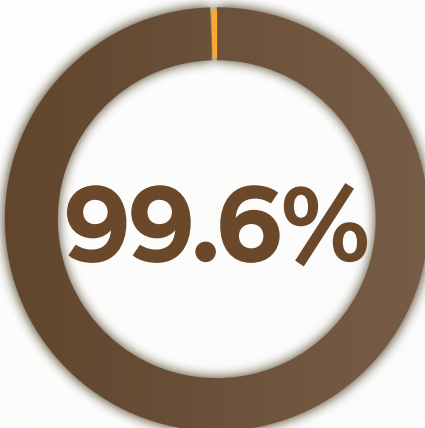


An aerial photograph showing a vast landscape. On the left, there is a dense, organized plantation of palm trees. A narrow, muddy river flows vertically through the center of the image, separating the plantation from a thick, natural forest on the right. The text 'FERRERO' is overlaid in the upper left, and 'ANNUAL PALM OIL PROGRESS REPORT 2021' is overlaid in the lower half.

FERRERO

**ANNUAL PALM OIL
PROGRESS REPORT 2021**

KEY FIGURES ON FERRERO'S PROGRESS IN 2021



RSPO Certified Segregated Palm Oil



Palm Oil Traceable To Estate Level



Deforestation Free Palm Oil



Palm Oil Suppliers Acknowledged Our Supplier Code*



>39,000
Smallholders' contribution



11
Sourcing countries



1,224,079 ha
Covered under the Starling satellite monitoring



>235,000 Metric Tons
Palm oil and palm kernel oil sourced



>400
Workers in Ferrero's supply chain engaged in Human Rights & Social practices

* Does not include new suppliers, which will be engaged from September 2022.

FERRERO – RESPONSIBLE SOURCING APPROACH

At Ferrero we take a continuous improvement approach to responsible sourcing. Our approach is built around supplier management and robust due diligence, traceability and transparency, certification, and standards. We know more can be achieved together and long-term partnerships and collaborations are essential. When needed, we invest in our supply chains through targeted programmes to improve their environmental, social and governance (ESG) conditions and their overall standards. Through the activities of our sustainability programme, Ferrero Farming Values (FFV), we work to make a difference to our supply chains.





As a baseline, Ferrero is committed to sourcing sustainable palm oil that is 100% **RSPO** Certified **Segregated** and traceable back to plantations. We first reached this goal in 2015 and were one of the first global companies to do so. Today, we go beyond this stringent certification requirement with initiatives guided by the three pillars of our Palm Oil Charter: human rights and social practices, environmental protection and sustainability, and supplier transparency. We are also active members of **POIG** (Palm Oil Innovation Group) and **HCSA** (High Carbon Stock Approach), two of the most well-regarded industry initiatives. Since 2018, we have published the latest list of mills and plantations from which we procure our palm oil on **ferrero.com**. The list is updated every six months. We monitor our supply chain with the **Starling** satellite monitoring system which tracks and signals any potential deforestation.

FERRERO PALM OIL CHARTER

In line with our **Supplier Code**, the **Palm Oil Charter** lays out our requirements and commitments for sourcing palm oil responsibly.

2021 ACTION PLAN FOR PALM OIL

The **Palm Oil Action Plan** outlines our key actions to meet the commitments in our Charter.

RESPONSIBLE SOURCING APPROACH	CHARTER REQUIREMENTS AND COMMITMENTS	KEY ACTIONS*
 Programme(s)	PILLAR I: Human Rights and Social Practices	Earthworm landscape project: number of workers reached and engaged
 Standards and Certifications	PILLAR I: Human Rights and Social Practices	Percentage of palm oil that is RSPO Certified Segregated
	PILLAR II: Environmental Protection / Sustainability Practices	Percentage of Deforestation-free supply chain
 Supply Chain Visibility	PILLAR III: Supplier Transparency	Percentage of palm oil sourced traceable to the estate level Number of hectares covered under the Starling satellite monitoring and verification service
 Supplier Risk Management Due Diligence	Basic Requirements - Due Diligence	Percentage of Supplier Code acknowledged

* For key figures on our progress please see previous page .

PILLAR I: HUMAN RIGHTS AND SOCIAL PRACTICES

Foster a more equitable value chain for the people involved in palm oil production at every level

Commitment: Through selected Landscape Programs, we are committed to improving smallholders' working conditions and building their resilience.

Ferrero believes in the importance of building a more equitable and inclusive palm oil value chain. Accordingly, we require our suppliers to take appropriate measures to prevent any form of exploitation, or unacceptable living or working conditions. We are going beyond this requirement by helping smallholders build resilience in the face of environmental and economic volatility, and improving their working conditions through collaboration with

local governments, NGOs and scientists. We also understand the importance of fully engaging indigenous communities whenever agricultural land expansion could happen.

How is Ferrero working on this commitment?

Project in Southern Central Forest Spine (SCFS), Peninsular Malaysia

The group of forest complexes known as the Southern Central Forest Spine (SCFS) is host to critical wildlife corridors for tigers, elephants, and other flora and fauna species. Significant land conversion to palm oil plantations since the 1980s has resulted in a fragmented forest ecosystem.

Our partnership with **Earthworm Foundation** aims to transform the palm oil supply chain and protect the environment and workers' livelihoods in this area. Main objectives for 2025 include:

Southern Central Forest Spine (SCFS), Peninsular Malaysia

Land Area: 1,631,842 HA





- 75% of palm oil mills with action plans to address No Deforestation, Peat, or Exploitation (NDPE) issues, 100% of palm oil mills traceable to the plantation.
- 50% reduction in deforestation in areas bordering key sensitive areas, including no new land clearing for palm oil development.
- Spatial monitoring and management of key forest corridors.
- Improve 2,000 smallholder farmers’ livelihoods.
- Reduce human-wildlife conflict through engagement with 250 smallholder farmers.
- Improve welfare and working conditions for >18,000 migrant workers.
- Improve land tenure rights and promotion of inclusivity of indigenous communities in the landscape area.

What steps have been taken in 2021?

SCFS Project: Supply chain transformation

60 out of 108 palm oil mills sourcing from the focal area have been engaged on No Deforestation, Peat, or Exploitation (NDPE) issues. 43 have submitted self-assessments and are working on action plans to address the NDPE issues identified.

Preliminary spatial mapping has been completed to identify the palm oil mills that we need to work with to achieve fresh fruit bunch (FFB) traceability. 28 mills are 100% traceable to plantations; 32 mills are making progress in mapping their FFB origins; 16 out of 18 palm oil refineries operating in the landscape have adopted NDPE policies.

Social practices

We are also deploying a project which aims to support the adoption of best labour practices within Ferrero’s Palm Oil supply chain in Peninsular Malaysia. Due to Covid-19 restrictions, these activities have been delayed and will start in early 2022.

The risk of worker exploitation is widespread in the palm oil industry. The challenge for suppliers is to measure the level of compliance and close gaps to ensure their commitments are being met. Our project will focus on supporting two of Ferrero’s suppliers, which represent 20% of our supply chain, in adapting their labour practices and ensuring fair, safe and decent living conditions.

We are also supporting a selected supplier at parent company level to identify and mitigate risks in their recruitment practices, in partnership with Earthworm Foundation. This “deep dive” engagement will start with a due diligence process before implementing any corrective actions.

As a member of the **Consumer Goods Forum's (CGF) Human Right Coalition (HRC)**, we are working on a **project** with selected suppliers to develop and deploy Human Rights Due Diligence (HRDD) coverage within their operations - from refinery to plantation level - to address forced labour risks by 2023.



“The SCFS Landscape concluded its commencement year with favourable outcomes. Ferrero’s partnership and commitment to the landscape objectives saw to the SCFS Landscape forming strategic partnerships with leading government palm oil agencies. Working Interest Groups were established on traceability in the palm oil supply chain and workers’ voice tool; joint efforts kickstarted with local farmers and field partners, all these built on a deepened understanding of the local context”.

Kiah Hui Ooi, landscape coordinator for the project



Credit: Earthworm Foundation



PILLAR II: ENVIRONMENTAL PROTECTION AND SUSTAINABILITY

In partnership with our suppliers, actively protect standing forests and/or restore natural forest areas to generate positive carbon and biodiversity impacts

Commitment: We are committed to having a clear map of the High Conservation Value (HCV) and High Carbon Stock (HCS) areas associated with the palm oil we source. We are also committed to ensuring that our suppliers protect these areas through a dedicated satellite monitoring system.

We recognise the role natural habitats, soil, and water play in regulating our climate and ensuring a healthy, biodiverse home for humans, plants and animals. We understand that the palm oil plantations we source from are connected to a wider, more global landscape. The health of these plantations is deeply linked to farming and production practices adopted on the ground as well as to the wellbeing of the surrounding environment.

How is Ferrero working on this commitment?

We use the **Starling** satellite monitoring and verification service across all our palm oil sourcing areas. Operated by **Earthworm Foundation** and **Airbus**, Starling uses a combination of satellite imagery and on-the-ground expertise to monitor land cover change and forest cover disturbance in near real time. By providing data that shows where potential deforestation occurs,

Starling enables us to identify potential grievances in our supply chain and drive positive change.

What steps have been taken in 2021?

Satellite monitoring is a powerful tool to create a deforestation-free supply chain. It makes visible what the human eye cannot see, which is particularly valuable when Covid-19 has made travelling to sites difficult or impossible.

Its most tangible advantage is direct and objective verification of Ferrero’s palm oil supply chain in terms of land use change (LUC). LUC is defined as the change from one land use type to another, where land use is generally classified as forest, cropland, grazing land, and human settlement. Clear images of plantations not only enhance our ability to confirm the quality of our supply chain, they also enable us to engage with our suppliers and to take action if needed.

In 2021 we analyzed all of Ferrero’s supply chain excluding acquisitions¹ (being 100% RSPO certified segregated) covering the full scope of 103 mills of the H1 2021 mill list.

Ferrero has increased its deforestation-free volume from 98% (2020) to 99% (2021)². This data is independently verified by **Earthworm Foundation**.

In 2021, 24 ha of potential deforestation events inside palm oil concessions within the Ferrero supply chain are under further investigation.

More information on the 2021 Starling monitoring can be found **here**.

¹Ferrero acquisitions: *Thorntons, Fannie May and the brands that were part of Nestle’s chocolate business in the United States.*

²Ferrero without acquisitions



Credit: PLEIADES satellite imagery data © CNES 2018, Distribution AIRBUS DS

Pilot project on biodiversity, good practices and integrated pest management (IPM)

We funded a **pilot project** in Malaysia with the Sustainable Agriculture Network (SAN) to advance Integrated Pest Management (IPM) and biodiversity conservation practices at the farm level for palm oil producers, with an emphasis on smallholders. The project, started in March 2021, aims to propose a habitat design for “beneficial insects” that can contribute to pest control by preying on herbivorous insect pests which harm oil palm production. Another goal is also to identify lower risk pesticides as alternatives to hazardous chemicals, for the benefit of both workers and the environment.

The project is now embarking on a three-year journey; the outcomes of the pilot can be found **here**.



“To provide a global and precise monitoring of deforestation, at the right level of scale and frequency, we had to develop a very advanced solution, combining the best of our Earth Observation satellite imagery with our AI-based landcover analytics. Our Starling solution can guarantee a unique, reliable and impactful monitoring service in order to verify and actively work on non-deforestation commitments.

François Lombard, Director of Intelligence Business at Airbus Defence and Space



Example of beneficial insect on oil palm plantations: Scoliidae (Mammoth wasps)
Credit: Norhisham Razi, UPM



TRAILS Project – climate-resilient landscapes for wildlife conservation

TRAILS is a multi-stakeholder R&D project funded by Ferrero and the French Ministry for Europe and Foreign Affairs. It is led by Cirad (The French Centre for International Cooperation in Agricultural Research and Development). Its aim is to design landscapes in which people and wildlife share the same ecosystem and coexist peacefully, while addressing rural poverty and the impacts of large-scale commercial agriculture. The project started in 2020 and it relies on the generation of original agroforestry systems and the reinstallation of active wildlife in selected areas. The partnership aims at understanding climate resilience and analysing the socioeconomic impact of the transition from oil palm monoculture to agroforestry.



Credit: Alain Rival. Cirad

PILLAR III: SUPPLIER TRANSPARENCY

Knowing where our raw materials come from

Commitment: We are committed to achieving full traceability for all our sourcing, all the way to the estate level.

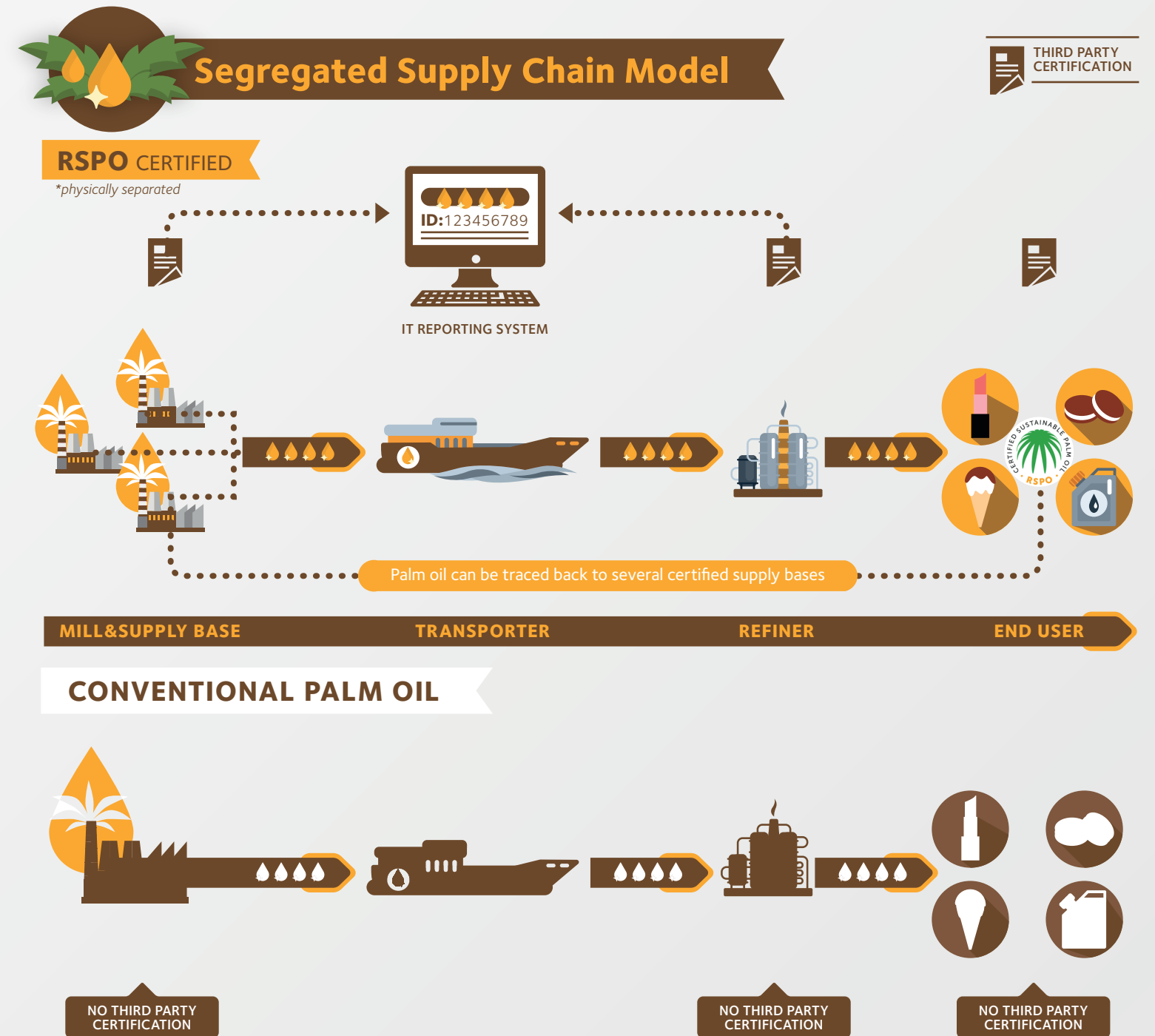
We understand the importance of tracing palm oil to the source as it allows us to more precisely understand the challenges to be addressed and generate sector-wide benefits. We will work towards further enhancing the visibility of our value chain by strengthening partnerships with our suppliers and by leveraging the most advanced technology available.

How is Ferrero working on this commitment?

Ferrero only sources palm oil from suppliers that have signed and follow its **Supplier Code**.

Ferrero’s palm oil supplies, not including recent acquisitions, come from 100% RSPO-certified and segregated (SG) oil. Our Palm Oil Charter demonstrates our commitment to working towards a supply chain that exceeds RSPO requirements. A key factor is our work to maintain robust traceability, which allows us to understand the origins of our supply. This means we can work more efficiently with suppliers. We continued to invest in 100% SG-certified palm oil (where certified palm oil is kept separate throughout the supply chain) and maintain full traceability even when some SG-certified palm oil products have been in short supply.

Segregated vs conventional palm oil



What steps have been taken in 2021?

All our palm oil suppliers have signed and acknowledged our Supplier Code. A key factor in taking our supply chain beyond RSPO requirements is maintaining robust mill and grower-level traceability, which allows us to understand the first mile of our palm oil supply. Knowing the origin of our palm oil means we can work more efficiently with our suppliers.

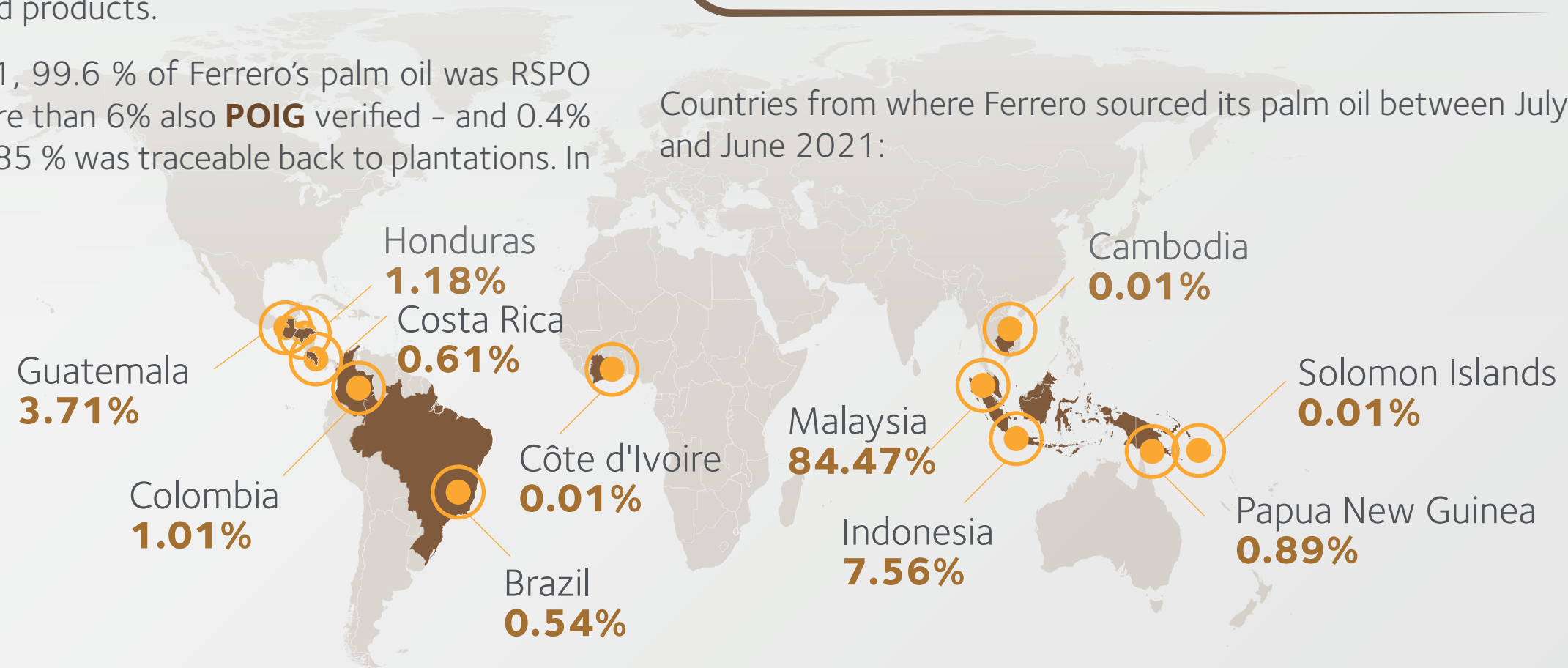
Between July 2020 and June 2021, we sourced more than 235,000 tons of palm oil and palm kernel oil (including for Ferrero’s acquired products Thorntons, Fannie May and the brands that were part of Nestle’s chocolate business in the United States). We are currently working to extend our commitment to source only sustainable palm oil that is 100% RSPO Segregated certified to our acquired products.

Between July 2020 and June 2021, 99.6 % of Ferrero’s palm oil was RSPO certified segregated – of which more than 6% also **POIG** verified – and 0.4% was conventional. Of this total, 99.85 % was traceable back to plantations. In

this period, 39,325 smallholders contributed to more than 2% of our palm oil volumes. The latest list of mills and plantations from which we source our palm oil, reflecting the January–June 2021 period, can be found **here**.

Through our long-term partnership with Ferrero, we have developed a simplified supply chain that is fully traceable from seed to finished product. This allows for full transparency, which is an important part of enhancing responsible practices further and ensuring that economic development is combined with social and environmental care.

United Plantations Berhad





We also began to partner with **Sourcemap**, a leading provider of supply chain mapping, which provides a comprehensive platform to visualize supply chains and enhance traceability, further strengthening our efforts in supply chain transparency. Through Sourcemap’s platform we will collect key data on social and agricultural practices, validate our value chain through data science and ensure that performance is continuously improving.



Credit: United Plantations Berhad



GLOSSARY

- **ESG:** Environmental, Social, and Corporate Governance is an evaluation of how an organisation takes social and environmental factors into account.
- **Ferrero Farming Values programme (FFV):** Through the Ferrero Farming Values Programme, we support farmers in adopting sustainable agricultural practices aimed at increasing palm oil productivity by protecting both people and the planet.
- **High Conservation Value (HCV):** High Conservation Value Areas (HCVAs) are natural habitats that are of outstanding significance or critical importance due to their high biological, ecological, social or cultural values. <https://hcvnetwork.org/>
- **High Carbon Stock (HCS):** High Carbon Stock is a methodology that distinguishes forest areas for protection from degraded lands with low carbon and biodiversity values that may be developed. <http://highcarbonstock.org/>
- **Satellite monitoring system:** Cutting-edge satellite technology used to monitor land cover change and forest cover disturbance in near real time.
- **Landscape:** A landscape is a social-ecological area consisting of a mosaic of natural and/or human-modified ecosystems, often with a characteristic configuration of topography, vegetation, land use, and settlements influenced by ecological, historical, economic and cultural processes and activities.
- **Ferrero’s full traceability:** Ferrero works closely with all its suppliers on the journey to full traceability to the estate level by using the segregated RSPO model for its chain of custody certification (sustainable palm oil from different certified sources is kept separate from conventional/ordinary palm oil throughout the supply chain).
- **Estate:** a synonym for plantation.
- **Responsible palm oil sourcing partners:** Ferrero’s key partners in its responsible palm oil sourcing include **Earthworm Foundation, SAN** and **Starling**.
- **Supplier Code:** Across our supply chain, suppliers are required to sign our Supplier Code, which sets out our responsible sourcing expectations. Acknowledgement for Ferrero means the supplier has signed the Supplier Code.
- **Fresh fruit bunches (FFB):** Palm oil fruit grow in dense bunches known as Fresh Fruit Bunches.
- **Segregated (SG):** RSPO definition meaning sustainable palm oil from different certified sources is kept separate from conventional palm oil throughout the supply chain.
- **Conventional palm oil:** Palm oil sourced from uncertified plantations.
- **Standards and Certifications:** Credible external verification for our operations and those of our suppliers, such as RSPO, POIG and HCSA.