

PALSGAARD CORPORATE SOCIAL RESPONSIBILITY REPORT 2010





1. WHAT IS CSR?

The European Commission's definition of CSR is:

"A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis".

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2. ABOUT THIS REPORT

This is Palsgaard's first CSR Report. The objective of the report is to provide a balanced picture of important CSR-related targets, topics, activities and results in the companies covered by the report.

SCOPE

The report covers the following legal entities: The Schou Foundation, Palsgaard Gods A/S (Palsgaard Estate) with associated forestry and agricultural areas, Palsgaard A/S and its subsidiaries, Nexus A/S and the 50% owned company Emulsion Holland (see graphics in section 3). In the report the above mentioned entities together are named 'Palsgaard'. Associated companies in which Palsgaard has no decision making powers are not covered by the report. The scope of registered data is described in detail in section 15. The report covers the year 2010.

REPORTING PRINCIPLES

The report has been prepared on the basis of reporting principles laid down in the Sustainability Reporting Guidelines from the Global Reporting Initiative (GRI) and its associated sector supplement for the food processing industry. There is an overview of the relevant GRI indicators with references in section 16. The topics we report on have been selected based on an assessment of the stakeholders and significance of

the individual topic in relation to development of the Palsgaard CSR strategy (cf. section 5). We have assessed that significant stakeholders in relation to this report are our key account customers, employees, trendsetting retailers, the local community, the media, important competitors and NGOs.

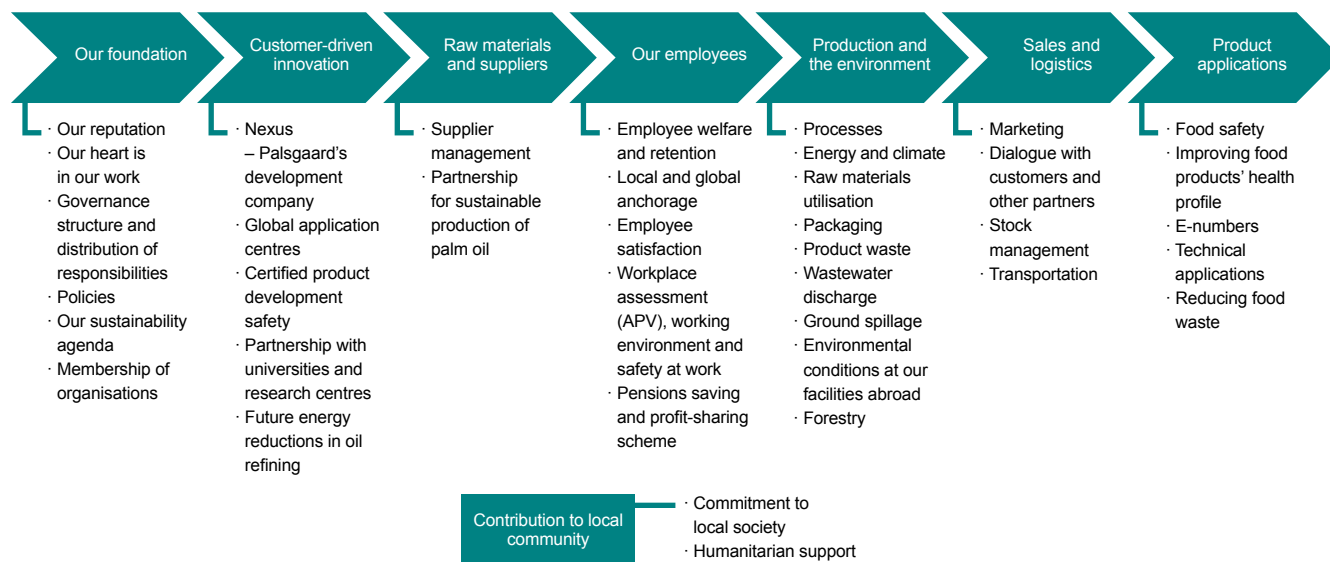
The report and its data have been verified by an independent third party, whose statement is in section 14. We account for the reporting practise in section 15.

REPORTING STRUCTURE

The report follows our value chain (sections 5-12) and takes our corporate culture as its point of departure. The value chain covers the lifetime of a product from idea creation until the product as an ingredient in a food product reaches the consumer's dinner table. We subsequently describe our contribution to the world around us. This is a logical structure for our processes and products. Readers interested in specific subjects may benefit from the references in the GRI table p.38-39.

If you have any questions about this report, please contact CEO Birger Brix or Sales- & Marketing Director Jakob Thøisen.

Figure 1
Structure of the report



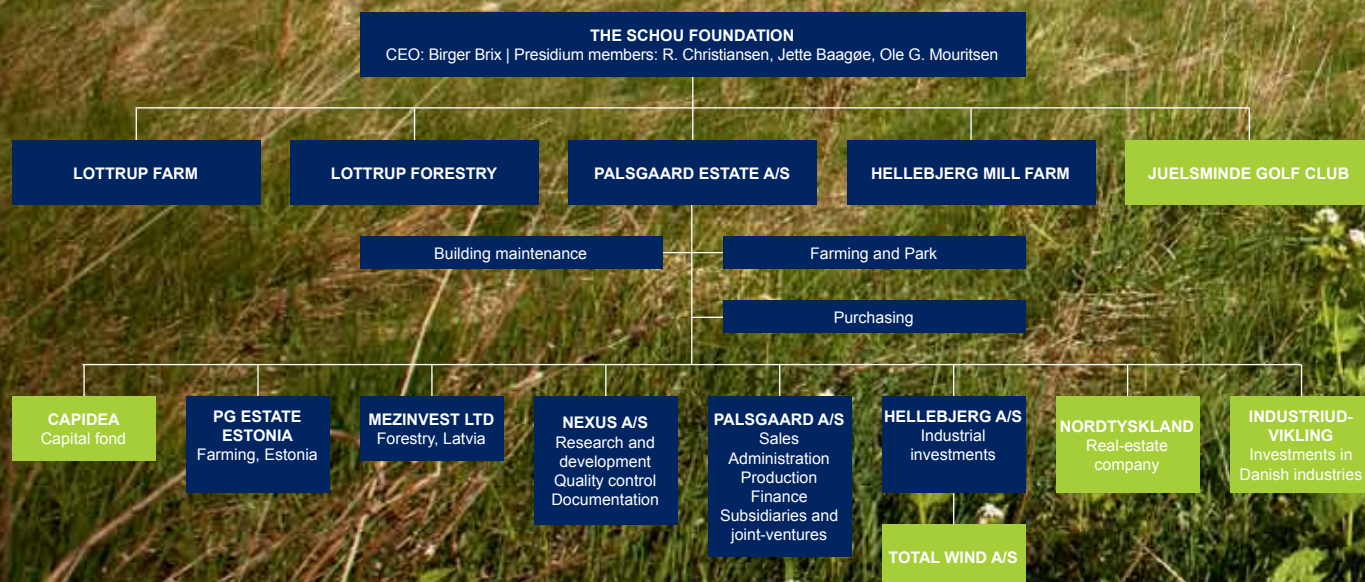
3. PALSGAARD IN BRIEF

Palsgaard develops and manufactures emulsifiers and stabilizers for the food industry. We have production facilities in Denmark, Mexico and the Netherlands, application centres in Denmark, Singapore and Mexico, and a sales organisation covering 98 countries worldwide. We also manage a total of 6090 hectares of forest and agricultural land in Denmark, Latvia and Estonia. Production volume at Palsgaard A/S has increased on average 12.0% a year since 1997.

ORGANISATIONAL CHART

The organisational chart shows, marked in blue, the entities covered by this report. The governance structure and distribution of responsibilities are described in more detail in section 5.

Figure 2
The Schou Foundation



CSR KEY FIGURES AND TARGETS

	2006	2007	2008	2009	2010	Target 2011	Target 2015
Rate of injury*	12	19	10	18	20	-	3
CO ₂ -emissions (kg CO ₂ per kg finished product)	0.47	0.45	0.44	0.40	0.32	0.20	0.15
Wastewater emissions (l per kg finished product)	1.84	1.65	1.50	1.47	1.22	1.15	1.00
Raw materials consumption**	106.20	107.00	106.90	107.60	107.90	106.00	104.00
RSPO-certified palm oil***	-	-	-	-	-	-	100%
Recycling of raw materials packaging***	-	-	-	-	-	-	90%

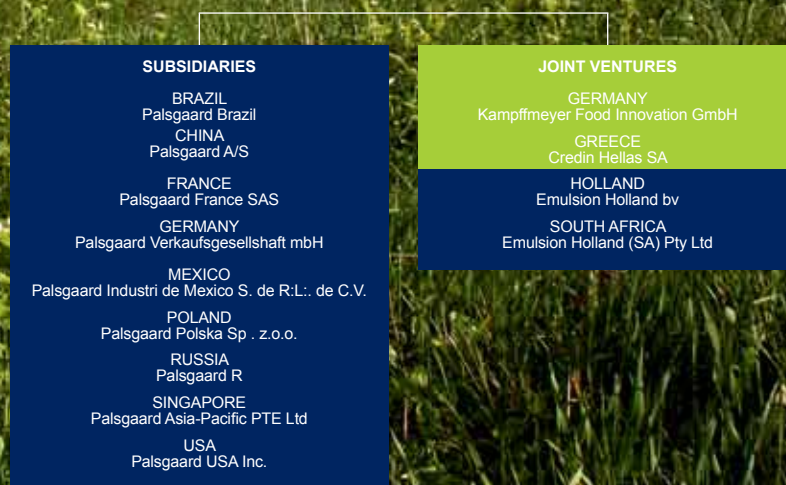
*Lost time injuries per million hours worked

**Kg per 100 kg finished product

***No data available for previous years

Figure 3

PALSGAARD A/S subsidiaries and JOINT-VENTURES



4. MESSAGE FROM THE CEO

Dear Reader,

'Doing things right' has always been a natural part of everyday life at Palsgaard and we can trace this value back more than a century. From the beginning, Einar Viggo Schou, the founder of Palsgaard, paid special attention to the needs of the employees and of local society, and down the years these values have been passed on and updated. Today, when we describe ourselves as 'heart working people', we say a great deal about how we see ourselves and how we would like other people to see us. This CSR report is intended to provide stakeholders with a comprehensive overview of the effects of these values in 2010 and our goals for the future.

The Schou Foundation and its subsidiary companies form a unique group, which combines agriculture, forestry, industrial production and research, and maintains special focus on its employees, local society and global orientation. Our objective is to preserve and develop Palsgaard as a good workplace, to carry out research, and to preserve and renovate the estate and its natural environment. Good financial results are the means by which we will achieve these objectives – and therefore this is not an aim in itself.

This does not mean, however, that we intend to rest on our laurels in terms of financial progress and the size of our business. I believe that solid and sustainable growth are prerequisite for maintaining the business and meeting our objectives. I am keen to see Palsgaard develop at a reasonable rate which means that we can retain our cultural values, avoid exposing ourselves to unnecessary financial risks and contribute to sustainable development. As a foundation owned company, we are in an especially strong position to take such a long-sighted strategic view.

During the last 13 years, Palsgaard A/S has grown on average 12% a year. I am acutely aware of the elements that have been key to our success in the past and that will continue to ensure that we enjoy success in the future. There are five key elements:

- Product quality and innovation
- Partnership with our customers
- Maintaining and developing dedicated employees
- Optimising consumption of natural and energy resources
- Historical background and strong corporate cultural values

At the end of 2010, we began to develop an overarching strategy for our CSR efforts and this work will continue in 2011. To kick-start the strategic process, we have set ourselves an ambitious climate target: We intend to achieve CO₂ neutrality by 2020. This target should be seen in the light of the fact that Palsgaard's processes are energy-intensive and we consider it our responsibility to reduce our carbon footprint caused by high energy consumption. In the strategy process, we have also set goals for improving the environment and working conditions in our production, and improving the skills of our employees. We will focus on responsibility and minimising the risk of corruption in the supply chain, and we will integrate CSR-related issues at an appropriate level in our subsidiary companies. Finally, we will ensure that the raw materials we purchase are produced using sustainable methods and we will continue to bring our influence to bear on the local areas in which we operate.

As this report demonstrates, many of our goals are quantitative and we have determined a specific period within which we intend to achieve them. Other targets will be finalised in 2011. The goals related to the supply chain may become a special challenge for us as we are a relatively minor player on our market. However, in our role as 'heart working people', we see it as our important duty to attempt to exert an influence on our business partners, and to encourage them, as far as the scope of our business activities will allow, to act more responsibly.

At Palsgaard, we see CSR as a journey rather than a destination. In this and future years' CSR reports, I look forward to demonstrating how we work with corporate responsibility and sustainability, and to continually setting new goals in the process.

I hope you will enjoy reading the report!

Birger Brix, CEO of the Schou Foundation

Palsgaard, 17th May 2011



Birger Brix
CEO of the Schou Foundation



5. OUR FOUNDATIONS AND SUSTAINABILITY AGENDA

The Schou Foundation owns a group of companies, whose corporate culture is unique and strongly affected by our long history. The physical location of our culture is the majestic Palsgaard Estate in its beautiful natural surroundings, which is home to our main offices. While we have strong ties in the local community, the core of our business is our close partnerships with customers all over the world. We believe that this unique combination of local anchorage and a global perspective is one of our greatest strengths. In all modesty, another of our strengths is our tradition for behaving responsibly towards each other, our community and the environment generally. This tradition originates from Palsgaard's founder, Einar Viggo Schou, long before the term 'Corporate Social Responsibility' (CSR) was coined.

OUR REPUTATION

At Palsgaard we wish our name to become widely known for and associated with high standards of quality and service. By this we mean that our products must live up to our customers' expectations in terms of functionality. At the same time, our products must meet the strictest food safety requirements. We will achieve this by using our quality assurance procedures and

through innovation work, which, to a great extent, will be conducted in close cooperation with our customers at our application centres (cf. section 6).

As an employer, we aim to be an attractive and innovative workplace. Due to our foundation ownership structure, we are in a position to give our employees special status because one of the Schou Foundation's objectives is to be a good workplace (cf. section 8).

In our relations with the world around us, we have a declared aim to act responsibly – not only at the local level via active participation in the local community, but also globally via effective measures to reduce our impact on the climate and the environment (cf. sections 9 and 12).

Furthermore, we consider financially responsible patterns of behaviour as an overarching and basic precondition, such that, by innovation, optimising processes and minimising risks, we ensure that our business is stable and that we are a reliable supplier for our customers and provide a sound place to work for our employees.

Palsgaard's Mission *On the foundation of a good workplace environment and advanced technology, we produce and market highly processed emulsifiers and stabilizers adapted to meet individual customer requirements in the global food market.*

Palsgaard's Vision *We aim to be the preferred partner and supplier of high-quality products, services and know-how to regional and multinational food producing companies.*

Palsgaard's Values *Loyalty – responsibility – commitment*

The objectives of the Schou Foundation

- a) *To command companies of the kind that the Foundation's governing body may find expedient in order to meet the Foundation's remaining objectives.*
- b) *To preserve and develop the splendour of the Palsgaard Estate as an aesthetically beautiful and good workplace for all its employees.*
- c) *To set up, command and support independent companies within the fields of research and development in areas which the Foundation's governing body may find expedient in order to promote the Foundation's companies.*
- d) *To support the Palsgaard Foundation to the extent that the Schou Foundation's governing body may consider responsible, bearing in mind the Schou Foundation's remaining objectives.*



we are experts in emulsifiers and stabilizers for bakery, confectionery, dairy, ice cream, margarine and fine foods - and we are happy to share our expertise. our company values can be defined words: **loyalty, responsibility** and we aim to be the preferred partner products, application service and know-how to regional and multi-national food companies. to Palsgaard **loyalty** means that we act as a reliable and honourable business partner for our customers. we treat information confidentially and know how to keep a business secret. to Palsgaard **responsibility** means caring about the environment and being aware of our corporate social responsibility; we have a goal to be CO₂ neutral by 2020 and are members of SEDEX and RSPO. to Palsgaard **commitment** means we are dedicated to getting the best results for our customers' products - to the benefit of their customers. we care about our employees and have a declared aim that Palsgaard must be a pleasant place to work. Palsgaard we know that our most important resource is the know-how and dedication found in our employees. **Heart** we are committed to getting the best results with our products in our pilot plants and in your facilities. **Working** at Palsgaard we don't sell standard solutions - we start with YOUR needs. Palsgaard - Heart Working **People** heart work is the best way to achieve success - let us help you get it. our products are produced according to the strictest quality criteria. we are experts in **emulsifiers** and **stabilizers** and we are happy to share our expertise with you. let our pilot plants help you shorten the step between idea and your new product. heart work is the best way to succeed - let us help you do so.

OUR HEART IS IN OUR WORK

At the end of 2010 we coined a phrase to express our unique culture. The phrase 'heart working people' was devised to express our attitude to our colleagues and stakeholders generally, and in particular:

- our close and confidential cooperation and knowledge-sharing with our customers
- our dedication to our day-to-day work and to creating solutions to further improve food products
- our caring approach to each other as colleagues
- our commitment to our surroundings

GOVERNANCE STRUCTURE AND DISTRIBUTION OF RESPONSIBILITIES

Palsgaard is owned by the Schou Foundation.

The Foundation's principal objective is to run the business, provide relevant support for research and development work, and to run the splendid Palsgaard Estate as an aesthetically beautiful and good workplace for all its employees.

The foundation structure allows us the freedom to think further ahead than, for example, many listed companies, and to prioritise holistically so that, through responsible growth, our work is motivated by our objectives and not by exclusive focus on financial profits. Similarly, our ownership structure is a bulwark which protects us from attempts on the part of, for example, competitors to obtain a share of ownership in our company. The Schou Foundation Board comprises three members. A new member of the Board is elected by the remaining Board members, the retiring member and the Foundation's CEO.

The CEO of the Foundation is responsible for safeguarding the Schou Foundation's objectives and managing the Foundation's assets, in order to meet these objectives. The CEO of Schou Foundation is

simultaneously CEO of the company Palsgaard Gods A/S (Palsgaard Estate).

The Schou Foundation operates a number of companies, as indicated by the organisational chart in section 3. The directors of the individual subsidiary companies are responsible for running their respective companies, observing the Schou Foundation's objectives and following any guidelines provided by the Board.

To ensure that we achieve the objectives of both the Schou Foundation and the individual company, Palsgaard has adopted a number of policies and guidelines, which express our approach and establish guidelines for our activities. These policies have been updated at the beginning of 2011 to reflect our ambitions in the CSR area. These policies apply to the same legal entities as covered by this report (cf. section 2).

New policies and guidelines will be introduced as and when we consider it necessary to introduce formal guidelines in any given field. This means that there are some fields for which there are currently no written policies. Where these fields are concerned, it is presumed that individuals have responsibility to work in agreement with the objectives of the Schou

Foundation and that they are governed by legislative requirements, and generally accepted standards of decency and common sense. The fields in which we have considered it necessary to express a specific attitude and to define areas for improvement are covered by the following policies:

- Code of Conduct
- Environment Policy
- Product and Quality Policy
- Purchasing Policy
- People Policy

Measures taken to ensure that our processes meet our policies, standards and legal requirements include written guidelines in the company's personnel handbook, our quality management system, etc.

At the end of 2010 we decided to undertake a general update of all our policies during 2011.

OUR SUSTAINABILITY AGENDA

As our business has grown and in line with increasing focus on corporate social responsibility, we have become aware of the need to work systematically with our corporate culture, and to formalise our responsible approach by producing an

overarching CSR strategy. At the end of 2010 we began work on the strategic process, which is continuing in 2011. Having consulted with stakeholders, assessed the risks and opportunities, and identified areas for development and potential areas for optimisation, we have defined the strategic framework and established the overarching objectives of our work with CSR issues. These objectives are listed below and described in detail elsewhere in this report.

- We will become CO₂ neutral
- We will minimise quantities of wastewater
- We will reduce quantities of refuse and waste
- We will minimise the volume of packaging
- We will improve our working environment
- We will improve our employees' skills
- We will improve management and integration of CSR in our subsidiaries
- We will improve supplier management
- We will make a special effort to minimise corruption
- We will continue our active participation in the local community
- We will increase the share of RSPO-certified palm oil to 100%
- We will be known for our commitment to sustainability

We will continue to work on these objectives in 2011 in order to make them fully operational.

MEMBERSHIP OF ORGANISATIONS

Palsgaard's commitment to a variety of organisations is motivated by a desire to act not only in our own best interests but also in the interests of our industry, our customers and our consumers. We have chosen active membership in several organisations which strive to encourage ethical practices and sustainability in the supply chain. Among others, we belong to the following organisations:

- **Dansk Industri** (Confederation of Danish Industry) (including membership of a number of subordinate organisations). The work of the DI includes lobbying to affect political decisions influencing companies' opportunities for sustaining growth and employment.
- **The European Food Emulsifiers Manufacturers Association (EFEMA)**. The objective of the organisation is to create and maintain contacts with relevant public authorities and to propose standards for best practices in production, food safety and consumer protection in emulsifier production.

- **Supplier Ethical Data Exchange (Sedex)**, an organisation which supports ongoing efforts to develop and improve ethical practices in the supply chain.
- **Roundtable on Sustainable Palm Oil (RSPO)** - supports sustainable production of palm oil.



6. CUSTOMER-DRIVEN INNOVATION

When the Palsgaard development team decides on the characteristics of a new product, how it will be produced and which raw materials will be included in it, they not only establish the value the product will add to the structure and shelf-life of the foods in which it will be used, but they also have an opportunity to improve the nutritional and environmental characteristics of these foods throughout the value chain. For this reason, the innovation process is often driven by close partnership with our customers. Other development projects are internal and may be driven, for example, by a desire to research new opportunities in foodstuffs or to create processes to improve how we exploit raw materials and energy.

NEXUS – PALSGAARD'S DEVELOPMENT COMPANY

At Palsgaard, development takes place in Nexus A/S. This Palsgaard company organises all major projects into project groups consisting of highly-competent staff representing a broad cross-section of the company. Development projects are managed and documented using our quality management system, which maintains efficient and focused development which takes into account all relevant conditions – ranging from the customer's needs and requirements to process-related exploitation of resources and any environmental impact. Development may take place with a view to marketing new or improved products but may also be intended to develop or improve existing processes. In these cases, the objective of development work is to create alternative and less resource-intensive processes, in

terms of raw materials, energy, production capacity, etc. One example of a development project of this kind is the oil refinement project described at the end of this section.

GLOBAL APPLICATION CENTRES

At the core of Palsgaard's partnership with our customers are our application centres, where we can simulate production conditions at a customer's facility and where we can work with customers to develop new food products, improve the quality and nutritional profile of existing food products or optimise the customer's processes. Having created a research environment which accurately reflects 'reality', we narrow the distance from idea to production. To make this service available across the globe, we have application centres in Denmark, Singapore, Mexico and China. This means that we take local market trends, environmental and food safety requirements into account in product development work and also minimise intercontinental travel.

CERTIFIED PRODUCT DEVELOPMENT SAFETY

In connection with ISO 22000 certification of Palsgaard's food safety management system (see section 11) in 2010, we set up a more detailed procedure taking a number of food safety issues into account when sourcing new raw materials. This fixed procedure ensures that we pro-actively assess the risks and document the food safety aspects of future products.

PARTNERSHIP WITH UNIVERSITIES AND RESEARCH CENTRES

Palsgaard is dependent on attracting and maintaining a highly qualified workforce, and we see it as our duty to contribute to future generations' education at universities, technical academies and schools. We cooperate at several levels with educational institutions and research centres in Denmark and abroad.

Since 2009 in cooperation with the Faculty of Life Sciences at the University of Copenhagen (KU-Life), Palsgaard has funded an industrial research scholarship for a Ph.D. project at Palsgaard. Danish students and students from abroad also write final specialist papers at or about Palsgaard's laboratories and factories. Students also come to the company for periods of practical work experience as part of their education. These students are assimilated into daily routines but are assigned tasks that are specifically designed to help them learn and develop.

"My research project studies the effects of emulsifiers on individual components of low-fat and UHT-treated cream products and we expect that this knowledge will be useful in other connotations. It is important for me to work at a company which can use my research 'in real life' to create nutritionally better products and where my colleagues are genuinely interested in the knowledge I acquire."

Merete Bøgelund Munk,
Industrial research scholarship Ph.D. student,
Palsgaard/KU-Life

"At Palsgaard, we know from experience that any creative and efficient innovative environment must have wide margins and plenty of opportunities for thinking out of the box, which is why Palsgaard's research and development is conducted in an independent company, Nexus A/S. However, this does not and must never justify disregarding customers' needs, ignoring market trends or, worse still, failing to track scientific progress, the effect of which is often to accelerate innovation. Our product development must of course take place within the context of food safety, responsibility and sound ethical practices."

Viggo Norn, Director, Nexus A/S
(Palsgaard's research and development company)





Another way in which we collaborate with educational and research institutions is by mutual exchange of know-how in areas where interests coincide. Collaboration of this kind can either be formal or informal. Palsgaard also hosts study trips, corporate visits, etc. We see it as our duty to help foster a general interest in the natural sciences and in the chemistry, physics and technologies associated with foodstuffs.

FUTURE ENERGY REDUCTIONS IN OIL REFINING

By tradition, refining cooking oils was a complicated process with several energy-intensive sub-processes, including heating the oil to remove flavour-distorting compounds. At Palsgaard we have reaped the benefits of our comprehensive knowledge of the characteristics of oils and refining processes and have developed a new oil-refining process. The method comprises a simpler and gentler process which reduces energy consumption by up to 80%. The process is also shown to provide better utilisation of the raw material and a lower content of trans fatty acids. Palsgaard applied for the patent on this process in 2010. We expect that the new process will help improve oil-refining processes so that they become more cost-effective, more nutritious and help preserve the environment.

7. RAW MATERIALS AND SUPPLIERS

The raw materials used in Palsgaard's products comprise for the most part of different kinds of vegetable oils, gums (hydrophilic polysaccharides), starches and glycerine. Most of our suppliers are European companies, although many of the initial stages in these raw material value chains originate in other countries (e.g. palm oil and palm oil derivatives). There will therefore always be a certain risk that the standards for environmental and working conditions that we wish to uphold for our products are not fully implemented at earlier stages in the value chain – for example, there may be no relevant provision in local legislation or local requirements may be lower than the standards we wish to maintain.

Bearing this in mind, we have defined supplier conditions as an area for improvement in our CSR strategy.

SUPPLIER MANAGEMENT

Supplier management is currently an integral part of Palsgaard's quality management system. It aims to ensure that the raw materials supplied meet our standards for quality and reliability of delivery and that, in cooperation with our suppliers, we can create ongoing improvements

and optimisations, including checking during visits to our suppliers that food safety requirement standards (HACCP) are met and that we have a constructive dialogue with our suppliers on potential areas for improvement. In the future, we expect to use the goodwill we have built up over the years as a launch pad for more intensive and constructive dialogue with

suppliers on CSR in the early stages of the value chain. At the end of 2010 and in the early months of 2011, we have set up a project which is intended to build a more professional and more systematic approach to supplier management where CSR-related issues are concerned. We have established a supplier policy as a framework for our efforts in this area. The policy is the expression of our ambition to enter into partnership and dialogue with our suppliers on CSR, to make ethical responsibility in the supply chain a requirement, and to include CSR conditions when evaluating the merits of and choosing suppliers. Further, in our Code of Conduct, we have defined what we require of our suppliers and partners in terms of business ethics, human rights and labour standards.

Regardless of the initiatives we introduce, we must face the fact that bringing influence to bear on suppliers who are more than a single trade/production phase away from us in the value chain is a difficult and resource-intensive task. Palsgaard is a relatively minor player in a global market for the raw materials we buy and our chances of successfully demanding specific requirements for responsibility in the value chain and checking that such requirements are met, can only be described as minimal.

Meanwhile, the chances that we can succeed in promoting sustainability in the value chain by means of dialogue with suppliers and via certification standards are good.

PARTNERSHIP FOR SUSTAINABLE PRODUCTION OF PALM OIL

Palm oil is the most widely used cooking oil in the world. It is extracted from oil palms grown principally on plantations in South East Asia (primarily Indonesia and Malaysia). There is some concern about the impact oil palm cultivation may have on the climate and on the biodiversity of South East Asia. Plantation workers' working conditions are also the subject of some discussion. The situation has given rise to the Roundtable on Sustainable Palm Oil (RSPO), an organisation which has attracted broad-based support from all parts of the palm oil industry and from NGOs, and whose agenda includes social conditions and environmental impact. In 2007 the organisation established a certification standard based on a series of criteria for sustainable palm oil production under these seven principles:

1. Commitment to transparency
2. Compliance with applicable laws and regulations
3. Commitment to long-term economic and financial viability
4. Use of appropriate best practices by growers and millers
5. Environmental responsibility and conservation of natural resources and biodiversity
6. Responsible consideration of employees and of individuals and communities affected by growers and mills
7. Responsible development of new plantings

Palsgaard has been an RSPO member since early 2008 and we aim by the end of 2015 for all the palm oil we use to be RSPO-certified.



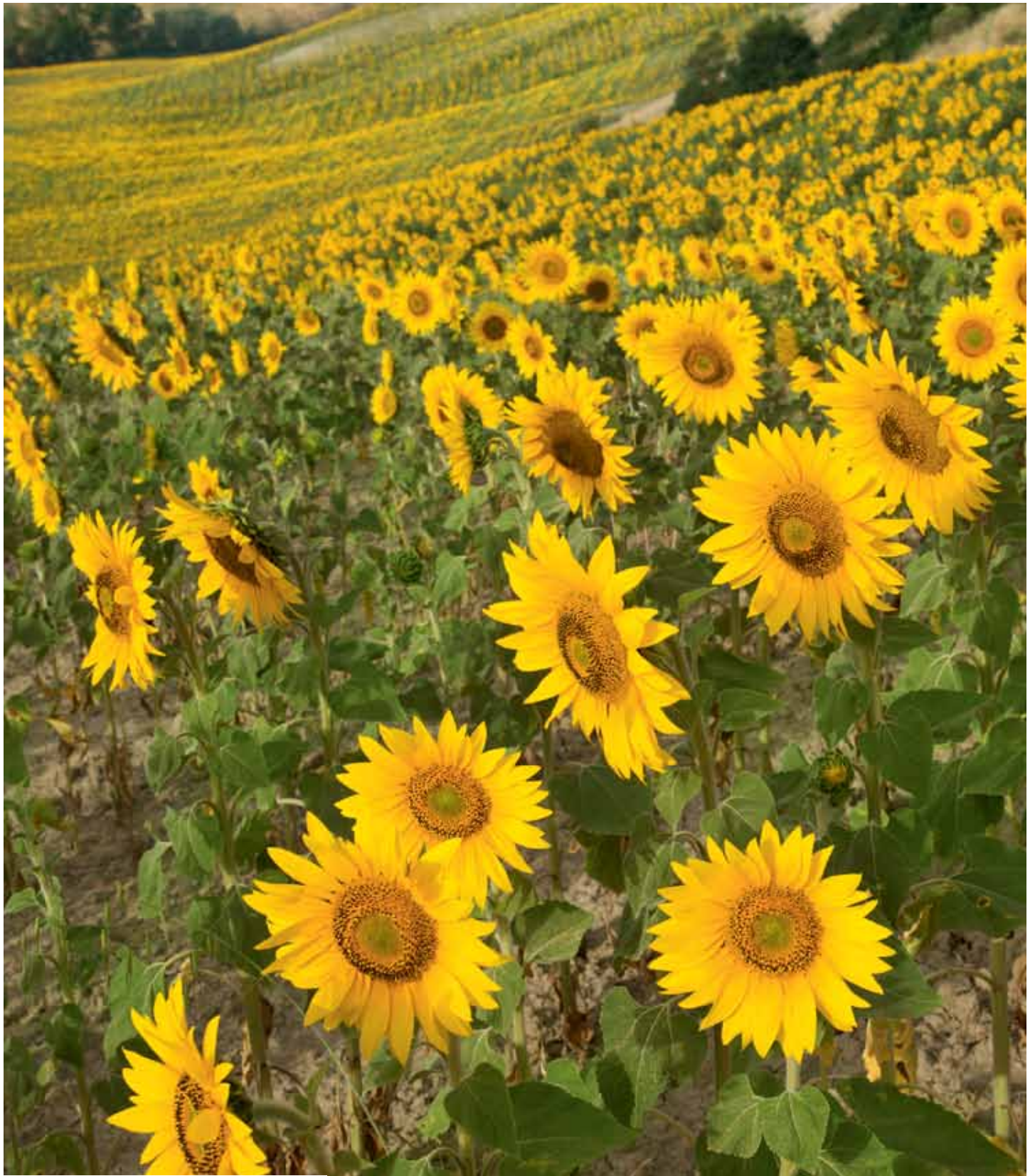
Guar gum



Alginate



Locust bean gum



Vegetable oil

8. OUR EMPLOYEES

The Palsgaard slogan 'heart working people' expresses the essence of our work culture: that our employees are committed and hard-working, and put their heart into their work. In our day-to-day cooperation with our customers we want our customers to view us as 'heart working people' who are deeply committed to resolving issues and who work persistently to service our customers.

As a foundation-owned company, Palsgaard is first and foremost driven by the desire to produce long-term development as opposed to focus on short-term optimisation of profits. The foundation structure provides us with a unique opportunity to be relatively open about our business objectives and, as described in section 5, one of the objectives of the Schou foundation is to ensure all our employees a good workplace, which is also the basis of the Palsgaard mission. To make these objectives operational, we have formulated a set of basic Palsgaard values – Loyalty, responsibility and commitment. These in turn have been made operational in our Code of Conduct. In our daily lives we comply as a company, as leaders and as employees with the values and with the Code of Conduct in order to create a safe, secure and stimulating workplace.

EMPLOYEE WELFARE AND RETENTION

The Schou Foundation's approach to the employees can be traced directly back to the time the estate was run as a farm with a large number of employees who typically worked on the estate all their lives. We strive to preserve the human spirit which down the years has provided our employees with sufficient freedom, security and opportunities for development to ensure that they remained at the company for many years. The philosophy originated with the founder of the Schou Foundation and is passed on as a basic premise in the Foundation's articles of association.

If we discover that one of our colleagues is not thriving, we do our utmost to tackle the issue and give our colleague plenty of space so that his or her problems can be solved in the best possible way. Our approach to our employees is built on the premise that allowances

must be made in a working life for strong and weaker phases, and that the workplace can contribute to easing the burden in difficult periods. For example, when an employee is absent due to long-term illness, we systematically conduct absentee interviews in order to clarify what individual initiatives can be taken to minimise leave of absence or adapt the position to suit new conditions. We can often offer an employee who has been absent due to illness the opportunity to start back part-time. We believe that a gradual return to the workplace is often beneficial for the individual employee. At Palsgaard we do our utmost to maintain or redeploy employees who are no longer able to fill their original position.

Palsgaard's employees are assured confidentiality and are welcome to seek career advice from our HR manager, and we also have mentors, who are trained to lend support to vulnerable employees. A mentor also lends support to people who come to Palsgaard from Danish municipal employment schemes to test their ability to work or to gain practical work experience. We also help people who have been absent from the labour market for a long time to find out what kind of work they are capable of.

LOCAL AND GLOBAL ANCHORAGE

The headquarters of the Schou Foundation is located in a small local community in Juelsminde, Denmark, where there are just under 4,000 inhabitants. We consider it our special responsibility as a responsible company to contribute to the town and to maintain close, long-term relations with our employees. This approach is an important constituent part of the Palsgaard culture and we seek to disseminate and adapt it in all the local communities in which our subsidiaries operate, depending on local conditions and needs in the countries in which we have employees.

In Mexico, our employees are offered participation in a 'Life Quality' Programme, which focuses on the individual employee's personal development and his/her family's welfare. The programme includes health and

accident insurance covering the employee and his/her immediate family and medical assistance at the company and in the home, and help and advice on medical treatment and health. We also offer our Mexican colleagues good opportunities for further training in their subject area or in foreign languages. These initiatives are unusual in Mexico and a contributory factor in ensuring that our employee turnover is low.

In Russia, we have set up insurance for the employees, which covers medical attention, ambulance service and hospitalisation.

In Holland we are continuously working to involve the workforce in key decisions, provide further training and make the workplace more healthy, safer and attractive in order to retain our employees. These initiatives have resulted in a very low rate of absence due to illness (2.3% in 2010) and not one employee has left the Netherlands-based company in the last three years.

We have set up regional application centres in Singapore and China to support sales and marketing of Palsgaard's products on the Asian market. Sandra Leong has worked in the Singapore office for ten years. Sandra believes that Palsgaard's culture is fully compatible with Singaporean culture:

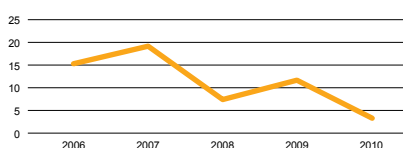
"We work together and help one another as if we were a family and we do not have razor-sharp divisions between areas of responsibility. The general atmosphere is cooperative and I recognise the same atmosphere when I visit headquarters in Denmark. As for management, I feel that there is generous understanding and flexibility for the individual, for example, if we are hit by personal tragedy or if we need to take care of a family member who is ill".



EMPLOYEE SATISFACTION

We consider the very low rate of employee turnover at Palsgaard and average seniority of more than 11 years in 2010 to be evidence of the fact that the individual employee feels a strong bond with the workplace. As we see it, Palsgaard's greatest strength is in having satisfied and highly motivated employees. We are firmly convinced that this not only saves us the costs involved in employing new staff but also provides invaluable continuity in our processes, helps maintain quality and, in the final analysis, also inspires our customers' confidence in us.

Figure 4. Employee turnover (%)



Every second year – most recently in 2009 – Palsgaard measures workforce satisfaction in Denmark on a number of parameters with a view to identifying areas for improvement. This is an important element in maintaining Palsgaard as an attractive workplace. When we implemented the survey in 2006, the figures showed that employees' satisfaction with their physical and mental working environment in some departments was under the desired level, which resulted in a total of 14 new initiatives designed to improve the situation. The activities were in particular focused on improving cooperation and understanding between different parts of the organisation and a better flow of information. The latest results from the 2009 survey show the satisfaction with our working environment is significantly improved.

There are often great differences between individual employees' wishes and expectations for the way their workplace is organised, the content of their work and challenges they face. Annual staff development interviews (known as 'MUS') ensure that individual expectations are harmonised between employee and manager, and that areas for improvement (if any) are identified. The MUS interviews are also intended to ensure that employees understand the Palsgaard strategy and values, and that the individual employee is aware of his/her responsibility and goals in relation to them. As a result of the employee satisfaction survey in 2006, we improved the MUS process, including placing more focus on defining skills and allocating resources to further training. We believe that this has helped create the improvements in employee satisfaction now seen.

WORKPLACE ASSESSMENT (APV), WORKING ENVIRONMENT AND SAFETY AT WORK

New Danish working environment legislation came into force in 2010, bringing new requirements for organising and documenting work on the working environment. Among other things, narrow focus on safety has been replaced by a wider view of the working environment so that initiatives must now also take the mental working environment into account. Palsgaard decided to be one step ahead of the new legislation and since 2001 our working environment organisation in Denmark has been adapted to match the new guidelines. This means that we have decentralised the work so that it is primarily driven by practically-oriented working environment groups with no formal reference to the legal divisions between the companies in the group. This reorganisation has been examined and approved by the Danish Working Environment Authority.

Palsgaard's working environment organisation comprises one working environment committee on each of the companies, Palsgaard A/S and Nexus A/S. In Palsgaard A/S, there are also seven working environment groups. The working environment organisation administers safety at work issues related to daily operating conditions and makes sure that annual workplace assessments (known as APVs) are prepared, and that work-related accidents and nearmisses are registered and assessed. These assessments form the basis for selection of areas for improvement and for setting goals for working environment work.

In 2010, the APVs and registration of nearmisses has resulted in identification of four important focus areas:

- Improve registration of nearmisses
- Risk of scalding during hot-water cleaning
- Transport on slippery floors
- Working environment information on our Intranet

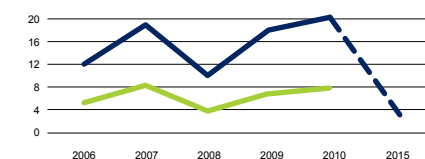
In addition, we have initiated specific initiatives designed to reduce sound from a specific plant, encourage the use of ear defenders, run first aid courses and introduce technical solutions to help avoid heavy lifting. In the Netherlands, the number of heavy lifts has been reduced by 90%. In Singapore in 2010 we installed sound-insulated cabins in the application plant and window film, which has improved the working environment.

In 2010, we registered 37 work-related accidents, of which 8 led to absences of one day's duration or more. This represents an increase compared to previous years and we appreciate the gravity of this unfortunate development. The accidents registered have been caused particularly by scalding and crushing and we will



for the future maintain sharp focus on preventing such injuries. During 2011 we will take steps to improve how we register and assess nearmisses in order to prevent accidents. This particular goal is part of an overarching goal for 2015 to reduce the rate of injury to less than 3 accidents per million working hours.

Figure 5. Working environment



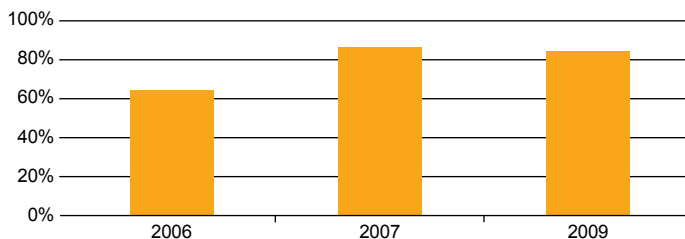
■ Rate of injury (accidents per million working hours)
 ■ No. of accidents leading to absence

PENSIONS SAVING AND PROFIT-SHARING SCHEME

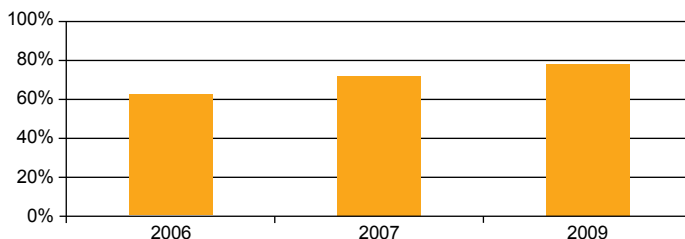
Since 1941, to give our employees financial security after the end of their working life at Palsgaard, we have offered all employees in Denmark participation in a unique pensions saving and profit-sharing scheme. The profit-sharing element is established via the Palsgaard Foundation's Pension Savings Association. The employer and the member (the employee) agree that the member pays in 2½ - 5% of salary. Then, based on the annual accounts, Palsgaard pays in a corresponding sum multiplied by a so-called 'assignment factor'. In recent years this factor has fluctuated between 0.9 and 1.6. The scheme was set up before the national retirement pension scheme was introduced in Denmark. Back in 1941, this was the first time ever that an employer and an employee had created a pensions savings scheme as a private agreement. The association remains, to our knowledge, the only association of its kind in Denmark.

FIGURE 6

The psychological working climate is good (partly agree or very much agree)



The physical working climate is good (partly agree or very much agree)



Development in the share of Palsgaard employees in Denmark who very much agree or partly agree that we have a good physical and mental working environment.



9. PRODUCTION AND THE ENVIRONMENT

As Palsgaard's headquarters is located in an area of natural beauty, we have a special incentive to preserve the local environment and are reminded every day that production must walk hand in hand with sustainability. Our commitment to the environment is written in a policy – our Environmental Policy, which obliges us to run our business responsibly, including ensuring that our environmental impact is continually reduced and that our natural surroundings are preserved and, if possible, extended. Our goal is to preserve the natural condition and beauty of the estate.

Palsgaard has conducted green accounting since 1996. These reports have mainly accounted for environmental conditions that are included in our environmental permits and the requirements required to be reported on in the green accounts. In connection with the development of the Palsgaard CSR strategy (see section 5), our work has included an assessment of the environmental conditions which we and our stakeholders consider important to the company. These conditions and their connection with our production processes are described below.

PROCESSES

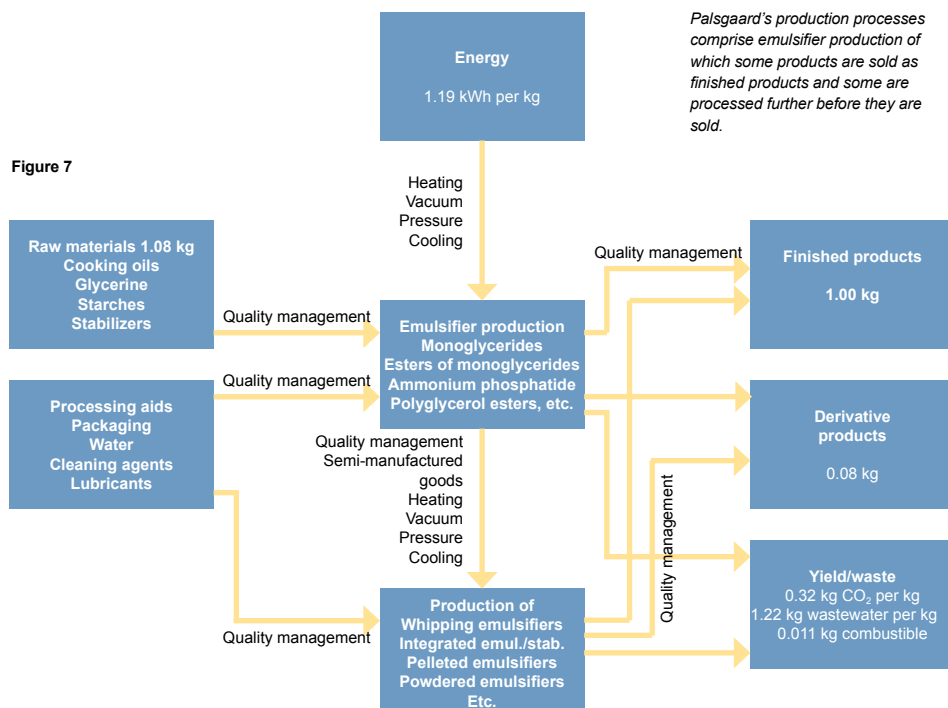
Palsgaard A/S' most significant production processes can be illustrated as in figure 7. The flow of materials and resources is calculated per kg of finished product.

ENERGY AND CLIMATE

Palsgaard Estate has a goal to achieve CO₂ neutrality for the entire group by 2020. Neutrality will be achieved by introducing a number of appropriate projects and initiatives, which both we and our stakeholders consider valid and suitable. In our opinion, the most sensible solution is first and foremost to focus on reducing our energy consumption to a minimum, and subsequently to neutralise remaining CO₂ emissions by other means. We aim therefore to reduce energy consumption per kg of finished product to 1.05 kWh per kg finished product produced.

For many years, Palsgaard has by tradition optimised and improved efficiency in production processes with a view to creating a balance between costs, quality and the environment. In 2005 we built one of the largest privately-owned strawfired heating plants in Denmark. This meant that we replaced heating fuel with straw from our own farming activities as a sustainable source of heat for the entire company and saved 1,900 tons CO₂ a year. In 2009 we decided to invest in projects with a view to further reducing our energy consumption and carbon footprint from our activities. These projects together are expected to reduce our energy consumption by about 1.2 million kWh a year.

1. At the close of 2009, we converted all our boilers, including steam boilers and heating oil boilers, from heating oil to natural gas. In 2010 we felt the full effects of the conversion. Together with the remainder of our ongoing energy-efficiency initiatives, the conversion has led to a reduction in our energy consumption from 1.26 kWh to 1.19 kWh per kg of finished product produced. CO₂ emissions from natural gas are 20% less than heating oil and, at the same time, the local environmental impact in terms of SO₂ and NO_x emissions is significantly reduced. Furthermore, we avoid more than 100 annual tank truck deliveries.
2. At the end of 2010, two of our large production plants were rebuilt to create a more energy-efficient construction. The primary objective of rebuilding these plants was to install regenerative heat exchangers, in order to increase heat recovery from 60% to about 80%.





RAW MATERIALS UTILISATION

At Palsgaard the yield on our raw materials is well over 90%. For many years we have been working to improve the utilisation coefficient on our raw materials and we have succeeded in creating improvements in a number of different areas. Through production scheduling we ensure that we make as few production changeovers as possible and that production batches are as large as possible. We aim to improve raw material utilisation even further so that by 2015 we will only need 1.04 kg raw materials to produce 1 kg of the finished product.

PACKAGING

Palsgaard's packaging quantities are generally small and account for less than 1.5% of product weight. By 2015 we aim to reuse 90% of our raw materials packaging and we strive continually to reduce packaging quantities – on incoming and outgoing goods. Our cardboard, plastic and paper packaging refuse is sorted. We sell pallets for reuse and external specialist companies process most of our packaging waste for recycling.

PRODUCT WASTE

Palsgaard produces only very small amounts of waste in production, and our production processes generate an appreciable quantity of derivative products. The majority of these derivative products are suitable for use as animal feed and are sold to specialist companies which process derivative products in feed mixes. A minor part of the derivative products is sold and used in biogas production. This portion is therefore not categorised as waste but rather as a derivative product. Quantities/volumes of waste and derivative products are shown in the data material in section 13.

WASTEWATER

Most of the wastewater from Palsgaard's production originates from cleaning tanks and duct systems. The wastewater contains residues of vegetable oils, fats, phosphor and nitrogen. The wastewater is treated in our own pretreatment plant before it is discharged to the municipal wastewater treatment plant. Palsgaard's pretreatment plant removes most of the fats, oil, proteins, phosphor and nitrogen.

To reduce the volume of wastewater we discharge into the municipal wastewater treatment plant, we are currently investigating the possibility of treating the wastewater in a treatment plant of our own. In 2010 we started a project which aims to treat wastewater using a willow plantation. This project is continuing in 2011 and current status is that soil surveys are being carried out with a view to identifying the most suitable location for a willow water treatment plant.

Our goal is to reduce our wastewater discharge to 1 litre per kg product by 2015. This reduction will be achieved by producing larger batches, reducing water consumption in the vacuum pumps and by using automatic valves on all hoses.

GROUND SPILLAGE

In 2004 Palsgaard discovered that an area of our land is polluted with tetrachloroethylene, a solvent which was used in production processes in the 1970s and 1980s. Consequentially we have implemented voluntary decontamination which is ongoing, and which will take several years to complete.

Figure 8. CO₂ emissions per kg product sold (kg)

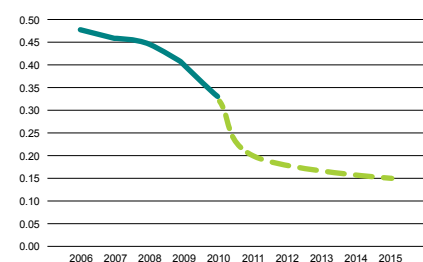


Figure 9. Energy consumption per kg product sold (kWh)

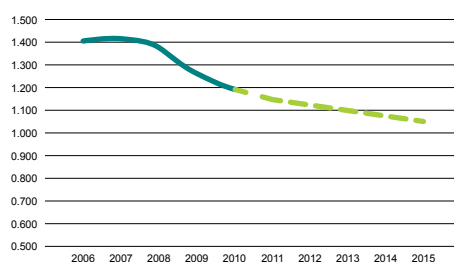


Figure 10. Wastewater discharge per kg product sold (liter)

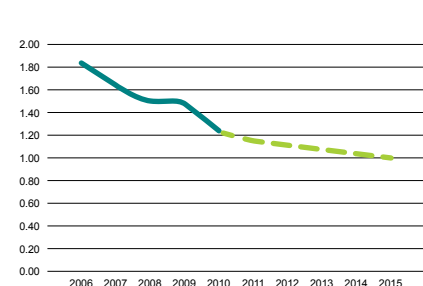
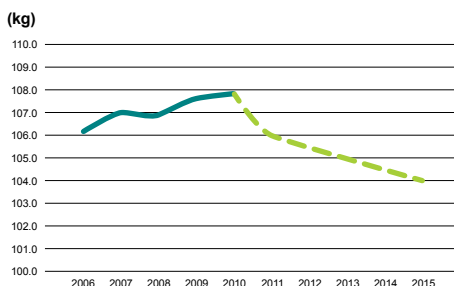


Figure 11. Raw material consumption per 100 kg product sold (kg)



■ Target



The current production plant is constructed to ensure that any spillage of raw materials or products cannot come into contact with the ground. Following our conversion to natural gas, all underground oil tanks have been emptied, cleaned and excavated, with the exception of a tank that is located under a building. This tank has been emptied and decommissioned in accordance with the regulations and presents no spillage risk.

ENVIRONMENTAL CONDITIONS AT OUR FACILITIES ABROAD

Palsgaard's production at the emulsifier factory in the Netherlands is covered by an environmental management system which ensures that important environmental conditions are systematically assessed and prioritised in order to establish targets and reduce the risks. The principal areas for improvement here are to reduce energy consumption and water withdrawal, to increase waste recycling and reduce noise levels. In recent years, Emulsion Holland has, for example, run 11 projects with a common aim to reduce energy consumption. The result has been to reduce consump-

tion of natural gas and electricity by about 13%.

In Mexico, Palsgaard has introduced a number of activities which have resulted in 'Clean Company' certification. The certification had been achieved by improving waste sorting, making energy savings, reusing packaging and actively involving the workforce. Among other activities, the company has contributed to replanting 130 hectares of forest, and donates used plastic drums to residential areas with no water laid on, where the drums function as water storage tanks.

In Singapore, we have implemented initiatives to reduce paper consumption and increase waste paper recycling and the local sales agents have cooperated with us in a campaign to encourage further recycling.

FORESTRY

Palsgaard owns a total of 2,840 hectares of forest in Denmark, Estonia and Latvia. In 2010 the Danish forest areas were PEFC-certified (Programme for the Endorsement of Forest Certification). The certificate means that our forests are managed on sustainable principles. The certification will be audited on a regular basis. The certification report states the following; "in terms of cultivation and administration, these forests are managed at a very high level, which includes sustainable principles related to costs, natural conservation and recreational conditions."



10. SALES AND LOGISTICS

It is characteristic of Palsgaard that we have a relatively large number of customers and partners at geographical locations that are far removed from our headquarters, which often presents us with challenges related to maintaining our network of contacts without travelling excessively. What this means is that our sales and logistics solutions have a certain effect on our products' CSR profile. We are in continuous dialogue with our customers and partners on how best we can ensure longterm and sustainable partnerships and how we via stock management and transportation can ensure that our product reaches the customer on time and under the most appropriate conditions seen from the CSR perspective.

MARKETING

It is crucially important to our sales that customers are aware of the full range of characteristics and options inherent in Palsgaard's food ingredients. As described in section 6, Innovation, our product development is often conducted in close partnership with our customers at our application centres in order to make certain that our products are as valuable as possible. The application facilities also function as demo labs where established and potential customers can test our food ingredients in their own products. The geographical spread of our laboratories reduces travelling distances and thus our carbon footprint.

Palsgaard's primary contact to the market is via our own sales representatives and by a number of independent sales agents, who cover a total of 98 countries on all five continents. Personal contact is supplemented by sales material which can be downloaded from our website or ordered in hard copy. To save resources, we advise people to

download from the website. However, under some circumstances, we find it necessary to distribute printed brochures, for example, when we visit customers and at trade fairs and exhibitions. To minimise the carbon footprint associated with printing, we have determined that all brochures produced in Denmark will be labelled in accordance with the Nordic Eco-label. These brochures account for about 95% of Palsgaard's total printed material.

Palsgaard's marketing materials contain e.g. product test results and we have always strived to provide completely objective data. These principles will be formalised further in 2011.

DIALOGUE WITH CUSTOMERS AND OTHER PARTNERS

Until recently, the distance between Palsgaard headquarters and markets in farflung corners of the world meant that meeting with subsidiaries and customers entailed a significant amount of travel. To reduce travel and make cooperation more efficient, in 2009 we installed video conference equipment at our headquarters and at seven of our subsidiaries. To date we have primarily used the video conference equipment for internal meetings. However, we aim in future to extend our use of the technology to form closer and more efficient ties with both our subsidiaries and our key account customers.

To further improve the dialogue between Palsgaard subsidiaries, sales agents, distributors and customers, in 2010 we began development of an Internet-based customer portal, which we expect to launch in 2011. The customer portal will provide customers with far more detailed information about our solutions. We will be able to exchange documents and we will ensure that customers have

access to the most up-to-date know-how via the site at all times. We expect this solution to help reduce the volume of physical postal mail, the number of potential sources of error and the volume of data traffic.

STOCK MANAGEMENT

Palsgaard's stock management system was implemented in 2008 and includes electronic localisation and management of raw materials, finished products and packaging. The stock management system has optimised our processes so there are fewer defective orders and production runs. In 2010, we ran a project which aimed at improving the stock management system. In tandem with our IT department, our warehouse staff played a pivotal role in implementing these developments. As a result of this cooperative project, our warehouse staff are more committed and better satisfied with their work and we have a system that is both geared to meet future requirements and tailored to meet our employees' needs.

TRANSPORTATION

As there are limited opportunities at Palsgaard's disposal to influence and act in the transportation area, we have for the time being decided not to set strategic CSR goals for transportation. The vast majority of our products are delivered to customers door-to-door by external carriers. A few of our customers choose to collect their products from the factory. Products from Denmark to the rest of Europe are transported by road, whereas overseas deliveries are sent by sea from Northern European ports. For both financial, logistic and environmental reasons, we strive to optimise our packaging formats and total weight transported so that we utilise cargo capacity to the full.





11. PRODUCT APPLICATIONS

Palsgaard's emulsifiers and stabilizers are primarily developed as ingredients in foods, e.g. bakery and dairy products, chocolate, ice cream, margarine products, mayonnaise, dressing, etc. The function of our products is to give food products the desired consistency and to ensure that they are stable and remain fresh, and, at the same time, to meet customer requirements for special food characteristics, e.g. reduced calorie content. Our products can also be used to support our customer's specific production processes so that food processing can be completed either more gently or at a lower temperature.

Many consumers have a generally sceptical attitude to food additives, which are commonly referred to as E-numbers. At Palsgaard, we see our food ingredient products as playing a positive role in matters of topical interest to consumers, e.g. low-fat products and food waste reduction, and we believe that food additives should be the subject of more nuanced debate. It is crucially important to us that our products provide foods with the desired characteristics and never constitute any kind of risk for the enduser's health. We strive therefore continually to improve food product safety and the nutritional characteristics of our products.

FOOD SAFETY

Palsgaard has introduced a food safety and self-regulation system to meet the requirements of Regulation (EC) 852/8004 relating to HACCP (Hazard Analysis and Critical Control Points). The objective is to identify specially critical points and to prevent risks by inspecting processes as opposed to merely checking the finished product. Furthermore, we have been quality certified in accordance with DS/EN ISO 9001 for many years.

To improve food safety even further, we have chosen to have our HACCP and quality assurance systems certified in accordance with DS/EN ISO 22000 and FSSC 22000. These standards are common to the entire product chain in food processing and are used in any branch of the industry and internationally. This means that it is possible to trace the product one link back and one link forward in the value chain. The system guarantees transparency and food safety. At Palsgaard we see certification as making it possible for us to supply food additives to those of our customers who require their suppliers to comply with the standard in every link of the product chain.

In connection with ISO 22000 certification, Palsgaard has a declared aim: we will never be forced to withdraw a product from the market due to a food safety violation. To date we have never been forced to do this.

In Spring 2010 we have carried out necessary work in preparation for ISO 22000 certification. We have set up a permanent interdepartmental organisation to investigate where processes are encumbered with risk, and we have taken the appropriate managerial measures and planned a system verification programme. During 2011 we will engage a thirdparty certifying body to conduct a primary audit of the system.

IMPROVING FOOD PRODUCTS' HEALTH PROFILE

At Palsgaard we strive continually to adapt our product range to match the latest know-how on the effects that food products have on consumer health and well-being. It is important to us that we make it possible to improve the nutritional profile of food and, at the same time, avoid undesirable contents in our products. For these reasons, we maintain special focus on product development to support the production of low-fat food products and minimise the trans fatty acid content in our products.





INGREDIENTS FOR LOW-FAT FOODS

In response to increasing consumer consciousness of the fat content in food, for some years now, Palsgaard has striven to develop products which can help maintain the consistency, taste and shelf life of low-fat foods. This applies, among others, to margarine, mayonnaise, cream, ice cream and chocolate.

For example, Palsgaard® 3-6-9 makes it possible to produce mayonnaise containing as little as 3% fat, and Palsgaard® IceTriple allows our customers to produce ice cream with only 5% fat, the quality of which is comparable with a traditional full-fat ice cream (10-12% fat).

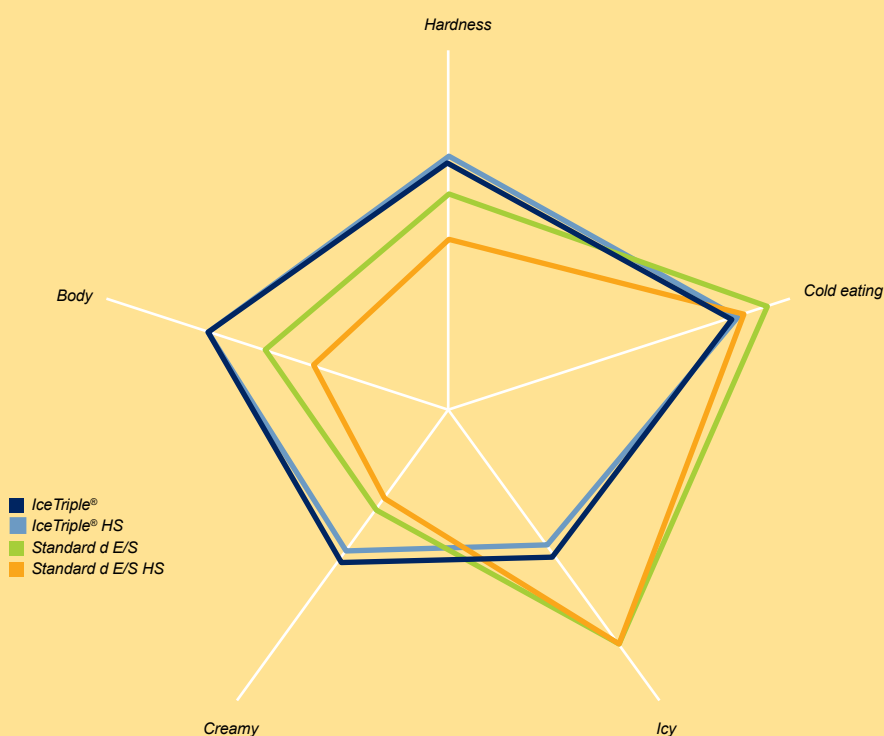
TRANS-FREE EMULSIFIERS

Since the 1990s it has become widely known that trans fatty acids (see box) can have a negative effect on health. We recognise that there may indeed be a connection between trans fatty acids and health, and that, among others, the industry has a responsibility to find a solution to the problem. Therefore, we work continuously to develop emulsifiers with a reduced content of trans fatty acids without compromising emulsifier functionality. Most Palsgaard emulsifiers has a content of less than 1% trans fatty acids. These can contribute to the development and production of foods with reduced levels of trans fatty acids. This is done without compromising the sensory quality and shelf life of the finished food.

What are trans fatty acids?

When oils are partially hardened, the molecular structure in natural vegetable oils and fats is transformed from the *cis* form to the *trans* form, and *trans* fatty acids are created in the process. Scientific research has shown that *trans* fatty acids can cause increased level of cholesterol in the blood and are therefore a contributory factor in claudication of the arteries and veins, increasing the risk of coronary thrombosis. For these reasons, the health authorities in many countries recommend generally that people reduce their intake of *trans* fatty acids.

Figure 12. Ice cream with 5% fat before and after HEAT SHOCK (HS)



One of the challenges presented by low-fat ice cream is that the texture tends to change when there are only very slight temperature fluctuations, e.g. during transportation from the supermarket to the consumer's deep freezer. The effect of Palsgaard® IceTriple, which was patented in 2010, is to significantly improve the values on the five parameters used to define the texture of ice cream.

E-NUMBERS

Most of Palsgaard's products are food additives, which are therefore registered with one or more E-numbers. The E-number system is the European Union's internationally-recognised classification system for food additives in food and beverage products. The E-number classification system ensures that a specific ingredient complies with identification and purity requirements on which the scientific toxicological assessment of the ingredient as content in an ordinary food product is based.

Some consumers, however, are generally sceptical about food additives and, therefore also sceptical about E-numbers. This scepticism is probably the result of the fact that some types of E-numbers are widely considered or can be construed to be added to foods for cosmetic reasons, i.e. to camouflage poor quality in a given food product. The vast majority of Palsgaard's products are based exclusively on raw materials of vegetable origin and/or other natural components and Palsgaard's products are intended for the improvement or maintenance of the structures and stabilities of food products in modern food processing. We have no intention at all of misleading the consumer as to the quality of any food product. By participating actively in stakeholder and industry organisations (cf. section 5), we encourage nuanced dialogue with the decision-makers and consumer organisations on issues of this nature.

"The food processing industry should be encouraged to research into improving production methods to ensure that consumers obtain a good and varied supply of food products containing as few additives as possible."

Tage Leegaard, Member of the Danish Parliament for the Conservative Party (K), food products spokesman, Source: altinget.dk, 16.12.10

"As consumers we have to insist that we know what we are buying. We want to know what we are putting our teeth into."

Bente Dahl, Member of the Danish Parliament for the Radical Party (R), food products spokes-woman, Source: Danish regional newspaper JydskeVestkysten, 15.02.10

To meet consumer demands for fewer E-numbers, Palsgaard has developed a range of ice cream stabilizers, which combines the characteristics of several ingredients so that the ice cream requires only one or two E-numbers to maintain a good consistency, long shelf-life and resistance to temperature fluctuations.

TECHNICAL APPLICATIONS

Palsgaard's products are also used in applications outside the food industry, where vegetable emulsifiers can be used in place of the traditionally-used petrochemical products in technical-chemical applications. Our emulsifiers are also used in a number of non-food connotations to help create emulsions or suspensions, for example, in skincare and cosmetics products, where the manufacturer sees our products as suitable because they originate from natural vegetable raw materials, or where he wishes to avoid certain chemicals which the Palsgaard products can effectively replace.

Other technical applications include the polymer and plastics industry, where Palsgaard's emulsions are selected for use as emulsifiers to prevent condensate or static electricity forming on plastic surfaces. We have therefore mapped the health and environmental characteristics of this kind of emulsifier in order to achieve registration in accordance with the European REACH regulations (for the registration, evaluation, authorisation and restriction of chemical substances). Our sustainable, vegetable emulsifiers mean that we are making a contribution to the transition to production methods using fewer fossil fuelbased raw materials.

REDUCING FOOD WASTE

The volume of food products that end up as waste rather than being consumed is the subject of increasing public concern – and not without reason. Research shows that the proportion of food products that ends up as waste at some stage of the food production chain and by the consumer is 30-50%, which is unacceptable for environmental, social and environmental reasons. Food waste was a topic discussed at the "Transforming Food Waste into a Resource" conference in the EU Parliament at the end of 2010, one of the results of which were proposals for an obligation to reduce global food waste by at least 50% before 2025 and to make this one of the UN Millennium Development Goals.

At Palsgaard, we believe that we can make a positive contribution to this agenda on the strength of the fact that our emulsifiers and stabilizers contribute to increasing the shelf life of food products, meaning that they keep fresh for longer. At the same time, we have achieved a high degree of utilisation of our raw materials and found uses for recycling production waste.



12. OUR CONTRIBUTION TO SOCIETY

Apart from contributing to society, for example, by virtue of the characteristics of our products and their adding value to food products, and of creating employment, we contribute to society directly by making donations, and by maintaining and preserving areas of natural beauty, and by paying taxes. Our commitment to social causes is rooted in our mission to create a workplace with highly motivated and cooperative employees. Our commitment to society is intended to make sure that our employees are proud to work at Palsgaard, that they thrive under these conditions and that they want to make a visible difference. We also hope that our commitment to the local societies in which we operate means that we maintain a positive relationship with our neighbours and the local authorities, and that we help promote health and skills development at the local level.

COMMITMENT TO LOCAL SOCIETY

By a tradition dating back more than a century, The Palsgaard Estate has been committed to the local community to which it belongs. Down the years, Palsgaard and the Schou Foundation have made donations to the local community, providing facilities for the benefit of the local population. Some of the most important contributions include access to the Manor library, donation of Juelsminde Church, a donation of 16.5 hectares of land for the Hellebjerg Sports and Youth School, and the establishment of Juelsminde golf course. To reduce the volume of heavy traffic which caused inconvenience in a nearby residential area, we have lobbied for an alternative route that diverts heavy traffic away from the area. We succeeded in cooperating with Hedensted Municipality. Palsgaard has donated an area of land to the municipality in exchange for which Hedensted Municipality has had the new road built.

Palsgaard has consistently maintained a tradition for contributing to and providing financial support to the local community and especially to voluntary work in connection with local sports and leisure activities. We have made contributions to a number of different facilities and activities, some of which are described below.

In Mexico we have entered into partnership with the CTDUCA organisation, which is working to help juvenile Down's syndrome sufferers to become better prepared to learn. Research has shown that these children are allergic to milk products and have special nutritional needs in the form of specific amino acids which help mature their brain and central nervous system. Our Mexican development team has developed a whey protein-based milk substitute which contains these important amino acids. The project has produced positive results for the children but the CTDUCA lacks the resources necessary to produce scientific evidence for the effects of the special diet. On behalf of the organisation, Palsgaard has applied to the national science and technology centre for support to finance clinical investigation of the effects.

In 2010 we invested in a heart defibrillator. This is located outside the reception at Palsgaard A/S so that everyone in the area can use it at any time – even when the offices are closed. In this connection, the local inhabitants, associations and the school were invited to attend an information meeting.

We have worked in partnership with the Danish Heart Foundation to set up the Juelsminde Heart Path on our land. 'Heart paths' have been set up to encourage people to take exercise to promote health and prevent lifestyle diseases. Mr Troels Lund Poulsen, who was Danish Minister for the Environment at the time, officially opened the Juelsminde Heart Path in summer 2010.

We have lent our support to school trips to the company for the local schools. We take schoolchildren on for work experience and we visit local schools to inform them of apprenticeships at the company.





**WE'RE PART OF
THE LOCAL FIRE BRIGADE**

Since 2002 a part of the Juelsminde fire brigade has consisted of a group of Palsgaard employees, who are permitted to take part in fire drill and firefighting exercises during working hours. The fire brigade's tender truck is garaged on our land too. The 'old' Juelsminde Municipality found it difficult to maintain a fire brigade that could be called out during the daytime. This unusual fire service is the result of an agreement between Falck, the "old" Juelsminde Municipality and Palsgaard, and has effectively resolved the municipality's problem.

In cooperation with the local authorities, we welcome people in a variety of work-related situations: job capacity assessment, flexijobs and practical work experience. In 2010, we accepted five people in capacity assessment positions, four in flexijobs and five in practical work experience placements.

We place the park free of charge at the disposal of the independent amateur theatrical society, Palsgaard Sommerspil. The society has more than 350 members. It produces performances in Palsgaard Park every summer and makes a valuable contribution to local culture. In recent years, the musicals have attracted up to 15,000 visitors in a season.

In 2011 we are planning a new project in cooperation with schools in the Horsens district. The aim is to increase knowledge of the natural sciences among senior school students (16-19 years).

HUMANITARIAN SUPPORT

In 2010 two major natural disasters resulted in the need for emergency aid in Pakistan and Haiti. In both cases, Palsgaard made a contribution to organisations providing emergency aid to the victims. During the

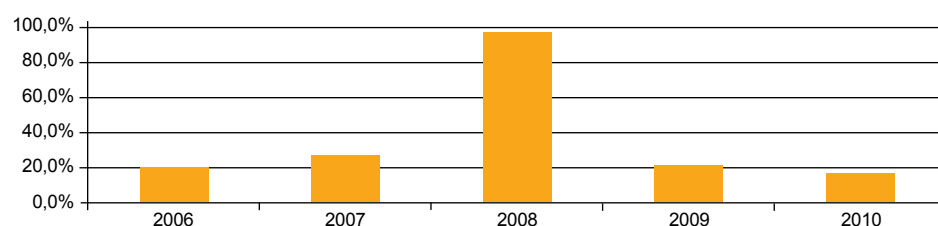
Christmas period of 2010, Palsgaard donated a sum to BØRNEfonden (an independent Danish children's aid foundation) instead of giving Christmas presents to customers.

One of our employees in Singapore is from the Philippines which was hit by disastrous floods in 2009. Palsgaard has sent a donation to help this employee's family to rebuild their lives.

RESPONSIBLE TAX

A significant part of Palsgaard's contribution to society is through payment of corporate taxation. We have openly declared our belief that taxes should be paid in the country in which income is earned. Palsgaard is an international company and we are subject to different taxation conditions in the various countries in which we operate. It goes without saying that we comply with the legislative requirements of these areas. We engage in reasonable negotiations with our subsidiaries on the prices of our products with a view to setting our prices in accordance with the normal market conditions and we thus ensure that the income is taxed where it is generated.

Figure 13. Effective tax rate



Palsgaard's effective tax rate (see calculation method p. 36). The high tax rate for 2008 is due to the Group's very low profit this year, which, together with the correction for the difference between Danish and foreign rates, result in a high effective tax rate.





13. DATA OVERVIEW

Indicator	Unit	2006	2007	2008	2009	2010
Energy						
Energy consumption, total	kWh per kg finished product	1.40	1.40	1.36	1.26	1.19
Energy consumption, electricity MWh		10,439	10,554	11,140	10,946	11,215
Energy consumption, fossil fuels MWh		26,278	31,618	33,059	31,905	32,845
Emissions						
CO ₂ -emissions	kg per kg finished product	0.47	0.45	0.44	0.40	0.32
CO ₂ -emissions	tons	12,314	13,658	14,406	13,438	12,029
NO _x -emissions	kg	20,907	26,011	25,652	23,749	6,142
SO ₂ -emissions	kg	19,929	23,671	25,217	19,556	1,406
Water						
Water consumption	m ³	93,800	110,600	113,936	110,646	136,289
Wastewater discharge	l per kg finished product	1.84	1.65	1.50	1.47	1.22
Wastewater discharge	m ³	48,064	49,667	48,568	49,820	45,393
Derivative products and waste						
Derivative products	kg per kg finished product	0.06	0.07	0.07	0.08	0.08
Waste (combustible)	kg per kg finished product	0.015	0.014	0.014	0.011	0.011
Waste (combustible)	tons	377	400	429	339	360
Chemical waste	kg	2,080	2,810	9,260	13,460	8,385
Compliance with official requirements						
No. of transgressions	No.	0	0	0	0	0
Working environment						
Accidents, total	No.	5	8	4	7	9
Accidents, CN	No.	-	-	-	0	0
Accidents, DK	No.	5	8	4	7	8
Accidents, NL	No.	0	0	0	0	1
Accidents, MX	No.	0	0	0	0	0
Rate of injury, DK	No. per million working hours	12	19	10	18	20
Employee matters						
Employee turnover	Seniority (years)	15.16%	19.92%	7.5%	11.8%	4.4%
Tax						
Calculated tax rate	%	20.1%	26.9%	98.3%	21.2%	16.6%

14. REPORT FROM CSR AUDITOR

ASSURANCE REPORT

TO THE MANAGEMENT OF PALSGAARD*

We have reviewed the Palsgaard CSR Report 2010 ("the Report"). The purpose of our review was to submit an assurance report on data in the Report and on the adoption of GRI Sustainability Reporting principles as a basis for the Report. The Company's Management is responsible for the Report. Our responsibility is to express a conclusion based on our review of the Report.

SCOPE OF REVIEW

We conducted our review in accordance with the Danish Standard on Assurance Engagements, RS 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information". The objective and scope of the engagement were agreed with the Management of the Company and included the subject matters on which we express our conclusion below.

Based on an assessment of materiality and risks, our work included analytical procedures and interviews as well as a review on a sample basis of evidence supporting the subject matters. We believe that our work provides an appropriate basis for us to express a conclusion with a limited level of assurance on the subject matters. In such an engagement, less assurance is obtained than would be the case had an audit-level engagement been performed.

CONCLUSION

During our review, nothing has come to our attention that causes us not to believe:

- 1) that the data in the Report are in accordance with the reporting practice described in section 2 and section 15, and information reported by manufacturing and other business units, and
- 2) that Palsgaard does apply a reporting practice for its CSR reporting aligned with the GRI reporting principles. The GRI Index presented on pages 38-39 appropriately reflects where relevant information on each element and indicator of the GRI reporting guidelines is presented.

Copenhagen, May 17, 2011

DELOITTE

Statsautoriseret Revisionsaktieselskab

Preben J. Sørensen

State-Authorised Public Accountant

* The entities included in "Palsgaard" are defined on page 3.

Member of Deloitte Touche Tohmatsu

15. REPORTING PRACTISE

The basis data for this report covers the entities stated in the table. All data for resource and raw materials consumption and finished products comprises only production units. Data has been gathered to the extent it has been accessible within the boundaries of our existing systems. We will continuously seek to include more entities into the reporting of data, so that in future we may be able to present a more complete picture of the company.

Indicator	Basis data M=measured C=calculated E=estimated	Calculation method	Entities included in the data P: Palsgaard A/S & Nexus A/S EH: Emulsion Holland MX: Palsgaard Mexico DK: All entities in Denmark C: Palsgaard China
Raw materials consumption	C	Volumes concerning this year's production are primarily based on its purchasing statistics, production reports and status/counts	P
Energy consumption, electricity	M	Electricity consumption established on the basis of statement from the electricity supplier	P, EH, MX, C
Energy consumption, fossil fuels	M	Consumption of natural gas and oil measured by meter readings	P, EH, MX
Energy savings	C	Results of energy-saving initiatives are calculated on energy consumption relative to the volume of finished products	P
Water consumption	M	Water consumption is calculated on our own measurements	P
Emissions	C	The emission factor used is the latest available data from Dong Energy's electricity declaration for West Denmark, which is based on Energinet figures. CO ₂ , NO _x and SO ₂ emissions from fossil fuels are calculated as consumption multiplied by the current standard factors developed by: Dansk Gasteknisk Center A/S on the assumption that combustion is complete.	P, EH, MX, C
Wastewater	M	Wastewater volumes are determined on the basis of meter readings at the wastewater plant. Wastewater volumes are less than water consumption due to the fact that much of the water evaporates in the cooling towers.	P, EH, MX, C
Finished products	C	The volume of this year's finished products forms the basis for environmental indicators and measurements, which are stated per kg finished products. The figures are primarily based on the sales statistics, production reports and status/counts.	P, EH, MX
Derivative products	C	The derivative product figures are primarily based on sales statistics, production reports and status/counts.	P
Waste (combustible)	M	Waste volume figures are calculated on the basis of invoices from the companies which received the waste.	P
Chemical waste	M	Chemical waste figures are calculated on the basis of weight sheets from the companies which received the waste.	P
No. of transgressions	M	The number of transgressions is calculated as the number of transgressions related to conditions for which measurements are required.	P, EH, MX
Work-related accidents	M	Work-related accidents are calculated on the basis of accidents registered for all employees, for whom an accident resulted in more than one day of absence.	P, EH, MX, C
Frequency of injury	C	Frequency of injury has been calculated per million hours worked.	P
Employee turnover	C	Employee turnover and average seniority are calculated on the basis of data extracted from the Palsgaard salary system.	DK
Employee satisfaction	M	Employee satisfaction is based on Palsgaard's employee satisfaction analysis, which is carried out every two years and include all employees in Denmark	DK
Personnel data	C	Number of employees and workinghours are calculated on the basis of data extracted from the Palsgaard salary system.	P, EH, MX
Tax	C	The effective tax rate is based on the financial report and the tax return scheme. It has been calculated by our external audit.	DK, EH, MX, C

“GILDEHALLEN”

From the very beginning, emphasis has been on making Palsgaard an attractive workplace. The establishment of the “Gildehallen” is just one example of this. The hall was used for social events and also held a library open to employees as well as the local villagers. The library no longer exists but the “Gildehallen” continues to hum with activity. It is used for gymnastics, badminton and social Palsgaard events. The “Gildehallen” is most likely inspired by The Recreation Hall at Southall, which Einar Viggo Schou helped build in 1911.



16. THE GRI TABLE

The GRI table is based on GRI guidelines version 3.0. Two indicators have been omitted pursuant to the possibility of omission ('reasons for omission') for competitive reasons.

GRI reference	Description	Indicator – reference to report or statement of indicator	Section
Profile indicators			
1.1	Statement from the most senior decisionmaker of the organization about the relevance of sustainability to the organization and its strategy.	Message from the CEO	4
2.1	Name of the organization	Name of the organisation	2
2.2	Primary brands, products, and/or services.	Products	3
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	Organisation	3
2.4	Location of organization's headquarters.	Main offices	Back cover
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Geographical spread	3
2.6	Nature of ownership and legal form.	Ownership structure	3
2.7	Markets served	Salgsorganisation	3
2.10	Awards received in the reporting period.	Palsgaard has received no awards in the reporting period	-
3.1	Reporting period for information provided.	Reporting year	2
3.2	Date of most recent previous report	This is Palsgaard's first CSR Report	-
3.3	Reporting cycle	Frequency of reporting	4
3.4	Contact point for questions regarding the report or its contents.		Back cover
3.5	Process for defining report content, including: <ul style="list-style-type: none"> • Determining materiality; • Prioritizing topics within the report; and • Identifying stakeholders the organization expects to use the report. 	The sustainability agenda	2 and 5
3.6	Boundary of the report	Scope of the report and scope of data	2 and 15
3.7	State any specific limitations on the scope or boundary of the report	Scope of the report and scope of data	2 and 15
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations	Legal entities covered by the report	2
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	Basis data	15
3.12	3.12 Table identifying the location of the Standard Disclosures in the report	GRI table	16
3.13	Policy and current practice with regard to seeking external assurance for the report.	Endorsement	14
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight	Governance structure and distribution of responsibilities	5
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	The CEO of the Schou Foundation is also the CEO of Palsgaard Estate A/S.	5
4.3	For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	Three Board members, one of which is a woman	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Palsgaard has no such mechanisms	
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	Palsgaard's Mission, vision, values and Code of Conduct are based on the principals of UN's Global Compact	5
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: <ul style="list-style-type: none"> • Has positions in governance bodies; • Participates in projects or committees; • Provides substantive funding beyond routine membership dues; or • Views membership as strategic 	Membership of organisations	5
4.14	List of stakeholder groups engaged by the organization.	Stakeholders	2
4.15	Basis for identification and selection of stakeholders with whom to engage.	Process for selection of stakeholders	2 and 5

GRI reference	Description	Indicator – reference to report or statement of indicator	Section
Performance indicators (C= core-indicator)			
EN1 (C)	Materials used by weight or volume.	Raw materials consumption	9
EN3 (C)	Direct energy consumption by primary source.	Energy consumption, total	9
EN3 (C)	Direct energy consumption by primary source.	Energy consumption, split into electricity and fossil fuels	13
EN5	Energy saved due to conservation and efficiency improvements.	Energy savings due to optimisation	9
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Energy-saving products	6
EN8 (C)	Total water withdrawal by source	Water consumption	13
EN13	Habitats protected or restored.	Conservation of natural areas	9
EN16 (C)	Total direct and indirect greenhouse gas emissions by weight.	CO ₂ emissions	13
EN20 (C)	NO, SO, and other significant air emissions by type and weight.	NO _x and SO ₂ emissions	13
EN21 (C)	Total water discharge by quality and destination.	Wastewater	13
EN22 (C)	Total weight of waste by type and disposal method.	Waste	13
EN23 (C)	Total number and volume of significant spills.	Ground spillage	9
EN28 (C)	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	No. of transgressions	13
LA7 (C)	Rates of injury, occupational diseases, lost days, and absenteeism, and number of workrelated fatalities by region.	Accidents, rates of injury, and geographical distribution. Palsgaard has not had any fatal accidents.	8 and 13
LA8 (C)	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	Support for medical assistance and treatment	12
SO1 (C)	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	Contribution to local community	12
SO5 (C)	Public policy positions and participation in public policy development and lobbying.	Contribution to local community	5
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services, by type of outcomes	Food safety	11
PR3 (C)	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	E-number labelling	11
EC8 (C)	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, inkind, or pro bono engagement.	Contribution to public roads, school, etc.	12
FP4 (C)	Nature, scope and effectiveness of any programs and practices that promote access to healthy lifestyles; the prevention of chronic disease; access to healthy, nutritious and affordable food; and improved welfare for communities in need (sector-specific).	Ingredients for low-fat food products and emulsifiers that are free of trans fatty acids	11

For further details of the GRI standard and terms used in the table, please refer to www.globalreporting.org.

we are experts in emulsifiers and stabilizers for bakery, confectionery, dairy, ice cream, margarine and fine foods - and we are happy to share our expertise. our company values can be defined in just three words: **loyalty, responsibility** and **commitment**. we aim to be the preferred partner and supplier of quality products, application service and know-how to regional and multi-national food companies. to Palsgaard **loyalty** means that we act as a reliable and honourable business partner for our customers. we treat information confidentially and know how to keep a business secret. to Palsgaard **responsibility** means caring about the environment and being aware of our corporate social responsibility; we have a goal to be CO₂ neutral by 2020 and are members of SEDEX and RSPO. to Palsgaard **commitment** means we are dedicated to getting the best results for our customers' products - to the benefit of their customers. we care about our employees and have a declared aim that Palsgaard must be a pleasant place to work. Palsgaard we know that our most important resource is the know-how and dedication found in our employees. **Heart** we are committed to getting the best results with our products in our pilot plants and in your facilities. **Working** at Palsgaard we don't sell standard solutions - we start with your needs. Palsgaard - Heart Working **People** heart work is the best way to achieve success - let us help you get it. our products are produced according to the strictest quality criteria. we are experts in emulsifiers and stabilizers and we are happy to share our expertise with you. let our pilot plants help you shorten the step between idea and your new product. heart work is the best way to succeed - let us help you do so.

Palsgaard®
 Heart working people

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