



2022

Annual Report



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Welcome from our Executive Director

2022 was a significant and inspiring year for our organisation, as we continued our work of driving sustainability on the ground through the power of markets. Despite facing numerous challenges throughout the year, including the ongoing effects of the COVID-19 pandemic and the impact of the conflict in Ukraine, we were able to achieve continued growth and success as an organisation.

This year we continued to further develop our ongoing work across several key climate and forest-impacted sectors and commodities, including biomass, cocoa, coffee, cattle, palm oil, soy, rice, rubber and timber. Through this work, we ensure that these commodities are grown with responsible land management practices in place and brought to the markets with credible sustainability claims that consumers can trust. Support for sustainable supply chains was also bolstered by the highly anticipated EU Deforestation Regulation (EUDR), which saw the approval of the regulation's text late in the year. This new regulation is applicable to a wider range of businesses and commodities than the previous EU Timber Regulation, and has the potential to significantly impact global supply chains linked to deforestation. Preferred by Nature has been closely following the development of this new regulation, including joining other NGOs in a call to include natural rubber as a commodity in the regulation.

Internally, this year marked the return of our biannual Development Week – delayed by two years due to the pandemic – in which colleagues from 40+ countries gathered for one week to receive training and discuss how to further develop the organisation to best fulfil our mission. Because our organisation has approximately doubled in size since the previous Development Week in 2018, it was a significant opportunity for nearly half of our Hummingbird

family to finally meet their colleagues in person and come together in support of our shared goals. I was truly inspired by the passion, enthusiasm, and commitment of our team during our time together in Istanbul.

As we look toward 2023, I feel optimistic about the opportunities that lie ahead. Climate change, biodiversity loss, and forest degradation are high on public and private agendas. Our efforts in certification, tailored services, and projects, combined with new tools such as our Sustainability Framework Programme, allow us to support responsible sourcing of any commodity in any geographic region. We are well-equipped to turn corporate policies and public legislation into tangible action on the ground to benefit people, nature, and the climate.

We are privileged in our work creating sustainable impact and we cherish the support of so many businesses, members, partner organisations and other stakeholders. Thank you for supporting our mission and for making this past year special for the Preferred by Nature community.

Peter Feilberg
Executive Director

2022 in numbers

We help forge businesses and people's commitments for meaningful changes through our sustainability services and projects. Together we have assured that:*

300+ 
full-time staff

200+ 
partners & consultants

40+ 
nationalities

25+ 
legal entities

100+ 
countries where we work



4,270

companies and organisations manage their land and supply chains responsibly.

Producers, processors, retailers, and other organisations are following best practices in responsible land and business management, legal right to operate, clear rights to land use, and have zero tolerance for corruption.



1,000,000+

farmers, workers and land managers are assured their well-being, human rights and cultural heritage are respected.

Workers' rights are respected, and their health and safety are protected, while harvesting commodities, producing products, and providing services in a fair way that is committed to eradicating child and slave labour.



57.7

million hectares of land where nature and the environment are protected from degradation and conversion through use of sustainability standards.

Productive forest and agricultural land meet strict requirements on safeguarding of nature and environment, and do not contribute to deforestation, degradation or conversion.

**Impact statements are applicable to only those parcels of land and specific supply chains we have evaluated under the scope of the agreements with the businesses and organisations being evaluated.*



New Developments in 2022

In 2022, COVID-19 pandemic travel restrictions began to ease and allowed us to again deliver credible certification services, advisory services, and implementation of projects, on site.

However, the conflict in Ukraine greatly impacted our ability to deliver services in Ukraine, Belarus, and Russia, which were among the key markets for our services – and ultimately sustainability impacts, particularly related to forestry.

Due to the conflict, we drastically reduced activities in Russia in alignment with the EU and certification schemes' restrictions. Earlier we had stopped our activities in Belarus due to the social situation in the country. See more details about this on pages 17-21.

Despite these challenges, we have managed to grow through the expansion of current services and development of new programmes, resulting in increased impacts related to achievement of our mission to support better land management and business practices that benefit people, nature and the climate.

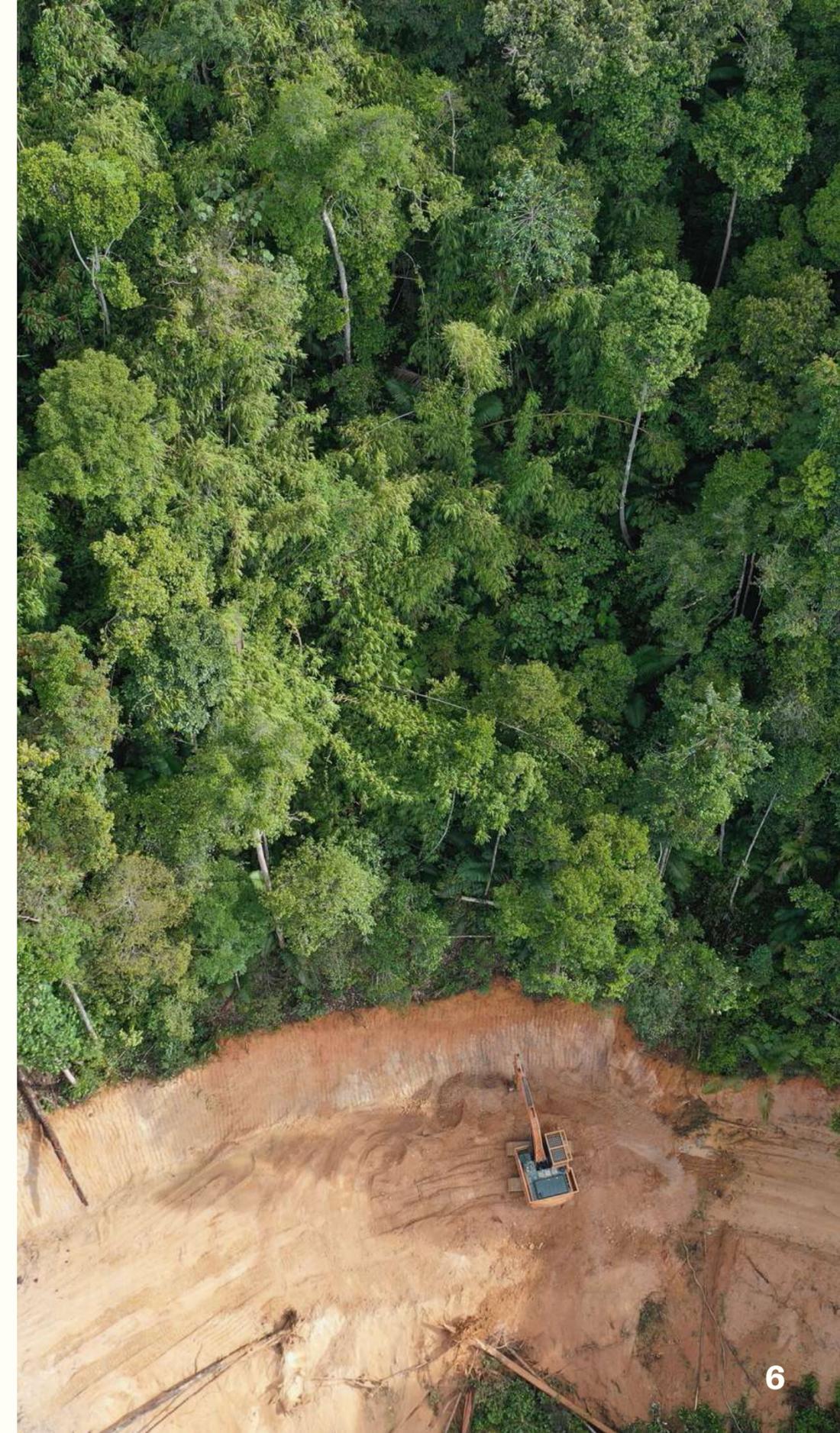
New Programmes

Regulatory Impact Programme

With the agreement for the formulation of the EU Deforestation Regulation in 2022, and based on our previous work with the EU Timber Regulation, we were proud to launch our new Regulatory Impact Programme this year. This new programme aims to ensure positive impacts within the landscape of regulatory and policy compliance, with a special focus on land use, climate change and the agriculture and forestry sectors. We aim to achieve this by:

- Keeping stakeholders informed about key policies and regulations that affect them.
- Supporting stakeholders with guidance, tools and solutions that are effective and which promote more sustainable practices.
- Contributing our expertise and knowledge, where possible, to influence and support the development of practical and impactful legislation.

The programme will work in close collaboration across several divisions within Preferred by Nature, and engage with a wide variety of external stakeholders, governments and regulatory authorities.





Social Programme

The overall function of the Social Programme is to help Preferred by Nature increase our positive impacts in relation to social sustainability aspects throughout the delivery of our services and project activities. This includes bringing increased focus to social sustainability topics throughout our strategic discussions and strategy developments, service and systems development, and project development and implementation.

The programme will also strengthen our expertise in relation to auditing and verification of social aspects of sustainability standards.

Impacts Programme

The aim of the new Impacts Programme is to develop, implement and monitor the overall impacts achieved by Preferred by Nature. The programme will measure how well our activities are helping us to achieve our mission. This includes the monitoring of our activities, including services we deliver under our own standards and external schemes, tailored services, and project activities.

In addition, the programme will undertake specific impact studies, helping us to gain deeper insights into specific impact areas of work.

For example, in late 2022, Preferred by Nature began implementation of an impacts study to help us understand if third-party verification of sustainability standards is as effective when audits are conducted remotely instead of on-site. This discussion is currently taking place among many in the sustainability certification community, as we come out of the COVID-19 pandemic and stakeholders consider permanent adoption of remote-auditing techniques applied during the pandemic when on-site visits were not possible. This study allows us to understand the true impact of remote-style auditing, and share that knowledge with sustainability certification scheme owners and stakeholders as they engage in these discussions and potentially make decisions that could affect the intended impacts of their systems.

Expanded and Updated Programmes

Revised Sustainable Travel Programme

As part of our acquisition of the certification unit of the Rainforest Alliance in 2018, Preferred by Nature acquired the sustainable tourism certification programme of Rainforest Alliance, becoming the owner of the standard as well as the certification body.

In 2022, we sought to further develop and improve the programme by undertaking a revision process of the certification standard. By late 2022, a new version of the standard was in its final stages of development and was aligned with our Sustainability Framework, ensuring the standard is in full alignment with the core aspects of sustainability defined by the Framework. This alignment also helps to ensure our mission is reflected and delivered by any engagement we undertake within the travel sector.

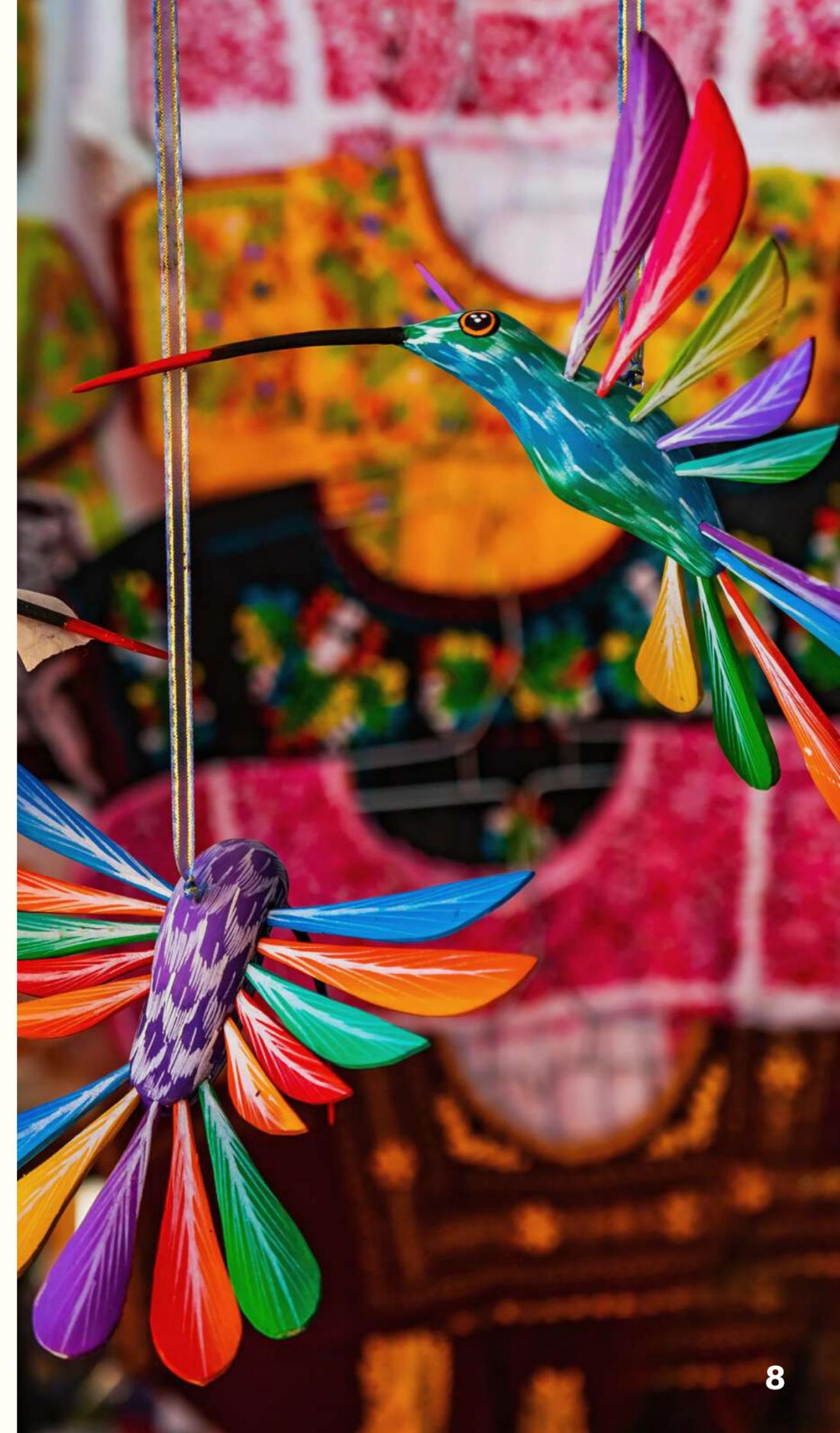
The revised standard has brought increased focus to the topic of climate as one of its core principles. This is intended to raise the visibility of this critical topic,

as well as to promote genuine action that tackles the climate emergency with efforts from this industry which is responsible for an estimated 8-11% of total global carbon emissions.

The remaining principles of the standard (Business practices, People, Nature and the Climate) have been improved by redefining most of the criteria and indicators based on performance, rather than process approach. This aims to make the standard more adaptable to different types of organisations, regardless of their size, location, or activity.

The revised standard can apply to any tourism activity and evaluate its sustainability performance by focusing on the actual core elements of sustainability, regardless of the specific service type. Other content improvements include the addition of more robust sections to evaluate legal compliance, labour practices and workers well-being, management of visits to cultural and natural sites, interaction with wildlife, and others.

The standard has also been aligned with the Global Sustainable Tourism Criteria, ensuring that its scope remains relevant to the sustainability agenda of the global travel industry.





Ecosystem Restoration Programme

We have developed the Ecosystem Restoration Programme that focuses on an assessment framework designed to be applicable at most levels, from smallholders and communities to large projects. With a range of restoration approaches, from tree planting to agroforestry, grazing management or natural regeneration, the Ecosystem Restoration Standard allows restoration project managers to use it any time point in their ongoing restoration process or projects.

This year, the Programme expanded its reach to countries like Kenya or Indonesia, in addition to previous countries in Europe, Africa and Americas. We also continued to foster the collaboration with the global restoration community, engaging in new networks, such as the FAO-led task forces on best practices or monitoring, or leading the Monitoring Group of the 20x20 Initiative. As a result of our work, Preferred by Nature has been officially recognised as an Actor for the UN Decade on Ecosystem Restoration in early 2023.

We also launched our inaugural training on ecosystem restoration in October and made plans for similar training, combining with field experience, in Asia and Latin America in 2023.

We contributed to the Massive Open Online Course (MOOC) on Ecosystem Restoration offered by The United Nations Development Programme (UNDP) and the Convention on Biological Diversity (CBD) from September to 20 November 2022, with a session on 'Monitoring and Evaluation'. The course attracted more than ten thousand registrants.

Sustainable Rice Platform (SRP)

While 3.5 billion people rely on rice as a staple of their diet, conventional rice farming methods are a major contributor to climate change, leading to habitat and biodiversity loss in wetland forests, and use one-third of the world's freshwater (Source: SRP).

In 2020, Preferred by Nature was approved as the first Verification Body under the SRP Assurance Scheme, issuing a certificate to a group of 1,045 smallholder rice farmers in India. We have continued to build the service throughout 2022, including:

- Total certificates now cover nearly 10,000 farmers.
- Approved as SRP-Authorised Training Provider to deliver training and build capacity to rice producers and related supply chain actors.
- Provision of supply chain level certification, in addition to farm level.

Sustainability Framework Programme

The Sustainability Framework Programme is a comprehensive programme that utilises the Preferred by Nature Sustainability Framework, along with other normative standards and tools, to assist companies in implementing sustainable practices.

The programme acknowledges the increasing number of sustainability labels and certification schemes for various products and aims to provide a unified framework that defines and benchmarks sustainability across different commodities.



The Sustainability Framework consists of four principles and 31 criteria, addressing various aspects of sustainability. It covers areas such as responsible management practices, respect for human rights and well-being, protection of nature and the environment, and the reduction and mitigation of climate impacts.

This year, we have further developed the programme and aligned it with the EU Deforestation Regulation. Our team also started benchmarking several other schemes against the Framework and developed adaptations for rubber and other commodities.

The programme is designed to be flexible and applicable to different scales of operations, including land-use operations, processing, manufacturing, and supply chain entities. It therefore can be used by organisations to implement sustainability commitments, verify forest and farm management practices, conduct due diligence for sustainable sourcing, and mitigate sustainability risks in supply chains.

As indicators have been aligned with the EUDR, the Framework makes it easier for organisations to align with regulatory requirements.

Organisations that meet all the criteria of the Sustainability Framework are eligible to use the Preferred by Nature Seal and make related claims regarding their sustainability performance. The programme also offers various levels of verification and allows organisations to communicate their sustainability achievements and progress.

By participating in the Sustainability Framework Programme, organisations can benefit from a comprehensive and harmonised approach to sustainability, gain recognition for sustainability efforts, and align with regulatory requirements and market demands.



New Accreditations

GLOBALG.A.P.

GLOBALG.A.P. is an international sustainability system for Good Agricultural Practices that ensures farms produce safe food in socially and environmentally responsible and resilient ways. Preferred by Nature received accreditation to offer assurance services under this system at farm level in 2022, adding to our portfolio of agricultural services and potential to make positive impacts on food systems and farmers.

Bonsucro

The demand for responsibly grown sugarcane has been mainly driven by large sugar buyers, such as international food and beverage brands, who are now opting for sugar produced in a more sustainable manner. Bonsucro (Better Sugarcane Initiative) is a global multi-stakeholder non-profit organisation promoting sustainable sugarcane production. It recognises responsibly manufactured sugarcane products and derivatives, such as sugar, ethanol, molasses and bagasse, while prioritising businesses' commitment to a responsible environmental, social and economic performance.

Bonsucro's mission is to ensure that responsible sugarcane production creates lasting value for the people, communities, businesses, economies and ecosystems in all cane-growing origins. Preferred by Nature applied for accreditation as an independent third-party certifier to carry out audits against the Bonsucro Chain of Custody Standard in 2022, allowing us to expand our work and impacts in the agricultural sector.

SURE Sustainable Resources

The SURE verification programme for biomass helps companies to ensure compliance with the European Union's RED II sustainability requirements for the production of electricity, heating and cooling from biomass. With this accreditation, we help to ensure that companies from across Europe are sourcing biomass from sustainable sources.





Carbon Project Validation and Verification

The Voluntary Carbon Market (VCM) has seen tremendous growth in recent years. After the Paris Climate Agreement (2015), awareness regarding climate change has led to significant international interest in nature-based solutions carbon credits.

In this context, Preferred by Nature began development of VCM services as a Validation/ Verification Body for the three main standards: Verified Carbon Standard (VCS-VERRA), Gold Standard for the Global Goals (GS4GG) and Plan Vivo. Combined, these standards represent more than 90% of the VCM market.

These standards provide robust requirements and methodologies to develop agriculture, forestry and other land use carbon projects (afforestation/reforestation, improved forest management, REDD+, agriculture land management, grassland management, etc.). With these new carbon projects services, we will verify that conservation, restoration, and land management projects are effective in avoiding, reducing or sequestering greenhouse gas (GHG) emissions.

In 2022, Preferred by Nature started the accreditation process with ANAB (ANSI National Accreditation Board) for the mentioned schemes. In addition, we participated in the following carbon project initiatives:

- Validation of an agroforestry carbon project in Ivory Coast
- Validation of a grassland carbon project in the Czech Republic
- Carbon Footprint Insetting certification of an afforestation/reforestation project and improve forest management initiative in Lithuania
- Feasibility study of an ecosystem restoration carbon project in three conservation areas of the tropical rainforest in Borneo, Malaysia
- Feasibility study of an ecosystem restoration carbon project for offsetting Preferred by Nature's own carbon footprint in the Silam Coast conservation area, Borneo, Malaysia

General Organisational Developments

Development Week 2022

The previous Development Week was held in 2018, and as a typically biannual event was therefore due to be held again in 2020. This was delayed due to COVID-19 travel restrictions in 2020 and 2021, and further delayed from May 2022 when the conflict broke out in Ukraine. Finally in September 2022, approximately 270 colleagues from 42 countries were able to travel to Istanbul, Turkey, to spend the week together, with more colleagues attending via livestreaming (for example, from China and Ukraine, who were not able to travel).

The week spent together was instrumental in allowing us to calibrate our service offerings, develop new skills in training sessions, learn about upcoming sustainability trends, and discuss how to further develop the organisation going forward. Much time was spent reviewing and discussing our organisational strategy towards 2025, currently at its mid-way point, in terms of ensuring we are operating in a way to create the greatest possible impacts.



Preferred by Nature's 300+ staff members are spread across more than 40 countries, with many working virtually, physically separated from colleagues, most of the time. We began a tradition 22 years ago of holding a biannual Development Week, in which colleagues gather together in one location for a week to receive training and use the time together to discuss how to further develop the organisation to fulfil our mission.

ERASMUS Mundus Joint Masters Programme

The European Commission has approved the funding for the 'Master in Global Environment and Development' (MERGED) programme. Working together with 4EU+ Partner Universities, the project aims to develop a master's programme focusing on environment and development at a global scale.

The programme aims to create globally competitive graduates who can identify critical aspects of renewable natural resource management for economic, environmental, institutional and societal development and develop feasible solutions. The programme is hosted by three 4EU+ Partner Universities, consisting of the University of Copenhagen (UCPH) in Denmark, the University of Milan (UMIL) in Italy, and the University of Warsaw (UW) in Poland, with an additional strong global Associate Partner network, where Preferred by Nature makes up one of the 20 participating organisations from across Europe, Africa, Asia, South America and North America.

This programme allows us to directly expand our green impacts by helping to develop the next generation of global sustainability leaders. Graduates from this programme are poised to

become professionals in private and public companies, I/NGOs, government bodies and research institutions. They also benefit from interdisciplinary knowledge, direct sector exposure, practical field experiences, and specialised skills to target sustainability problems, thus leading to high employability rates.

Our collaboration in the programme will specifically include development of teaching materials and supporting potential graduates in their master thesis, as well as offering internship opportunities (and potentially future permanent employment) at our organisation.

New Office: Thailand

To further pursue our mission of supporting better land management and business practices that benefit people, nature and the climate, we have decided to expand our business and services into Thailand.

In 2022, we implemented a feasibility study regarding possible establishment of a legal entity in Thailand, including consultations with the Trade Council of the Ministry of Foreign Affairs of Denmark.

Additionally, we held several meetings with relevant stakeholders, potential partners and authorities in the country.

In October 2022, we also conducted a workshop in Bangkok that will result in a written business plan for our Thailand establishment strategy. We have initiated a hiring process for first employees for our future legal entity in Thailand.

With our expansion into Thailand, we seek to tackle timber and agriculture production sustainability issues, increase global supply of key crops, and improve livelihoods of the producers – with particular focus on the approximately 13 million small-scale farmers producing rice, rubber and palm oil in the country.

New Developments in 2022

Human Resources

We upgraded our human resource activities substantially in 2022 to better support our growing global team.

We carried out a Staff Satisfaction Survey that showed that a clear majority of our staff feel a strong sense of belonging and are proud to work with us. Most people feel they can express themselves and that we have a strong sense of collaboration. In addition, a career development survey was carried out to explore staff members interests for development. Finally, a thorough review of our HR practices was carried out by an external consultant.

The HR Review and Career Development survey resulted in the short-term in an improved approach to staff development talks, as well as a range of new initiatives being planned for in 2023, including: learning journeys, a DE&I (Diversity, Equity & Inclusion) committee and a junior talent programme.

We welcomed 60 new colleagues from all over the world this year - totalling nearly 320 global staff by the end of the year.

With this substantial new investment in and focus on staff development, we expect to be able to further increase our green impacts by being able to better engage staff according to their areas of environmental and social impact expertise, as well as identify and implement improved hiring practices where new resources are needed.



Walking the Talk of Sustainability: Reducing our Organisational Carbon Footprint

As a global organisation, we are concerned about the potential impacts of climate change on the regions and communities in which we operate. We are committed to being an environmentally and socially responsible organisation that actively monitors and mitigates the impact of its decisions, policies and actions on people, nature and the climate.

With our Climate Policy, Preferred by Nature aims to be an accountable organisation that is capable of practicing what we preach by enforcing sustainability criteria on internal, as well as external, business practices that are in alignment with both our strategy and international best practices.

As part of that policy, we have committed to reducing our own carbon emissions by 70% by 2030 (compared to 2019 levels). While this target was in fact nearly achieved in 2020 and 2021, it was only

made possible due to COVID-19 related travel restrictions. In 2022, we all began to travel more to once again visit certificate holders, conduct assessments on site and project field trips, as well as have other meetings such as our Development Week. While this is good news for the impacts we can create via our work, it also led to an increase in our carbon footprint compared to the previous two years. This year, we therefore began to put efforts into a more specific carbon reduction plan that will allow us to reach our reduction target by 2030, while also ensuring that we continue to create the positive impacts on people, nature and the climate that are the results of our operations.

Of specific note, Development Week 2022 itself was planned and implemented with carbon reduction efforts in mind, including the choice of Istanbul as a location for the event which represented a significantly lower carbon footprint resulting from staff travel than other locations we were considering for the event. The selection of the hotel also considered their actions to reduce GHG from their operations. Some of the other efforts implemented in conjunction with the event to reduce our footprint, as far as possible, included arranging ground transportation in groups, implementing responsible procurement practices, including preference to locally produced products and reduction of single-

use plastics, such as the use of refillable water bottles instead of single use plastic bottles, and reducing the number of times bed linens and towels were changed in the rooms. Some of our efforts continue to have a lasting impact on the event venue, including a permanent switch from single use bathroom amenities such as shampoo and soap, to refillable containers. Finally, knowing the importance of raising awareness of sustainability and responsible practices in event management and travel, a communication campaign directed to the Development Week attendees, hotel guests and staff was carried out.

In 2022 we also began initial investment and planning into our own forest restoration project, with a plan to offset the part of our organisational carbon footprint that we can not reduce. The project will initially restore 70-100 hectares of degraded secondary forest within the Silam Coast Conservation Area through reforestation. We have committed 100,000 EUR for this project from our own organisational equity to compensate for emissions generated by our operations since 2018.



The Conflict in Ukraine

The Conflict in Ukraine

The current situation in Ukraine has resulted in failure and/or loss of auditing to ensure the integrity of the supply chain in impacted countries. The EU government, and voluntary certification schemes, implemented the following actions, which Preferred by Nature are adhering to:

European Commission

Legal measures were introduced by the EU in April 2022 to put pressure on Russia and Belarus over the Ukraine invasion. With a ban already in place targeting timber imports from Belarus and concerns about how the armed conflict in Ukraine will impact the flow of products from there, the EU adopted a fifth round of sanctions, expanding the ban to include wood sourced in Russia.

Forest Stewardship Council (FSC)

Certificates that allow the sale or promotion of FSC-certified products have been suspended in Russia and all FSC certificates have been terminated in Belarus. All sourcing of non-certified forest products from the two countries is blocked. This means that wood and other forest products can no longer be sourced as FSC-certified or controlled from Russia and Belarus for their inclusion in FSC products

anywhere in the world. This became effective on 8 April 2022. Forest Management (FM) certificate holders in Russia however could choose to maintain their FM certification as being active, essentially meaning we can verify their land management practices but they are unable to sell any wood or timber products as certified, thus ensuring there is no benefit to the Russian economy.

Assurance Services International (ASI)

ASI, the oversight body for FSC and Sustainable Biomass Program (SBP) schemes, decided to temporarily suspend the geographical scope of Russia for all certification bodies, including Preferred by Nature. As of 15 March 2022, we are not allowed to issue any new certification or enter into new agreements for FSC and SBP certification in Russia. Adding sites/groups members or issuing scope extensions to existing certificates is not allowed either. However, we can still conduct surveillance and recertification audits, as well as reduce the scope for existing FM / Chain of Custody (CoC) certificates to FM in Russia, until further notice from ASI and/or FSC or SBP. Before the conflict in Ukraine, ASI had already removed Belarus from the geographical scope for FSC and SBP accreditation due to the social discrimination, identified in 2021, in the country .



*

How timber trade with Russia, Belarus and Ukraine are impacted by sanctions



Belarus

- The EU prohibited the purchase or import, directly or indirectly, of some wood products into the Union if they originate in Belarus, or have been exported from Belarus. This also includes a ban on transport or other services and/or assistance in relation to such products.
- All Forest Stewardship Council (FSC) certificates have been terminated in Belarus.
- Timber from Belarus cannot be used in the Programme for the Endorsement of Forest Certification (PEFC) certified product groups.

Ukraine

- Based on European Commission guidance on the prevalence of armed conflict and sanctions in Due Diligence Systems, there is a risk that products sourced from some parts of Ukraine can be considered high-risk for legal non-compliance.
- Forest Stewardship Council (FSC) decided on the suspension of its certificates in armed conflict areas of Ukraine.

Russia

- EU has adopted a fifth round of sanctions, which now includes wood sourced in, or exported from, Russia. The details of the sanctions are similar to those for Belarus. These apply to wood products including round logs, sawn timber, biomass, plywood and composite boards. However, the ban on imports from Russia also includes some types of pulp, paper and furniture products.
- All sale or promotion of FSC-certified products has been suspended in Russia.
- Timber from Russia cannot be used in PEFC-certified product groups.



Last updated: 12 April 2022
Source: FSC, FAO, UNCOMTRADE

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Impacts on Preferred by Nature

For more than two decades, Preferred by Nature has worked with stakeholders including businesses, communities, organisations and civil society in Ukraine, Belarus and Russia to promote sustainable practices, particularly in the forestry sector. Before the conflict broke out, we had 28 full-time staff based in these 3 countries, together with a network of local contractors. Our team had certified over 50 million hectares of forests in the region. This number is now drastically reduced.

Our reduced ability to operate in this region has not only resulted in loss of income, but also loss of valuable colleagues in Russia and Belarus that we unfortunately had to make redundant. For other colleagues, we have tried to use their important skills elsewhere in the organisation as far as possible.

Our top priority has been to support the safety of our colleagues and their families. Our hearts also go out to our certificate holders, partners and all who are caught in this situation. We join with so many others in hoping for peace in the region and a better future for us all.

Global Sustainability Impacts

This crisis will subsequently have far-reaching impacts on the global timber supply chain as well as conservation efforts.

The EU ban on timber exports from Russia and Belarus is a severe blow to the global market for sustainable timber and biomass. Businesses and governments will face significant challenges in sourcing these products.

Prior to the conflict, Ukraine, Russia and Belarus accounted for around 35 percent of the world's FSC certified forest and their exports of sustainable timber and biomass played a crucial role on the global markets for sustainable timber products.

Russia recently overtook Canada as the world's largest exporter of soft wood timber and in 2021 the export of timber and timber products from the Russian Federation had a total value of 13.9 USD billion.

The Conflict in Ukraine

Growing awareness of deforestation, climate change and increasing consumer demand has spurred rapid growth in the sustainable forestry sector. Russia has taken the lead as the country with most certified forest area. Both Belarus and Ukraine have seen similar growth rates.

The bans now introduced by the EU and various certification schemes are extensive. They include both direct and indirect import, transport of wood originating in the banned countries, and technical and financial services relating to the prohibitions.

Many EU-based companies have developed significant supply relationships with Russia and Belarus and will face a difficult task in finding alternatives. As part of their green transitioning, several countries such as the Netherlands, Belgium, the United Kingdom and Denmark have also grown dependent on the supply of Russian certified biomass. This may result in the roll-back of green policies and regulations, which have been years in the making.





Sustainability Certification / Assurance Services

The following figures provide quantitative information about the certificates managed by Preferred by Nature as of 31 December 2022 and new certificates gained in 2022.

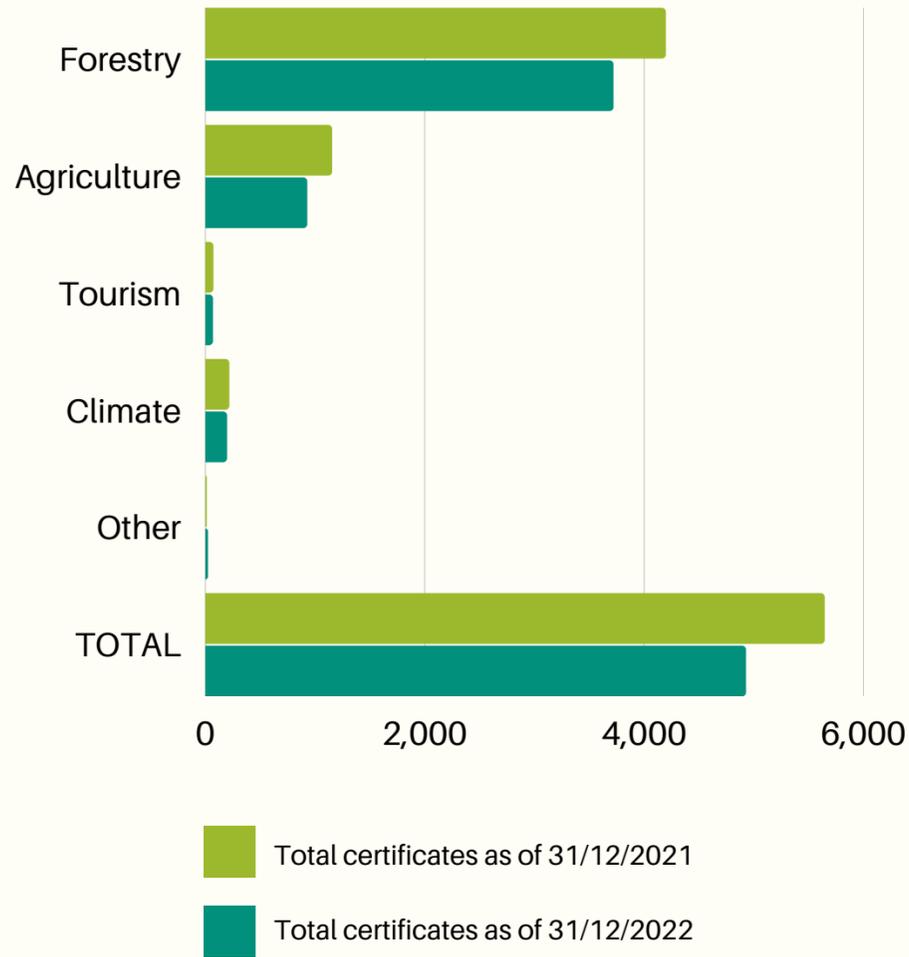
Number of certificates managed by Preferred by Nature (overview by certification scheme)

Note: 13% decrease in total certificates this year primarily due to:

- FSC and SBP certificates decreased significantly in 2022 due to the conflict in Ukraine and related restrictions on delivering certification services in Belarus and Russia.
- The number of Rainforest Alliance certificates decreased in 2022 primarily due to the UTZ and Rainforest Alliance merger into one scheme, impacts from the Rainforest Alliance allocation system for West Africa, and companies choosing to leave the Rainforest Alliance system.

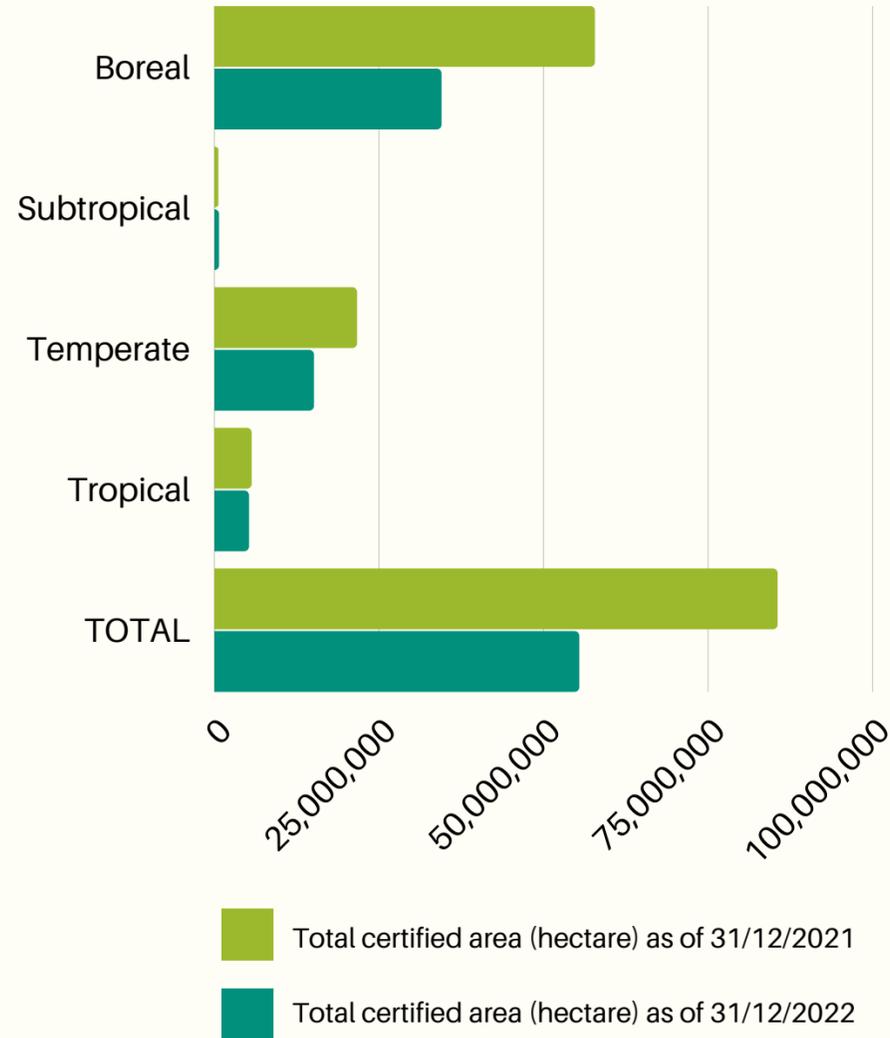
Scheme	Total certificates as of 31/12/2021	Total certificates as of 31/12/2022	% Change
Forest Stewardship Council (FSC)	3836	3335	-13%
Bonsucro (sugarcane)	N/A	1	
Carbon Neutral Group-Carbon Footprint Management	N/A	21	
Danish Biomass Legislation Verification (DBLV) Energy Producer	N/A	32	
PEFC (forestry)	298	305	2%
Preferred by Nature - Carbon Footprint Management	(incl. in "others" category)	16	
Preferred by Nature - LegalSource	(incl. in "others" category)	45	
Preferred by Nature - Sustainable Travel	70	66	-6%
Rainforest Alliance Sustainable Agriculture	1030	886	-14%
Roundtable Sustainable Palm Oil	23	28	22%
Sustainable Biomass Programme	202	106	-48%
Sustainable Forest Initiative (SFI)	2	24	1100%
Sustainable Rice Platform	5	9	80%
Others	174	49	-72%
TOTAL	5640	4923	-13%

The number of certificates managed by Preferred by Nature (overview by sector)



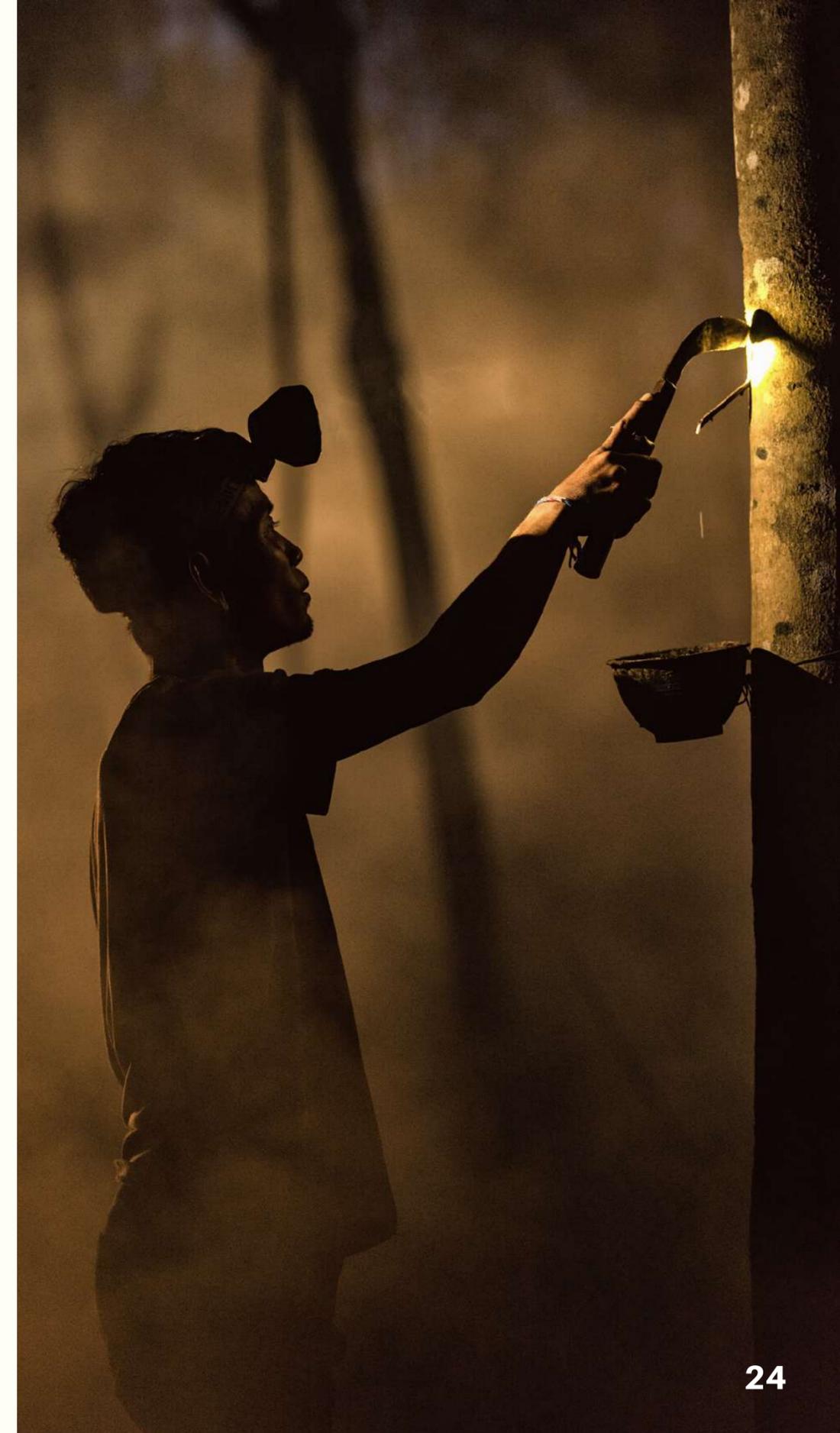
Note: 'Other' represents certificates such as generic chain of custody, and generic verification or validation.

Certified forest areas by forest zone

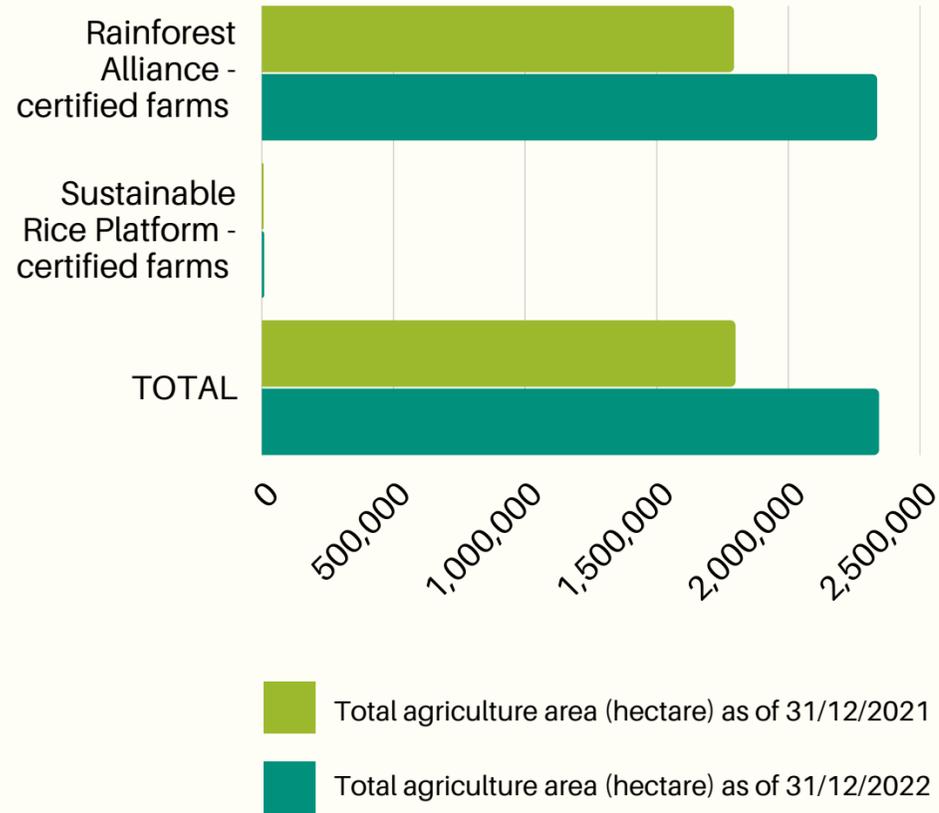


Note:

- More than **1.8 mil hectares** of forest area certified by Preferred by Nature is managed by communities or indigenous people's groups.
- The total certified forest area includes nearly **14 mil hectares** of conservation areas of natural forest.



Sustainable agricultural areas certified by Preferred by Nature



- Note:**
- Total certified farm area **increased by 30%** in the past year
 - Nearly **700,000 farms** are benefitting from sustainability certification provided by Preferred by Nature. Most are smallholders managing 3.3 hectare each (on average).

Top 20 countries in terms of Rainforest Alliance farm areas certified by Preferred by Nature

	Country	Total certified agriculture area (hectare)
1	Ivory Coast	1,432,567
2	Kenya	321,576
3	Sri Lanka	83,776
4	Ghana	78,81
5	Costa Rica	53,343
6	Ethiopia	49,376
7	Nigeria	40,222
8	Uganda	39,125
9	Peru	32,209
10	Dominica Republic	32,079
11	Indonesia	30,902
12	The Philippines	28,549
13	India	17,237
14	Tanzania	14,947
15	Bangladesh	13,914
16	Zimbrabwe	13,125
17	Vietnam	12,898
18	Panama	6,817
19	Belize	5,312
20	Ecuador	5,295

Note: Each of the top 20 countries where we have certified farms to the Rainforest Alliance sustainable agriculture standard, in terms of total certified area (hectare), is on the United Nations list of Developing Economies (2022). This means that we are delivering impacts in the agriculture sector in countries where it is most needed.





Tailored Services

Sustainable Solutions for Corporate Partners across Industries

Preferred by Nature provides a range of sustainability services to corporate partners through our Tailored Services Division. The tailored services span the whole supply chain, from production to consumption, and we grow relationships with every actor in between, including smallholders, processors, and traders providing the assurance their stakeholders' demand.

Through our Tailored Services, we help companies approach the responsible sourcing process in three stages: Commit, Act, and Communicate. At each stage, we have customised tools to help companies by meeting them where they already are in their sustainability journey, and helping them to go further.

We work with a range of companies, including several large multinational companies with very significant potential for environmental impacts, both negative and positive.

We also continue to implement ad-hoc projects with various sustainability certification systems, for example by helping to improve their systems and identifying potential barriers to entry. This allows us to further increase impacts of these systems – whether their certificate holders are ultimately certified by us or another certification body.

There is no doubt that our expanded global presence is a key factor in the development of our advisory services and ability to partner with multinational companies.

Following are some of the key sectors we worked with in 2022 along with some examples of impactful engagements.

Sectors:

- Forestry
- Retailers
- Major consumer brands
- Textiles
- Finance
- Agricultural commodity producers and traders
- Carbon/climate sector
- Energy producers
- Biomass producer
- Voluntary certification schemes.





Engagement examples:

Oatly: Evaluation of ESG (Environmental, social, and corporate governance) supply chain risks for 7 key product ingredients across global production geographies. The evaluation included risk mitigation recommendations.

Ferrero: Preparing the company for compliance with the upcoming EU Deforestation Regulation through training and review of company due diligence systems.

Asia Pulp and Paper (APP): Support in strengthening company ecosystem restoration initiative by providing evaluation of APP restoration projects across the country. Independent audits using the Preferred by Nature's ecosystem restoration standard were followed by training of company staff in the use of the verification standard as well as ecosystem restoration techniques.

Roundtable on Sustainable Palm Oil (RSPO): Assessment of barriers to entry of independent smallholder palm oil producers from obtaining RSPO certification.



Donor-funded Projects

Expanding our Donor-funded Projects for Positive Impact

For nearly 30 years, Preferred by Nature has implemented more than 150 projects in more than 50 different countries, funded by donors such as EU, USAID, DFID (UKAID), DANIDA, CISU and many others.

The year 2022 saw a decision to establish a new division to focus entirely on donor-funded projects, a decision which is to be implemented in 2023. This is indicative of the increased priority on developing projects within a coherent programme framework, tied together by a common vision and ambition – to promote sustainable landscapes and create positive impacts for smallholders and marginalised communities.

The new division will develop a programme outline to guide the future choice of intervention themes and geographies. The goal is to focus on a few, high priority landscapes and sectors and plan long-term interventions in partnership with local civil society

organisations, to drive a positive change, via multiple complementary interventions, funded by various donors.

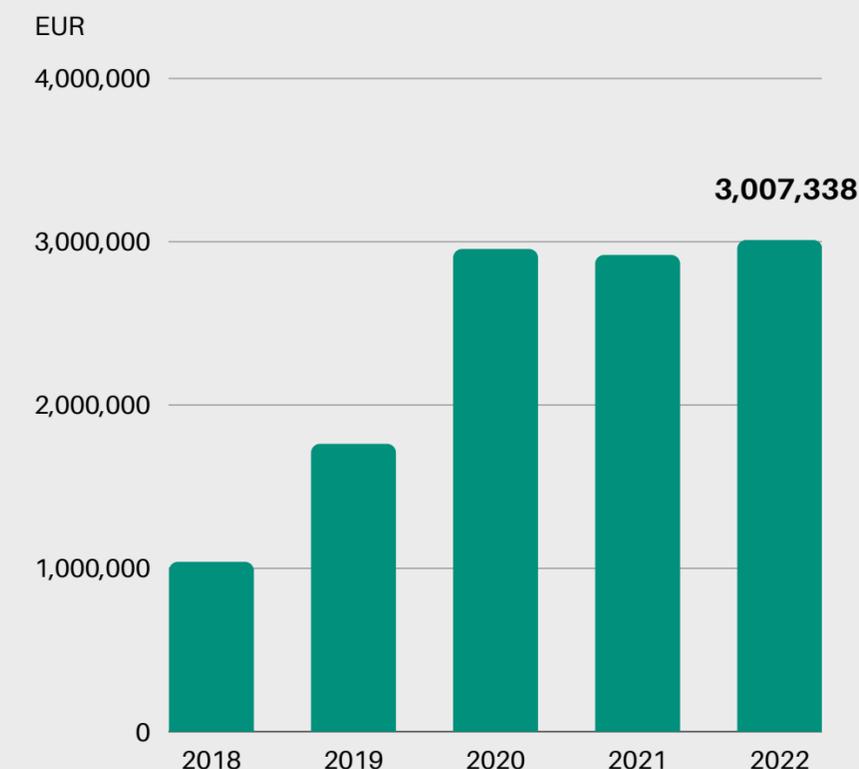
New Projects and Initiatives in 2022

Preferred by Nature raised approximately 3 million EUR for donor-funded projects in 2022, a figure which is comparable to the two previous years.

Several new projects were secured in 2022, including our first large donor-funded project in Africa, promising 5 years of funding with a significant presence in West Africa and an opportunity to greatly increase impacts related to one of our priority commodities: cocoa.

In addition, bridge funding was secured for a previous project working with rice farmers in Indonesia, to allow us to continue activities until a second round of full funding is available.

Together, these projects focus on smallholders within key commodities that are crucial for land use



and climate impacts. Additionally, rice and cocoa are important commodities for creating positive social impacts for marginalised smallholders.

The year also saw an expansion of the Project Division team as well as increased engagement with universities and research institutions to contribute to academic quality and evidence-building for our planned interventions.

Projects We are Working on

Via our donor-funded projects, Preferred by Nature is seeking to create a positive change for people, nature and the climate, by finding practical and innovative solutions for businesses and local communities.

Drawing on our global network of experts, our projects seek to complement our Assurance and Tailored services, by engaging directly with local organisations. Preferred by Nature's projects may be roughly divided into two different categories:

- **Supply Chain Integrity Projects** - which seek to produce training, tools and data to help companies achieve a positive impact via their supply chains.
- **Landscape-level Impact Projects** - which engage directly with smallholders, other land managers and decision makers to find innovative, locally adapted solutions to promote sustainable land use and improve livelihoods for local communities.

Supply Chain Integrity Projects

LIFE Legal Wood

- *Funder: EU LIFE Programme*
- *Partners: Amfori, GD Holz, CONLEGNO, Le Commerce du Bois, ETIFOR, PROBOS, Foresna, CESEFOR, BaskEgur, CA Germany, CA Spain, CA Belgium.*
- *Duration: July 2019 - June 2023*

The LIFE Legal Wood project aims to improve the implementation and enforcement of the EU Timber Regulation (EUTR) in six key timber importing countries (Italy, France, Belgium, Germany, Spain, and the Netherlands).

Illegal logging and the global trade in illegally harvested timber are important causes of deforestation. The EUTR prohibits importers of wood and wood products to Europe from placing illegally harvested timber on the EU market. However, many companies are still struggling to implement the regulation and authorities are struggling to enforce it. The objectives of the LIFE Legal Wood project are to increase companies' capacity to comply with EUTR requirements and improve EUTR enforcement by providing free data, tools and training to companies and competent authorities.

Donor-funded Projects

Traceability Systems for FOLUR

Commodities

- *Funder: FAO*
- *Duration: December 2022 - December 2023*

The FOLUR project (Food Systems, Land Use and Restoration) aims to identify best practices, tools, and guidance on licensing and traceability in agricultural commodities. The project has three main outputs. The first output is a review of existing verification and certification systems for deforestation-related FOLUR commodities.

The second output involves the evaluation of a representative sample of verification and certification systems. The third output is the publication of technical guidance paper. Overall, the FOLUR project seeks to promote sustainable agricultural practices by improving licensing and traceability systems for deforestation-related FOLUR commodities.

Harmonitor

- *Funder: EU Horizon Programme*
- *Duration: June 2022 - May 2025*

The Harmonitor project is a collaborative effort among ten organisations, led by SQ Consult B.V., to

improve the effectiveness of certification schemes and labels (CSLs) in different sectors of the EU Bioeconomy. The project aims to establish a review platform that encourages the harmonisation and continuous improvement of CSLs, provide transparent data on bio-based value chains, review and compare performance requirements and governance systems of CSLs, develop and apply a monitoring system on the effectiveness and robustness of CSLs, and improve the understanding of the opportunities and limitations of using CSLs in co-regulation.

World Forest ID wood sampling project

- *Funder: World Forest ID*
- *Duration: June 2022 - May 2023*

The purpose of this project is to build a wood sample reference database to determine the origin of wood harvested in Eastern Europe and assist in the prevention of violation of export and EU import bans. The project will collect wood samples from 12 countries including Belarus, Croatia, Estonia, Finland, Hungary, Latvia, Lithuania, Moldova, Poland, Romania, Slovakia and Ukraine. Around 4,630 samples will be collected from 11 different species of wood.





Landscape-level Impact Projects

Indonesia



Strengthening Foundations for Improved Livelihoods of Rice Farmers in Central Java, Indonesia

- *Funder: CISU*
- *Partner: Rikolto*
- *Location: Central Java, Indonesia*
- *Duration: September 2022 - February 2023*

The objective of this short-term project is to build on the success of a previous project, which tested sustainable rice cultivation methods to improve the livelihoods of smallholder farmers and improve human and environmental health. The project aims to involve and leverage the government agricultural extension system to introduce climate resilient and profitable rice cultivation practices to a wider group of farmers. The project will also address barriers and incentives for women's equal position in rice production and establishing profitable agri-businesses. Specific objectives include promoting formal Farmer Field Schools, expanding the number of demo plots and community-based trainers, analysing the motivation of Government Extension

Officers, advocating for the merits of the SRP system, mapping gender dimensions of rice production, and identifying the skills needs of youngsters and women for entrepreneurship.

Low Carbon Rice

- *Funder: EU SWITCH-Asia Programme*
- *Partners: KRKP, Perpadi*
- *Location: East and Central Java, Indonesia*
- *Duration: January 2022 - December 2024*

The project aims to reduce the negative impact of rice production on the environment and climate in Indonesia. Rice is an essential food source, but it is responsible for significant methane emissions and excessive water usage. The project seeks to reduce the climate impacts of rice production through the adoption of sustainable post-harvest production methods. Key activities include facilitation of policy dialogues to create enabling conditions and supporting policies for sustainable rice production, developing a more inclusive sustainable rice sector governance model through multi-stakeholder facilitation, enhancing market access opportunities for sustainable rice through private sector engagement and expanding access to finance opportunities for rice producers through technical assistance and new business models.

Donor-funded Projects

Vietnam



Sustainable Forest Management in Vietnam (SFM)

- *Funder: USAID*
- *Partner: DAI*
- *Location: Vietnam (north and central)*
- *Duration: August 2020 - March 2025*

The SFM project aims to improve forest management practices in Vietnam for carbon sequestration, livelihoods and economic development. It focuses on five objectives, including improving acacia plantation management, which Preferred by Nature is leading. This objective seeks to increase the quality and yield of acacia plantations through longer rotations and better silviculture techniques, leading to higher carbon sequestration and eligibility for certification programmes.

The project will partner with wood processors and biomass companies, increase awareness and training amongst plantation owners, support producer organisations, and leverage partnerships to promote improved plantation forest management.

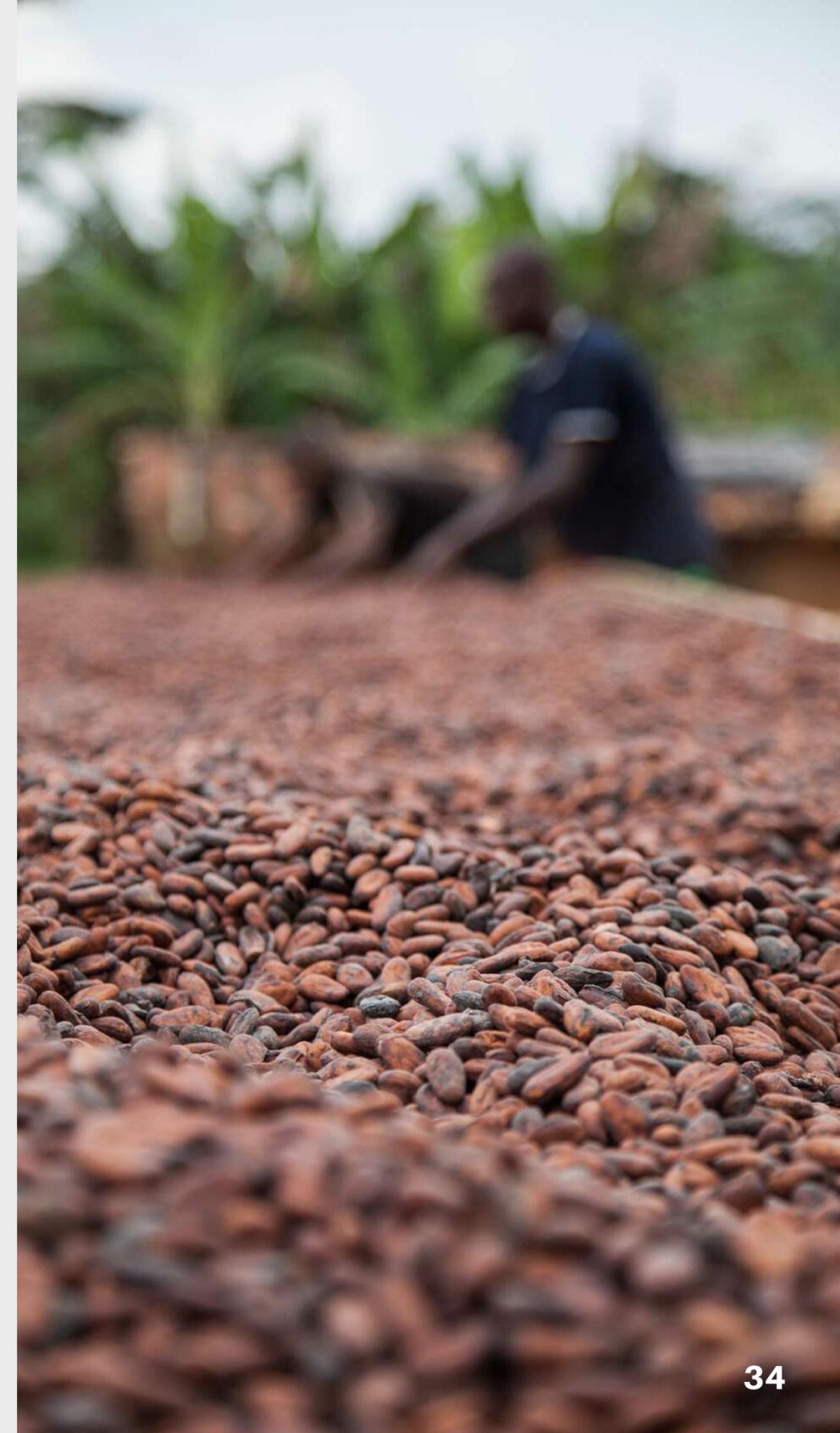
Ghana



Above and beyond: Raising the Social and Environmental Bar for Impacts from Sustainable Sourcing of Cocoa from Ghana

- *Funder: Danida Green Business Partnerships*
- *Partners: Ferrero, Solidaridad, Rikolto*
- *Location: Ghana (Western South)*
- *Duration: December 2022 - December 2027*

In this project, Preferred by Nature has teamed up with a large commercial company, Ferrero, and two NGOs, Solidaridad and Rikolto to promote sustainable production of cocoa in Ghana. The objective of the project is to design and deliver a system to incentivise transformation from deforestation-related cocoa monoculture to agroforestry systems in Western South Ghana. The project seeks to link agroforestry development to payments for ecosystem services and supply chains advantages - a system intended to continue existence and operability beyond the project lifetime. The project also intends to build a multi-stakeholder platform in Western South Ghana to harmonise requirements from buyers and the Government of Ghana (COCOBOD) in terms of ensuring and demonstrating deforestation-free status of produced cocoa.



Europe**Landscape Enterprise Network**

- *Funded by: Nestlé*
- *Location: Italy, Hungary, Poland*

The purpose of this project is to run the 3Keel LENS (Landscape Enterprise Networks) Model for Nestlé and other participants in Hungary, Italy and Poland, to influence the quality and performance of landscapes by procuring nature-based solutions from a consortium of land managers and farmers. The project will work with funders to identify and define environmental outcomes in the project regions, negotiate measures to achieve environmental outcomes, consolidate proposals for funders' consideration, and provide technical advice and administrative support.

Soy GHG

- *Funder: Nestrade S.A.*
- *Location: Serbia*

This pilot project aims to address sustainability challenges faced by soy producers in Northern Serbia. Preferred by Nature will design an outcome-

based approach to facilitate the transition of farms towards sustainability, based on regenerative agriculture, reduced carbon footprint, and responsible sourcing practices. The proposed methodology will provide a customised strategy that integrates capacity development, assurance, impact monitoring and data management to improve sustainability performance and transparently demonstrate impact.

Eco2Adapt

- *Funded by: EU Horizon Programme*
- *Duration: September 2022 - August 2027*

Under the Eco2Adapt project, Preferred by Nature is partnering up with a consortium of 30 other organisations, led by the Institut National de Recherche Pour l'agriculture, l'alimentation et l'environnement, to develop an ecosystem-based adaptation (EbA) framework that uses biodiversity and ecosystem services to reduce vulnerability and build social-ecological resilience to climate change. The project will in other words help shape, protect and maintain the resilience of tomorrow's forests. Preferred by Nature will lead the development of tools for the certification of socio-ecological resilient forests, based on our vast experiences in forest certification.



Training Programme



Empowering Sustainability Champions

The year 2022 was a transitional year of returning to our usual face-to-face format for most of our sustainability training courses, after COVID-related travel restrictions were finally eased.

This prompted a summing up of the impacts of our training courses, both quantitative and qualitative, to better understand the knowledge and skills developed during the period of providing trainings in a fully remote format. To date, our organisation delivered 145 courses (both in-person and remotely), and trained more than 1,100 people of more than 30 nationalities.

Also in 2022, two new courses were launched related to Social Auditor Training and Ecosystem Restoration.

The Social Auditor Training focuses on how auditors can effectively audit social values such as living wage, worker health and safety, etc.

The Ecosystem Restoration training provides detailed guidelines on effective implementation of ecosystem restoration projects. The Ecosystem Restoration Course also included additional components related to FSC Ecosystem Services and Carbon Footprint Management. Since the courses continue to develop as we enter the post-COVID era, we expect to include a field trip component into the course programme in the future based on our trainers own field auditing experiences.

We plan to continue to use our skills gained during the COVID pandemic to develop new online courses in the most relevant sustainability trends in order to build the global pool of experts who are implementing better land management and business practices.



Finance

Financial Highlights

Despite the profit loss this year, overall our financial position has continued to be strong, with consistent balance sheet, and equity ratio increasing 8% higher than it was 5 years ago.

Revenue in 2022 increased by 23% compared to 2021, 4% more than forecasted. We saw strong growth through the expansion of our current services in all regions and the development of new programmes, despite the challenges of the conflict in Ukraine, which significantly impacted our delivery of services in Ukraine, Belarus, and Russia.

Revenue (EUR'000)



The top 4 individual country contributors to the Group revenue in the fiscal year 2022 were the two legal entities in Denmark (parent entity FMBA and ApS), the United States and Canada, contributing 60% of the Group's total consolidated revenue.

Preferred by Nature saw a net result of minus 79,322 EUR in 2022. The two biggest factors that impacted the net result were the conflict in Ukraine, which decreased income, net profit, and liquidity in Belarus and Russia in 2022, as well as costs related to our

Development Week event. The senior management team monitored the expenses closely throughout the year, so even with some types of costs increased more than budgeted (travel, consultants, taxes), adjustments were made to ensure the final net result was not far from the budget.

	2018	2019	2020	2021	2022
Revenue	10,724	19,946	20,435	21,016	25,684
Profit/loss for the year	876	-183	583	1,159	-79
Balance sheet total	10,029	10,832	10,771	10,645	11,696
Equity	2,720	2,536	2,980	4,142	4,065
Equity ratio (%)	27.12%	23.41%	27.67%	38.91%	34.76%

(EUR'000)

Finance

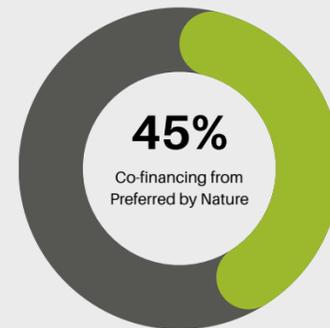
We continue to see improvements in finance operations and management, with close monthly and quarterly monitoring. Processes related to accounts receivables and bad debt collection were improved in all countries, helping to reduce the accounts receivable balance, especially for long overdue receivables.

An increasing number of our entities have now fully implemented FinancialForce (group accounting system), which has helped us to improve organisation-wide financial management. The connection between FinancialForce and banking systems will enable us to save time, reduce errors, and gain better insights into our financial position.

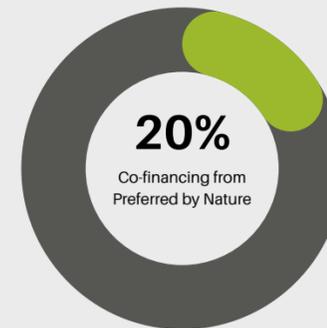
As a mission-driven organisation, we use our revenues from sustainability services to support development and implementation of non-profit projects.

Two significant donor-funded projects, in which Preferred by Nature has committed to invest significant co-financing in order to secure full realisation and success of the project, include:

- **LIFE 2018 Support EUTR Phase II:** Enabling Effective Implementation and Enforcement of the EU Timber Regulation in 6 Key Timber Importing Countries (July 2019 – Jun 2023). Total budget 2.45 mil EUR; 55% funded by European Commission, and 45% co-financing from Preferred by Nature.
- **EU SWITCH-Asia Programme - Reducing Climate Impact of Rice Production in Indonesia** (January 2022- December 2024). Total budget 2.68 mil EUR, 80% funded by European Commission, and 20% co-financing by Preferred by Nature.



**LIFE 2018 Support
EUTR Phase II**



**EU SWITCH-Asia
Programme - Reducing
Climate Impact of Rice
Production in Indonesia**





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(staff elected)

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TIGRAN MARTIROSYAN

Senior Quality Manager



Preferred by Nature

is an international non-profit organisation working to support better land management and business practices that benefit people, nature and the climate. We do this through a unique combination of sustainability certification services, projects supporting awareness raising, and capacity building.

For nearly 30 years, we have worked to develop practical solutions to drive positive impacts in production landscapes and supply chains in 100+ countries. We focus on land use, primarily through forest, agriculture and climate impact commodities, and related sectors such as tourism and conservation.

www.preferredbynature.org

