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## Our Approach

# Forever Chocolate progress

## Increasing our verifiable Impact

Forever Chocolate is our plan to make sustainable chocolate the norm by 2025 – to ensure that chocolate will be around forever. As the world’s leading manufacturer of high-quality chocolate and cocoa products, we have a moral obligation as well as a business interest to tackle the structural issues in the chocolate supply chain. Therefore, we have to lift cocoa farmers out of poverty, ensure children are not engaged in child labor<sup>1</sup>, become carbon positive, eliminate deforestation from our supply chain as a step to becoming forest positive, and have 100% sustainable ingredients in all our products.

In fiscal year 2017/18, we made great progress to achieving the targets we set ourselves in 2016. Our quantified, time-bound objectives enable us to engrain our sustainability agenda across all our business functions. The progress data show how, through our sourcing, processing and sales, we are driving change, supporting cocoa farming communities, reducing resource consumption in our factories and driving the uptake of sustainably sourced chocolate.

But we have to do more: Forever Chocolate is about increasing our verifiable impact and systemic change. We dedicated the past fiscal year to developing our theory of systemic change, identifying those activities which create self-sustaining cocoa farming communities. These activities range from farm-focused activities, such as increasing farm productivity and crop diversification, to community-focused activities, such as empowering women to generate income, taking measures against the worst forms of child labor and improving access to quality education.

### Programs for change

To assess our theory of change, we developed and implemented five “programs for change” which will allow us to learn how we can drive systemic change in the chocolate supply chain: first, we are building large farmer datasets, which are obtained primarily through interviews and on-farm mapping. Through our Katchilè database, we are collating an unprecedented amount of details to ensure consistency as well as impact measurement and monitoring each year. We currently have detailed location, agronomic, economic and social survey data on over 130,000 cocoa farms in our supply chain. This figure will rise to 500,000, demonstrating our ambition to lift half a million farmers out of poverty by 2025. These datasets allow us to create tailor-made programs zooming in on the key issues of specific cocoa farming communities and will support us in assessing our theory of change: do our activities lead to the impact we are aiming for?

Second, to learn how we can accelerate impact on the ground, we have developed pilot projects in five key cocoa sourcing countries, Côte d’Ivoire, Ghana, Cameroon, Brazil and Indonesia. Through these pilots we want to verify if our approach is replicable, scalable and eventually leads to farmers’ self-sustenance. We are partnering with Wageningen University & Research, the world’s leading agricultural university, which has defined the baseline and analytical framework against which we can assess the outcomes.

Third, through our Farm Services business, we offer cocoa farmers products and services to improve the productivity of their cocoa farm. These services include coaching in good farming practices, supporting farmers to access credit and providing cocoa farmers with improved planting material and farm inputs. Together with participating farmers, we are developing customized Farm Business Plans. Following a multi-year approach, we advise on the best mix of seedlings and fertilizers, and support farmers to access labor on credit for each farm. The offering of this mix will also include an assessment whether it will allow the farmer to achieve a higher yield, allowing him/her to

<sup>1</sup> According to the International Labour Organization, not all work done by children should be classified as child labor that is to be targeted for elimination. The term ‘child labor’ is often defined as work that deprives children of their childhood, their potential and their dignity, interferes with their schooling and is harmful to their physical and mental development. Activities such as carrying heavy loads or using chemicals are considered as ‘unacceptable forms of child labor’ because they are physically dangerous for children.

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recuperate the costs against which the services were provided. For example, in 2017/18 we decided for Côte d'Ivoire not to include fertilizer in the mix, as the additional costs could not be recuperated by the cocoa farmers considering the relatively low cocoa bean prices.

Fourth, to understand where we have our biggest carbon impact, we calculate our carbon footprint every year. Through this annual benchmarking we can track our progress in shifting our supply chain to a carbon positive trajectory.

Finally, Cocoa Horizons is our preferred vehicle to deliver on our Forever Chocolate targets. It enables our customers to join the journey and invest in sustainable cocoa production. Cocoa Horizons is an effective sustainability program with the vision to drive cocoa farmer prosperity by creating self-sustaining farming communities that protect biodiverse landscapes and support children's rights.

But the need for systemic change in the chocolate supply chain requires us to focus on all of our ingredients, not only cocoa. We have created heat maps to assess which of the ingredients we source are at risk of including the worst forms of child labor, or contributing to deforestation. Through certification and additional requirements on traceability and the mapping of farms we are committed to driving systemic change in the supply chains of all the ingredients we source.

### Creating the movement

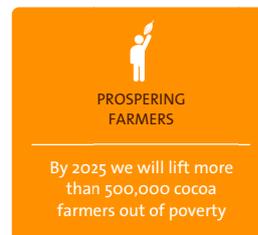
Forever Chocolate goes beyond Barry Callebaut. It is about creating a movement with industry, government and societal partners, in order to scale up our impact. In the past fiscal year we saw remarkable progress in this area. For example, we actively supported our customers with sustainable solutions, implemented programs and projects on their behalf and worked together to generate demand for sustainable ingredients.

In addition, we were one of the leading companies to establish sustainable multi-stakeholder frameworks such as the Cocoa and Forests Initiative Frameworks for Action, signed by the governments of Côte d'Ivoire and Ghana, leading cocoa and chocolate companies as well as NGOs. The goal of these frameworks is to eradicate deforestation from the cocoa supply chain in West Africa. Furthermore, we signed letters of intent with Côte d'Ivoire and Ghana to work towards the design and validation of a sustainable cocoa farming model. In order to have a proper and long-lasting impact, we need the support of NGOs, governments and the industry.

Barry Callebaut is annually assessed by the company Sustainalytics, to provide us with a solid third-party assessment of our investments in sustainability. The assessment looks at all our efforts in the area of environment, social and governance (i.e. corporate code of conduct, anti-corruption policy, etc.), and ranks against the efforts of other participating food companies. In 2017/18, Barry Callebaut was ranked as 'outperforming' on sustainability.<sup>2</sup>

We are confident that we are progressing towards systemic change in the chocolate supply chain. There is still a lot to be done, but through assessing, learning and improving, we are confidently increasing our impact.

## Prospering Farmers



# Lifting cocoa farmers out of poverty

### Our Goal

By 2025, we will lift more than 500,000 cocoa farmers out of poverty.

### Our Approach

We can only lift cocoa farmers out of poverty if we pursue nothing less than systemic change in cocoa farming. Systemic change means cocoa farming that is prospering and self-sustaining. The first step in achieving systemic change is to understand the specificities and needs in order to enable each cocoa farm in our global supply chain to be self-sustaining. This is why in 2017/18 we started the creation of farmer data sets that map, amongst other things, the size of the farm, its soil quality, its productivity, as well as the household it has to support. We have so far mapped 130,811 cocoa farms in our Katchilè database and will increase this number to half a million by 2025. This database gives us the unprecedented capability to design tailor-made Farm Business Plans for participating cocoa farmers.

In addition, we need to understand what self-sustaining cocoa farming looks like in the major cocoa growing countries. This is why in 2017/18 we designed pilot projects in Côte d’Ivoire, Ghana, Cameroon, Brazil and Indonesia. These pilot projects will test the effectiveness of productivity packages, which include measuring the impact of proper pruning techniques, fertilizer packages, designing the diversification of farm income through introduction of alternate crop packages to farmers, and giving the farmers access to innovative financial instruments. Wageningen University & Research, the world’s leading agricultural university, will assess the effectiveness of our interventions in these pilots.

We distributed over 2,1 million young cocoa seedlings for replanting and around 393,000 shade trees.

Cocoa Horizons, as an impact driven sustainability program, ensures that activities are focused on relevant areas and implemented efficiently. In 2017/18 premiums from the purchase of HORIZONS products generated CHF 10.5 million and the program reached more than 70,000 farmers. Farmers participating in Cocoa Horizons have access to coaching, access to a Farmer Business Plan, are supported to access financial services and farm services, and are supported on income diversification activities and women empowerment. All of the above will ensure that cocoa farming again becomes a profitable business.

### Creating the movement

Systemic change to cocoa farming requires support from the governments of cocoa growing countries. In fiscal year 2017/18, we partnered with the Ivorian government and the Ghanaian government, signing two letters of intent on sustainable cocoa farming. The purpose of the letters of intent is to encourage the signatories to work collaboratively towards the design and validation of a sustainable cocoa farming model, with a specific focus on the clearing and re-planting of cocoa trees infected with the swollen-shoot virus (CSSV) disease. Also, the cooperation will include agroforestry, more specifically income diversification for cocoa farmers and the planting of shade trees. This is a great example of the movement required to make sustainable chocolate the norm, creating models of farming that positively impact farmers livelihoods.

### Our measured impact

In 2017/18, 12,395 farmers (+113%) in Côte d’Ivoire, Ghana, Cameroon, Tanzania, Brazil and Indonesia participated in our Farm Services business, and received coaching and other inputs such as tools and seedlings or support to access finance. We supported cocoa farmers in replanting 281 hectares (+60%) with young cocoa trees, as well as other crops that provide shade, and help cocoa farmers diversify their income. After the +23% increase in productivity measured in 2016/17, we did not see a significant increase in productivity with Ivorian cocoa farmers participating in our Farm Services business compared to the control group in 2017/18. This is partly due to young cocoa trees only starting to positively impact cocoa farmer productivity once they start to grow cocoa



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Pods after 4–5 years. In addition, productivity was negatively impacted by our decision to not include relatively costly fertilizer in the Farm Services package in order to avoid creating additional costs for the cocoa farmer which, due to the low cocoa bean prices, could not be recuperated.

Based on the World Bank threshold for extreme poverty, USD 1.90/day, we estimate as a baseline that in 2017/18 169,460 cocoa farmers in our supply chain are out of poverty.

### Key Metric

**169,460**

Baseline measurement of the number of cocoa farmers in our supply chain out of poverty, measured against the World Bank's USD 1.90/day threshold for extreme poverty

### Enabling KPIs

**12,395**

Number of cocoa farmers who have access to coaching, inputs such as tools and seedlings, or finance

No measurable productivity improvement per hectare of these farmers in 2017/18

**281**

Number of hectares of cocoa replanted

### Our commitment to the UN SDGs



Zero Child Labor



# Eradicating child labor

**Our goal**

By 2025, we will eradicate child labor<sup>1</sup> from our supply chain.

**Our approach**

The existence of the worst forms of child labor is an indication that the cocoa supply chain in West Africa is not prospering, nor self sustaining. Systemic change in cocoa farming will reduce poverty and therefore reduce the incidence of the worst forms of child labor in the cocoa supply chain. But systemic change in cocoa farming alone is not enough. We are rolling out child labor monitoring and remediation systems, prioritizing those cocoa farming communities at highest risk. In addition, eliminating child labor requires systemic change in the farming communities through awareness of the consequences of the worst forms of child labor for a child’s development, education, and quality access to primary, secondary and vocational education. This is why we include child labor awareness in the training we offer to cocoa farmers. Access to quality education and awareness of children’s rights also need to be addressed. Through partnerships with a number of our customers, we are supporting the construction of schools in cocoa farming communities.

The worst forms of child labor are not limited to cocoa, but also occur in the value chains of other chocolate ingredients. We therefore created a heat map to identify commodities and origins that are at risk of including the worst forms of child labor in their supply chain. We prioritized our efforts to focus on commodities at high risk, such as cane sugar and palm oil, working with our suppliers to eradicate the worst forms of child labor.

**Creating the movement**

The letters of intent we signed with the Ivorian and Ghanaian governments on sustainable cocoa farming spell out a commitment to increased cooperation on the eradication of the worst forms of child labor. This includes working together on community led initiatives to eradicate child labor and support women cocoa farmers, as well as young cocoa farmers. In addition, through the World Cocoa Foundation (WCF) and the International Cocoa Initiative (ICI), we are actively working together with governments to prepare for a survey in 2019 on the continued prevalence of the worst forms of child labor in the African cocoa supply chain. This report will be a follow-up to the 2015 Tulane University report, which is still considered to be one of the most precise assessments of the situation of child labor in the African cocoa supply chain.

**Our measured impact**

With the support of ICI, we continue to implement monitoring and remediation systems on child labor. This constitutes on the ground household and farm visits by our staff to survey practices concerning child employment and education in cocoa farming communities. These surveys allow to identify children performing hazardous tasks and to estimate the prevalence of the worst forms of child labor. In 2017/18, we deployed monitoring and remediation in 21 farmer groups covering 12,018 farmers in Côte d’Ivoire and Ghana. We established that in 2017/18 12% (2016/17: 3.2%) of the farmer groups we directly sourced from have systems in place to prevent, monitor and remediate child labor. The monitoring uncovered 4,230 cases of the worst forms of child labor, in all cases children working on their family’s farm. This increase is the result of the coverage of a broader range of farmer groups. As we roll out remediation and monitoring systems, additional cases of the worst forms of child labor are expected to be found. All the cases of worst forms of child labor we found are being remediated.

<sup>1</sup> According to the International Labour Organization, not all work done by children should be classified as child labor that is to be targeted for elimination. The term ‘child labor’ is often defined as work that deprives children of their childhood, their potential and their dignity, interferes with their schooling and is harmful to their physical and mental development. Activities such as carrying heavy loads or using chemicals are considered as ‘unacceptable forms of child labor’ because they are physically dangerous for children.



## Zero Child Labor

In order to ensure that there are no worst forms of child labor present in any of the other ingredients we are sourcing for our products, we have updated our supplier code to incentivize suppliers of non-cocoa ingredients to have systems in place to prevent, monitor and remediate child labor. Our focus in the upcoming fiscal year will be to establish what type of systems are being used by our suppliers. This means that for fiscal year 2017/18 we are not reporting on the number of third-party suppliers who have equivalent systems in place.

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### Key Metric

# 4,230

Number of child labor cases identified and being remediated in our supply chain

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### Enabling KPIs

# 12%

of the farmer groups we directly source from have systems in place to prevent, monitor and remediate child labor

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### Data available 2018/19

Number of third-party suppliers who have equivalent systems in place

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### Our commitment to the UN SDGs



## Thriving Nature



# Becoming carbon and forest positive

### Our goal

By 2025 we will be carbon and forest positive.

### Our approach

In order to become carbon positive, we are not just looking at the carbon footprint created by our own operations (scope 1) and generated by the energy we use (scope 2). We also take into account the carbon footprint of our entire supply chain (scope 3), including the production and processing of all raw materials we source, and related land use changes. About 60% of our carbon footprint is generated by land use change, meaning the conversion of forests to agricultural land and the subsequent loss of carbon storage capacity.

One way of tackling this is by looking into enhancing carbon sequestration of agricultural land, by implementing good agricultural practices and making the planting of shade trees an integral part of the farm packages we provide to cocoa farmers. We have also teamed up with a renowned research consultancy, Quantis, to undertake analytical work required to more accurately understand carbon in the cocoa supply chain. This means developing a complete cocoa carbon footprint, including methodologies to account for the carbon loss from deforestation. These methodologies will be made publicly available once finalized. Another important challenge are carbon emissions generated by the production of dairy. Here, we are working with our suppliers to create a more sustainable dairy production, including lower carbon emissions, through the Vision Dairy program. We have also joined the Cool Farm Alliance in September 2018 in order to further drive the convergence of environmental impact assessment methodologies on farms and to enable dairy farmers in our supply chain to better measure and mitigate their carbon impacts.

Optimizing our carbon footprint constitutes a mix of minimizing the carbon footprint of our factories, the carbon footprint of the energy we are using for the production of our products, as well as the carbon footprint of our transport activities and our non-cocoa ingredients. For example, 14 out of our 59 factories (24%) are powered by renewable energy.

In order to become forest positive, we first of all need to become deforestation-free. This will require us to work with sustainability certifications and standards – including our own sustainability program Cocoa Horizons – to develop systems that allow for credible proof of the deforestation-free claim. In 2017/18, we mapped 130,811 cocoa farms in our Katchilè database, to understand whether these farmers are located close to protected forest areas and therefore at risk of sourcing cocoa from protected forest areas. In addition, we require the suppliers of all our ingredients at risk of causing deforestation to implement equivalent approaches to guarantee that these commodities are free from deforestation.

Furthermore, we teamed up in 2017/18 with the Swiss Federal Institute of Technology (ETH) in Zurich to jointly develop a satellite based system that can monitor land use change and deforestation. This tool is the first of its kind looking to implement such an approach at a large scale, and once finalized, we will make its methodology publicly available. Most importantly, it will allow us to hold our suppliers accountable at a different level.

### Creating the movement

In order to define a structural solution to deforestation in the cocoa supply chain, and to achieve our Forever Chocolate target of becoming forest positive, many actors have to work together. This is why we were one of the driving companies behind the signing of the Cocoa and Forests Initiative Frameworks for Action, November 16, 2017, at the UN Climate Summit in Bonn, Germany. The goal of these frameworks is to eradicate deforestation from the cocoa supply chain in West Africa. The frameworks for action are truly unique, as there is no other commodity for which governments, industry and NGOs have come together to agree on concrete measures to eradicate deforestation. The frameworks include an end to the conversion of any forest land for cocoa production, a moratorium on the direct sourcing of cocoa from national parks and reserves per January 1, 2018, and the development of an action plan by signatory companies and governments to eliminate cocoa production and sourcing from national parks and reserves. In addition, the framework also envisions the development of alternative livelihoods for affected farmers. Many cocoa

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farmers have been farming in the forests for years, so alternative livelihoods have to be found for this group of farmers. Deforestation is as much a social problem in West Africa, as it is an environmental problem.

Furthermore, in June 2018 we signed a letter of intent with the Ivorian government on agroforestry to work with cocoa farmers in forests to find ways of balancing cocoa farming with a biodiverse environment.

### Our measured impact

The carbon footprint of our supply chain from farm to customer was 9.1 million tonnes CO<sub>2</sub>e in 2017/18. This is an increase of +10.6%, mostly due to a change in the weighing of the methane emissions associated with dairy production. For that same reason, our CO<sub>2</sub>e intensity per tonne of average products slightly increased to 4.45 tonnes (+2.3%) in 2017/18, despite our energy saving measures in factories and transport.

A part of the volume of raw materials that we source is at risk of causing deforestation. We have therefore created a heat map to provide an overview of the geographical footprint of these raw materials and their inherent risks. On the basis of this heat map, we have assessed which measures, such as traceability and farm mapping, have to be put in place, in addition to certification schemes, to be able to guarantee that the commodities are free from deforestation. On the basis of this first assessment 6% of all our raw material volume at risk of causing deforestation, can be considered proven to be free from deforestation. We will now put in place additional safeguards to ensure that the remaining volume of the raw materials we source which are at risk of causing deforestation, will be 100% proven to be deforestation-free by 2025.

Our first focus is to become deforestation-free for all our ingredients. In addition, we continue to search for partners who can support us in landscaping approaches to regenerate forests. For the moment, we cannot yet provide data on regenerated hectares of forests.

### Key Metric

The carbon footprint of our supply chain from farm to customer and number of hectares of forest regenerated

# 9.1

Million tonnes CO<sub>2</sub>e

### Data available 2018/19

Number of hectares of forest regenerated

### Enabling KPIs

# 4.45

CO<sub>2</sub>e intensity per tonne of product

# 6%

Raw materials at risk of causing deforestation proven to be deforestation-free

### Our commitment to the UN SDGs





Sustainable Chocolate



# Sustainable ingredients

### Our Goal

By 2025, we will have 100% sustainable ingredients in all of our products.

### Our Approach

Sustainable ingredients means that our chocolate can continue to be enjoyed by future generations, forever. This means that it is produced while ensuring regard for a biodiverse environment and the farming communities we and our suppliers work with.

We updated our supplier code, which details our expectations towards suppliers with regards to compliance with laws and regulations, human rights as well as environmental impact. Our supplier code now also contains requirements that we expect all our suppliers to comply with, as well as guidance for continuous improvement that helps suppliers to further improve. We also work with customers to support them in having equivalent discussions with their suppliers.

### Creating the movement

In 2017/18, we reviewed our sourcing policies with a third party, in order to establish which sustainability standards we should apply in order for our ingredients to be considered sustainable. Certification is for us a solid first indicator whether ingredients have been sourced sustainably. This does not prevent us from demanding additional safeguards in case specific commodities from specific countries are at risk of causing deforestation, or could include the worst forms of child labor. This is for example why we joined the Palm Oil Innovation Group (POIG). Building on the work of the Roundtable on Sustainable Palm Oil (RSPO), POIG has introduced additional sustainability criteria on palm oil production, such as no development of palm oil plantations in High Conservation Stock (HCS) areas or peat land and strict criteria to safeguard against gross labor and human rights violations. We have started to assess our palm oil suppliers against the stricter standards of the POIG. This is also why we joined the Cerrado Manifesto to prevent the further development of soy farms that destroy important grasslands in Brazil.

### Our measured impact

Of all the agricultural raw materials we are sourcing, 44% have been sustainably sourced. In 2017/18, we sourced 44% (2016/17: 36%) of cocoa beans through sustainability programs. This percentage includes our own Cocoa Horizons program, together with our customers' own programs and external certification such as UTZ Certified, Rainforest Alliance, Fairtrade and Organic. We sourced 44% (2016/17: 30%) of our non-cocoa agricultural raw materials sustainably. This includes the use of sustainability certification schemes for the respective ingredients.

#### Key Metric

44%

Percentage of agricultural raw materials sustainably sourced

#### Enabling KPIs

44%

of sustainably sourced cocoa beans

44%

of sustainably sourced non-cocoa raw materials

#### Our commitment to the UN SDGs

