

# Corporate Social Responsibility

2018 report

**Palsgaard**<sup>®</sup>



“

*We have worked on sustainability for many years. The legacy of our founder, along with our mission and values, are what motivate us every day.*

*As the world's population continues to surge, Palsgaard plays an integral role in safely feeding the population and reducing food waste with our emulsifier and stabiliser solutions – we are responsible in our approach and carefully consider the Earth's rapidly diminishing resources. Our approach spans from the origins of our raw materials to the final consumer product.”*

**Jakob Thøisen, CEO**

# Welcome

Welcome to our Corporate Social Responsibility (CSR) report. Here is what you can find in this year's report:

Our CSR approach is underpinned by Palsgaard's long-standing core values, open communication with our stakeholders, a materiality review, the UN Global Compact (UNGC) and the UN Sustainable Development Goals (SDGs). Four CSR focus areas help to keep us aligned when implementing CSR-related activities throughout the organisation.

Having a comprehensive **governance** portfolio is essential in managing our people, stakeholders along the value chain and our production processes. Our Responsible Sourcing Programme and Anti-Corruption policies are guided by human rights principles outlined by global bodies. By focusing on responsible sourcing of raw materials, we aim to influence other food manufacturers, our customers and consumers in making responsible decisions.

We acknowledge the impact that large-scale production has on the environment. Focusing on **energy and environment**, we have worked tirelessly to reduce our impact as much as possible. Our CO<sub>2</sub>-neutral production sites have been realised through initiatives dating back to 2005, when we implemented straw-fired heating.

Supplying the food and non-food industries with emulsifier and stabiliser **products** since our inception a century ago, food quality and safety is essential in how we do business. Our production sites comply with internationally recognised standards with regular auditing. We are diligent in our approach and our clean food recall record is a testament to that.

From the beginning, we have aimed to offer a rewarding, meaningful and safe workplace for all our **heart working people** – no matter where in the world they work. Our employee satisfaction and motivation results continue to outperform the Global Employee and Leadership Index (GELx).

We want to make a meaningful impact in the communities we work and throughout the world. Palsgaard engages in a number of activities to give back to those who are less fortunate, addressing areas such as education, job security, physical activity and preservation of local culture.

## About this report

This is Palsgaard’s ninth annual CSR report, covering the 2018 calendar year. It aims to provide a balanced overview that identifies the impacts and risks of our work with food ingredients and functional polymer additives, as well as our activities to counter these and to make positive contributions towards a more sustainable world. This report forms part of the management report in the company’s annual report in compliance with the Danish Financial Statements Act, Sections 99a and 99b.

### Report scope

The scope of the report focuses on Palsgaard’s manufacturing companies, and the research and development company Nexus A/S. Where noted, data also includes the Schou Foundation, Palsgaard Estate and additional subsidiaries. The entities in scope are collectively defined and referred to as ‘Palsgaard’ throughout the report. The underlying methodologies of the reported data are defined in the table ‘Reporting Practice’ on page 26.

### Reporting principles

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards, comprehensive option, and the associated supplement for the food processing sector. See our GRI content index on page 28 for a list of GRI indicators and references.

The topics included in this report, and the material aspects we cover, were selected and prioritised by Palsgaard management and the CSR team on the basis of their relevance to our own and our stakeholders’ reporting needs. These are detailed in the section on Materiality on page 8.

We consider our most important stakeholders for sustainability to be our customers, our employees, regulatory authorities and local communities.

### Independent review

This report and its data were reviewed by an independent auditor. See the auditor’s statement on page 24.

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 <p>COMMUNICATION ON PROGRESS</p>	<p>This is our <b>Communication on Progress</b> in implementing the principles of the <b>United Nations Global Compact</b> and supporting broader UN goals.</p> <p>We welcome feedback on its contents.</p>
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*This Communication on Progress qualifies for the Global Compact Advanced level*

## Dear Reader,

You might notice that our CSR report is looking a bit slimmer this year. That's because we have listened to our stakeholders' feedback on how we communicate our CSR activities and subsequently decided to take a fresh approach. This year's report still informs you of our CSR strategy, focus areas and related activities in the reporting year according to the GRI standard. To gain a complete story of our CSR journey, we would encourage you to visit the CSR section of our website.

### A year of achievements

We are excited to share that we have reached our 2020 goal of CO<sub>2</sub>-neutrality across all of our production sites two years ahead of schedule. This helps us to meet the needs of our environmentally conscious customers, as well as help minimise the effects of climate change.

We have experienced significant company growth in 2018, expanding our employee number by 8% from the previous year. Employee well-being and motivation continues to be a priority for Palsgaard – we have a strong history of positive results from our employee satisfaction and motivation survey.

To strengthen our efforts in building our employees, a management development course was introduced, which aims to empower them in their roles. It is an ongoing commitment, where managers complete short courses as deemed appropriate. An increased focus on Environmental Health and Safety (EHS) has paid off and almost halved the frequency of workplace accidents. This is an improvement, and we will remain focused on reducing this number further.

Our Group CEO, Birger Brix stepped down from his role in 2018. Birger contributed to building a strong foundation, which has helped to develop our position in the industry and support our growth. On behalf of everyone at Palsgaard, we thank him for his dedication throughout the years.

Palsgaard has been a UNGC signatory since 2011, having committed to adopting the ten UNGC principles in our strategy, culture and day-to-day operations. By valuing transparency and accountability to our stakeholders and the world, we have committed to reporting annually on our progress.

We also participated in a United Nations Development Programme (UNDP) initiative called SDG Accelerator. The pilot programme supports businesses in boosting their engagement in the business opportunities presented by the SDGs. As a result, we have fast tracked our development of a durable anti-fog coating for industrial food packaging. This helps to maintain food freshness for a longer time in the supermarket fridge, increasing its shelf-life, thus helping to reduce food waste.

Achieving CO<sub>2</sub>-neutrality status ahead of schedule, along with substantial company growth, has given us an extra burst of stamina to continue making a difference. We hope that our position and approach to sustainability influences even more positive changes in the food industry. Our commitment to RSPO-certified ingredients, for example, has already shown that we can make an impact among our stakeholders.

There will be more CSR opportunities awaiting - it is an everlasting journey and with the strong backing of our company's dedication to local communities, we will continue to take part in further addressing the sustainability challenges of the world.

**Anders Brix**  
Group CEO  
Schou Foundation  
Palsgaard  
30 April 2019

**Jakob Thøisen**  
CEO  
Palsgaard A/S  
Palsgaard  
30 April 2019

## Our journey to the 2020 targets

Figure 1

Core CSR figures and targets	2014	2015	2016	2017	2018	Target 2020
CO <sub>2</sub> emission (kg CO <sub>2</sub> per kg finished product)	0.17	0.12	0.12	0.11	0	0
Energy consumption (gross) (kWh per kg finished product)	1.36	1.34	1.27	1.21	1.12	1.05
Water consumption (l per kg finished product)	4.13	3.52	3.74	3.36	3.34	3.17
Accident frequency (per million working hours)	16	18	13	20	11	3

*We have excluded our goal on raw material consumption because raw materials are also used to manufacture intermediate products, which can be used again in another process. Therefore, the measurement of raw material consumption does not truly reflect what is being measured.*

*Our waste water emissions goal has been replaced with a water consumption goal because our ability to accurately measure waste water emissions is hindered by a number of operational factors. The vast majority of our products do not contain water and we lose some water due to evaporation, especially from cooling systems. Water consumption is a better measure of resource utilisation than waste water emissions.*

# Making it all possible

## The Schou Foundation

The Schou Foundation oversees the activities of its companies that work to fulfil the foundation’s aims, including Palsgaard A/S and its subsidiaries. The Schou Foundation also supports the Palsgaard Foundation, and establishes and sustains research and development companies in areas that promote its activities.

The companies that share the Schou Foundation’s legacy have a common extended history and the same special culture. Our company’s founder, Einar Viggo Schou, particularly valued responsibility, community and the environment. These are the standards that frame our traditions and our business conduct.

## The objects of the Schou Foundation

- A. To own companies that the Board of Directors of the Foundation may find appropriate for the fulfilment of the other objects of the Foundation.
- B.
  - 1) To preserve and further develop Palsgaard Estate with all its splendours, as a beautiful and pleasant workplace for all employees.
  - 2) To preserve the main building through maintenance and renewal in a manner consistent with the architecture and history of the building, not as a lifeless monument, but in accordance with its purpose and structure as a vibrant family home for either the Director of the Foundation’s activities or for another person linked to the Foundation, who is considered to be a suitable candidate by the Board of Directors of the Foundation in terms of publicly representing the Foundation.
  - 3) To preserve – or expand – the park through maintenance and renewal, which must always be in accordance with the natural conditions and aesthetic values of the Estate.
- C. To establish, own and support independent companies within research and development in connection with the areas that the Foundation’s Board of Directors may find appropriate to promote the activities of the Foundation.
- D. To support the Palsgaard Foundation to the extent that the Schou Foundation deems to be consistent with the other objects of the Schou Foundation.

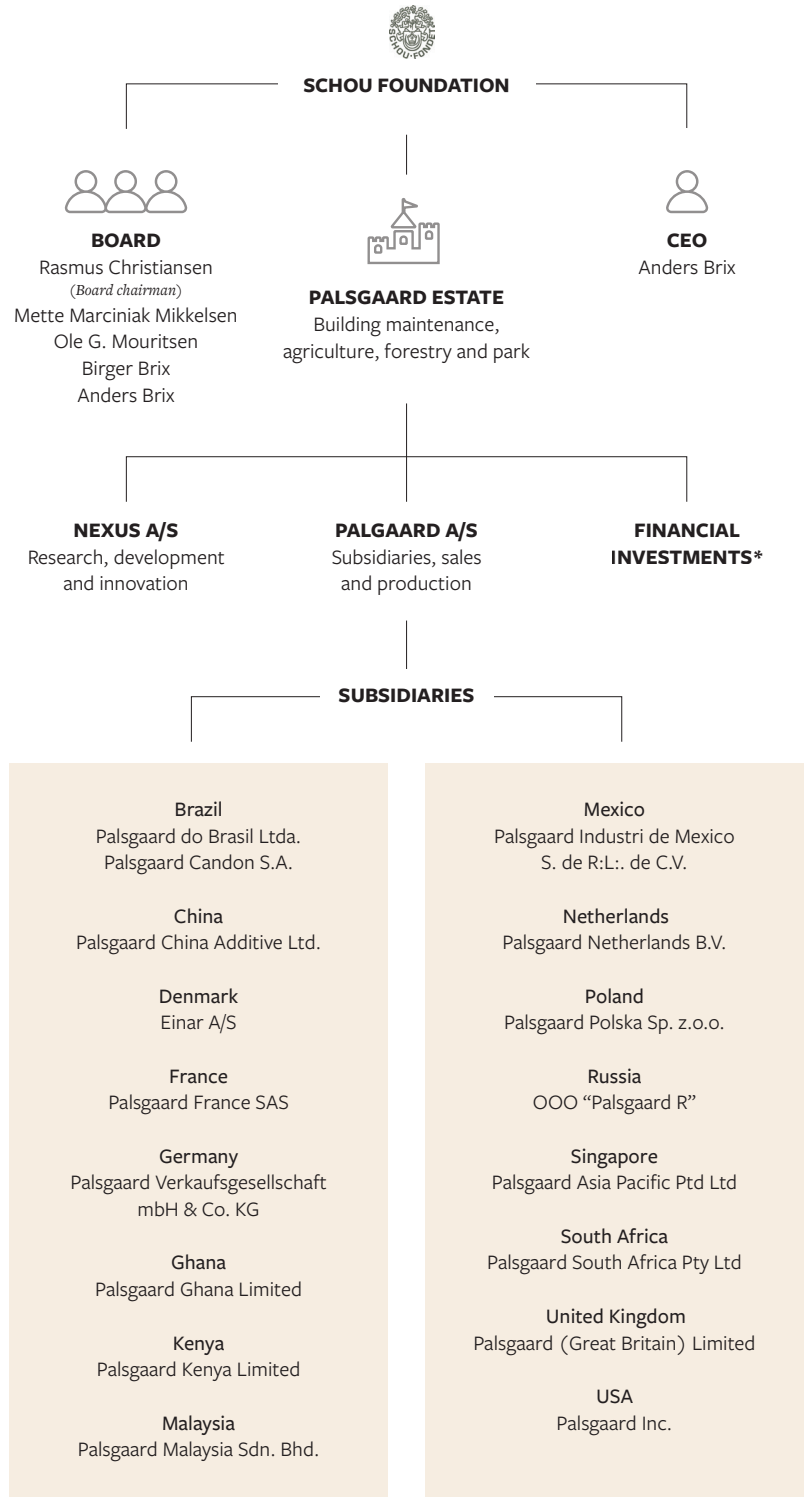


Figure 2: This organisation chart shows entities controlled by the Schou Foundation. For explanation of reporting scope, see page 26.



PRODUCTION SITE



PRODUCTION SITE WITH SALES OFFICE



SALES OFFICE

## Helping customers make better products

Palsgaard develops and manufactures emulsifiers, stabilisers and other ingredients for the food industry. Some are highly specialised, such as emulsifiers for the confectionery market. Our main customers are food manufacturers, but we also supply non-food manufacturers with polymer additives, personal care ingredients and products for other technical applications.

Established in Denmark in 1919, and still headquartered at the historic Palsgaard Estate in Denmark, the company has expanded significantly throughout the years, with many of our activities having global reach. Today, our products are marketed and sold in over 100 countries primarily under the Palsgaard, Emulpals and Einar trademarks.

### Our product application areas include:

- Bakery
- Confectionery
- Dairy
- Ice cream
- Margarine
- Mayonnaise & dressings
- Processed meat
- Soy-based products
- Non-dairy beverages
- Personal care
- Polymers

### Our attitude

Our company's culture is embodied in our tagline Heart Working People®. This sums up our caring approach towards colleagues, stakeholders and our surroundings. It reflects our close collaboration and knowledge-sharing with customers, and dedication to day-to-day work and food as well as non-food product innovations.

### Our vision and values

We strive to be the preferred partner and supplier of quality products, services and knowledge for regional and multinational food companies, as well as non-food manufacturers within polymers and personal care. Our values are **loyalty, responsibility and commitment**.

### Our mission

With a good workplace and advanced technology as our foundation, we produce and sell highly refined, customer-tailored emulsifier and stabiliser solutions for the global food industry, as well as non-food markets such as polymers and personal care.

# Stakeholder input

## Our people

It is important to us to understand what our employees think about our overall CSR strategy. In 2018, selected individuals at each of our subsidiaries were informally interviewed to determine how our global salesforce would like CSR communications to be disseminated moving forward. This year's CSR report addresses some of the points raised.

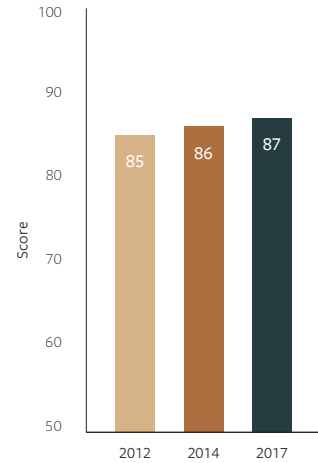
These interviews added value to some insights we gained previously from a pilot CSR survey at our headquarters in Denmark. It explored employee attitudes toward the four CSR focus areas and their related activities. Employees rated on a scale of zero to 10, the importance of each of the four focus areas. It was revealed that the Employee focus area was number one (8.4), followed by Energy and Environment (8.2), Products (7.7) and Corporate Governance (7.0).

In terms of CSR activities, respondents rated highly (8.2 on a 10 scale) that it is important to them that Palsgaard is generally active in accountability and sustainability.

## Our customers

Our biennial customer satisfaction survey is conducted by independent research firm, Ennova. The most recent survey was completed in 2017. The survey explores our customers' experiences when interacting with our people, our brand and products. The latest survey showed that customers rated Palsgaard as a top performer in social responsibility. We are pleased that the result for this statement has been on a steady increase, compared with previous years (figure 3). Customers also rated buying sustainable raw materials and RSPO-certified products as top priority.

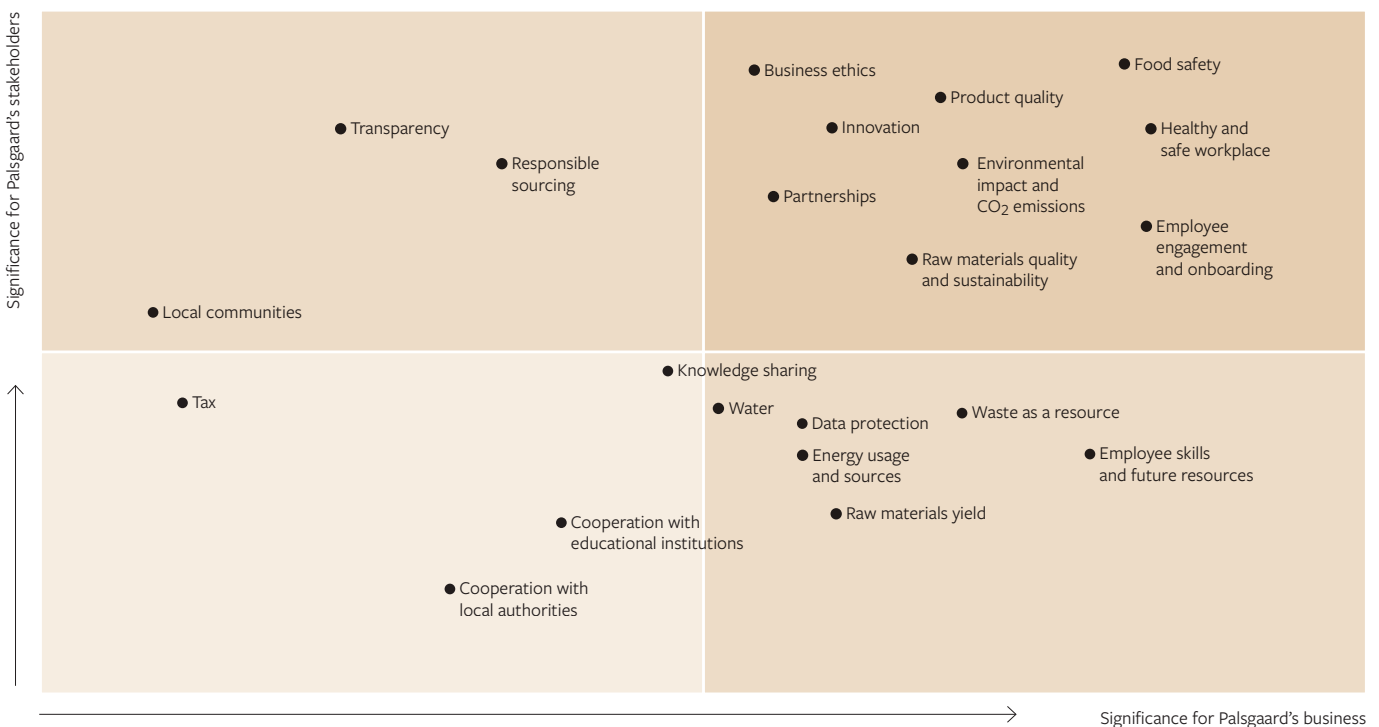
Figure 3: Customer satisfaction survey. "To me, Palsgaard appears as a socially responsible company (has a clear CSR profile)"



# Materiality in focus

Our materiality review draws upon employee, customer and other stakeholder surveys, highlighting and categorising CSR issues. The most recent materiality review identified food safety, environmental impact and employee engagement, and health and safety as high-priority. The findings from the material review help to inform our CSR focus areas.

Figure 4: Material aspect review





## Our 4 focus areas

Through a material aspects review, we have strategically identified and worked with four focus areas: Corporate Governance, Energy and Environment, Products and Employees. Additionally, we strive to directly affect some of the UN SDGs that are relevant to our business. The SDGs help to guide companies in advancing broader societal goals, emphasising collaboration and innovation. The goals are interconnected and address poverty, the environment and human rights.

### CORPORATE GOVERNANCE



Build long-term value by aligning with national and international legislation and best practices so that the rules and processes that direct and control us balance the interests of stakeholders in our company, our supply chain and the communities in which we work.

### PRODUCTS



Meet our responsibility toward the company, our customers and society to develop high-quality products from sustainably-sourced raw materials. Ensure that our products are effective, safe, and cost-efficient, and to produce and market them in a responsible manner.

### ENERGY & ENVIRONMENT



Contribute to sustaining and replenishing our natural environment in the way we select raw materials, consume energy, handle waste and conduct logistics – with continued efforts to maintain CO<sub>2</sub>-neutrality.

### EMPLOYEES



Create an inclusive workplace that is rewarding, safe, healthy and motivating for our employees, and in balance with the wider context of their lives.

# A valuable difference

We make a positive difference to society across our entire value chain, and we are committed to mitigating any adverse impacts that our operations have on our surroundings – particularly environmental impacts.



Suppliers

## Value creation

### Ensure responsible sourcing by

- Carefully selecting suppliers
- Monitoring our supplier policies
- Encouraging ethical supplier behaviour
- Strengthening purchasing policies
- Sourcing sustainable palm oil
- Establishing transparency and robust due diligence processes to reduce risk
- Collaborating with suppliers to ensure continuous development

## Challenges & risks

- Controlling suppliers one or more links away is challenging
- Our global reach carries potential for encountering corruption and cartels
- Access to sufficient and fairly-priced sustainable palm oil
- Some raw materials are transported internationally over long distances
- During transport, food safety requires careful control to avoid contamination
- The potential for food fraud cases



Own factories

## Value creation

### Reduce energy and emissions by

- Setting ambitious targets for CO<sub>2</sub>-neutrality and energy reduction
- Maximise utilisation of raw materials as well as energy and water during production

### Reduce waste by

- Improving raw material utilisation
- Exploring ways to reduce water consumption
- Optimise use of production derivatives for re-use or recycling

### Improve our workplace by

- Creating a safer workplace for our employees
- Maintain work enjoyment
- Increasing employee skills
- Promoting work/life balance

### Influence industry standards by

- Aligning with existing food safety standards
- Raising the bar for responsibility in food ingredients production

## Challenges & risks

- Production of emulsifiers and stabilisers requires high amounts of energy
- Local arrangements and infrastructure can make it difficult to implement sustainability actions
- High production temperatures present a risk for personnel
- Variations and demands for special products challenge production plants' water and energy consumption



Food manufacturers



Consumers

DOWN  
stream

### Value creation

#### Increase efficiency by

- Obtaining more sustainable food formulations and processes
- Enabling more efficient use of raw materials in production

#### Ensure food safety and meet consumer preferences by

- Preventing safety issues via our quality control systems and processing practices
- Meeting international food safety and food labelling standards
- Guiding and improving the use of food emulsifiers to get the optimal benefits from the application of the ingredients in food to meet consumers' interest in healthy, lean and delicious food

#### Reduce food waste by

- Extending the shelf-life of food products
- Improving and maintaining product appeal via polymer packaging additives

### Challenges & risks

- Food production uses considerable amounts of energy and raw materials
- When selling direct from our factories, we have little influence on transport sustainability
- Goods may become contaminated during transport
- Addressing customer demand for non-palm products

### Value creation

Our products can help to address many of the problems associated with population growth, lifestyle diseases and climate change

#### Healthier lives

- Enabling lower calorie content in confectionery, baked goods, ice cream, margarine products, and mayonnaise and dressings
- Supporting the production of more sustainable food choices

#### Safer food products

- Applying food-grade additives to polymer processing to avoid undesirable chemicals entering food

#### Less food waste

- Enabling foods with longer shelf-life and lasting appeal in taste and texture

### Challenges & risks

- Many consumers see emulsifiers as undesirable additives, forcing manufacturers to strive for 'clean' labels
- Resistance even to certified sustainable palm oil as an ingredient in some markets

# Our governing culture



We support sustainable growth through our Responsible Sourcing Programme and by sourcing from RSPO-approved suppliers.



We participate in the fight against corruption and contribute to transparency through memberships of international institutions.

## Goal

Build long-term value and balance stakeholder interests by aligning with national and international law, standards and best practices, and via our own policies and processes

## Activities completed in 2018

- 88% of suppliers of direct materials assessed in Responsible Sourcing Programme
- 95% of suppliers of indirect products and services have signed a Supplier Code of Conduct/conformed to requirements that align with it
- Encouraged global transport companies to implement sustainability procedures as a supplier to Palsgaard
- Implemented an IT Security e-learning programme for all employees
- Selected employees completed UNODC (United Nations Office for Drugs and Crime)-facilitated anti-corruption and bribery e-learning programme
- EcoVadis Gold rating

## Planned activities beyond 2018

- Revise our CSR strategy
- Maintain the scope of key suppliers by spend assessed for sustainability by our Responsible Sourcing Programme
- Review/update CSR assessment in supplier selection
- Introduce Supplier Code of Conduct to all suppliers globally
- Expand focus on food fraud in the supply chain
- Further develop risk management in selected subsidiaries
- Implement whistleblower system globally
- Continue to measure CSR in customer satisfaction survey
- Extend scholarship programme to more countries

## Activities completed in previous years

- Introduced ongoing risk management process
- All production sites Sedex members 4-pillar SMETA audited
- Updated Code of Conduct and other policies
- All new selected employees, agents and distributors entered due diligence programme on anti-corruption
- Achieved goal of 85% of suppliers in top 85% of spend being validated in Responsible Sourcing Programme
- All suppliers to Denmark signed our Supplier Code of Conduct/conformed to requirements that align with it

## Impact assessment

### Value creation

- Our sites around the world positively impact local activities
- We support social and environmental responsibility, and ethical business among distributors, agents and customers
- We influence our suppliers to conduct business respectfully and in line with our standards for ethical behaviour and human rights

### Challenges and risks

- We source globally, making transparency of supply and control over suppliers difficult
- Business practices and regulations differ among countries and regions
- Corruption exists in some industries or countries where we operate
- Our sustainability ambitions can be held back by local development realities and by the speed of supplier progress
- Food fraud such as deliberate misinformation about raw materials

## Management approach

### Guiding values and actions

- The social responsibility example set by founder, Einar Viggo Schou, and his son, Herbert Schou
- The priorities and principles of the Schou Foundation
- Being a responsible producer and business partner
- Responsible, sustainable sourcing
- Payment of tax where income is earned
- We engage with our subsidiaries on common market conditions
- Combatting facilitation payments and cartels
- Employees must report attempted corruption to management
- Relevant staff sign anti-corruption and anti-cartel agreements
- Non-compliance with anti-cartel stipulations results in dismissal with considerable penalties
- Our new sites increase local job opportunities, implement our company policies and values and pay government taxes
- Customer grievances handled via FSSC 22000 system

### Risk management

A new level of risk management was implemented at our headquarters in 2017 to strengthen awareness around risk identification and mitigation to avoid issues such as injuries, accidents and financial losses. Risk management evaluation has been extended to our subsidiaries and Palsgaard reviews the risk management approach as needed.

### Internal governance

Palsgaard A/S and its sister company, Nexus A/S, are owned by Palsgaard Estate, which is 100%-owned by the Schou Foundation. Palsgaard's governance is closely connected with the interests and principles of the Foundation. This ownership form gives us the freedom to focus on long-term, responsible growth rather than short-term financial returns alone.

The Group CEO fulfils the objectives of the foundation in line with its purpose, Articles of Association, relevant legislation, and the Danish Act on Foundations Carrying on Business for Profit. The Foundation's Board comprises five members. New members are chosen by the resigning member and the existing members including the Group CEO, who is also CEO of the holding company, Palsgaard Estate.

Palsgaard A/S is governed by a three-member Board comprising of one woman and two men. Responsibility for the development, approval and updating of the company's purpose, value and mission statements, strategies, policies, and goals related to economic, environmental and social impacts lies with management and ultimately the company's CEO.

# A responsible approach

Our internal policies and guidelines are continually reviewed to accommodate a moving market landscape. These policies are available on our website [www.palsgaard.com](http://www.palsgaard.com). They are:

- Code of Conduct
- Environmental policy
- Procurement policy
- Product and Quality policy
- Supplier Code of Conduct
- Anti-Corruption Guidelines

We also practice due diligence by addressing responsible sourcing management, strategic risk assessment and anti-corruption.

We comply with all relevant legislation and engage in analysis and guidance with subsidiaries on common market conditions.

## External governance, compliance and certification

Palsgaard is a signatory to, in compliance with or audited by:

- UNGC
- FSSC 22000/ISO 9001
- Relevant EU regulations
- Local rules and regulations
- Sedex (4-pillar SMETA audit)
- EcoVadis

ISO-certified quality assurance systems, supplemented by guidelines in the employee manual and our approved strategy, ensure compliance with current policies, applicable standards and legal requirements.

Palsgaard A/S and Nexus A/S are audited annually, and reports are provided to the Schou Foundation Board.

## CSR governance

- A CSR Working Committee, commissioned by the CEO of Palsgaard A/S, is chaired by a Senior CSR Specialist, with members selected by executive management. It reports to the CSR Steering Committee
- The CSR Steering Committee includes the CEO of Palsgaard A/S and top management
- The CSR working committee consists of members from Sales, Procurement, Human Resources, QEHS and Production Management
- Critical CSR concerns may be raised with management via the CSR specialist or the CEO of Palsgaard A/S
- The sustainability report is approved at its highest authority by the CEO of Palsgaard A/S and the Group CEO
- A CO<sub>2</sub>-neutrality Workgroup and RSPO Workgroup reports to the CEO of Palsgaard A/S

## Human rights

Palsgaard respects and promotes human rights and is guided by the UN Universal Declaration of Human Rights and the International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work.

Human rights principles are reflected in our Code of Conduct, Employee Policy, Supplier Code of Conduct, Responsible Sourcing Programme and Anti-Corruption Guidelines. We also ensure compliance with the EU's General Data Protection Regulation (GDPR) when handling personal data. Our approach is further strengthened through engaging with organisations such as the UNGC, Sedex, Roundtable on Sustainable Palm Oil (RSPO) and the Danish Task Force Group on Sustainable Palm Oil.

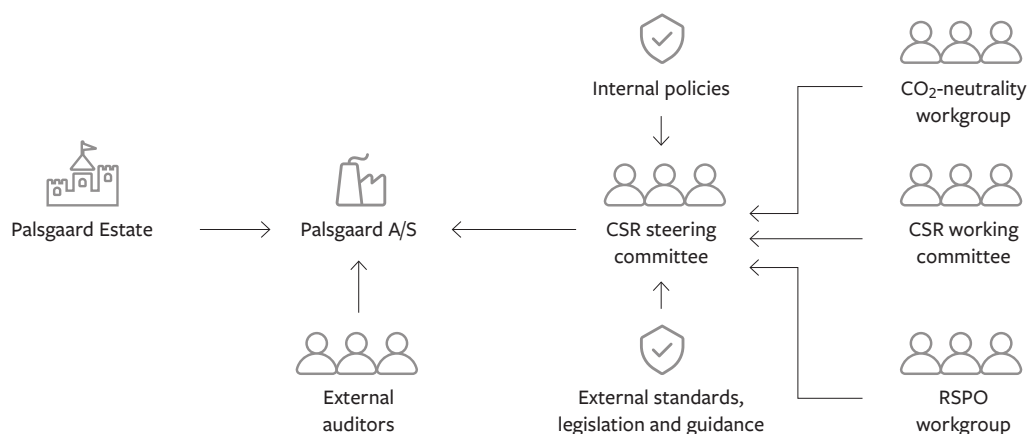
## Bribery and corruption

- Our Code of Conduct outlines zero-tolerance to corruption and cartel activities
- Our anti-corruption policies are circulated to all employees, agents and distributors
- All employees must register exposure to attempted corruption, bribery or cartel formation
- Selected sales and procurement employees receive additional training based on our Anti-Corruption Guidelines, participate in an anti-corruption e-learning course and sign an anti-cartel agreement
- We have conducted an analysis to identify countries with heightened risk of corruption

## Food fraud

- We comply with FSSC 22000 standard, which addresses food fraud
- Our raw material quality control involves highly specialised and detailed analyses
- Our finished products are checked for compliance of functional and chemical specifications defined for the product

Figure 5: CSR governance



# Sourcing responsibly

## Supplier evaluation and management

Supplier management has long been an integral component of our quality assurance system and is a measurable KPI. Our Supplier Code of Conduct, Responsible Sourcing Programme and our corporate culture and ethics, dictate supplier due diligence and define the CSR requirements we set for suppliers and partners.

Our Responsible Sourcing Programme is managed by headquarters, which sources around 98% of all raw materials. Suppliers in the top 85% of our supplier spend on raw materials and packaging (direct materials) are assessed under this programme. The percentage of suppliers within this category who have been assessed has been on a steady rise – with 73% assessed in 2016, 87% in 2017 and 88% in 2018.

All suppliers of direct materials sign a Supplier Code of Conduct that includes a provision identifying Palsgaard as a signatory to the UNGC and answer a CSR supplier information sheet. The CSR supplier information sheet is a point-based system that determines sustainability status. By signing the documents, suppliers warrant that they will conduct business pursuant to the UNGC’s 10 principles within four areas: Human Rights, Labour, Environment and Anti-Corruption. Suppliers are reassessed at regular intervals.

Supplier sustainability evaluations take place four times a year and are part of the overall Quality Management System evaluation.

In 2018, we extended responsible sourcing principles to suppliers of indirect products and services for our Denmark-based operations. So far, 95% of suppliers that fall into this category have signed our Supplier Code of Conduct or had their own Code of Conduct validated by Palsgaard to ensure alignment.

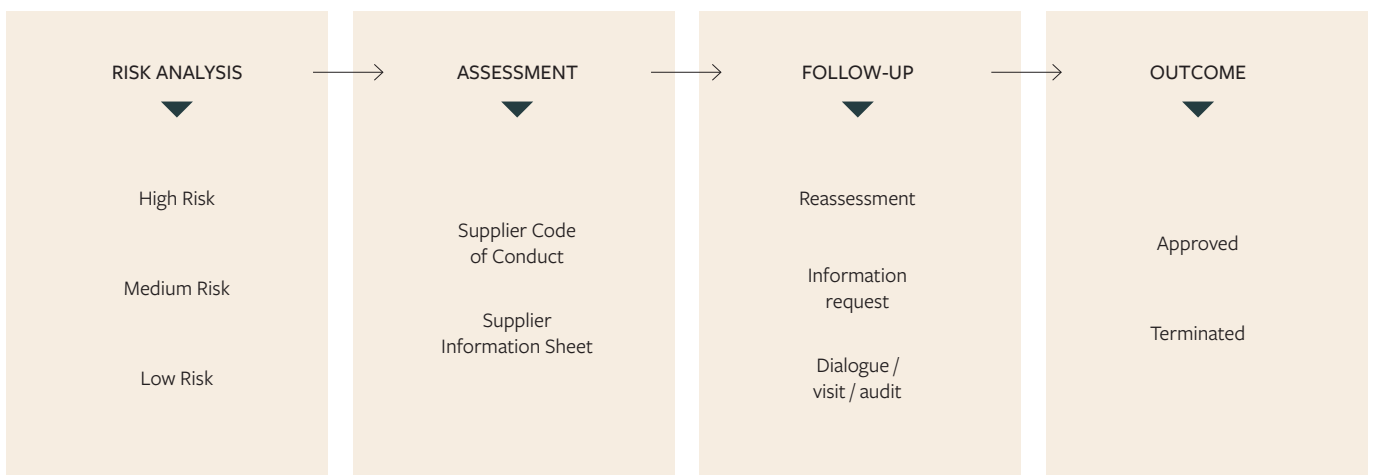
## The raw materials challenge

Our raw materials grow and are therefore sourced from countries all over the world. The diversity in this portfolio inherently displays significant and varying complexity in the supply chain, for example, in relation to sustainability and fair labour conditions. The Responsible Sourcing Programme helps us to address these challenges through having an open dialogue with our supply partners where we focus on continuous improvements within any identified critical areas. We recognise that having such conversations can be challenging as there are often different perspectives, yet the dialogue is necessary to gain a better understanding of local conditions.

Palsgaard will collaborate with a supplier following an extensive evaluation covering specifications, food safety, CSR performance and compliance with EU legislation. A CSR-risk profile is created based on country of origin, production and location of harvest. Where relevant, a continuous improvement plan is made in collaboration with suppliers, to address sustainability.

While managing suppliers beyond tier one can be challenging, we still set ambitious goals, express our attitudes and exploit every opportunity.

Figure 6: Managing responsible sourcing



# 100% sustainable palm oil



We support sustainable production and protect natural resources by being at the forefront of sustainable palm oil and palm oil-based ingredients sourcing – and in encouraging others to learn from our know-how.



We support sustainable growth through our Responsible Sourcing Programme and by sourcing from RSPO-approved suppliers.

## Goal

A world where every food manufacturer would only use sustainably sourced and produced emulsifiers – based on the most sustainable, plant-based crop

## Activities completed in 2018

- Continued to spread the message about a sustainable palm oil supply chain by using only RSPO SG-certified palm oil in Denmark for food ingredients
- Palm oil suppliers signed Supplier Code of Conduct or conformed to requirements that align with our Supplier Code of Conduct. The latter approach is validated by Palsgaard
- Carried out yearly RSPO audit

## Planned activities beyond 2018

- Encourage food manufacturers globally to use sustainably produced ingredients, based on certified sustainable palm oil
- Encourage the non-food industry to use ingredients based on vegetable, sustainably sourced raw materials such as RSPO-certified palm oil

## Activities completed in previous years

- Established overview of palm oil mills and supply chain
- Palsgaard joined the RSPO in 2008
- Denmark plant received RSPO Supply Chain Certification Standard (SCCS) for SG and MB
- Malaysia plant received RSPO SCCS for MB
- Acquired RSPO distributor licence in the US and Poland subsidiaries
- Full range of SG-certified products made available in Denmark

## Impact assessment

### Value creation

- Palsgaard is able to exclusively rely on RSPO-certified palm oil raw materials, enabling us to offer our complete product range as MB- or SG-certified
- We influence the upstream value chain by insisting on RSPO-compliant raw materials and ensuring viability for RSPO-certified suppliers
- We influence the downstream value chain by providing RSPO SG-certified emulsifiers – encouraging and guiding customers to prioritise certified sustainable palm oil
- By using RSPO-certified palm oil, we support improved work conditions for local workers, conservation of natural resources and biodiversity, long-term economic viability and continuous improvement in key areas of activity

### Challenges and risks

- The environmental impact of palm oil production has traditionally included the clearing of important forest areas and habitats of endangered animals
- Public perceptions about human rights on palm oil plantations regarding fair working conditions
- RSPO certification of sustainable palm oil has faced criticism in terms of ethical issues, but was ranked number one in addressing the challenges facing palm oil production by the Forest Peoples Programme
- It can be difficult to achieve widespread adoption of sustainable palm oil in the industry, especially outside Europe
- A higher premium on SG-certified raw materials
- Some of our customers insist on non-palm alternatives

## Management approach

### Guiding values and actions

- We endeavour to use sustainable palm oil as it is the main ingredient in many of our products and is an area where we can potentially have the biggest impact
- We train relevant employees and inform subsidiaries, agents and distributors about sustainable palm oil via an expanded intranet and seminars and via our website
- We participate in the Confederation of Danish Industry's Business Initiative for Sustainable Palm Oil
- Participation in RSPO and European Palm Oil Alliance (EPOA) conferences and seminars
- We joined the Danish Task Force group on sustainable palm oil therefore, committed to the Amsterdam Declarations, which are non-legally binding political commitments that aim to support the implementation of private sector commitments on deforestation and sustainable palm oil
- Through using RSPO-certified palm oil in our products, we address a wide spread of human rights issues including freedom of association and collective bargaining, child labour, forced or compulsory labour, security practices, rights of indigenous people, local communities and supplier social assessment

### Key internal governance

- Environmental policy
- Procurement policy
- Supplier Code of Conduct
- Product and Quality policy

### Key external governance

- Annual RSPO audits
- FSSC 22000/ISO 9001
- Relevant EU regulations



RSPO-1106336



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RSPO CERTIFICATION

# Top priority: CO<sub>2</sub>-neutrality



We take urgent action to combat climate change and its impacts.

## Goal

We aim to maintain CO<sub>2</sub>-neutrality at all production sites

## Activities completed in 2018

- Achieved global CO<sub>2</sub>-neutrality at all sites within scope of 2020 goal
- All products are now manufactured in CO<sub>2</sub>-neutral factories
- Achieved 7% reduction in energy consumption (per kg finished product) globally, compared with 2017
- 100% CO<sub>2</sub>-neutrality achieved at the Netherlands production site
- Installed and activated 840 solar panels, wind power and biogas at the Netherlands production site
- Bought credible, UN-based carbon offsets for remaining CO<sub>2</sub> emissions in Malaysia and Brazil
- Mexico received recognition from the Mexican Center for Philanthropy (CEMEFI) for outstanding CSR performance

## Planned activities beyond 2018

- Maintain global CO<sub>2</sub>-neutral status
- Investigate opportunities for using renewable energy sources in Brazil and Malaysia without using offsets
- Reduce energy consumption per kg of finished product to 1.05 kWh
- Build new storage facility and equipment to handle finished goods, packaging and raw materials in Denmark to optimise handling and logistics

## Activities completed in previous years

- Started combustion of waste straw from grain grown in our fields in Denmark to fuel indoor heating
- Converted all industrial boilers at our Danish plant from heavy fuel oil to natural gas
- Regenerative heat exchangers in Denmark boost heat recovery efficiency for plants where they were installed by over 30%
- Purchased offset certificates for biogas, enabling Denmark to become 100% CO<sub>2</sub>-neutral (2015)
- Reduced energy consumption by 5%, through implementing more energy-efficient projects (2017)
- 100% CO<sub>2</sub>-neutrality achieved at Mexico production site (2016)
- Mexico received Environment Protection Bureau certificate for meeting environmental and safety laws

## Impact assessment

### Value creation

- We influence the upstream value chain by setting the standard and leading the way for environmental responsibility in the industry of food manufacturing
- We influence the downstream value chain by acting on and communicating CSR goals and activities, increasing awareness amongst our stakeholders
- All of our products are manufactured on CO<sub>2</sub>-neutral production sites

### Challenges and risks

- Our production processes are energy-intensive
- The nature of the manufacturing process generates derivatives
- We transport large quantities of goods over long distances
- As a global company, we need to travel internationally
- It is challenging to find renewable energy sources for our Malaysian plant
- Local circumstances can make sustainability ambitions difficult to fulfil

## Management approach

### Guiding values and actions

- We have met our CO<sub>2</sub>-neutral goal through making tangible changes to the energy sources for our factories. Where this is not possible, we are purchasing offsets until we find a solution
- Our efforts to reduce energy consumption and emissions will not stop now that we have achieved CO<sub>2</sub>-neutrality status
- A company programme in Mexico helps fund the installation of solar water heaters in employees' homes

### Key internal governance

- Environmental policy
- Procurement policy
- System administration of environment and energy data from subsidiaries
- QEHS representative validates data from subsidiaries

### Key external governance

- UNGC
- Relevant EU regulations
- Local rules and regulations



# Reducing waste



We responsibly handle, optimise and transparently report on raw material consumption, CO<sub>2</sub> emissions and waste products.

## Goal

Increase our material utilisation rate and optimise production processes, minimising the amount of derivatives, production waste and water consumption

## Activities completed in 2018

- Achieved a minor reduction in water consumption per kg of finished product
- Converted production waste from Denmark site to biogas (externally), which is used as renewable energy source

## Planned activities beyond 2018

- Improve waste management and recycling with a focus on sorting at the source
- Focus on the biological content of waste water to reduce residues that are released during cleaning
- Reduce raw material consumption of finished products
- Greater focus on handling of derivatives and product waste

## Activities completed in previous years

- Established a Global QEHS team to report more consistently and improve on the environmental activities throughout the subsidiaries
- Optimised use of production derivatives for re-use or recycling
- Initiated project on waste sorting in Malaysia for cardboard, plastic, pallets, metal and chemical waste

## Impact assessment

### Value creation

- We aim to keep our use of raw materials and water to a minimum
- Approximately 13% of Palsgaard's combustible waste in Denmark is externally recycled as products or raw materials. The rest is taken to an external site to convert to energy
- Environmental initiatives extend to our personnel in Mexico, too, training them in environmental issues so they bring know-how to their communities to create and strengthen a culture of caring for the environment

### Challenges and risks

- Difficulty in defining waste globally in all of our sites due to differences in national legislation, making reporting and data collation across departments challenging
- Chemical waste at Palsgaard originates in small quantities from plant maintenance and our control and quality laboratories' use of analytical chemicals
- Process waste water contains remnants of oil, fat, protein, phosphorus and nitrogen
- Our production waste is very limited and mostly comprises of derivatives and packaging material

## Management approach

### Guiding values and actions

- Since 2010, Palsgaard has actively worked to recycle as much waste as possible via sorting
- Hazardous waste is removed by licensed waste management companies to ensure it is handled in an efficient and safe manner
- Where possible, we discharge all production waste according to its waste hierarchy – using it for alternative energy production
- Our pre-treatment plant removes the majority of product remnants from process waste water before release into the municipal water treatment plant
- Reduce water consumption and waste water via cooling water recycling systems, optimising cleaning procedures, producing larger batches, reducing water consumption in vacuum pumps, automatic closure valves and more
- All inbound packaging is sorted for recycling in Denmark and transport pallets are sold for re-use
- In Denmark, all packaging cartons are Forest Stewardship Council (FSC®)-certified\* and labelled as such, while many bags are FSC®-certified
- In Mexico, we have reduced electricity and water consumption, ensured proper handling of gas emissions and optimised disposal of water and solid waste
- Production employees are trained in cleaning procedures according to food safety standards

### Key internal governance

- Environmental policy

### Key external governance

- Relevant EU regulations
- Local rules and legislation

\*FSC® certification means that the material used to make the product was sourced responsibly.

# Sustainable products



Our emulsifiers support more efficient, more affordable and less wasteful production processes.



Emulsifiers have a positive role to play in fighting lifestyle diseases by improving the nutritional profile of food, while avoiding undesirable ingredients.



We help to prolong the shelf-life and quality perceptions of consumer products, reducing food waste.

## Goal

Reduce food waste and work towards a world where every food manufacturer would only use sustainably sourced and produced emulsifiers

## Activities completed in 2018

- Increased sales of RSPO-certified products by 10% compared with 2017
- Received runner-up Sustainably Leadership Award at the 2018 Sustainable Food Awards in Amsterdam
- Commenced construction of a new application lab in Russia
- Updated Global Food Quality and Safety Policy

## Planned activities beyond 2018

- Continue and expand dialogue with our customers about using sustainable raw materials
- Extend our partnership with customers to involve them in development of innovative products
- Expand the use of sustainable produced additives in non-food products

## Activities completed in previous years

- Continued expanding sales of RSPO-certified products
- Achieved the ability to offer an entire range of RSPO MB- and SG-certified products
- Opened specialised application labs in Denmark, Mexico, Singapore, the US and China
- Invested in facilities, machinery and new employees to significantly expand our capabilities in sustainable emulsifiers for the polymer industry

## Impact assessment

### Value creation

- We influence the upstream value chain by requiring ethically responsible production of raw materials and engaging our supply chain to focus more on CSR activities
- We influence the downstream value chain by building long-term partnerships with customers and interest groups
- Our solutions give processed food the required consistency, ensuring stability and shelf-life while helping to reduce, for example, fat content and food wastage
- Our emulsifier range for polymers provides anti-fogging and anti-static properties for packaging, helping to increase and maintain consumer appeal, reducing food waste
- Helping to make many foods healthier
- Supporting lean or clean label trends
- Providing emulsifiers free of allergens and with non-GMO-based ingredients
- Helping manufacturers to make the change to sustainable ingredients
- Providing solutions for manufacturers, adding value to their production processes

### Challenges and risks

- The main ingredient in many of our products is palm oil and it can be difficult to achieve widespread adoption of sustainable palm oil
- We aim for complete uptake of RSPO-certified palm oil-based ingredients by food manufacturers
- Public perception about palm oil demands products based on alternative vegetable oils
- Most of our products comprise one or more additives (though with internationally recognised E-numbers)

## Management approach

### Guiding values and actions

- Constant innovation seeking more efficient solutions
- Build partnerships with customers and stakeholders to innovate in response to their needs
- All oils used in our products originate from vegetable, non-GMO sources
- The purity of our products is a key competitive differentiator
- We ensure excellent food safety procedures
- Supporting the food industry with sustainable raw materials
- We make RSPO SG-certified products available when requested
- We provide objective, accurate and legally compliant information about our products
- We monitor correct trademark and IP handling
- All Denmark-based printing of marketing material is certified by the Nordic Swan Ecolabel, ClimateCalc and FSC®

### Key internal governance

- Product and Quality policy
- Procurement policy
- Supplier Code of Conduct

### Key external governance

- UNGC
- Relevant EU regulations, including Regulation 852/2004 on the hygiene of foodstuffs
- Local rules and regulations
- FSSC 22000/ISO 9001
- Kosher/Halal certification of factories, relevant raw materials and finished products

# World-class food safety and quality



Support healthy living and well-being by providing safe food ingredient products.



Ensure sustainable consumption and production patterns.

## 🎯 Goal

We will continue to maintain our first-class food safety results and record of zero food safety incidents and product recalls

## 📅 Activities completed in 2018

- In 2018, there were no product recalls
- Completed QEHS policy review
- All production sites completed FSSC 22000 4.1, covering food fraud mitigation, food defence and environmental monitoring

## 📍 Planned activities beyond 2018

- Establish global food safety team for knowledge-sharing across sites
- Develop an internal global standard for Food Quality and Safety

## 📍 Activities completed in previous years

- New Global QEHS management and department introduced to implement improvements at all sites
- No food safety recall incidents to date
- All production sites in reporting scope (page 26) are certified to meet FSSC 22000 Food Safety System and additional requirements for Prerequisite Programmes (PRPs) laid down in ISO/TS 22022-1
- Improved efficiency of complaints management system, focusing on rapidly processing critical complaints and minor non-conformances

## Impact assessment

### Value creation

- We influence the upstream value chain through placing requirements on our suppliers to ensure food safety and adherence to guidelines and EU regulations, reducing the risk of food fraud
- We influence the downstream value chain by enforcing food safety procedures in our production sites, ensuring a safe food supply for food manufacturers and consumers

### Challenges and risks

- Constant effort is required to maintain food safety standards
- Food safety recalls could potentially occur as a result of factory or supplier failure

## Management approach

### Guiding values and actions

- Raw materials and finished, quality-controlled ingredients fully conform to relevant food quality and safety criteria
- We source high-quality raw materials and avoid GMO raw materials
- Product specifications are required of suppliers and provided with our deliveries, as are analysis certificates and reference samples
- Built-in traceability in every production batch allows specific delivery recalls if it is ever necessary
- A food safety management system covers the entire food quality and safety process, including all policies, procedures, work instructions, and registration forms, from raw material sourcing to distribution of products
- Employees in Denmark across various departments have been trained as internal ISO 9001 and FSSC 22000 auditors
- Employees are trained in personal hygiene and in food safety awareness, and supervised by appropriately qualified managers
- Robust cleaning and sanitation, foreign body control and allergen handling methods
- All manufacturing sites comply with Kosher and Halal requirements where local culture demands require it
- Storage facilities are approved according to relevant regulations and the quality of packaging/sealing is closely monitored

### Key internal governance

- Raw material approval procedures
- Regular supplier performance reviews
- Procurement policies
- Product and Quality policy
- Access to factories, stores and related equipment is strictly controlled
- Best practices are deployed in pest control and Good Manufacturing Practices (GMP) audits, and glass audits are conducted

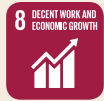
### Key external governance

- Relevant EU regulations, including Regulation 852/2004 on the hygiene of foodstuffs
- Local and international rules and regulations
- FSSC 22000 (Denmark, Brazil, Mexico, Malaysia and the Netherlands)
- ISO 9001 (Mexico, Malaysia and the Netherlands)
- Food safety is managed via HACCP and the requirements for Prerequisite Programmes (PRPs) laid down in ISO/TS 22022-1

# Heart working people



Promote health and well-being via a safe and positive work culture for all employees.



We develop and strengthen local work conditions and create local economic growth by establishing subsidiaries around the world.

## Goal

Create an inclusive workplace that is safe, healthy and motivating – and balanced with life's wider contexts

## Activities completed in 2018

- Reduced frequency of workplace accidents from last year
- In Denmark, selected employees completed work environment training
- Updated Environmental Health and Safety (EHS) Policy
- Developed and distributed safety leaflet for employees and visitors
- Introduced Development and Qualification course for managers
- Job descriptions revised with employee expectations aligning even more with company values
- Conducted SMETA audit in Brazil

## Planned activities beyond 2018

- Reduce work accidents with sick leave to three or less accidents per million working hours by 2020
- Focus on safety culture, near-miss incidents and preventive actions; improve safety induction course
- Survey employee satisfaction/motivation biennially

## Activities completed in previous years

- Extra week of paid vacation annually for all employees
- Focused on sick leave dialogue with employees
- Improved recruiting/onboarding processes
- Conducted biennial employee satisfaction/motivation survey
- Met global employee satisfaction/motivation KPI
- Health and well-being survey of shift workers in Denmark
- Monthly QEHS safety walks in Denmark
- Sedex 4-pillar SMETA audit in Denmark, the Netherlands and Malaysia
- Achieved Safe Company Level 3 (Mexico's Ministry of Labour)
- Introduced life insurance policies in Mexico covering financial support for families
- Medical insurance for Mexico employees and families
- One-day event for onboarding new staff in Mexico

## Impact assessment

### Value creation

- We continue to offer an attractive, safe and stimulating workplace
- We actively improve working conditions at all locations
- We encourage work-life balance
- Increase employee skills through training programmes and education

### Challenges and risks

- We are a fast-growing company
- We work in a global organisation with diverse cultures
- Legislation and local regulations vary from country to country
- It is challenging to monitor employee well-being across our subsidiaries
- Night shifts may pose a health risk
- Working around hot substances and surfaces creates a risk of scalding accidents

## Management approach

### Guiding values and actions

- Improve workplace conditions
- Intensify focus on safety at work
- Prevent work accidents by providing comprehensive safety training for new employees
- We accommodate both productive and less productive phases in a working lifetime
- Bringing new employees quickly and positively on board
- We conduct a biennial employee satisfaction and motivation survey
- Employees can freely join collective bargaining or other labour organisations without disclosure

### Key internal governance

- Employee Policy
- Code of Conduct

### Key external governance

- Applicable EU and local legislation, including General Data Protection Regulation (GDPR)
- UNGC
- Global Employee and Leadership Index (GELx)
- International Labour Organisation (ILO)
- UN Universal Declaration of Human Rights
- Sedex (4-pillar SMETA audit)

# Employee well-being

We seek to improve the lives of all employees, where possible extending the same or similar employment benefits globally. Such benefits include sickness insurance, life insurance, maternity leave schemes, pension schemes and many more. Some examples include:

- Additional one week paid vacation on top of what is set by local regulations
- A Palsgaard Foundation Pension Fund (for employees in Denmark) since 1941
- In Russia and Malaysia, we have set up health insurance, and company life and accident insurance schemes
- In Mexico, we offer a Life Quality programme for employees and their families

## Well-being and retention

- Our relationship with our employees rests on the premise that a working life should be balanced with life's wider contexts
- We arrange absence interviews in the event of long-term illness, discussing measures that may reduce the employee's period of absence, initiate gradual return, or adapt the job tasks
- Our HR management team provides confidential job-related advice and supports vulnerable employees
- We endeavour to retain employees who are no longer able to carry out their former duties
- We work with local authorities and job placement services to help people in the community get further in working life

## Satisfaction survey

Since 2006, we have conducted a biennial employee satisfaction and motivation survey at all locations through an independent company, Ennova. Using Ennova ensures the results can be compared with other European businesses via the GELx. And we have continuously implemented initiatives based on the findings of the survey, working to lift our results across the entire Palsgaard Group.

Measurements of employee satisfaction and motivation from the last three surveys have consistently been above the GELx. Survey participants are asked to rate each parameter out of 100. Satisfaction and motivation was rated 75 in 2013, 74 in 2015 and 77 in 2017. The results correspond with 'high job satisfaction and motivation'.

## Employee development conversations

We carry out annual development conversations with all employees to address:

- How the individual is feeling and developing professionally
- Personal and professional development for the following year
- Alignment with company values and business strategy

Figure 7: Distribution of employees 2018

Total no. of employees year end 2018: **536**

Region	% of employees	Average age	Women / Men	New hires (W/M)
Europe	67	48	127 / 233	14 / 32
Americas	18	37	36 / 60	9 / 10
Asia	14	36	27 / 46	4 / 14
Africa	1	42	3 / 4	0 / 1

# Health & safety

- Palsgaard's Occupational Safety and Health (OSH) organisation comprises working environment committees at Palsgaard A/S. It handles workplace issues related to day-to-day operations, as well as workplace risk assessments, industrial accidents and near-misses
- At Palsgaard A/S, we have set up seven working environment groups, each with a different focus area
- The work environment committee has representatives from top management, managers and employees for each of the working environment groups. Its aim is to increase awareness on health and safety, reducing the risk for OSH accidents
- Nexus A/S has its own OSH organisation that works closely with Palsgaard's organisation, sharing experiences and advice on health and safety issues

## Partnering for the future



Palsgaard has partnered with the Denmark-based PlanBørnefonden (Children & Youth Foundation) for more than 10 years. The foundation provides children and youths with opportunities to improve their future prospects through activities focused on five countries in West Africa – Benin, Mali, Burkina Faso, Togo and Cape Verde. The work directly addresses many of the UN SDGs, improving health and education, stimulating local economies and focusing on entrepreneurship and job creation.

### **Every little bit helps**

The partnership also benefits from an ongoing programme at Palsgaard to reduce food waste. Employees are able to purchase surplus food from the daily lunch buffet, with all proceeds going to PlanBørnefonden.

## Connecting with tomorrow's experts

Palsgaard collaborates with educational institutions and knowledge centres throughout the world, participating in formal and informal knowledge exchanges. We host study trips, company visits and similar events to stimulate interest in natural sciences and food chemistry, physics and food technologies. Palsgaard's Research and Development company, Nexus, hosts work placements for international food engineering students, and our laboratories collaborate with them on independent development projects.

### **Scholarship programme**

Palsgaard has a scholarship programme to support students in a food technology, science or nutrition qualification. It assists applicants who come from a low-income family, helping to pay for tuition fees, books, living expenses, and other study-related expenses.

At our subsidiary in Mexico, the Board has approved a five-year scholarship programme to support students from disadvantaged backgrounds. One scholarship will be awarded each year to a student displaying academic excellence.

Our subsidiary in Singapore selects two students from Asian-Pacific countries per year. So far, we have extended the programme to the Philippines, Pakistan, Sri Lanka and Bangladesh.

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## Contributing to the global community



#### **Borneo**

- Annual donation to support Save the Orangutan, which works to rescue this endangered species and its rainforest home

#### **Brazil**

- Supporting a community project for patients and families of the children's hospital, Hospital Pequeno Príncipe

#### **Denmark**

- A donation to the refugee support organisation, Dansk Flygtningehjælp
- Supported the development of a mountain bike trail on Palsgaard land
- Donation to support Dansk produktions Univer, a non-profit member association designed to work with new and existing production companies
- Donation to support a local school in building a new outdoor area for physical activities
- Donation to support the Danish Cancer Society
- Invested in hotel to encourage tourism in the town of Juelsminde
- Donations to support museums in Denmark
- Participation as a landowner to complete a 22-km coastal path from Juelsminde to Horsens
- Support local theatre group, "Palsgaard Sommerspil"
- Work with the local authorities to help people further their education/career, and support with flexible work hours or placements

#### **Mexico**

- All employees visited a nursing home or orphanage with Christmas gifts and clothes
- Supported the earthquake disaster fund through the Carlos Slim Foundation
- Supporting the Boys and Girls Club, an organisation that provides care for children while their parents work, helping to keep them away from criminal risk

#### **Pakistan**

- Scholarship programme for food technology students with support throughout their education

#### **Russia**

- Company and Russia-based employee donations to the 'Children Foundation', which runs an orphanage in the Ural area
- Supporting Ray of Childhood, assisting 'Childrens Houses' and boarding schools

#### **South Africa**

- We participate in Broad-Based Black Economic Empowerment (B-BBEE) which helps the black population achieve a higher socio-economic level
- COACH donation to a local home for children aged 6 to 16

#### **Sri Lanka**

- Scholarship programme continued for the fifth year running. Working with universities to get students for scholarship

#### **The Philippines**

- Support of local areas in urgent need of help, including helping Red Cross to provide aid in typhoon-affected areas
- Scholarship for food technology students with support throughout their education

#### **West Africa**

- Helped build a public primary school in Alloum, Togo, supporting the notion that every child has the right to access schooling
- Annual donation to Children & Youth Foundation for sustainable development projects in Cape Verde, Benin and the archipelago Fogo, focusing on development of infrastructure and education, and entrepreneurial support for higher employment and an improved standard of living
- Local education on hygiene, and the construction of water storage and toilet facilities at a local nursery to improve water quality and reduce waterborne diseases
- Purchase of a boat for school students to cross a river to school
- Donations have also sponsored a trainee, and supported a technical school for young people with scholarships, purchased tools, and bicycles for student transport

# Independent Auditor's Assurance Report

TO MANAGEMENT AND THE STAKEHOLDERS OF PALSGAARD A/S

We have reviewed the 2018 Corporate Responsibility Report ('the Report') to provide limited assurance that the data on page 27 have been stated in accordance with the reporting practice specified on page 26. We have also checked that the Report is compliant with the principles and reporting criteria defined in the Global Reporting Initiative (GRI) Sustainability Reporting Standards (In Accordance – Comprehensive level). We express a conclusion providing limited assurance.

## Management's responsibilities

Management is responsible for the preparation of the information in the Report, including the establishment of data collection procedures and internal control systems to ensure reliable reporting and that data are free from material misstatement.

## Auditor's responsibilities

Our responsibility is to express a limited assurance conclusion based on our engagement with Management and in accordance with the agreed scope of work. We have conducted our work in accordance with ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information and additional requirements under Danish audit regulation to obtain limited assurance about whether the selected CSR data in the Report are free from material misstatement.

Deloitte Statsautoriseret Revisionspartnerselskab is subject to International Standard on Quality Control (ISQC) 1 and, accordingly, applies a comprehensive quality control system, including documented policies and procedures regarding

compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by FSR - Danish Auditors (Code of Ethics for Professional Accountants), which are based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Considering the risk of material error, we planned and performed our work to obtain all information and explanations necessary to support our conclusion.

We performed our work at the Palsgaard A/S head office in Denmark in April 2019. We have not visited any other sites or interviewed external stakeholders. We have not reviewed baseline data, financial information or forward-looking statements, such as targets and expectations included in the Report. Consequently, we draw no conclusion on those statements.

Based on an assessment of the risk of material misstatement, we planned and performed our work so as to obtain all information and explanations necessary to support our conclusion. We used the reporting practice described in the Report combined with the GRI reporting criteria

as an appropriate basis for our review. Our procedures included the following:

- Reviewing Palsgaard A/S's procedures for identifying material issues to be included in the Report and challenging the material statements in the Report.
- Reviewing the procedures, tools, systems and controls for gathering, consolidating and aggregating data at group level, performing analytical review procedures and obtaining additional explanations of data performance from both the group functions and from selected country sites.
- Interviewing management staff responsible for data and text in the Report.
- Reviewing internal and external documentation to verify the extent to which it supports the information included in the Report.
- Evaluating the overall presentation of the reporting, including consistency of information.
- Reviewing the Report for adherence to the GRI principles for defining report content and assuring report quality as well as the reporting criteria of GRI Standards: In Accordance – Comprehensive, disclosure requirements.

## Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the data on page 27 in the Report has not been prepared in accordance with the reporting practice stated on page 26. Nor has anything come to our attention that causes us to believe that the Report does not comply with the principles and reporting criteria of GRI Standards: In Accordance – Comprehensive level.



Copenhagen, 30 April 2019



**Henrik Vedel**  
State-Authorised Public Accountant  
MNE no mne10052



**Helena Barton**  
Lead Reviewer

**Deloitte**  
Statsautoriseret Revisionspartnerselskab  
Business Registration No. 33 96 35 56

**Deloitte.**

## Auditor's Observations regarding the GRI Reporting Principles

### **Materiality and sustainability context**

The Report reflects Palsgaard A/S' ongoing commitment to operating its business in a sustainable manner by monitoring and managing material environmental and social risks arising from its activities. The Report demonstrates the Company's understanding of where in its value chain it can most effectively contribute to sustainable development across its global operations.

### **Comparability, completeness and timeliness**

This is Palsgaard A/S' ninth annual CSR Report providing a timely update to stakeholders of the Company's CSR performance. Within the reporting boundary and scope defined by the Report, we have not found any significant omissions of important information.

### **Clarity and balance**

The Report provides a clear, succinct and balanced presentation of Palsgaard A/S' activities during 2018.

### **Stakeholder involvement**

Palsgaard A/S continues to monitor and respond to stakeholder needs. The Company is committed to procuring certified sustainable palm oil and actively engages in initiatives relating to sustainable palm oil production.

### **Accuracy and reliability**

Palsgaard A/S continues to strengthen its internal data collection and control procedures, both for environmental and employee data, to ensure a higher level of data accuracy and reliability.

# Reporting practice

The data basis for this report includes the entities indicated in Figure 8. All data, except for employee and tax data, only includes production units. We are continuously improving our data collecting system. Our environmental reporting does not cover agricultural and forestry activities. Our reporting period runs from 1 January 2018 to 31 December 2018.

Indicator	Data Basis	Indicator method description	Reporting Entities
Energy consumption, electricity	M	Electricity consumption has been determined on the basis of statement from electricity provider. In Mexico and the Netherlands, electricity consumption from solar panels has been measured	Palsgaard A/S
Energy consumption, fossil	M	Natural gas and oil consumption are measured on basis of invoices	Palsgaard A/S
Energy savings	C	The result of energy-saving initiatives has been calculated on the basis of energy consumption compared with volume of finished products	Palsgaard A/S
Emissions	C	Emissions are calculated based on energy consumption and available emission factors. Scope 1: Direct greenhouse emissions (LPG, diesel, natural gas) Scope 2: Indirect greenhouse emissions (electricity) Emissions from personal and transport vehicles are not included. CO <sub>2</sub> intensity is CO <sub>2</sub> emissions per kg of finished product	Palsgaard A/S
Water consumption	M, E	Water consumption has been calculated based on own meters or estimations	Palsgaard A/S
Waste water	M, E	Waste water volumes have been measured on the basis of meter readings on the waste water system or estimations	Palsgaard A/S
Raw material consumption	M, C	Annual production volumes are based mainly on company purchasing statistics, production reports and counts	Denmark
Derivative products	C	The calculation of derivative products is based mainly on sales statistics, production reports and counts	Denmark
Waste (combustible)	M	Waste volumes have been measured on the basis of invoices from waste removal companies	Denmark
Chemical waste	M	Chemical waste volumes have been measured on the basis of weight slips received from waste removal companies and bearing of tank	Denmark
Finished products	M	The statement is based mainly on sales statistics. The volume of finished products is therefore measured	Palsgaard A/S
Incidents of non-compliance	M	Total number of incidents of non-compliance with regulations with significant fines and sanctions	Palsgaard A/S ++
Industrial accidents	M	Industrial accidents have been measured on the basis of accident records for all employees entailing more than one day of absence	Palsgaard A/S ++
Accident frequency	C	Accident frequency has been calculated per one million working hours. Number of working hours is a calculated figure of working hours	Palsgaard A/S ++
Employee turnover	C	Employee turnover has been calculated on the basis of headcount of permanent employees quarterly, based on Palsgaard's payroll system. Average seniority and average age has been calculated on the basis of the employees at the end of the year 31.12.2018, based on Palsgaard's payroll system	Denmark ++
Employee satisfaction	M, C	Employee satisfaction is based on Palsgaard's employee satisfaction and motivation survey, which is carried out by Ennova every second year and includes all employees. The main indicator of work satisfaction is applied as a general target and is compared with Global Employee and Leadership Index® (GELx)	Denmark +
Tax	C	The effective tax rate is calculated by the company's external accountant based on the results of Palsgaard A/S and its subsidiaries, and the accounts and tax declarations	Denmark ++

*M=Measured, C=Calculated, E=Estimated*

Figure 8: Summary of reporting entities

Palsgaard A/S	Palsgaard A/S ++	Denmark	Denmark +	Denmark ++
<ul style="list-style-type: none"> <li>• Palsgaard production sites, Denmark, Brazil, the Netherlands, Mexico and Malaysia (excluding China)</li> <li>• Nexus A/S</li> </ul>	<ul style="list-style-type: none"> <li>• Schou Foundation</li> <li>• Palsgaard Estate</li> <li>• Palsgaard production sites, Denmark, Brazil, the Netherlands, Mexico, Malaysia and China</li> <li>• Nexus A/S</li> </ul>	<ul style="list-style-type: none"> <li>• Palsgaard A/S, Denmark</li> <li>• Nexus A/S</li> </ul>	<ul style="list-style-type: none"> <li>• Palsgaard A/S, Denmark</li> <li>• All subsidiaries</li> </ul>	<ul style="list-style-type: none"> <li>• Schou Foundation</li> <li>• Palsgaard Estate</li> <li>• Palsgaard A/S, Denmark</li> <li>• Nexus A/S</li> <li>• All subsidiaries</li> </ul>

# Data summary

Indicator	Unit	2014	2015	2016	2017	2018
<b>Energy</b>						
Energy consumption, total (gross) <sup>2</sup>	kWh per kg finished product	1.36	1.34	1.27	1.21	1.12
Energy consumption, electricity (gross)	MWh	14,401	15,557	16,282	16,586	18,039
Energy consumption, fossil (gross)	MWh	42,857	45,687	45,264	45,676	49,120
<b>Emissions</b>						
CO <sub>2</sub> emissions (gross) <sup>2,6</sup>	tonnes	13,811	14,883	15,853	15,362	15,080
CO <sub>2</sub> emissions (net) <sup>2</sup>	tonnes	7,063	5,248	5,678	5,731	0
CO <sub>2</sub> emissions (net)	kg per kg finished product	0.17	0.12	0.12	0.11	0
<b>Water</b>						
Water consumption	litre per kg finished product	4.13	3.52	3.74	3.36	3.34
Waste water	litre per kg finished product	1.64	1.42	1.56	1.44	1.46
Waste water	m <sup>3</sup>	69,173	64,865	75,637	74,408	87,439
<b>Raw materials</b>						
Raw material consumption	kg per 100 kg finished product	108.39	107.71	107.11	106.01	111.17
<b>Derivative products and waste</b>						
Derivative products	kg per kg finished product	0.1	0.09	0.08	0.07	0.07
Waste (Combustible)	kg per kg finished product	0.01	0.01	0.01	0.01	0.01
Waste (Combustible)	tonnes	330	358	402	408	373
Chemical waste	tonnes	9	11	8	17	2.4
<b>Compliance</b>						
Number of incidents of non-compliance <sup>5</sup>	number	0	0	0	0	1
<b>Working environment</b>						
Work-related accidents, total	number	9	11	8	15	9
Work-related accidents, Denmark	number	9	11	8	13	8
Work-related accidents, Netherlands	number	0	0	0	0	0
Work-related accidents, Malaysia	number	0	0	0	2	1
Work-related accidents, Mexico	number	0	0	0	0	0
Work-related accidents, Brazil	number	-	-	-	0	0
Work-related accident frequency <sup>1</sup>	number per million working hours	16	18	13	20	11
<b>Employee conditions</b>						
Employee turnover <sup>7</sup>	turnover rate, %	8.7	12.04	8.5	10.8	13.8
<b>Tax</b>						
Effective tax rate <sup>3</sup>	%	29.9	33.5	27.6	20.2 <sup>4</sup>	33.2

<sup>1</sup> From 2014, all production entities are included in the "Accident frequency" number

<sup>2</sup> Change in emission factors to use local calorific values (2014-2018)

<sup>3</sup> From 2015, the tax rate includes Palsgaard A/S and its subsidiaries, as the contribution of Palsgaard Estate, the Schou Foundation and Nexus A/S to the total tax rate is insignificant

<sup>4</sup> The tax rate has been reduced from 2016 to 2017, mainly due to instances of non-recurring non-taxable income and non-recurring non-deductible costs in the reporting period

<sup>5</sup> Number of incidents of non-compliance: See GRI 201-34

<sup>6</sup> Remaining CO<sub>2</sub> emissions have been neutralised by investing in offsets from UNFCCC (United Nations Framework Convention on Climate Change)

<sup>7</sup> From 2018, we switched from annual to quarterly calculations

# GRI content index – disclosures

The GRI table is based on GRI Sustainability Reporting Standards 2016.

See the Reporting Practice section for an explanation of the terms used along with the GRI G4 Food Processing Sector Disclosures.

GRI Standard	Disclosure	Disclosure description	Page, comment or omission	UNGC active cross reference
<b>GRI 101: Foundation 2016 - This report has been prepared in accordance with the GRI Standards: Comprehensive option</b>				
<b>GRI 102: General Disclosures 2016</b>				
	102-1	Name of the organisation	Page 5	Organisational profile and Operational context
	102-2	Activities, brands, products and services	Page 7	Organisational profile and Operational context
	102-3	Location of headquarters	Page 7	Organisational profile and Operational context
	102-4	Location of operations	Page 7	Organisational profile and Operational context
	102-5	Ownership and legal form	Page 6	Organisational profile and Operational context
	102-6	Markets served	Page 7	Organisational profile and Operational context
	102-7	Scale of organisation	Page 21 and Annual report	Organisational profile and Operational context
	102-8	Information on employees and other workers	Page 21 291 full time, 21 part time (Denmark). Data compiled for DK from global HR system	Organisational profile and Operational context
	102-9	Supply chain	Pages 10-11	
	102-10	Significant changes to the organisation and its supply chain	Page 5 Encouraged development and sustainability by establishing a subsidiary in Ghana	
	102-11	Precautionary Principle or approach	Pages 13, 16, 20-21	
	102-12	External initiatives	Pages 12-13	
	102-13	Membership of associations	Pages 13, 15	
	102-14	Statement from senior decision-maker	Page 5	High-level commitment and Strategy
	102-15	Key impacts, risks and opportunities	Pages 10-11	High-level commitment and Strategy
	102-16	Values, principles, standards, and norms of behaviour	Pages 6, 12-13, Figure 5	
	102-17	Mechanisms for advice and concerns about ethics	Page 13: A responsible approach	
	102-18	Governance structure and Highest Governance Body (HGB)	Pages 12-13, Figure 5	
	102-19	Delegating authority	Pages 12-13, Figure 5	
	102-20	Executive-level responsibility for Economic, Environmental, and Social (EES) topics	Pages 12-13, Figure 5	
	102-21	HGB consultation on EES topics	Page 8	
	102-22	Composition of governance bodies	Pages 12-13 and Annual report	
	102-23	Relationship between Chair and CEO	The chair of the HGB is not the CEO	
	102-24	Nomination and selection of governance body	Pages 12-13, Figure 5	
	102-25	Conflicts of interest	Limitations are noted in employment contracts	
	102-26	HGB's role in setting purpose, value and strategy	Pages 12-13	
	102-27	HGB's knowledge of EES topics	Pages 12-13, Figure 5	
	102-28	Performance evaluation of HGB on EES topics	Part of the Board evaluates its performance on a regular basis. The CSR report is evaluated yearly	
	102-29	HGB's role in identifying EES risks	Pages 12-13, Figure 5	
	102-30	HGB's review of management of EES risks	In accordance with ISO-documented procedures	

GRI Standard	Disclosure	Disclosure description	Page, comment or omission	UNGC active cross reference
	102-31	Frequency of EES risk reviews	3 times a year	
	102-32	Highest approval of sustainability report	Pages 12-13, Figure 5	
	102-33	Raising critical concerns with HGB	Pages 12-13, Figure 5	
	102-34	Critical concerns raised and addressed	1 critical incident. Aug 2018, received a fine for insufficient safety training of operator following a work accident (scalding). Training and operating procedures were changed with immediate effect, followed by re-design	
	102-35	Remuneration policies	Described in the Schou Foundation's Articles of Association	
	102-36	Process for determining remuneration	Described in the Schou Foundation's Articles of Association	
	102-37	Stakeholder views on remuneration	Remuneration policies are confidential and not shared with our stakeholders	
	102-38	Ratio of highest and median compensation	Omitted for competitive reasons	
	102-39	% increase for highest and median compensation	Omitted for competitive reasons	
	102-40	List of stakeholders engaged	Page 8	
	102-41	Collective bargaining agreements	In Denmark, 54% of employees are covered by a collective bargaining agreement. This is not measured in our subsidiaries	
	102-42	Selection of stakeholders	Page 8	
	102-43	Approach to stakeholder engagement	Page 8	
	102-44	Issues raised and responded to	Page 7: Application areas for customers, page 18: Impact assessment - fat reduction in food, page 21: Employee satisfaction survey. Alternative non-palm products available	
	102-45	Entities included in the consolidated financial statements	Page 6, Figure 2	
	102-46	Defining report content and topic Boundaries	Page 4	
	102-47	List of material topics	Page 8	
	102-48	Restatements of information	No restatements to report	
	102-49	Changes in reporting	Page 5	COP Report Profile
	102-50	Reporting period	Page 4	COP Report Profile
	102-51	Date of previous report	26 April 2018	COP Report Profile
	102-52	Reporting cycle	Page 4	COP Report Profile
	102-53	Report contact	Senior CSR Specialist, Lisa Drejer Mortensen, ldm@palsgaard.dk	COP Report Profile
	102-54	Claims of reporting in accordance with the GRI standards	Page 4	
	102-55	GRI Content Index	Pages 28-34	COP Report Profile
	102-56	External assurance	Pages 24-25	External assurance of COP
<b>GRI 103: Management approach 2016</b>				
	103-1	Explanation of the material topic and its Boundary	Pages 30-34	
	103-2	The management approach and its components	Pages 30-34	
	103-3	Evaluation of the management approach	Pages 30-34	

# GRI content index – material topics

Topic	Disclosure	Disclosure description	Page, comment or omission	UNGC principle
<b>GRI 200 Standard: Economic Series 2016</b>				
GRI 201 Economic performance	103-1	Explanation of the material topic and its Boundaries	Page 6	
	103-2	The management approach and its components	Pages 12-13	
	103-3	Evaluation of the management approach	Pages 12-13	
	201-1	Direct economic value generated and distributed	Turnover 2018 (DKK): 1.4 billion Effective tax rate: 33.2% (tax being paid where it is earned) Jobs provided: 536	
	201-2	Financial implications and other risks and opportunities due to climate change	Page 16	
	201-3	Defined benefit plan obligations and other retirement plans	Pages 20-21	
	201-4	Financial assistance received from government	10 years tax-free scheme in Malaysia. Taxable income reduced by 1.5% of R&D grants in 2018 in Denmark. Financial assistance from Export Credit Agencies was DKK 200,000 (2017-2018) in Denmark	
GRI 202 Market Presence	103-1	Explanation of the material topic and its Boundaries	Pages 20-21. Significant locations of operation page 7. Local refers to the communities surrounding the areas in which we operate. Our definition of senior management refers to CEOs and managers of subsidiaries	1
	103-2	The management approach and its components	Pages 20-21	1
	103-3	Evaluation of the management approach	Page 21. Figure 7: Turnover rate	1
	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	We ensure that all employees & workers are paid at or above the minimum wage, according to local legislation	1
	202-2	Proportion of senior management hired from the local community	The majority of senior management in our subsidiaries are local, except for Malaysia, Russia and China, since mid-2018	1
GRI 203 Indirect economic impacts	103-1	Explanation of the material topic and its Boundaries	Pages 10-11	1
	103-2	The management approach and its components	Pages 12-13	1
	103-3	Evaluation of the management approach	Pages 12-13	1
	203-1	Infrastructure investments and services supported	Pages 22-23 Commercial investment in technology in Malaysia and Brazil. New application laboratories in China and Russia, increasing our number of distributors worldwide and a new factory in Mexico is in process	1
	203-2	Significant indirect economic impacts	Using RSPO-certified palm oil improves social conditions and reduces environmental impact locally. Investments in production sites in Malaysia, Mexico and Brazil have positive impacts on job creation and activity in the respective countries	
	FP1	% of purchased volume from suppliers compliant with company's sourcing policy	Pages 12, 15 88% of suppliers of direct materials have been evaluated through our Responsible Sourcing Programme. 95% of suppliers of indirect products and services have signed our Supplier Code of Conduct	1
	FP2	% of purchased volume verified to be in accordance with responsible standards, by standard	Pages 13, 19 100% of products are manufactured at FSSC 22000-certified sites and are available as RSPO SG-certified. 100% of the palm oil used for production of food ingredients in Denmark is RSPO SG-certified. All sites comply with Sedex 4-pillar SMETA audit	1
GRI 204 Procurement Practices	103-1	Explanation of the material topic and its Boundaries	Pages 10-11, 14 Significant locations of operation page 7. Local refers to the communities surrounding the areas in which we operate (RSPO)	1, 10
	103-2	The management approach and its components	Pages 12-14	1, 10
	103-3	Evaluation of the management approach	Pages 12-13	1, 10
	204-1	Proportion of spending on local suppliers	No defined spending. Local palm oil growers are supported via RSPO when they are members of RSPO. Our Malaysia plant uses locally produced palm oil and we hire local workers for all subsidiaries. 100% of products based on palm oil is available as RSPO SG-certified	1, 10
GRI 205 Anti-Corruption	103-1	Explanation of the material topic and its Boundaries	Pages 12-14	1, 10
	103-2	The management approach and its components	Pages 12-13	1, 10
	103-3	Evaluation of the management approach	Pages 12-13	1, 10
	205-1	Operations assessed for corruption risks	Pages 12-13	1, 10
	205-2	Communication and training	Pages 12-13	1, 10
	205-3	Incidents of corruption and actions taken	No incidents in 2018	1, 10
GRI 206 Anti-competitive behaviour	103-1	Explanation of the material topic and its Boundaries	Pages 12-13	1
	103-2	The management approach and its components	Pages 12-13	1
	103-3	Evaluation of the management approach	Pages 12-13	1
	206-1	Anti-competitive behaviour	Pages 12-13 No legal actions in 2018	1

Topic	Disclosure	Disclosure description	Page, comment or omission	UNGC principle
<b>GRI 300 Standard: Environmental Series 2016</b>				
GRI 301 Materials	103-1	Explanation of the material topic and its Boundaries	Pages 15, 17	7, 8
	103-2	The management approach and its components	Pages 15, 17	7, 8
	103-3	Evaluation of the management approach	Pages 12-13, 15, 17	7, 8
	301-1	Materials used by weight or volume	Page 27 Further breakdown of numbers commercially sensitive	7, 8
	301-2	Recycled input materials used	Due to food safety regulations, we cannot use recycled input materials in production	
	301-3	Reclaimed products and their packaging materials	Due to food safety regulations, reclaimed input materials are not added to our products	7, 8
GRI 302 Energy	103-1	Explanation of the material topic and its Boundaries	Page 8	7, 8, 9
	103-2	The management approach and its components	Page 16	7, 8, 9
	103-3	Evaluation of the management approach	Page 16	7, 8, 9
	302-1	Energy consumption within organisation	Page 27	7, 8, 9
	302-2	Energy consumption outside of the organisation	We currently do not measure this. Information not available	7, 8, 9
	302-3	Energy intensity	Page 27 We define energy intensity as kWh per kg finished product	7, 8, 9
	302-4	Reduction of energy consumption	Page 27	7, 8, 9
	302-5	Reduction in energy requirements of sold products/ services	Calculations not available	7, 8, 9
GRI 303 Water	103-1	Explanation of the material topic and its Boundaries	Page 8	
	103-2	The management approach and its components	Page 17	
	103-3	Evaluation of the management approach	Page 27	
	303-1	Water withdrawal by source	Page 27 We use only ground water at our Denmark facilities. In our subsidiaries, we use water that complies with required food quality and safety regulations	
	303-2	Water sources significantly affected by withdrawal of water	Water consumption per production unit is relatively small. No water sources are significantly affected	
	303-3	Water recycled and reused	Due to food safety regulations, water is not recycled within our production facilities	
GRI 305 Emissions	103-1	Explanation of the material topic and its Boundaries	Pages 16, 26	7, 8, 9
	103-2	The management approach and its components	Page 16	7, 8, 9
	103-3	Evaluation of the management approach	Page 16	7, 8, 9
	305-1	Direct GHG emissions (scope 1)	0 tonnes CO <sub>2</sub> , see page 26	7, 8, 9
	305-2	Energy indirect GHG Emissions (scope 2)	0 tonnes CO <sub>2</sub> , see page 26	7, 8, 9
	305-3	Other indirect GHG emissions (scope 3)	Currently not measured	7, 8, 9
	305-4	GHG emissions intensity	Page 26	7, 8, 9
	305-5	Reductions of GHG emissions	Pages 26-27	7, 8, 9
	305-6	Emissions of ozone-depleting substances	Not applicable	7, 8, 9
	305-7	NO <sub>x</sub> , SO <sub>x</sub> and other air emissions	We do not currently measure NO <sub>x</sub> and SO <sub>x</sub>	7, 8, 9
GRI 306 Effluents & waste	103-1	Explanation of the material topic and its Boundaries	Pages 17, 26	7, 8, 9
	103-2	The management approach and its components	Page 17	7, 8, 9
	103-3	Evaluation of the management approach	Pages 12-13, 17	7, 8, 9
	306-1	Water discharge by quality and destination	Page 27	7, 8, 9
	306-2	Waste by type and disposal method	Page 27	7, 8, 9
	306-3	Significant spills	No incidents in 2018	7, 8, 9
	306-4	Transport of hazardous waste	Hazardous waste is removed by licensed waste management companies	7, 8, 9
	306-5	Water bodies affected by water discharges and/or runoff	We comply with legal requirements for waste water treatment and discharge and have not detected impacts on water bodies and related habitats	7, 8, 9

# GRI content index – material topics

Topic	Disclosure	Disclosure description	Page, comment or omission	UNGC principle
GRI 307 Environmental compliance	103-1	Explanation of the material topic and its Boundaries	Page 16	7, 8
	103-2	The management approach and its components	Page 16	7, 8
	103-3	Evaluation of the management approach	Pages 12-13, 16	7, 8
	307-1	Non-compliance with environmental laws and regulations	No incidents in 2018	7, 8
GRI 308 Supplier environmental assessment	103-1	Explanation of the material topic and its Boundaries	Page 14	7, 8, 10
	103-2	The management approach and its components	Pages 12-15	7, 8, 10
	103-3	Evaluation of the management approach	Pages 12-13	7, 8, 10
	308-1	New suppliers that were screened using environmental criteria	Page 14	7, 8, 10
	308-2	Negative environmental impacts in the supply chain and actions taken	Pages 13-14	7, 8, 10
<b>GRI 400 Standard: EMPLOYEES series 2016</b>				
GRI 401 Employment	103-1	Explanation of the material topic and its Boundaries	Pages 8, 20-21	1, 6
	103-2	The management approach and its components	Pages 20-21	1, 6
	103-3	Evaluation of the management approach	Pages 12-13, 20-21	1, 6
	401-1	New employee hires and employee turnover	Page 21 Employee turnover, Denmark: 13.2% Employee turnover, subsidiaries to Palsgaard A/S: 14% Employee turnover rate is reported without breakdown of age group, gender or region	1, 6
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Pages 20-21	1, 6
	401-3	Parental leave	Employees returning to work after taking parental leave remained employed 12 months later, with the exception of one man from Denmark	1, 6
GRI 403 Occupational health and safety	103-1	Explanation of the material topic and its Boundaries	Pages 20-21	1
	103-2	The management approach and its components	Pages 20-21	1
	103-3	Evaluation of the management approach	Pages 20-21	1
	403-1	Workers representation in formal joint management-worker health and safety committees	Page 21 Work environment committee covers 100% of workers, across all sites. The definition of workers extends to those who are employed directly by Palsgaard including its subsidiaries	1
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	There were 9 work-related accidents (8 in Denmark and 1 in Malaysia) with no fatalities. Absenteeism monitored in Denmark. Days absent with sick leave 3.15% Aiming to monitor in all production sites without reporting on ODR types of injuries or occupational diseases	1
	403-3	Workers with high incidence or high risk of diseases related to their occupation	Pages 10, 20	1
	403-4	Health and safety topics covered in formal agreements with trade unions	Page 21	1
GRI 404 Training and education	103-1	Explanation of the material topic and its Boundaries	Pages 8, 20-22	1
	103-2	The management approach and its components	Pages 20-22	1
	103-3	Evaluation of the management approach	Pages 12-13, 20-21	1
	404-1	Average hours of training per year per employee	1.15% of work hours was related to education (Denmark, Malaysia, Mexico & The Netherlands) without breakdown of gender or employee category	1
	404-2	Programs for upgrading employee skills and transition assistance programs	Pages 20-22	1
	404-3	% of employees receiving regular performance and career development reviews	100% of employees receive reviews yearly	1



Topic	Disclosure	Disclosure description	Page, comment or omission	UNGC principle
GRI 405 Diversity and Equal Oppor- tunity	103-1	Explanation of the material topic and its Boundaries	Pages 20-21 Palsgaard A/S Board has 1 woman and two men	1, 6
	103-2	The management approach and its components	Pages 20-21, 6 (Figure 2)	1, 6
	103-3	Evaluation of the management approach	Pages 12-13, 20-21	1, 6
	405-1	Diversity of governance bodies and employees	Page 21 and Annual report In Denmark, 7% of employees are Non-Danish background. Palsgaard A/S Board has one woman and two men. Schou Foundation Board has one woman and four men	1, 6
	405-2	Ratio of basic salary and remuneration of women to men	Remuneration monitored for production employees through Danish Industry's (DI) gender specific salary statistics for Palsgaard's production operators in Denmark. The latest data available is from 2017. In 2017, the remuneration ratio for men and women was 100.9/96.3	1, 6
GRI 406 Non- discrimination	103-1	Explanation of the material topic and its Boundaries	Pages 12-13, 15	3
	103-2	The management approach and its components	Pages 12-14	3
	103-3	Evaluation of the management approach	Pages 12-13	3
	406-1	Incidents of discrimination and corrective action taken	No incidents in 2018	3
GRI 407 Freedom of Association and Collective Bargaining	103-1	Explanation of the material topic and its Boundaries	Pages 12-13, 15	3
	103-2	The management approach and its components	Pages 12-14, 15	3
	103-3	Evaluation of the management approach	Pages 12-13	3
	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Pages 12-13, 15, 20-21	3
GRI 408 Child Labour	103-1	Explanation of the material topic and its Boundaries	Pages 12-13	1, 4, 5
	103-2	The management approach and its components	Pages 12-13, 15	1, 4, 5
	103-3	Evaluation of the management approach	Pages 12-13	1, 4, 5
	408-1	Operations and suppliers at significant risk for incidents of child labour	Pages 12-15	1, 4, 5
GRI 409 Forced or compulsory labour	103-1	Explanation of the material topic and its Boundaries	Page 13	1, 4, 5
	103-2	The management approach and its components	Pages 12-13, 15	1, 4, 5
	103-3	Evaluation of the management approach	Pages 12-13	1, 4, 5
	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	Pages 13-15	1, 4, 5
GRI 412 Human Rights Assessment	103-1	Explanation of the material topic and its Boundaries	Page 13	1, 2
	103-2	The management approach and its components	Pages 12-13, 15	1, 2
	103-3	Evaluation of the management approach	Pages 12-13	1, 2
	412-1	Operations that have been subject to human rights reviews or impact assessments	Pages 12-13	1, 2
	412-2	Employee training on human rights policies or procedures	All employees receive Code of Conduct. We do not measure training	1, 2
GRI 413 Local communities	103-1	Explanation of the material topic and its Boundaries	Pages 12-13, 15	1
	103-2	The management approach and its components	Pages 15, 22-23	1
	103-3	Evaluation of the management approach	Pages 12-13	1
	413-1	Operations with local community engagement, impact assessments, and development programs	Pages 15, 20-21 We consider differentiation in culture and socioeconomic status in our subsidiaries, and local communities where we operate. We have assisted 21 people at our sites in Denmark, Mexico and the Netherlands to further their education or keep their job under special circumstances	1
	413-2	Operations with significant actual and potential negative impacts on local communities	We do not consider any operations at our sites to have a negative impact on local communities	1
GRI 414 Supplier Social Assessment	103-1	Explanation of the material topic and its Boundaries	Page 14	1, 4, 5, 6, 10
	103-2	The management approach and its components	Pages 12-13, 15	1, 4, 5, 6, 10
	103-3	Evaluation of the management approach	Pages 12-13	1, 4, 5, 6, 10
	414-1	New suppliers that were screened using social criteria	Page 14	1, 4, 5, 6, 10
	414-2	Negative social impacts in the supply chain and actions taken	Pages 14-15 No further breakdown of data	1, 4, 5, 6, 10

# GRI content index – material topics

Topic	Disclosure	Disclosure description	Page, comment or omission	UNGC principle
GRI 416 Customer Health and Safety	103-1	Explanation of the material topic and its Boundaries	Pages 13, 19	10
	103-2	The management approach and its components	Pages 12-13, 15, 19	10
	103-3	Evaluation of the management approach	Pages 12-13	10
	416-1	Assessment of the health and safety impacts of product and service categories	Pages 13, 19	10
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	There were no food recall incidents in 2018	10
	FP5	% of production volume audited by 3rd party to food safety compliancy	100% of our products are manufactured in FSSC 22000/ISO 9001-certified factories	10
	FP6	% of total sales volume of consumer products by product category that are lowered in saturated fat, trans-fats, sodium and added sugars	The majority of our products can help food processing companies to lower the fat content of their products	10
	FP7	% of total sales volume of consumer products by product category that contain increased nutritious ingredients like fibre, vitamins, minerals, phytochemicals, or functional food additives	Not applicable	10
GRI 417 Marketing and Labelling	103-1	Explanation of the material topic and its Boundaries	Pages 8, 18	10
	103-2	The management approach and its components	Page 18	10
	103-3	Evaluation of the management approach	Page 18	10
	417-1	Requirements for product and service information and labelling	100% of our products conform to EU legislation on labelling and we respond to customer requests for additional labelling	10
	417-2	Incidents of non-compliance concerning product and service information and labelling	No incidents in 2018	10
	417-3	Incidents of non-compliance concerning marketing communications	No incidents in 2018	10
GRI 418 Customer privacy	103-1	Explanation of the material topic and its Boundaries	Page 13	
	103-2	The management approach and its components	Page 13	
	103-3	Evaluation of the management approach	Page 8	
	418-1	Complaints concerning breach of customer privacy	No complaints in 2018	
GRI 419 Socioeconomic compliance	103-1	Explanation of the material topic and its Boundaries	Pages 12-13	10
	103-2	The management approach and its components	Pages 12-13	10
	103-3	Evaluation of the management approach	Pages 12-13	10
	419-1	Non-compliance with laws and regulations in the social and economic area	No incidents in 2018	10

# Legal requirements

Reference to sections 99a and 99b of Act no. 738 regarding changes to the Danish Financial Statements Act, June 1, 2015

Section 99a Reference	Page and/or comment
Sustainability definition Section 99a	See "Welcome" on page 3
Business model Section 99a §2.1	See Figure 2 on page 6
Governance Section 99a §2.2	See "Our governing culture" pages 12-13
Systems & due diligence processes Section 99a §2.4	See "A responsible approach" on page 13
Key risks Section 99a §2.5	See "Value chain" on pages 10-11. Specific risks and challenges for each CSR focus area are identified within each section of the CSR report
KPIs Section 99a §2.6	See Figure 1 on page 5
Means of reporting Section 99a §4.1 and §4.2	Palsgaard provides a separate CSR report, which is available online <a href="http://www.palsgaard.com">www.palsgaard.com</a>
Section 99b reference	Page and/or comment
Policy for increasing the share of the underrepresented gender Section 99b §2	We have a policy that addresses the underrepresented gender in management roles. Our policy sets out our commitment to, among other things, ensure that our recruitment and recruitment procedures help to make female leadership talent visible so that both female and male candidates are represented by internal as well as external recruitment; to work purposefully with competence and leadership development and promote effective internal recruitment and mobility in Palsgaard for the benefit of the individual employee's competence and career development and for Palsgaard's pipeline of leadership candidates; and to actively motivate more women in the organisation to take and maintain managerial jobs, including, for example, support for education, development in the job and internal management training. See also Figure 2 on page 6 and Internal governance on page 12
Target figure for the top management team Section 99b §3	Status of the underrepresented gender within top management: see Figure 2 on page 6 and Internal governance on page 12

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think

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