

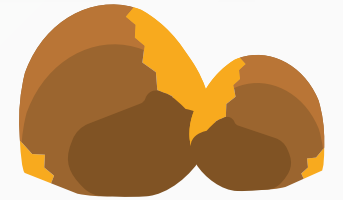


FERRERO®

ANNUAL HAZELNUT PROGRESS REPORT 2023



FERRERO HAZELNUT CHARTER



01

HUMAN RIGHTS AND SOCIAL PRACTICES

Ferrero committing to joyful growth and child protection across its sourcing



02

ENVIRONMENTAL PROTECTION / SUSTAINABILITY

Ferrero applying the principles of regenerative agriculture on its farms and across selected territories



03

SUPPLIER TRANSPARENCY

Ferrero achieving full traceability to farm level for all its sourcing

The three pillars are founded on a **DUE DILIGENCE PROCESS** which covers all Ferrero suppliers.



KEY FIGURES ON FERRERO'S PROGRESS IN 2023

PILLAR 1

HUMAN RIGHTS AND SOCIAL PRACTICES



4,518

Children engaged

through collective engagement and partnerships

*(17,754 in the first 3 years of the **Hazelnut Charter** deployment)*

PILLAR 2

ENVIRONMENTAL PROTECTION/SUSTAINABILITY



405

Farms audited

against Ferrero Farming Production Standard *(1,163 in first 3 years of the **Hazelnut Charter** deployment)*



4

Farm Management Plans

deployed at our Agrifarms with integration of the Regenerative Agriculture principles



3

Agrifarms certified

under the **Sustainably Grown Standard**

PILLAR 3

SUPPLIER TRANSPARENCY



90,3%

Total sourced hazelnuts traced back to farms



100%

Hazelnut suppliers **acknowledged the Supplier Code**



FERRERO – RESPONSIBLE SOURCING APPROACH





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

FERRERO HAZELNUT CHARTER

The **Hazelnut Charter** lays out our requirements and commitments for producing and sourcing hazelnuts responsibly. In line with our **Supplier Code** it also sets specific short-term objectives.

2023 ACTION PLAN FOR HAZELNUT

Our **Annual Hazelnut Action Plan** outlines the key indicators we measure in order to meet the commitments under each pillar of our Charter.

RESPONSIBLE SOURCING APPROACH	CHARTER REQUIREMENTS AND COMMITMENTS	KEY INDICATORS
 Programme(s)	PILLAR I: Human Rights and Social Practices	<u>Joyful growth</u> : number of children reached <u>Community Investment</u> : Deployment of the community development pilot project in targeted areas in Türkiye
 Standards and Certifications	PILLAR II: Environmental Protection and Sustainability	<u>Certified Sustainable Grown farms</u> <u>'Farm Management Plans'</u> deployed at Ferrero farms
 Supply Chain Visibility	PILLAR III: Supplier Transparency	<u>Traceability</u> : % of hazelnuts traced back to farm level through the Sourcemap platform <u>FFV Production Standard and Sustainably Grown Certification</u> : number of audits performed
 Supplier Risk Management Due Diligence	Basic Requirements: Due Diligence	<u>Supplier Code</u> : % of suppliers that acknowledge the Supplier Code



PILLAR I: HUMAN RIGHTS AND SOCIAL PRACTICES

Fostering a more equitable value chain for the people producing hazelnuts.

Commitment: Joyful growth and child protection across Ferrero’s sourcing.

There are around 600,000 hazelnut farmers globally, of whom around 550,000 are in Turkey – the world’s largest producer of hazelnuts and one of our main sourcing countries. The hazelnut supply chain in Turkey is highly fragmented, with hazelnuts mainly grown on small family orchards. Hazelnuts, like many other agricultural crops in Turkey (including citrus, grapes and sugar beet), are harvested by migrant workers who harvest different crops over several months.

Many of these seasonal workers travel with their families and lack access to schools and childcare. Child labour has also been documented across the agricultural sector in Turkey, including hazelnuts where migrants can work for 4-6 weeks a year.

For Ferrero, child protection means a commitment to preventing and eliminating child labour all along our value chain, allowing every child to experience joyful growth through a right to education and a safe environment.

How is Ferrero working on this commitment?

Tackling child labour in the agricultural sector requires a long-term, collective response. We are engaged in a range of initiatives and activities, such as supply-chain traceability and risk assessments, building capacity at national level and throughout the supply chain, raising awareness of the issue, and the development of projects to improve working and living conditions for seasonal workers and their families, including a focus on child education and healthy development.

Ferrero is a key player in the **CAOBISCO** and **International Labour Organization (ILO)** partnership in Turkey, set up in 2013. This partnership has established projects aimed at building capacity, raising awareness, and establishing ways to directly intervene to protect against child labour, for example by providing educational activities and material support (education materials, hygiene kits and clothing sets).

Since November 2020, Ferrero has also been working directly with the ILO in a Public-Private Partnership (PPP) directly supporting a multi-year project helping eliminate child labour in hazelnut harvesting in Türkiye.

Child protection is also an important part of our **Ferrero Farming Values (FFV)** sustainability programme, which has been active in Turkey since 2012. Our FFV team in Turkey is present on the ground, running training and audits and engaging with farming communities to raise awareness and improve social practices.

From the outset, our FFV team in Turkey has been working closely with the District Directorate of National Education, the Provincial Directorate of Ministry of Health and the Turkish Labour Agency.



What steps have been taken in 2023?

Through our **FFV** programme and our work with the **ILO** (via PPP & **CAOBISCO**), activities now cover all our hazelnut sourcing areas in Türkiye. In the 2023 growing season, we engaged with more than 4,500 children of seasonal agricultural workers in Türkiye, providing educational activities to promote joyful growth in partnership with the ILO, with Ferrero’s hazelnut suppliers, and alongside the activities of our FFV team and local Partners and Authorities (Düzce Ministry of National Education, TEGV and Giresun University).

Through our activities and partnerships, we also distributed educational and hygiene kits for families and, in collaboration with local municipalities, established sanitation units for families within the temporary accommodation of seasonal agricultural workers.





Year 2023: Counselling sessions and material support provided

SUPPORT PROVIDED	NUMBER OF BENEFICIARIES IN TURKEY
Educational materials for children	3,514
Nutritional support for children	3,826
Transportation support for children	2,289
Social and cultural activities for children	4,914
Health/hygiene kits for children	2,098
Clothing sets for children	2,873
Counselling sessions for family members	2,272
Food and hygiene cards/vouchers	522

DEEP-DIVE ON OUR PRIVATE – PUBLIC – PARTNERSHIP WITH ILO

Activities on the Ground

In the third year of implementation, the project further expanded its geographical scope and the scope of activities, building upon the experiences and learnings from the previous years of implementation. As the introduction of the project to national and local stakeholders in Trabzon, Zonguldak, and Samsun – to ensure their ownership and participation in project activities – were sustained from previous years, the support continued to run smoothly this year. Recognising the need for enhanced living and working conditions of seasonal agricultural workers, their families and children, a new project was launched to help improve workers lodges. This activity was built into the existing project and feasibility studies were conducted. Ordu, Sakarya, and Düzce were added as new project provinces, specifically aligned with initiatives aimed at improving living and working conditions. In addition, Ordu was integrated as a new project province for direct intervention activities.



Earthquake Response

A devastating earthquake with a magnitude of 7.8, and an epicentre in the Pazarcık district of Kahramanmaraş province, hit South-eastern Türkiye on 6th February 2023. The earthquake affected ten provinces where many seasonal agricultural workers and their families reside, including the project province Şanlıurfa, Adiyaman and Diyarbakır. After the earthquakes, the affected provinces faced several social and humanitarian challenges.

We agreed with the **ILO** to urgently mobilise necessary resources from the existing PPP budget to Adiyaman.

Seasonal agricultural workers and their families affected by the earthquake were also supported through material distributions such as dry food kits, children’s hygiene kits and women’s hygiene kits.

In addition, the ‘Earthquake Response’ activity was integrated into the project and Adiyaman was added as a project province for the Earthquake Response initiative, to provide long-term support to both families and children.

As of May 2023, a child-friendly support centre was established in K-2 Container City in Adiyaman, which was selected in consultation with the governorship and the Provincial Directorate of the Ministry of Family and Social Services, and psycho-social support activities in the support centre were initiated.



PILLAR II: ENVIRONMENTAL PROTECTION/SUSTAINABILITY

In partnership with farmers and suppliers, we foster the principles of regenerative agriculture to enhance all components of the environment and farmers’ wellbeing.

Commitment: To integrate and extend the principles of regenerative agriculture across our farms and sourcing countries.

Through our dedicated division, **Ferrero Hazelnut Company**, we are supporting hazelnut cultivation by working towards understanding and demonstrating the benefits of regenerative agriculture. This means that our long-term focus is on farming in harmony with nature. We advocate for agricultural practices that prioritise improving soil health, promoting biodiversity, safeguarding water sources, adopting integrated pest management practices, optimising plant nutrition and ensuring proper treatment of waste. In addition, we believe that as a perennial tree crop, hazelnut trees can bring benefits to the environment, due to their important role as carbon sinks.

How is Ferrero working on this commitment?

We have eleven farms located across five countries worldwide. These farms play a crucial role in conducting trials and integrating innovative, cutting-edge practices valuable to the entire hazelnut community. Additionally, they serve as an important knowledge hub for local farmers. As well as this, we have agronomists that are providing technical advice to farmers.

Each farm is also required to develop a comprehensive Farm Management Plan (FMP). This operative document compiles all management and cultivation practices of the farm, whilst also outlining objectives and Key Performance Indicators (KPIs) to enhance its regenerative performance.

Furthermore, through our **Supplier Code**, we have requested that suppliers follow sustainable and responsible farming practices.

What steps have been taken in 2023?

Through our specialised department, the **Agri Competence Centre (ACC)**, we have actively developed and disseminated scientific knowledge related to hazelnut cultivation. Our aim is to enhance the quality and productivity of the crop, tackle pest-management challenges, embrace regenerative practices, and introduce climate-resilient cultivars. We are dedicated to promoting the establishment of new sustainable plantations and enhancing the performance of existing ones. Our initiatives included conducting trials to optimise water consumption and soil organic matter, assessing carbon sequestration to implementing integrated pest and disease management strategies.

LCA

We have performed a carbon Life Cycle Assessment (LCA) of the whole **Ferrero Hazelnut Company** (FHCo) supply chain. This study represents a high accurate cradle-to-gate Life Cycle Assessment (LCA) of processed hazelnuts in the FHCo supply chain. This study aims to assess the carbon footprint of hazelnut growing regions, individual hazelnut processing plants and processed products of FHCo. The value chain studied covered two main



stages: 1) hazelnuts farming (orchards) and 2) hazelnuts industrial processing. Along with the LCA we are elaborating an emissions reduction plan to tackle main emission factors identified by implementing a set of reduction actions across the whole value chain.



Guidelines for Sustainable Hazelnut Production

We have developed and deployed a set of guidelines, aimed at increasing awareness of Ferrero’s objectives on human rights and social practices, environmental protection and sustainability, and supplier transparency, to more than 21,000 farmers around the world. These guidelines are addressed to farmers and are structured according to the three pillars of the **Hazelnut Charter**. Under each pillar, we explain what is important to Ferrero and why, followed by specific guidelines to help inspire the right practices for responsible hazelnut production. These indications listed in the Guidelines are not compulsory but are meant to encourage farmers. To continue our journey towards continuous improvement of the value chain, we conducted a survey in the primary countries where the guidelines were distributed (Türkiye, Italy, Chile). With over 1,200 respondents, the final outcomes revealed an overall satisfaction with the guidelines. Furthermore, farmers expressed willingness to learn more about sustainable practices in hazelnut production and expressed a desire for similar guidelines in the future.

To expand on the guidelines for sustainable hazelnut production, we collaborated with the **International Union for Conservation of Nature (IUCN)**. They provided strategic and technical support on regenerative agriculture, including helping set KPIs for hazelnut farmers.



“ *This collaboration exemplifies an unwavering dedication to continual improvement, recognising that the journey to improve agricultural systems, including regenerative agriculture principles, is an ongoing and ever-evolving endeavour* ”

(IUCN)





PILLAR III: SUPPLIER TRANSPARENCY

Knowing where our raw materials come from and fostering data management and reporting.

Commitment: Full traceability to farm level for all our hazelnut sourcing.

Traceability enables us to monitor where our hazelnuts come from and to verify the conditions under which they are produced. It helps us to support farmers and suppliers to develop and implement better social and environmental practices which benefit the sector overall. There are several challenges to implementing such practices in the hazelnut sector due to the highly complex and fragmented supply chains involved in some areas. In these supply chains, hazelnuts are mainly grown on small family orchards and have a variety of intermediaries, scattered information, different data processing systems and limited availability of technology. Addressing these challenges requires close collaboration amongst all stakeholders.

How is Ferrero working on this commitment?

Ferrero only sources hazelnuts from suppliers that have signed and follow our **Supplier Code** (which is the basis for the **Hazelnut Charter** and sets out its guiding principles). To fulfil our ambition of full traceability of our sourced hazelnuts down to farm level, we needed to redesign and strengthen our traceability approach. In January 2021 Ferrero announced a new partnership with **Sourcemap**, a leading provider of supply chain mapping and digital transparency solutions, with the aim of developing a global traceability platform.

What steps have been taken in 2023?

All our hazelnut suppliers have signed and acknowledged our **Supplier Code**, and this includes a commitment to actively engage in increasing transparency and traceability within their own supply chains.

Traceability

For the 2022/23¹ crop, despite systemic supply-chain complexity, we have achieved an overall traceability figure of 90,3 %² for all our sourced hazelnuts, supported by the **Sourcemap** platform.

After 3 years we have much better visibility of the value chain, nevertheless we are aware that to maintain this level requires a continuous effort of all supply chain actors.

For the third year running, a traceability audit was conducted in the Italian, U.S and Chilian hazelnut value chains by a third-party auditing firm, **Scientific Certification Systems** (SCS). One of the goals of the on-site visits was to verify the information reported by our suppliers to the Sourcemap platform and to record any difficulties encountered, so as to continuously improve our process.

More than 100 supply chain actors were interviewed across the three countries. Whenever discrepancies were identified between the data collected into the Sourcemap platform and those recorded during the audit, these were corrected in Sourcemap, in order to provide the most accurate traceability percentage of the hazelnut value chain.

1 2022 for the regions in the Northern Hemisphere and 2023 for the Southern Hemisphere



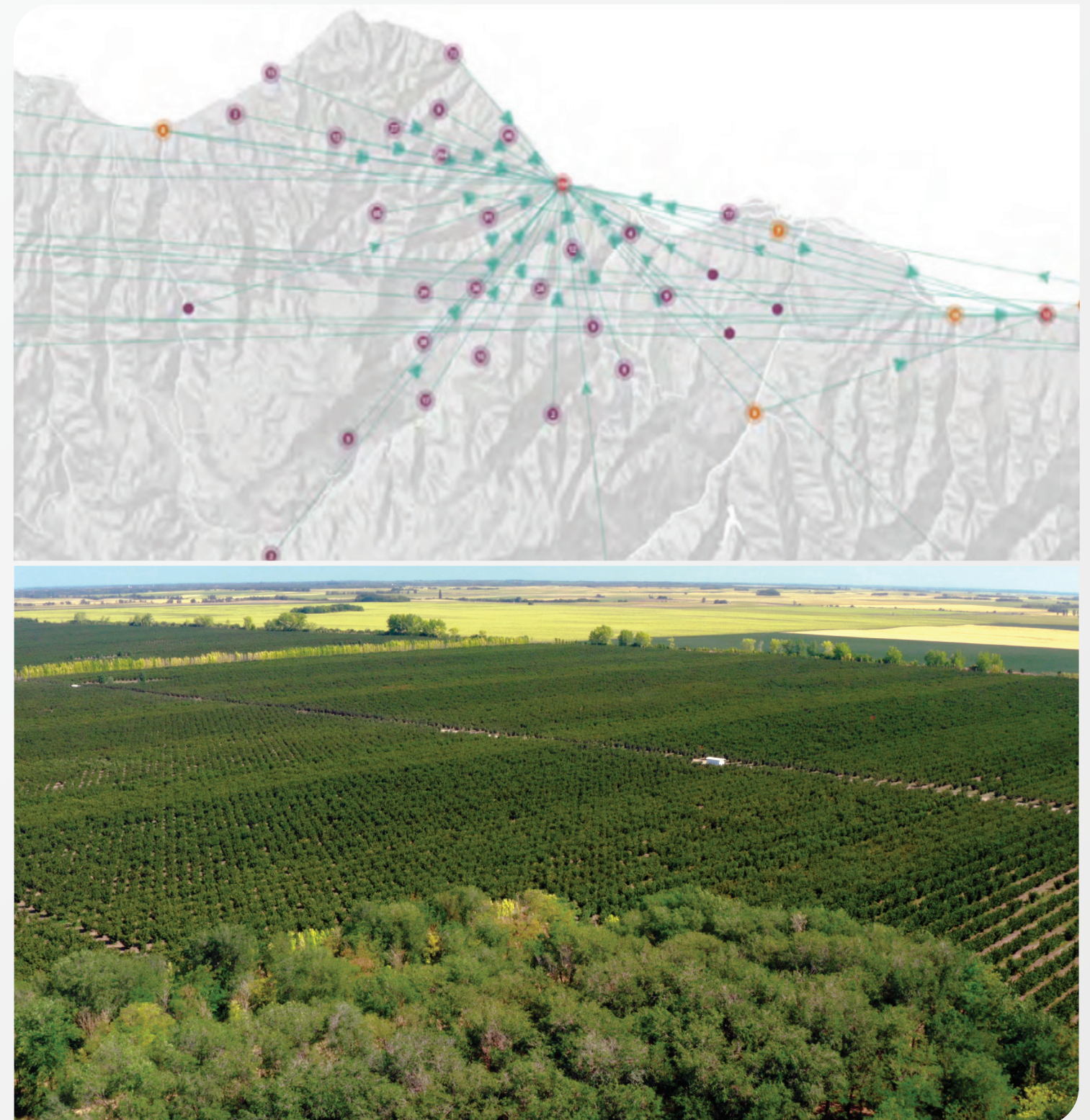
Transparency

Since 2012, **Scientific Certification Systems** (SCS) has overseen the audit programme for the **Ferrero Farming Values** (FFV) Production Standard in Türkiye and, in 2021, it was updated with a stricter requirement. From an audit planning and execution standpoint, we improved the way we define the sample of the farms to audit. In addition, for statistical purposes, we surveyed a group of farms not involved in the FFV Production Standard (as a control group). During crop 2023, the audit and survey programme reached 304 FFV farms in five regions and additional 101 from the control group. For the 304 FFV farms, all non-compliances identified were tackled through a corrective-action plan.

For the first year we also introduced, during the audit phase, three new KPI pilots:

- Yields: To measure productivity and farmer profitability
- Fertilizer usage: To measure plant health and productivity
- Foliar Analysis: To measures plant health

In 2023, **SCS** carried out the surveillance audit in AgriSerbia. It also reviewed employee working conditions, health and safety, and social practices. We retained the **Sustainably Grown Standard** we have had since 2020, confirming our commitment to the sustainable development of the hazelnut value chain.





AgriChile is also certified under the Sustainably Grown Standard, since 2019. This also reassures customers that we are meeting the highest environmental, social, and economic sustainability standards, that farm workers and their communities are protected, and that farms are economically resilient.

At the end of 2022, we also introduced our first hazelnuts suppliers' due diligence, with the results of our efforts as follows:

- 100% of our suppliers have already acknowledged the **Supplier Code** and have been prioritised using the ESG methodology,
- We have performed more than 30 field suppliers' due-diligence audits in 4 different geographies,
- We are working closely with the audited suppliers to develop a joint remediation plan to close all the relevant nonconformities,
- We are developing the "Guide for Hazelnut Suppliers" that outlines the key requirements of the Ferrero Supplier Code and the Ferrero Due Diligence audit, helping the supplier ensure they are compliant with and meet the minimum requirements of Ferrero.

These results are extremely important as they show that with a solid process in place, we can encourage compliance in each sector we operate in and, ultimately, enhance the standards of the supply chains we source from. In many cases, our partners have thanked us for helping them prepare for the upcoming mandatory European due-diligence regulation, which often translates into better health and safety conditions, more attention to recruiting practices, fairer labour conditions, more attention on poor waste management and more control of their own supply chains.





GLOSSARY

- **CAOBISCO:** The **Association of Chocolate, Biscuit and Confectionery Industries of Europe**. It represents more than 13 000 European chocolate, biscuits and confectionery manufacturing companies, 99% of which are SMEs.
- **Community Development Pilot project:** The pilot project will focus on enhancing farmer resilience and reducing social risk. The project is using a new approach, to implement a community-based model with the aim of preventing child labour by improving the resilience of farmers, communities, and labour brokers.
- **Farm Management Plans:** Our baseline assessment and guide towards implementing the principles of regenerative agriculture on our farms.
- **Ferrero Farming Values (FFV) programme:** Through the **Ferrero Farming Values** (FFV) programme, we work to make more quality sustainable hazelnuts available, with a focus on sustainable agricultural and social practices, and on enhancing traceability.
- **IUCN: The International Union for Conservation of Nature** (IUCN) is a membership Union uniquely composed of both government and civil society organisations. By harnessing the experience, resources and reach of its more than 1,400 member organisations and the input of some 15,000 experts, IUCN is the global authority on the status of the natural world and the measures needed to safeguard it.
- **LCA:** Life Cycle Assessment is a methodology for assessing environmental impacts associated with all the stages of the life cycle of a commercial product, process, or service. In the case of the hazelnut value chain we are cooperating with **2.0 LCA consultants**.
- **Partnerships:** Ferrero's key partners in its Hazelnut Responsible Sourcing Programme are the **International Labour Organization** (ILO), the United Nations agency for the world of work and specialised and experienced organisations including **Earthworm Foundation** and **SCS Global Services**.
- **Standards and certifications:** Ferrero co-created, in partnership with third party partners, its own standard, the **Ferrero Farming Values** (FFV) Production Standard. At our Agrifarms we apply the **Sustainably Grown** certification.
- **Supplier Code:** Across our supply chain, suppliers are required to sign our **Supplier Code**, which sets out our responsible sourcing expectations. Acknowledgement for Ferrero means the supplier recognizes our requirements and agrees to comply.
- **Supply Chain Visibility:** Ferrero works with **Sourcemap** on the journey to full traceability to farm level. In Italy we are also supported by **DNV**.