

Next
Generation
CACAO
FOUNDATION

ANNUAL REPORT 2018

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INTRODUCTION

We believe in a fair compensation for cocoa farmers.

Chocolate has been appreciated for decades and the number of aficionados of its flavour and taste is constantly growing. Yet despite the increasing popularity of chocolate, several small cocoa producers cannot make a decent living because of environmental, economic and social challenges.

At Puratos Belcolade, we are directly involved in this challenge. We think that sustainability is a win-win relationship for every player in the cocoa supply chain, from farmer to consumer.

We call that the commitment to the Next Generation Cacao for the long term. It comprises all purchases of sustainable cocoa from programmes certified by third bodies (Fairtrade, UTZ, Rainforest Alliance, programmes specific to the clients), as well as our own sustainable chocolate programme, Cacao-Trace™.

Cacao-Trace™ is the name of the sustainable cocoa supply programme of Puratos Belcolade. It has a double objective: to enable farmers to produce superior quality cocoa beans and ensure that cocoa production remains an attractive line of business for the future.

The Next Generation Cacao Foundation is the non-profit organization behind the Cacao-Trace™ programme. The mission of the Foundation created in 2016 is to collect the “Chocolate Bonus” so as to contribute to the social, economic and environmental development and to redistribute it to the cocoa farmers and communities which are part of the Cacao-Trace™ programme.

If the income of farmers increases, cocoa farming will continue to be an attractive line of business for them to pass down to their children so as to guarantee a promising future.

CACAO-TRACE™

Cacao-Trace™ is the sustainable cocoa supply programme of Puratos Belcolade. Whereas the chocolate industry tends to stress quantitative results more, our programme is interested essentially in quality, by creating value for all by improving the flavour / taste.

Expertise in fermentation at post-harvesting stations situated in cocoa producing countries throughout the world is the secret of our chocolate with its unrivalled taste so highly appreciated by chocolate connoisseurs. It is also a source of additional income for cocoa farmers.

By involving consumers and convincing them to pay a higher price for a better product, we share this advantage with our communities of Cacao-Trace™ farmers by paying a quality premium as well as an altogether unique Chocolate Bonus: for every kilo of chocolate purchased, €0.10 is paid directly to the farmers with whom we work.

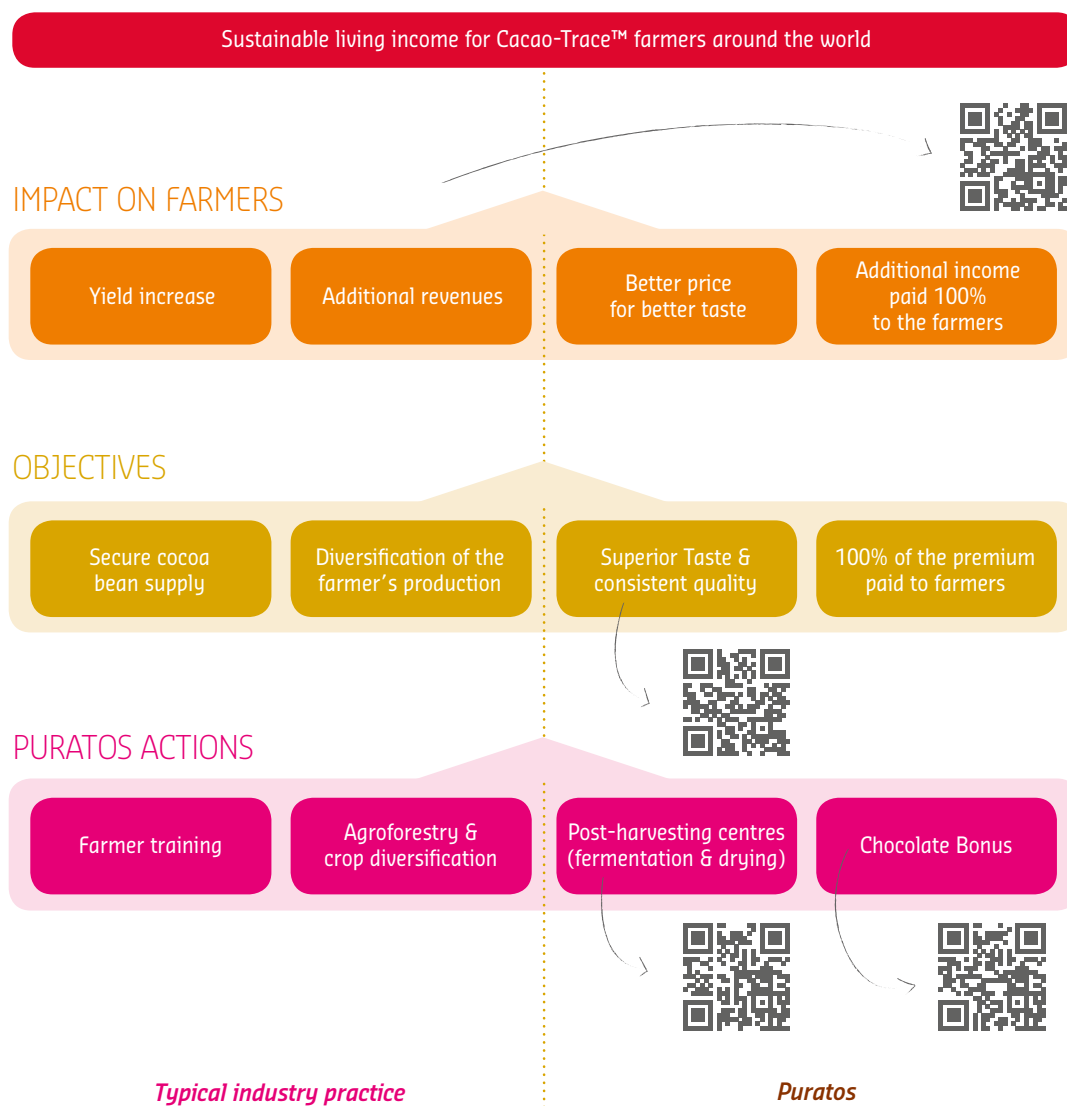
We apply a complete transparency:
€0.10 collected = €0.10 distributed.

It is only by creating more value thanks to an improved taste and by sharing this added value with our Cacao-Trace™ farmers that we will be able to improve the means of subsistence for cocoa farmers and create a sustainable future for the industry.

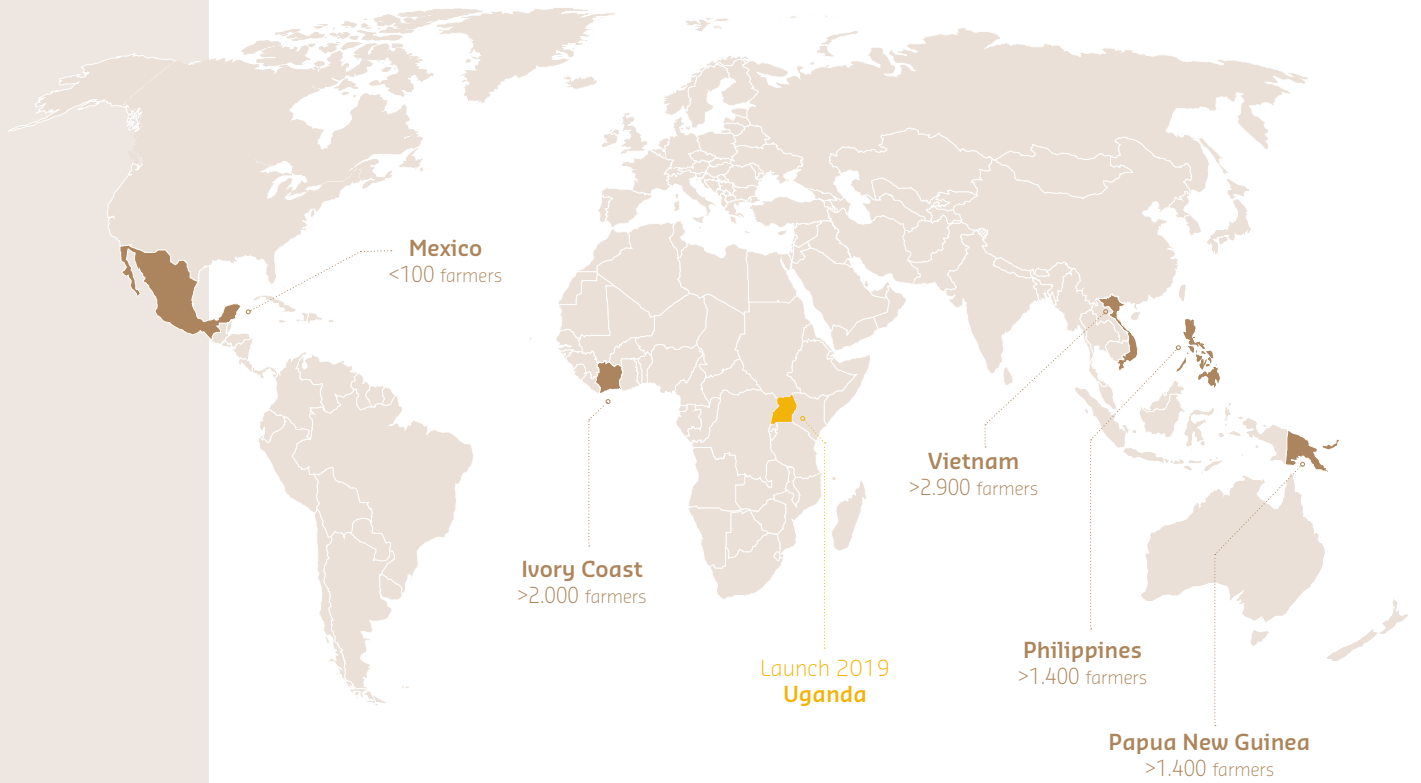


How Puratos Belcolade stands out

Cacao-Trace™ chocolate is prepared from a Cacao-Trace™ cocoa paste stemming from beans that have been dried and fermented according to strict instructions.



We are currently deploying the Cacao-Trace™ initiative in Vietnam (2013), in Ivory Coast (2015), in the Philippines (2017), in Mexico (2018) and Papua New Guinea (2018).



NEXT GENERATION CACAO FOUNDATION

At Puratos Belcolade, we think it is important to contribute to the society in which we live. It is our commitment to the next generation.

The Next Generation Cacao Foundation supervises the collection and redistribution of donations and chocolate bonuses. The foundation's operating costs are covered by a donation from Puratos, as well as the the financing of the certification costs and charges, which guarantees that 100% of the donations and chocolate bonuses go to the communities of Cacao-Trace™ farmers.



The foundation's funds stem from different sources:

- Sale of Cacao-Trace™ chocolates certified sustainable with a Chocolate Bonus included in the price paid by customers practically everywhere in the world;
- Special fund raising events organized in all locations where Puratos is present;
- Individual contributions;
- Special municipal projects financed by Puratos customers;
- Governmental aids.



CACAO-TRACE™ IN IVORY COAST

West Africa has been the epicentre of cocoa cultivation in the last sixty years. Today, this geographic area produces more than 70% of the global offer, and Ivory Coast is the world's leading cocoa producing country with 2.2 million tonnes produced in 2017/2018. Cocoa is a vital crop for the Ivorian economy: it accounts for 15% of its GDP, more than 50% of its exports, and 2/3 of the jobs and income of the population. The poverty rate is 42.7% (2008, World Bank) and life expectancy is 51 years.

In Ivory Coast, cocoa farms are generally small family operations, where the cumulated plantations cover more than one million hectares, but the average area is between 2 and 5 hectares. In the San Pedro region, where the Forastero cocoa is grown, the average size of the farms affiliated with the Cacao-Trace™ rarely exceeds three hectares. These small farmers face many social, economic and environmental difficulties: lack of educational facilities and its corollary, child labour in its worst forms, the infertility of the soil and low level of productivity, poor farming practices and bad management of bean quality, the ageing of cocoa trees, extensive deforestation which leads to a drop in rainfall and longer dry seasons... All these difficulties cause rampant poverty in the cocoa farming communities. Small farmers live with less than \$0.78 dollar a day (cocoa barometer 2018), which is lower than the extreme poverty level fixed by the World Bank which is \$2 per day, to such an extent that the current farmers, who have come to the end of their life expectancy, do not see the young generation show an interest in cocoa growing. In the face of these many challenges, initiatives that include farmers, cocoa and chocolate companies and the public authorities concur on the need to redirect cocoa farming towards a sustainable agricultural production that enables farmers to earn a decent living.



In 2014, Puratos entered into a partnership with an organization of farmers from the San Pedro region through the Entreprise Coopérative de Saint Paul (ECSP) – a partnership for the implementation of the Cacao-Trace™ sustainability programme. The aim of this programme is to create value for all by improving quality continuously, in particular taste. Because it is by creating value and by sharing this added value that we will be able to improve the income of cocoa farmers and their living conditions considerably, and thus create a sustainable cocoa chain by extension. The farmers who participate in the Cacao-Trace™ programme benefit first from support to build their capacities for better farming practices, then from a quality premium and finally from a Chocolate Bonus. Whereas such training can help increase the yield, and therefore the revenue of the producer, for which the quality premium is added, the Chocolate Bonus is another means to enable producers to obtain additional income. The Chocolate Bonus is also a bridge between producers and the chocolate makers who pay the Chocolate Bonus. Because for each kilo of Cacao-Trace chocolate sold by Puratos to chocolate makers, the latter pay the equivalent of CFA F 65 (€0.10) for the benefit of the community.

Highlights in 2018:

- 4,318 tons of cocoa beans were purchased from the ECSP cooperative.
- A first part of the quality premium for CFA F 156,601,350 (€240.771) was paid to the cooperative and to the beneficiary producers.
- A Chocolate Bonus for an amount of CFA F 38,724,000 (€59.603) was paid to the producers for a community project. This Chocolate Bonus will be used to build a primary school.
- Financial support of CFA F 95,145,872 (€146.378) was provided to ECSP to implement activities under the Cacao-Trace™ programme.
- 730 producers underwent individual coaching to adopt and apply the best farming practices, particularly in order to improve quality, with emphasis on fermentation.
- 4,000 young plants of shade trees were distributed to cocoa producers for the agroforestry programme.



CACAO-TRACE™ IN VIETNAM

Cocoa production in Vietnam is more recent (it will be some 20 years soon) and amounts to a total of 2,000 tons. Puratos Grand-Place Vietnam (PGPI) purchased 50% of the harvest in 2018, making Puratos the number one buyer at national level. The poverty rate in Vietnam is 9.8% (2016, World Bank) and life expectancy is 76 years.

The Vietnamese farms often mix cocoa trees with coconut trees or local fruit trees, such as the longan, durian and pomelo. There is a local Vietnamese cocoa variety, the Trinitario, in the Mekong Delta region, as well as in the high plateaus and the south-east. These regions combine a favourable climate and fertile soils. The fruits are harvested between March and May, then again between October and December. As in other cocoa producing countries, the plantations in Vietnam are small, family owned and run, and require care throughout the year. Very often, Vietnamese farmers supplement their income from farming through other jobs in the cocoa off season.

PGPI has been involved in the Cacao-Trace™ programme since 2014, by running a cocoa post-harvest centre at Ben Tre, in the Mekong Delta, as well as a cocoa development centre. Our team is committed to the acquisition of beans, the fermentation, drying and exporting of well fermented beans and in all training activities.

Highlights in 2018:

- PGPI bought cocoa from ca. 2,942 farmers through a network of more than 100 “harvest groups,” i.e. groups of several farmers and their consolidator (fermenter or harvester).
- 1,500 individual farmers attended training in the field geared to good practices and productivity. The programme is based on the effective results of 7 reference Cacao-Trace™ farms. In 2018, the emphasis was on individual coaching.
- 1,500 farmers took part in training reasonable pricing geared to capacity building and to improving price transparency in the supply chain.
- 7 farmers took part in a closed loop agricultural project. The project focuses on a sustainable cocoa production system that involves stockbreeding.
- Puratos conducted a feasibility study to launch an agroforestry and carbon neutralization programme in Vietnam as of 2019 for 286 hectares in order to strengthen its environmental action.

Implementation of the Chocolate Bonus in Vietnam

As in previous years, the Chocolate Bonus was distributed by means of a cash back method (directly to the farmers). As the entire volume harvested in Vietnam goes into Cacao-Trace™ finished products, a guaranteed bonus of USD 170 / MT of dried beans delivered to PGPI is paid to the beneficiaries of the programme once or twice a year. This amount is translated into a bonus of €0.10 per kg of chocolate.

The distribution is carried out by PGPI representatives in accordance with the rules of the Next Generation Cocoa Foundation. The Chocolate Bonus traceability system is checked by an auditor from outside Puratos Belcolade.

Distribution of the Chocolate Bonus

The table on page 18 summarizes the distribution of the programme in 2018. 2,942 farmers and pickers benefited from the programme in the country. A total of €107,755 was due for the entire year. We noted that it had not been possible to distribute €58,872 of this amount; it will be paid during the next distribution in 2019 (see page 19 for more detailed information).





CACAO-TRACE™ IN THE PHILIPPINES

At the end of a development phase of the 1 ½ - year programme in the southern province of Mindanao in 2017, Puratos concluded a strategic partnership with Kenner Foods, an agri-foodstuff company based in the Philippines and geared to the sustainable development of cocoa production on the Island of Davao.

The history of cocoa in the Philippines goes back to the 16th century, when it was introduced by the Hispano-Mexican governors. The production has remained limited in the country and meets mainly the national consumption needs.

Kenner Foods instigated the revival of the supply chain by providing innovative financing modes and fixing clear results for coconut producers in Davao. Cocoa is now interposed with other crops and is spreading rapidly on the island.

Puratos is currently investing in 3 fermentation centres, the third of which will be built in 2019, and is committed to the local communities through the implementation of the Cacao-Trace™ programme. This development comprises also the implementation of the Chocolate Bonus.

Highlights in 2018:

- PGPI bought cocoa from about 1,400 farmers from the environs of Calinan and San Isidro, where all the farmers sold raw cocoa beans to the post-harvest centre of Kenner.
- 520 individual farmers took part in training in the field geared to best practices and productivity, the rehabilitation of cocoa and farm management plans. The programme is based on the expertise of Kenner and the system followed in the Philippines.
- 2 Cacao-Trace™ post-harvest centres in partnership with Kenner benefited from support for continuous improvement and monitoring to attain a superior quality.
- PGPI conducted a feasibility study aimed at launching an agroforestry and carbon insetting programme on the Island of Davao on 510 hectares as of 2019 to strengthen its environmental activity.
- A specific R&D programme is underway to assess and disseminate the varieties of cocoa obtained by cloning with high aromatic potential.

Implementation of the Chocolate Bonus programme in the Philippines

The Chocolate Bonus programme started in January 2017 by the implementation of the farmer selection and volume traceability system. The Chocolate Bonus is distributed to the farmers in the country by means of the Cash Back method.

As the entire volume harvested in the Philippines goes into Cacao-Trace™ finished products, a guaranteed bonus of USD 170 per MT of dried beans delivered to Puratos Belcolade is reserved for the beneficiaries of the programme once to twice a year. This amount is equivalent to €0.10 per kg of Cacao-Trace chocolate sold.

The distribution is carried out by Kenneker Foods with the support of PGPI representatives in accordance with the rules of the Next Generation Cacao Foundation. The Chocolate Bonus traceability system is checked by an auditor from outside Puratos.

Distribution of the Chocolate Bonus in the Philippines

The table on page 18 summarizes the results of the programme in 2018. 1,465 farmers and pickers in the country benefited from the distribution of the Chocolate Bonus for a total of USD 26,497, an amount which covered the remaining volume of 2017. €53,573 are due for the entire 2018 year and will be paid at the next distribution in 2019 (to be scheduled).

See the table on page 18 to obtain more detailed information on the Chocolate Bonus.



Assessment of the Chocolate Bonus programme in the Philippines

In 2018, a relatively high number of farmers were selected to take part in the Cacao-Trace™ programme. Puratos nonetheless bought quite limited volumes (375 MT), so that the amount of the Chocolate Bonus distributed per individual farmer remains limited at this stage.

Nevertheless, the deployment of Cacao-Trace™ and the Chocolate Bonus programme in Calinan and San Isidro was welcomed very warmly by the local communities: It is the first sustainable programme ever deployed in the region to date. The long-term investment policy inspires confidence in the communities of farmers, as the latter tend to be more inclined to invest in their plantations. The Cacao-Trace™ pricing policy and the Chocolate Bonus are seen as a serious advantage compared with the conventional market.



CACAO-TRACE™ IN PAPUA NEW GUINEA

At the end of a development phase of the programme, Puratos entered into a strategic partnership with Olam Cocoa at the end of 2017 to improve the means of subsistence of cocoa farmers and their communities by focusing on improving quality.

A member of the OLAM group, Outspan, has been operating in Papua New Guinea since 2000 and has acquired serious expertise in the management of the cocoa supply chain.

Outspan was selected as a local partner to implement the Cacao-Trace™. In fact, the ideas for development advocated by Cacao-Trace™ correspond in large measures to the Olam Livelihood Charter.

The history of cocoa in Papua New Guinea started in the 20th century during the colonial period. Production increased in the 1990s, reaching a production peak of some 50,000 tons. The harvest has decreased considerably as of 2010, mainly due to the havoc wreaked by the cocoa moth. In 2018, the harvest rose to 40,000 tons.

The controlled Cacao-Trace™ programme (certified to be organic) was started in 2018 in the region of East Sepik.

Highlights in 2018:

- Puratos bought cocoa from ca. 1,400 farmers from the East Sepik region.
- Puratos has invested in ca. 130 small post-harvest centres by installing driers in the sun with individuals from the community.
- Young plant distribution programmes are under way (20,000 units) and are accompanied by training and monitoring practices.
- Around 2,000 individual farmers have taken part in training in the field geared to best practices and productivity, the rehabilitation of cocoa and farm management plans.
- PGPI conducted a feasibility study aimed at launching an agroforestry and carbon insetting programme in the region of East Sepik on 1,160 hectares as of 2019 to strengthen its environmental activity.
- A specific R&D programme is underway to assess and disseminate the varieties of coca obtained by cloning which have a high aromatic potential.

Implementation of the Chocolate Bonus programme in Papua New Guinea: the Chocolate Bonus programme is expected to start in 2019.

OUTLOOK

In the years to come, the Next Generation Cacao Foundation is expected to collect an increasingly more substantial bonus from the sale of Cacao-Trace™ certified products. We hope to improve the life of farmers further by providing financial support for the community projects.

In 2018, the Cacao-Trace™ initiative was certified for the first time in Papua New Guinea and launched in Mexico. We are moreover continuing our expansion in Africa with 2 new projects in Cameroon and Uganda in 2019. Additional initiatives include a portfolio of community projects that we can propose to Puratos customers who would be interested in the idea of going beyond the payment of the Chocolate Bonus. These customers would have an opportunity to finance useful projects for the communities that grow the cocoa that Puratos Belcolade uses in its chocolate, such as social (literacy, education, health, etc.) or environmental initiatives (forest protection, reforestation, etc).

For its part, Puratos is going to launch an important agroforestry project for the long term in its cocoa sectors in 2019 to increase the income of the planters and help them reduce the environmental risks they face (soil impoverishment, climate change, etc.). **We are keen to make positive contributions in the long term in the countries in which we operate.**

Puratos Grand-Place Vietnam launched the first crushing and roasting line for a Cacao-Trace™ in August 2018. This facility is the first of its kind to have been launched by the Puratos group, and this investment is in line with our leadership strategy in terms of taste, and is essential for the development of the flavours of tomorrow.



GOVERNANCE

The Next Generation Cacao Foundation is an initiative of the Puratos group, with global headquarters in Grand-Bigard, Belgium.

The Next Generation Cacao Foundation was created by three entities, all associated with the Puratos Group:

- Puratos Group SA
- Puratos SA
- Choco-Story SA

Object

The object of the Next Generation Cacao Foundation is to:

- Contribute to the sustainable social, economic and ecological development of underprivileged farmers and workers in developing countries, and more specifically cocoa farmers, their families and future generations;
- Promote the concept and practice of fair trade;
- Help and promote in particular the sustainable cocoa production and contribute to local development in developing countries;
- Engage in specific activities for the attainment of the object of the Foundation, in particular: establish and participate in similar non-profit associations in developing countries and provide financial support to cocoa farmers by improving their living conditions and schooling their children.

Board of Directors

The members of the Board of Directors are appointed unanimously by the founders for a term of office of three years maximum. They are eligible for re-election.

The Board of Directors is authorized to carry out, within the limits of the law, the object and articles of association of the foundation, such actions as useful and necessary to achieve the foundation's objectives.

The Board of Directors is also vested with powers to decide on behalf of the foundation with regard to the creation, participation, collaboration or cooperation with similar non-profit foundations, organizations, institutions or entities in developing countries.

The Board of Directors may be assisted by advisors, who support the foundation's object and its activities.

The Board of Directors meets on a six monthly basis on average to discuss the activities and future strategy of the Next Generation Cacao Foundation.

Since being established, the Board of Directors has met on 4 November 2016, 10 April 2017, 19 October 2017, 13 March 2018 and 18 December 2018.

Since it was established, the Board of Directors has been composed of the following persons:

- Chairman: Cédric Van Belle, Manager of Choco-Story SA
- Secretary: Youri Dumont, Manager of the chocolate division at Puratos
- Treasurer: J-P. Michaux, Financial Director at Puratos

The Board of Directors is authorized to bind the Association validly, subject to the signature of at least two of its members, in accordance with its articles of association.

The Board is assisted in their tasks by the following volunteers:

- Communication: Sylvestre Awono, Real Chocolate Product Manager at Puratos
- Legal and tax support: M. Smet, internal tax lawyer at Puratos
R. Straetmans, Group Legal & Tax Director at Puratos
- Financial support: L. Thomé, Commercial Business Controller at Puratos
- Administration: L. Van Ginderdeuren

The Board and these volunteers were chosen for the diversity of their experience and for their knowledge. The presence of representatives of the Puratos group guarantees respect for the philosophy of the founders. Neither the members of the Board of Directors, nor the volunteers are remunerated in any way. The accounting of the Next Generation Cacao Foundation is entrusted to the accounting department of Puratos.

FINANCIAL REPORT

in EUR '000			
Assets		Liabilities	
Bonus receivable from customers	209.580,96	Bonus 2018 to be distributed in 2019	282.763,11
Cash	73.182,15		
	282.763,11		282.763,11

in EUR '000	
Income Statement	
Bonus received or to be received	388.000,00
Bonus distributed or to be distributed	(388.000,00)
Operating results	(8.914,55)
Donations received from the Puratos Group	8.914,55
Total	0

in EUR '000			
Bonus distributed or to be distributed for 2018	Adjustments 2017	2018	Number of farmers included in the programme*
Vietnam		108.000,00	2.942
Philippines		53.000,00	1.465
Papua New Guinea	6.000,00	57.000,00	1.417
Ivory Coast	61.000,00	103.000,00	Community (± 2.000)
Subtotal	67.000,00	321.000,00	
Total		388.000,00	

* The number of farmers taking part in the Cacao-Trace programme is defined during the annual audit in a defined country. This number can vary over time.

The number of farmers receiving a bonus depends on where/when the distribution is organized (typically, in Vietnam, the farmers are spread in different regions where they do not organize a distribution simultaneously).

During the year 2018, the Next Generation Cacao Foundation has extended its programme to Papua New Guinea and reinforced its presence in the Philippines and Vietnam. On top, the first beans of our programme in Ivory Coast have been valorized and turned into the first Chocolate Bonus distributed in Africa.

As a general principle, the Chocolate Bonus is distributed to the farmers as soon as Puratos has collected the bonus. The cocoa value chain being relatively long, the Next Generation Cacao Foundation is confronted with a timing difference between the crops and the bonus distribution that often happens later.

In Vietnam, the historical country of the Cacao-Trace™ Programme, the Chocolate Bonus commitment towards farmers amounted to €108,000 for the period January - December 2018. During 2018, the outstanding balance of the 2017 bonus has been almost fully distributed, for an amount of €95,000 (of which €36,000 was already recognized in the distribution of 2017, due to a timing difference). The remaining open balance amounts to €6,000. In total, during 2018, the Chocolate Bonus of €132,000 has been distributed to 1,486 farmers and/ or collectors with an average extra contribution to their revenue of €79/farmer, which corresponds to about one month's salary for the farmers.

Beans sourced in the Philippines (the second year of the programme implementation) have led to the distribution of a bonus of €31,000 turned into a commitment of €54,000 towards the farmers (a larger community with smaller farms than in other countries). The bonus of 2017 has been fully distributed (for €24,000) as well as the first month of the 2018 beans (for €7,000). The impact per farmer amounts to €14,000.

The beans sourced from Ivory Coast are mainly used in Belgium for Belcolade for the manufacturing of Belgian Real Chocolate. In 2017, following smaller crops in Asia, Ivorian beans were shipped to Asia, for which an equivalent bonus of €57,000 was collected. The Next Generation Cacao Foundation organized the first distribution of the programme in Africa at the end of 2018. The local communities have decided to invest the amount in the development of three classrooms. The official ceremony took place in October 2018, while the funds have been transferred in November 2018 to the local Cooperative for €57,000.

Finally, in Papua New Guinea, where the Cacao-Trace™ Programme began at the end of 2017, the Next Generation Cacao Foundation has not yet been able to organize a Chocolate Bonus distribution. This will happen early 2019. The total amount of due bonus, based on the quantities sourced, amounts to €46,000.

The administrative expenses of the Next Generation Cacao Foundation are rather limited, and they have been fully supported by a donation of Puratos Group. They consist of audit fees (€1,000), legal fees (€2,000) and financial fees.

As of 31/12/2018, the open liabilities towards farmers amount to €282,000 (€65,000 in Vietnam, €47,000 in the Philippines, €107,000 in Ivory Coast and €63,000 in PNG). The bonus collected and available on the bank account amounts to €60,000. The amount to be received from subsidiaries of the Puratos Group amounts to €76,000 (USA, Spain and Puratos NV). Another amount of €133,000 has been recognized as a "receivable on stock" (the stock being either in beans, cocoa ingredients or chocolate).

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