

UNITED NATIONS GLOBAL COMPACT

KOHBERG BAKERY GROUP A/S

COMMUNICATION ON PROGRESS

REPORT 2011



Statement from our Chief Executive Officer

Support of United Nations Global Compact

During 2011 we at Kohberg Bakery Group have sustained our high focus on CSR and as part of this the principles in the UN Global Compact and especially the environmental area.

As a member of the UN Global Compact since July 2009, we believe that our business policies incorporate the ten principles from the UN Global Compact, e.g. through our Code of Conduct. Our board fully supports our actions in working towards sustainability goals – in particular those contained in the UN Global Compact – and endorse the future priorities and specific targets we set out in our report.

Through our support of the UN Global Compact, we also aim to move the agenda forward on performance related to human rights, labour rights, the environment and the fight against corruption. In our annual report, we have summarised the progress we have made against each of these principles and we will continue to follow up on them in future reports.

We are in this report happy to announce some positive developments, especially concerning the environmental focus areas.

Kohberg Bakery Group A/S

Jesper Fogtmann
CEO



Introduction

Corporate Social Responsibility

Kohberg Bakery Group is a manufacturer and supplier of bread and bakery products from rye bread to wheat bread and from Danish pastries to biscuits. Started in 1969 by Alfred Kohberg, the Fogtmann family took over the relatively small company at that time in 1989 and has since expanded the company into its present size with revenue of 978 mDKK. With headquarters located in the small town of Bolderslev in the southern part of Jutland, Denmark, Kohberg produces its products in a 37,000 m² large, roofed production bakery. Two other production locations exist today in two other Danish towns, Taastrup and Haderslev. Together, these three bakeries produce over 129 million bags of bread, when only counting the sales for retailer shops. Besides servicing retailer shops, Kohberg also delivers to private companies and events. Being the biggest, Danish-owned bakery, Kohberg on average had 599 employees during 2011.

At Kohberg we have built our corporate social responsibility (CSR) model on three focus areas, all in accordance with the 10 principles in the UN Global Compact; (1) People, (2) Health, and (3) Environment and Climate. To understand causal relationships between our actions taken and the performance outcomes, facilitate learning and promote action as well as ensuring continuous improvements in regard to our CSR model it was deemed necessary to define and commit to the targets as specified in Table 1 and explained in the following.

To ensure high performance in relation to the people and health focus areas, Kohberg have decided to support people and health projects with minimum 1 percent of our EBT result per year. Our main environmental target is to decrease emission of greenhouse gasses by 20 percent per kilogram finished product produced before 2020 compared to 2009 as the year of reference. The emissions of greenhouse gasses will be measured as the total annually emission of CO₂-equivalents (CO₂e) from consumption of electricity from the national grid and fuels from our three bakeries in Bolderslev, Haderslev and Taastrup respectively as well as our cold store in Haderslev and depot in Soeften. By selecting CO₂e as measure we correct for the warming potential of other greenhouse gasses such as methane (CH₄) and Nitrous oxide (N₂O) with a global warming potential of 25 and 298 CO₂e on a 100-year time horizon respectively. In addition, we should as a minimum ensure 50 % one truck stop at customer sites for all fresh bread in Denmark (co-distribution) by 2013 and secondly 100 % of our flour should be without glyphosate and straw shortening.

Table 1: Overview of focus areas, targets and achievements.

	Target	Outcomes		
		2009	2010	2011
People & health	People and health: We will use at least 1 percent of our EBT ^a result per year on people and health projects.	2.3 percent	2.5 percent	22.4 percent ^b
Environment and Climate	Sourcing: 100 percent of our flour must be from grain grown without glophosate and straw-shortening	100 percent Target achieved	100 percent Target sustained	100 percent Target sustained
	Production: Reduce our total emissions of CO ₂ by 20 percent per kilogram finished product produced before 2020 compared to reference year.	Target set (reference year)	Reduction of 3.80 percent.	Reduction of 6.04 percent ^c
	Distribution: Ensure one truck stop for 50 percent of all fresh bread products in Denmark through co-distribution.	32 percent	70 percent Target achieved	75 percent Target sustained

^a EBT = Earnings Before Tax.

^b The high percentage is due to a lower EBT in 2011 compared to previous years.

^c Emission factors from year 2010 are applied until emission factors from year 2011 are published.

Self-Assessment according to the ten principles

Prioritization of efforts

In the beginning of the process of working towards sustainability targets, a potential and relevance assessment was performed according to the 10 principles in the UN Global Compact. The assessment consisted of answering specific related questions for each area covered by the UN Global Compact thereby providing a picture of potential for increasing performance in regard to our CSR and relevance in relation to the principles. The original results of the potential and relevance assessment are illustrated in Table 2 along the improvement targets set in relation to the results. In Table 2, green indicate a current high performance with limited potential for further improvement, yellow indicate principles where practices can be enhanced and red indicate the main principles where focus should be emphasize for improving our performance. It is important to note that the assessment was performed qualitative according to the potential of increasing performance and not as a specific performance assessment. In practice this means that red can still indicates a good performance compared to other companies

Table 2: Business potential and relevance assessment.

	UN Global Compact princip:	Risk/Impact:	Activity	Target/strategy:
Human rights	1. Businesses should support and respect the protection of internationally proclaimed human rights;	Low	Covered by legislation and our Code of conduct	N/A
	2: and make sure that they are not complicit in human rights abuses.	Low	Covered by legislation and our Code of conduct	N/A
Labour rights	3: Businesses should uphold the freedom of association and the effective recognition of the right	Low	Covered by legislation and our Code of conduct	N/A
	4: the elimination of all forms of forced and compulsory labour;	Low	Covered by legislation and our Code of conduct	N/A
	5: the effective abolition of child labour;	Low	Covered by legislation and our Code of conduct	N/A
	6: and the elimination of discrimination in respect of employment and occupation.	Low	Covered by legislation and our Code of conduct	N/A
Environment	7: Businesses should support a precautionary approach to environmental challenges;	Medium	Focus through our Code of conduct and through optimization of energy usage in production and transportation and furthermore through purchase of our raw materials	Main target: We should by 2020 have decreased our CO2 by 20% per kg produced bread. Sub target 1: Our Co-distribution should by 2013 be min. 50% Sub target 2: 100% of our flour should be without glyphosate and straw-shortering.
	8: undertake initiatives to promote greater environmental responsibility;	Medium		
	9: and encourage the development and diffusion of environmentally friendly technologies.	High		
Anti-corruption	10: Businesses should work against all forms of corruption, including extortion and bribery.	Low	Covered by legislation and our Code of conduct	N/A

Firstly to ensure that Kohberg, as a company and as an actor in a market, works towards sustainability targets, a 'Code of Conduct' have been developed to cover all the ten principles in the UN Global Compact.

In the potential and relevance assessment, all principles within 'Human rights', 'Labour rights' and 'Anti-corruption' were assessed as high performance based on the fact, that they are covered by both our 'Code of Conduct' as well as the legislation in low risk countries. As a result the principles have not been the main focus for further improvement. However Kohberg recognize the importance of 'Human rights', 'Labour rights' and 'Anti-corruption' and will take the necessary precautions to sustain the high performance regarding these principles. Based on this, no further targets have defined for the 7 principles in these categories.

In relation to Table 2, the main business focus has been on the principles in the UN Global Compact assessed as yellow or red. This is the case given that they possess the largest potential for improvements. As a result the environment area has been seen as the most relevant and important focus given the yellow and red score in Table 2. Based on this, the Communication on Progress (COP) accounting for 2011 will primarily focus on the environmental targets specified, actions taken and outcomes from these activities, including achievements of the specified targets as seen in the above Table 1.

In the beginning of 2012 we will re-evaluate our performance according to the Global Compact Self-Assessment Tool from 2010 available from the UN Global Compact website. So far the pre-evaluation have indicated a need for more actively ensuring the ten principles further upstream our supply chain by considering not only our suppliers and business partners, but our suppliers' suppliers (second tier suppliers). This is especially relevant for high risk ingredients used in our production such as palm-oil, even though we only utilize these ingredients in relatively small amounts. Consequently, the coming assessment will be the foundation for our future work with CSR. We look forward to elaborate on our progress in our next COP accounting our performance in accordance with the assessment tool from 2010, including our actions taken to implement the ten principles in the UN Global Compact during 2012.

Human rights, labour rights and the fight against corruption

We work actively with sustaining and improving our performance in relation to the seven principles for human rights, labour rights and the fight against corruption:

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights

Principle 2: Businesses should make sure they are not complicit in human rights abuses.

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labour.

Principle 5: Businesses should uphold the effective abolition of child labour.

Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation.

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.



Progress

The majority of the ingredients used in our production are bought from suppliers located in Europe with the largest supplier located in Denmark. Less than 5 % of our purchases of raw materials are coming from outside northern Europe. Kohberg have almost no suppliers located in high risk countries and as a result, human rights, labour rights and the fight against corruption are covered by local laws and regulations. This also applies for our bakeries and the transport providers used. In any case we ensure that our company always, as a minimum, fulfil the Danish legislation concerning human and labour rights. We are furthermore against all form of corruption and do not accept the use of it.



Furthermore to ensure suppliers show responsibility and for intent to become action, we have developed a set of guidelines, a 'Code of Conduct', which all suppliers must accept and comply with. An acceptance of our Code of Conduct is an integral part of a commercial agreement with Kohberg. The guidelines in our Code of Conduct are not least about human rights. We oppose the violation of internationally proclaimed human rights and we will oblige both ourselves and our suppliers, to comply with local laws and standards. Furthermore the guidelines include numerous requirements for worker rights. Our Code of Conduct must also ensure that both we and our suppliers act responsibly in relation to the environment. This also applies for the work environment. Finally the guidelines commit the suppliers to discourage all forms of corruption.

Further actions

In the following we will account for the actions taken in 2011 to archive and sustain our people and health target as specified earlier in the CSR section in Table 1. The main target is to support people and health projects with minimum 1 % of our EBT result per year to ensure an even higher responsibility than ensured by our code-of-conduct as well as national legislation in low risk countries.

The main support in 2011 was given to the annual sponsorship of the campaign for 'the fight against breast cancer'. By participating in the campaign Kohberg supports the research in breast cancer. The money for the support was collected by giving part of the earnings from the sales of rye bread buns in the period from mid September to the end of October in 2011 resulting in a financial support of ~ 33.500 euro. The support happens through a sponsorship of the campaign in where Kohberg have participated each year since 2008. Besides the actual economic support, Kohberg support the campaign by using special packaging design, a sales campaign in television, advertisement on trucks and our homepage as well as encouraging our employees to include a logo of support in e-mail correspondence as means for promoting and creating attention of the fight against breast cancer.

In addition, Kohberg have supported Cirkus Summarum (circus event) where we have activated children around knowledge of grain during the summer period. Here have given ~ 26.900 euro to Muskelsvindfonden which is a foundation helping people with muscular dystrophy.

We have sustained our employee benefits such as free fruit and the possibility to get massage for a low fee given financial support of the arrangement by Kohberg to reduce physical health problems among employees. Besides the national health insurance, Kohberg are financing a private health insurance for our employees which cover further types of illness such as free visits to a psychologist.

We are participating in a 3-year PhD-project with the aim of developing a decision framework for green supply chain development in the food industry. By participating in the project we are supporting scientific research on environmental issues relevant in our context as a food producer.

Environment

We work actively with improving our environmental performance in relation to the three principles in the UN Global Compact:

Principle 7: Businesses should support a precautionary approach to environmental challenges.

Principle 8: undertake initiatives to promote greater environmental responsibility.

Principle 9: encourage the development and diffusion of environmentally friendly technologies.



Progress

We are currently in a process of assessing our performance in accordance with the four areas specified in the self-assessment tool provided by the UN Global Compact Initiative, including (1) compliance and management, (2) precaution, (3) responsibility and Performance as well as (4) technology. Environmental projects (practices and activities) have primarily been internally focused, due to the relatively high energy consumption that is required for bread-making. However we are taking suppliers into account by including environmental criteria as part of our Code-of-conduct where all our suppliers are required to comply with and have agreed on the terms within, including the environmental criteria. The environmental criteria included in our Code-of-conduct will be highlighted in the following:

- 1) The supplier is obliged to comply with local laws and standards related to environmental issues.
- 2) The supplier is committed to proactively take necessary precautions and take necessary initiatives to minimize adverse environmental impacts of its activities.

Actions

In the following we will account for the actions taken in 2011 to archive and sustain our environmental targets as specified earlier in the CSR section in Table 1. To ensure consistency between our environmental targets and actions taken, the following actions will be clarified in accordance to the structure of figure 1. The purpose of figure 1 is to illustrate the three areas in our supply chain where actions are taken to improve our environmental performance.

Figure 1: Supply chain focus areas for actions.



Procurement

All our flour is certificated and free from glyphosate and straw shortening remedy and is not grown on fields utilizing sludge from cities. According to the Danish environmental authorities and food authorities, it makes no risk to the environment or human health to use glyphosate on fields. Still we have chosen to require of our suppliers that rye and wheat are not sprayed with herbicides with glyphosate. Furthermore we don't want to expose our customers to the risk of baking bread of flour from grain grown with the use of straw shortening, although straw shortening has been used for a couple of decades and although authorities permit the use of it. We believe that the policy benefits the environment and ensures a healthy product for our customers and consumers. In any case the products will comply with Danish and European legislation.

During 2011 we have continued our project focusing on the supply chain and environmental life-cycle of our products. The main purpose of the project is to increase the understanding of the environmental performance in our supply chain and identify hotspots for increasing environmental performance. The project is also a first step to initiate a process where customers and suppliers can contribute with knowledge about materials and waste flows as well as the environmental impacts along the life-cycle of our products. By undertaking this project Kohberg aim to fulfil the UN Global Compact principles of promoting greater environmental responsibility and encourage the use of environmental friendly technologies.

In the 4th quarter 2011 Kohberg initiated a process where interviews were conducted with main actors in the supply chain from agriculture, mill, one of our bakeries and a retailer with the purpose of mapping the ingredients and product flows as well as organic waste flows. The process revealed potential improvements in performance by reducing the amount of organic waste going to incineration and landfill. Based on this, Kohberg will continue to assess the feasibility and potential benefits as well as promote for required changes in business behaviour as part of supplier development.

Kohberg are still developing the collaboration with one of the strongest organic brands in Scandinavian and are continuously introducing more new healthy products.

As part of our purchasing practice, we aim at collecting our purchases in large quantities. This allows for full shipments as much as possible and generally increases the fill rate of trucks thereby saving emissions from transportation. Regarding the purchase of rye we have sustained during 2011 the achievement to use 100 percent Danish produced rye which reduces the requirement for transportation to a minimum from an environmental (CO₂) perspective.

Production

Kohberg are still in a continuous improvement process focusing on minimizing waste and overproduction at our bakeries. The first project started in 3rd quarter 2009 with end in 2nd quarter 2010 and resulted in reducing the amount of waste generated at our bakeries. During 2011 minimization of waste have been a strategic priority and resulted in further reductions of waste through various process optimizations as well as reduced waste from overproduction due to increased reutilisation of nutrients. Besides the expected environmental savings, the project also contributes highly to the societal problem of food waste which is gaining increasing attention in media.

In addition to the above, Kohberg are actively working on projecting a second generation biogas system at our local site in Bolderslev. The project was initiated in 2009 with a planned final decision to be made in 2010. However, given that the area of bioenergy is new for Kohberg, further knowledge had to be obtained and analysed. This process has been continued during 2011 and resulted in a final report for decision-making. However the decision has still not been made due to uncertainties regarding the framework conditions for bioenergy in Denmark. However we expect the framework conditions for bioenergy to be cleared during 2012.



As part of our target of reducing our total emissions of CO₂ by 20 percent per kilogram finished product produced before 2020 compared to 2009, Kohberg have focused on decreasing the energy used in the making of the bread. This has resulted in various different actions.

- We have reduced the energy required for heating and cooling products as part of our production processes.
- Reduced energy consumption during standstill of specific machinery by installation of a power switch.
- Installed LED-lighting technology in a cold storage area and still assessing the potential to expand the implementation of the technology to other areas.
- Replaced an old boiler with a new and more energy efficient central heating boiler.
- Implemented changes in our cleaning practices.
- Encouraged 2-sided printing of PDF-documents hopefully resulting in higher resource efficiency, reducing the amount of paper used for printing and preserving natural resources.
- Launched an initiative to increase the amount of returnable plastic creates we can reclaim from customers hopefully leading to a better closed-loop packaging system with fewer losses of creates.
- We have converted an area with electrical heating to natural gas based heating.
- In 2011 we approved for a fuel shift at a bakery to a more environmental friendly fuel in terms of emissions of greenhouse gasses. However the action is expected to be implemented at the beginning of 2012.



Distribution

One truck stop at customer sites for all fresh bread in Denmark. Co-distribution has now been achieved from a wide range of customers, where some are handled by Kohberg and others are handled by the customers own distribution depots. This results in a clear higher performance in both 2010 and 2011 than specified in the goal originally set for 2013.

Kohberg are still participating in the national effort to utilize modular transport (road trains) for companies with high requirement for transportation. During 2010 modular transport was tested with success from both an economic and environmental perspective. As a result the usage of modular transport was utilized during 2011 and is still developing. However, Kohberg have experienced many barriers for implementation of modular transportation, including difficulties to obtain permission to utilize the modular transport directly between our bakeries and depots. In addition to this, Kohberg are working actively



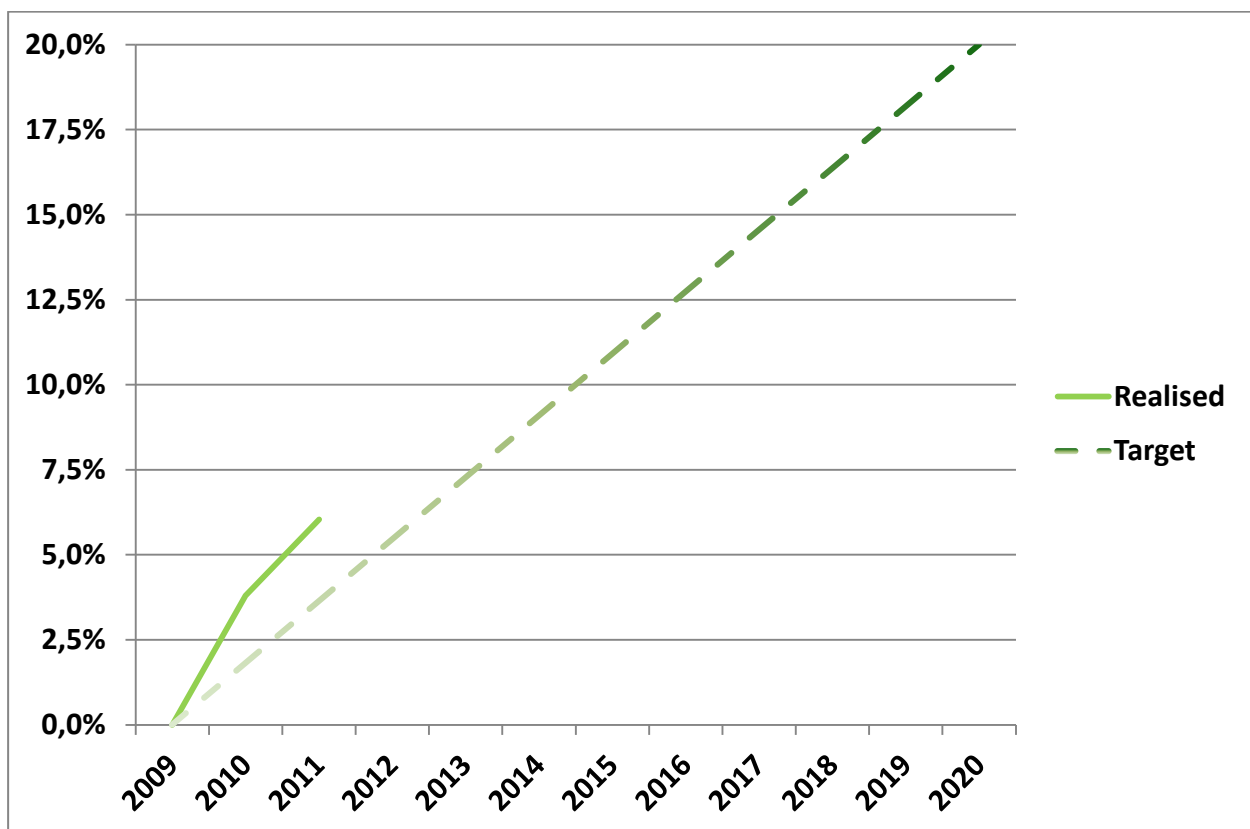
to gain the required permissions and have already gained permission to one of our sites. The alternative is to use regular trucks from a bakery to an approved repackaging area from where the products can be shipped using modular transport. This does, however, require a higher degree of handling of the products.

In collaboration with our transport provider, we have managed to optimize our routes, increase fill rates of trucks and decrease driven kilometres. This lead to a further reduction in the number of routes from 2009 and 2010.

Outcomes

In the following we will discuss and follow-up on the actions and outcomes in 2011 to archive and sustain our environmental targets as specified earlier in the CSR section in Table 1. Based on Table 1 it should be clear that Kohberg have overall managed to fulfil the targets towards sustainability. For an overview of the development towards our target of reducing our total emissions of CO₂ by 20 percent see Figure 2.

Figure 2: Total emissions of CO₂e relative to kilogram finished product.



The first target, which require purchased ingredients to be without glyphosate and straw-shortening, have been sustained during 2011. In fact the goal was already achieved by 2009 thereby pointing towards a faster development. Furthermore the third target, which covers the degree of co-distribution, has already been achieved in 2010 and sustained during 2011, thereby 3 years before planned. Even though the targets have been achieved years before originally planned, the target set have not been seen as unambitious by Kohberg.

Instead we consider it as an outcome of a committed work in relation to achieving the targets set. Finally, Kohberg have managed in 2011 to reduce the total emissions of CO₂ by 6.04 percent for all of our three bakeries, cold store and depot collectively compared to 2009. Much effort have been put into identifying feasible actions and actions taken as described in the above sections and the actions have given results directly measureable on



the performance as demonstrated in Figure 2. The current development towards sustainability targets is as a result considered as 'on target', given that the average needed annual reduction in total CO₂e is approximately 1.82 percent points. With the initiatives and forward-looking focus on the environment, Kohberg will continue to pursue a sustainable development. This will be undertaken by a continuous identification of additional opportunities in our production and optimally our entire supply chain.