainable and responsible way. The system with pre-financing is one of the areas where we impact the local communities the most, building trust and loyalty with the women, thereby securing our supply in the years to come.

Examples of use of pre-financing

School fees

In the rural areas of Burkina Faso, school fees amount to six USD per child per year. But for poor families it is not always easy to find the resources to send all their children to school. Traditionally, it is the men who carry the responsibility to pay the school fees.



“With the pre-finance of one bag of shea kernels, I give six USD to my husband to pay the school fees and the rest to the children’s canteen. It makes me feel proud to help the family and to help my husband.”

Karidia Traore, President of the group Faso Bonokora in the village of Gognion



In this case, AAK’s pre-financing supports Sustainable Development Goal 4, Quality education; and more specifically target 4.2, Ensuring inclusive and equitable quality education and promoting lifelong learning opportunities for all.

School canteen

The women of the village of Gognion have taken the initiative to support a school lunch program (canteen) and the women decided to create a local savings association.

In the women association, each woman gives three boxes of corn per child and 500 cfa Francs (0.9 USD) per child. Corn is a staple food in Burkina Faso and the money collected will also help buy vegetables.



“The canteen works during the lean season so we don’t have to face a lack of food for our children. We are sure they will get some food for lunch. We don’t feel guilty anymore. It helps our children and it helps their education. As a mother, it is a relief.”

Karidia Traore, President of the group Faso Bonokora in the village of Gognion



“If the children have to walk far to go home for lunch, they’re less inclined to come back to school in the afternoon. With the canteen, we have seen better school results because the children are present at school in the afternoon and they are less tired.”

Benoit Traore, Director of the school in the village of Gognion

The women organization was able to support the canteen for two more months. The second semester is the most important. All teachers and supplies are available and it is the period when the students learn the most. “Next school year we would like to start the canteen earlier and help families for a longer period.”

The pre-financing supports the women when they need it and secures our shea sourcing at the same time. The consequences of this pre-financing are far-reaching, as it has multiple positive impacts on local families and communities. It is our way of living up to AAK’s commitment to sustainability.



In this case, AAK’s pre-financing is supporting Sustainable Development Goal 2, Zero hunger; more specifically target 2.2, Achieving food security and improved nutrition.



Women empowerment and pride

The women's groups program is about sourcing shea kernels and building sustainable relationships with the women's groups. This program creates a positive impact through our commercial relationship with the women, and also conjures a sense of pride within the women.



"I usually make and sell the local drink and donuts. This season, with the pre-finance, I bought school supplies for my children and I helped my husband to purchase seeds for the agricultural production. But sometimes, as the pre-financing coincides with the lean period, I have to buy millet to prepare food for the children. I have a sense of pride because not all women manage to support their husbands in the expenses of the house, so that the family is well. I do not do it for him but rather for my children. If he does not do it and I do not do it, it's the children who will suffer. My children know that I am there for them. And even if that's not all, I can do something for them. I have more consideration now in the family. Now my husband knows that I do a lot of things and that I can help him with his duties, so he respects me more and so do my family-in-law."

*Gantiere Some,
President of the group Vaa-Ir,
Village Donkore, Burkina Faso*



"It often happens that when I speak with a woman, I can see that the pre-financing gives her more than just money. It also gives her new opportunities. She can start a new business on her own without asking for money from her husband or family. She can help her husband pay for things, elevating her place in the family and bringing some balance to her relationship with her husband. For me, the stories I hear from the women every day are what we call empowerment. Seeing the pride that these women have in both the pre-financing they receive from AAK and their growing commercial relationship with this company makes me feel proud of my work at AAK."

Aude Traore, Program Manager, Burkina Faso



Rocket stove project

In 2016, AAK strengthened its focus on environmental sustainability by training women to build and use rocket stoves. A pilot rocket stove project was launched in September 2016. It highlighted the importance of wood consumption in the daily lives of women involved in our Kolo Nafaso program. For these women, wood is their first source of energy and 72 percent of them collect the wood from the bush.

AAK conducted several tests with regards to the rocket stoves. The results demonstrated that cooking with a home-made improved stove saves from 33 to 65 percent of wood depending on the size of the stove. The small stoves used for cooking save 33 percent of wood, and the big stoves that are used to boil shea kernels save 65 percent of wood, meaning 65 percent less CO₂ emissions.

In 2016, AAK managed to build 306 rocket stoves. In 2017, the project was rolled out on a bigger scale and more than 1,300 stoves were built. We are aiming to keep up the momentum and maximize the positive environmental impact this project can have.



“Made with local materials like cattle pie, dried straw and termite sand, this zero-cost solution is a real opportunity for the women we work with not just to save wood but much more than that.”

Aude Traore
Program Manager, Burkina Faso



Improved stoves for a better daily life

While initially designed as an instrument to mitigate environmental degradation and fight desertification, the improved stoves have also demonstrated everyday advantages to the women who use them.

On a normal day, women do not often have the opportunity to rest. They are responsible for preparing the food, caring for their children, fetching water, gathering wood, and also helping the family with farming and gardening. For them, when they can cook quicker and don't need to collect so much wood for firing, thanks to the improved stoves, it is a significant benefit.

“Before, I was using only the three-stones stove. Now, I have built two improved stoves and I only use them. It is really good for us. Before we had to walk far to collect the wood. But with the improved stove, I don't need to go to the bush as often because I use less wood.”

Mariam Ouedraogo
Member of the group Relwende
Village Niolo Niolo, Burkina Faso



“I'm really happy because I cook quicker with the improved stove. If I cook quicker, it means that I have more time during the day to do other activities that I like or I can rest a little. There is also less smoke and less risk for me and my children to get burnt.”

Awa Ouedraogo
President of the group Relwende
Village Niolo Niolo, Burkina Faso



“I have a small restaurant. When AAK proposed this training, I was interested in building the bigger stove for my restaurant. Thanks to the trainers, I have built stoves for my restaurant and at home. Before, I needed three piles of wood to cook, one in each opening. Now, I only use one. I buy the wood from other women. I really save money with the improved stove and get a better income from my restaurant.”

Fatoumata Ouedraogo
Member of the group Relwende
Village Niolo Niolo, Burkina Faso





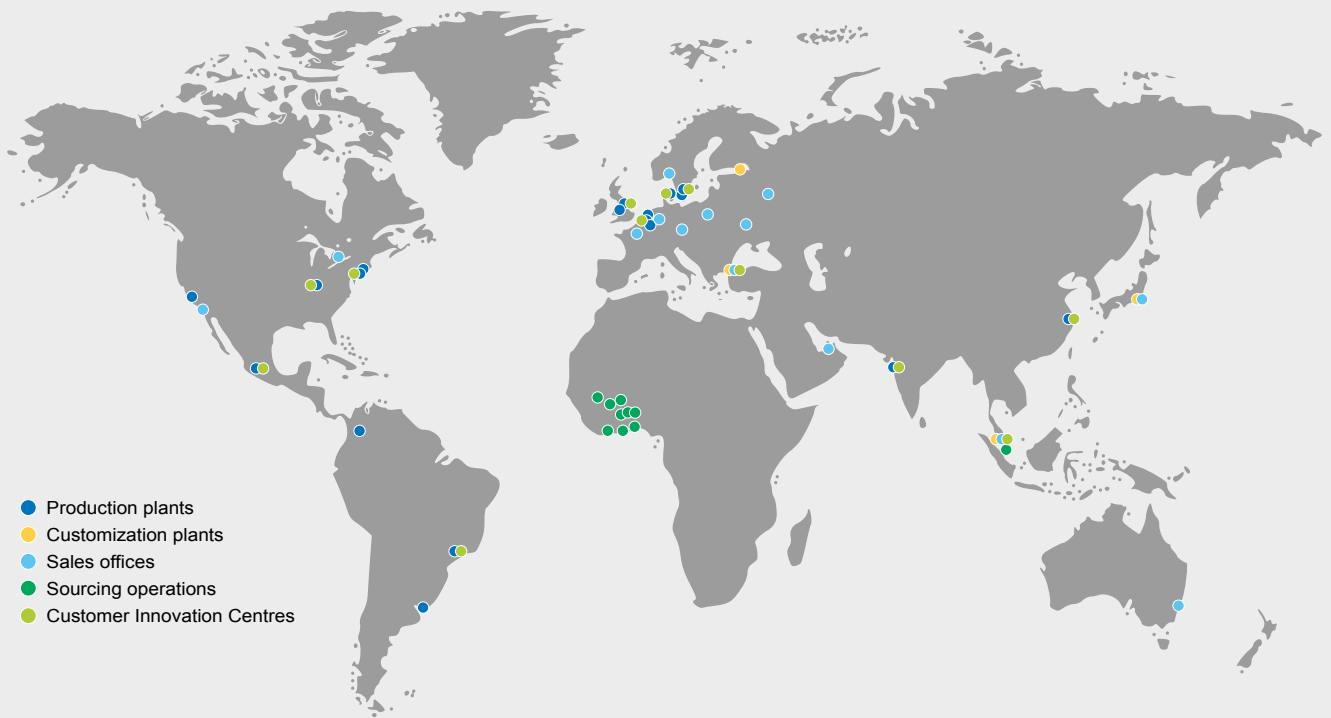
AAK future ambition

AAK's ambition is to continue to be a strong and knowledgeable partner on sustainability for our customers. We will continue to improve our work with the shea suppliers and the women's groups and communicate the progress.

We also have the ambition to further strengthen both our direct cooperation with the women as well as with other shea suppliers.

In the past years, we have been very focused on increasing the number of women enrolled in our women's groups program. In the future, we will still grow the project but we will even more focus on the impact on the livelihoods of women that we already work with. We will benefit from our

strong presence on the ground in West Africa to find out how we can further improve our work with the women's groups (Kolo Nafaso). Our strong network of AAK-employed extension officers is an important tool to receive feedback from the women and to raise the bar when it comes to sustainability. During the next months, we will conduct a questionnaire at women level in all the shea-growing areas to assess environmental, economic and social aspects of shea collection as well as the impact it has on the women and their families' livelihoods. We will share the highlights of this survey in our next shea progress report.



We are AAK

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

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

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

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



We are AAK – The Co-Development Company.

