

ANNUAL REPORT 2016

Next
Generation
CACAO
FOUNDATION

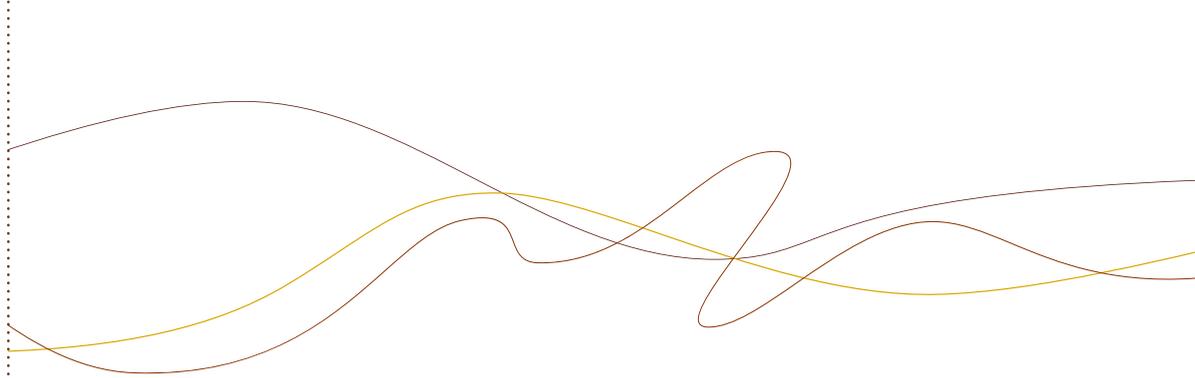
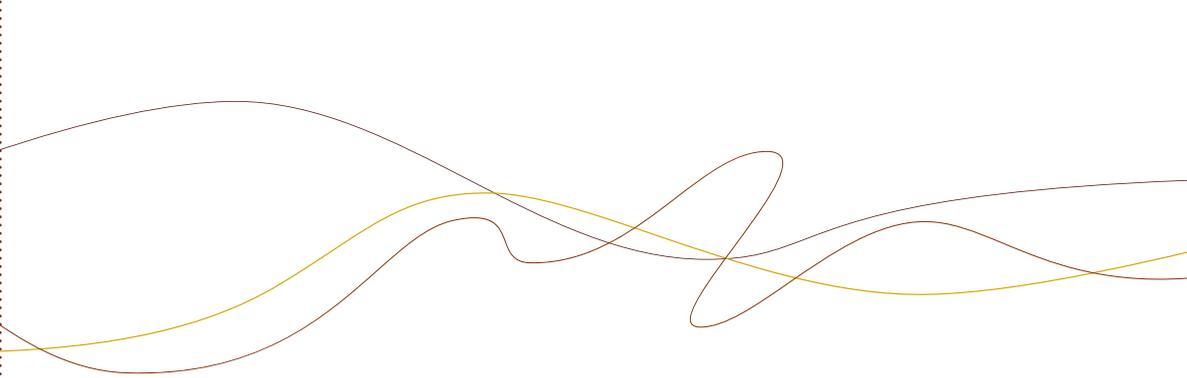


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INTRODUCTION

Chocolate's future depends on a sustainable supply chain.

Chocolate has been cherished for thousands of years, and those who love its flavour and taste are consuming more and more. Yet despite chocolate's growing popularity, environmental, social and economic challenges prevent many cocoa farmers from achieving sustainable livings.

At Puratos we are directly involved in this challenge. It is our belief that sustainability is a **win-win relationship** for every actor in the cocoa supply chain, from the farmers to the consumers. In 2013, Puratos' Board of Directors committed to an ambitious plan to reach 50% sustainable cocoa ingredients by 2020. By the end 2016, we achieved 20% sustainably sourced cocoa ingredients.

We call this long term commitment **Next Generation Cacao**. It encompasses all sustainable cocoa purchases from third party certifications (Fairtrade, UTZ, Rainforest Alliance, proprietary customer programmes), as well from our own sustainable chocolate programme, Cacao-Trace™.

Cacao-Trace™ stands for high quality, sustainable chocolate. It is a mutually-beneficial programme that builds upon the farmer's local knowledge and expertise and empowers them to be more productive and sustainable. By helping farmers increase the value of their cocoa, great tasting chocolate will be enjoyed for generations to come.

The **Next Generation Cacao Foundation** is the not-for-profit organisation behind the Cacao-Trace™ strategy. Founded in 2016, the foundation's mission is to contribute to the social, economic and environmental development of cocoa farmers and communities that are part of the Cacao-Trace™ programme. By increasing farmers' living income, farming will remain an attractive activity for them to pass on to their children, building a promising future.

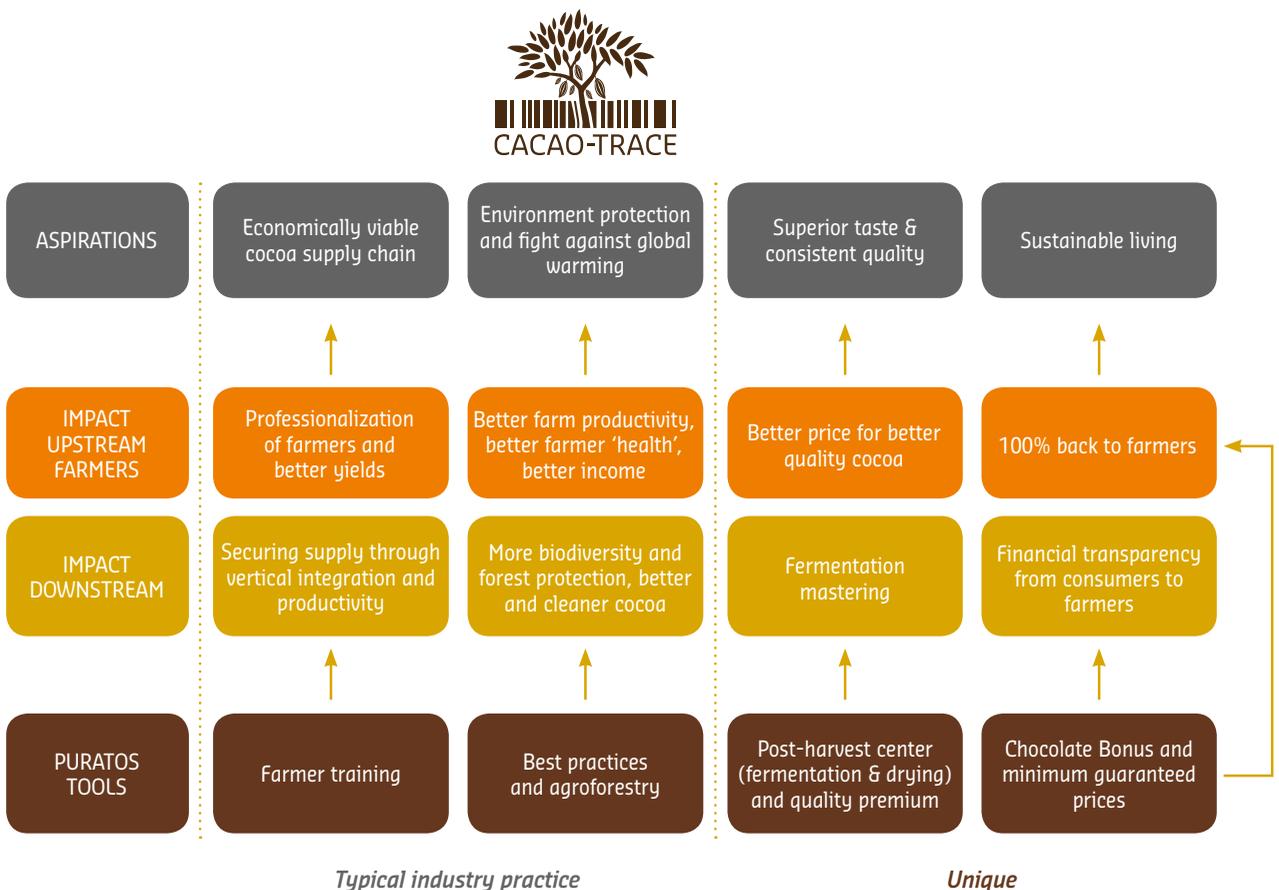
CACAO-TRACE™

Cacao-Trace™ is the trademark of our sustainable cocoa programme, which is active in Ivory Coast and Vietnam. It comprises all classical elements of sustainable certification programmes (training on best agricultural practices, environmental projects, etc.) and has two unique points:

1. **Taste** – in our exclusive post-harvest centres we master the fermentation of cocoa beans resulting in exceptional tasting chocolate;
2. **Sustainability** – we go a step further than other programmes by paying minimum guaranteed prices for cocoa beans and a unique “Chocolate Bonus”.

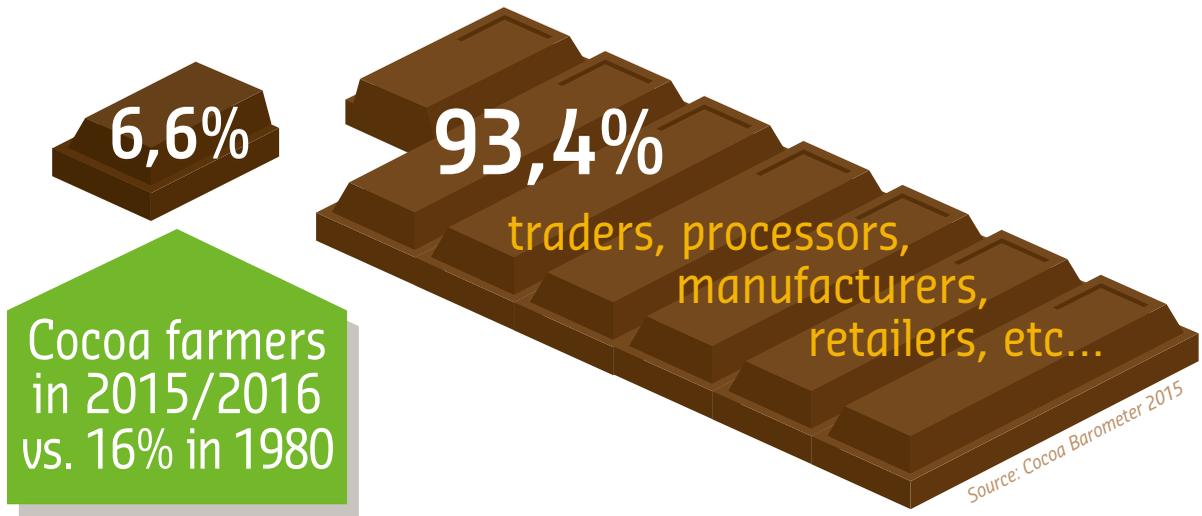
The combination of these activities ensures value creation and fair repartition through the supply chain, from Cacao-Trace™ farmers to our customers.

Cacao-Trace™ applies a holistic approach so that Puratos’ aspirations drive change and have a real impact for stakeholders:



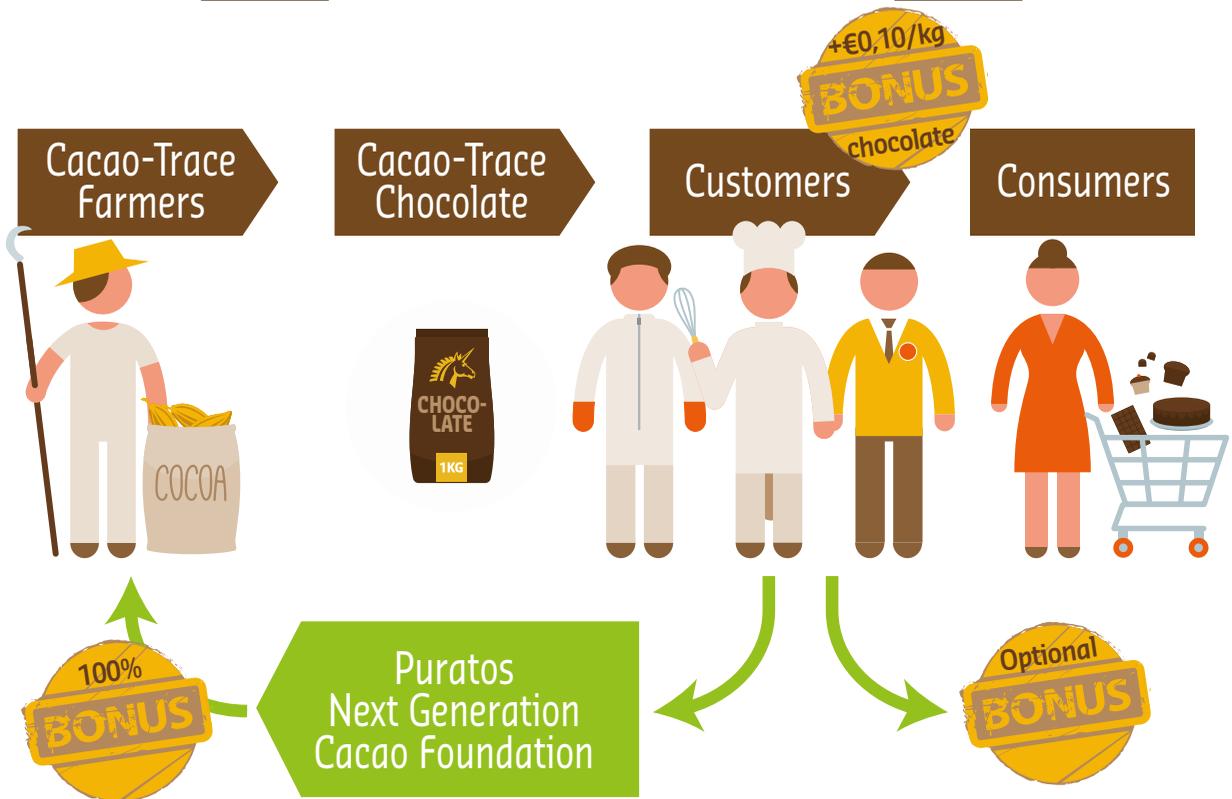
THE CHOCOLATE BONUS

There is paradox in the chocolate supply chain: farmers earn less and less for their cocoa beans yet customers are paying more and more for their chocolate. Increasing the productivity of the farms and paying higher premiums is not enough to break the negative cycle of poverty. We believe farmers should have a better share of the profits made on the chocolate, as they are the source of the raw materials.



The Chocolate Bonus is our way to share a bigger piece of the pie with cocoa farmers. When a customer buys Cacao-Trace™ certified chocolate, they directly support the Cacao-Trace™ communities by paying €0,10 per kilo of chocolate.

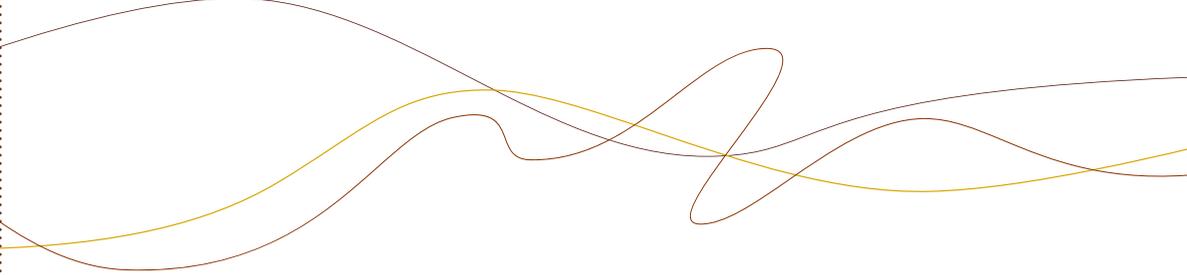
The Chocolate Bonus



★ Improving profit share ★

This payment scheme is simple and transparent: 100% of the Chocolate Bonus reaches farmers through the Next Generation Cacao Foundation, an initiative of the Puratos Group. The foundation was created to ensure the transparent collection and distribution of the Chocolate Bonus, a key element of the Cacao-Trace™ programme, and the foundation's main focus.

The Next Generation Cacao Foundation ensures financial transparency and the traceability of the collection of the Chocolate Bonus from the chocolate factories back to the Cacao-Trace™ communities. It is audited every year by a third-party auditor.



THE NEXT GENERATION CACAO FOUNDATION

At Puratos, we believe that making a contribution to society matters.

It is our commitment to the next generation.

The foundation's financing comes from different sources:

- Sales of certified sustainable Cacao-Trace™ chocolates where a Chocolate Bonus is included in the price to customers all over the world;
- Special fundraising events organised anywhere Puratos operates;
- Individual contributions;
- Special community projects funded by customers of Puratos;
- Government contributions..

In 2016, the Next Generation Cacao Foundation also initiated the process of incorporating a foundation in Ivory Coast to better structure the local activities. The incorporation will be finalised in the first semester of 2017. It shall follow the same objectives and decision making processes as the Belgian foundation.

NEXT GENERATION CACAO FOUNDATION IN IVORY COAST

Ivory Coast is the first cocoa producing country in the world with 1.791 million tons of cocoa produced in the 2015/2016 crop. Cocoa is a vital crop for the Ivorian economy, representing 15% of their GDP and more than 50% of the export value, 2/3 of employment and population income. The poverty rate in Ivory Coast is 42,7% (2008, World Bank) and life expectancy is 51 years old.

In Ivory Coast, cocoa farms are typically small and family-owned, with the land often passed on from one generation to the next. In the San Pedro region where Forastero cocoa is grown, the size of Cacao-Trace™ cocoa farms rarely exceeds three hectares (7,5 acres). Farmers work hard to keep their plantations clean, harvest twice a year, maintain soil fertility and, when needed, prune or replant their cocoa trees. They also grow vegetables and rice for food. Ivorian farmers who have more land often combine cocoa farming with or other cash crops such as rubber.

The reality is that most cocoa farmers live in destitute poverty in Ivory Coast with 0,50\$/day (cocoa barometer 2015) which is under the extreme poverty rate fixed by World Bank (2\$/day). There are various reasons for this; low and fluctuating cocoa prices, lack of farmer organisation and market power, the small size of farms, uncertainty of land tenure, sharecropping, low productivity, lack of infrastructure and access to market and market information. This poverty is a driving cause for many related problems, including poor working conditions, (the worst forms of) child labour and trafficking, illiteracy and malnutrition. It is, therefore, no surprise that younger generations are leaving cocoa farming all together; at present cocoa simply does not provide the possibility of a living income for farmers and their families.

Puratos has a tripartite partnership between our partner Cémoi, a French chocolate maker involved in the management of Cacao-Trace™ programme and bean processing, and ECSP, a cooperative of farmers in the region of San Pedro. Our partners benefit from our technical support and training, environmental projects and premium prices.



Some 2016 highlights:

- 1.710 tons of cocoa purchased from approximately 2.400 farmers;
- 766 farmers participated in 112 farmer field schools given by 8 trainers in the different communities;
- 160 farmers were selected to be coached – they will benefit from a deeper technical support from our team for the implementation of best practices on their farms;
- 5.000 seedlings distributed for farm rehabilitation – replacing older trees with low productivity.

Implementation of the Chocolate Bonus in Ivory Coast

The Chocolate Bonus will be implemented in Ivory Coast when the launch of the new Belcolade products takes place (planned for 2017). The foundation will focus on funding projects to improve the living conditions of cocoa farmers, according to their most urgent needs.

A shortlist of projects is under evaluation for the communities where we buy cocoa:

- Scholarship toolkits;
- Boys and girls latrines in schools;
- Equipment for classroom such as tables and benches;
- Water filter for children and teachers in the existing schools.

Other more long-term projects are also under evaluation. One such project is a literacy initiative for men and women, a much needed skill to invest in their future and their families. These long-term projects would fit with existing methodologies with proven track record of local and international NGOs.

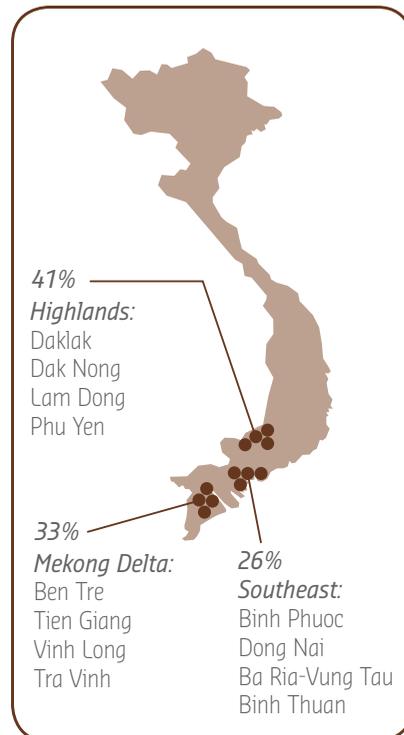


NEXT GENERATION CACAO FOUNDATION IN VIETNAM

Cocoa production in Vietnam is more recent (around 10 years) and the total production amounts to 2.500 tons. Puratos Grand-Place Indochina (PGPI) bought 40% of the crop in 2016, so we are the first buyer at national level. The poverty rate in Vietnam is 17,2% (2012, World Bank) and life expectancy is 76 years old.

Vietnamese farms often mix cocoa with coconut or local fruits trees such as logan, durian and pomelo. Vietnam's local cocoa variety, Trinitario, comes from the Mekong Delta as well as the Highlands and Southeast regions. These regions combine a good climate with fertile soils. Fruit is harvested between March and May and then again from October to December. Like other cocoa-producing countries, plantations in Vietnam are small and family owned and require year-round care. In many cases, Vietnamese farmers can supplement their farming income with other work when cocoa is not in season, as their farms are often less remote.

Since 2014, PGPI has been involved in the Cacao-Trace™ programme, managing a cocoa post-harvest centre in Ben Tre, Mekong Delta, as well as a Cocoa Development Centre. Our team is involved in the purchase of beans, fermentation, drying, exportation of the well fermented beans and all training activities.



Some 2016 highlights:

- We purchase from approximately 2.400 farmers and a "Collection group", a business based group made of several farmers and their consolidator (fermenter or collector);
- Over 3.000 individual farmers participated in our field trainings, focusing on best practices & productivity of their farms (pest and control, pruning, nutrition programme);
- We work with a system of demonstration farms (7 in total), where all best practices are implemented. In terms of credibility it's important that farmers can appreciate the expected impact of the methodology we teach them in our training curriculum;
- We launched an awareness-raising programme on health and environment, for better management as well as a first post-harvest manual to further facilitate knowledge sharing;
- PGPI invested in equipment to several post-harvest partners to facilitate the implementation of best practices, such as fermentation boxes and drying equipment which are key elements to achieve premium quality.

Implementation of the Chocolate Bonus in Vietnam

Vietnam is a country in fast transition. Basic needs are being fulfilled in the cocoa regions (schooling, health access, clean water etc....) That is why the Next Generation Foundation and PGPI organise the re-distribution of Chocolate Bonus in “cash back” to farmers and consolidators. The Chocolate Bonus is based on \$170/ MT of dry bean delivered to PGPI. It's a strong incentive for farmers to deliver more to Puratos and to implement our best practices training. This amount was calculated as an equivalent to the €0,10/kg chocolate for a dark chocolate 60% cocoa.

After a pilot year in 2015, 2016 is the first full year implementation. Eighty percent of farmers are part of the programme so far. The cash distribution takes place 2 to 3 times per year in the presence of farmers, the Puratos team and the auditors. To ensure the best possible accountancy we have a traceability system with the list of farmers who benefit from the Chocolate Bonus linked to the volumes they delivered.

The Chocolate Bonus distribution

The distribution of the Chocolate Bonus benefited 2.218 farmers and collectors and represented a total of \$136.235. The table below provides the details per area.

Regions	Number of farmers	Chocolate Bonus distribution (USD)
Mekong Delta	1.025	43.128
South East	478	28.010
<i>Binh Phuoc</i>	213	11.703
<i>Dong Nai</i>	162	8.625
<i>Ba Ria-Vung Tau</i>	103	6.682
Highlands	715	66.097
Total	2.218	136.235

Evaluation

After one year of implementation, the Chocolate Bonus programme has been received positively. The distribution creates excitement and is always an additional opportunity for the collection group to meet, discuss and consolidate.

Generally speaking, we observe a significant increase in the Chocolate Bonus distributed in 2016 versus 2015 trials. This can be explained the willingness of collectors to participate more actively in the programme, thus reaching more farmers.

Moreover, the productivity generally increased in the Mekong Delta where we see a diminution of cocoa surface but still a consistent production in terms of volume. In this region, the average density of cocoa trees is low (400 trees per Hectare) thus the Chocolate Bonus can reach \$80/Hectare. In the Northern and South East provinces, there are more mono-cropping farms of 1.000 trees per hectare with a potential to reach a Chocolate Bonus of \$200/hectare.

In both regions there is still room for positive impact for farmers: the better they apply our productivity training the more they will collect, the more they collect and deliver to Puratos, the more Chocolate Bonus they will be paid.



Other projects funded for Vietnam

The Next Generation Foundation also funded cocoa trees seedlings thanks to a fundraising event which took place during the Puratos Business Development Seminar in June 2016. More than 200 employees from all Puratos subsidiaries attended.

The fundraiser sold chocolate bars made with Belcolade Origins Vietnam Dark and Milk Cacao-Trace™ chocolate(70g). Each bar cost € 5 and individual contributions were also welcomed.

In total, €4.600 was raised in 3 days, representing 15.600 seedlings that will be planted in June 2017 distributed across 4 provinces:

- In Mekong Delta: provinces of Vinh Long, Ben Tre and Tien Giang;
- In the Highlands region, the Eakar province.



FUTURE DEVELOPMENT

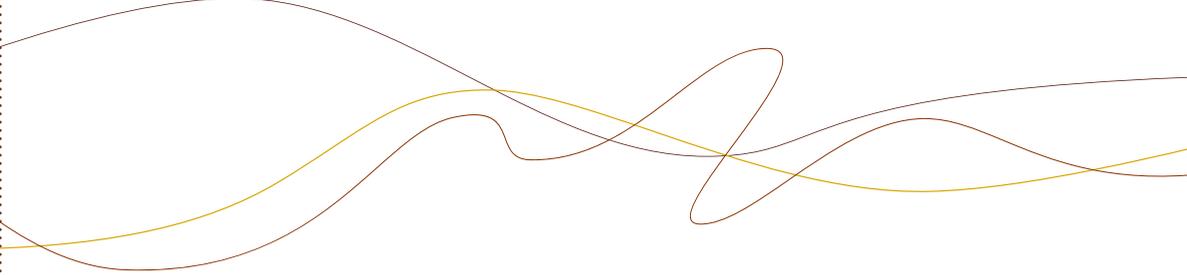
The Next Generation Foundation is expected to collect more and more Chocolate Bonus from the sale of Cacao-Trace™ certified items in the years to come. We expect to improve farmer's lives even more by financially supporting community projects.

In 2017, Cacao-Trace™ will start in the Philippines, where approximately 2.000 farmers will benefit from our programme. Philippino cocoa farmers will receive cash contributions, similar to the structure of the Vietnamese programme.

A pilot project will start in Ghana and Papua New Guinea to grow our footprint and have a positive impact on more farming communities in diverse countries.

Additional developments include a portfolio of community projects which we can propose to customers who would be interested going beyond paying the Chocolate Bonus. These customers would be given the opportunity to fund meaningful projects for the communities that grow the cocoa they use in their chocolate, such as social initiatives (gender, literacy, education, health, ...) or environmental initiatives (forest protection, reforestation, ...).

We strive to make long-term positive contributions in the countries where we are active.



GOVERNANCE

The Next Generation Cacao Foundation VZW/ASBL is an initiative of the Puratos Group, with worldwide headquarters in Groot-Bijgaarden, Belgium.

The Next Generation Cacao Foundation VZW/ASBL was established on 6 June 2016 by three founding members, all directly or indirectly associated with the Puratos Group:

- Puratos Group NV
- Puratos NV
- Choco-Story NV

Object

The object of the Next Generation Cacao Foundation is as follows:

- Contributing to the social, economic and ecological sustainable development of disadvantaged producers and workers in developing countries, more specifically cacao producers, their families and subsequent generations;
- Promoting the concept and practice of fair trade;
- Assisting all other good works and welfare works, without any distinction, and in particular contributing to and promoting sustainable cacao farming and related local development aid;
- The specific activities through which the object of the Association is achieved include, among others: establishing and participating in similar non-profit associations at home and abroad, providing financial support for cacao producers, improving their living conditions and providing schooling for their children.

The object of the Association can only be amended by a majority of four-fifths of the votes of the working members of the Association.

Members

Any person who supports the object of the Association may apply to become an associate member. The Board of Directors will take a discretionary decision on such applications for associate membership.

Any person who supports the objectives of the Association, whether or not as an associate member, may, on the proposal of at least two members, be accepted as a working member by decision of the general meeting taken with a majority of three-quarters of the votes cast.

The general meeting comprises all working members. All working members have the same voting rights; each working member has one vote.

Associate members may participate in the meeting in an advisory capacity.

Working and associate members pay the same annual membership fee. The amount of this fee is determined by the general meeting. This may never exceed five hundred (500) euros.

In June each year the Board of Directors submits the financial statements for the previous financial year, together with the budget for the following financial year, to the general meeting for approval.

At this general meeting an explanation is also given of how the Association has contributed towards its objectives.

Board of Directors

The Association is managed by a Board comprising at least three members, elected by the general meeting for a term of three years. The directors may or may not be members of the Association, and may be removed at any time by the general meeting.

The Board of Directors manages the Association, is ultimately responsible for day-to-day management and for implementing its programmes and activities, and represents the Association in legal proceedings.

On average, the Board of Directors meets every quarter to discuss the activities and future strategy of the Next Generation Cacao Foundation. Directors with a conflicting proprietary interest must abstain.

Since establishment, the Board of Directors has met on 4th November 2016 and 10th April 2017.

From its establishment and throughout 2016, the Board of the Association consisted of the following persons:

- Chairperson: Cédric Van Belle, Director at Choco-Story NV
- Secretary: M-A. Ormières, Senior Cocoa Manager at Puratos
- Treasurer: J-P. Michaux, Financial Director at Puratos
- Ordinary director: C. Ouwerx, Director Business Unit Chocolate

The members of the Board of Directors are authorised to commit the Association validly, by at least two Board members, in compliance with the Articles of Association.

The directors are assisted in their task by the following volunteers:

- Communication: M-A. Ormières, Senior Cocoa Manager at Puratos
- Legal and fiscal support: M. Smet, in-house tax lawyer at Puratos
R. Straetmans, Legal and Tax Director at Puratos
- General administrative support: J. Segers, Assistant CFO at Puratos
- Financial support: L. Thomé, Corporate Controller at Puratos

The directors and these volunteers were chosen for the diversity of their experience and knowledge. The presence of representatives of the Puratos Group ensures that the philosophy of the founders is upheld.

Neither the Board members nor the volunteers receive any remuneration.

The accounting of the Next Generation Cacao Foundation is outsourced to the accounts department of Puratos. The latter does not receive any remuneration for this service.

FINANCIAL REPORT

Next Generation Cacao Foundation

in EUR		Belgium (Africa)	Vietnam (Asia)	Total
Balance sheet				
Liabilities		6.608	8.366	14.974
	Donations to be done	4.608	8.366	12.021
	Overheads	2.000		2.000
Assets		6.608	8.366	14.974
	Donations to be received	2.000		2.000
	Cash	4.608	8.366	12.021
Income statement				
Donation received and to be received		6.608	123.089	129.697
	Chocolate Bonus	-	123.089	123.089
	Others (net)	6.608	-	6.608
Donations done		0	(114.724)	(114.724)
	Chocolate Bonus to farmers	-	(114.724)	(114.724)
	Others	-	-	0
Overheads		(2.000)	0	(2.000)
Operating result		4.608	8.366	12.974

