

Next
Generation
CACAO
FOUNDATION

ANNUAL REPORT 2017

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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.

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™ is Puratos' sustainable cocoa sourcing programme. It has two aims: empower farmers to produce better quality beans and ensure that cocoa farming remains an attractive business in the future.

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 Puratos' sustainable cocoa sourcing programme. While the chocolate industry mostly focuses on quantitative results, our programme focuses primarily on creating value for all through taste improvement.

The mastery of fermentation via our own Post-Harvest centres, located in cocoa producing countries around the world, is our unique way to deliver a superior taste for chocolate lovers and more income for cocoa farmers.



By involving consumers and their willingness to pay a higher price for a better product, we can then share this benefit with our Cacao-Trace™ farmer communities. This is done through a quality premium and a unique Chocolate Bonus: for every kilo of chocolate sold, €0,10 goes directly back to the farmers we work with, increasing their income.

It's only by creating value with improved taste and sharing that added value back with our Cacao-Trace™ farmers, that we can improve the livelihoods of cocoa farmers and create a sustainable future for the industry.

The Chocolate Bonus

€ 0,10 / kg of chocolate
paid back to Cacao-Trace
cocoa farmers

The contribution of Puratos

It is difficult to determine the contribution of Puratos with precision, but we can estimate it.

The expenses inherent in obtaining Chocolate Bonuses and all the administrative operations for distributing them to farmers in the different countries are not subjected to analytical monitoring.

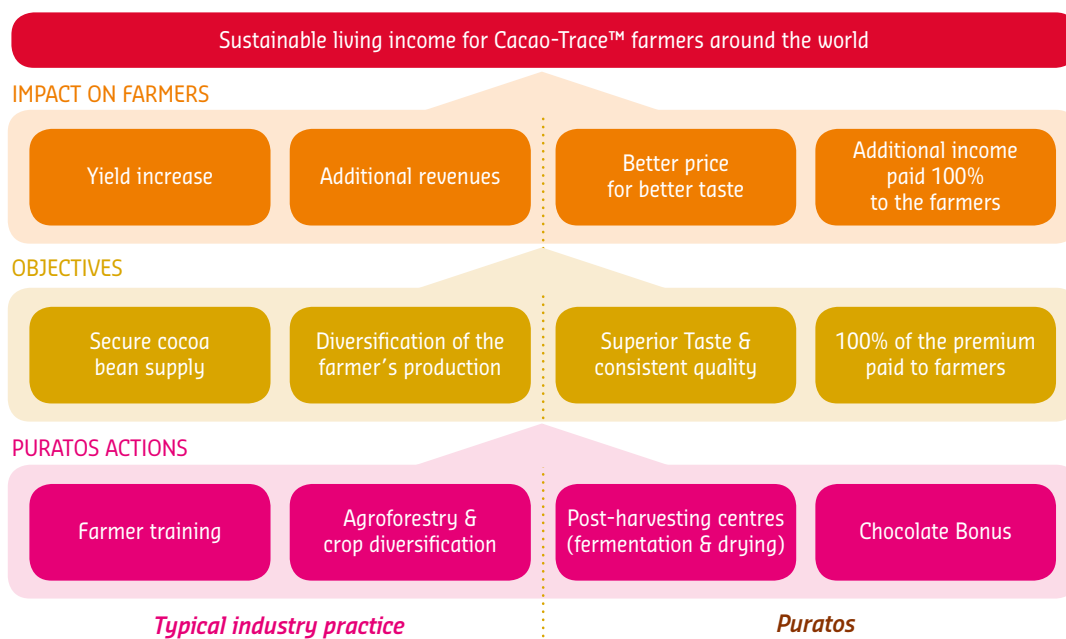
We can nonetheless estimate them by deduction.

It is widely known in fact that at most only half of the contributions collected by organizations such as Fairtrade, Rainforest Alliance, and UTZ reach the farmers, and as such indirectly, because they are handed to the local cooperatives.

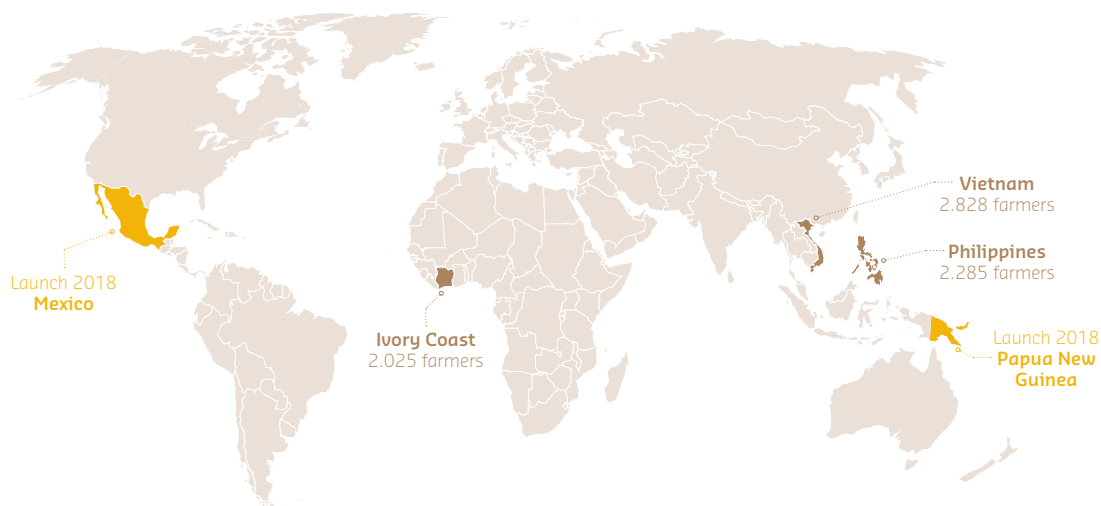
By deduction therefore, the administrative costs of these organizations amount to at least half of the contributions they receive.

We can consequently estimate, again by deduction, that the contribution of the Puratos Group is equivalent to the Chocolate Bonus we distribute to the farmers, which moreover we hand directly to them.

Cacao-Trace™ chocolate is also strictly made with segregated Cacao-Trace™ cocoa mass, obtained from beans that have been fermented and dried according to our strict guidelines.



We are currently active with our Cacao-Trace™ programme in Vietnam (2013), Ivory Coast (2015) and the Philippines (2017).



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 Next Generation Cacao Foundation oversees the collection and redistribution of donations and Chocolate Bonus. The running costs of the Foundation are covered by Puratos, as well as certification fees and royalties, guaranteeing that 100% of the money goes back to the Cacao-Trace™ farmer communities.



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 Legal Incorporation will be finalised in the first semester of 2018. It shall follow the same objectives and decision making processes as the Belgian foundation.



CACAO-TRACE IN IVORY COAST

Ivory Coast is the first cocoa producing country in the world with 2,015 million tons of cocoa produced in the 2016/2017 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 46,3% (2015, World Bank) and life expectancy is 54 (2016) 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 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 2017 highlights:

- 3.142 MT of cocoa beans were purchased from the cooperative.
- 145.678 € was distributed as quality premium to the farmers and 160.520€ was paid to the cooperative for the rolling out for the activities.
- 799 farmers participated in 195 Farmer Field School sessions, deployed by 12 trainers in the collection area of the cooperative.
- 460 farmers known for their motivation were chosen to undergo more in-depth coaching: they will be monitored over 4 years on a weekly basis for the implementation of good practices on their plantations.
- 6.300 cocoa plantlets were distributed free of charge to the most loyal producers to rejuvenate the old plantations which are not very productive at this time.
- 2.328 hectares of plantation was mapped





CACAO-TRACE 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 60% of the crop in 2017, so we are the first buyer at national level. The poverty rate in Vietnam is 9,8% (2016, World Bank) and life expectancy is 76 years old.

Vietnamese farms often mix cocoa with coconut or local fruit 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 2017 highlights:

- PGPI purchased from approximately 2.700 farmers through a network of 100 “collection groups”, business based group made of several farmers and their consolidator (fermenter or collector).
- 732 individual farmers participated to field trainings focusing on Best practices & productivity. The training is set-up based on effective results coming from 7 Cacao-Trace™ demonstration farms. The focus in 2017 was put in new planted area
- Seedling distribution programs (40.000 unit) are running in Mekong delta and South East provinces with improved survival rate (90%) thanks to new training and monitoring practices
- 1.392 farmers participated in responsible pricing training focusing on building capacity and improving pricing transparency in the supply chain.
- 51 post harvest partners were supported with continuous improvement training and monitoring in order to achieve premium quality
- PGPI has conducted a feasibility study to launch *Agro-forestry program* and *Carbon in setting* in Vietnam from 2018 to strengthen its environmental action.

Chocolate bonus implementation in Vietnam

As in previous years, the chocolate bonus distribution was done through Cash Back Method to Farmers directly. Since all the Volume collected in Vietnam is valorized in Cacao-Trace™ finished products, a guaranteed bonus of 170 USD/MT of dry bean equivalent delivered to PGPI is paid to the beneficiaries of the program once or twice a year. This amount is equivalent to 0,10 cents Euro per kg of sold chocolate for a dark chocolate at 60% cocoa content.

The distribution is ensured by PGPI representatives according to Next Generation Cacao Foundation rules. Traceability system of the chocolate bonus is audited by a Puratos external auditor.

The Chocolate Bonus distribution

The Below table summarizes the program distribution in 2017. 2.828 farmers and collectors benefited from the program in the country. A total of 147.006,80 USD was due for the full year. On this total amount, we have to observe that 9.535,40 USD could not be distributed (farmer not showing up during distribution) and will be distributed during the next 2018 distribution.

Regions	Number of farmers	Chocolate Bonus distribution (USD)
Mekong Delta	1.258	56.454,00
South East	392	32.125,90
<i>Binh Phuoc</i>	212	18.080,20
<i>Dong Nai</i>	90	4.414,20
<i>Ba Ria-Vung Tau</i>	90	9.631,50
Highlands	1.176	58.426,90
Total	2.828	147.006,80





CACAO-TRACE IN THE PHILIPPINES

After 1.5 years of initial program development in the Southern province of Mindanao, Puratos entered in a strategic partnership in November 2017 with Kenneker Foods, a Filipino based agro-company focusing on the sustainable development of cocoa production in Davao Island.

Cocoa history in the Philippines is ancient as it was first introduced during the 16th century by Spanish-Mexican governors. The production remained small in the country, mostly serving domestic consumption needs.

Kenneker Foods was at the origin of the supply chain rebirth bringing innovative financing models to Davao coconut farmers as well as clear output. Cocoa is now intercropped and spreading fast on the Island.

Puratos is investing in 3 fermentation centers and engaging with local communities through Cacao-Trace™ program implementation. This deployment involves as well the implementation of Chocolate Bonus program.



Some 2017 highlights:

- PGPI purchased from approximately 2.300 farmers around Calinan and San Isidro areas, all the farmers are selling wet beans to Kenneker post harvest centers.
- 509 individual farmers participated to field trainings focusing on best practices & productivity. The curriculum is based on Kenneker expertise and monitoring system in the Philippines.
- 2 Kenneker post harvest partners were supported with continuous improvement training and monitoring in order to achieve premium quality.
- PGPI has conducted a feasibility study to launch *Agro-forestry program* and *Carbon in setting* Davao Island from 2018 to strengthen its environmental action.
- Specific R&D program is on-going to evaluate and disseminate cocoa clonal varieties with high aromatic potential.

Chocolate bonus implementation in Philippines

The Chocolate Bonus program started from January 2017 with the farmer selection and volume traceability system implementation. The chocolate bonus distribution in the country was done through Cash Back method to Farmers and collectors.

Since all the volumes collected in Philippines are valorized in Cacao-Trace™ finished products, a guaranteed bonus of 170 USD/MT of dry bean equivalent delivered to Puratos is paid to the beneficiaries of the program once or twice per year. This amount is equivalent to 0,10 cents Euro per kg of sold chocolate for a dark chocolate at 60% cocoa content.

The distribution is ensured by Kenninger Foods with the support of PGPI representatives according to the Next Generation Cacao Foundation rules. Traceability system of the chocolate bonus is audited by an external Puratos auditor.

The Chocolate bonus distribution in Philippines

The table below summarizes the program distribution in 2017. 2.285 farmers and collectors benefited from the program in the country. A total of 43.833 USD was due for the full year. Of this total amount, 17.395 USD were distributed in September 2017 and the remaining 26.437,80 USD will be distributed during the next 2018 distribution (to be scheduled).

Period	CB Commitment		CB Distributed	
	N° of farmers	Total amount (USD)	N° of farmers	Total amount (USD)
Dec 2016 - Sept 2017	2.285	25.784	1.008	17.395
Oct 2017 - Dec 2017	Est. 2.285	18.048	-	-
Total	2.285	43.833	1.008	17.395

Chocolate bonus program evaluation in Philippines

In 2017 a relatively high number of farmers have been selected to participate in Cacao-Trace™ program although Puratos only bought limited volumes (255MT). Therefore the amount of Chocolate Bonus distributed per individual farmer is still limited.

Still Cacao-Trace™ and Chocolate Bonus program deployment in Calinan and San Isidro area have been perceived extremely positive by local communities as it is so far the first sustainable program ever deployed in the area. The long term investment approach is bringing a lot of confidence to farmer communities to invest in their plantations. The Cacao-Trace™ pricing policy and the Chocolate Bonus are definitely seen as a great advantage compared to conventional markets.



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™ started in the Philippines and Papua New Guinea, where approximately 2.000 farmers are benefitting from our programme. Philippino and Papuan cocoa farmers will receive cash contributions, similar to the structure of the Vietnamese programme.

We are exploring a pilot project in Ghana 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 Puratos 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.

Puratos Grand Place Vietnam will launch the first **roasting & grinding line for Cacao-Trace™** in August 2018. The first of its kind by the Puratos Group, this investment is in line with our taste leadership strategy and essential for future flavor developments.

Mastering all the steps in the chocolate making process - from farmers to chocolate - will give us more flexibility in research, in recipe optimization and make it easier to offer tailor-made solutions to our customers. The production line is also organic certified.

The Chocolate Bonus in Ivory Coast will start with the sales of Belcolade Selection Cacao-Trace™ in 2018.

GOVERNANCE

The Next Generation Cacao Foundation private stichting/fondation privée is an initiative of the Puratos Group, with worldwide headquarters in Groot-Bijgaarden, Belgium.

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

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

The Next Generation Cacao Foundation is the successor of the previously existing Next Generation Cacao Foundation VZW/ASBL. The previous foundation (VZW/ASBL) was established on 18 May 2016 but at the request of the Belgian tax authorities, a new foundation (private stichting/fondation privée) was established. This new foundation has taken over all activities, assets and liabilities of the previous foundation as from 27 December 2017. The previous foundation (VZW/ASBL) was liquidated on 28 December 2017.

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 cocoa producers, their families and subsequent generations;
- Promoting the concept and practice of fair trade in developing countries;
- 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 in developing countries;
- The specific activities through which the object of the Association is achieved include, among others: establishing and participating in similar non-profit associations in developing countries, providing financial support for cocoa producers, improving their living conditions and providing schooling for their children.

The object of the foundation can only be amended by the founders unanimously.

Board of Directors

The Directors of the board are appointed unanimously by the founders for a period of maximum three years. The directors can be reappointed.

The board of directors is authorized, within the boundaries of the law, the foundation's objective and the articles of association, to perform all actions that are necessary or useful to achieve the objectives of the foundation.

The board of directors also has the decision-making power on behalf of the foundation with regard to establishing, participating in, joining or cooperating with similar foundations, organizations, institutions or non-profit organizations in developing countries.

The board of directors can be assisted by advisers, persons or legal entities that support the foundation's purpose and activities. The board of directors decides on a discretionary basis and without stating who is accepted as an advisor or is no longer accepted.

The board of directors meets on average every quarter to discuss the activities and future strategy of the Next Generation Cacao Foundation.

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

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

- Chairperson: Cédric Van Belle, director at Choco-Story NV
- Secretary: Youri Dumont, director chocolate business at Puratos
- Treasurer: J-P. Michaux, CFO at Puratos

The members of the Board of Directors are authorized 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: Sylvestre Awono, cacao manager at Puratos
- Legal and fiscal support: M. Smet, in-house tax lawyer at Puratos
R. Straetmans, Legal and Tax Director at Puratos
- Financial support: L. Thomé, corporate controller at Puratos
- Administration: L. Van Ginderdeuren

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.

FINANCIAL REPORT

in k EUR		2016	2017
Balance sheet			
	Liabilities	4.595	76.493
Donations to be done		4.595	76.493
	Assets	4.595	76.493
Cash		4.595	3.258
Regular Trade Debtors			1.270
Other Debtors			71.963
Income statement			
Donation received and to be received		127.704	176.821
	Chocolate Bonus	123.099	174.215
	Others (net)	4.605	2.606
Donations done		(125.704)	(176.821)
	Chocolate Bonus to farmers	(123.099)	(174.215)
	Donations to be done	(2.605)	
Overheads		(2.000)	(2.606)
Operating result		0	0

During the year 2017, the Next Generation Cacao Foundation has extended its program to the Philippines and continued a strong presence in Vietnam. In these two Asian countries, the bonus is based on the volumes delivered by the farmer: for each ton delivered, the foundation commits to a bonus of 170 USD. This bonus is covered by the 10 € cents charged to our customers for each kilo of chocolate they purchase from Puratos. In 2017, the bonus commitment in Vietnam amounts to 129 k€, reaching 2.828 farmers.

In Philippines, we have started a collaboration with Kennermer in September 2017; the first volumes delivered triggered a bonus of 45 k€, reaching 2.285 farmers. The impact per farmer amounts to 50€ and 25€ in Vietnam and Philippines, respectively. In Vietnam, the impact per farmer, which can be perceived as relatively low, is a direct consequence of the decrease in yield for 2017. In Philippines, the Program Cacao-Trace™ has just started. Therefore, we have reached a lot of farmers with our first campaign but they only delivered a very small portion of their crops.

Regarding the effective distribution of the bonus, Vietnam has organized a distribution during the second quarter of 2017 for an amount of 76 k€. In the Philippines, we have organized a distribution during November 2017 for a total amount of 21,5 k€.

In the books of the foundation, we recognize the total amount of the bonus as a donation received and a donation given (P&L Neutral). The amount that has not been distributed yet (76 k€) is recognized as an accrual towards the Farmers.

