



CORPORATE
SOCIAL
RESPONSIBILITY

REPORT 2013

2013

Palsgaard®
♥ Heart working people

1 WHAT IS CSR?

THE EUROPEAN PARLIAMENT'S DEFINITION OF THE TERM CSR (CORPORATE SOCIAL RESPONSIBILITY): "THE RESPONSIBILITY OF ENTERPRISES FOR THEIR IMPACTS ON SOCIETY."

The Danish Business Authority
www.samfundsansvar.dk

SHARED VALUE

The EU further elaborates this definition with a description that businesses should have procedures in place to integrate social, environmental, ethical, human rights and consumer issues in their operations and strategies. The goal is to create 'shared value' for both the businesses and society as well as to counteract any adverse impact the business may have on society.

In 2013, the EU has proposed new possible guidelines for CSR reporting within companies. These guidelines were not approved by the end of the year.

2 ABOUT THE REPORT

THIS IS PALSGAARD'S FOURTH CSR REPORT. WE PRODUCE A REPORT EVERY YEAR. THE PURPOSE IS TO PROVIDE A BALANCED OVERVIEW OF THE MOST SIGNIFICANT CSR-RELATED GOALS, TOPICS, ACTIVITIES AND RESULTS IN THE PALSGAARD BUSINESSES INCLUDED IN THE REPORT.

In terms of structure and principles, this CSR report has been constructed in a similar format to our first, award-winning¹ report for 2010.

SCOPE

The CSR report includes the following legal entities: Schou Foundation, Palsgaard Estate A/S and its associated forest and agricultural areas, Palsgaard A/S and its subsidiaries, and Nexus A/S (see figure in section 3). These entities will all be treated as one entity entitled 'Palsgaard' in the report. Associated companies in which Palsgaard does not have a majority shareholding are not included in the report. The scope of the reported data has been detailed in section 15. This report covers the annual year 2013.

REPORTING PRINCIPLES

The report has been prepared using the principles determined in the Sustainability Reporting Guidelines from Global Reporting Initiative (GRI) as well as the associated sector supplement for food production. See section 16 for an overview of relevant GRI indicators, including references. The topics included in this report have been determined based on evaluations of interest and relevance in connection with the development of Palsgaard's CSR strategy and associated strategic objectives (see section 5).

Our most important stakeholders in relation to this report are the company's customers, employees, trend-setting retail trade, local community, the media, important industry competitors and NGOs. These stakeholders are defined, in collaboration with Palsgaard's senior management, through a selection process that includes relevance analysis. To ensure we cover the broad spectrum of stakeholders, we report widely on our CSR activities.

Palsgaard supports the UNGC (United Nations Global Compact) initiatives and as such, the report also functions as our annual COP (Communication on Progress).

The report and specified data have been reviewed by an independent auditor and the auditor's declaration can be found in section 14. Our reporting practice is explained in section 15.



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¹) FSR-Danske Revisorers Award for Best First Report).

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REPORT STRUCTURE

The report follows our value chain (sections 5-12) and is based on the cultural foundation of the business. The value chain includes the lifespan of the product from original idea to the point where the finished product lands on consumers' tables as a food ingredient. This is followed by a description of our contribution to the surrounding society. This format represents a logical structure for our processes and products. Readers who are interested in particular subjects can consult the references in the GRI table in section 16.

5. OUR FOUNDATION

- The purpose of the Schou Foundation
- Our reputation
- Management structure and responsibility distribution
- Heart working people
- Policies
- Corruption and cartels
- Sustainability agenda
- Organisational memberships

6. CUSTOMER-DRIVEN INNOVATION

- Nexus, Palsgaard's development company
- Global application facilities
- Certified safety in product development
- Collaboration with universities and knowledge centres
- Future energy reductions in the refinement of oils

7. RAW MATERIALS AND SUPPLIERS

- Supplier management
- Supplier evaluation
- Partnership on sustainable production of palm oil

8 OUR EMPLOYEES

- Well-being and employee retention
- Local and global anchorage
- MTU
- Employee satisfaction
- MUS
- Palsgaard's OSH organisation
- Pension scheme with profit sharing
- Palsgaard Mexico – Innovation ensures improved quality of life for children and adults with Down's syndrome.

9 PRODUCTION AND ENVIRONMENT

- Processes
- Energy and climate
- Utilisation of raw materials and derivative products
- Packaging
- Environmental conditions, water and wastewater
- Environmental conditions in our facilities internationally
- Forestry and agriculture

10. SALES AND LOGISTICS

- Marketing
- Dialogue with customers and partners
- IT
- Transport

11. PRODUCT APPLICATIONS

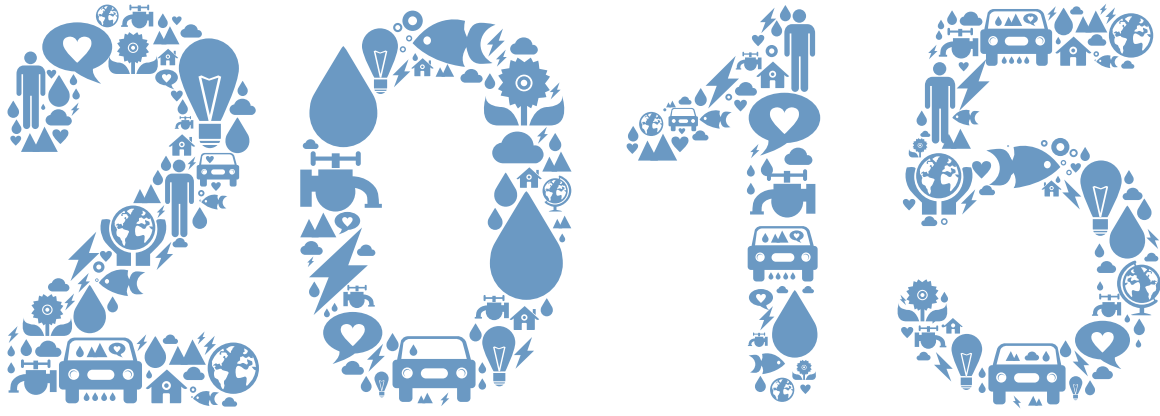
- Food safety
- Improvement of the nutritional profile of foods
- Ingredients for reduced-fat foods
- Trans free emulsifiers
- E-numbers
- Reduction of food waste
- Technical applications

12. CONTRIBUTION TO SOCIETY

- Commitment to local community
- Support for people in need
- Responsible tax



CORE CSR OBJECTIVES FOR



CO₂ EMISSION
0,15
(KG CO₂ PER KG FINISHED PRODUCT)

3
ACCIDENT FREQUENCY
(ACCIDENTS WITH ABSENCE PER MILLION WORKING HOURS)

WASTEWATER EMISSIONS
1,0
(L PER KG FINISHED PRODUCT)

RAW MATERIAL CONSUMPTION
104,00
(KG PER 100 KG FINISHED PRODUCT)

RSPO-CERTIFIED PALM OIL
100%

FIGURE 1:

| CORE CSR FIGURES AND TARGETS | 2009 | 2010 | 2011 | 2012 | 2013 | TARGET 2015 | TARGET 2020 |
|---|--------|--------|--------|--------|--------|-------------|-------------|
| CO ₂ EMISSION (KG CO ₂ PER KG FINISHED PRODUCT) | 0.40 | 0.32 | 0.18 | 0.18 | 0.17 | 0.15 | 0 |
| ACCIDENT FREQUENCY (ACCIDENTS WITH ABSENCE PER MILLION WORKING HOURS) | 20 | 22 | 8 | 14 | 11 | 3 | - |
| WASTEWATER EMISSIONS (L PER KG FINISHED PRODUCT) | 1.47 | 1.22 | 1.42 | 1.53 | 1.39 | 1.00 | - |
| RAW MATERIAL CONSUMPTION (KG PER 100 KG FINISHED PRODUCT) | 107.60 | 107.90 | 107.19 | 106.49 | 107.37 | 104.00 | - |
| RSPO-CERTIFIED PALM OIL (%) ^{1, 2} | - | - | - | - | - | 100 | - |

¹ See Section 7 on partnerships on sustainable production of palm oil

² Data not available

We have a target of achieving CO₂ neutrality in 2020. For the other key figures, the 2020 goal have yet to be defined.

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PALSGAARD IN BRIEF

PALSGAARD DEVELOPS AND MANUFACTURES EMULSIFIERS AND STABILIZERS FOR THE FOOD INDUSTRY. WE HAVE PRODUCTION FACILITIES IN DENMARK, MEXICO, CHINA AND THE NETHERLANDS. A NEW FACTORY IN MALAYSIA IS IN THE DEVELOPMENT PHASE AND WILL BE READY FOR PRODUCTION IN 2014. WE HAVE APPLICATION CENTRES IN DENMARK, SINGAPORE, CHINA AND MEXICO AS WELL AS A SALES ORGANISATION COVERING MORE THAN 100 COUNTRIES. PALSGAARD ADDITIONALLY MANAGES 4,503 HECTARES OF FOREST AND AGRICULTURE IN DENMARK, LATVIA AND LITHUANIA.



FIGURE 2: SCHOU FOUNDATION

ORGANISATION CHART

THE ORGANISATIONAL CHART SHOWS THE ENTITIES COVERED BY THE REPORT, HIGHLIGHTED IN BLUE. THE MANAGEMENT STRUCTURE AND DISTRIBUTION OF RESPONSIBILITY ARE DESCRIBED FURTHER IN SECTION 5.

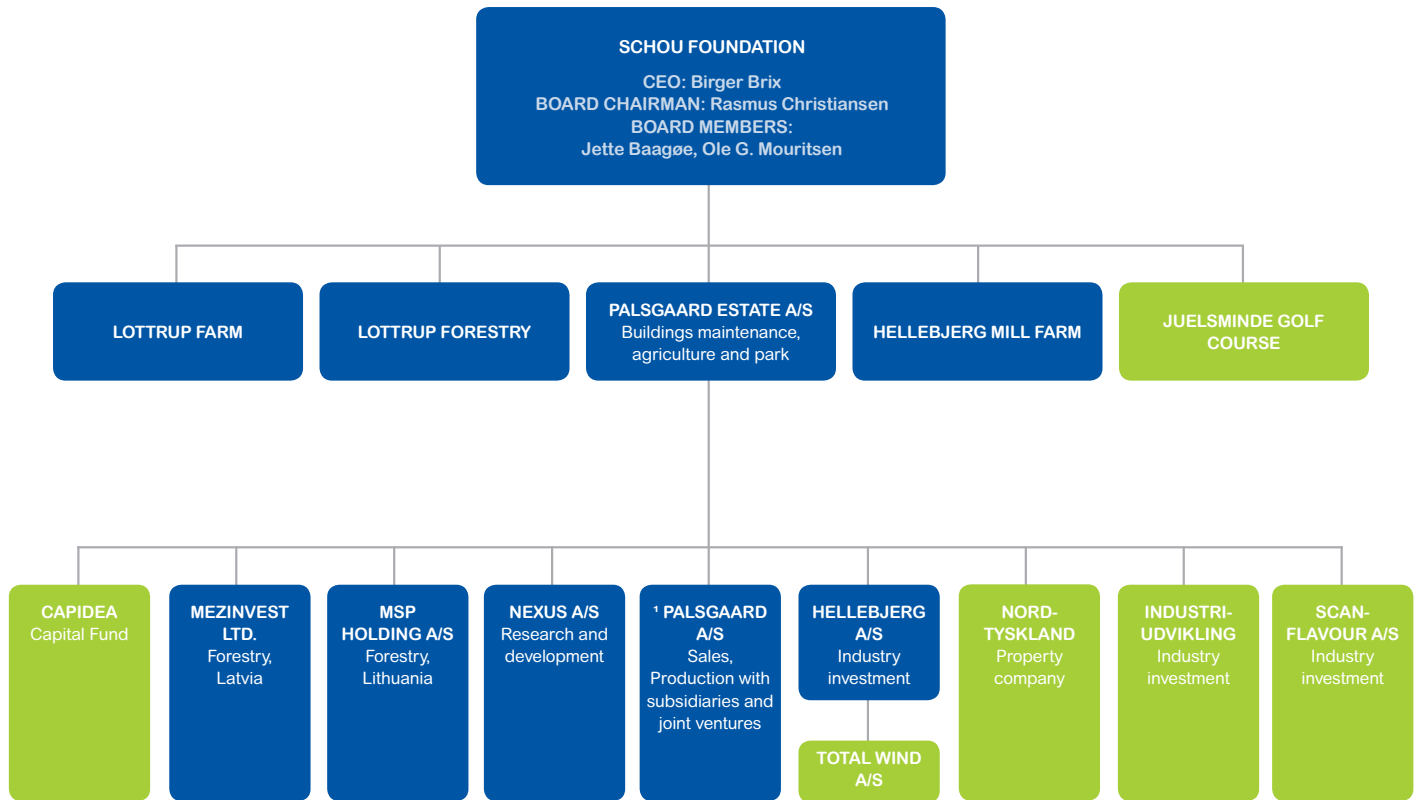
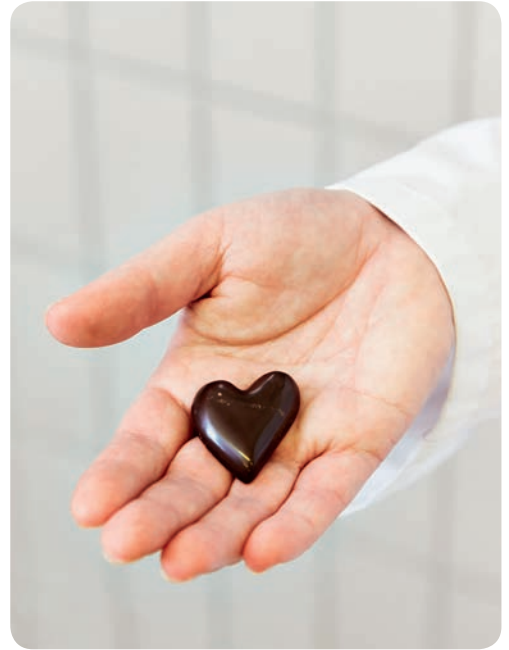


FIGURE 3: PALSGAARD A/S SUBSIDIARIES AND JOINT VENTURES



1 Production units

2 Production unit to be included in the 2014 report



WHAT IS THE UN GLOBAL COMPACT?

"The Global Compact asks companies to embrace universal principles and to partner with the United Nations. The treaty has grown to become a critical platform for the UN to engage effectively with enlightened global business."

UN Secretary-General Ban Ki-moon



THE 10 PRINCIPLES OF UN GLOBAL COMPACT

HUMAN RIGHTS

- Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2. Make sure that they are not complicit in human rights abuses

EMPLOYER RIGHTS

- Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
- Principle 4. Support the elimination of all forms of forced and compulsory labour
- Principle 5. Support the effective abolition of child labour, and
- Principle 6. Elimination of discrimination in employment and occupation

ENVIRONMENT

- Principle 7. Businesses should support a precautionary approach to environmental challenges
- Principle 8. Undertake initiatives to promote environmental responsibility, and
- Principle 9. Encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

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

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AMBITIOUS TARGETS ENSURE SOLID RESULTS

DEAR READER

Palsgaard has worked strategically with CSR in the previous four years. The result is highly positive contributions on several areas. Every year, we complete new development platforms within specifically chosen strategic focus areas – such as climate, employees, company management and products. Our support for the UN Global Compact contributes to the foundation of our strategy and reporting, which mirrors the drive and challenges we face.

We strongly believe in environmental responsibility. This has resulted in our ambitious goal to achieve CO₂ neutrality in 2020. Our efforts in this area have shown a reduction in our CO₂ emissions of 48.7%, measured as an absolute total over six years (2007-2013). As expected, these efforts have also proven to provide a financial advantage in terms of energy savings. Our ambitions in this area also contribute to developing new ideas that have become the basis of further energy reduction efforts. Our efforts within the CSR area have also significantly increased the interest for our products worldwide.

It is important to us that all employees are open towards these new initiatives that global growth requires of an organisation. The completion of a course in 2013 on knowledge sharing, communication and collaboration, has further strengthened the organisation. Close relations increase the collaborative spirit in the team. It also builds additional strength within the company and ensures that we are ready to offer our customers the service, knowhow and credibility that are at the core of Palsgaard.

A 2013 satisfaction analysis among our employees showed 'a high level of job satisfaction' according to the EEI categorisation. Content and happy employees are part of Palsgaard's identity. Unfortunately, we have seen a small reduction in satisfaction compared to 2011 and hence we are planning a range of activities to reach the previous level.

As we are active in more than one hundred countries globally, responsibility across the entire company is a requirement. In our 'Code of Conduct', we strongly oppose corruption. We require unconditional compliance of our regulations in this area and we inform relevant employees of the conduct that is expected, if such a doubtful situation should arise.

In 2013, we have put an additional focus on responsible supply chain management. Our intention is that our raw materials are supplied by producers that recognise the UN Global Compact's 10 principles and additionally carry themselves in an ethically responsible manner.

In the report, we describe the company's core values in the relevant areas. We also explain how these core values contribute to the guidance of new targets in a modern company such as ours. Through our work on CSR we have committed to a range of short and long-range, social and environmental targets that we and our stakeholders can measure against. This report documents our progress towards the achievement of these goals.

We hope that you will find the report interesting and that you enjoy reading it.



Jakob Theisen
CEO
Palsgaard A/S
Palsgaard 22. May 2014

Birger Brix
CEO
Schou Foundation
Palsgaard 22. May 2014

5

OUR FOUNDATION AND AGENDA FOR SUSTAINABILITY



Einar Viggo Schou
Founder of Palsgaard



THE PURPOSE OF THE SCHOU FOUNDATION

1. To preside over companies that the foundation's senior management may find appropriate for the fulfilment of the general targets of the foundation.
2. To preserve and further develop Palsgaard Estate with all its delights, as a beautiful and pleasant workplace for all employees.
3. To create, own and support independent companies for research and development within the areas that the foundation's senior management may find appropriate to promote the activities of the foundation.
4. To provide support for the Palsgaard foundation to the extent that the Schou foundation's senior management deems it justifiable in consideration of the other targets of the Schou foundation.

The companies under the Schou Foundation banner are united in featuring a unique culture based on our extended history. The beautiful Palsgaard Estate and its surrounding nature is the physical illustrative framework of this culture and the perfect location for our head office. We have a strong bond with the local community, which extends to the close collaborations we share with customers globally. This combination of local and international anchoring is one of our strongest assets, alongside our key priorities for employee satisfaction, engagement and cooperation.

The founder of the company, Einar Viggo Schou, particularly valued responsibility, community and environment. These are the standards that serve as cornerstones for our traditions and business conduct. They have been essential foundations of Palsgaard for a long time, prior to the development of the term Corporate Social Responsibility (CSR).

OUR REPUTATION

It is our ambition that the Palsgaard name is linked with superior quality and service. It is of great importance to us that the products fulfil and exceed the expectations of functionality and the stringent demands on the safety of food products. We achieve this through our quality control procedures and innovation works, which are frequently carried out in close cooperation with customers in our application facilities (see section 6). Our aim to be a responsible team player with our customers also arises from our Code of Conduct and the Palsgaard CSR strategy.

Our desire is for the company to be an attractive and stimulating workplace. Our status as a foundation provides employees with a unique status, as a central part of the Schou Foundation goal is to achieve a positive working environment for all (see section 8).

We also aim to act responsibly to the world around us – both locally through an active engagement in the local community and globally, e.g. through effective climate and environmental efforts (see sections 9 and 12).

It is also a fundamental prerequisite for us that we always conduct ourselves in a financially responsible

way to ensure a stable business through innovation, process optimisation and risk minimisation. In this way, we become a reliable supplier for our customers and provide a safe workplace for our employees.

MANAGEMENT STRUCTURE AND RESPONSIBILITY DISTRIBUTION

Palsgaard is owned by the Schou Foundation, whose primary goal is to conduct business, support business related research and development as well as managing the Palsgaard estate as a beautiful and pleasant working environment for all employees.

The structure as a foundation provides us with the freedom to consider our business in a more discerning visionary way compared to many publicly listed companies. It also allows us to achieve our goals through responsible growth rather than solely focusing on financial returns. This ownership structure also acts as a guard against possible hostile takeovers from competitors or other sources. The board of the Schou Foundation (see figure 2) consists of three members – one woman and two men. Any new member of the board is chosen by the existing board members, the resigning board member as well as the foundation's responsible CEO in unison.

The CEO is responsible for safeguarding the purpose of the Schou Foundation and manages the financial aspects of the foundation to achieve this purpose. The person also carries the position of managing director in the holding company Palsgaard Estate A/S.

The Schou Foundation owns a number of companies, as described in our organisational structure in section 3. The directors of the individual, foundation-controlled, companies are required to run the companies in accordance with the purpose of the Schou Foundation. They are furthermore expected to comply with any guidelines established by the board.

Palsgaard's CSR strategy and action plans are entrenched to 2016. Throughout this period the CSR organisation is responsible for the practical implementation of the strategy and the continual application of CSR throughout the organisation.

HEART WORKING PEOPLE

The unique culture that characterises the entire company is expressed through the phrase Heart Working People®. This phrase expresses our actions and attitude towards our colleagues and stakeholders generally, and in particular:

- Our close and confidential cooperation and knowledge-sharing with our customers
- Our dedication in our day-to-day work and in creating solutions to further improve food products
- Our caring approach to each other as colleagues
- Our commitment to our surroundings



The company's vision, mission and core values are closely integrated and accepted in our companies globally.



PALSGAARD'S MISSION

Our core foundation is to be an attractive place of work with advanced technology. We manufacture and sell highly refined and customised emulsifier and stabilizer solutions for the global food market as well as the non-food market within polymers and cosmetics.



PALSGAARD'S VISION

We aim to be the preferred, responsible partner and supplier of quality products, service and knowledge to regional and multinational food producers while increasing the specific sales to non-food manufacturers within polymers and cosmetics.



PALSGAARD'S VALUES

We aim for the core values to be continued in the company and that our actions and activities should be carried by:

- Loyalty
- Responsibility
- Commitment

5

STRATEGIC OBJECTIVES:

- CO₂-neutrality by 2020
- Reduction of volumes of wastewater
- Reduction of volumes of waste and increased percentage of production yield
- Reduction of packaging volumes
- Improvement of the working environment
- Increased employee skills
- Improved management and integration of CSR in subsidiaries
- Improved supplier management
- Increased efforts to reduce corruption and the formation of cartels
- Continued initiatives in the local community
- Increased share of certified palm oil
- Known for sustainability



GENERAL AREAS OF RESPONSIBILITY POLICIES

- Code of conduct
- Environmental policies
- Product and quality policies
- Purchasing policies
- Employee policies
- Supplier code of conduct

POLICIES

To ensure we fully implement the objectives of both the Schou Foundation and those of the individual companies, Palsgaard has approved specific policies and guidelines that express our approaches and provide the guidelines for our activities. These policies reflect our ambitions within CSR and include the similar legal entities as this report (see section 2). We routinely implement updates of these policies to ensure that the guidelines comply with the current regulations.

New policies and guidelines are introduced in accordance with the paramount formal directives to the extent we deem necessary. Specific areas do not have written policies but are managed through the responsibility of the individual. This is done in accordance with the objectives of the Schou Foundation as well as the current legislation, common decency and practical logic.

The areas that we believe require dedicated considerations and where we deem it necessary to specify our efforts, are covered by the policies on the left.

Our ISO certified quality assurance systems ensure that our procedures are compliant with the current policies, applicable standards and legal requirements. This is supplemented by our written guidelines in the company employee manual.

CORRUPTION AND CARTELS

In our Code of Conduct, we describe the company's attitude to corruption and cartels. In the previous years, we have increased the focus on ensuring that our employees are aware of the position of the company on these problem areas. Hence we have completed efforts that document the ban on cartels. All relevant employees in the Palsgaard companies have provided written assurance that they comply with the stance of the company and the consequences of non-compliance of the company's policies in this area. An employee that is found to not comply with the company's relevant policies will be dismissed and a considerable penalty would be payable.

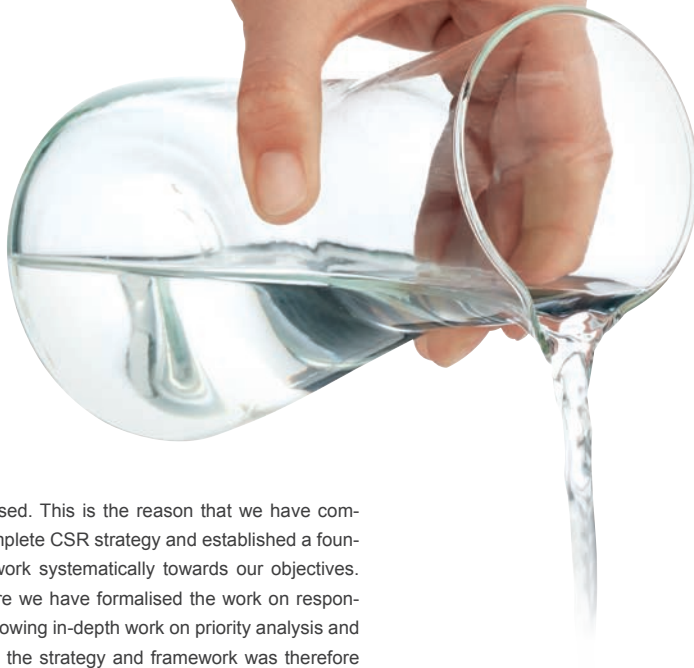
In 2013 we increased the knowledge of our Code of Conduct among our supporting agents and distributors that cover approx. 70 countries.

Facilitation payments can be difficult to avoid in certain countries, yet despite this, Palsgaard believes that business conduct shall take place without these types of payments. It is crucial that our employees are aware of Palsgaard's stance on this and conduct themselves accordingly. Employees that may be exposed to any attempts of corruption, bribery or creation of cartels must register this and progress the case to the awareness of the senior management.

SUSTAINABILITY AGENDA

As our company grows and develops, the focus on the company's environmental and social responsibilities





has increased. This is the reason that we have compiled a complete CSR strategy and established a foundation to work systematically towards our objectives. Furthermore we have formalised the work on responsibility. Following in-depth work on priority analysis and evaluation, the strategy and framework was therefore formalised in 2011. In this model, customers, employees and other stakeholders have been considered.

The focus areas and objectives are drawn up in this chapter and explored further in other sections of the report.

Palsgaard's participation in organisations and networks contribute to the development of our business connections. It is important to us to be members of organisations that further ethical and sustainability in the value chain.



ORGANISATIONAL MEMBERSHIPS

Palsgaard's commitment to a variety of organisations is motivated by the desire to consider the best interests of ourselves as well as those of the industry, our customers and the consumers.

The Confederation of Danish Industry

(Dansk Industri - DI). Works to influence political decisions that may affect the company's ability to create growth and jobs. Particularly, we participate in DI's CSR network, where new legislation and trends are discussed. Knowledge sharing is important for companies to enable development of their CSR work. Furthermore, we are also members of a range of sub divisions in DI.

See www.di.dk

European Food Emulsifiers Manufacturers

Association (EFEMA) aims to create and maintain contact to applicable authorities and to propose standards for good production practice, food safety and consumer protection in the production of emulsifiers.

See www.emulsifiers.org

Supplier Ethical Data Exchange (Sedex). A database that provides information to customers about suppliers' working environments and other ethical considerations.

See www.sedex.org.uk

Roundtable for Sustainable Palm Oil (RSPO).

Supports sustainable production of palm oil.

See www.rspo.org

United Nation Global Compact. An initiative for businesses that voluntarily undertake to align their activities and strategies according to the ten internationally accepted principles in the areas of human rights, employee rights, environment and anti-corruption.

See www.unglobalcompact.org

Virksomhedsnetværk for Socialt Ansvar

(VfSA - Business Network for Social Responsibility). Promotes dialogue between businesses on social responsibility.

See www.vfsa.dk

6

CUSTOMER-DRIVEN INNOVATION



Viggo Norn
CEO
Nexus A/S

PROGRESSIVE SOLUTIONS

"Within Palsgaard's research and development, we aim to achieve a basic understanding of the challenges and innovations we may face. At the same time, we strive to direct our work towards practical research and development. This can be achieved through progressive solutions, which are advantageous for Palsgaard's customers and that meet the expectations of the modern society."

When our development team makes decisions about the properties of a new product, how it should be produced and the raw materials that should be incorporated, it also determines the production properties that will be added to the structure and shelf life of the food it is to form part of. An important element is the product's ability to improve the nutritional and environmental properties throughout the value chain. This is the reason why the innovation process is often driven by a close partnership with our customers.

Other development projects are internally driven. For example, these can be aimed at researching entirely new opportunities within food products or development of processes that offer improved utilisation of raw materials and energy.

NEXUS – PALSGAARD'S DEVELOPMENT COMPANY

Development work at Palsgaard takes place across the organisation through the company Nexus A/S. Nexus organises all larger projects in groups consisting of a wide range of professionally competent experts that represent the broad aspects of the company. The projects are managed and documented through our quality assurance system. This ensures efficient, targeted and sustainable development where all issues are considered – from customer needs and requirements for resource utilisation to the potential environmental impacts of the processes.

The development may be carried out with a view to introduce new or enhanced products. The aim may also be to develop new processes or improve the existing ones. If so, the aim of the development work will typically be to create alternative and less resource-intensive processes in terms of raw materials, energy, capacity or other considerations. One example of such a development project is the refinement of oils described at the end of this section.

GLOBAL APPLICATION FACILITIES

The core of Palsgaard's customer partnerships is our application facilities, where we can simulate the production conditions at a customer's factory. In collaboration with our customers we can develop new products or enhance the quality or nutritional profile of existing food products. We can also contribute towards optimising customers' processes. By creating a research environment that closely resembles a real production environment, the path from idea to production is reduced.

In order to be able to service customers globally, we have created application facilities in Denmark, Singapore, Mexico and China. Among other things, this ensures that local market requirements and demands for environment and food safety are included in our product development. Our global positioning of application facilities also reduces our customers' needs for expensive and environmentally influential international travel.

CERTIFIED SAFETY IN PRODUCT DEVELOPMENT

The ISO/FSSC 22000 certification of Palsgaard's management system for food safety (see section 11) includes an extended procedure for systematically assessing a range of questions on food safety connected to the consideration of new raw materials. This expanded procedure ensures that we proactively evaluate risks and document the safety of future products. Our production facilities in Denmark, Mexico and the Netherlands are all ISO/FSSC 22000 certified.

COLLABORATION WITH UNIVERSITIES AND KNOWLEDGE CENTRES

Palsgaard depends on a highly qualified work force, and we see it as our duty to contribute to shaping and developing the education of future generations at universities, technical academies and other academic institutions. Hence we work with educational establishments and knowledge centres at several levels both in Denmark and internationally.

As in previous years, several international food engineering students have completed work placements in our R&D divisions. A range of concluding projects has also been carried out in our laboratories. Students take part in the company's daily activities where they are assigned to independent development projects. These are completed in close collaboration with our laboratories. This aims to provide the students with new knowledge about physics and chemistry within the food emulsifiers area. In addition to the professional aspects of these work placements, we emphasise the social side as students and Palsgaard employees increase awareness of different environments and cultures.

Other forms of collaborations with educational establishments and knowledge centres include mutual exchange of knowledge in shared interest areas. These partnerships are both formal and informal. For example, we host study trips, company visits etc., aimed at generating interest in the natural sciences and food



chemistry, physics and technologies relating to food products.

In connection to our collaborative efforts with students, Palsgaard has – together with other Danish companies – contributed to an innovation project for approx. 800 students from the Business Academy in Aarhus, Denmark, and other business orientated educational establishments in Europe. The wide range of international representatives in the project groups supported the interdisciplinary skills of the students and assisted the innovation in the project specifics. The projects' theme was 'The green community'. Palsgaard was tasked to create a problem formulation for a green project for a group of students and we chose the relevant topic of 'Reduction of Food Waste'. The project group created a positive solution model and won the category 'What can be realised now?' among the five categories. The suggested solution involved our customers and resulted in a range of ideas to increase the effectiveness of reduction of food waste in food production.

FUTURE ENERGY REDUCTION IN THE REFINEMENT OF OILS

Traditionally, refinement of cooking oils means that the oils go through a complex process consisting of several energy-intensive processing stages, such as heating to remove flavour-disrupting substances. At Palsgaard, we have taken advantage of our comprehensive knowledge of the properties of cooking oils and their refinement processes to develop a new refinement method.

The method involves a simpler and gentler process, which reduces the energy consumption by up to 80%. The process has also shown itself to utilise raw materials more efficiently as well as reducing the amount of trans fats in the product. We anticipate that we can contribute to the development of new refinement processes that will involve financial, nutritional and environmental benefits. The project will run over four years and the development in the process has so far been very positive. We have applied for patents for this development in a range of countries.

ISO
CERTIFICATIONS

PALSGAARD DENMARK
PALSGAARD NETHERLANDS
PALSGAARD MEXICO



ISO 9001

ISO 22000

FSSC 22000

IN PALSGAARD MALAYSIA, THE ISO/FSSC CERTIFICATION WILL BE COMPLETED IN 2014.
IN PALSGAARD CHINA, WE HAVE INITIATED THE PRELIMINARY WORKS TO ACHIEVE THE SIMILAR CERTIFICATION.



INCREASED FOCUS ON INNOVATION AND INTERDISCIPLINARY COLLABORATION

Lars Preuss
Strategic Laboratory Manager
Nexus A/S



"It is gratifying to see that educational establishments today have radically increased the focus on innovation and interdisciplinary collaboration. It is precisely this interaction between the different professional areas that is the required fundamental base for us, as a company, to be able to view problems from new angles, generate radical ideas and complete successful innovation projects."

7

RAW MATERIALS AND SUPPLIERS

The raw materials in Palsgaard's products primarily consist of various types of vegetable oils, gums (hydrophilic polysaccharides), starches and glycerol. The key proportion of our suppliers is European companies but a significant proportion of these raw materials' first value chain stages are in third world countries. This includes, for example, palm oil and palm oil derivatives. Hence, there is always a risk that the environmental and employee conditions that we wish to uphold for our products are not fully implemented in early stages of the value chain. This can be a result of local legislation not being present or not being on a similar level with the standards that applies in our part of the world.

With this basic understanding, we have therefore defined supplier conditions as an area to be addressed in our CSR strategy.

SUPPLIER MANAGEMENT

For several years, supplier management has been an integral component of our quality assurance system. This ensures that the raw materials we use meet our standards for quality and reliability of supply. It also ensures that we, in partnership with our suppliers, are able to continuously implement improvements and optimisations. When we visit suppliers, we always check that they comply with the required food safety standards (HACCP).

For some time, we have worked on a project designed to further increase the professional and organisational aspects of our supplier management in relation to CSR. Our Supplier Code of Conduct and purchasing policies create the framework for this project and it's our ambition to expand the partnerships with our suppliers in CSR-related areas. During the development of

this project, we have further defined and specified the framework for the provisions that we require of our suppliers in terms of ethical conduct in the supply chain.

The influence on suppliers, which are distanced from us by more than one business or production link in the value chain, is both a difficult and resource intensive task. However, this does not prevent us from setting ambitious goals. Palsgaard is a relatively small participant in the global market for raw materials and our possibilities of setting specific responsibility requirements in the value chain – and controlling that these requirements are carried out – are therefore limited. However, we ensure that our attitudes in this area are clear to everyone and we make use of every possibility to influence our suppliers in the right direction.

Our code of Conduct also define the requirements we set for suppliers and collaboration partners in terms of business ethics, human rights and employment rights.

SUPPLIER EVALUATION

As part of our ISO 9001 and ISO/FSSC 22000 certification, supplier evaluation is included in our working routines. In relation to this, management evaluations of our suppliers are carried out three times per year. In 2014, the management evaluation in relevant CSR areas is becoming part of the total QMS (Quality Management System) evaluation.

A point system based on a questionnaire of CSR and the supplier's relationship to the UN Global Compact and the 10 principles (see section 4) that forms part of this, is included in the evaluation. We have determined routines for responsible supply management and will continue this project in 2014. In addition to the evaluation questionnaires, the project also includes guidelines for possible further auditing with the supplier.

Whether Palsgaard will enter collaborations with a specific supplier is based on an overall evaluation that includes specifications, food safety and CSR. If we deem it necessary, we will attempt to guide our suppliers through dialogue to enable them to reach a higher level of responsibility. In 2013, we also completed a Supplier Code of Conduct and we are working towards all suppliers applying these principles.

On the basis of the present activities for a responsible management of our suppliers, we contribute towards the highest possible level of sustainability and stability in the whole supply chain.





Carob fruit

Cocoa beans



Rapeseed



SUPPLY EVALUATION CASE STUDY

A substantial Indian supplier has been evaluated. The supplier fulfils the specified requirements. We have also received a statement of CSR activities that the business additionally supports. Examples are described below:

- Operating a local hospital and associated ambulance service
- Expanded assistance for an orphanage
- A home for the mentally disabled
- A canteen for the company's employees
- Local school and operation of buildings that can be utilised by the local community.

We are pleased to be able to collaborate with a supplier that extends significant responsibilities towards its employees and local community. Wherever possible, we will to the best of our ability contribute to a positive development in the choice of suppliers.

7

RSPC SCCS CERTIFICATION INCLUDES:

1. Obligation to maintain open communication.
2. Compliance with legislation and regulations.
3. Obligation to ensure long-term economic and financial sustainability.
4. Implementation of best practice in growing and production.
5. Environmental responsibility and preservation of natural resources and biological diversity.
6. Responsibility to employees, individuals and communities affected by our growing and production.
7. Responsible cultivation of new areas.
8. Obligation to continually improve key activities



RSPC

Roundtable on Sustainable Palm Oil

Palsgaard has supported Sedex (Supplier Ethical Data Exchange – also see section 5) since 2008. The database is dedicated to information about the ethical conduct of suppliers as employers. This contributes to expanding responsibility in the supply chain. As a member of Sedex, we deliver an in-depth self-evaluation questionnaire for the database. This information, which applies to Palsgaard in Denmark and our subsidiary in the Netherlands, are available for customers that are also members of Sedex.

Palsgaard Denmark has also completed a SMETA 4-Pillar Audit (Sedex Members Ethical Trade Audit), which is carried out by Bureau Veritas Certification. In 2013, our Dutch subsidiary was also audited. An SME-TA 4-Pillar Audit involves ethical considerations, the working environment and the practices of the company.

PARTNERSHIP ON SUSTAINABLE PRODUCTION OF PALM OIL

Palm oil is the most frequently used cooking oil in the world. It is extracted from oil palms, which mainly grow on plantations in South-East Asia (primarily in Indonesia and Malaysia). Some concern exists about the consequences that growing oil palms may have on the climate and biodiversity in South-East Asia. Working conditions for plantation workers are also being questioned. For these reasons, the RSPC (Roundtable on

Sustainable Palm Oil) was founded in 2004. RSPC is a coalition of parties from all sectors of the palm oil industry as well as NGOs who work with social conditions and the environment. In 2007, the organisation set up a certification standard containing a number of criteria for sustainable production of palm oil within the seven principles listed on the left.

Palsgaard has been a member of the RSPC since 2008. In 2012, we achieved the RSPC SCCS certification (Supply Chain Certification Standard) in the category Mass Balance (MB). Based on this certification as well as an annual audit relating to the application of the standard and the eTrace commitment, we are certified to handle RSPC Mass Balance products in our business. In 2013, we experienced increased interest in products with RSPC-certified palm ingredients. This positive enthusiasm has meant that we frequently guide stakeholders in the importance of participating in an RSPC SCCS certified supply chain. To achieve this we have, among other things, prepared material that further discusses the details of RSPC, the standard of certification and the supplier requirements. We also note how Palsgaard meets these specific standard requirements. Furthermore, we also extend the information on responsibly produced palm oil and RSPC to our subsidiaries, agents and distributors. This partly takes place through an expanded intranet and at seminars.



Palm oil kernels

Happily, there has been a positive development in our suppliers' assortment of RSPO certified raw materials. This means that we can expand our RSPO certified product programme and hence include a broader circle of customers in the RSPO certified value chain. It is our aim solely to use RSPO-certified raw palm materials before the end of 2015 (see table of key figures, page 5).

Our new emulsifier factory in Malaysia will also manufacture products that contain palm oil. Therefore, it has been decided that this facility should also be RSPO certified.

Sunflower oil



Palm oil fruits

AUDITS/ CERTIFICATIONS



RSPO SCCS

✓ PALSGAARD DENMARK



Sedex audit

✓ PALSGAARD DENMARK
✓ PALSGAARD NETHERLANDS

WE WILL CONTINUALLY FOLLOW UP ON THE TOPICS MENTIONED ABOVE FOR OUR OTHER PRODUCTION COMPANIES, WHERE THIS IS DEEMED RELEVANT.



8

OUR EMPLOYEES



Annette Gottlieb-Petersen
Work placement for 3 months

WORK PLACEMENT

"I have really enjoyed my work placement with Palsgaard where I have carried out professionally relevant work. They considered my requirements for flexible working hours, the avoidance of deadlines and need for breaks. I was met with a welcome attitude everywhere. During the time I was at Palsgaard, I realised that I had encountered a very positive workplace. From day one, I felt that I was regarded equal to all other employees. Work placements are not just a project for the management – I was met by encouragement from the entire company. It is rare to experience that social responsibility also extend to people outside the company."

Palsgaard's slogan - Heart Working People - expresses the core of our working culture. Our employees are committed and hard working, and apply their heart into their work. In our daily collaborations with customers, our aim is for them to see us specifically as 'heart working people' who are deeply committed to solving our customers' problems and continuously work hard to help them out.

As a foundation-owned company, Palsgaard is driven by a desire for long-term development rather than concentrating on short-term profit optimisation. The foundation structure provides us with a unique opportunity to prioritise our business goals openly. As described in section 5, it is part of the Schou Foundation's aim to ensure an attractive place of work for all our employees. This is also the core of Palsgaard's mission, which has been made operational through a set of basic values: loyalty, responsibility and commitment. These values illustrate our basic guidance principles for the company, managers and employees with an aim of creating a safe, secure and stimulating workplace.

WELL-BEING AND EMPLOYEE RETENTION

If we find that an employee is not thriving at work, we try very hard to improve the situation and to solve problems in a suitable way. Our relationship with our employees rests on the premise that a working life should be able to accommodate both strong and weak phases and that the workplace should serve as part of the solution in difficult times. For example, we systematically arrange absence interviews in the event of long-term illness. The purpose is to discuss any measures that we may be able to implement to reduce the employee's period of absence or adapt the job to changed circumstances. It is frequently the case that employees with a long-term illness are able to return to work on a part-time basis. We are convinced that it is a sensible solution for the individual employee to be able to return to work gradually. Palsgaard hence endeavours to retain or relocate employees who are no longer able to meet the requirements of their original job.

Palsgaard's employees are ensured the option of job-related advice from our HR manager. This always takes place in full confidence. The HR manager also works to support vulnerable employees. People who have been out of work for a long time can be supported in the form of trial periods, flexible work and work placements. After their trial period or work placement, most generally have a much clearer idea of how they are able to contribute in the workplace.

In 2013 we worked with the local authorities to assist a total of 15 people in furthering their education or career. This was carried out through offers of flexible working arrangements, work or practical placements.

Every year we offer students in further education the possibility to complete part of their studies in the business. Hence, we have had both Danish and international university students collaborate on projects with Nexus (see section 6) within the research and development areas.

LOCAL AND GLOBAL ANCHORAGE

Palsgaard's headquarters are located in the small community of Juelsminde, which is a town of approx. 4.000 inhabitants. As a responsible business, we see it as our special duty to contribute to the town and the local community. This viewpoint forms an important part of Palsgaard's special culture. We aim to extend and adapt this culture to all the local communities that our subsidiaries form part of – with the necessary respect for the local circumstances and requirements of course.

In our subsidiaries around the world, we attempt to provide our employees with the health options we are used to in Denmark. We also offer relevant professional and language courses. Schemes are adapted to local conditions. In Russia and Poland, for example, we have set up health insurance and company life and accident insurance schemes for employees. Another example is South Africa, where employees in an associated company we acquired, were offered company-based health and pension schemes.

We seek to improve the lives of our employees in a global perspective. Through this, we tie our employees and businesses abroad closer to Denmark. And it increases the quality of life for our employees in different health-related situations.

In the latest established subsidiary, Palsgaard Malaysia, we offer attractive conditions, such as sickness and accident insurance for employees and their families as well as a canteen arrangement. Prior to the start-up of the facility, all employees in the factory went through a training period with us in Denmark. This initiative significantly improved the collaboration – both professionally and socially.

In 2013, a particularly dangerous influenza epidemic erupted in the area of Mexico where our subsidiary is located. A lot of employees were in the risk areas and the illness could result in significant influence on the employees and their families – and hence the operation of the company. Hence we decided to carry out a vaccination programme for all employees and their families. The risk of contamination of this dangerous, and for some, life threatening illness was hence eliminated.

MTU

Every other year we carry out an employee satisfaction survey (so-called MTU), based on a range of parameters. The aim of the survey is to identify potential areas of improvement and it is an important tool to ensure that Palsgaard remains an attractive workplace. In line with Palsgaard's globalisation, employees in all the companies within the group have participated in the survey since 2011. In order to be able to compare ourselves with similar European businesses, we have chosen the internationally recognised analysis company Ennova (dk.ennova.com) to undertake the survey. This ensures that our results can be compared internationally with the European Employee Index® (EEI). Since we started our surveys in 2006, we have continuously implemented initiatives for improvement in areas where required. This means that we have increased the collaboration level, which has had a positive influence in a wide range of areas across the organisation.

We also carried out an MTU in 2013. This survey unfortunately showed a small reduction in the combined work satisfaction across the whole group by 2 points – to 75 points. The result is still very positive, though, as a level of 70-79 points indicate a high level of work satisfaction in the EEI category. In Palsgaard Denmark we achieved 71 points in work satisfaction but we have set ourselves a target of 75 points prior to the next MTU in two years.

In our subsidiaries, the survey result was 83 points in job satisfaction. The level of 80-100 points defines "very high job satisfaction". Since it can be a challenge to maintain a close frequent contact – and thereby a deeper understanding of well-being in our subsidiaries across the world – we are very satisfied with this result.

A tangible evidence of our employees job satisfaction is the annual distribution of jubilee medals – a tradition that dates all the way back to 1933.



EMPLOYEE SATISFACTION

Palsgaard's very low employee turnover and an average employee seniority in Denmark in 2013 of 11,65 years is a sign that our employees feel very loyal to the workplace (see figure 4). We consider it a great strength to have satisfied and motivated employees. At the same time, it saves us high recruitment costs. The employee satisfaction in the company also ensures a valuable continuity in our working processes. It contributes to maintaining a high quality in both our products and customer service, an as such contributes to the trust our customers place in us.

FIGURE 4:
EMPLOYEE TURNOVER (%)

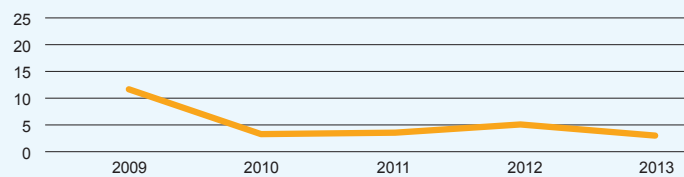
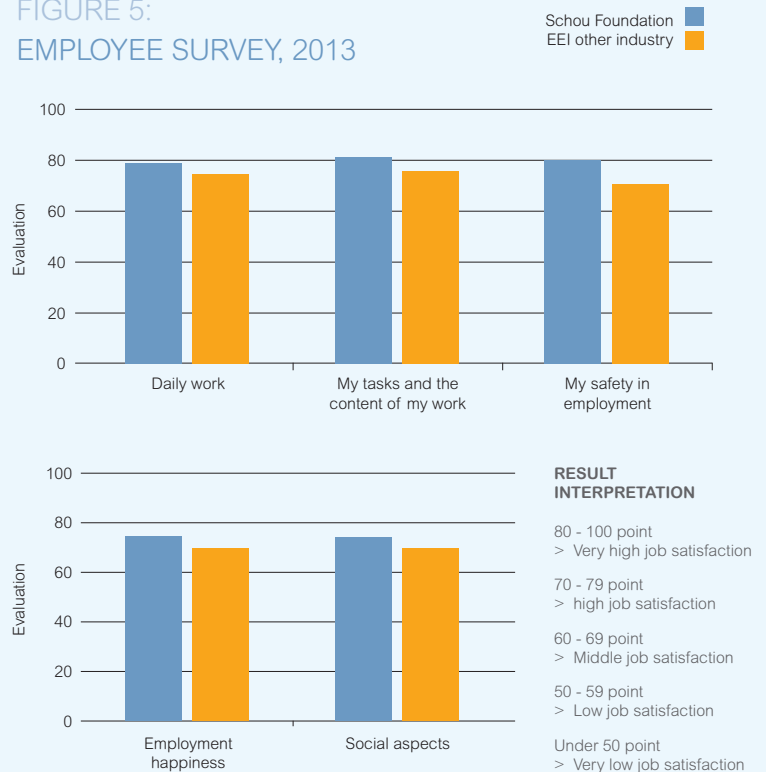


FIGURE 5:
EMPLOYEE SURVEY, 2013



8



*Knud Brix
65 year anniversary*

ANNIVERSARIES

In 2013, five employees celebrated their 25-year anniversary while two employees celebrated 40 years of employment. One employee celebrates an impressive 65 years of employment in the company. The anniversaries are celebrated with a gathering for all employees as well as previous anniversary holders and invited guests.

Two 25-year anniversaries were celebrated in Palsgaard Netherlands.

We have a close and collegiate collaboration in our companies around the world.

MUS

We carry out employee development conversations (MUS) with all employees on a yearly basis. In these conversations, the employee and their manager have an opportunity to measure up the expectations and possible areas of improvement in the job. Business strategy and basic values can also be discussed in these conversations. Continual overall performance areas regarding improvement of MUS are carried out. This ensures that a positive dialogue with concrete targets and action plans is in focus. It also involves a higher degree of systematic and strategic approach in order to evaluate skills efficiently. This improves our ability to identify educational needs for each employee. As a result of this improvement of MUS, everyone are more capable of utilising each other's resources and it is easier to identify mutual needs and requirements. The MUS schedule, which is utilised by the manager and employee during the conversations, will be developed on a continuous basis going forward. This will take place in connection with the implementation of a new employee administration system, in Denmark and in subsidiaries.

In 2012, we identified new objectives for MUS and during 2012 and 2013 we have worked to intensify the results of this process. The set questions and procedures for the practical implementation of the conversation have been upgraded. Hence we have improved the results of the conversations. A clear indication of this is the increased number of completed conversations. The system has also been expanded to all subsidiaries and it has thereby reached all employees in the organisation.

These combined efforts have resulted in a growth from

57 points to 65 points in the MTU for 2013, which we consider very satisfactory.

The employee development conversations ensure that employees know what is expected of them and which targets that must be achieved. At the same time, agreements are created to determine the personal/professional development for the following year. The conversations also provide room for a good dialogue on soft values, such as how the individual employee is thriving or if there are areas that the specific manager should be aware of. The updating of the MUS material has undoubtedly had a positive effect on one single question in the employee satisfaction survey: "My immediate manager and I have discussed challenging but realistic goals for my development". The responses on this question have increased by 14 points to 72 points. Obviously, we consider this a very positive development.

In 2013 a cross-organisational development project for managers and specialists concluded with a training course for all other employees at Palsgaard Denmark. The purpose of this final course was to provide everyone in the organisation with an insight into the overall development project "Communication, knowledge sharing and collaboration." The course work was done on the topics: "Communication" - "Knowledge sharing" - "Cooperation". A personality profile – a so-called DiSC profile – was completed for all employees that requested it during the course. The profile is a tool to gain insight into their own and colleagues' behaviour patterns. During the course, and subsequently in own departments, extensive work has been done on aspirations for future processes and establishing ground rules with a focus on getting better everyday life for everyone (see page 23).





The OSH organisation at Palsgaard work broadly on safety.

PALSGAARD'S OSH ORGANISATION

Palsgaard's OSH organisation consists of a working environment committee in each of the companies Palsgaard A/S and Nexus A/S. At Palsgaard A/S, we have also set up seven working environment groups. Our OSH organisation processes working environment issues related to day-to-day operations and handles workplace risk assessments (APV). It also records and evaluates industrial accidents and near-misses. These assessments form the basis of the identification of areas for improvement and setting up objectives for new initiatives related to the working environment.

In 2013, there was a reduction in the number of work-related accidents with absences (see the result in section 3). This reduction is, among other things, achieved by a focus on near-miss accidents. This area is important to us and we will continually strive to reduce the number of work-related accidents even further.

Reduction of noise in the workplace has been a focus area for a number of years. In 1989, the first hearing assessment was carried out at Palsgaard. In 2013, another hearing assessment was carried out on employees in the production areas and application divisions. The survey showed that the noise level at Palsgaard is at an acceptable level.

In 2013, all Palsgaard Denmark employees with night shifts have completed a voluntary health control. The purpose was to illuminate possible health problems related to night shifts and to provide the employees with tools to assist them with handling the awkward working hours in daily life. We evaluated the health and well-being in comparison to the working conditions and more specifically, the risk for development of gastro intestinal diseases, cardio vascular diseases and sleep disorders, which are common symptoms of working night shifts. The survey also focused on the social consequences, stress and psychological symptoms that can relate to this type of work. On the basis of the completed control, happily we could determine that the employees that carry out shift work at night are generally thriving. Our OSH organisation will continue

to work on the many different statistical results of the survey in 2014. It is expected that the results will contribute as important elements of the future planning of night shifts in the company.

Other OSH contributions are:

- To increase the safety in connection with internal traffic on the company's areas, all production employees have been issued with jackets with fluorescent materials with reflexes to replace their previous black working jackets.
- A two-minute daily exercise programme using elastics, balls and exercises has been introduced on a trial basis for a small group of the administration staff with stationary jobs. This has proved to have a positive effect on the reduction of tension in the shoulders and neck. It has also had a positive effect in social capacity.
- The OSH organisation will continue to focus on improvements of working routines and development of the safety culture in 2014. This will, among other initiatives, focus on the prioritisation of preventative actions in everyday life.

PENSION SCHEME WITH PROFIT SHARING

To secure our employees financially after retirement, Palsgaard has offered a unique pension scheme with profit share for all its employees in Denmark since 1941. The profit-sharing element is established via the Palsgaard Foundation's Pension Savings Association. The employer and the member (the employee) determine the agreement. The employee pays in 2.5 - 5% of his/her salary after which Palsgaard on the basis of our annual accounts pays an equivalent amount multiplied by a contribution factor. This factor has in recent years been in the range of 0.9 to 1.8. The scheme was set up in 1941, before state pensions were introduced in Denmark. A scheme like this, in which the employer and employee were privately able to make savings provisions, had never been seen before. As far as we know, the Association is still the only one of its kind in Denmark.

DEVELOPMENT PATH

We have worked as instructors on a development project for Palsgaard's senior management, general management, specialists and employees over the course of a year. The title was 'Collaboration, Communication and Knowledge Sharing.'

The experience was unique in seeing how the employees lived up to the slogan 'Heart Working People'. The values of the company – loyalty, responsibility and commitment – penetrates the thought and work patterns of all employees. This was highly visible during the exercises and conversations.

Our task was to strengthen the employees so that employee wellbeing was optimised along with business growth. We encountered significant commitment and the employees generally are very enthusiastic about their work. This contributed to a positive input in the development project.

The focus Palsgaard puts on wellbeing in the employment relationship clearly contributes to creative very loyal employees with high levels of job satisfaction."



Annette Mørk-Sørensen
Dorte FINDERUP Uldall
Instructor and coach,
AMS coaching and teams

8

PALSGAARD MEXICO

INNOVATION ENSURES IMPROVED QUALITY OF LIFE FOR CHILDREN AND ADULTS WITH DOWN'S SYNDROME.



Miguel Hidalgo
Managing Director
Palsgaard Mexico

MEDAL OF HONOUR

Palsgaard Mexico received its latest recognition in 2013 when the Crown Prince Frederik and Crown Princess Mary of Denmark presented director Miguel Hidalgo with the Dansk Ek-sportforenings (Danish Export Association) diploma and the HRH Prince Henrik's of Denmark's Medal of Honour for his extraordinary efforts and success in furthering Danish products in the Latin American countries.

"I'm very proud to receive this recognition and pleased that our progress and work to further Danish exports in Mexico has been received with such a positive response," says Miguel Hidalgo.

The Palsgaard Foundation donated US\$100,000 to a CTDUCA research project in 2013. The donation was made by Birger Brix, representing Palsgaard A/S, and Miguel Hidalgo from Palsgaard Mexico in connection with a visit to Mexico by the Crown Prince Frederik and Crown Princess Mary of Denmark on 11 November 2013." The project is dedicated to people afflicted with Trisomi 21, also known as Down's syndrome.

CTDUCA is an organisation that helps children and adults afflicted with Down's syndrome to strengthen their metabolism and further their educational skills to improve quality of life. Since 2010, Palsgaard Mexico has worked in partnership with CTDUCA. Research has shown that children with Down's syndrome often are intolerant to a range of foods. This limits the body's ability to absorb certain nutrients.

Palsgaard's research team in Mexico has developed a food supplement called T2. This product contributes with special nutrients that support nutritional intervention and further the absorption and digestion of important components, necessary for the production and activation of neurotransmitters in the brain.

Significant positive results have been recorded through the utilisation of the supplement. Several clinical, cognitive, bio-medicinal, ethnological and physiological studies have been completed. These have been carried out in collaboration with the University of Mexico, the University of San Luis Potosi, Iberoamerican University, COPOCY, CONACYT and parents of children with Down's syndrome. The conclusions have noted that regular usage of the food supplement T2 improves cognitive, psychological and social abilities in children with Down's syndrome.

The studies have also shown that T2 stimulate mobility and movement. Fear-related behaviour is also reduced. Positive changes in sleep indications for individual diagnosis groups have also been seen. This has resulted in a generally improved sleep pattern and hence an increased quality of life in daylight hours. The product has also been noted to have a positive influence on the quality of life in people with autism and ADHD. Positive results have also been shown for other conditions with similar character traits after taking T2, such as diabetes, gluten allergy and high blood pressure.

T2 is produced by Palsgaard and marketed in the Mexican and American markets under the 'Special Nutrition' group. Patent applications have been filed for the product in Mexico and a range of other countries.



DID YOU KNOW?

– THE SLEEP PATTERNS FOR PEOPLE WITH DOWN'S, AUTISM AND ADHD OFTEN SHOW INCREASED ACTIVITY OF SLEEP APNOEA, WHICH RESULTS IN DISRUPTED SLEEP?



SUPPORT FOR CTDUCA

"Since 1908, a long time prior to CSR (Corporate Social Responsibility) being coined as a term, social responsibility was an increased priority for Palsgaard's founder, Einar Viggo Schou. His philosophy was that employees and their families should experience safety at Palsgaard and that this should be extended to the local community. This responsible business profile was continued by the heir, Herbert Schou, and is today a cornerstone for Palsgaard. Hence it is natural for us to support CTDUCA in the work it carries out for people with Down's syndrome. Among many other things, we contribute to a project on the establishment of an educational facility that furthers the independence for this group of people (The University of the Independent Life). We are very pleased to witness the development that the joint innovation project has brought."



Birger Brix
CEO of The Schou Foundation

9

PRODUCTION AND ENVIRONMENT



IMPROVED UTILISATION OF WASTE RESOURCES

In 2013, Palsgaard reduced the total amount of combustible waste to 0,009 kg per kg finished product. Since 2010, we have actively worked towards recycling as much waste as possible. In 2012, a central waste sorting area was established at Palsgaard Denmark and we continually work on sorting according to source. 39% of our combustible waste was recycled in 2013.

It is more advantageous to sort and recycle waste rather than incinerating it. This has been shown by improved utilisation of waste resources through new sorting technologies for received waste and increased prices on recycled paper and plastic. In most cases, this also contributes to a reduction in CO₂ emissions.

The location of Palsgaard's headquarters in an area of great natural beauty provides us with a special incentive to protect the area and reminds us every day that production must go hand in hand with sustainability. We have expressed our commitment to the environment in a written policy, which obligates us to run our business in a responsible way. This includes, among other aspects, that our impact on the environment is continually reduced and that our areas of natural beauty are preserved and, if possible, expanded. The aim is to preserve the natural condition and beauty of these areas.

Palsgaard has prepared 'green accounts' since 1996. These have primarily involved the environmental issues included in our environmental approvals and the requirements of green accounts. In conjunction with the development of Palsgaard's CSR strategy (see section 5), we have evaluated the environmental issues that we and our stakeholders believe to be important for the company. These issues and their links to our production processes are described below.

PROCESSES

Palsgaard's (Denmark) most important production processes are illustrated in the chart in figure 6. Material and resource streams have been calculated per kilo of finished product.

ENERGY AND CLIMATE

Palsgaard's target for the entire group is CO₂-neutrality by 2020. This neutrality is to be achieved through projects and initiatives regarded as valid and appropriate by both the company and its stakeholders. We believe that the most sensible solution is first and foremost to focus on reducing our energy consumption to a minimum. The remaining CO₂ emissions will be neutralised by other means. The target is to reduce the energy consumption per kilo of finished product to 1.05 kWh.

During 2013, we achieved a reduction in the total energy consumption from 1,17 kWh to 1,11 kWh per kg finished product. Hence we made a significant achievement towards reaching our target.

The reduction of electrical consumption has partly taken place through a change to more energy efficient lighting, such as LED light fittings. Conversions and optimisation of production has also been carried out to achieve more production and energy efficient processes in several factory divisions. Furthermore, a list of energy optimisation initiatives is planned for 2014.

In 2011, we signed an agreement to purchase electricity from Danish wind farms. As a result the total electrical consumption in Palsgaard's facilities in Denmark are now CO₂ neutral. We expect to continue to purchase electricity from sustainable energy sources to the extent that is required in terms of company usage. Following this, we have decided to continue the agreement with Energy Denmark in 2013.

For many years, Palsgaard has had a tradition for optimising and streamlining its production processes so that financial performance, quality and environment go hand in hand. In 2005, for example, we built one of the largest privately owned straw-burning plants in Denmark. This meant replacing fuel oil with straw from our own fields as a renewable energy source. In 2009, we further converted the primary energy source from fuel oil to natural gas on all kettles, both steam and heat-oil.

Comparing the current energy consumption with previous years, the results of these efforts have been very positive. In 2013, we used 1,11 kWh per kg finished product, compared to 1,36 kWh in 2008. Natural gas has a CO₂ emission, which is 20% lower than fuel oil and the impact on the local environment in terms of sulphur dioxide, and nitrogen oxide has therefore been significantly reduced. At the same time we have saved the environment for more than 100 annual oil tanker deliveries.

As part of our on-going work on energy-reducing and CO₂-saving projects, we have decided to complete a survey to establish whether setting up a biofuel plant would be technically possible and financially attractive. The overwhelming part of our energy consumption is currently covered by natural gas, and the first stage of the new project will clarify the benefits that such a biofuel plant may bring. In 2013 we carried out a pre-survey and we expect a decision on a possible realisation of the project to be taken during 2014.

UTILISATION OF RAW MATERIALS AND DERIVATIVE PRODUCTS

The material yield is significantly above 90%. We continuously work to increase our raw material utilisation rate and this, in turn, helps to reduce our total use of resources. For example, we strive to reduce the number of product changes in our production planning, which has led to changes in our production processes, which again lead to an enhanced utilisation of raw materials.

Palsgaard has very limited amounts of actual production waste. In 2012, we developed a system for the internal recording and labelling of all types of derivative products. This means that we are now working even more focused on reducing the amount of derivative products. It also ensures that products are sorted effectively which, in turn, optimises our ability to sell them.

Our aim is to improve utilisation of raw materials to a level, where we will only need to use 1,04 kilos of raw materials to produce 1 kilo of finished product by 2015. The quantity of derivative products can be seen in the data summary in section 13.

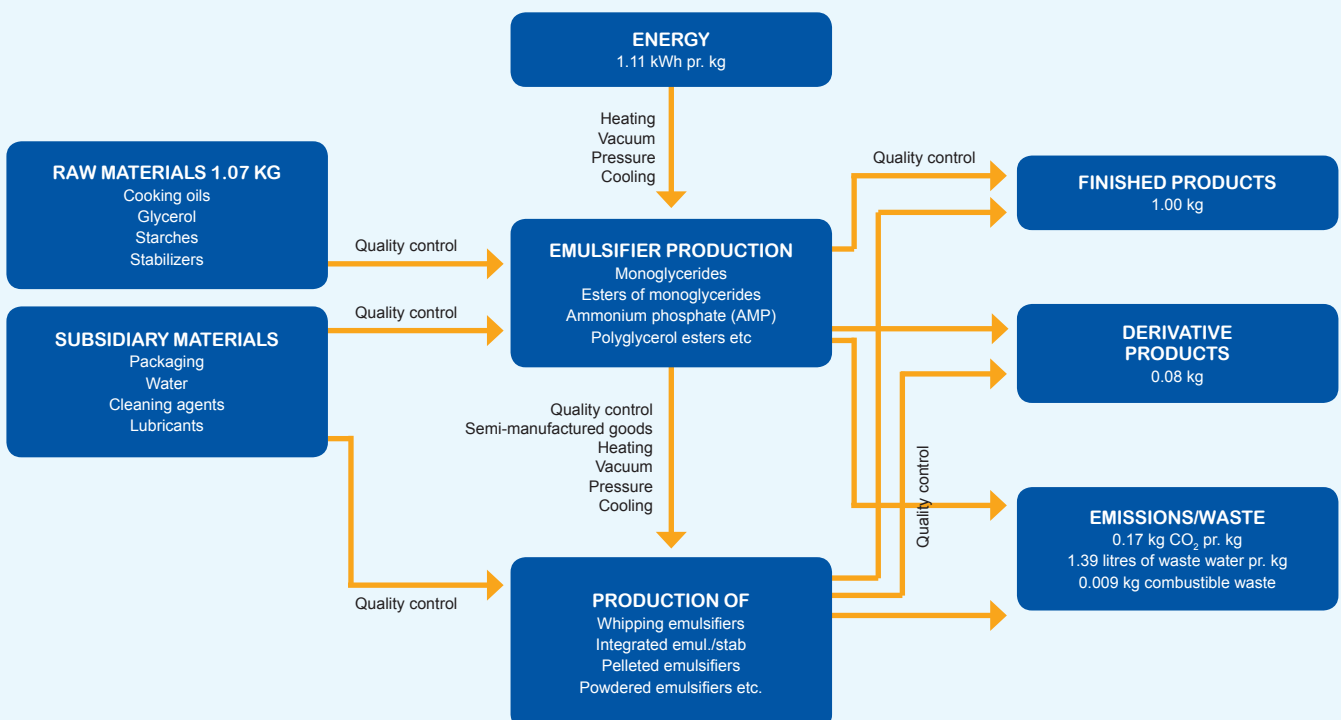
PACKAGING

Palsgaard's packaging volumes are generally small and constitute less than 1,5% of the overall weight of our products. We are continuously working to reduce packaging volumes – both for in- and outbound products. It is our aim to recycle 90% of our raw material packaging by 2015. The project on packaging reduction has not been prioritised in 2013, due to other large projects that require similar resources. External specialist companies handle the majority of our packaging waste for recycling purposes. Transport pallets are sold for re-use.



FIGURE 6:
PALSGAARD'S
PRODUCTION PROCESSES

PALSGAARD'S PRODUCTION PROCESSES COMPRISE EMULSIFIER PRODUCTION OF WHICH CERTAIN PRODUCTS ARE SOLD AS FINISHED PRODUCTS AND OTHERS ARE PROCESSED FURTHER BEFORE THEY ARE SOLD.



9

ENVIRONMENTAL CONDITIONS, WATER AND WASTEWATER

Production waste water mainly comes from cleaning of containers and pipes. This wastewater contains remnants of vegetable oil, fat, phosphorus and nitrogen. The wastewater is treated in our own pre-treatment plant before it is led out into the municipal waste water system. The pre-treatment plant removes the majority of fats, oil, protein, phosphorus and nitrogen.

In 2013 it was decided not to continue a project to establish a vegetation filter for final cleansing of wastewater. The project was evaluated as not financially viable and several factors were uncertain. Instead, we are working on future reduction of the amount of wastewater through utilisation of cooling water recycling systems, optimisation of cleaning procedures, production of larger batches, reduction of water usage in vacuum pumps and utilisation of automatic closure valves etc. In 2013, Palsgaard derived a wastewater amount of 1,39 litre per kg finished product, which is a significant reduction compared to previous years. Our strategic target is to reduce the amount to 1 litre per kg finished product by 2015.

In 2013, a project to identify the more water intensive processes in the company was completed. The implementation of water saving initiatives will continue to take place throughout 2014 and 2015 and the effect of these initiatives is expected in the years to come.

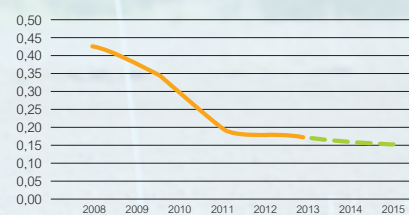
The measurement of water usage in 2012 now includes all Palsgaard production companies. This has, of course, resulted in an increase in the total recorded amount. We have chosen to focus on the reduction of waste water volumes through activities which are planned to be implemented over the coming years to reach our strategic target of reducing volumes to 1 litre per kilo finished product by 2015.

ENVIRONMENTAL CONDITIONS IN OUR FACILITIES INTERNATIONALLY

In the emulsifier factory in the Netherlands we have in 2013 focused on a cooling production water circulation system in order to save energy. The project has had a positive effect. The environmental management system, covering Palsgaard Netherlands, ensures that significant environmental conditions are evaluated annually. They are then systematically prioritised in terms



FIGURE 7:
CO₂ EMISSIONS PER KG
FINISHED PRODUCT (KILO)



■ Target

of target setting and risk reduction. The most significant initiative areas are energy reduction and water usage, recycling of waste and noise reduction. We have also optimised the emulsifier production facility so the amount of raw materials per amount of finished product has been reduced. The result of these efforts is included in the calculation for Palsgaard's annual usage of raw materials. (see, among others, section 3).

A solar panel facility was installed on the factory roof of Palsgaard Mexico in 2012. This facility produces more than 85% of the factory's electrical requirements. Generally, the Mexican facilities have a constant focus on production process optimisation and the reduction of CO₂ emissions. New investments are continually made into reduction of water and electrical usage as well as wastewater and waste. Every year, a training seminar is carried out on environmental awareness for Mexican employees. It is organised so both the employees, their family, neighbours and the local community benefit from the knowledge that is provided. Hence we contribute to the establishment of a culture that is aware and responsible towards the environment.

The many initiatives at the factory in Mexico have received recognition from both the authorities and customers. In 2013, the company reached the highest possible level within the "Industria Limpia Clean Industry" certification. The latest recognition was received in 2013 when Crown Prince Frederik and Crown Princess Mary of Denmark presented director Miguel Hidalgo a medal of honour for his extraordinary efforts and success in furthering Danish products in the Latin American countries.

In 2013 Palsgaard Mexico was certified to ISO/TS 22002-2008 and FSSC 22000. Hence it features a high food safety level.

FORESTRY AND AGRICULTURE

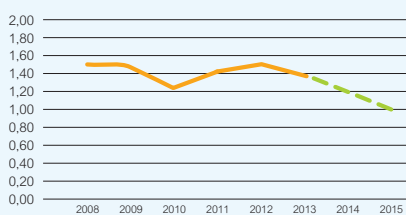
Palsgaard owns 3,009 hectares of forest in Denmark, Latvia and Lithuania. The Danish forests are PEFC-certified (Programme for the Endorsement of Forest

Certification). This certification ensures that the forests are managed on sustainable principles. The certification is audited annually. Through the certification, we ensure that the forests are managed with high levels of forestry and administrative expertise, including sustainable principles in terms of financials, consideration for the environment and recreational conditions.

Palsgaard Estate manages 540 hectares of agricultural land in Denmark on which wheat, malt barley, rape and grass are cultivated. It is a significant priority that the agriculture is carried out under conditions that consider nature, the environment and employees. The land is farmed through the usage of modern machinery and with long-term and financially viable considerations. In 2013, an unannounced company inspection was carried out by the Danish Agrifish Agency in relation to 'The rules on possession, storage and handling of pesticides and spraying records'. The authorities found that our activities in this area fully comply with current regulations.

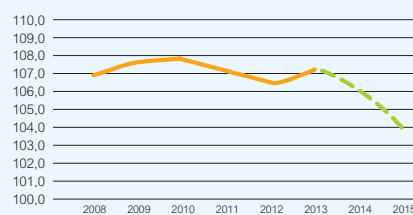


FIGURE 8:
WASTE WATER EMISSION PER KG
FINISHED PRODUCT (LITRE)



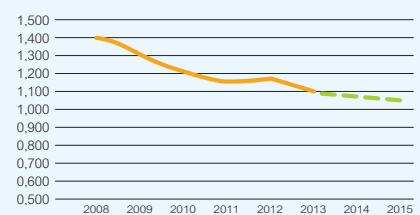
■ Target

FIGURE 9:
RAW MATERIAL USAGE PER
100 KG FINISHED PRODUCT (KG)

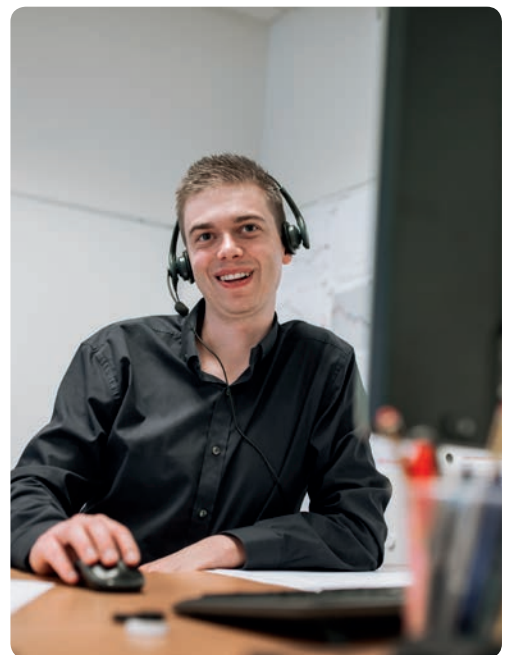


■ Target

FIGURE 10:
ENERGY USAGE PER KG
FINISHED PRODUCT (KWH)



■ Target



10

SALES AND LOGISTICS

Palsgaard continuously develops its activities with customers and partners in a global perspective.

This may often present challenges in terms of nurturing and maintaining our network of contacts without extensive travelling. Our sales and logistics solutions are therefore important for the overall CSR profile of our products. We are in a continuous dialogue with our customers and partners to ensure long-term and sustainable partnerships while our warehousing and transport solutions ensure that products also reach our customers on time with due respect for CSR.

MARKETING

It is highly important for our sales that our customers are aware of the properties and options that Palsgaard's food ingredients offer. As described in section 6 on Innovation, our product development often takes place in close collaboration with customers at our application facilities. This ensures that our products create the greatest possible value for them. Our application centres also work as demonstration laboratories where existing and potential customers are able to test our food ingredients in their own products. The geographical spread of the application centres reduces travelling distances and thereby our impact on the climate.

Palsgaard's primary market contact is handled by our own sales team and by a number of external sales agents. Combined, they cover more than 100 countries on all continents. This personal contact is supplemented by brochures, technical articles and marketing material, which can be downloaded from our website or via our new system "myPalsgaard", which is an expanded extranet. At seminars, all material is solely delivered electronically so resources are not required for printed material. Printed materials, such as brochures etc., are made available for concrete activities such as customer visits and trade shows. All material printed in Denmark (approx 95% of the total production) is environmentally certified with the Nordic Swan Mark. These prints are documented CO₂ neutral and paper is produced with the standards of the FSC® (Forest Stewardship Council)¹. A small proportion of our brochures are printed in China, where we also set requirements in terms of environmental production.

Our website, www.palsgaard.com, includes all relevant information about the company, products and news. The site includes a CSR section with our CSR activities and offers the visitor to download our CSR reports.

Our marketing material also includes results of product testing. It has always been one of our principles to provide fully objective information about our products.

DIALOGUE WITH CUSTOMERS AND PARTNERS

The distance between Palsgaard's headquarters and our global markets inevitably involves travelling for our employees, customers, subsidiaries and agents. As our expertise lies in our close dialogue with customers about products and production, we run a number of application centres with local specialists in Denmark, Mexico, Singapore and China. The combination of local laboratories and our many globally positioned subsidiaries and sales units, ensures that there is a reduced need for our business contacts to travel to Denmark. In our global communication, internet phone calls, such as Skype, are widely utilised. We also use video conferencing equipment across the organisation. It provides efficient contact and further reduction of travel activities to subsidiaries and customers abroad.

IT

We are currently implementing a new IT platform across the company. This ensures that we reach a future-proof solution while we improve our level of information and knowledge sharing with our international companies. We expect that this will strengthen and optimise the logistics in terms of the supply of goods to customers and it will facilitate a broader clarity in terms of the disposition of raw materials. We also expect that the new solution will optimise our logistical control and result in less finished goods transport as a tangible result. The solution will include a better user interface, which means that our employees will have easier access to relevant information.

TRANSPORT

As Palsgaard's influence action possibilities in the transport area are limited, we have decided for the time being not to set strategic CSR targets in this area. External carriers deliver the vast majority of our products door-to-door and some customers chose to pick up products from our warehouses themselves. Products from Denmark to mainland Europe are transported on trucks while overseas deliveries take place by ship from Northern European ports. For financial, logistical and environmental reasons, we strive to optimise packaging formats and volumes transported so that capacity of these ships is utilised as efficiently as possible.

In Asia demand for our products has grown significantly. This has influenced decisively on the decision to build a new emulsifier factory in Malaysia. The most important raw materials for our product programme are available in the local area and the combination of newly established, local production facilities, proximity to raw materials and a central placement of the factory ensures a significantly reduced environmental burden compared to sending goods back and forth between Europe and Asia.



B.E.S.T. IN BAKING AWARD

Read more on page 45.

¹) See the back page

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PRODUCT APPLICATION

Palsgaard's emulsifiers and stabilizers are developed mainly for use in foods such as bakery products, dairy products, chocolate, ice cream, margarine products, mayonnaise, dressings etc. The purpose of our products is to give food the required consistency and to ensure stability and shelf life while taking into account consumer requirements for special types of foods, e.g. reduced calorie content. Our products are also used to support special production processes that customers may have to enable their food processing to be carried out more gently or at lower temperatures.

It is vital to us that our products give food the required properties without in any way posing a health risk to end consumers. This is why we continuously work to improve food safety and the nutritional properties of our products. We also strive to improve the overall quality of foods by incorporating our products.

FOOD SAFETY

For many years, we have managed food safety by use of our HACCP system (Hazard Analysis and Critical Control Points) in compliance with the requirements in EU Regulation 852/2004.

In order to strengthen our food safety management system further, we are also certified to ISO 22000. Since 1996, our quality management system has been certified according to ISO 9001. In addition to our ISO 22000 certification, which contains requirements for the management system, methods and controls, we chose to set ourselves more stringent standards by certifying Palsgaard according to FSSC 22000, which includes the technical specification ISO/TS 22002-1. This sets out specific requirements for the basic programmes that form part of our food safety control.

In connection with the FSSC 22000 certification we expanded our number of specific food safety goals, and the results are monitored by management on a continuous basis. We have established a permanent transverse organisation across the company tasked with ensuring efficient communication routes via our Food Safety Team and working groups. This ensures that changes and new requirements from authorities and customers are continuously aligned and managed. At the same time, we ensure systematic analysis of risks and systematic management of food safety in all parts of the chain – from the purchase of raw materials to the delivery of the finished products to our customers.

These standards are applied throughout the food chain and certification allows us to deliver food ingredients to national and international customers who require that we comply with these standards.

We have set concrete targets that include never having to recall products as a result of lack of food safety – which thankfully has never been required. During the years of reporting we have had one minor non-conformance due to an open space by a closed gate (see section 16)

The decision has been made that all our manufacturing subsidiaries should be FSSC 22000-certified, and we are continuously striving to achieve this. Our facility in Mexico is the latest to become certified.

IMPROVEMENT OF THE NUTRITIONAL PROFILE OF FOODS

Many consumers are generally sceptical towards food additives – the so-called E-numbers. Our food ingredients play a positive role in this context. For example in relation to subjects as the fight against obesity or reduction of food waste.

We continuously seek to adapt our product range to match the latest knowledge about the impact of food products on consumer health and well-being. It involves making improvements to the nutritional profile of food, while we avoid unwanted ingredients in our products. We therefore focus on developing products that support the production of food with low fat contents and improved fatty acid composition as well as we work on reducing the content of trans fatty acids in our own products.





FOCUS ON INCREASING THE HEALTH OF THE POPULATION

Denmark is not the only country focused on increasing the health of the general public. The US Food and Drug Administration (FDA, November 2013) recognises that the health of the population should be increased through regulations on reduction of trans fats in processed foods.

“While consumption of potentially harmful artificial trans fat has declined over the last two decades in the United States, current intake remains a significant public health concern,” said FDA Commissioner Margaret A. Hamburg, M.D. “The FDA’s action today is an important step toward protecting more Americans from the potential dangers of trans fat. Further reduction in the amount of trans fat in the American diet could prevent an additional 20,000 heart attacks and 7,000 deaths from heart disease each year – a critical step in the protection of Americans’ health.”

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INGREDIENTS FOR FAT-REDUCED FOODS

As a response to the increasing consumer awareness of fat content in food, we have spent years developing products that contribute to retaining consistency, taste and shelf life of fat-reduced foods. This includes foods such as margarine, mayonnaise, cream, ice cream and chocolate.

Saturated and unsaturated fat in foods

Healthier products also mean increased focus on the saturated fat level in the products, primarily for health reasons, as saturated fats are linked to an increased risk of, for example, coronary heart disease. A higher content of unsaturated fat creates a healthier profile than traditional inclusions.

Fat is a key ingredient in ice cream, as it provides the ice cream with the creamy, soft structure that consumers want. Because of their functional good, properties, coconut oil or partially hardened palm seed oil are often used as a fat source. Unfortunately these fats have a very high content of saturated fat.

Generally the structure and creaminess of the ice cream will become poorer when a less saturated – e.g. healthier – fat is used. Palsgaard has developed emulsifier/stabilizer blends that can contribute to shaping the structure of the ice cream so it still has the right mouthfeel even though less saturated fats are used. It will also maintain the correct melting properties and storage stability that ice cream manufacturers and consumers want.

Margarine with reduced fat content

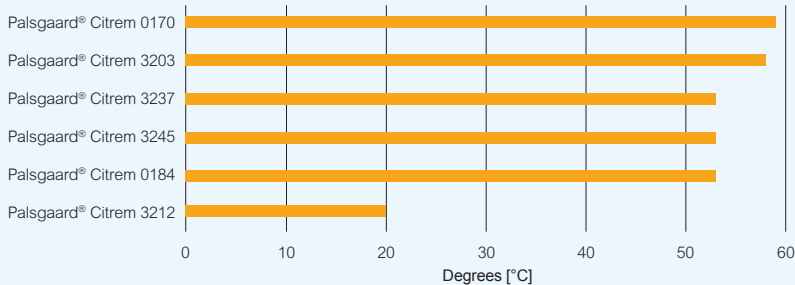
Palsgaard has developed solutions for the production of margarine, which makes it possible to reduce the fat content considerably. Puff pastry margarine, which is used in laminated bakery products such as croissants, Danish pastries and puff pastry, often has a fat content of up to 80%. We have developed the product Palsgaard® 1325, which makes it possible to reduce the fat content of margarine to 50% without affecting the functional properties of the margarine. For table margarine (spreads), Palsgaard has developed an emulsifier concept that makes it possible to produce spreads with a fat content of just 10%, but with the same mouthfeel and stability as a traditional product with a significantly higher fat content.

Margarine emulsifier with low melting point

In 2013 we launched the product Palsgaard® CITREM 3212, which has a significantly lower melting point than other margarine emulsifiers. Traditionally, an emulsifier requires high melting temperatures for optimal effect. The significantly lower melting point saves energy for the food manufacturer in the heating process. In addition, the emulsifier is easier to handle in production, as it is in liquid form. The Palsgaard® CITREM 3212 product already melts at approx. 20°C, whereas alternative margarine emulsifiers typically require 53-59°C in the melting process. Hence the product is both an advantage in the customer's production process and energy efficiency. See figure 11.

FIGURE 11:
PALSGAARD®
CITREM 3212

Can be utilised as an emulsifier for cooking margarine and other types of margarine. Alternative emulsifiers for these applications have a significantly higher melting point.



Saturated/unsaturated fat in chocolate

Our products can also assist confectionery manufacturers with their production process while also ensuring healthier products. In the confectionery industry, recent years has seen a focus on changing from saturated to unsaturated for health reasons. When an increased amount of unsaturated fats is used, the product becomes more difficult to work with during the production process as unsaturated fat crystallises much slower when cooled. The result is longer production process and increased energy consumption. By using Palsgaard's crystal-promoting products, which are added in small amounts, the crystallisation process is accelerated and stabilised. This reduces both processing time and energy consumption.

Chocolate with reduced fat

In connection with fat reductions in confectionery products, we have primarily focused on the reduction of the calorie content. This has typically taken place by reducing the total fat content and adding sugar substitutes. For the manufacturer, fat reduction causes problems during processing as a reduced fat content increases the viscosity of the chocolate and makes it difficult and very energy-intensive to complete production. By adding Palsgaard® AMP and Palsgaard® PGPR emulsifiers these production problems are eliminated. Through development work on emulsifiers, we managed to achieve a stable chocolate with a reduced fat level of up to 40%, without the production process requiring additional energy. Hence the utilisation of our products helps reduce the energy usage and ensure an environmentally friendly production.

TRANS FREE EMULSIFIERS

Since the 1990s, it has been known that trans fats (see text on "What are Trans Fats?") may have a negative

effect on health. We recognise that there may be a link between trans fats and health, and it is partly the industry's responsibility to try to find solutions for this. That is why we are continuously working to develop emulsifiers with reduced trans fatty acid content without compromising their functionality. The majority of our emulsifiers therefore have a content of trans fatty acid of less than 1%. These emulsifiers can contribute to the development and production of foods with reduced levels of trans fatty acids – without compromising on the sensory and shelf life quality of the finished food product.

E-NUMBERS

The majority of Palsgaard's food ingredients are additives and the products therefore include one or more E-numbers. These are part of an internationally recognised classification system for food and drinks additives. The E-number ensures that the ingredient in question complies with the identity and purity requirements that are based on a scientific toxicological assessment of the ingredient in question, as part of a standard food.

Palsgaard's ingredients are primarily based on vegetable raw materials and other natural components. The products are used to improve and/or secure the structures and stabilities of foods in modern food production without misleading consumers in terms of the nature of the food. Through our participation in interest groups and industry organisations (see section 5), we aim to engage in a nuanced dialogue with decision-makers and consumer organisations on this subject.

In order to meet consumer requests for fewer E-numbers in foods, Palsgaard has developed a range of stabilizers for ice cream, which combines the properties of several ingredients. Hence the ice cream only



WHAT ARE TRANS FATS?

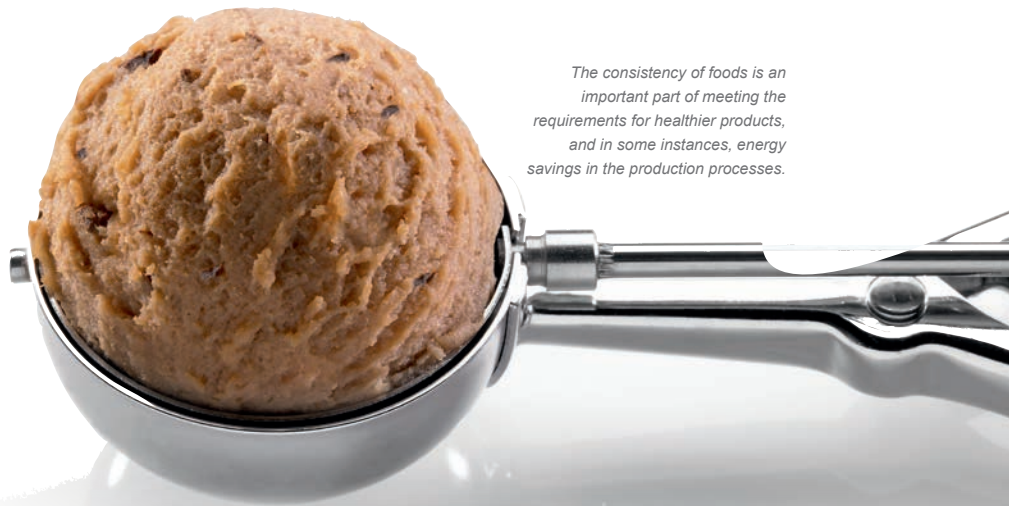
Through partial hardening of oils, the molecule structure in natural/vegetable oils and fats can be transformed from cis form to trans. Hence trans fats are created. Many scientific studies have shown that trans fats can increase the cholesterol level in the blood and hence contribute to arteriosclerosis with increased risks of myocardial infarction. This is the base for the recommendation by the health authorities in many countries to generally reduce the intake of trans fats.

DID YOU KNOW?

– THE USAGE OF FOOD ADDITIVES IN THE EU FOLLOWS STRICT RULES AND REGULATIONS

According to EU labelling legislation, emulsifiers must always be declared on the labels of products where they are used, either by their name or their corresponding E-number. The use of an E-number means the additive has undergone a stringent safety evaluation by the European Food Safety Authority (EFSA), has been found safe for use and has been authorised by the European Commission. The E-number is attached to each category of emulsifiers or other food additives and is part of an international code of recognition.

Source: EFEMA, www.emulsifiers.org



The consistency of foods is an important part of meeting the requirements for healthier products, and in some instances, energy savings in the production processes.

11

DID YOU KNOW?



- THE DANISH CONSUMER ORGANISATION “STOP SPILD AF MAD” (STOP WASTING FOOD) IS ONE OF A TOTAL OF 21 PARTNERS THAT ARE TAKING PART IN MOST AMBITIOUS EU PROJECT TO FIGHT FOOD WASTE.

Last year, the EU commission presented eight solid initiatives to reduce food waste and a new four-year joint European project, entitled ‘Fusions’ is becoming a reality. The strength and support of the project comes from the 21 participating European partners from the whole food chain (industry, retail and consumer organisations). This way, a platform is created for both non-governmental and governmental organisations as well as companies.

“It is the first time food waste is on the agenda at the same time across many different organisations and on a range of levels. More than ever, food waste has become a consistent part of the news agenda within the last year. I’ve been active within this area for more than ten years and I have not experienced this momentum before,” says Toine Timmermans, coordinator of the Fusions project.

Source: Voresmad.dk /Landbrug og Fødevarer (Agriculture and Foods), Denmark, 2012



needs one or two E-numbers to fulfil the requests for consistency, shelf life and resistance to temperature fluctuations.

REDUCTION OF FOOD WASTE

The amount of food ending up as waste instead of being eaten is of increased concern to the general public – and not without reason. Surveys show that the percentage of food that ends up as waste throughout the production chain and at the hands of consumers is 30-50%. This is inappropriate both in terms of the environment, society and economics. The subject of food waste was hence debated at the Transforming Food Waste into a Resource food conference at the EU Parliament at the end of 2010. One of the conclusions from the conference became a draft of a commitment to global reduction of food waste of at least 50% within 2025 as one of UN’s development goals for the century. As part of this debate, the EU adopted a policy on ‘How to avoid food waste – strategies for a more effective food chain in the EU (2011/2175(INI))’. There is also a significant focus on the reduction of food and resource waste in other international contexts. Denmark was the host of the Global Green Growth Forum 2013 (GGGF), which also features resource effectiveness as a key theme of the forum.

The Danish minister for food at the time, Karen Hækkerup (S) noted on the policy suggestion on an international protocol to reduce global food waste, “Food waste also happens in supermarkets, in food manufacturing facilities and agriculture. It is important that we target the whole cycle when we consider an ambitious international protocol. Food waste is not just what consumers throw in the bins at home.”

At Palsgaard, we believe that we contribute positively to this agenda because our emulsifiers and stabilizers mean increased shelf life and longer freshness of food

EMULSIFIERS IN PLASTICS

Palsgaard's emulsifiers are also used as additives in plastic production, such as polyethylene films, which are used in food packaging, amongst other usages. The emulsifiers provide an anti-fogging effect, which maintains the transparency of the film.

products. Meanwhile, as described in section 9, we have achieved a high rate of utilisation of our raw materials and have identified recycling options for our production waste. You can also read about our partnership with BØRNEfonden (The Children's Foundation) on the topic of food waste in section 12.

TECHNICAL APPLICATIONS

Palsgaard's products are also used outside the food industry. Our vegetable-based emulsifiers are, for example, capable of replacing petrochemical products in traditional technical/chemical applications and other contexts that require emulsions or suspensions. For example, our products are used in skincare and cosmetics products, where producers wish to use natural plant ingredients or avoid certain chemicals, which can be replaced by Palsgaard products.

The polymer and plastics industry is a growth area where manufacturers are researching, with a view to reduce CO₂ emissions in the value chain. Palsgaard is now able to offer emulsifiers that are based on vegeta-

ble oils such as RSPO-certified palm oil - approved for food packaging. Emulsifiers are utilised in plastic packaging to improve anti-static anti fogging properties. In 2012, in partnership with a group of stakeholders,

Palsgaard commenced a four-year project within surface treatment and paints. The purpose of the project is to develop wood protection agents and paints based on natural raw materials. The project was organised under the auspices of "HøjteknologiFondet" in Denmark, which is also supporting the project financially. The broad aim of the project is to develop coating and paints which, via the correct choice of raw materials, provides the best protection of outdoor woodwork and at the same time has the lowest impact on the environment. Palsgaard's task in this interdisciplinary work is to develop emulsifiers based on vegetable oils. If the project succeeds, it will imply a reduced impact on the environment from wood protection agents in the future.



Palsgaard contributes to a four-year project on innovation within surface treatments.



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CONTRIBUTION TO SOCIETY

In addition to contributing to society in terms of the properties and value our products add to foods – as well as through the jobs we create – we directly add value to society through donations, maintenance and preservation of natural areas and our tax contributions.

Social commitment is based on our mission to create a workplace with motivated employees who work together in unity. This ensures that our employees are proud of working at Palsgaard, that they thrive in their surroundings and that they wish to make a visible difference. We also hope that our commitment to local communities contributes to a positive relationship with our neighbours and local authorities, and that it promotes health and skills development in the local community.

COMMITMENT TO THE LOCAL COMMUNITY

Palsgaard Estate has a century-old tradition of engaging in the local community that we are part of. Over the years, Palsgaard and the Schou Foundation have contributed in the form of facilities for the benefit of local inhabitants. One of the most important was access to the Manor library, donation of the church in Juelsminde, donation of 16.5 hectares of land for Hellebjerg Sports and Youth College and the establishment of a golf course.

We have upheld the tradition of contributing and providing financial support to the local community and the voluntary efforts that take place in the local sports and leisure activities. For example, we donated a section of land for the construction of a new parking space by the above-mentioned church in Juelsminde.

The town Juelsminde lies by the east coast of Denmark and have been active within fishery, shipping and sailing for many years. In 2013, a harbour museum was established and Palsgaard has contributed with loans of books and artefacts. Furthermore, a donation was made towards the establishment of the museum. The project was interesting to us as, among other things, the old war ship Fregatten Jylland (launched in 1860) has a historic connection to Palsgaard and Juelsminde.

As part of Palsgaard's culture, our international subsidiaries are also active in their efforts to support their local communities:

Palsgaard Mexico has established a partnership with the organisation CTDUCA – an organisation that helps

children with Down's syndrome achieve an improved level of learning. Palsgaard's research team has developed a dairy replacement based on whey protein, which can benefit the children's capacity for learning and future improved quality of life.

Palsgaard has, through our partnership with CTDUCA, made contributions to the development of this product. This ensured that the product was able to go through the necessary research and become approved for consumer distribution. (Read more on the special nutrition for children with Down's syndrome in section 8).

Examples of other CSR activities in Mexico have been described in previous reports, such as:

- Support for replanting of 330 ha forest.
- Donation of recycled plastic barrels for water storage.
- Life Quality programme for all employees and their families.
- Focus on the individual employee's training, job safety and health.

Palsgaard Russia supports the "Children Foundation", which runs an orphanage in the Ural area. This support takes place through 2-3 annual donations, consisting of an amount supplied by the company and an amount of money that has been collected by the employees in the Russian company. The money is used to purchase toys for the orphans, who really appreciate them. The children send letters of "thank you" every year to our colleagues in Russia.

SUPPORT FOR PEOPLE IN NEED

As part of a set agreement with BØRNEfonden (Children's Foundation), we donate to projects in West African republics such as Cape Verde, Benin and the archipelago Fogo every year. Among other initiatives, these projects focus on the development of infrastructure and education. Support is also provided for entrepreneurs, which results in an increase in employment and hence an improved standard of living. Our collaboration with BØRNEfonden started in 2008, when we decided that the money, that previously had been used for Christmas presents for customers and other business associates, should instead be used for sustainable development in third world countries.

The latest Palsgaard-supported project relates to the construction of water storage and toilet facilities in a nursery in Benin. The project will contribute towards a better water quality and hence reduce illnesses that are



OTHER ACTIVITIES

Other activities in the local area supported by Palsgaard have been described in previous CSR reports. These include:

- Donation of an area of land to establish a road to relieve heavy traffic to Palsgaard.
- Employees that are voluntary fire fighters can be available for the Fire Corps for emergencies in daylight hours.
- Participating landowner in the cooperative efforts to complete a 22 km coastal path from Juelsminde to Horsens.
- Support for the local, independent amateur theatre group "Palsgaard Sommerspil". This include the loan of outdoor staging and the Estate park area.

12



*John Naidoo
Manager
J&R Transport*

PALSGAARD SOUTH AFRICA

For a period of time, Palsgaard South Africa used a local transport company for goods deliveries in the local area. A black South African owned the company. The collaboration was unstable, as the owner of the company hadn't learned about the running of a business and didn't own the basic equipment to run an effective company. To remedy the situation, we arranged for the owner to attend a course on basic management. We also contributed with IT assistance in terms of the installation of a PC, printer and mobile phone. Our support for this delivery company has resulted in six people now being employed by his company and the successful running of the company as a whole. As a bonus, Palsgaard now has a loyal, flexible and effective partner for local transport of our goods.

spread through water in the local area. As part of the project, children and their parents receive education on hygiene.

Another project in Benin, which was concluded in 2013, is the purchase of a boat for students that have to cross a river to get to school. Now they can be carried safely across the river throughout the year – even in the monsoon season – and hence get full value of the education.

In 2013 we established a new arrangement in Palsgaard's canteen to reduce food waste. This was partly by request from employees. Immediately after the lunch break, employees can purchase excess food from the buffet. The food is sold in plastic containers supplied by the company. All money raised are allocated to BØRNEfonden and support the education of young people. In this respect, we have sponsored a trainee in Benin and now support a technical school for young people in the country. The money is primarily allocated for scholarships but is also used for tools and bicycles for student transport. The success of the project lies in our own satisfaction that we have indeed reduced food waste. At the same time, the employees that uses the

arrangements has an easier home life by being able to bring home dinner and finally, we support young people in West Africa with education and therefore support the community structure where it is required.

Palsgaard Singapore: Our commitment in Asia includes the support of local areas when there is an urgent need for help. When the typhoon Yolanda (Haiyan) hit the Philippines, causing widespread devastation, Palsgaard donated an amount to the Red Cross charity, which operate in the country.

Palsgaard South Africa is dedicated to B-BBEE (Broad-Based Black Economic Empowerment), which includes support for the black population to enable achievement of a higher social standard. Within the B-BBEE programme, we have chosen four focus areas for our annual actions:

1. Black ownership and senior management
2. Preferential Procurement: buy all material and services from black owned companies.
3. Social-Economic development
4. Enterprise development

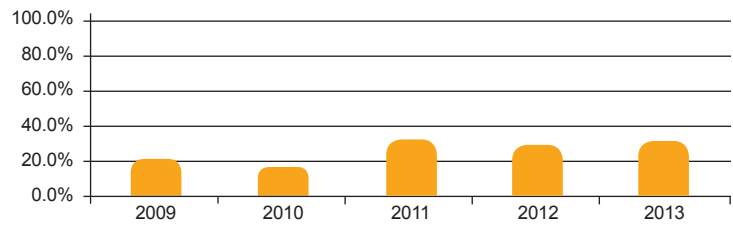


We have contributed in various ways towards these activities. The next section is an example of our actions in terms of point 4 - development of company structures:

RESPONSIBLE TAX

A significant part of Palsgaard's contribution to society comes from the payment of corporation tax. It is our belief that taxes should be paid in the country in which income is earned. We are an international company and are subject to different taxation conditions in the various countries in which we operate. We comply with all the legislative requirements of these areas and engage in reasonable negotiations with our subsidiaries on the prices of our products with a view of setting our prices in accordance with the normal market conditions. This ensures that the income is taxed where it is generated.

FIGURE 12:
EFFECTIVE TAX RATE



Palsgaard's effective tax rate (see calculation in section 15).



THE POLITICAL INFLUENCE OF PALSGAARD

Palsgaard Manor has through the years been home to a range of people that have influenced the political scene in Denmark and abroad. These include the maker of a king to the murderer of a king. Marsk Stig, who was behind the murder of Erik Klipping in 1286, was connected to the original Palsgaard Manor. The current Norwegian royals are also historically connected to Palsgaard. From 1898 to 1908, the Norwegian diplomat Wedel Jarlsberg owned the manor. He was the host of the negotiations that concluded in the Danish Prince Carl – after the secession of Norway from Sweden in 1905 – could ascend the newly established Norwegian throne as King Haakon the seventh.



13 DATA SUMMARY

| INDIKATOR | ENHED | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|----------------------------------|---------|---------|---------|--------------------|--------------------|
| ENERGY | | | | | | |
| ENERGY CONSUMPTION, TOTAL | KWH PER KG FINISHED PRODUCT | 1.26 | 1.19 | 1.16 | ⁴ 1.17 | ⁴ 1.11 |
| ENERGY CONSUMPTION, ELECTRICITY | MWH | 10,946 | 11,215 | 10,910 | 11,337 | 11,539 |
| ENERGY CONSUMPTION, FOSSIL | MWH | 31,905 | 32,845 | 31,476 | 33,068 | 33,929 |
| EMISSIONS | | | | | | |
| CO ₂ -EMISSIONS ² | KG PER KG FINISHED PRODUCT | 0.40 | 0.32 | 0.18 | ⁴ 0.18 | ⁴ 0.17 |
| CO ₂ -EMISSIONS | TONNES | 13,438 | 12,029 | 6,554 | 6,856 | 7,021 |
| NO _x -EMISSIONS (NITROGEN) | KG | 23,749 | 6,142 | 5,828 | 6,241 | 6,436 |
| SO ₂ -EMISSIONS (SULPHUR DIOXIDE) | KG | 19,556 | 1,406 | 1,238 | 1,449 | 1,471 |
| WATER | | | | | | |
| WATER CONSUMPTION ³ | M ³ | 110,646 | 136,289 | 131,520 | 154,897 | 167,311 |
| WASTE WATER | LITRE PER KG FINISHED PRODUCT | 1.47 | 1.22 | 1.42 | 1.53 | 1.39 |
| WASTE WATER | M ³ | 49,820 | 45,393 | 52,267 | 58,126 | 56,857 |
| DERIVATIVE PRODUCTS AND WASTE | | | | | | |
| DERIVATIVE PRODUCTS ³ | KG PER KG FINISHED PRODUCT | 0.08 | 0.09 | 0.08 | ⁴ 0.08 | ⁴ 0.08 |
| WASTE (FLAMMABLE) | KG PER KG FINISHED PRODUCT | 0.012 | 0.012 | 0.011 | ⁴ 0.011 | ⁴ 0.009 |
| WASTE (FLAMMABLE) | TONNES | 339 | 360 | 339 | 341 | 322 |
| CHEMICAL WASTE | KG | 13,460 | 8,385 | 9,819 | 17,929 | 17,979 |
| COMPLIANCE OF AUTHORITY REQUIREMENTS | | | | | | |
| NUMBER OF INCIDENTS OF NON-COMPLIANCE | NUMBER | 0 | 0 | 0 | ⁵ 1 | 0 |
| WORKING ENVIRONMENT | | | | | | |
| ACCIDENTS, TOTAL | NUMBER | 7 | 9 | 3 | 5 | 4 |
| ACCIDENTS, DENMARK | NUMBER | 7 | 8 | 3 | 5 | 4 |
| ACCIDENTS, THE NETHERLANDS | NUMBER | 0 | 1 | 0 | 0 | 0 |
| ACCIDENTS, CHINA | NUMBER | - | 0 | 0 | 0 | 0 |
| ACCIDENTS, MEXICO | NUMBER | 0 | 0 | 0 | 0 | 0 |
| ACCIDENT FREQUENCY, DENMARK ³ | NUMBER PER MILLION WORKING HOURS | 20 | 22 | 8 | 14 | 11 |
| EMPLOYEE CONDITIONS | | | | | | |
| EMPLOYEE TURNOVER | TURNOVER RATE | 11,8% | 4,4% | 4,8% | 5,3% | 3,1% |
| TAX | | | | | | |
| EFFECTIVE TAX RATE | % | 21,2% | 16,6% | 32,8% | ⁵ 29,2% | 31,4 |
| RAW MATERIALS | | | | | | |
| RAW MATERIAL CONSUMPTION (KG PER 100 KG FINISHED PRODUCT) | | 107,60 | 107,90 | 107,19 | 106,49 | 107,37 |
| RSPO-CERTIFIED PALM OIL | | 1 | 1 | 1 | 1 | 1 |
| RECYCLING OF RAW MATERIALS PACKAGING | | 1 | 1 | 1 | 1 | 1 |

1) Data not available.
2) See Section 3 for long-term targets.

3) As a result of data availability and for the application of current standards, the calculation method has been changed compared to what was previously reported.

4) Den beskrevne midlertidige hændelse (se afsnit 9) har forbedret nøgletallene for 2012 og 2013 med 0-5%.
5) Opdateret data.

14

THE INDEPENDENT
AUDITOR'S
STATEMENT**TO THE MANAGEMENT OF PALS GAARD**

Pursuant to the agreement of 27 February 2014 we have reviewed Palsgaard's* reporting "Corporate Social Responsibility Rapport 2013" ("the reporting") in order to issue a statement on the quantitative data for 2013 on pages 5 and 42.

The reporting is the responsibility of the Company's Management.

Our responsibility is to express a conclusion based on our review of the reporting.

THE WORK CONDUCTED

We have conducted our work in accordance with the international standard on other assurance engagements and additional requirements under Danish audit regulation to obtain limited assurance about our conclusion.

We have obtained limited assurance because, compared to a reasonable assurance engagement, our work has been limited primarily to enquiries of company management and personnel as well as analytical procedures.

The purpose has been to obtain limited assurance that the quantitative data presented for 2013 in the reporting at Group level are in accordance with the reporting practice described in sections 2, 3 and 15 and the information reported by the companies included. By agreement, we have not reviewed quantitative data at the companies' premises, as the review has only taken place at the head office in Juelsminde, Denmark.

Our review is based on an assessment of risk of misstatements.

We believe that the work conducted provides a reasonable basis for our conclusion.

CONCLUSION

During our review, nothing has come to our attention that causes us to believe that the reporting of quantitative data for 2013 for the Group is not in accordance with the described reporting practice and information reported by the companies included.

Copenhagen, 22 May 2014

Deloitte.

Statsautoriseret Revisionspartnerselskab



Lars Kronow
Statsautoriseret Revisor
(State-authorized Public Accountant)



Helena Barton
Lead Reviewer

This assurance statement is at translation of the Danish assurance statement. In case of doubt, please refer to the Danish version of the statement.

* The units which 'Palsgaard' comprises are specified in chapter 3.

15 REPORTING PRACTICE

The data basis for this report includes the entities indicated in the summary. All data for resource and raw materials consumption and finished products only include production units. Data have been collected to the extent that they have been available within the framework of our existing systems. We will continue to add more units in our data reporting so that we will be able to present a more complete picture of the company in future. Agricultural activities are not included. Our reporting period runs from 1 January 2013 to 31 December 2013. The targets have been calculated using 2009 as basis year.

| INDICATOR | DATA BASIS | CALCULATION METHOD | UNITS INCLUDED BY DATA |
|---------------------------------|------------|---|------------------------|
| RAW MATERIAL CONSUMPTION | B | Annual production volumes are based mainly on company purchasing statistics, production reports and counts | P |
| FINISHED PRODUCTS | B | The statement is based mainly on product usage statistics and volumes of derivative products and waste. the volume of finished products is therefore a direct calculation. | P, PANL, PAMX |
| ENERGY CONSUMPTION, ELECTRICITY | M | Electricity consumption has been determined on the basis of statement from electricity provider. | P, PANL, PAMX, PACN |
| ENERGY CONSUMPTION, FOSSIL | M | Natural gas and oil consumption are measured via direct meter readings. | P, PANL, PAMX |
| ENERGY SAVINGS | B | The result of energy-saving initiatives have been calculated on the basis of energy consumption compared to volume of finished products. | P |
| EMISSIONS | B | "Electricity: The most recently available data from energinet DK's declarations have been used as emission factors for Denmark. CO ₂ emissions for scope 1 are included. The most recently available local emission factors have been applied to entities outside Denmark. Fossil fuels: CO ₂ , NO _x and SO ₂ emissions from fossil fuels have been calculated as consumption multiplied by current standard factors developed by: dansk gasteknisk center a/s based on an assumption of complete incineration and scope 2 in accordance with the Green House Gas Protocol (GHG Protocol). Emissions from personal and transport vehicles are not included." | P, PANL, PAMX, PACN |
| WATER USAGE | M | Water usage has been calculated based on own meters. | P, PANL, PAMX, PACN |
| WASTE WATER | M | Waste water volumes have been calculated on the basis of meter readings on the waste water system. the reason that the waste water volume is smaller than the used water volume is that a significant quantity of water evaporates in cooling towers. | P, PANL, PAMX, PACN |
| DERIVATIVE PRODUCTS | B | The calculation of derivative products is based mainly on sales statistics, production reports and counts. | P |
| WASTE (FLAMMABLE) | M | Waste volumes have been calculated on the basis of invoices from waste removal companies. | P |
| CHEMICAL WASTE | M | Chemical waste volumes have been calculated on the basis of weight slips received from waste removal companies. | P |
| NUMBER OF BREACHES | M | Breaches of terms and conditions as number of breaches of conditions applicable to metering. | P, PANL, PAMX |
| INDUSTRIAL ACCIDENTS | M | industrial accidents have been calculated on the basis of accident records for all employees which have entailed more than one day of absence. | P, PANL, PAMX, PACN |
| ACCIDENT FREQUENCY | B | Accident frequency has been calculated per 1 million working hours. Number of working hours is a calculated figure of working hours. | DK |
| EMPLOYEE TURNOVER | B | Employee turnover and average seniority has been calculated on the basis of an estimated number of full-time employees at the beginning of the year, based on Palsgaard's payroll system. | DK |
| EMPLOYEE SATISFACTION | M | Employee satisfaction is based on palsgaard's employee satisfaction survey which is carried out every other year and includes all employees. the main indicator of work satisfaction is applied as a general target and is compared to eei (european employee index). | DK, PANL, PAMX, PACN |
| TAX | B | The effective tax rate is calculated by the company accountant based on the results of the group and the accounts and tax declarations. | DK, PANL, PAMX, PACN |

A

M=measured
B=calculated
A=estimated

P: Palsgaard A/S and Nexus A/S
PANL: Palsgaard Netherlands
PAMX: Palsgaard Mexico

DK: All entities in Denmark
PACN: Palsgaard China

B.E.S.T. IN BAKING AWARD

We work strategically with CSR and actively include it in our marketing. Among other things, this has resulted in us receiving honorary recognition for "B.E.S.T. in Baking Award" (Becoming Environmentally Sustainable Together) at the IBIE trade show in USA in 2013. The recognition was partly presented due to the fact that our CSR report and additional material closely describes and documents our responsibility policies.

HONORABLE MENTION



16 GRI TABLE

The GRI table is based on GRI guidelines Version 3.0. Two indicators have been omitted in accordance with omission options ("reasons for omission") for reasons of competition.

| GRI REFERENCE | DESCRIPTION | INDICATOR reference to the report or statement of indicator | SECTION |
|---------------------------|---|---|-------------------|
| PROFILE INDICATORS | | | |
| 1.1 | Statement from the most senior decision maker of the organization about the relevance of sustainability to the organization and its strategy. | Message from the management | 4 |
| 2.1 | Name of the organization | Company name | 2 |
| 2.2 | Primary brands, products, and/or services. | Products | 3 |
| 2.3 | Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures. | Organisation | 3 |
| 2.4 | Location of organization's headquarters. | Headquarters | Back cover |
| 2.5 | Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report. | Geographic distribution | 3 |
| 2.6 | Nature of ownership and legal form. | Ownership | 3 |
| 2.7 | Markets served | Sales organisation | 3 |
| 2.10 | Awards received in the reporting period. | "BEST in Baking Award, PAUS Industria Limpia Clean Industry, PAMX ISO/FSSC certifications, PAMX Diploma of Dansk Eksportforening and HRH Prins Henrik's Medal of Honour, PAMX" | 15 9 9 8 |
| 3.1 | Reporting period for information provided. | Reporting year | 2 |
| 3.2 | Date of most recent previous report | This is Palsgaard's fourth CSR report | 2 |
| 3.3 | Reporting cycle | Every year | 2 |
| 3.4 | Contact point for questions regarding the report or its contents. | | Back cover |
| 3.5 | Process for defining report content, including: • Determining materiality; • Prioritizing topics within the report; and • Identifying stakeholders the organization expects to use the report. | Sustainability agenda | 2 and 5 |
| 3.6 | Boundary of the report | Scope of the report, scope of data | 2 and 15 |
| 3.7 | State any specific limitations on the scope or boundary of the report | Scope of the report, scope of data | 2 and 15 |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations | Legal entities covered by the report | 2 |
| 3.9 | Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. | Data basis | 15 |
| 3.12 | Table identifying the location of the Standard Disclosures in the report | GRI-table | 16 |
| 3.13 | Policy and current practice with regard to seeking external assurance for the report. | Statement | 14 |
| 4.1 | Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight | Management structure and distribution of responsibilities | 5 |
| 4.2 | Indicate whether the Chair of the highest governance body is also an executive officer | Responsible manager's position as Managing Director of Palsgaard Gods A/S | 5 |
| 4.3 | For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members. | 3 members of the Board, of whom one is a woman | 5 |
| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. | Palsgaard has no mechanisms in place for this | |
| 4.8 | Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation | Palsgaard's mission, vision, values and Code of Conduct support the principles contained in the UN's Global Compact | 4 and 5 |
| 4.13 | Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: • Has positions in governance bodies; • Participates in projects or committees; • Provides substantive funding beyond routine membership dues; or • Views membership as strategic | Membership of associations | 5 |
| 4.14 | List of stakeholder groups engaged by the organization. | Stakeholders | 2 |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage. | Process of selection of stakeholders | 2 and 5 |

| GRI REFERENCE | DESCRIPTION | INDICATOR reference to the report or statement of indicator | SECTION |
|--|--|--|-----------|
| PERFORMANCE INDICATORS (C=CORE INDICATOR) | | | |
| EN1 (C) | Materials used by weight or volume. | Consumption of raw materials | 9 |
| EN3 (C) | Direct energy consumption by primary source. | Energy consumption, total | 9 |
| EN3 (C) | Direct energy consumption by primary source. | Energy consumption, distributed by electricity and fossil fuels | 13 |
| EN5 | Energy saved due to conservation and efficiency improvements. | Energy savings as a result of optimisation | 9 |
| EN7 | Initiatives to reduce indirect energy consumption and reductions achieved. | Energy-saving products | 6 and 11 |
| EN8 (C) | Total water withdrawal by source | Water usage | 13 |
| EN13 | Habitats protected or restored. | Conservation of areas of natural beauty | 9 |
| EN16 (C) | Total direct and indirect greenhouse gas emissions by weight. | CO ₂ emissions | 13 |
| EN20 (C) | NO, SO, and other significant air emissions by type and weight. | NO _x and SO ₂ emissions | 13 |
| EN21 (C) | Total water discharge by quality and destination. | Waste water | 13 |
| EN22 (C) | Total weight of waste by type and disposal method. | Waste | 13 |
| EN23 (C) | Total number and volume of significant spills. | Emissions into the ground | 9 |
| EN28 (C) | Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations. | Number of incidents of non-compliance. None in 2013. One in 2012 on an open space by a closed gate, which resulted in a DKK 20,000 fine. | 11 and 13 |
| LA7 (C) | Rates of injury, occupational diseases, lost days, and absenteeism, and number of workrelated fatalities by region. | Accidents, accident frequency and geographical distribution. Palsgaard has not had any fatal accidents. | 8 and 13 |
| LA8 (C) | Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases | Support for medical assistance and treatment | 8 and 12 |
| SO1 (C) | Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting. | Contributions to society | 12 |
| SO5 (C) | Public policy positions and participation in public policy development and lobbying. | Participation in organisations / lobbying | 5 |
| PR2 | Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services, by type of outcomes. | Food safety | 11 |
| PR3 (C) | Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. | Labelling with E-numbers | 11 |
| EC8 (C) | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. | Contributions to public roads, schools, etc. | 12 |
| FP4 (C) | Nature, scope and effectiveness of any programs and practices that promote access to healthy lifestyles; the prevention of chronic disease; access to healthy, nutritious and affordable food; and improved welfare for communities in need (sector-specific). | Ingredients for fat-reducing foods and trans fat-free emulsifiers | 11 |

FOR FURTHER DETAILS OF THE GRI STANDARD AND TERMS USED IN THE TABLE, PLEASE REFER TO WWW.GLOBALREPORTING.ORG



we are
experts in emulsifiers and stabilizers for bakery, confectionery, dairy, ice cream, margarine and fine foods - and we are happy to share our expertise. our company values can be defined in just three words: **loyalty, responsibility** and **commitment**. we aim to be the preferred partner and supplier of quality products, application service and know-how to regional and multi-national food companies. to Palsgaard **loyalty** means that we act as a reliable and honourable business partner for our customers. we treat information confidentially and know how to keep a business secret. to Palsgaard **responsibility** means caring about the environment and being aware of our corporate social responsibility; we have a goal to be CO₂ neutral by 2020 and are members of SEDEX and RSPO. to Palsgaard **commitment** means we are dedicated to getting the best results for our customers' products - to the benefit of their customers. we care about our employees and have a declared aim that Palsgaard must be a pleasant place to work. Palsgaard we know that our most important resource is the know-how and dedication found in our employees. **Heart** we are committed to getting the best results with our products in our pilot plants and in your facilities. **Working** at Palsgaard we don't sell standard solutions - we start with your needs. Palsgaard - Heart Working **People** heart work is the best way to achieve success - let us help you get it. our products are produced according to the strictest quality criteria. we are experts in **emulsifiers and stabilizers** and we are happy to share our expertise with you. let our pilot plants help you shorten the step between idea and your new product. heart work is the best way to succeed - let us help you do so.

Palsgaard®

♥ Heart working people

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