



# AAK Annual Report 2017

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The Co-Development Company

**AAK**

# AAK in 60 seconds

At AAK, we have developed value-adding vegetable oil solutions for more than 140 years. Today, we work within industries such as chocolate and confectionery, bakery, dairy, infant nutrition, medical nutrition, senior nutrition, foodservice, and cosmetics.

To make sure we always get the right result we use many different raw materials and processing methods. We believe in a collaborative approach where we bring together our customers' skills and know-how with our own capabilities and mindset. We find this to be the best way to achieve long-lasting results.

With our headquarters in Malmö, Sweden, 20 production facilities and customization plants, and sales offices in more than 25 countries, our more than 3,300 employees are dedicated to providing innovative value-adding solutions to our customers.

So, no matter where you are in the world, we are ready to help you achieve long-lasting results.

[We are AAK – The Co-Development Company.](#)

## Three business areas



### Food Ingredients

Our largest business area primarily offers solutions to the bakery, dairy, foodservice and special nutrition industries. The latter includes solutions within infant, senior and medical nutrition.



### Chocolate & Confectionery Fats

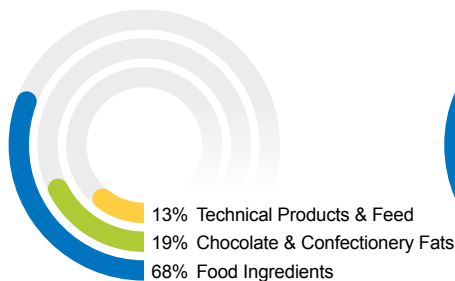
Our second largest business area offers functional cocoa butter alternatives for chocolate, compounds for coating and molding, and speciality fats for confectionery fillings.



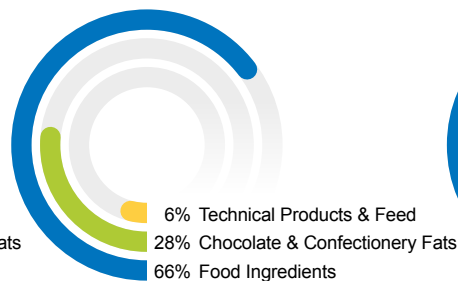
### Technical Products & Feed

Our Technical Products & Feed business area offers fatty acids and glycerine for various applications, and proteins and fats for animal feed.

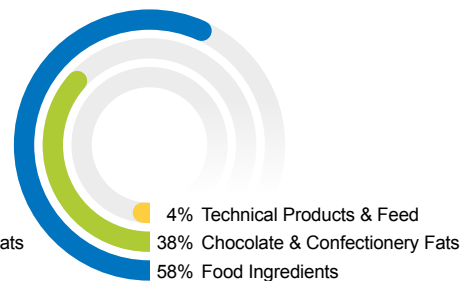
Volumes



Net sales



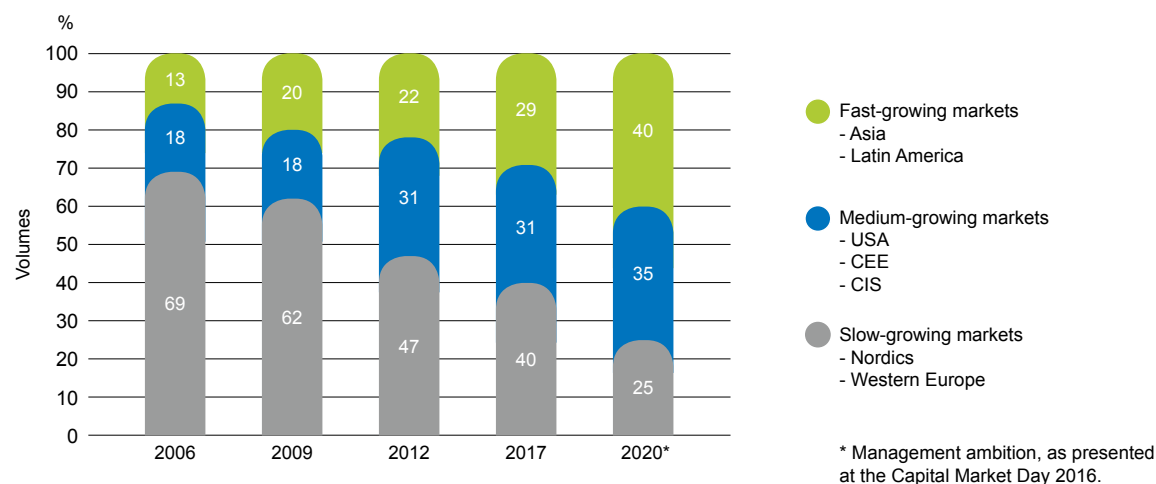
Operating profit



# AAK in the world



## Medium- and fast-growing markets



Operational key figures (SEK million unless otherwise stated)	2013	2014	2015	2016	2017
Volumes, thousand tons	1,620	1,703	1,833	1,966	<b>2,129</b>
Net sales	16,537	17,814	20,114	22,057	<b>26,436</b>
Adjusted operating profit (EBIT)*	1,127	1,242	1,411	1,615	<b>1,786</b>
Operating profit	1,117	1,262	1,409	1,615	<b>1,786</b>
Operating profit per kilo, SEK	0.69	0.74	0.77	0.82	<b>0.84</b>
Cash flow from operating activities	1,300	692	1,736	1,213	<b>1,099</b>
Earnings per share, SEK	17.87	21.15	22.17	23.71	<b>28.24</b>
Equity per share, SEK	105.76	138.51	156.77	177.87	<b>181.23</b>
Dividend per share, SEK	6.00	6.75	7.75	8.75	<b>9.75**</b>
Return on Capital Employed, R12m, %	16.4	16.0	15.7	15.8	<b>15.6</b>

\* Adjusted for non-recurring items and acquisition costs.

\*\* In accordance with the Board of Directors' proposal.  
 Definitions, see page 92.

# 2017 in brief

## Financial results

- Total volumes were up 8 percent (7) and organic volume growth was 5 percent (2).
- Net sales amounted to SEK 26,436 million (22,057). The increase was mainly due to positive product mix and increased raw material prices, partly offset by a negative currency translation impact of SEK 327 million.
- Operating profit reached SEK 1,786 million (1,615), an improvement of 11 percent. The currency translation impact was negative SEK 19 million. Operating profit at fixed foreign exchange rates improved by 12 percent.
- The largest business area, Food Ingredients, reported an operating profit of SEK 1,107 million (996), an improvement of 11 percent. Operating profit per kilo increased by 3 percent, to SEK 0.77 (0.75).
- Business area Chocolate & Confectionery Fats reported an operating profit of SEK 735 million (664), an improvement of 11 percent. Operating profit per kilo increased by 1 percent, to SEK 1.82 (1.81).
- The smallest business area, Technical Products & Feed, reported an operating profit of SEK 84 million (100), a decrease by 16 percent. Operating profit per kilo decreased by 17 percent, to SEK 0.30 (0.36).
- Operating cash flow including changes in working capital amounted to SEK 1,099 million (1,213). Cash flow from working capital was negative, amounting to SEK 388 million (negative 263). Good working capital management has impacted cash flow favorably. However, this was offset by a continued organic volume growth, a net negative impact from higher raw material prices, and working capital tied up for our new factories in Brazil and China.
- Earnings per share increased by 19 percent, to SEK 28.24 (23.71).
- Return on Capital Employed (ROCE), calculated on a rolling 12 months basis, was 15.6 percent (15.8). ROCE declined due to increased raw material prices which impacted the first six months in 2017, investments in Brazil and China, and the acquisition of California Oils Corporation in 2016.

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## Key events

- In January, we launched our new company program The AAK Way which will guide us through 2019. The AAK Way will focus on the following five priority areas: Go to Market, Operational Excellence, Special Focus Areas, Innovation, and People.
- For the Annual General Meeting in May, the Nomination Committee of AAK AB proposed new election of Mikael Ekdahl as Chairman of the Board and Gun Nilsson and Bengt Baron as Board members. The Annual General Meeting resolved in accordance with the proposal.
- Following the strategy to broaden our nutritional focus we delivered our first volumes of Akovita® in June. Akovita® is our new product range for the senior nutrition market and contains ingredients such as plant sterol esters which are clinically proven to maintain and even reduce the cholesterol level in the blood which is supported by Article 14(1) health claim in the EU.
- In July, our CEO and President Arne Frank suddenly and very unfortunately passed away. Arne joined AAK in 2010 and developed AAK into a world-leading player in the market for value-adding vegetable oils and fats.
- Our new speciality and semi-speciality edible oils factory in Zhangjiagang, China was officially inaugurated in September. With the new plant in operation, we have taken a major step forward in our global growth strategy and it brings us closer to our customers in yet another key market. The fully automated, multi-oil and multi-process plant has an initial production capacity of 100,000 MT per year, and opens up many new possibilities for our customers in China in a wide range of applications.
- In November, AAK's Board of Directors appointed Johan Westman as new President and CEO of AAK AB. Prior to joining AAK, Johan was Senior Vice President Europe and Managing Director of the BlankLight division at Shiloh Industries, a global innovative solutions provider to the mobility market with headquarters in Valley City, Ohio, USA. Johan will start no later than June 1, 2018.
- At the end of December, we signed our first commercial contract for TROPICAO™, our chocolate solution for hot climate markets.



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Chairman of the Board:

## An extraordinary year with good progress and development

A very special year as Chairman of the Board of AAK has come to an end and it is a great pleasure for me to confirm that the company continues to develop and demonstrate its capabilities and customer benefits within the world of vegetable oils and fats.

Although being new to this particular role, my experience working with AAK dates back to the turn of the century. That is when Melker Schörling bought his first shares in Karlshamns AB and asked me to represent him on the Board of Directors. At that time, operations were limited to Karlshamn, Sweden and the Netherlands, and, needless to say, a lot has happened since then.

During the past twelve months I have got to know AAK and its employees more closely. This has not only been a great pleasure for me but also a very good learning experience. I have visited a number of AAK sites, including the ones in Colombia and Mexico where the company has a strong position. I have also spent some time at the site in Karlshamn and the one in Mumbai, India. In September, I participated at the inauguration of AAK's new factory in Zhangjiagang, China, a grand event and a very important milestone for the company.

### New CEO, same ambitions

After the successful establishment of AAK under the leadership of Jerker Hartwall, the company's development over the last decade can to a great extent be attributed to our former CEO Arne Frank who very unfortunately passed away last summer. During his seven years with the company, Arne established AAK as a world-leading player in the market for value-adding vegetable oils and fats and he is, of course, deeply missed by all of us.

But what is still here, stronger than ever, is the very competent global organization that Arne, together with his managers, created. To lead this successful team, the Board of Directors has appointed a new CEO with broad industrial and international experience. Johan Westman has over the past ten years successfully developed companies to drive shareholder value through profitability improvements, organic growth as well as global expansion. I am confident that he will continue to develop AAK in the best possible way.



#### Continued MSAB support and new Chairman of the Board

It is important to confirm that AAK can rely on a continued, long-term ownership from the holding company Melker Schörling AB, where I'm also the Chairman of the Board. AAK is one of our core holdings and we consider the company to be only at the beginning of its journey to become even larger and more successful. In other words, our engagement, commitment and belief in the long-term perspective of the company remain unchanged.

When Melker Schörling due to health reasons unfortunately had to step down from his position as Chairman of the Board, Melker and Arne asked me to step in. The plan was then to later engage Arne as long-term Chairman once he had finalized his CEO duties. With last summer's tragedy, everything had to be changed. We first found an excellent new CEO in Johan Westman and now we have also managed to engage Georg Brunstam, with long industrial experience and an outstanding track record in creating shareholder value, as our new proposed Chairman. I am thereby confident that the success story of AAK will continue for many years to come.

Finally, I would like to thank our CFO and acting CEO Fredrik Nilsson, the entire management team and all employees for their outstanding efforts devoted to AAK during the extremely challenging year of 2017. Without your strong support, AAK would have suffered and I could hardly have bridged the gap between Melker and Georg.

Thank you all!

Mikael Ek Dahl, Chairman of the Board



Acting CEO:

# A year of significant achievements

The past year has without a doubt been exceptional for AAK. We have seen a number of significant achievements. Some of the highlights include a higher organic volume growth compared to the underlying market, another record-high operating profit, the inauguration of our new production plant in China, our first sales of Akovita®, our product range for Senior Nutrition, and the signing of our first commercial contract for TROPICAO™, our chocolate solution for hot climate markets.

Alongside these important milestones, we were saddened when our CEO Arne Frank passed away last summer. During his time as CEO, Arne developed AAK from good to great, turning the company into a world-leading supplier of value-adding vegetable oils and fats. In this difficult period, our leaders, together with their teams, have very professionally continued to execute the company's strategy, and for that I'm very proud and grateful.

The positive trend from previous years continued and 2017 demonstrated a strong financial performance with an improvement of operating profit by 11 percent. Food Ingredients, primarily driven by segments Special Nutrition and Dairy, was a main contributor to the increase. Chocolate & Confectionery Fats reported a double-digit year-over-year improvement despite some production and supply chain challenges during the second half of the year. Our smallest business area, Technical Products & Feed, had a challenging start to 2017 but was able to come back to expected levels during the second half of the year.

## The AAK Way and management ambition

Our first year with The AAK Way has developed according to expectations and we are happy with the implementation of the program. Our key focus with The AAK Way, which will guide us through 2019, is to enable the company to deliver strong organic growth. This will be achieved by focusing on five priority areas: Go to Market, Operational Excellence, Special Focus Areas, Innovation, and People.

Within Special Focus Areas we delivered our first volumes of Akovita®, our product range for Senior Nutrition. We also initiated a new Customer Innovation Center with special focus on plant-based dairy applications in Richmond, California, USA. The center is set to open in mid-2018. Within Operational Excellence we among other things, made important progress with our multi-oil sustainability as well as coordinating our shipping activities on a global level.

For priority area People we conducted our second Employee Engagement Survey at the end of 2017. In order to strengthen our leadership competencies and company values, we also developed and carried out two leadership days globally.

When we launched The AAK Way in the beginning of 2017 we established a new management ambition for the coming years, a 10 percent year-over-year improvement in operating profit which will support a good and consistent improvement in earnings per share. For 2017, we are proud to report an improvement in operating profit that is slightly better than that ambition.

## Continued sustainable growth

We saw some significant achievements within our sustainability activities over the past year. Within palm oil sustainability traceability to mill remains high despite a number of new AAK factories which require time to implement our palm oil policy and high standard of traceability. During the year we also engaged in a very significant smallholder project in Borneo, Malaysia through Forever Sabah. AAK is the first palm oil supply chain contributor to the project, which aims to prepare smallholders in the region for jurisdictional RSPO certification by 2025 while at the same time assisting them in improving their livelihoods and reducing environmental impact.

As for shea, an essential raw material for AAK, our successful program with women's groups in West Africa continues to grow and show great progress, both in Burkina Faso, where the program was initiated in 2009, and in Ghana where it was established a couple of years ago.

Our efforts to continuously improve our work within sustainability has been recognized by independent assessors. The Stockholm School of Economics reported that AAK has made significant improvements in communicating its sustainability work. AAK was ranked near the top compared with Sweden's largest listed companies. In addition, we recently received a gold rating for our sustainability work from EcoVadis, which operates the first collaborative platform providing sustainability ratings and performance improvement tools for global supply chains.

If you want to learn more about our sustainability work, please refer to our annual sustainability report.





### The years ahead

We have built a solid foundation over the last few years and we will continue to work hard to create more value, new opportunities and even better conditions for all of our customers, shareholders, employees, and suppliers. Supported by strong business drivers, an engaged and very competent organization, and a clear strategy and management ambition, we remain prudently optimistic about the future.

As mentioned earlier, we have seen some great achievements during 2017 and under the leadership of our new President and CEO Johan Westman we are determined to add many more in the years ahead.

I would like to thank all of our customers and shareholders, our Board of Directors, and all AAK colleagues for their support during the past year.

Fredrik Nilsson, CFO and acting CEO



# AAK's vision

## “The first choice for value-adding vegetable oil solutions”

Our vision consists of three important parts:

### First choice

- ◆ The first choice for our stakeholders: customers, employees, suppliers and shareholders.
- ◆ We aspire to be our customers' preferred choice which requires us to be competitive, to have consistent quality standards, and to be an innovative supplier.
- ◆ First choice is also about time. We aim to have a fast time to market of new, value-adding solutions.

### Value-adding solutions

- ◆ We sell complete solutions, not just products.
- ◆ Our value-adding solutions are based on our expert knowledge of customer needs and developed through our unique co-development approach.
- ◆ A value-adding solution is not just a final product but also a complex bundle of services, such as customization, problem-solving, market advice, delivery systems, technical support and whatever else is required to meet our customers' needs.

### Vegetable oils

- ◆ Our business is built around the world of vegetable oils.
- ◆ We offer a wide range of products and services related to vegetable oils.
- ◆ Our unique multi-oil and multi-process approach gives us a wide variety of possibilities and allows us to provide customized solutions.

# The AAK Way

Our company program The AAK Way was launched in January 2017. After a first, very exciting year with the implementation of the program we have seen important achievements across the globe within many functions. This has created a very strong foundation going into 2018 where the focus on execution will continue and where maximizing the outcome of initiatives will be key.

The AAK Way, which will guide us through 2019, is based on six strategic cornerstones:

- Speciality and semi-speciality products.
- Customer co-development.
- Sustainable growth.
- Global reach aligned with high-growth markets and segments.
- Strong local presence.
- Multi-oil and multi-process.

The key focus for The AAK Way is to enable AAK to continue to deliver strong organic growth. This will be achieved by focusing on five priority areas – Go to Market, Operational Excellence, Special Focus Areas, Innovation, and People.

## Go to Market

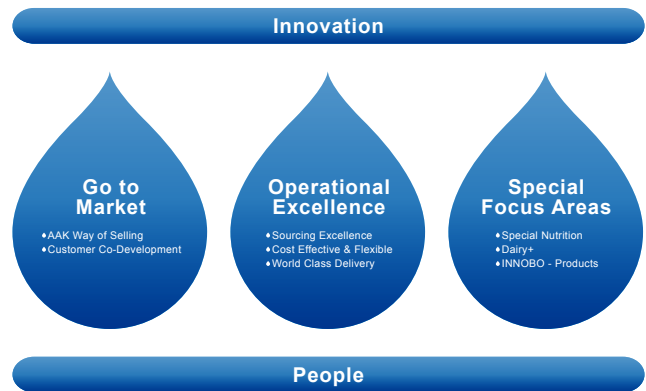
Being the Co-Development Company we create lasting value for our customers through value-adding vegetable oils and fats solutions. Our go-to-market approach is to partner with our customers all the way – from identifying their needs, through creating the right solutions for them, to the actual sales. Our way of selling and our unique customer co-development approach are business tools we want to strengthen even further over the next years.

## Operational Excellence

In accordance with our brand promise and to manage the ever-increasing competition in the market, it is important that we have operational excellence all the way from sourcing our raw materials in a cost-competitive and responsible way, via a cost-effective production to delivering on time and in quality.

## Special Focus Areas

AAK's core business is to develop and supply vegetable oils and fats solutions to solve customer-specific needs across industries such as bakery, chocolate and confectionery, cosmetics, and infant nutrition. To further strengthen our organic growth we have identified some special focus areas which we believe hold significant potential for future growth.



## Innovation

Innovation is crucial to drive future organic growth and to build an even stronger AAK for the mid and the long term. This is decisive for being the preferred supplier and for securing that our solutions add strong value to our customers. When it comes to innovation capabilities we want to be in a league of our own for developing new ideas, subsequently executing with a sense of urgency leading to full commercialization.

## People

We want AAK to be a great place to work, a place where we set a high standard for performance, where everybody is highly engaged, with potential for personal development and where strong leaders both support and challenge all colleagues in an organization to last. We also continuously prepare our workforce for the ever-changing future.

The AAK Way serves several important purposes:

- To live up to our vision, to be the first choice for value-adding vegetable oil solutions.
- To reach our management ambition of improving, on average, our operating profit by 10 percent per year and supporting a good and consistent earnings per share improvement.
- To build a stronger AAK for the short, mid and long term.

One year after launch the program is developing according to plan. We look forward to the continuous execution of The AAK Way in order to create even more value for all of our customers and other stakeholders.



# The business model – global provider of value-adding solutions

AAK's core business is to provide value-adding solutions, based on speciality vegetable oils and fats, to the food, confectionery and cosmetics industries with the purpose to achieve lasting business value together with our customers. Sourcing renewable raw materials from around the globe, we manufacture our broad product portfolio at more than 20 production facilities and customization plants.

As markets evolve, new opportunities and challenges continuously arise. Therefore, it is important for AAK to stay on top of market dynamics. Some of the current consumer trends in our key markets include health and wellness, clean label, sustainability, cost efficiency, and premiumization.

## The Co-Development Company

To be able to provide value-adding solutions to our customers we apply our unique co-development approach. This approach is based on long-term partnerships and strong relationships with our customers. In combination with a great interest in our customers' businesses this enables us to work with our customers from idea to launch – from joint ideation, to close cooperation on development and strong support on implementation of the solution. The foundation for co-development work is our world-leading capabilities:

- ◆ The multi-oil and multi-process approach which gives us an unmatched capability to provide customized products.
- ◆ The know-how of oils and fats and their functions in different applications.
- ◆ The global presence which enables us to address local markets and needs, as well as act as a global partner.

These capabilities make it possible for us to customize solutions that fit our customers' specific needs, all with the purpose to achieve lasting business results. Last but not least, we have dedicated people at our many Customer Innovation Centers across the globe working in close co-operation with our customers to provide value-adding vegetable oil solutions.

## Functional solutions

Our products are of both nutritional and functional value, outstanding in their structure, melting and crystallization behavior, rheological properties, flavor release and skin penetration.

Our strong focus on customization and our multi-oil and multi-process approach enable us to respond to specific customer needs such as improved health profile, taste, processing, logistics, labelling and legal requirements. In each case, our technical and commercial experts identify the optimum solution to a specific need.



## Our global network of Customer Innovation Centers



AAK has Customer Innovation Centers across the world in which we are working closely with our customers to develop value-adding vegetable oils solutions.

\*To be inaugurated during the second quarter 2018.

## We source raw materials from all over the world:

### **Rapeseed and rapeseed oil**

Northern and Central Europe, Canada, US, Australia, and China



### **Palm oil**

Asia and Central and South America



### **Palm kernel oil**

Asia and South America



### **Olive oil**

Southern Europe



### **Soya bean oil**

United States and South America



### **Sunflower oil**

Eastern Europe, Mexico, and China



### **Shea kernels**

West Africa



### **Corn oil**

America and Eastern and Southern Europe



### **Coconut oil**

Indonesia, the Philippines and India



### **Natural raw materials**

We obtain our raw materials from rapeseed, palm, soya, shea, sunflower, olives, and many other sources. Drawing on our extensive knowledge, and more than a century of experience, we exploit the properties of vegetable oils to add value to customers within our target industries.

### Health and cost efficiency

As our customers strive to respond to the fast-changing demands of their markets, it has become increasingly necessary for us to meet their needs by developing customized, highly functional products.

Many customer demands are inspired by health trends. Our expertise has enabled us to maintain high functionality while reducing the majority of industrially produced trans fats, believed to increase the risk of cardiovascular disease.

According to the WHO and the Nordic Nutrition Recommendations:

- the intake of trans fatty acids should be kept at an absolute minimum as any intake of trans unsaturated fatty acids is related to an increase of LDL (the bad cholesterol) in the blood.
- the intake of saturated fatty acids should be limited to a maximum of 10 percent of the energy intake because of its increasing effect on total cholesterol compared to unsaturated fatty acids.

Cost efficiency is another important trend in our customer demands, either through reduced cost of raw materials or of processing costs. This is driven by a highly competitive market and retailers continuing to challenge food manufacturers.

### Sustainable growth

Sustainable growth is a cornerstone of our company program The AAK Way and essential to our vision of being the first choice for value-adding vegetable oil solutions. For us, sustainable growth is about our responsibility towards all of our key stakeholders – the local communities where we operate, our global customers, employees, investors, and suppliers. The foundation of our model for sustainable growth is the ten principles of the UN Global Compact, UN's Sustainable Development Goals, and our policies and codes.

Driving progress, we work within five focus areas: Our Customers, Our Suppliers, Our Planet, Our People, and Our Neighbours, where we continuously set and deliver on ambitious objectives and benchmarks for our performance, internally and externally.

The interaction with customers is based on sound business ethics and a deep understanding of our responsibility for safeguarding customer brands. As a supplier of ingredients for some of the world's best-known brands, we recognize our role and our customers' expectations and see these as key elements in the execution of The AAK Way.

# What is fat and why do we need it?

Fat is essential to life. The many types are divided into four main groups:

- **Saturated fat** is found in animal products such as butter, cream, milk, meat and vegetable oils from tropical plants, such as coconut oil and palm oil. Saturated fats are characterized by their ability to remain solid at room temperature.
- **Monounsaturated fat** is found in almonds, olive oil, rapeseed oil and other vegetable oils. Monounsaturated fat is suitable for cooking, being more heat-stable than polyunsaturated fat.
- **Polyunsaturated fat** is found in shellfish, oily fish such as salmon, mackerel, herring and sardines, and vegetable oils. Omega-3 and omega-6 are examples of polyunsaturated fats.
- **Trans fats** are a particular form of unsaturated fats. They occur naturally in milk and fat from ruminants, but are also formed when vegetable fat is partially hydrogenated.

Fat is part of all the cells in the body. Our bodies need fat to produce hormones and other important substances.

- Vitamins A, D, E and K are fat-soluble. That means that the body's ability to absorb these vitamins is dependent on the presence of fat.
- One third of our daily energy requirements must be met by calories from fat. For adults, this means a daily fat intake of 60–90 grams, each gram containing nine calories. Carbohydrates and proteins contain four calories per gram.
- Saturated fats and trans fats are believed to increase the level of LDL cholesterol ("bad" cholesterol) in the blood, while unsaturated fats have a positive effect on blood cholesterol.

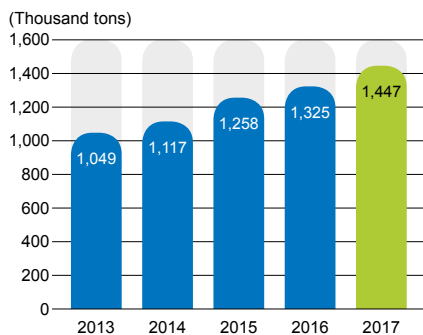


## Business area Food Ingredients

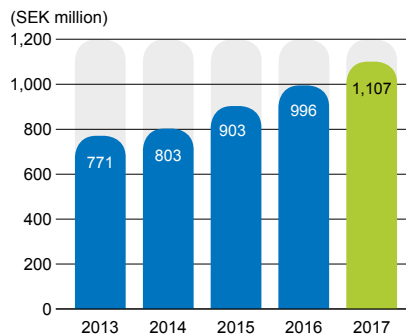
Food Ingredients is our largest business area and primarily offers solutions to the bakery, dairy, special nutrition, and foodservice industries. The business area reported strong organic growth in 2017 and we are gaining market shares. There was a particularly high growth in speciality and semi-speciality solutions. The picture between the different segments was mixed with Dairy and Special Nutrition showing good organic growth while Bakery had a more challenging year.

	2013	2014	2015	2016	2017
Volumes, thousand tons	1,049	1,117	1,258	1,325	<b>1,447</b>
Net sales, SEK million	10,798	11,509	13,556	14,707	<b>17,665</b>
Operating profit, SEK million	771	803	903	996	<b>1,107</b>
Operating profit per kilo, SEK	0.73	0.72	0.72	0.75	<b>0.77</b>

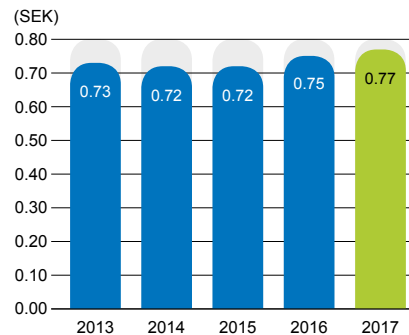
**Volumes (68% of Group total)**



**Operating profit (58% of Group total)**



**Operating profit per kilo**





## Bakery

Our bakery business continued to face some challenges in 2017 although profitability has seen positive developments, especially in the US and Western Europe, due to an improved product mix.

The new factories in China and Brazil are gaining ground. New bakery application centers in the US and the UK will further support the shift towards value-adding solutions, focusing on specific application areas such as cakes, biscuits and cookies, and pastries.

In 2017, butter prices reached record levels around the globe. Therefore, we developed butter substitutes to support biscuit, pastry and cake producers and provide cost-in-use benefits all the way from production to end product.

Our opportunity and innovation pipeline looks solid and we enter 2018 with confidence that the launches we have planned will deliver desired business growth, both in regards to volume and profitability.

## Dairy

2017 was another strong year for our dairy business with double-digit volume growth. North Latin America and the US experienced particularly strong growth and our new operations within the Brazilian and Chinese markets showed great development. Europe also showed good growth with the exception of Scandinavia which was flat.

The plant-based dairy segment, forecast to show double-digit volume growth over the coming years, continued to demonstrate its great potential. AAK has seen a number of key wins throughout the year. This confirms the segment as an important contributor to accelerate growth. Through our co-development approach we are well positioned to continue such strong business development.

## Special Nutrition

Special Nutrition continued to show strong global growth during 2017. The main driver was our Infant Nutrition sub-segment which showed double-digit growth. During 2017, we started to deliver our Akonino® product range from our new factories in Brazil and China as well as from our US factory in Richmond, California, which was acquired in 2016. Akonino® Organic was in high

demand especially in the Chinese market. Our INFAT® product range, sold through Advanced Lipids AB, a joint venture of AAK and Enzymotec, also showed double-digit growth.

In May 2017, we delivered our first volumes of our product range Akovita® to a customer within Senior Nutrition, and we have since then continued to deliver this new product to multiple customers. Akomed®, our product range for Medical Nutrition, is showing steady growth globally.

## Foodservice

Within Foodservice, AAK has a very strong market focus and we deliver innovative solutions that reflect the newest market trends. AAK recognizes the regional variations in the taste and functionalities that our customers seek. We strive to adapt our solutions and concepts to create the greatest possible benefit for our customers' businesses and for the end-users' food experiences.

2017 was a mixed year for our Foodservice business. We had another strong year in the UK, growing faster than the market, while in Scandinavia we faced some challenges due to changing market and competitor dynamics. Our Foodservice business in the US had a record year, delivering market share gains through strong customer support and connectivity.

During the past year, we have upgraded and expanded our Customer Innovation Center for Foodservice in Scandinavia, where we work with customers and suppliers to develop new recipes with great flavors and textures. In early 2018, we have done the same for our corresponding center in the UK, and we aim to be back in steady growth mode in a market that is rapidly evolving as consumers' behaviors are changing and as their propensity to eat out is on the increase.



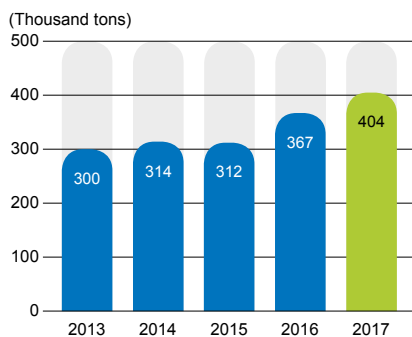


## Business area Chocolate & Confectionery Fats

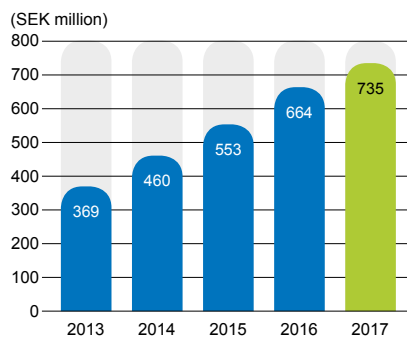
Business area Chocolate & Confectionery Fats continued to grow during 2017. Double-digit profit growth resulted from a strong year driven by AAK's Customer Co-Development approach and by building on investments made in previous years in various geographical areas. AAK is a market leader of value-adding speciality fat solutions in the global chocolate and confectionery fats arena and continues to grow faster than the market.

	2013	2014	2015	2016	2017
Volumes, thousand tons	300	314	312	367	<b>404</b>
Net sales, SEK million	4,200	4,891	5,315	6,117	<b>7,354</b>
Operating profit, SEK million	369	460	553	664	<b>735</b>
Operating profit per kilo, SEK	1.23	1.46	1.77	1.81	<b>1.82</b>

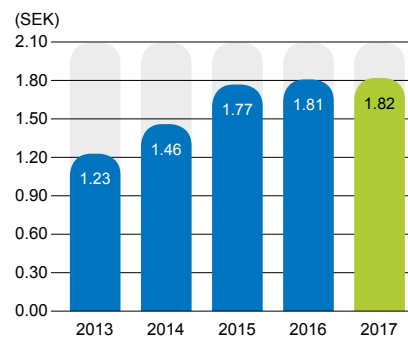
Volumes (19% of Group total)



Operating profit (38% of Group total)



Operating profit per kilo



### Successful Customer Co-Development approach bringing solutions to market

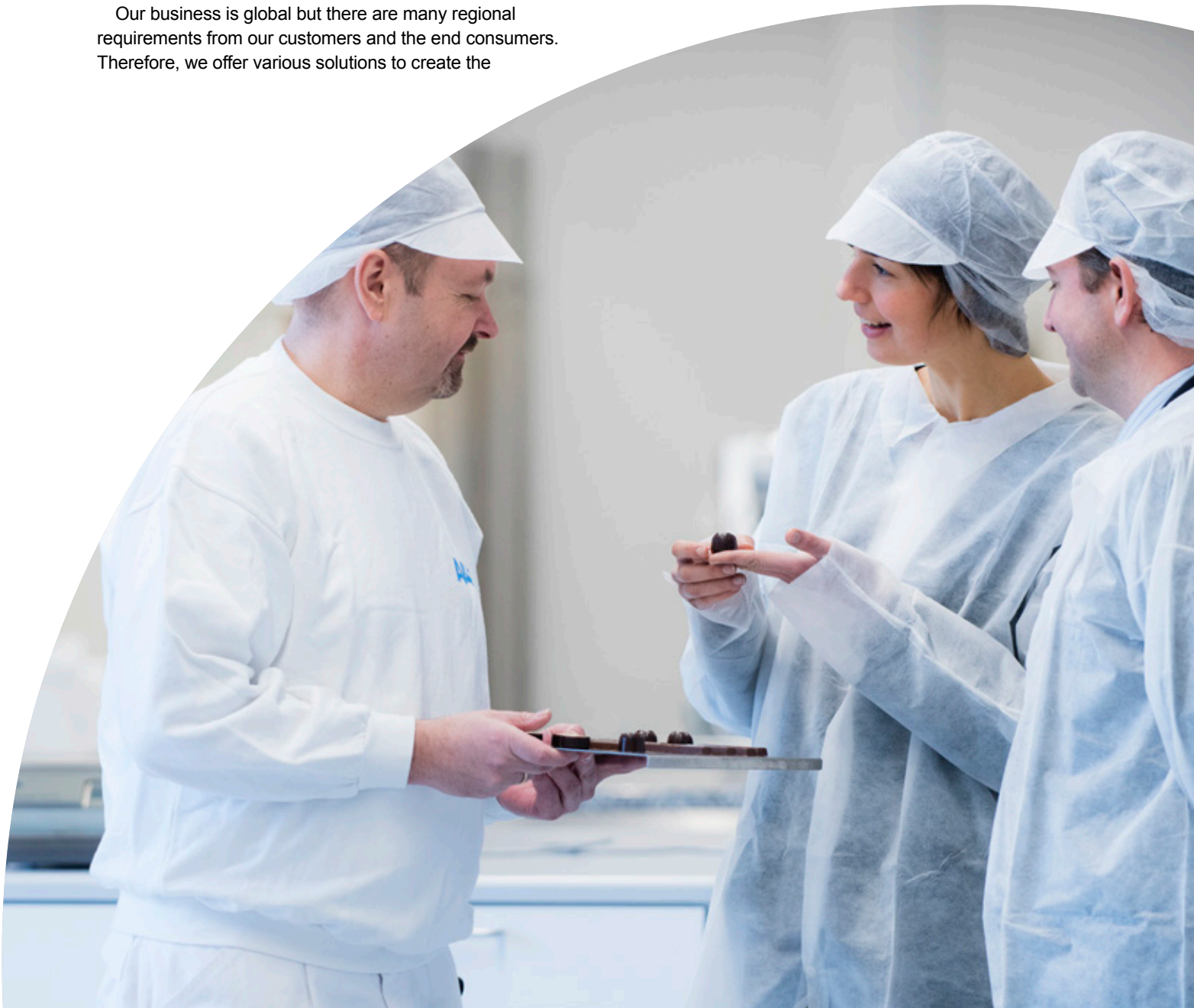
Chocolate & Confectionery Fats supplies speciality vegetable fats used as cocoa butter alternatives for chocolate products. AAK has a wide product portfolio based on customer requirements. Using our customer co-development approach, many of our new product launches are developed and customized in close collaboration with our customers. Our solutions for the chocolate and confectionery industry cover a wide range of product applications, including chocolate fats and compound fats for coating and molding, filling fats, barrier fats, and spreads.

One of our new, innovative solutions that we brought to the market in 2016, TROPICAO™, resulted in a first commercial sale at the end of 2017. TROPICAO™ is a solution for chocolate manufacturers to produce bloom-stable chocolate and still maintain the chocolate's sensorial properties even in very warm conditions. For 2018, we look forward to further commercialize and expand this business together with other new innovations in our pipeline.

Our business is global but there are many regional requirements from our customers and the end consumers. Therefore, we offer various solutions to create the

greatest possible benefit for our customers' businesses and for the end users' chocolate experiences. The typical functionalities we offer with our fat solutions influence the taste, appearance and texture of the final confectionery product.

Consistent with AAK's strong market focus, we deliver innovative solutions that reflect market trends and anticipate customer requirements. Our wide product range is the result of targeted development work carried out in our Customer Innovation Centers globally, where we work with our customers. We provide our customers with value-adding solutions to optimize their production and their products. We organize academies and innovation days for customers, in-house, externally or at their premises, to inspire them with newly developed applications, solutions, innovations, and concept proposals for use in their products. Our efforts to develop innovative, healthier versions of our products have proven to be successful. We offer a wide range of products that are free of trans fats and low in saturated fats.





### Products for every customer's need

Our products and value-adding solutions offer customers an opportunity to differentiate their chocolate and confectionery products to make them preferred by consumers. We offer a customized product range under the following brands:

- ◆ TROPICAO™ – a solution that helps chocolate to maintain a non-bloom appearance as well as its sensory attributes when exposed to temperatures up to 37°C (98.6°F).
- ◆ ILLEXAO™ – Cocoa Butter Equivalents or Improvers (CBE/CBI) for chocolate with added or improved functionality or chocolate cost reductions.
- ◆ Akopol™ – Cocoa Butter Replacers (CBR) for compounds with cocoa tolerance.
- ◆ Cebes™/Silko™ – Cocoa Butter Substitutes (CBS) for compounds with fast meltdown and fast crystallization.
- ◆ Chocofill™/Deliair™ – Filling Fats for customized fillings in line with customer needs.

A typical chocolate or chocolate filling contains around 30 percent fat, which plays a key role in securing a good chocolate experience in terms of stability, melting properties, texture, flavor release, and health profile. Additional benefits of our product range include improved mouthfeel and prolonged bloom stability for a longer shelf life. Efficient barrier fats allow for the inclusion of, for example, nuts in a filling.

### Securing our shea supply chain from West Africa

For decades, the shea kernel has been an important source of nutrition and income in the rural parts of West Africa. AAK has been involved ever since the first kernels were exported in the 1950s and is today the biggest consumer of shea kernels outside Africa. Over the past few years, we have successfully shortened the supply chain by sourcing part of our shea supplies directly from more than 115,000 rural women in West African countries such as Burkina Faso and Ghana. AAK is using a set-up whereby we pre-finance the collection of the kernels at the beginning of the season, supporting the women and their families in improving their livelihoods.

We are determined to further expand this direct sourcing program going forward as it clearly adds value to the women and their families in West Africa, since AAK this way receives better-quality kernels, and since it makes a difference in our supply chain.

## Personal Care

AAK applies its technological know-how and technical expertise in the development of high-performing, functional emollients for the personal care industry. The vegetable-derived ingredients, distinct from synthetic, animal oil- or mineral oil-based raw materials, are used in many cosmetic applications, including skin care, baby care, sun care, hair care, and make-up. Our range of products is highly appreciated for the moisturizing properties and sensory attributes it brings to final formulations.

### Dynamic market trends

The macro trends of a growing population with increasing buying power in emerging markets, and an aging, active, and appearance-focused population (female and male) in mature Western economies, are key growth drivers behind the continuous volume and value growth of the personal care industry.

Today, the industry has coupled its traditional focus on innovation and novelties with an increased emphasis on functionality, safety and sustainability – a trend that supports the use of natural, yet highly sophisticated and well-documented ingredients which are exactly our speciality.

### Global reach

The personal care industry is global. The ten largest companies hold around 50 percent of the global personal care retail market. AAK pursues the strategic and tactical business opportunities that lie within small, medium and global brands – locally and globally.

### High-performing and sustainable ingredients

Our personal care ingredients are all made from natural, renewable raw materials, including rapeseed, shea, mango, illipe, and cocoa. Rapeseed grown in Sweden

contains high levels of valuable bioactive lipids – excellent for sensitive skin products, sun care and baby care. Shea butter, with its beneficial properties, is the most sought-after vegetable-based raw material in the cosmetics industry, used in three times as many applications as any other vegetable oil. Shea is widely recognized for its skin-softening and moisture-retaining properties while its anti-inflammatory properties are known for their skin-soothing and healing effects.

### Product development delivering customer value

Our product range is under constant development. In close consultation with our customers, we are able to shape a well-considered response to meet the ever-changing needs of the industry. Our product innovation focuses on developing products combining specific basic functions, such as moisturizing or softening properties, with more advanced functions, such as protection against UV rays, pollution or other environmental contaminants, or for improved dispersion of pigments and UV filters.

At AAK, we enhance the power of nature, with the objective of creating high-performing, yet sustainable, attractive and safe ingredients that satisfy the needs and wants of our customers and the end-user – the consumer. Our strong performance and continued growth in mature as well as in emerging markets clearly illustrates that AAK is a recognized and leading niche supplier to the global cosmetics industry.





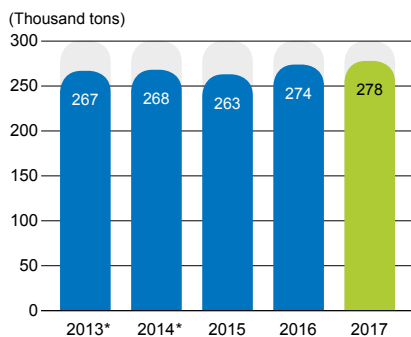
## Business area Technical Products & Feed

Our business area Technical Products & Feed offers fatty acids and glycerine for various applications, and proteins and fats for animal feed. The business area had a challenging start to 2017 but was able to turn around at the end of the year, reporting a strong operating profit during the last six months.

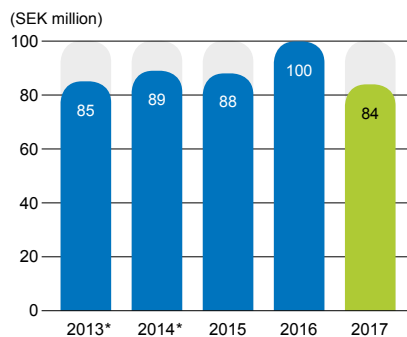
	2013*	2014*	2015	2016	2017
Volumes, thousand tons	267	268	263	274	<b>278</b>
Net sales, SEK million	1,439	1,324	1,243	1,233	<b>1,417</b>
Operating profit, SEK million	85	89	88	100	<b>84</b>
Operating profit per kilo, SEK	0.32	0.33	0.33	0.36	<b>0.30</b>

\* 2013 and 2014 adjusted for Binol divestment.

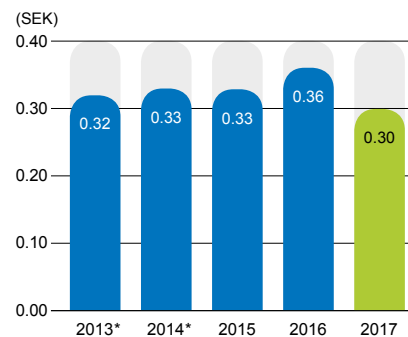
### Volumes (13% of Group total)



### Operating profit (4% of Group total)



### Operating profit per kilo



Technical Products & Feed is an excellent example of the role that vegetable oils play with respect to the environment and health. Candles are one example – made from renewable fatty acids rather than paraffin, their carbon dioxide emissions are significantly lower. Within farming, dairy cattle can benefit from vegetable-based feed that has excellent nutritional properties.

#### Tefac – industrial applications

Fatty acids and glycerine are produced by splitting the fat molecule and refining the outcome into high-purity products. Using by-products from speciality oils manufacturing and other sources of raw materials, AAK's Tefac business creates value-adding solutions for the customer.

Fatty acids are basic oleochemicals which are used as raw materials for production of a wide range of products such as detergents, surfactants, paper chemicals, plastic and rubber additives. They are also used directly in tire manufacturing and candle production. In candle making fatty acids provide a natural, sustainable alternative to paraffin. The AAK products may be found in eco-labelled candles made from 100 percent stearin.

Glycerine is used in a diversity of products, for example anti-freeze agents and surface coatings.

#### Feed

AAK's feed business manufactures and markets vegetable oils and fats and protein for animal feed. Protein is sold under our ExPro® brand. The patented ExPro® process is used to modify the rapeseed protein structure in a way which makes it bypass the cows' rumen (first stomach). Bypassing the rumen increases the uptake of amino acids which leads to increased milk yield and protein content in the milk. The ExPro® process also kills off harmful bacteria that may be present in the protein meal.

AkoFeed® is our brand for vegetable oils and fats used for feeding of farm animals. Fats are mainly added to farm animal diets to increase energy concentration and growth, but can also be used to increase milk yield and fat content in the milk.

Products from AAK's feed business all aim to improve cost efficiency for farmers and for our customers in the compound feed industry.





## Regional markets

### Europe

Across Europe, we strengthened our market share significantly through volume growth well above the underlying market growth. Our strong multi-oil platform, in-depth expertise in oils and fats, and multi-processing capabilities combined with our continued focus on customer co-development allowed for significant growth in speciality and semi-speciality solutions.

Momentum in Chocolate & Confectionery Fats remained very strong in Eastern Europe and Russia as well as with our strategic accounts across the region. Within Dairy we saw an emerging demand for dairy alternatives and plant-based solutions, a dominant trend that will create further opportunities in the coming years. The Bakery segment had another challenging year, particularly in Western Europe. However, with the demand for healthier solutions we are confident that organic volume growth in this segment is possible for 2018.

Special Nutrition saw strong demand in both domestic consumption and export to Asia. Akonino®, our tailor-made product range for Infant Nutrition, continued to grow faster than the market and the Akonino® Organic range was also in high demand. Medical Nutrition continued to grow through our product range Akomed®, and within Senior Nutrition, a new category for AAK, we delivered the first volumes of our Akovita® product range during the year. As for Foodservice, we had a strong year in the UK, growing faster than the market. In Scandinavia, however, we faced some challenges due to changing market and competitor dynamics.

We have observed an increasing demand for organic solutions, most notably in Infant Nutrition and Dairy. We have responded by setting up dedicated supply chains to meet this demand.

To stay ahead of the competition and maximize business opportunities we continue to invest in application know-how, skilled resources and product development capabilities. An example is the strengthening of our Customer Innovation Centers network in Europe that allows our customers to truly co-develop solutions with AAK.

### North Latin America

2017 in Mexico was very much marked by a continuously changing industry environment with an increasing focus on healthier food alternatives, stricter food safety controls, and a challenging competitive environment. By surpassing our customers' expectations with an uninterrupted evolution of innovative solutions and process improvements, we kept AAK Mexico at the forefront of processed food industry suppliers in the country. In addition, AAK Mexico responded to a demanding economic and political situation with a highly effective and coordinated execution in every link of our value chain – from precise raw material sourcing to an extremely high service level to all customers. Going forward, we foresee a more demanding industry, changing faster than ever before, with new requirements in healthier and more





sustainable solutions. AAK is in the best position to serve the market in an efficient and innovative way.

For AAK Colombia, 2017 was as a year of expansion. Our position in the Colombian market has achieved a strong relevance in the industrial segment, resulting in important volume growth. In addition, the "Tradicionales" channel continues to grow and represents a solid pillar in our go-to-market strategy. AAK Colombia is now viewed as one of the best and most innovative suppliers of oils and fats solutions to the Colombian market. The team has done a remarkable job in developing customer-centric and co-developed solutions. Despite the challenging market conditions in Colombia, our customer base keeps increasing and we hold a very strong innovation pipeline which is laying the foundation for success as a speciality supplier in the country. AAK is committed to the Colombian market and we continuously invest in new technologies that will bring value-adding solutions to the market.

customers, driven by the intensive use of our Customer Innovation Center in which we develop solutions together and enhance customer knowledge through AAK Academies.

We have successfully extended our coverage into new categories, gaining market shares and delivering organic growth within Bakery, Dairy, and Special Nutrition (primarily Infant Nutrition). We have also started to build capabilities to further develop our Personal Care business in Brazil.

We have furthermore invested in new product development and pilot plant capabilities at our site in Montevideo, Uruguay, which will enable our Customer Innovation team to develop and offer differentiated and value-adding solutions.

AAK Uruguay, with its leading position within Chocolate & Confectionery Fats, continued its strong performance, delivering growth in all key markets within the region, Brazil, Argentina and Chile, while simultaneously building up our position as leader in Peru and Bolivia.

## South Latin America

Our new speciality and semi-speciality factory in Jundiaí, Brazil had its first full year of operations with volume ramp-up progressing as expected. AAK is already recognized as the best value-adding vegetable oils and fats solutions provider in the region. This is based on our strong go-to-market and co-development approach and our close collaboration with

## USA

In 2017, AAK USA delivered record volumes and profitability enabled by market share gains in key segments including Chocolate & Confectionery Fats, Dairy and Special Nutrition. California Oils Corporation was successfully integrated, bringing the business to profitability in less than one year through principled management and deployment of AAK's customer-intimate go-to-market approach.

AAK USA is heavily engaged with the food industry to remove partially hydrogenated oils (PHOs) from leading food formulations in preparation for new regulations from the US Food and Drug Administration taking effect in June of 2018 that ban the use of these oils in all food categories.

Investments in assets and people continued in 2017 to support the AAK go-to-market and customer co-development models. Two new Customer Innovation Centers were opened, one in Edison, New Jersey focusing on chocolate & confectionery and bakery applications, and another one in Louisville, Kentucky featuring a bakery lab and state-of-the-art pilot votation equipment to support scale-up and

increased speed-to-market for customers. Construction of a third innovation center in Richmond, California has begun. This will feature a bakery lab as well as a dairy lab that will act as AAK's global center of excellence for plant-based dairy applications. In support of AAK's West Coast expansion, a fully staffed Customer Innovation team has been established in Richmond.

Oasis Foods in Hillside, New Jersey completed its rebranding to AAK USA Foodservice to align with and leverage AAK's strong market presence. Our Foodservice business had a record year, delivering market share gains through strong customer support and connectivity. To support continuing volume growth and a strong mix improvement towards specialities, investments in capacity are underway in the Louisville and Port Newark facilities.



## Asia

Our Asian region enjoyed another year with strong organic growth in all markets and good development in our core segments. The growth, which could be seen in all parts of the continent, was experienced within our range of speciality and semi-speciality products, all offering differentiated functionalities compared to mainstream products.

AAK's business in China has developed to a complete integrated structure. We have seen a rapid transformation since we established AAK in China, culminating in the inauguration of our plant in Zhangjiagang in September. The ramp-up of the plant has developed as expected and will increase our capacity by approximately 100,000 MT. AAK has a strong go-to-market organization with a very innovative approach which offers a great opportunity for our customers and potential customers.

Our business in Japan progressed and is now a complete operation offering speciality solutions and a full range of products, mainly within Chocolate & Confectionary Fats and Special Nutrition.

AAK Kamani, our Indian company, is a success story. We continue to be the leading innovation partner within the industry. India had another year with growth but was impacted by the demonetization and GST (Goods & Services Tax) policies implemented by the government. These factors have had an effect on the momentum in the country but are expected, in the long run and already in 2018, to provide a new platform of growth and create solid demand going forward. We continue to invest in efficiency, increased capacity and in operational improvements.

AAK Turkey and the Middle East region saw a great 2017 with many strong improvements, providing AAK with a leading industry position. We have built on a well-established operation, which today delivers a very professional co-development offering to our customers.

As for other regions in Asia, we have successfully continued to implement the AAK business model, focusing on co-development and collaboration with customers, either through our own operations in Malaysia, Singapore and Australia or through designated partners in other regions and countries.





# Risks

**AAK's operations are constantly exposed to risks, threats and external factors with an impact on the company. Through a proactive approach to business intelligence, the company aims to anticipate changes in factors affecting operations. Plans and policies are adjusted continuously to counteract potential negative effects. Active risk management, such as hedging raw material prices and currencies, reduces the risks that the company faces.**

## Raw materials

Harvests are weather-dependent. While a year of poor harvests drives up prices, a year of successful harvests reduces them. Most of our raw materials are traded on the international world market, where they are purchased in foreign currencies. This exposes us to significant currency and raw material price risks.

Our strategy of active risk management means that, as soon as a sales contract is signed, we hedge the equivalent currency and raw material price exposure. This safeguards margins against price risks on agreed sales contracts.

Since many raw materials are produced at a considerable distance from our production plants and markets, transport costs are an important factor. Particularly the potential impact on margins from the growing demand for environmentally-acceptable transport methods has to be taken into consideration. Competition in commodities is fierce.

## The processing industry

AAK is part of the processing industry. Improvements in results are achieved through organic volume growth and by increasing sales of speciality products with higher margins relative to lower-margin bulk products.

Capacity expansion aimed at increasing total volumes in order to meet growing demand has a relatively long planning horizon. AAK must analyze potential growth in good time. In the meantime, it is possible to balance production between our plants to enable processing of specific products closer to their markets and accommodate swings in supply and demand. Key speciality products are produced at dedicated plants, where problems with machinery can have a major impact.

## Political instability

Operating globally always carries risks, but it can also be a stabilizing factor. Although AAK largely operates in mature markets in the US and Europe, much of company growth is generated in developing markets, which are vulnerable to political instability that can impact currencies and exchange rates. We also operate in Eastern Europe, the Middle East, Asia, Africa, and South America, where instability may arise.



As a well-established operator in these areas, we have extensive experience of handling such issues. In addition, we operate with a deliberate risk management strategy.

Global operations involve a number of other risks, including:

- ◆ Trade barriers.
- ◆ Inflation.
- ◆ Changes in national or regional legislation, e.g. the introduction of protective tariffs and taxes, which prevent AAK from operating in a free market.
- ◆ Environmental and health-related legislation.

#### Trade sanctions and export controls

AAK is committed to conducting business in accordance with applicable trade sanctions laws and export control regulations which AAK believes are important tools in the international community's strive to inter alia improve human rights. AAK will not tolerate any violation of trade sanctions laws, export control laws or related regulations by its employees.

This means that AAK will not engage, directly or indirectly, in any business, dealing, or transaction prohibited by applicable trade sanctions or export control regulations. Furthermore, AAK and its employees will not carry out any direct or indirect business activities with any person, entity or government targeted by trade sanctions, nor export goods or services subject to applicable export control laws without required licenses and/or approvals from the relevant authorities.

#### Changes in the competitive environment

The sector in which AAK operates is undergoing structural change. As a sector that has existed for just over a century and has a fundamental dependence on natural products, there is great pressure for more intensive development. This includes demands for sustainable, ethical production, where producers accept responsibility for social issues and the environmental impact of their operations. AAK operates on the basis of an organic growth and selective acquisition strategy. A strong balance sheet has laid the financial foundations for future acquisitions.

There is intense competition in the industry. Several global competitors deliver large volumes of bulk products with limited margins. Our response is to focus more on products with better margins and higher-added value. These include confectionery products and cosmetics, as well as value-adding ingredients for the bakery, dairy and infant nutrition industries.

#### The health trend

There is an ongoing debate on healthy alternative foods. The trans fat debate, for example, has been quite heated on occasion, resulting in a greater use of raw materials such as palm oil. Palm oil is a significant raw material for us at AAK and has a broad application area – from chocolate to foods and cosmetics. A great alternative to hardened fat, it is semi-solid at room temperature, making it an attractive choice in the production of many foods. By using palm oil, trans fats can be eliminated from many food products.

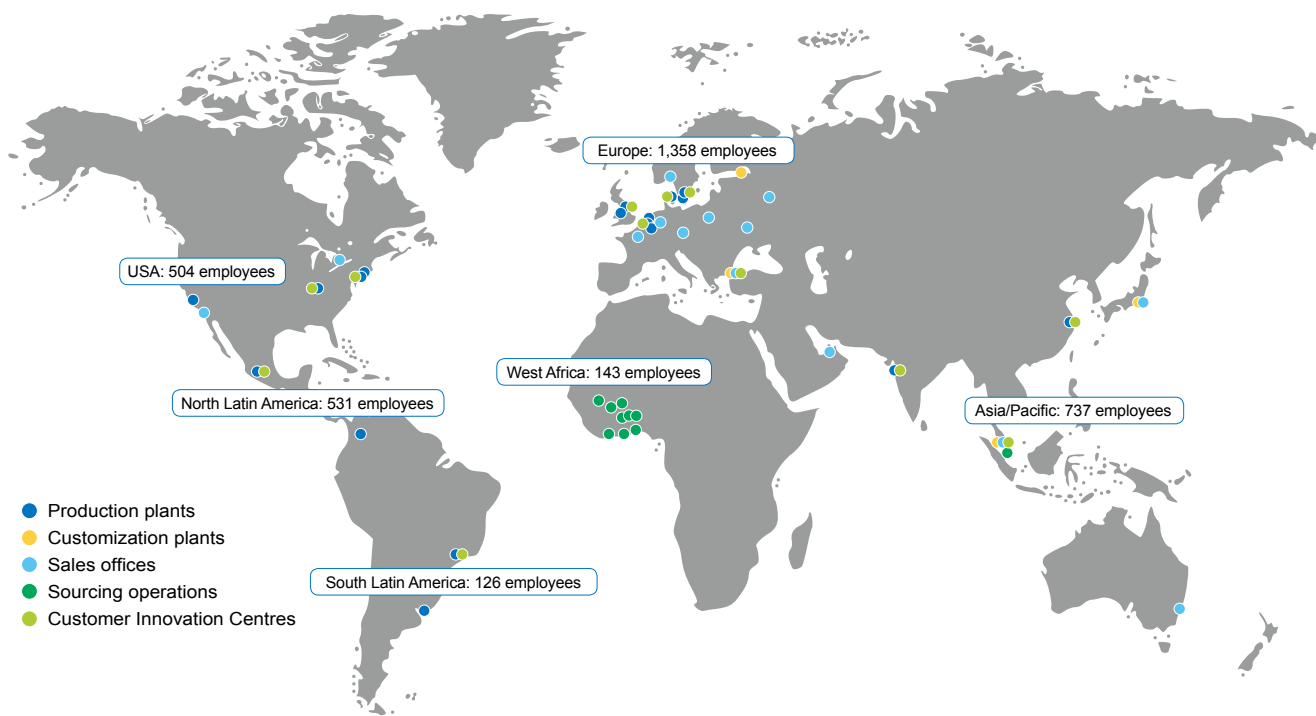
We have the ability to adapt our product range quickly to the latest trends in the health debate. This is largely due to the fact that we work with all types of vegetable oils and can reformulate our products fairly easily to meet customer needs. We focus strongly on product co-development with our customers. This limits the risks involved in commercializing new products.

Regulatory measures also pose a risk. Active involvement in Corporate Social Responsibility-related issues is, therefore, becoming increasingly important to forestall legislation on issues that are a natural development of human requirements.

#### Changes in external factors

Business operations are affected by raw material prices, transport costs, energy prices, interest rates and exchange rates. Our employees are experienced in reacting quickly to changes in external factors and adapting operations, products and services to customer needs.

# Employees



Just as we co-develop with our customers we co-develop with our people. AAK has employees in more than 25 countries on six continents. We have 20 production facilities and customization plants across the world and a global procurement and sales organization. Organic growth, investments in production facilities and acquisitions are expanding that global presence.

In 2017, we continued to recruit employees to our two new factories in Jundiai, Brazil and Zhangjiagang, China – construction projects that of course also demand a lot of training and induction of new employees.

AAK had an average of 3,399 employees in 2017 – an increase compared to the prior year due to the new factories mentioned, and our continued organic growth.

## Building an organization for future growth

The “People” project within The AAK Way, our company program for 2017–2019, has been developing according to plan and resulted in improvements of policies, workflows, processes, and roles and responsibilities.

For example, we have updated our AAK Trainee Program. During 2017, we finalized our fifth program and welcomed 22 new graduates (selected from more than 1,800 applicants) to a new one, which includes an international assignment and even more training days than before.

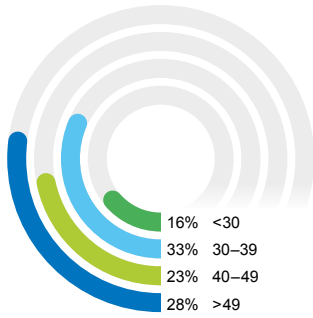
We have also continued and updated our AAK Sales Training Program, CCV (Creating Customer Value). In 2017, 73 new colleagues in our go-to-market organization completed the CCV training. During the year we have prepared for the next step and we are planning to roll out CCV Advanced during 2018.

Furthermore, we have conducted our second global employee engagement survey together with Great Place to Work. 87 percent of our employees completed the survey making our participation equal to the top-tier companies that have a much stronger tradition of engagement surveys. Based on the survey results, activities will during the first half of 2018 be initiated across the organization with a high level of employee participation and engagement.

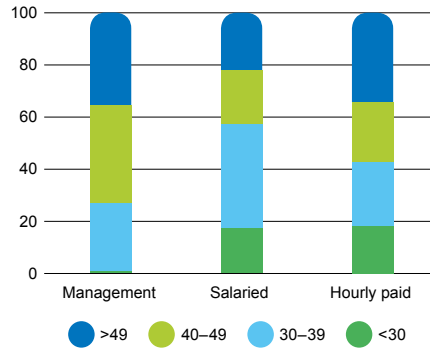
We have also strengthened our approach to workforce planning, which includes succession planning as potential review and talent management.

Last but not least, based on our 12 leadership competencies as a foundation for future leadership development within AAK, we carried out two “Leadership Days”, reaching more than 350 managers and leaders globally. Work to revitalize our company values has also been included in these leadership days.

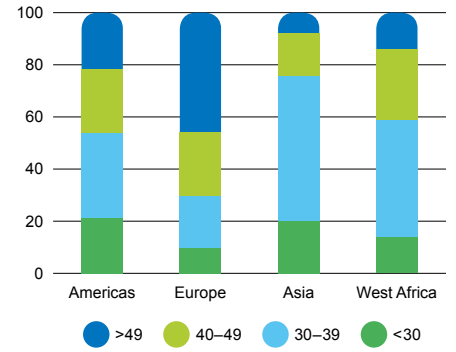
Employees\* by age, %



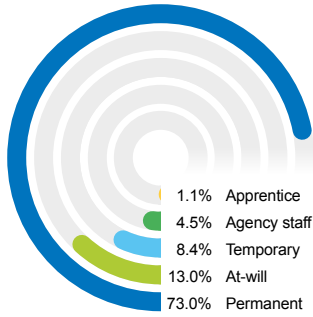
Employee\* category by age, %



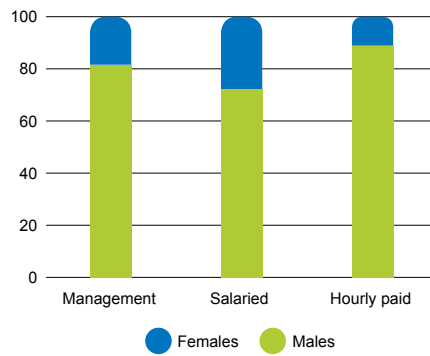
Employees\* by age, %



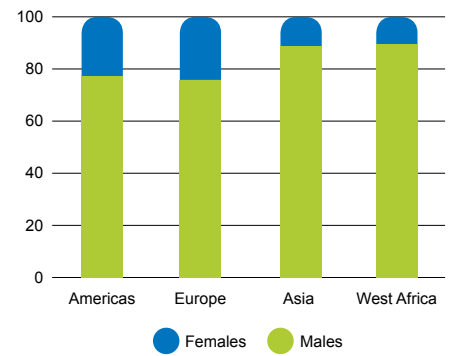
Employment contract type, %



Employee\* category by gender, %



Employees\* gender, %



\* Permanent and at-will employees

**Going forward**

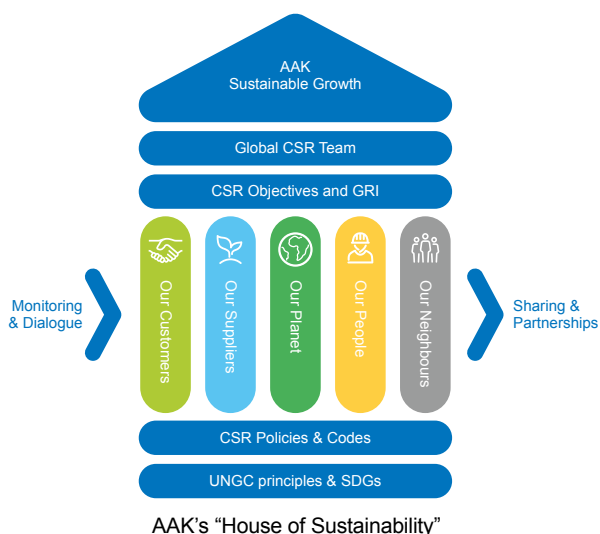
AAK strives to be an attractive employer with a high-performance organization, built on strongly aligned values with an increasing number of people carrying AAK forward. To succeed, we will continue to develop our “People” project by focusing on leadership development, by continuing to

develop our people with an increased focus on e-learning training, and by strengthening our values and our internal recruitment pipeline.



# Sustainable growth in AAK

Sustainable growth is the key objective of our strategy and essential to our vision of being the first choice for value-adding vegetable oil solutions. For us, sustainable growth is about our responsibility towards all of our key stakeholders – the local communities where we operate, our customers, our employees, our investors, and our suppliers. In 2012, we developed a visual model for sustainable growth to guide our global CSR work. The model has been slightly modified over the years and is today known as AAK’s House of Sustainability. Furthermore, the substance of the model’s individual elements has continuously been adjusted to the market.



## UNGC principles and SDGs

The UN Global Compact (UNGC) is a solid platform and a broad concept based on ten universal principles within Human and Labor Rights, Environment and Anti-corruption. It enjoys participation by all of the major players in global business and CSR, including the GRI (Global Reporting Initiative), ETI (Ethical Trading Initiative), ICC (International Chamber of Commerce) and OECD (Organization for Economic Cooperation and Development). AAK has been a member of the UNGC since 2003.

In 2015, all member states of the United Nations adopted 17 goals – the Sustainable Development Goals (SDGs) – setting out to end poverty, protect the planet, and ensure prosperity for all. Each goal has specific targets to be achieved by 2030. As a global company AAK recognizes that businesses have to play an important role in that process and we have decided to include the SDGs in our model. AAK will further develop ways to support the process and monitor and report on our progress.

## CSR policies and codes

AAK’s CSR policies and codes are based on the UNGC as well as on our own principles, and are implemented globally for all AAK business activities. The policies and codes are aligned with many of our customers’ requirements and values, which strengthen our strategic alignment. AAK’s policies and codes are available at our website.

## Five CSR focus areas

We have defined five CSR focus areas – the “pillars” – that are important to our business. They provide an overview and guide us in setting objectives and focus our resources.



Our Customers covers all areas in which AAK interacts with customers. It includes products, product development, food safety, product information, and market communication. Interaction with customers is based on sound business ethics and a deep understanding of the company’s responsibility for safeguarding customer brands. As a supplier of ingredients for some of the world’s best-known brands, AAK recognizes its role and its customers’ expectations and see these as key elements in the way the AAK company strategy is executed.

Since 2014 AAK has used e-learning as a supplement for global training of our front-line employees. Courses such as anti-corruption, competition law, and sustainable palm and shea oil have proven to be very effective and AAK will continue to utilize this tool.



Our Suppliers covers activities related to the sourcing of raw materials that AAK uses in its production plants. Sustainable sourcing of raw materials is the backbone of AAK’s business and a key element in our strategy. The combination of the right raw materials and our co-development approach is key to the wide range of solutions offered. Just as it is vital for AAK to obtain the right raw materials, AAK places equal emphasis on how our raw materials are produced. For this reason AAK has implemented a Supplier Code of Conduct that, among others, applies to all AAK’s direct raw material suppliers worldwide.





## Our Planet

This focus area covers AAK's impact on the environment in terms of consumption and emissions from our production plants. It is a top priority for us to minimize our use of natural resources and emissions per processed final product even though our stronger focus on speciality drives a higher degree of processing. We have over the years been able to create good improvement within areas such as GHG emissions, water consumption and waste treatment. In our Sustainability Report you can read about various local initiatives.



## Our People

This focus area is about working life at AAK: how to remain an attractive workplace for employees, and to make sure that everybody is healthy and safe. AAK's employees are the company's most important resource. With employees in many different locations across the globe – in production plants, sales offices and sourcing operations – AAK is a diverse company with many different job functions. Common to every employee is the company's values and Code of Conduct, which govern the way in which our business is conducted and how employees interact with each other and the company's stakeholders.

We have continuously focused on safety in the workplace. Through the work of our Global Safety Team and local initiatives, work-related injuries have declined significantly over the years.



## Our Neighbours

This focus area covers activities that AAK initiates and engages in, be they local, regional, national or international, in order to play our part and act responsibly in society. Contributing to, and being part of, the community in which AAK operates is essential for maintaining a positive relationship with neighbours, politicians and authorities. Which community activities we engage in is dependent on what is relevant and adds most value to the local community. Through a commitment to community causes, AAK is also instrumental in creating a workplace with highly motivated employees who take pride in working for a company that makes a noticeable difference.

## CSR objectives and GRI

To maintain momentum and drive improvement, we define objectives within each of the five focus areas. Achievements and future objectives are publicly available in our Sustainability Report. Further, based on the Global Reporting Initiative (GRI) G4 guidelines we globally monitor indicators of importance to our stakeholders and ourselves. To identify indicators of importance we use the materiality analysis methodology outlined in G4.

## Global CSR team

The engine behind all of our CSR activities is our decentralized global CSR team, established in 2007. It consists of local CSR teams possessing competencies covering our CSR scope. The Global CSR Manager reports to the CMO (Chief Marketing Officer) who is a member of AAK's Executive Committee.

## Sharing and partnerships

Sharing our knowledge, objectives and achievements with our stakeholders is a fundamental part of our approach. In our annual Sustainability Report we share global information based on the GRI framework supported by a variety of local projects and initiatives illustrating how our strategy becomes alive. Specifically, we offer to share ethical information with customers via the Sedex platform. Further, we frequently report progress on the implementation of our palm oil policy in AAK's Progress Report on Sustainable Palm Oil. Reports and policies are publically available at AAK's website.

The UN Global Compact encourages companies to engage in partnerships to tackle global challenges more effectively. AAK embraces the view that in partnerships you combine competencies and are more likely to accomplish more than you could do on your own. Partnering with other businesses, NGOs and governmental agencies are ways to accomplish more. To name a few examples, AAK is participating in or partnering with RSPO (Roundtable on Sustainable Palm Oil), GSA (Global Shea Alliance), Proforest, Danida in Denmark, and the British organization TREE AID.

## Monitoring and dialogue

Our CSR system is not static, adjusting instead to input from stakeholders such as customers, investors, NGOs and employees. We monitor new and upcoming legislation, follow trends in our communities, and benchmark our CSR practices against those of retailers, customers, and competitors.

Our overall objective is to grow AAK sustainably and progress within sustainability as a whole. If you would like to learn more about our CSR achievements, initiatives and objectives please refer to our annual Sustainability Report.

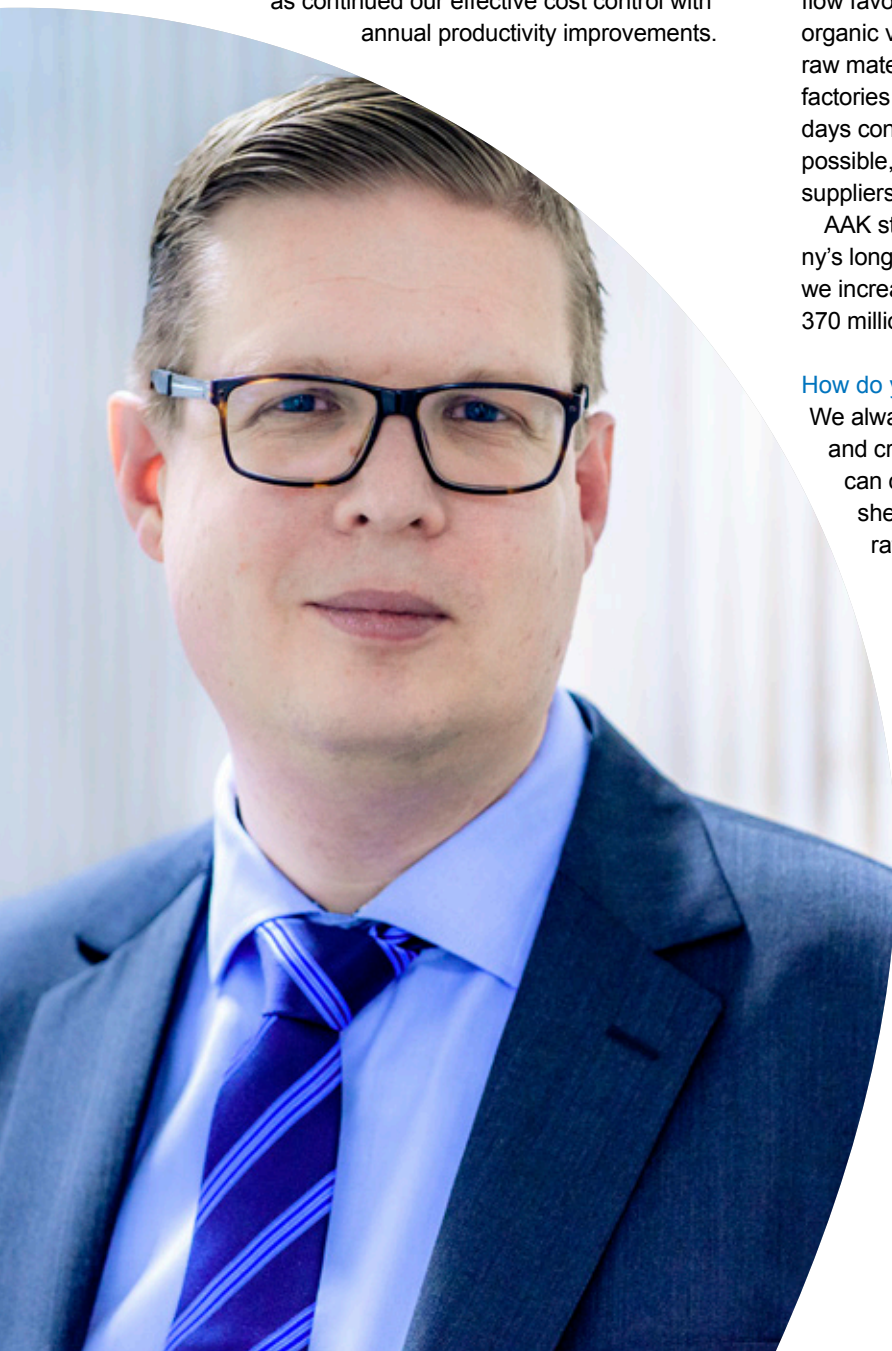
Fredrik Nilsson, CFO:

## Another strong financial performance

2017 saw another record-high operating profit for AAK, how would you describe the company's financial performance?

Very strong, particularly when you consider the challenges we faced during the year. We continue to deliver double-digit improvement in operating profit, which is in line with our management ambition, and we have now had 28 straight quarters with record-high operating profit quarter-over-quarter as well as a record-high full-year result every year since 2010. That is quite impressive.

The organic growth for our speciality and semi-speciality solutions continued during 2017 and with 5 percent organic growth we have definitely gained market shares. We have also identified how to further that organic growth as well as continued our effective cost control with annual productivity improvements.



What is your comment on the company's cash flow?

Following a negative cash flow after investment activities in 2016, mainly due to the acquisition of California Oils Corporation and higher raw material prices, we have in 2017 a positive cash flow after investment activities. This despite the fact that the Group's capital expenditure continued to be at a high level due to the finalization of our greenfield project in China as well as investments for increasing our capacity to meet the strong demand from our customers. We expect capital expenditure to be at a slightly higher level in 2018 compared to 2017.

Cash flow from working capital was negative in 2017. Good working capital management has impacted cash flow favorably. However, this was offset by a continued organic volume growth, a net negative impact from higher raw material prices, and working capital tied up for our new factories in Brazil and China. Our focus on working capital days continues and some further improvements should be possible, particularly relating to payment terms with our suppliers and late payments from some customers.

AAK strives to pay a stable dividend linked to the company's long-term performance, and for the sixth year in a row we increased the dividend paid. Total paid dividend was SEK 370 million or 36 percent of the consolidated profit after tax.

How do you allocate capital?

We always try to maximize our ability to invest in growth and create a higher shareholder return. To ensure we can continue to grow, we want to have a strong balance sheet and be well capitalized with a net debt/EBITDA ratio lower than 3.

The dividend policy for the company is to have a payout ratio of net profit of 30–50 percent. Historically, the payout ratio has been around 35 percent.

AAK has over the last year invested significant amounts in organic growth, built two new factories, and expanded others to secure that we have enough capacity to meet the strong demand for our solutions. The company will continue to invest in organic growth, both in equipment and in our employees, to secure that we can continue to be the co-development partner to our customers.

We also have an ambition to continue to grow through mergers and acquisitions, either to expand our geographical footprint and get closer to our customers or to invest in technology that adds even more value to our unique customer co-developed solutions.

# Reasons to invest in AAK

1

Above the market growth

The underlying global growth in the segments in which AAK is present is normally in line with global GDP growth. AAK has in the past been able to grow faster than the underlying markets in our focus areas – speciality and semi-speciality solutions in Food Ingredients and Chocolate & Confectionery Fats – despite not having a fully global footprint. With our greenfield investments and our latest acquisitions in growth markets, we have strengthened our footprint and become a truly global company. Our ambition is to continue to grow faster than the underlying markets.

2

Average 10 percent year-over-year operating profit improvement for the coming years

Between 2010 and 2017 AAK has annually increased its operating profit by 10 percent on average (at fixed foreign exchange rates and excluding acquisitions). Including acquisitions and positive currency translation differences, operating profit has increased 12 percent on average. Based on our high activity within sales, customer innovation and new product development, on the very solid foundation we have built, and on our strong executive and local management, we see no reason to lower that ambition for the coming years.

3

Strong balance sheet supporting further growth

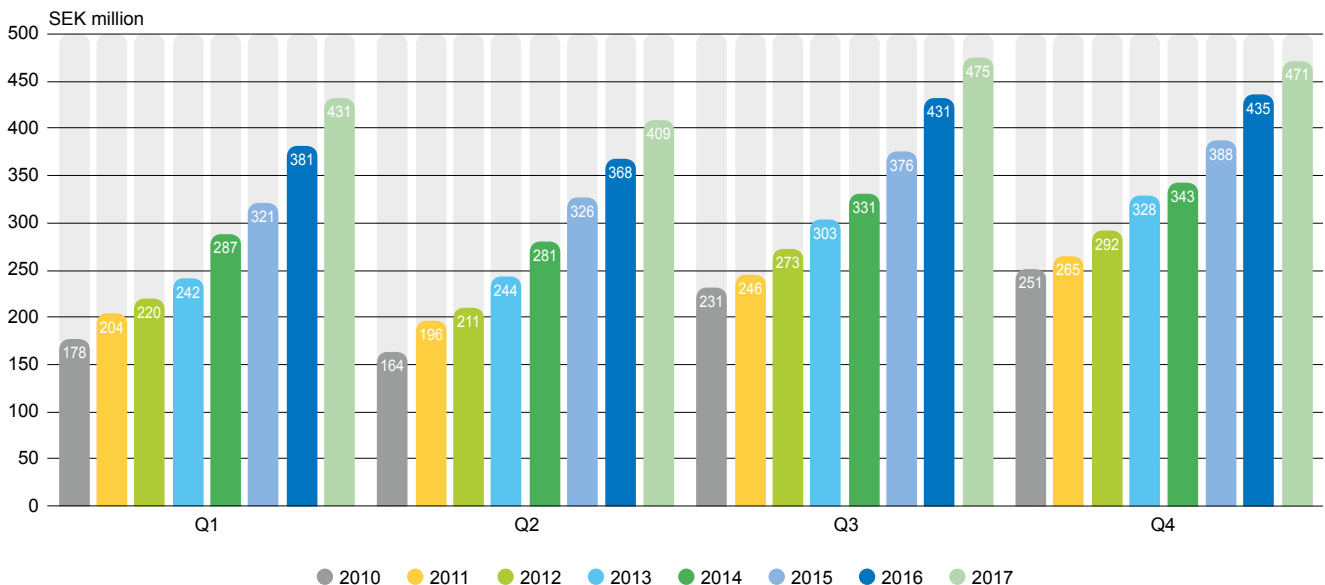
Despite considerable greenfield investments we have over recent years built a very strong balance sheet with an improved equity ratio. Combined with long-term loan agreements this has created a solid foundation for further growth, both organically and through selective and strategic acquisitions.

4

Very strong underlying growth drivers

AAK has an important geographical footprint in regions where both population and urbanization is increasing – demographic changes that open up substantial market opportunities. We are strongly supported by our customer value propositions for health and reduced costs and our customer product co-development and solutions approach. Furthermore, we put a lot of focus on trends and global key drivers that affect the behavior of end consumers – indulgence, health, trust, personalization, and convenience.

## AAK's operating profit per quarter 2010–2017



# Board of Directors



**Mikael Ekdahl**

Chairman of the Board of Directors

*Elected in:* 2017

*Born:* 1951

*Nationality:* Swedish

*Other board positions:* Chairman of the Board of Directors of Melker Schörling AB and Absolent AB. Board member of Bong AB

*Holdings in AAK:* 8,000 shares



**Gun Nilsson**

Board member

*Elected in:* 2017

*Born:* 1955

*Nationality:* Swedish

*Other board positions:* Chairman of the Board of Directors of Hexagon AB, Board member of Hexpol AB, Loomis AB, and Bonnier Holding AB

*Holdings in AAK:* 1,000 shares



**Bengt Baron**

Board member

*Elected in:* 2017

*Born:* 1962

*Nationality:* Swedish

*Other board positions:* Chairman of the Board of Directors of Enzymatica AB and MIPS AB. Board member of Thule Group AB

*Holdings in AAK:* 1,000 shares



**Marianne Kirkegaard**

Board member

*Elected in:* 2015

*Born:* 1968

*Nationality:* Danish

*Other board positions:* Board member of Dansk Supermarked

*Holdings in AAK:* None



**Märta Schörling Andreen**

Board member

*Elected in:* 2013

*Born:* 1984

*Nationality:* Swedish

*Other board positions:* Board member of Melker Schörling AB, Hexpol AB, Hexagon AB, and Absolent Group AB

*Holdings in AAK:* None



**Lillie Li Valeur**

Board member

*Elected in:* 2013

*Born:* 1970

*Nationality:* Danish

*Other board positions:* None

*Holdings in AAK:* 500 shares

## Members of the Board of Directors appointed by the employees



**Leif Håkansson**

AAK Sweden AB  
Appointed by IF-Metall  
*Elected in:* 2005  
*Born:* 1957  
*Nationality:* Swedish  
*Holdings in AAK:* None



**Annika Westerlund**

AAK Sweden AB  
Appointed by PTK-L  
*Elected in:* 2005  
*Born:* 1956  
*Nationality:* Swedish  
*Holdings in AAK:* None

## Auditor



**Sofia Götmar-Blomstedt**

Authorized public accountant  
PricewaterhouseCoopers AB  
*Born:* 1969  
The company's auditor since 2013

# Executive Committee



**Fredrik Nilsson**

Chief Financial Officer (CFO) and acting CEO, Head of Corporate Communications and HR  
Vice President AAK AB  
*Born:* 1977  
*Employed:* 2007  
*Nationality:* Swedish  
*Qualifications:* MSc. Business Administration  
*Holdings in AAK:* 15,000 shares and 25,000 stock options



**Anne Mette Olesen**

Chief Marketing Officer (CMO) including CSR  
Vice President AAK AB  
*Born:* 1964  
*Employed:* 2010  
*Nationality:* Danish  
*Qualifications:* MBA, BSc. Chemical Engineering  
*Holdings in AAK:* 30,000 shares and 50,000 stock options



**Terrence W. Thomas**

President AAK USA and Canada  
Vice President AAK AB  
*Born:* 1962  
*Employed:* 2013  
*Nationality:* American  
*Qualifications:* MBA, BSc. Chemical Engineering  
*Holdings in AAK:* 16,000 shares and 50,000 stock options



**Torben Friis Lange**

President AAK Asia, Chairman Global Sourcing and Trading  
Vice President AAK AB  
*Born:* 1963  
*Employed:* 2010  
*Nationality:* Danish  
*Qualifications:* BSc. Dairy Technology, Graduate Diploma in Business Administration  
*Holdings in AAK:* 15,000 shares and 50,000 stock options



**Octavio Díaz de León**

President AAK North Latin America  
Vice President AAK AB  
*Born:* 1967  
*Employed:* 2007  
*Nationality:* Mexican  
*Qualifications:* MBA, BSc. Mechanical & Electrical Engineering  
*Holdings in AAK:* 40,000 shares and 10,000 stock options



**Jan Lenferink**

President AAK Europe  
Vice President AAK AB  
*Born:* 1963  
*Employed:* 2015  
*Nationality:* Dutch  
*Qualifications:* Food Technology  
*Holdings in AAK:* 35,000 stock options



**Gerardo Garza López de Hereida**

President AAK South Latin America  
Vice President AAK AB  
*Born:* 1961  
*Employed:* 2014  
*Nationality:* Mexican  
*Qualifications:* Graduate Diploma in Business Administration, Food Engineering  
*Holdings in AAK:* 18,000 stock options



**David Smith**

President European Supply Chain  
Vice President AAK AB  
*Born:* 1960  
*Employed:* 2001  
*Nationality:* British  
*Qualifications:* MBA, Graduate Diploma in Business Management  
*Holdings in AAK:* 40,000 stock options



**René Schou**

President Foodservice Europe and Technical Products & Feed  
Vice President AAK AB  
*Born:* 1969  
*Employed:* 2011  
*Nationality:* Danish  
*Qualifications:* MBA, and Food Technologist  
*Holdings in AAK:* 10,000 stock options



**Renald Mackintosh**

Chairman Special Nutrition  
Vice President AAK AB  
*Born:* 1951  
*Employed:* 2002  
*Nationality:* Dutch  
*Qualifications:* MSc. Food Technology  
*Holdings in AAK:* 28,300 shares and 25,000 stock options



**Karsten Nielsen**

Chief Technology Officer (CTO)  
Vice President AAK AB  
*Born:* 1963  
*Employed:* 1988  
*Nationality:* Danish  
*Qualifications:* Graduate Diploma in Food Technology  
*Holdings in AAK:* 14,400 shares and 50,000 stock options

# AAK's Glossary

**Amino acids** – Carboxyl acids containing an amino group; building block for proteins.

**Bypass fats** – Fats that have been tailored to bypass the rumen of ruminants, which means that a larger amount of fat and energy is left intact for high-yielding dairy cows.

**CBA (Cocoa Butter Alternatives)** – Fats with physical properties similar to those of cocoa butter, i.e. solid at room temperature and with very rapid melt-off in the mouth.

**CBE (Cocoa Butter Equivalents)** – A type of CBA which is chemically identical to cocoa butter, and which, according to national standards in many areas, among others the European Union, may be used in chocolate. Manufactured from exotic raw materials, including shea oil.

**CBI (Cocoa Butter Improver)** – A vegetable fat which by partly replacing cocoa butter in a chocolate, improves the properties of the cocoa butter in the chocolate – in most cases by improving the heat stability of the final chocolate.

**CBR (Cocoa Butter Replacer)** – CBA with properties similar to those of cocoa butter. Used in such things as chocolate coatings for cookies and biscuits. More user-friendly than CBE as no tempering is required.

**CBS (Cocoa Butter Substitutes)** – CBA with physical properties and application areas similar to those of CBR. Commonly based on a lauric raw material.

**Cocoa butter** – Fat extracted by crushing cocoa beans. Its composition lends chocolate its unique properties.

**Crystallization** – The solidification process of an oil, the process going from the liquid (oil) phase to the crystal (fat/solid) phase.

**Fatty acids** – Long-chain carboxyl acids. In vegetable oils, the most common fatty acids consist of 12 to 18 carbon atoms.

**Glycerine** – A highly viscous, flavorless trivalent alcohol (chemical component with three alcohol groups) forming the backbone of a triglyceride when esterified with three fatty acids.

**Hydrogenation** – The process of adding hydrogen to the oil to saturate the double bonds in mono- or polyunsaturated fatty acids.

**Lipids** – A collective name for a wide range of natural products, which include fats & oils.

**Monounsaturated fat** – Popular name for monounsaturated fatty acids. Fat with only one double bond along the carbon chain.

**Monounsaturated fatty acids** – Fatty acids with one double bond in the carbon chain.

**Nutrition** – Food, the process of taking in and absorbing nourishment.

**Oleochemicals** – A common name for chemicals derived from vegetable oils and fats. Oleochemicals have numerous applications in the chemical and pharmaceutical industries, where they often substitute petrochemicals and similar components based on mineral oils.

**Omega-3** – Polyunsaturated fatty acids in which the first double bond is located three carbon atoms from the end of the carbon chain.

**Omega-6** – Polyunsaturated fatty acids in which the first double bond is located six carbon atoms from the end of the carbon chain.

**Polyunsaturated fatty acids** – Fatty acids with two or more double bonds in the carbon chain.

**Saturated fats** – Popular name for saturated fatty acids.

**Saturated fatty acids** – Fatty acids which do not contain double bonds in the carbon chain.

**Surfactants** – A substance which is soluble in different materials, for example water and oil, therefore they are active on the surface of particles and help mixing components which are normally not mixable.

**Trans fats** – Popular name for fats containing trans fatty acids.

**Trans fatty acids** – Unsaturated fatty acids with a different kind of double bond than those naturally occurring in vegetable oils.

**Unsaturated fats** – Fats containing mono- and polyunsaturated fatty acids, a popular name for mono- and polyunsaturated fatty acids.



# Financial information

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All amounts are denominated in SEK million unless otherwise stated.

# Directors' Report

## For the financial year January 1 – December 31, 2017

The Board of Directors and the Chief Executive Officer of AAK AB (publ.), corporate identity number 556669-2850, with its registered office in Malmö, hereby present the Financial Statements and Consolidated Financial Statements for the financial year January 1 – December 31, 2017.

### Performance and financial position

- Net sales increased by SEK 4,379 million to SEK 26,436 million (22,057). The increase was mainly due to a better product mix, acquisitions and higher raw material prices, but was partly offset by a negative currency translation impact of SEK 327 million. Volumes increased by 8 percent and organic growth was 5 percent, primarily due to a strong demand for speciality and semi-speciality products, which continued to be strong.
- Operating profit was record-high and reached SEK 1,786 million (1,615), an improvement of 11 percent. The currency translation impact was negative and amounted to SEK 19 million. Operating profit at fixed foreign exchange rates, excluding non-recurring items, improved by 12 percent. Two business areas, Food Ingredients and Chocolate & Confectionery Fats, reported a double-digit percentage improvement in operating profit for 2017 compared to the previous year.
- Operating profit per kilo was SEK 0.84 (0.82). This was due to an improved product mix but was offset by a negative currency translation impact and expenses in connection with new investments.
- The Group's profit after financial items amounted to SEK 1,666 million (1,445). Net financial items amounted to SEK -120 million (-170), a decrease of SEK 50 million. The lower financial expenses are due to the company's optimized financing in a few high interest rate countries. The company also benefited from the structure in the interest market. The equity/assets ratio was 46 percent as at December 31, 2017 (44 percent as at December 31, 2016). Consolidated net debt as at December 31, 2017 was SEK 2,666 million (2,620 as at December 31, 2016). On December 31, 2017, the Group had total credit facilities of approximately SEK 6,213 million.
- Cash flow from operating activities, excluding changes in working capital, amounted to SEK 1,487 million (1,476). Working capital increased by SEK 388 million (263). Good working capital management had a positive impact on cash flow. However, this was offset by continued organic volume growth and higher raw material prices, combined with working capital being tied up for our new factories in Brazil and China. Cash flow from operating activities, including changes in working capital, amounted to SEK 1,099 million (1,213). After investments, including acquisitions, cash flow amounted to SEK 289 million (-208).
- The Group's net investments in non-current assets amounted to SEK 810 million (1,421 incl. acquisitions), mainly related to maintenance and growth investments.

- Return on Capital Employed, calculated on a rolling 12 months basis, amounted to 15.6 percent (15.8 percent on December 31, 2016). Return on Capital Employed declined due to higher working capital (higher raw material prices had a negative impact in the first half of 2017), investments in Brazil and China and acquisitions in 2016.
- Earnings per share were SEK 28.24 (23.71), an increase of 19 percent. The US tax reform, the Tax Cuts & Jobs Act (TCJA), had an impact on AAK in the fourth quarter as US corporate tax was reduced from 35 to 21 percent. As a consequence of this tax cut, AAK recognized positive non-recurring tax revenue of SEK 35 million due to revaluation of future tax liabilities that AAK USA has in its balance sheet.
- The proposed dividend amounts to SEK 9.75 (8.75), an increase of SEK 1.00 or 11 percent

The Company's largest business area, Food Ingredients, reported a record-high operating profit of SEK 1,107 million (996), an increase of 11 percent. The operating profit per kilo increased by 3 percent to SEK 0.77 (0.75). This was due to an improved product mix but was offset by a negative currency translation impact and expenses in connection with new investments. The Bakery segment had another challenging year, particularly in Europe and North Latin America. The Dairy segment reported high, double-digit organic volume growth. Special Nutrition comprised of Infant, Senior and Medical Nutrition, reported high volume growth, which is due to exceptional volume growth for the Akonino® product range in Infant Nutrition. Our other product range in Infant Nutrition, InFat®, sold through Advanced Lipids AB, a joint venture of AAK and Enzymotec, also showed good volume growth combined with an improved product mix. Foodservice reported declining volumes, primarily due to challenging market conditions in northern Europe.

Chocolate & Confectionery Fats reported an improvement in operating profit of 11 percent to SEK 735 million (664). The operating profit was during the second half of the year affected negatively by some production challenges in Aarhus, Denmark, which led to increased production and supply costs. This occurred in combination with a higher demand than expected. Volumes increased by 10 percent. Recent years' strong customer co-development, new innovative solutions, and further expansion of our geographical footprint continue to yield positive results. Operating profit per kilo increased from SEK 1.81 to SEK 1.82 as a consequence of this. At the end of 2017, the company signed its first commercial contract for TROPICAO, our chocolate solution for hot climate markets.

Operating profit for AAK's smallest business area, Technical Products & Feed, was SEK 84 million (100), a decrease of 16 percent. It was primarily the higher raw material prices for fatty acids in the first half of the year that had a negative impact on operating profit. In the second half of the year, the business area reported improved profitability compared with the previous year.

## Operations and significant events

### *Business areas*

The Company's business areas are Food Ingredients, Chocolate & Confectionery Fats and Technical Products & Feed. Group-wide functions are included in the Group Functions segment.

Food Ingredients maintains its strong regional positions, primarily in Europe, the USA and North Latin America, but is gradually strengthening its positions in other regions.

Chocolate & Confectionery Fats and Personal Care have world-leading positions, and these will gradually be expanded in an increasingly global arena.

Technical Products & Feed has a strong local position in Northern Europe and will continue to focus its growth efforts in these geographical areas through its close links to the Karlshamn factory in Sweden, bringing significant synergy effects.

### *The AAK Way, the company program*

Our primary focus for our company program, The AAK Way, is to enable the Company to further increase its organic growth. This will be achieved by focusing on five priority areas: "Go to Market", "Operational Excellence", "Special Focus Areas", "Innovation" and "People". The program is developing according to plan.

### *Strategic investments in China and Brazil*

The new factory in China was officially opened in September, but the first products left the factory at the end of March 2017. The volumes in the new factories in China and Brazil develop positively and according to plan.

### *Company management*

In July, it was with great grief we were informed about the tragic news that Arne Frank's hope for a positive outcome of his cancer treatment would unfortunately not be realized. Arne Frank joined AAK as President and CEO in 2010 and with very great success developed the company into a world-leading player in the market for value-adding vegetable oils and fats. Arne will be deeply missed within AAK, both on a personal and professional level. In this difficult situation, Fredrik Nilsson, CFO and acting CEO, together with AAK's management and their teams have continued to execute on the company's strategy in a very professional way.

In November, the Board of AAK AB (publ.) appointed Johan Westman as President and CEO of AAK AB (publ.). He is currently Senior Vice President Europe and Managing Director of the BlankLight division at Shiloh Industries. Shiloh Industries, Inc. (NASDAQ: SHLO) with its headquarters in Valley City, Ohio, USA, is a global supplier of innovative solutions to the mobility market and has just over 3,600 employees and approximately USD 1 billion in revenues.

Johan has nearly 20 years of industrial experience in management consulting and the automotive industry. He was President and CEO of FinnvedenBulten AB (publ.) between 2009 and 2014 and CEO of the Finnveden Metal Structures AB division between 2008 and 2014. Before that, he worked for eight years in management consulting for Arthur D. Little.

Johan Westman will begin his role as President and CEO no later than June 1, 2018.

### *Financial goals*

AAK's financial goals are to grow faster than the underlying market and to generate strong cash flows. We also intend to continually improve the return on operating capital.

### *Planned dividend policy*

The objective of the Board of Directors, taking into account the development of Group earnings, its financial position and future development opportunities, is to propose annual dividends equivalent to at least 30–50 percent of the profit for the year, after tax, for the Group.

### *Concluding comments by the acting CEO*

"Based on AAK's customer value propositions for health and reduced costs, and our customer product co-development and solutions approach, we continue to remain prudently optimistic about the future. The main drivers are the continued positive underlying development in Food Ingredients and a continued improvement in Chocolate & Confectionery Fats."

### **Nomination Committee**

For the 2018 Annual General Meeting, the Nomination Committee has proposed that Georg Brunstam be elected as Chairman of the Board. With Melker Schörling AB (publ.) as main shareholder, Georg has developed Hexpol into a highly profitable, world-leading group in the polymer industry. He recently left his executive position for a role as Chairman of the Board at Hexpol and is now being proposed for the corresponding position at AAK. The Nomination Committee has also proposed re-election of Gun Nilsson, Bengt Baron, Lillie Li Valeur, Märta Schörling Andreen and Marianne Kirkegaard as Board members. Mikael Ek Dahl will return to the role of secretary of the Board. In total, the Nomination Committee represents approximately 46 percent of the shares and votes in AAK as at December 31, 2017.

### *AAK's Nomination Committee for the 2018 Annual General Meeting consists of:*

- Märta Schörling Andreen (Chair),  
Melker Schörling AB (publ.)
- Lars-Åke Bokenberger, AMF Fonder
- Henrik Didner, Didner & Gerge Fonder
- Yvonne Sörberg, Handelsbanken Fonder

### *Share capital and shareholder structure*

The total number of shares in AAK as of December 31, 2017 was 42,288,489. There is one class of shares in AAK, and each share entitles the holder to one vote. There are no limits as regards how many votes each shareholder may cast at an Annual General Meeting. Nor are there any limitations regarding the transfer of the shares resulting from provisions in law or in the Articles of Association.

Of the Company's shareholders, only Melker Schörling AB (publ.) has a shareholding which represents at least one-tenth of the number of votes of all shares in AAK. Melker Schörling AB (publ.)'s shareholding as at December 31, 2017 amounted to 32.9 percent of the shares and votes.

AAK is not aware of any agreement between direct shareholders of AAK that would involve limitations in the right to transfer shares. The shareholder structure is described further in the section the AAK Share, page 90.

### **Articles of Association**

The Articles of Association stipulate that Board members shall be appointed by the Annual General Meeting of AAK. The Articles of Association contain no provisions regarding dismissal of Board members or regarding amendment of the Articles of Association.

### **Important agreements affected by change in control resulting from official take-over bid**

The Group's long-term financing agreement contains stipulations that, in certain cases, give the lender the right to request advance payment if control of AAK changes substantially. Such a substantial change in control can occur as a result of an official take-over bid.

AAK's assessment is that it has been necessary to accept these stipulations in order to obtain financing on terms which are otherwise acceptable.

### **Guidelines for remuneration of senior executives**

Guidelines for the remuneration of the CEO and other senior executives were adopted by the 2017 Annual General Meeting. No deviations from these guidelines have been made. The Board of Directors of AAK proposes that the 2018 Annual General Meeting resolve that the same guidelines for remuneration of senior executives be applied in 2018 as in 2017. The present guidelines are contained in Note 8, Remuneration of the Board of Directors and Senior Executives.

These guidelines will cover those persons who are in Group management positions during the period of time in which the guidelines apply. The guidelines apply to agreements entered into after a resolution by the Annual General Meeting, and in the event that changes are made to existing agreements after this point in time. The Board will be entitled to diverge from the guidelines if there are particular reasons to do so in an individual case.

### **Product development**

The Group's product development operations are described in further detail on pages 12–19.

### **Environment**

The environmental impact from our plants includes emissions of odorous substances, solvents, smoke and gases into the atmosphere, as well as discharging fats, oxygen-consuming material, and nutrients into the water, and also creating organic waste and noise. We continually review our impact on all levels to further improve environmental performance at AAK. We operate all our plants with appropriate official permits in all countries in which we operate. In Sweden, the operations in Karlshamn are licensable under Swedish law.

### **Employees**

The recruitment of skilled and competent personnel is an important component in maintaining competitiveness for the AAK Group. The Group therefore has continuous active programs for personnel development.

### **Risk management and sensitivity analysis**

All business operations involve risks – a controlled approach to risk-taking is a prerequisite for maintaining good profitability. Risks may depend on events in the operating environment and may affect a certain sector or market. A risk may also be purely company-specific or country-specific. At AAK, effective risk management is a continual process which is conducted within the framework of operational management and forms a natural part of the day-to-day monitoring of operations.

For more detailed information, please refer to the section on Risks on pages 24–25 and to Note 3, Financial Risk Management.

### *External risks*

The AAK Group is exposed to the fierce competition which characterizes the industry related to fluctuations in raw material prices which affect capital tied up.

### *Operational risk*

The raw materials used in operations are agricultural products, and availability may therefore vary due to climatic and other external factors.

### *Financial risk*

The Group's management of financial risks is described in Note 3, Financial Risk Management.

### **Corporate Governance Report**

The corporate governance report on pages 81–85 is part of the Directors' Report. For information on the composition and work, etc., of the Board of Directors, see the Corporate Governance Report on page 82.

### **Sustainability Report**

Under Chapter 6, Section 11, of the Swedish Annual Accounts Act, AAK has decided to prepare its Sustainability Report separately from the Annual Report. The Sustainability Report was submitted to the auditor with the Annual Report.

### **Parent**

The Company is the holding company of the AAK Group, and its activities consist mainly of joint Group functions connected to the development and management of the Group. The Parent employs personnel with skills and competencies to execute group-wide financing, accounting, information, marketing, product development, human resources and IT. The Parent is also responsible for Group strategy and risk management, and provides legal and tax-related services to Group companies.

The Parent's invoicing in 2017 amounted to SEK 97 million (95). The profit after financial items amounted to SEK -11 million (-14). Interest-bearing liabilities minus cash and cash equivalents and interest-bearing assets were SEK -1,440 million (-1,301). Investments in intangible non-current assets and property, plant and equipment amounted to SEK 3 million (9). The Parent had a total of 36 (31) employees on December 31, 2017.

No significant events have occurred after the end of the reporting period.

### **Background to and motivation of the proposed dividend**

The Board of Directors has proposed that the 2018 Annual General Meeting approve an appropriation of profits under which the shareholders will receive a dividend of SEK 9.75 per share. The proposed dividend therefore totals SEK 412 million. The objective is for the dividend in the long term to correspond to 30–50 percent of consolidated profits after tax, while always considering AAK's long-term financing requirements. The Parent has no financial instruments valued under Chap. 4, Section 14 a, of the Swedish Annual Accounts Act (1995:1554). The Board of Directors hereby makes the following statement regarding the proposed dividend, in accordance with Chap. 18, Section 4, of the Swedish Companies Act (2005:551).

Retained profits from the previous year total SEK 3,445 million and the profit for the 2017 financial year is SEK -9 million (1,212 for the Group). Provided that the 2018 Annual General Meeting approves the Board's proposed appropriation of profits, a total of SEK 3,023 million will be carried forward. The Company's restricted equity will be fully covered after distribution of the dividend.

In the Board's judgment, the Company and the Group will retain sufficient equity after distribution of the proposed dividend in relation to the nature, scope and risks associated with its business operations. In making this assessment, the Board has taken account of the historical development of the Company and the Group, budgeted performance and the economic situation.

In the view of the Board, the Company and the Group are in a position and have the capacity, in both the short and long terms, to meet all their obligations. The proposed dividend represents a total of 11 percent of the Company's equity and 5 percent of the Group's equity attributable to the Parent's shareholders.

After payment of the dividend, the equity/assets ratio of the Company and the Group will be 69 percent and 44 percent, respectively. These ratios are good in relation to other businesses in our industry. The Board of Directors judges that the Company is in a good position to meet future business risks as well as withstand possible losses. Distribution of the dividend will not negatively affect the ability of the Company and the Group to make further investments as planned by the Board of Directors.

The proposed dividend distribution will have a temporary negative effect on the Company's and Group's ability to meet certain current liabilities. However, the Company and Group have sufficient access to both short and long-term credit that can be obtained at short notice.

The Board of Directors therefore considers that the Company and the Group are prepared for likely changes to liquidity, as well as unforeseen events. In addition, the Board of Directors has considered other known circumstances that may materially affect the financial position of the Company and the Group. No circumstance has arisen that makes the proposed dividend distribution appear unjustifiable.

It is proposed that the record date for the dividend be June 1, 2018, and it is estimated that the dividend will be received by the shareholders on June 7, 2018.

#### **Proposed appropriation of profits**

The Board of Directors and Chief Executive Officer propose that

The disposable profit brought forward	SEK 3,444,859,746
and profit/loss for the year	SEK -9,327,150
<b>Total</b>	<b>SEK 3,435,532,596</b>

be appropriated as follows:

To be distributed to shareholders, a dividend of SEK 9.75 per share	SEK 412,312,768 <sup>1)</sup>
To be carried forward	SEK 3,023,219,828
<b>Total</b>	<b>SEK 3,435,532,596</b>

<sup>1)</sup> Calculated on the number of outstanding shares as at the balance sheet date.

The Group's and the Parent's income statements and balance sheets will be presented to the Annual General Meeting on May 30, 2018 for adoption.

# Consolidated Income Statement

SEK million	Note	Jan–Dec 2017	Jan–Dec 2016
Net sales	27	26,436	22,057
Other operating income	10	129	109
<b>Total operating income</b>		<b>26,565</b>	<b>22,166</b>
Raw materials and consumables and changes in inventories of finished goods and work in progress		-19,024	-15,148
Goods for resale		-1,192	-1,214
Other external expenses	5, 28	-2,208	-1,973
Employee benefits expenses	6, 7, 8, 9	-1,862	-1,726
Depreciation, amortization and impairment loss	15, 16	-491	-464
Other operating expenses		-2	-26
<b>Total operating expenses</b>		<b>-24,779</b>	<b>-20,551</b>
<b>Operating profit (EBIT)</b>		<b>1,786</b>	<b>1,615</b>
<b>Result from financial items</b>	11		
Financial income		24	16
Financial expenses		-144	-186
<b>Net financial items</b>		<b>-120</b>	<b>-170</b>
<b>Profit before tax</b>		<b>1,666</b>	<b>1,445</b>
Income tax	12	-454	-405
<b>Profit for the year</b>		<b>1,212</b>	<b>1,040</b>
<b>Attributable to:</b>			
Non-controlling interests		18	37
Parent company shareholders		1,194	1,003
<b>Earnings per share attributable to Parent shareholders during the year before and after dilution (SEK per share)</b>	13	28.24	23.71

# Consolidated Statement of Comprehensive Income

SEK million	Note	Jan–Dec 2017	Jan–Dec 2016
Profit for the period		1,212	1,040
Items that will not be reclassified to profit or loss:			
Remeasurements of post employment benefit obligations	9	-15	5
		<b>-15</b>	<b>5</b>
Items that may subsequently be reclassified to profit or loss:			
Translation differences		-706	189
Fair-value changes in cash flow hedges		-	23
Tax attributable to fair-value changes in cash flow hedges		-	-5
		<b>-706</b>	<b>207</b>
<b>Total comprehensive income for the period</b>		<b>491</b>	<b>1,252</b>
<b>Attributable to:</b>			
Non-controlling interests		16	36
Parent company shareholders		475	1,216

# Consolidated Balance Sheet

SEK million	Note	Dec 31, 2017	Dec 31, 2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	15		
Goodwill		1,601	1,686
Patents and other intangible assets		349	357
		<b>1,950</b>	<b>2,043</b>
Property, plant and equipment	16		
Land and buildings		1,138	819
Plant and machinery		3,092	2,679
Equipment, tools and fixtures and fittings		181	192
Assets under construction		767	1,474
		<b>5,178</b>	<b>5,164</b>
Financial assets			
Shares in associates		14	24
Deferred tax assets	12	73	201
Other non-current receivables	29	26	8
		<b>113</b>	<b>233</b>
<b>Total non-current assets</b>		<b>7,241</b>	<b>7,440</b>
Current assets			
Inventories	18	4,656	4,850
Accounts receivables	3	3,210	3,027
Current tax assets	12	257	219
Other receivables	29	378	171
Derivative instruments	3	556	715
Prepaid expenses and accrued income		114	176
Cash and cash equivalents	19	480	586
<b>Total current assets</b>		<b>9,651</b>	<b>9,744</b>
<b>TOTAL ASSETS</b>		<b>16,892</b>	<b>17,184</b>



# Consolidated Balance Sheet (cont.)

SEK million	Note	Dec 31, 2017	Dec 31, 2016
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
	20		
Share capital		423	423
Reserves		-243	461
Retained profit		7,484	6,638
<b>Equity attributable to Parent's shareholders</b>		<b>7,664</b>	<b>7,522</b>
Non-controlling interests		70	54
<b>Total equity</b>		<b>7,734</b>	<b>7,576</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing liabilities			
Liabilities to banks and credit institutions	21, 29	2,354	2,857
Pension provisions	9	164	134
		<b>2,518</b>	<b>2,991</b>
Non-interest-bearing liabilities			
Deferred tax liabilities	12	437	520
Other non-current provisions	22	63	70
Other non-current liabilities	29	300	250
		<b>800</b>	<b>840</b>
<b>Total non-current liabilities</b>		<b>3,318</b>	<b>3,831</b>
<b>Current liabilities</b>			
Interest-bearing liabilities			
Liabilities to banks and credit institutions	21,29	628	217
Other current liabilities	29	5	1
		<b>633</b>	<b>218</b>
Non-interest-bearing liabilities			
Accounts payables	3	3,137	3,258
Current tax liabilities	12	389	357
Other current liabilities		209	200
Other current provisions	22	53	121
Derivative instruments	3	426	724
Accrued expenses and prepaid income	23	993	899
		<b>5,207</b>	<b>5,559</b>
<b>Total current liabilities</b>		<b>5,840</b>	<b>5,777</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>16,892</b>	<b>17,184</b>

# Consolidated Changes in Shareholders' Equity

SEK million	Attributable to the Parent's shareholders			Non-controlling interests	Total equity
	Share capital	Reserves	Retained profit		
<b>Opening balance as at January 1, 2016</b>	<b>423</b>	<b>255</b>	<b>5,919</b>	<b>53</b>	<b>6,650</b>
Profit for the year	-	-	1,003	37	1,040
Other comprehensive income	-	206	7	-1	212
<b>Comprehensive income</b>	<b>-</b>	<b>206</b>	<b>1,010</b>	<b>36</b>	<b>1,252</b>
<b>Transactions with shareholders</b>					
Change in non-controlling interests	-	-	37	-35	2
Dividend	-	-	-328	-	-328
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-291</b>	<b>-35</b>	<b>-326</b>
<b>Closing balance as at December 31, 2016</b>	<b>423</b>	<b>461</b>	<b>6,638</b>	<b>54</b>	<b>7,576</b>

SEK million	Attributable to the Parent's shareholders			Non-controlling interests	Total equity
	Share capital	Reserves	Retained profit		
<b>Opening balance as at January 1, 2017</b>	<b>423</b>	<b>461</b>	<b>6,638</b>	<b>54</b>	<b>7,576</b>
Profit for the year	-	-	1,194	18	1,212
Other comprehensive income	-	-704	-15	-2	-721
<b>Comprehensive income</b>	<b>-</b>	<b>-704</b>	<b>1,179</b>	<b>16</b>	<b>491</b>
<b>Transactions with shareholders</b>					
Subscription warrants	-	-	37	-	37
Dividend	-	-	-370	-	-370
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-333</b>	<b>-</b>	<b>-333</b>
<b>Closing balance as at December 31, 2017</b>	<b>423</b>	<b>-243</b>	<b>7,484</b>	<b>70</b>	<b>7,734</b>

For further information, see Note 20.

# Consolidated Cash Flow Statement

SEK million	Note	Jan–Dec 2017	Jan–Dec 2016
<b>OPERATING ACTIVITIES</b>			
Operating profit		1,786	1,615
Depreciation and amortization		491	464
Other non-cash items	29	-263	-37
<b>Cash flow before interest and tax</b>		<b>2,014</b>	<b>2,042</b>
Interest received and other financial income		25	23
Interest paid and other financial expenses		-139	-186
Tax paid		-413	-403
<b>Cash flow before changes in working capital</b>		<b>1,487</b>	<b>1,476</b>
Changes in inventory		21	-818
Changes in accounts receivables		-341	-489
Changes in accounts payables		-18	814
Changes in other working capital items		-50	230
<b>Changes in working capital</b>		<b>-388</b>	<b>-263</b>
<b>Cash flow from operating activities</b>		<b>1,099</b>	<b>1,213</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of intangible assets		-37	-11
Acquisition of property, plant and equipment		-780	-966
Acquisition of operations and shares, net of cash acquired		-	-449
Proceeds from sale of property, plant and equipment		7	5
<b>Cash flow from investing activities</b>		<b>-810</b>	<b>-1,421</b>
<b>FINANCING ACTIVITIES</b>			
Subscription warrants		37	-
Loans raised	29	2,377	2,172
Amortization of loans	29	-2,410	-1,527
Dividends paid		-370	-328
<b>Cash flow from financing activities</b>		<b>-366</b>	<b>317</b>
<b>Cash flow for the year</b>		<b>-77</b>	<b>109</b>
Cash and cash equivalents at beginning of year		586	459
Exchange rate difference for cash equivalents		-29	18
<b>Cash and cash equivalents at year-end</b>	19	<b>480</b>	<b>586</b>

# Income Statement – Parent Company

SEK million	Note	Jan–Dec 2017	Jan–Dec 2016
Net sales	26	97	95
Other operating income	10	0	0
<b>Total operating income</b>		<b>97</b>	<b>95</b>
Other external expenses	5	-67	-63
Personnel costs	6, 7, 8, 9	-97	-101
Depreciation, amortization and impairment loss		-2	-1
Other operating expenses		-	-3
<b>Total operating expenses</b>		<b>-166</b>	<b>-168</b>
<b>Operating profit (EBIT)</b>		<b>-69</b>	<b>-73</b>
<b>Profit from financial items</b>	11		
Profit from interests in Group companies		67	63
Interest expenses and similar items		-9	-4
<b>Net financial items</b>		<b>58</b>	<b>59</b>
<b>Profit before tax</b>		<b>-11</b>	<b>-14</b>
Income tax	12	2	-5
<b>Profit for the year</b>		<b>-9</b>	<b>-19</b>

# Statement of Comprehensive Income – Parent Company

SEK million	Note	Jan–Dec 2017	Jan–Dec 2016
Profit for the period		-9	-19
Other comprehensive income		-	-
<b>Total comprehensive income for the period</b>		<b>-9</b>	<b>-19</b>

# Balance Sheet – Parent Company

SEK million	Note	Dec 31, 2017	Dec 31, 2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible non-current assets		7	5
		<b>7</b>	<b>5</b>
Property, plant and equipment		3	4
		<b>3</b>	<b>4</b>
Financial non-current assets			
Shares in Group companies	17	2,426	2,426
Receivables from Group companies		2,893	3,052
Deferred tax assets	12	3	-
Other non-current liabilities		14	8
		<b>5,336</b>	<b>5,486</b>
<b>Total non-current assets</b>		<b>5,346</b>	<b>5,495</b>
<b>Current assets</b>			
Receivables from Group companies		109	135
Tax assets	12	8	6
Other receivables		2	1
Prepaid expenses and accrued income		6	2
<b>Total current assets</b>		<b>125</b>	<b>144</b>
<b>TOTAL ASSETS</b>		<b>5,471</b>	<b>5,639</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
	20		
<b>Restricted equity</b>			
Share capital		423	423
Statutory reserve		5	5
		<b>428</b>	<b>428</b>
<b>Non-restricted equity</b>			
Retained profit		3,497	3,834
Profit/loss for the year		-9	-19
		<b>3,488</b>	<b>3,815</b>
<b>Total equity</b>		<b>3,916</b>	<b>4,243</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Other non-current liabilities		14	8
		<b>14</b>	<b>8</b>
<b>Current liabilities</b>			
Interest-bearing liabilities			
Liabilities to Group companies	29	1,440	1,301
Non-interest-bearing liabilities			
Accounts payables		15	9
Liabilities to Group companies		28	20
Other current liabilities		16	19
Accrued expenses and prepaid income	23	42	39
		<b>1,541</b>	<b>1,388</b>
<b>Total liabilities</b>		<b>1,555</b>	<b>1,396</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>5,471</b>	<b>5,639</b>

# Changes in Shareholders' Equity

## – Parent Company

SEK million	Share capital	Statutory reserve	Retained profit	Total equity
<b>Opening balance as at January 1, 2016</b>	<b>423</b>	<b>5</b>	<b>4,162</b>	<b>4,590</b>
Profit for the year	-	-	-19	-19
Other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-19</b>	<b>-19</b>
Dividend	-	-	-328	-328
<b>Closing balance as at December 31, 2016</b>	<b>423</b>	<b>5</b>	<b>3,815</b>	<b>4,243</b>
<b>Opening balance as at January 1, 2017</b>	<b>423</b>	<b>5</b>	<b>3,815</b>	<b>4,243</b>
Profit for the year	-	-	-9	-9
Other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-9</b>	<b>-9</b>
Subscription warrants	-	-	52	52
Dividend	-	-	-370	-370
<b>Closing balance as at December 31, 2017</b>	<b>423</b>	<b>5</b>	<b>3,488</b>	<b>3,916</b>

Total shares outstanding were 42,288,489 at quota value of SEK 10 per share. For further information, see Note 20.

# Cash Flow Statement – Parent Company

SEK million	Note	Jan–Dec 2017	Jan–Dec 2016
<b>OPERATING ACTIVITIES</b>			
Profit after financial items		-11	-14
Reversal of amortization and impairment losses		2	1
Adjustment for items not included in cash flow	29	-	-
Income tax paid		-3	-7
<b>Cash flow from operations before changes to working capital</b>		<b>-12</b>	<b>-20</b>
<b>Changes in working capital</b>			
Net change in other current receivables		180	48
Net change in other current operating liabilities		14	11
<b>Cash flow from operating activities</b>		<b>182</b>	<b>39</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of intangible assets		-3	-
Acquisition of property, plant and equipment		-	-5
<b>Cash flow from investing activities</b>		<b>-3</b>	<b>-5</b>
<b>FINANCING ACTIVITIES</b>			
Loans raised from Group companies	29	139	294
Subscription warrants		52	-
Dividend		-370	-328
<b>Cash flow from financing activities</b>		<b>-179</b>	<b>-34</b>
<b>Cash flow for the year</b>		<b>0</b>	<b>0</b>
Cash and cash equivalents at beginning of year		0	0
<b>Cash and cash equivalents at year-end</b>		<b>0</b>	<b>0</b>

# Notes

Amounts stated in SEK million unless specified otherwise.

## NOTE 1 – GENERAL INFORMATION

AAK AB (publ.), corporate identity number 556669-2850, is a Swedish registered limited liability company domiciled in Malmö, Sweden. The shares of the Parent are listed on NASDAQ OMX Stockholm, in the Large Cap list and under Consumer Commodities. The head office is located at Skrivaregatan 9, 215 32 Malmö, Sweden.

These consolidated financial statements for 2017 are for the Group consisting of the Parent and all subsidiaries. The Group also has ownership interests in associates and joint ventures. The Board of Directors approved these consolidated financial statements for publication on April 23, 2018

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial accounts are set out below.

### **Basis of presentation of the annual report and consolidated financial statements**

The Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standard Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted within the EU, the Swedish Annual Accounts Act, and the Swedish Financial Reporting Board's recommendation RFR 1 "Supplementary accounting rules for groups of companies". The Parent company has prepared its financial statements in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 "Accounting for legal entities".

The annual and consolidated financial statements have been prepared on a historical cost basis, with the exception of currency, fixed-income and commodity derivative instruments, which are measured at fair value through profit or loss. Preparing these financial statements requires that the Board of Directors and the Company management use certain critical accounting estimates and assumptions. These estimates and assumptions can materially affect the income statement, balance sheet and other information contained herein, including contingent liabilities; see Note 4. Actual outcome can vary from these estimates under different assumptions or circumstances.

### **New and changed standards applied by the Group**

None of the new standards and changes in and interpretations of existing standards that have been published and are obligatory for the consolidated financial statements for financial years starting on January 1, 2017 or later have had any material impact on the consolidated financial statements.

### **New standards and interpretations that have not yet been applied by the Group**

A number of new standards and interpretations enter into force for financial years that start after January 1, 2017 and were not applied when preparing these financial statements. None of these are expected to have any significant effect on the Group's financial statements, except those shown below:

#### ***IFRS 9 Financial instruments***

IFRS 9 "Financial instruments" concerns the classification, valuation and reporting of financial assets and liabilities. The full version of IFRS 9 was published in July 2014. It replaces the parts of IAS 39 that concern the classification and valuation of financial instruments. The standard must be applied for the financial year beginning January 1, 2018. Earlier application is permitted. IFRS 9 retains a mixed valuation approach which means that there will be three valuation categories for financial assets, amortized cost, fair value through other comprehensive income and fair value through the income statement. How an instrument should be classified depends on the company's business model and the nature of the cash flows attributable to the instrument. Analyses show that the new rules for classification and valuation will not affect AAK's financial position at the transition time as the regulations will not entail any change in valuation of the financial instruments in AAK's balance sheet at this time.

IFRS 9 also introduces a new model for calculating credit loss reserves based on expected credit losses. AAK is affected by the new impairment model for the calculation of the credit loss reserve for accounts receivable, with the result that there is a calculated loss for all accounts receivables, including those that are not yet due. AAK applies the simplified approach, i.e. the reserve will correspond to the expected loss over the entire life of the account receivables. At the transition, the size of the reserve will not have any material effect on the Group's balance sheet.

IFRS 9 reduces the requirements for application of hedge accounting by replacing the 80–125 criterion with requirements for an economic relationship between hedging instruments and hedged items and for the hedging quota to be the same as that used in risk management. The hedge relationships that AAK has under IAS 39 are deemed to qualify for hedge accounting under IFRS 9 and will not produce any material effect as at the transition time, based on the hedge relationships that run past this time. As the criteria for applying hedge accounting change, the hedge documentation will also need to be updated.

A project is in progress to analyse which additional information may be required to meet the disclosure requirements in the revised IFRS 7.

AAK applies IFRS 9 for the financial year starting on January 1, 2018. The Group will not recalculate comparison figures for the 2017 financial year in accordance with the transitional rules for the standard.



### **IFRS 15 Revenue from contracts with customers**

IFRS 15 "Revenue from contracts with customers" governs how revenue should be recognized. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and the associated SIC and IFRIC.

The standard must be applied for the financial year starting on January 1, 2018 or later. Earlier application is permitted.

The principles on which IFRS 15 is based are designed to give users of financial statements more useful information about the company's revenue. The extended duty of disclosure means that information on revenue type, the time of settlement, uncertainties linked to recognition of revenue and cash flow attributable to the company's contracts with customers must be provided. According to IFRS 15, revenue must be recognized when the customer gains control over the product or service sold and is able to use the product or service and gain benefit from it. AAK has evaluated the Group's contracts and revenue recognition will not be affected by a transition to IFRS 15.

AAK has decided to make the transition to IFRS 15 with prospective application. A project is in progress to analyze which additional information may be required to meet the disclosure requirements in IFRS 15.

### **IFRS 16 Leases**

In January 2016, IASB published a new leasing standard that will replace IAS 17 Leases and the associated interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires that assets and liabilities attributable to all leases, with some exceptions, be recognized in the balance sheet. This recognition is based on the view that the lessee has a right to use an asset during a specific period of time and also has an obligation to pay for this right. The recognition for the lessor will be essentially unchanged. The standard is applicable for a financial year beginning January 1, 2019 or later. Premature application is permitted. The Group has not yet fully evaluated the effects of IFRS 16. A preliminary assessment is that the change in standard will not have a material impact on the Group's financial reports.

No other of the IFRS or IFRIC interpretations that have not yet entered into force are expected to have any significant impact on the Group.

## **Consolidated financial statements**

### **Subsidiaries**

The consolidated financial statements cover AAK AB and all its subsidiaries. Subsidiaries are all companies over which the Group has a controlling influence. The Group controls a company when it is exposed to or is entitled to variable return from its holding in the company and is able to affect the return by exerting influence in the company. Subsidiaries are included in the consolidated financial statements as from the date on which the controlling influence is transferred to the Group. They are excluded from the consolidated financial statements as from the date on which the controlling influence ceases.

### **Purchase method**

The acquisition of subsidiaries is recognized using the purchase method of accounting. The cost of acquisition is measured as the fair value of the assets provided as consideration, liabilities incurred and shares issued by the Group. Transaction costs relating to acquisitions are expensed as they are incurred. Identifiable assets acquired and liabilities and obligations assumed in an acquisition are measured initially at fair value at the acquisition date. For each acquisition, the Group determines whether all non-controlling interests in the acquired companies are to be recognized at fair value or according to the proportional share of the acquired company's net assets. The excess of the purchase price, any non-controlling interests and the fair value of previous shareholdings at the acquisition date over the fair value of the Group's interest in identifiable net assets is recognized as goodwill. If this amount is less than the fair value for the acquired subsidiary's assets, the difference is recognized directly in the statement of comprehensive income.

All intra-group transactions, balances and unrealized gains on transactions are eliminated, unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### **Transactions with holders of non-controlling interests**

The Group handles transactions with holders of non-controlling interests in the same ways as transactions with the Group's shareholders. In the event of acquisitions from holders of non-controlling interests, the company recognizes the difference between the purchase price paid and the actual acquired portion of the carrying amount of the subsidiary's net assets in equity. Gains and losses on disposals to holders of non-controlling interests are also recognized in equity.

When the Group no longer holds a controlling or significant influence, each shareholding is remeasured at fair value and the change in the carrying amount is recognized in the income statement. Fair value is used as the primary carrying amount and forms the basis for ongoing recognition of the remaining ownership interest as an associate company, joint venture or financial asset. All amounts relating to divested units previously recognized under "Other comprehensive income" are recognized as though the Group had directly disposed of the respective assets or liabilities. This can result in amounts previously recognized in "Other comprehensive income" being reclassified as earnings.

If the equity interest in an associate is reduced but significant influence still remains, where relevant only a proportional share of the amounts previously recognized in "Other comprehensive income" is recognized as earnings.

### **Associated companies**

Associates are those companies where the Group has significant influence, but not a controlling influence over operational and financial management, usually through an ownership interest of between 20 percent and 50 percent of the voting rights. As of the date at which the significant influence is acquired, investments in associated companies are recognized in the consolidated financial statements using the equity method. The equity method means that the value of the shares in the associated companies recognized for the Group corresponds to the Group's interest in the equity of the associates plus Group-related goodwill and any residual values of Group-related surplus or shortfall in value. The consolidated income statement reports the Group's share of profit of associated companies, adjusted for any amortization, impairment or dissolution of acquired surplus or shortfall values, as other financial revenue. Dividends received from associated companies reduce the carrying amount of the investment.

The equity method is used until significant influence ceases.

## **Foreign currency translation of foreign subsidiaries' financial statements**

### **Functional and presentation currency**

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which they operate (functional currency). The consolidated financial statements are presented in Swedish krona which is the Parent's functional and presentation currency. Exchange rate differences that arise in translation of Group companies are recognized as a separate item in comprehensive income.

### **Transactions and balance sheet items**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rate are recognized as of the end of the reporting period in the income statement.

### **Group companies**

The results and financial position of foreign subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency other than the presentation currency are translated into the Group's presentation currency as follows:

- Assets and liabilities are translated at the closing day rate.
- Income and expenses are translated at average exchange rates.
- All exchange differences are charged directly to other comprehensive income and are recognized as a separate part of equity. When a foreign subsidiary is sold, any exchange differences are recognized in profit or loss as part of the gain or loss on the sale.

Goodwill and fair value adjustments arising in the acquisition of foreign operations are treated as assets and liabilities of the entity and translated at the closing day rate.

### **Exchange rates**

The following rates were used to translate currency:

<b>Currency</b>	<b>Average rate</b>	<b>Closing rate</b>
EUR	9.65	9.83
DKK	1.30	1.32
GBP	11.04	11.06
MXN	0.45	0.42
USD	8.53	8.18

### **Segment reporting**

An operating segment is the part of the Group that conducts business operations from which it may generate revenue and incur expenses for which discrete financial information is available. The operating results of an operating segment are followed up by the Group's chief operating decision-maker in order to evaluate its performance and allocate resources to the operating segment. The Group's operations are divided up into operating segments based on which parts of the operations the Group's chief operating decision-maker monitors, that is, according to the management approach. AAK's business operations are organized in such a way that the Group's highest executive decision-maker, that is the CEO, monitors earnings, returns and cash flows generated by the Group's various products. Each operating segment has a manager who is responsible for day-to-day operations and who regularly reports to the CEO on the outcome of the operating segment's performance and its resource requirements. Where the CEO monitors profit/loss and determines resource allocations based on the product that the Group produces and sells, these constitute the Group's operating segments.

The Group's operations are organically divided into business segments based on product. The marketing organization also reflects this structure. Segment reporting is submitted in accordance with IFRS 8 for the Group only. For each segment, the results, assets and liabilities directly attributable to or items that can reliably be attributed to the segment are included in that segment. Assets and liabilities not attributed to segments include tax assets and tax liabilities, financial investments and financial liabilities, as well as cash and cash equivalents and interest-bearing receivables.

### **Revenue recognition**

Revenue comprises the fair value of goods sold excluding VAT and discounts after eliminating intra-group sales. Sales are recognized on delivery of the goods, after customer acceptance and after the receivable can reasonably be deemed safe. Interest income is recognized allocated over the maturity of the security using the effective interest method. Insurance compensation is recognized as revenue when the amount can be measured in a reliable way and it is probable that the revenue will flow to the Group.

### **Employee benefits**

#### **a) Pension liabilities**

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate legal entity. The Group has no legal or constructive obligations to pay further contributions if this legal entity does not hold sufficient assets to pay all employee benefits relating to employee service in the current or prior periods. The fees paid in exchange for the employee performing services for the company are recognized as expenses in the period in which the services are performed.

A defined benefit pension plan is a pension plan that is not a defined contribution plan. The characteristic feature of a defined benefit plan is that it defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and remuneration.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality mortgage bonds that are denominated in the same currency in which the benefits will be paid, and that have terms of maturity approximating the terms in the related pension commitment.

Past-service costs are recognized immediately in the income statement.

The net interest rate is calculated by the discount rate being applied to defined benefit plans and to the fair value of plan assets. This expense is included in the personnel costs in the income statement.

Actuarial gains and losses as a result of experience-based adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they arise.

#### ***b) Termination benefits***

Employees receive compensation on termination before normal retirement age or when they voluntarily accept termination in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed, formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

#### ***c) Variable remuneration***

Annual variable remuneration is based on meeting set targets determined on an annual basis. These targets are related to the performance of the Company. The Group recognizes costs as and when earnings occur.

#### ***Leasing***

Leasing is classified as operating leasing when the risks and benefits of ownership are retained by the lessor. All leasing agreements within the Group are classified as operating leases. Operating lease payments are recognized in the income statement on a straight-line basis over the period of the lease.

#### ***Product development***

Product development work is an integral part of production relating to process improvement measures that is expensed on a continuous basis as a part of the product cost as it arises. Research and development expenses are those related to work whose purpose is primarily to optimize the attributes and function of oils and speciality fats, either for the finished product in which these oils and fats are ingredients or to improve the efficiency of the production process of the finished product.

#### ***Intangible assets***

##### ***Goodwill***

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary on the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill recognized separately is allocated to cash-generating units for the purpose of annual impairment testing. Goodwill is allocated to the cash-generating units that are expected to benefit from the acquisition. Goodwill is recognized at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the remaining carrying amount of goodwill relating to the entity sold.

When acquiring operations where cost is less than the net value of the acquired assets, borrowings, and any contingent liabilities, the difference is recognized directly in the income statement.

##### ***Other intangible assets***

Other intangible assets include such assets as capitalized expenditure on IT, patents and trademarks. These assets have a defined useful life and are carried at cost less accumulated amortization and impairment losses. The cost associated with maintaining an intangible asset is recognized as part of the carrying value or as a separate asset only when it is probable that the future economic benefit associated with the asset will flow to the Group and the cost of the asset can be reliably measured. Other expenditures are expensed as they arise. Other intangible assets are amortized using the straight-line method over their estimated useful lives, normally 5 to 10 years.

#### ***Property, plant and equipment***

Land and buildings comprise mainly factory buildings and offices. All property, plant and equipment is carried at cost, less accumulated depreciation. Acquisition cost includes expenditure that is directly attributable to the acquisition of an asset.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the assets will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance are expensed in the financial period in which they arise.

Land is not depreciated. Depreciation of other property, plant and equipment is allocated on a straight-line basis over the estimated useful lives of the assets to reduce their cost to residual values. Depreciation periods of between 3 and 15 years are used for plant and machinery, equipment, tools, fixtures and fittings. Industrial buildings and research laboratories are depreciated over 20 and 25 years, respectively, and office buildings over 50 years. When an asset's carrying amount may not be recoverable, the asset is immediately impaired to its recoverable amount.

Assets' residual value and useful life are reviewed at the end of every reporting period and adjusted as required.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

#### ***Impairment of non-financial assets***

Assets with indefinite useful lives are tested for impairment annually rather than being amortized. All assets are assessed in terms of impairment whenever events or changes in circumstances indicate that an asset's carrying amount exceeds its recoverable amount. Impairment reflects the excess of an asset's carrying amount over its recoverable amount. The recoverable amount is either the asset's fair value less any selling costs or its value in use, whichever is greater. For the purposes of assessment, assets are grouped on the basis of the lowest level at which there are separate identifiable cash flows (cash-generating units). Assets, other than financial assets and goodwill, for which impairment loss was previously recognized, are tested at the end of every reporting period to ascertain whether any reversal should be made.

#### ***Inventories***

Inventories are stated at cost or net selling price, whichever is lowest. Cost is calculated using the first-in-first-out principle (FIFO) or weighted average prices. The nature and area of use of the product determines the method used. The cost of finished goods and work in progress includes direct material costs, direct labor and other direct manufacturing costs and a reasonable allocation of indirect manufacturing expenses based on normal production capacity, excluding borrowing costs. Net selling price is the estimated sale price in the ordinary course of business, less costs of completion and applicable variable costs to sell.

### **Financial income and expenses**

Financial income consists of interest income on funds invested (including, where applicable, financial assets available for sale), dividend income, gains on the sale of financial assets available for sale, and gains on hedging instruments recognized in profit or loss. Dividend income is recognized when the right to receive payment has been established. Results from the sale of financial instruments are recognized when the risks and benefits associated with ownership of the instruments have been transferred to the buyer and the Group no longer has control of the instrument. Financial expenses consist of interest expenses on loans, the effect of the resolution of present value calculations for provisions, impairment of financial assets and those losses on hedging instruments recognized in profit or loss. Borrowing expenses are recognized in profit or loss, except where they are directly attributable to the acquisition, construction or production of assets that take considerable time to complete for their intended use or sale, in which case they are included in the cost of those assets. No borrowing expenses have been capitalized during the past two years. Exchange gains and losses are recognized net.

### **Financial instruments**

The Group classifies its financial assets in the following categories: financial assets measured at fair value in profit or loss and loan receivables and accounts receivables. The classification is dependent on the purpose for which the financial asset was acquired. Management establishes the classification of financial assets at initial recognition.

#### **(a) Financial assets recognized at fair value through profit or loss**

Financial assets recognized at fair value through profit or loss are financial assets held for trading. A financial asset is classified under this category if it is acquired for the primary purpose of being sold shortly thereafter. Derivatives are classified as being held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months, otherwise they are classified as non-current assets.

#### **(b) Loan receivables and accounts receivables**

Loan receivables and accounts receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets, with the exception of items with a maturity of more than 12 months after the end of the reporting period, which are classified as non-current assets. The Group's loan receivables and accounts receivables consist of accounts receivables and other receivables, as well as cash and cash equivalents in the balance sheet.

A financial asset or financial liability is recognized in the balance sheet when the Company enters a contract for the instrument (i.e. on the relevant business day).

A financial liability is recognized when the counterparty has performed and a contractual duty to pay arises, even if no invoice is received.

A financial asset is derecognized when the rights to cash flow in the contract mature or the rights are transferred in a transaction that transfers essentially all risks and remunerations from ownership to the assets transferred. This also applies to parts of financial assets.

A financial liability is removed from the balance sheet when the duty in the contract is performed or otherwise extinguished. This also applies to parts of financial liabilities. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise when the Group provides money, goods or services directly to a debtor (usually a customer) with no intention of trading the receivable. These are recorded as current assets when the maturity is less than 12 months from the transaction date. Loans and receivables are recognized in "Accounts receivables" and "Other receivables" in the balance sheet.

Loan receivables and accounts receivables are recognized after the acquisition date at amortized cost using the effective interest rate method. Financial instruments are initially recognized at fair value plus transaction costs, which applies to all financial assets that are not recognized at fair value through profit or loss, for which attributable transaction costs are instead recognized in the income statement.

### **Derivatives**

Derivative instruments are recognized in the balance sheet on the date of contract and at fair value, both initially and upon subsequent revaluation. The method of recognizing gain or loss arising from revaluation depends on whether the derivative is identified as a hedging instrument, and, in such event, the nature of the item being hedged. The Group identifies certain derivatives as either:

- (a) hedging of fair value regarding a recognized asset or liability or a firm commitment (fair-value hedging),
- (b) hedging of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedging).

When the transaction is undertaken, the Group documents the relationship between the hedging instrument and the hedged item, as well as the hedge's role in the Group's risk management objectives and strategy. The Group also documents its assessment, both when it enters into hedging contracts and on an ongoing basis, as to whether the derivative instruments used in hedging transactions are effective in terms of counteracting changes in fair value or cash flow that are attributable to the hedged items.

The Company's derivative instruments consist of OTC or "over-the-counter" derivatives concluded with financial counterparties, listed standardized derivatives and sales and purchase contracts that do not meet the exemption criteria for being recognized as a derivative (that is, that are not deemed to be for own use). According to IAS 39, only contracts not designed for physical delivery may be measured at market price. AAK's business model permits (enables) the net settlement of purchase and sales contracts entered into for physical delivery. Derivatives that are not used as hedging instruments for which hedge accounting is applied are recognized at fair value in the income statement.

### **Hedge accounting**

#### **Hedging of fair value**

Changes in fair value of a derivative that has been formally identified for hedging of fair value and meets the conditions for hedge accounting are recognized on the same line in the income statement as any change in fair value attributable to the hedged risk for the hedged asset or liability. The Group applies hedging of fair value for raw materials and foreign currency in

sales and purchase contracts. The gain or loss attributable to the ineffective portion is recognized with immediate effect in profit or loss in "Raw materials and consumables and changes in inventory".

#### **Cash flow hedges**

The effective portion of changes in fair value in a derivative instrument, identified as a cash flow hedge and that fulfils the conditions for hedge accounting, is recognized in other comprehensive income. The gain or loss attributable to the ineffective part is recognized with immediate effect in the income statement, item "Other financial items".

Amounts in equity are reversed to the income statement, for those periods during which the hedged item affects profit or loss (e.g. when the forecast sale that is hedged takes place). The gain or loss that is attributable to the effective portion of an interest rate swap that hedges variable-rate borrowing is recognized in the income statement, item "Financial expenses". The gain or loss attributable to the ineffective portion is recognized in the income statement item "Other financial items". If a hedge of a forecast transaction subsequently leads to the recognition of a non-financial asset (e.g. inventory or property, plant and equipment), the gains and losses previously recognized in equity are transferred from equity and included in the initial cost of the asset. Such transferred amounts will later be recognized in "Cost of goods sold" where they relate to inventory or in "Depreciation" where they relate to non-current assets.

When a hedging instrument matures or is sold, or when the hedge no longer qualifies for hedge accounting and accumulated gains or losses relating to the hedge are booked in equity, these gains/losses remain in equity and are recognized in profit or loss when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to take place, the accumulated profit or loss recognized in equity is immediately transferred to the "Other operating income" item in the income statement.

#### **Determining fair value**

The fair value of instruments that do not have listed prices is determined using valuation techniques such as discounted cash flow models, in which all assessed and determined cash flows are discounted using a zero coupon yield curve.

The fair value of derivatives is determined using valuation techniques. The valuation is based on models that discount cash flows using forward curves for underlying variables such as raw materials and exchange rates. The assessed and determined cash flows are discounted by a zero coupon interest rate curve. The Group's credit risk is taken into consideration in the valuation at fair value.

#### **Accounts receivables**

Accounts receivables are recognized initially at fair value and thereafter at amortized cost using the effective interest method, less provisions for impairment. Provision for impairment of accounts receivables is recognized when there is objective evidence that the Group will not receive all the cash flow due according to the original amounts of the receivables. Provisions are measured as the difference between the assets' carrying amount and the present value of future cash flows discounted at the financial asset's original effective interest rate. Such provisions are recognized in the income statement as "Other external expenses".

#### **Equity**

Ordinary shares are classified as share capital. Transaction expenses that are directly attributable to new share issues or options are recognized, net of tax, in equity as a deduction from the proceeds.

Premium received for share warrants issued at market price has been recognized as an increase in funds brought forward in equity as the options will be redeemed with equity instruments. Information on outstanding subscription warrants is available in Note 8.

#### **Liabilities to banks and credit institutions**

Borrowings are initially recognized at fair value, net of transaction costs. Borrowings are subsequently stated at amortized cost and any difference between proceeds (net of transaction costs) and redemption value is recognized in the income statement, allocated over the period of the borrowing using the effective interest method.

#### **Accounts payables**

Accounts payables are initially recognized at fair value and subsequently at amortized cost using the effective interest method.

#### **Provisions**

Provisions are recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligations and the amount can be estimated reliably. No provisions are made for future operating losses. If the effect of when in time payment is made is significant, provisions are calculated through discounting the expected future cash flow at an interest rate before tax that reflects current market assessments of the time value of money and, if applicable, the risks associated with the debt.

A provision for restructuring is recognized when the Group has adopted a comprehensive and formal restructuring plan, and the restructuring has either been started or published.

#### **Income tax**

Tax expenses for the period comprise both current tax due and deferred income tax. Tax is recognized in the income statement, apart from when tax is attributable to items recognized in other comprehensive income or directly in equity. In such cases, tax is also recognized in other comprehensive income and equity. Income tax is determined using the tax rules that have been enacted or announced by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. Tax expenses stated include both current tax due and deferred income tax.

Deferred tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. The principal temporary differences arise from depreciation of property, plant and equipment, provisions for pensions and other post-retirement benefits and tax losses carried forward. The tax rates enacted in each country are used in determining deferred income tax.

Deferred income tax assets for tax-deductible temporary differences and loss carry-forwards are recognized only to the extent it is likely that it will be possible to utilize these items. The value of deferred tax assets is derecognized when it is no longer deemed likely that they can be utilized.

Deferred income tax assets are recognized on temporary differences arising from investments in subsidiaries, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the difference will not be reversed in the foreseeable future.

**Cash and cash equivalents**

Cash equivalents comprise balances with less than three months' maturity, including cash, bank deposits and other current securities.

**Cash flow statement**

Payments in and out have been divided up into three categories: operating activities, investing activities and financing activities. The indirect method is used for flows from operating activities.

The changes during the year in operating assets and operating liabilities have been adjusted for the effects of changes in exchange rates. Acquisitions and disposals are recognized under investing activities. The assets and liabilities that acquired and divested companies had at the time of the change are not included in the analysis of the changes in operating capital, nor in changes to balance sheet items recognized under investing and financing activities. These items are reported separately under investing activities.

**Earnings per share**

The calculation of earnings per share is based on the consolidated profit attributable to the Parent's shareholders and the weighted average number of shares outstanding during the year.

When determining earnings per share after dilution, a company must base its calculations on the company's shares and stock options which could result in dilution being exercised. Compensation from these instruments will be deemed to have been received from the issuing of ordinary shares at the average market price for ordinary shares during the period. The difference between the number of issued ordinary shares and the number of ordinary shares that should have been issued at the average market price for ordinary shares during the period shall be treated as an issue of ordinary shares without consideration.

According to paragraph 47 of IAS 33, options and stock options only have a dilutive effect when the average market price for ordinary shares during the period exceeds the exercise price for options or stock options.

**Transfer pricing**

Pricing between Group companies is carried out on market terms.

**Dividend**

The dividend to shareholders in the Parent is recognized as a liability in the consolidated financial statements in the period when the dividend was approved by the shareholders.

**Accounting policies – Parent**

The Parent company has prepared its financial statements in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 "Accounting for legal entities". No differences with the Group's accounting policies have been identified.

**NOTE 3 – FINANCIAL RISK MANAGEMENT AND HEDGE ACCOUNTING****Financial risk management**

The AAK Group's operations are exposed to various financial risks, including market price risks (on raw materials, currencies and interest rates), liquidity risk and credit risk. Since our products are sold throughout the world, our sales revenues are exposed to market fluctuations in the exchange rates of the currencies involved. Moreover, the Group buys its raw materials on international markets, so its cost of raw materials is exposed to market fluctuations in both the price of the raw materials and the exchange rates of the currencies involved.

Exposure to such significant financial risks makes managing these risks a significant factor in successful operations. We believe that we are largely successful in managing risks owing to the policies and procedures established for the Group.

The Group's management of price risk and other risks related to purchasing of raw materials is regulated by AAK's policy and principles on the management of market risk for raw materials, while currency risks and other financial risks are regulated by AAK's financial policy and principles. Policies and principles are established by AAK's Board of Directors, which also monitors, evaluates and updates these policies and principles annually.

**Raw material price risks**

The Group's annual costs for raw materials are two-thirds of the sales value of the finished products. AAK hedges both operational raw material price risk and the underlying operational currency risk when sales agreements are signed with customers.

Raw material prices fluctuate, so the Group has assigned a high priority to raw material procurement and to managing this exposure. Raw material procurement is managed by the Group procurement organization, which continually monitors and controls raw material market exposure for the Group. However, to maintain an effective organization, the Group's procurement organization is permitted to take limited price risks within the framework of our trading policy established by the Board of Directors. Since these raw material positions are managed appropriately, AAK's profitability is affected only marginally by price changes. The effect on total sales and requirements for working capital is, however, significantly larger.

Hedge contracts are used to hedge raw material price risk. We hedge inventory and sales contracts using standard commodity futures traded on commodity exchanges, or using OTC hedge contracts or physical purchase contracts.

Exotic raw materials (of which shea is by far the most important) must be sourced when they are available right after the harvest season. No efficient hedge market exists for exotic raw materials. Therefore the Group is typically left with a significant unhedged volume of exotic raw materials in the months following the harvest season. The Group endeavors to limit this exposure by entering into new exotic-raw-material-based sales contracts during the months in which the exotic raw materials are sourced.

AAK uses fair-value hedge accounting on stocks of oils and fats.

**Exposure to raw material price risk, December 31, 2017**

(Thousand tons)	Inventory	Sales contracts	Purchase contracts	Net exposure
Oils and fats	255	-1,512	1,261	4

**Exposure to raw material price risk, December 31, 2016**

(Thousand tons)	Inventory	Sales contracts	Purchase contracts	Net exposure
Oils and fats	209	-1,250	1,047	6

*Sensitivity analysis – raw materials (excluding exotic raw materials)*

With the stocks and commercial contracts hedged by raw material hedge contracts, leaving a very limited net exposure, changes in raw material prices have no significant effect on the Group's profit margin. A 10 percent change in all raw material prices would therefore have a negligible effect on Group operating profit.

**Gross contribution for rapeseed**

As explained above, our policies and procedures for risk management in general imply that our profit margin is not affected by changes in raw material prices. However, AAK cannot eliminate its exposure to market price fluctuations in relation to rapeseed crushing. The crushing margin (oil plus meal value less seed price) can vary over time and can thereby directly affect profitability within the Technical Products & Feed business area.

**Exposure to foreign currency**

A significant portion of the Group's buying and selling of raw materials is denominated in foreign currency. Moreover, most of the Group's operational subsidiaries are located outside Sweden. Changes in exchange rates therefore affect AAK in several ways:

- Sales contracts and raw material contracts in foreign currency give rise to transaction risk.
- Profits for our foreign subsidiaries are affected by changes in currency rates, when they are translated to SEK.
- The Group's equity is affected when equity in our foreign subsidiaries is translated to SEK.

AAK hedges all its currency transaction risks. Payment for all sales contracts is thus hedged in the local currency of the subsidiaries that have entered into such sales contracts. Exchange rate risk related to translating equity and profit/loss in our foreign subsidiaries to SEK is not hedged.

**Exposure to transaction risk, December 31, 2017**

SEK million	Assets	Liabilities	Sales contracts	Purchase contracts	Currency contracts		Net exposure
					Sold	Bought	
USD	3,326	-4,791	-558	16	-1,509	3,539	23
EUR	1,564	-786	1,392	-188	-2,395	417	4
GBP	45	-461	40	-2	-444	824	2
Other	468	-1,049	440	-231	-2,350	2,724	2
<b>Total</b>	<b>5,403</b>	<b>-7,087</b>	<b>1,314</b>	<b>-405</b>	<b>-6,698</b>	<b>7,504</b>	<b>31</b>

**Exposure to transaction risk, December 31, 2016**

SEK million	Assets	Liabilities	Sales contracts	Purchase contracts	Currency contracts		Net exposure
					Sold	Bought	
USD	2,491	-4,274	1,012	-1,255	-1,586	3,600	-12
EUR	1,601	-1,048	876	-41	-1,887	509	10
GBP	74	-615	43	0	-445	949	6
Other	1,057	-237	333	-178	-5,979	5,051	47
<b>Total</b>	<b>5,223</b>	<b>-6,174</b>	<b>2,264</b>	<b>-1,474</b>	<b>-9,897</b>	<b>10,109</b>	<b>51</b>

*Sensitivity analysis – Currency*

With all foreign currency transaction risk hedged by currency hedge contracts, leaving a very limited net exposure, changes in foreign currencies will have an insignificant effect on each subsidiary's profit margin. However, changes in foreign currencies relative to SEK do affect Group profit when the profit of each foreign subsidiary is translated into SEK. A 10 percent change in the exchange rates of all foreign currencies relative to SEK would have an effect of ± SEK 140 million (130) on Group operating profit. Furthermore, a 10 percent change in the exchange rates of all foreign currencies relative to SEK would affect Group net sales by SEK 1,800 million (1,600) and Group net working capital by SEK 350 million (300).

**Interest rate risk**

AAK's policy on interest rate risk management is to minimize volatility in cash flow and net profit caused by fluctuations in interest rates. However, during abnormal market conditions – e.g. a financial crisis – short-term interest rates can rise to extreme levels. In order to protect the Group's interest costs against such abnormal scenarios, the interest rate on part of the Group's net interest-bearing debt can be fixed or capped.

At year-end 2017, the Group's interest-bearing net debt, including pensions, amounted to SEK 2,666 million (2,620).

**Effective interest rate on debt to banks and credit institutions at balance sheet date**

	SEK	DKK	USD	CNY	TRY	BRL	INR
2017	0.80	0.70	2.30	4.60	15.00	11.00	6.50
2016	0.80	0.70	1.50	4.45	11.00	13.50	6.50

**Sensitivity analysis – Interest rates**

At the closing date, the Group had a floating-rate-based net debt of SEK 3,191 million (2,480). A 1 percent change in interest rates would therefore have a full-year effect of SEK 32 million (25) on the Group's interest costs before tax.

**Loans and capital structure**

AAK's policy on capital structure is to maximize debt financing, though not to a level that would threaten the Company's position as an investment grade company.

AAK's target key ratios are as follows:	Target	2017	2016
Net interest-bearing debt/EBITDA	< 3.0	1.17	1.26

This target level is considered to be relatively conservative and contributes to ensuring that AAK will be able to retain its high credit rating.

The Group's policy is to allocate total net borrowings per subsidiary relative to each subsidiary's share of the Group's free cash flow. This minimizes the currency risk in relation to the Group's ability to pay interest on and amortize its borrowings, which in turn strengthens the Group's debt capacity.

**Total borrowing reported in the balance sheet, per currency at balance sheet date**

SEK million	2017	2016
SEK	350	202
DKK	502	491
USD	1,145	1,433
CNY	244	81
TRY	315	240
BRL	240	296
INR	140	177
Other	46	154
<b>Total</b>	<b>2,982</b>	<b>3,074</b>

**Liquidity risk**

Liquidity risk concerns the Group's ability to meet its financial commitments as they fall due.

The table below shows all of the Group's financial commitments, listed by the earliest contractual maturity date at the balance sheet date. All liabilities to banks and credit institutions are based on variable interest rates, which means the year-end carrying value reflects the present value of these liabilities. All liabilities in foreign currency are translated into SEK at year-end closing rates.

**Disclosure of financial liabilities by maturity date, December 31, 2017**

	Total amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
<b>Non-current liabilities</b>					
<i>Financial liabilities</i>					
Liabilities to banks and credit institutions	2,354	559	253	1,040	502
Other non-current liabilities	300	-	-	-	300
<b>Total non-current liabilities</b>	<b>2,654</b>	<b>559</b>	<b>253</b>	<b>1,040</b>	<b>802</b>
Interest on liabilities to banks and credit institutions	399	18	17	312	52
<b>Total non-current liabilities and interest</b>	<b>3,053</b>	<b>577</b>	<b>270</b>	<b>1,352</b>	<b>854</b>
<b>Current liabilities</b>					
<i>Financial liabilities</i>					
Liabilities to banks and credit institutions	628	628	-	-	-
Accounts payables	3,137	3,137	-	-	-
Derivative financial instruments	426	426	-	-	-
Accrued expenses	993	993	-	-	-
Other current liabilities	176	176	-	-	-
<b>Total current liabilities</b>	<b>5,360</b>	<b>5,360</b>	-	-	-
Interest on liabilities to banks and credit institutions	12	12	-	-	-
<b>Total current liabilities and interest</b>	<b>5,372</b>	<b>5,372</b>	-	-	-

**Unused credit facilities available to the Group at the 2017 year-end**

	Total amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Unused credit facilities	4,209	492	1,247	2,469	1



**Disclosure of financial liabilities by maturity date, December 31, 2016**

	<b>Total amount</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>More than 5 years</b>
<b>Non-current liabilities</b>					
<i>Financial liabilities</i>					
Liabilities to banks and credit institutions	2,857	478	-	1,888	491
Other non-current liabilities	250	-	-	-	250
<b>Total non-current liabilities</b>	<b>3,107</b>	<b>478</b>	<b>-</b>	<b>1,888</b>	<b>741</b>
Interest on liabilities to banks and credit institutions	483	16	-	416	51
<b>Total non-current liabilities and interest</b>	<b>3,590</b>	<b>494</b>	<b>-</b>	<b>2,304</b>	<b>792</b>
<b>Current liabilities</b>					
<i>Financial liabilities</i>					
Liabilities to banks and credit institutions	217	217	-	-	-
Accounts payables	3,258	3,258	-	-	-
Derivative financial instruments	724	724	-	-	-
Accrued expenses	899	899	-	-	-
Other current liabilities	200	200	-	-	-
<b>Total current liabilities</b>	<b>5,298</b>	<b>5,298</b>	<b>-</b>	<b>-</b>	<b>-</b>
Interest on liabilities to banks and credit institutions	1	1	-	-	-
<b>Total current liabilities and interest</b>	<b>5,299</b>	<b>5,299</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Unused credit facilities available to the Group at the 2016 year-end**

	<b>Total amount</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>More than 5 years</b>
Unused credit facilities	3,665	277	-	3,388	-

The Group's cash and cash equivalents of SEK 480 million, available credit facilities of SEK 4,209 million and future cash generated by the business are together deemed sufficient for the Group to meet its financial commitments.

**Credit risk**

The Company is exposed to credit risk primarily in relation to accounts receivables and customer contracts. Risk in the latter case is represented by customers' failure to meet their commitments due to changes in market prices.

Generally, AAK's credit risks are significantly limited due to the stable, long-term business relationships we have with our customers and suppliers.

The customer structure for the Group is such that its single-largest customer is responsible for less than 5 percent of its total sales, and the average customer corresponds to less than 1 percent.

Nearly a quarter of the Group's sales occur in countries where the political and commercial risks are deemed to be higher than in Western economies. However, we experience only a limited need for impairments even in these countries. This is largely due to the fact that a significant portion of our business in these countries is with large multinational companies that also do business worldwide. The partners with whom we do business are also primarily companies with which we have stable, long-term relationships.

Each business segment is responsible for managing its customer credit risks, while our large production facilities are responsible for managing their counterparty risk in relation to raw material procurement.

**Provisions for doubtful accounts receivables**

	<b>2017</b>	<b>2016</b>
Provisions at January 1	32	25
Provisions for potential losses	14	9
Reversed amount that is not recoverable.	-2	-
Unused amount reversed	-1	-2
Exchange differences	-2	0
<b>Provisions at December 31</b>	<b>41</b>	<b>32</b>

Provisions for impairments are entirely related to accounts receivables. Total accounts receivables excluding provisions were SEK 3.251 million (3.059).

**Past due assets not considered impaired**

<b>SEK million</b>	<b>2017</b>	<b>2016</b>
1–30 days	437	398
31–120 days	97	68
121–360 days	12	17
Over 360 days	2	0
	<b>548</b>	<b>483</b>

### Derivatives classified as financial instruments

The Group had two classes of financial instruments (hedging instruments): raw material hedge contracts and currency hedge contracts, all measured at fair value. The fair value of the derivative financial instruments is measured using valuation methods and observable market data (methodology: level 2). The valuation methods applied are described in the accounting policy.

### The Group's financial assets and liabilities measured at fair value

As at December 31, 2017	Assets and liabilities measured at fair value through the income statement		Derivatives held for hedging purposes		Derivatives measured at fair value through equity		Total
	Carrying amount	Valuation level	Carrying amount	Valuation level	Carrying amount	Valuation level	
	SEK million						
Sales and purchase contracts			380	2			380
Currency hedge contracts			122	2			122
Fair value of changes in inventories			54	2			54
<b>Total assets</b>	-		<b>556</b>		-		<b>556</b>
Sales and purchase contracts			238	2			238
Currency hedge contracts			147	2			147
Fair value of changes in inventories			41	2			41
<b>Total liabilities</b>	-		<b>426</b>		-		<b>426</b>

As at December 31, 2016	Assets and liabilities measured at fair value through the income statement		Derivatives held for hedging purposes		Derivatives measured at fair value through equity		Total
	Carrying amount	Valuation level	Carrying amount	Valuation level	Carrying amount	Valuation level	
	SEK million						
Sales and purchase contracts			246	2			246
Currency hedge contracts			223	2			223
Fair value of changes in inventories			246	2			246
<b>Total assets</b>	-		<b>715</b>		-		<b>715</b>
Sales and purchase contracts			525	2			525
Currency hedge contracts			198	2			198
Fair value of changes in inventories			1	2			1
<b>Total liabilities</b>	-		<b>724</b>		-		<b>724</b>

Foreign currency contracts and the foreign currency components in sales and purchase contracts are valued at actual market foreign currency forward rates. The raw material price components in sales and purchase contracts are valued at actual market forward prices for identical or similar raw materials. Inventory is valued at actual market spot prices for identical or similar raw materials. Interest rate swap contracts are valued at actual market interest rates.

### Hedge accounting

#### *Inventory hedging at fair value*

Future contracts, and purchase and sales contracts not deemed to be assets for own use are used for hedging, which means that they cannot be exempted from derivative accounting. Since the quality of the underlying raw materials used for hedging differs from the quality of the hedged raw materials, some inefficiency is likely. AAK minimizes this inefficiency by reducing the basis risk between hedged raw material risks and the underlying raw materials used as hedging contracts. Due to the basis risk involved, AAK uses the "dollar offset" method for testing the hedge efficiency of the fair value of raw materials. Hedge efficiency testing in 2017 confirmed that the fair-value hedge of raw materials qualifies for hedge accounting. Hedge efficiency for the 2017 full year was 86 percent (100).

#### *Fair-value hedge of currency risk on sales contracts qualifying for exemption under assets for own use*

The hedging instruments used are future contracts and purchase contracts. As the currency risk of the hedge instruments is identical to the currency risk of the hedged contracts, no material basis risk exists. AAK therefore only uses the "critical match" method to test the hedge efficiency of currency risk on sales contracts that qualify for own use exemption and that may consequently be exempted from derivative accounting. The hedge efficiency testing in 2017 confirmed a perfect critical match.

## NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS IN APPLYING ACCOUNTING

In preparing these financial statements, the Group management and Board of Directors must make estimates and assumptions that affect the recognized amounts of assets and liabilities, revenues and expenses, and other information, especially regarding contingent liabilities. The estimates and assumptions for accounting purposes dealt with in this section are deemed the most critical for a proper understanding of the financial statements, in view of their degree of significance in judgments and uncertainty. Our estimates and assumptions in this regard change as the circumstances for AAK's operations change.

### **Impairment testing of goodwill**

The Group tests goodwill for any impairment on an annual basis or whenever events or objective circumstances indicate that the fair value of acquisition-related goodwill may have declined – for example, because of changes in the business climate or decisions to dispose of or discontinue certain operations. To determine whether the value of goodwill has decreased, the cash-generating unit to which the goodwill is attributable must be valued and this is done by discounting the cash flow of the unit. In applying this method, the Company relies on several factors, such as profit/loss, business plans, financial forecasts and market data. See also note 15.

### **Impairment test of other non-current assets**

AAK's property, plant and equipment and intangible non-current assets, excluding goodwill, are recognized at cost less accumulated amortization/depreciation and any impairment. Besides goodwill, AAK recognizes no intangible assets with unlimited useful life. Depreciation/amortization is applied over the estimated useful life to an estimated residual value. Both the useful life and residual value are reviewed at least once at the end of each financial period.

The carrying amount of the Group's non-current assets is tested whenever events or changes in circumstances indicate that the carrying amount cannot be recovered. The carrying amount of intangible assets not yet finished for use is tested each year. If such an analysis indicates that the carrying amount is too high, the recovery value of the asset is established, which is either the net sales value or the value in use, whichever is greatest. Value in use is measured as the expected future discounted cash flow from the assets or the cash-generating unit to which the asset belongs.

### **Income tax**

The Group is liable to pay taxes in many countries. Extensive reviews and testing are necessary to establish worldwide provisions for income tax liabilities. There are many transactions and calculations for which the final tax is uncertain. The Group recognizes a liability for anticipated tax audit issues based on assessment of whether an additional tax liability will arise. In cases where the final tax for these matters differs from the amounts first recognized, these differences will impact current and deferred tax assets and tax liabilities in the period when these determinations are made.

### **Disputes**

According to our best assessment, neither the Parent nor any subsidiary is currently involved in any legal proceedings or arbitration proceedings that are deemed to have any significant negative impact on the business, its financial position or its performance.

### **Application of IAS 39**

Future contracts or fixed price contracts are used to hedge raw material price risk. Moreover, the Group employs currency hedging on all of its transaction risks. This means that the gross contribution of every sales contract is hedged. As part of internal monitoring, the market value of all sales contracts and raw material purchases (including inventory) is valued with respect to both raw material prices and currency prices, which is not possible under IAS 39 without applying hedge accounting based on fair-value hedging.

The majority of purchase and sales contracts for physical delivery are deemed to be derivative instruments and are valued at fair value in the income statement. See also note 2.

### **Pension obligations**

The present value of pension obligations depends on multiple factors determined on an actuarial basis using a number of assumptions. The assumptions used to determine net cost (income) for pensions include the discount rate. Each change in these assumptions will affect the carrying amount of pension obligations.

The Group determines a suitable discount rate at the end of each year. This is the rate used to determine the present value of assessed future payments that are expected to be demanded to settle the pension obligations. When determining a suitable discount rate, the Group considers the interest rates of high-quality mortgage bonds that are denominated in the currency in which the benefits will be paid, and that have terms of maturity equivalent to the assessments for the pension obligation in question. See also note 9.

### **Restructuring**

A provision for restructuring is recognized when the Group has adopted a comprehensive and formal restructuring plan, and the restructuring has either been started or published. No provisions are made for future operating expenses.

**NOTE 5 – AUDITORS’ REMUNERATION (SEK THOUSAND)**

	Group		Parent	
	2017	2016	2017	2016
Audit				
PwC	5,670 <sup>1)</sup>	7,259	1,140 <sup>4)</sup>	1,250
Other	445	409	-	-
Subtotal, audit	6,115	7,668	1,140	1,250
Other audit assignments				
PwC	574 <sup>2)</sup>	521	-	-
Other	121	-	-	-
Subtotal, other audit assignments	695	521	-	-
Tax consulting				
PwC	346	979	-	-
Other	146	-	-	-
Subtotal, tax consulting	492	979	-	-
Other assignments				
PwC	1,684 <sup>3)</sup>	4,520	1,195 <sup>5)</sup>	1,616
Other	35	-	-	-
Subtotal, other assignments	1,719	4,520	1,195	1,616
<b>Total</b>	<b>9,021</b>	<b>13,688</b>	<b>2,335</b>	<b>2,866</b>

<sup>1)</sup> Of which SEK 2,328,000 concerns payment to PricewaterhouseCoopers AB.

<sup>2)</sup> Of which SEK 70,000 concerns payment to PricewaterhouseCoopers AB.

<sup>3)</sup> Of which SEK 957,000 concerns PricewaterhouseCoopers AB.

<sup>4)</sup> Of which SEK 1,140,000 concerns PricewaterhouseCoopers AB.

<sup>5)</sup> Of which SEK 957,000 concerns PricewaterhouseCoopers AB.

The audit assignment refers to fees for the statutory audit, i.e. work that has been necessary in order to issue the Auditors’ Report, and what is referred to as audit consulting, which is submitted in conjunction with the audit assignment.

**NOTE 6 – EMPLOYEE BENEFITS (SEK THOUSAND)**

	Group		Parent	
	2017	2016	2017	2016
Wages and salaries	1,405,359	1,306,390	65,968	67,287
Social security contributions	346,353	327,236	33,842	31,947
(of which pension costs)	(104,356)	(110,545)	(10,820)	(9,557)

SEK 7 million (7) of the Group pension costs relates to the Board of Directors, the CEO and other senior managers.

**Salaries and other remuneration for members of the Board of Directors and others:**

	2017		2017		2016		2016	
	Board of Directors, CEO and other senior managers		Other employees		Board of Directors, CEO and other senior managers		Other employees	
	Wages and salaries	Of which variable remuneration	Wages and salaries	Wages and salaries	Of which variable remuneration	Wages and salaries	Wages and salaries	
Parent, Sweden	34,283	7,973	31,685	41,313	15,409	25,974		
Subsidiaries, Sweden	2,565	392	275,393	2,172	442	274,598		
	<b>36,848</b>	<b>8,365</b>	<b>307,078</b>	<b>43,485</b>	<b>15,851</b>	<b>300,572</b>		
Foreign subsidiaries:	59,862	16,869	1,001,571	41,265	12,466	921,068		
<b>Group total</b>	<b>96,710</b>	<b>25,234</b>	<b>1,308,649</b>	<b>84,750</b>	<b>28,317</b>	<b>1,221,640</b>		

**NOTE 7 – AVERAGE NUMBER OF EMPLOYEES, ETC.**

Average number of employees	2017	2017	2017	2016	2016	2016
	Number of employees	Of which men	Of which women	Number of employees	Of which men	Of which women
Parent, Sweden	36	22	14	31	21	10
Subsidiaries in Sweden	507	379	128	531	401	130
	543	401	142	562	422	140
Foreign subsidiaries:						
India	555	522	33	292	265	27
USA	504	389	115	469	357	112
United Kingdom	407	319	88	416	328	88
Mexico	376	308	68	371	302	69
Denmark	203	143	60	187	141	46
Colombia	155	103	52	149	100	49
Brazil	110	79	31	82	60	22
China	97	65	32	69	46	23
Burkina Faso	95	80	15	31	25	6
Netherlands	92	74	18	87	69	18
Belgium	87	67	20	85	67	18
Turkey	44	30	14	45	32	13
Benin	32	32	0	33	32	1
Malaysia	26	8	18	23	7	16
Uruguay	16	7	9	14	6	8
Russia	15	3	12	14	4	10
Ghana	15	14	1	11	11	-
Singapore	12	6	6	9	4	5
Poland	4	2	2	4	2	2
Japan	3	2	1	3	2	1
Lithuania	2	1	1	3	1	2
Czech Republic	2	1	1	2	1	1
Germany	2	1	1	2	1	1
Mali	1	1	-	2	1	1
Norway	1	1	-	1	1	-
Ivory Coast	-	-	-	4	4	-
	2,856	2,258	598	2,408	1,869	539
<b>Group total</b>	<b>3,399</b>	<b>2,659</b>	<b>740</b>	<b>2,970</b>	<b>2,291</b>	<b>679</b>

Board members and senior managers	2017	2017	2016	2016
	Total on reporting date	Of which men (%)	Total on reporting date	Of which men (%)
Group (incl. subsidiaries)				
Board members	151	78	152	80
Chief Executive Officer and other senior managers	40	85	39	92
Parent company				
Board members <sup>1)</sup>	6	33	6	50
Chief Executive Officer and other senior managers	3	66	5	80

<sup>1)</sup> And two employee representatives, one of which is male.

## NOTE 8 – REMUNERATION OF THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES

### Principles

The principles for the remuneration of senior managers (Group management) at AAK, in both the Parent company and the Group, are designed to ensure that AAK can offer internationally competitive remuneration that can attract and retain qualified managers.

### Consideration and determination

Compensation of the Chief Executive Officer and other senior managers is considered by the Remuneration Committee of the Board of Directors and all decisions are made by the Board as a whole.

### Components of remuneration

Total remuneration includes salary, annual variable remuneration, pension, car allowance, and termination benefit.

### Salary

Fixed salary, individually determined and differentiated according to responsibility and performance, is determined on competitive principles and reviewed annually. The applicable date for the annual performance review is January 1.

### Variable remuneration

Annual variable remuneration is based on meeting set targets determined on an annual basis. These targets are related to the performance of the Company. Senior management are entitled to up to 110 percent of their annual fixed salary in variable remuneration.

### Incentive program

At the Annual General Meeting in AAK AB (publ.) on May 17, 2017 it was resolved to implement a long-term incentive program for senior executives and key employees in AAK and issue of subscription warrants for implementation of a subscription warrants program. The total number of subscription warrants in the program amounted to 1,220,000 with an initial value of SEK 42.40 per subscription warrant, in total SEK 51,728,000. In 2017, employees in AAK subscribed for 880,320 subscription warrants at an average price per subscription warrant of SEK 42.54 for a value of SEK 37,444,825. The number of outstanding subscription warrants on December 31, 2017 amounts to 339,680 at a book value of SEK 14,283,175.

### Pension

Pensions for senior management are in line with the Swedish KTP plan (corresponding to ITP) and retirement age for senior managers is 65 years.

### Termination benefits

The Company has separate agreements with the Chief Executive Officer and senior managers for termination compensation of one year's salary (fixed cash amount per month x 12 months) on termination by the Company. Neither the Chief Executive Officer nor any senior manager can independently assert the right to termination compensation.

The period of notice of termination by the Chief Executive Officer and senior managers is agreed as 6 months. Termination notice by the Company is agreed as 12 months.

### Compensation of Board Members

Fees are paid to the elected members of the Board in accordance with a resolution of the Shareholder's Annual General Meeting. This is distributed between the members as decided by the Board of Directors.

No other compensation or benefits have been paid to members of the Board, except travel expenses. The CEO, the secretary to the Board and employee representatives to the Board do not receive any compensation other than for costs in connection with their participation in Board activities.

Under a resolution of the Annual General Meeting, total compensation of elected external members of the Board is set at SEK 3,200,000, including compensation for committee work. Of this amount, the Chairman receives SEK 800,000 and each other external member receives SEK 350,000. Compensation for committee work is distributed, in accordance with a decision of the Annual General Meeting, as SEK 250,000 to the Chairman of the Audit Committee, SEK 125,000 to other members of the Audit Committee, SEK 100,000 to the Chairman of the Remuneration Committee, and SEK 50,000 to other members of the Remuneration Committee.

## Remuneration and other benefits for the year<sup>1)</sup>

SEK	Salary/Board of Directors' fees	Annual variable salary	Other benefits <sup>2)</sup>	Pension cost	Total
<i>Board of Directors</i>					
Mikael Ekdahl, Chairman	900,000	-	-	-	900,000
Bengt Baron	350,000	-	-	-	350,000
Marianne Kirkegaard	350,000	-	-	-	350,000
Gun Nilsson	600,000	-	-	-	600,000
Märta Schörling Andreen	525,000	-	-	-	525,000
Lillie Li Valeur	475,000	-	-	-	475,000
<b>Subtotal for Board</b>	<b>3,200,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,200,000</b>
<i>Senior Managers</i>					
Arne Frank, Chief Executive Officer*	6,550,466	2,801,277 <sup>3)</sup>	113,343	1,850,933	11,316,019
Fredrik Nilsson, acting Chief Executive Officer**	2,000,000	1,220,061	0	600,000	3,820,061
Other senior managers	36,653,762	18,439,284 <sup>3)</sup>	4,761,815	4,333,031	64,187,892
<b>Subtotal, senior managers</b>	<b>45,204,228</b>	<b>22,460,622</b>	<b>4,875,158</b>	<b>6,783,964</b>	<b>79,323,972<sup>4)</sup></b>
<b>Total</b>	<b>48,404,228</b>	<b>22,460,622</b>	<b>4,875,158</b>	<b>6,783,964</b>	<b>82,523,972<sup>5)</sup></b>

\* Arne Frank passed away in July 2017.

\*\* Position-related supplement from July 25 to December 31, 2017, and non-recurring remuneration during sick leave from May 8 to July 24, 2017. Remuneration and other benefits for his role as CFO are recognized under "Other senior managers".

<sup>1)</sup> Refers to items recorded as an expense in 2017.

<sup>2)</sup> Other benefits refer primarily to company cars.

<sup>3)</sup> Charged in the income statement in 2017 and estimated to be paid in 2018. During the year, variable remuneration expensed in 2016 of SEK 22,857,180 was paid.

<sup>4)</sup> Refers to the following for 2017: Anne Mette Olesen, David Smith, Fredrik Nilsson, Gerardo Garza López de Hereida, Jan Lenferink, Jens Wikstedt (to September 2017), Karsten Nielsen, Octavio Díaz de León, Renald Mackintosh, René Schou, Terry Thomas and Torben Friis Lange.

<sup>5)</sup> Of the amount of SEK 82,523,972 SEK 35,723,625 relates to the Parent company, AAK AB.

Johan Westman has been appointed the new President and CEO. He is currently Senior Vice President Europe and Managing Director of the BlankLight division of Shiloh Industries, a global innovative solutions provider to the mobility market. Johan will assume his role no later than June 1, 2018.

## NOTE 9 – PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

### Defined benefit plans

The Group maintains defined benefit retirement plans in which employees earn the right to payment of benefits after completing their employment, based on their final salary and period of service. These defined benefit retirement plans exist in Sweden, the Netherlands, Belgium and India. There are further commitments for retirement and survivors' pensions for salaried employees in Sweden that are insured through Folksam (Folksam cooperative occupational pensions).

The obligations for retirement and survivors' pension for salaried employees in Sweden are insured through policies with Alecta or correspondingly in Folksam (Folksam cooperative occupational pensions). According to a statement by the Swedish Financial Reporting Board, UFR 3, classification of ITP plans financed via insurance with Alecta, this is a defined benefit plan that involves several different employers. For the period from January 1 to December 31, 2017 AAK AB (publ.) and AAK Sweden AB have not had access to sufficient information to recognize their proportional shares of the plan's obligations, plan assets and costs, which has meant that it has not been possible to recognize the plan as a defined benefit plan. The ITP 2 pension plan that is insured through Folksam is therefore recognized as a defined contribution plan. The premium for the defined benefit retirement and survivors' pension is calculated individually and depends on factors including salary, pension earned previously and expected remaining period of service. Charges for ITP 2 pensions insured through Folksam (Folksam cooperative occupational pensions) are SEK 14 million (14).

The collective consolidation level consists of the market value of Alecta's assets as a percentage of the estimated insurance commitments, computed using Alecta's actuarial methods and assumptions, which are not in accordance with IAS 19. The collective consolidation level should normally be permitted to vary between 125 and 155 percent. If Alecta's collective consolidation level is below 125 percent or above 155 percent, measures must be taken to create the conditions for the consolidation level to return to the normal range. If the consolidation is low, one measure may be to increase the agreed price for new policies and increasing existing benefits. If the consolidation is high, one measure may be to introduce premium reductions. At year-end 2017, Alecta's and Folksam's surplus in the form of their collective consolidation levels was 154 percent and 178 percent, respectively (149 percent and 186 percent, respectively).

The Group has defined benefit pension plans in Sweden and the Netherlands which come under largely similar regulations. All plans are pension plans based on final salary and give employees covered by the plans benefits in the form of a guaranteed level of pension payments during their lives. The level of the benefits depends on the employees' period of service and salary on retirement. The pension payments in the Swedish and Dutch plans are normally indexed according to the consumer price index. The plans are subject to largely similar risks. Benefits are paid from plans that are secured with foundations. The activities of the foundations are regulated by national regulations and practice which also apply to the relationship between the Group and the administrator (or equivalent) of the foundation's plan assets. Responsibility for monitoring the plans, including investment decisions and contributions, is held jointly by the company and the foundation's board.

	Defined benefit plans	
	2017	2016
<b>The amounts recognized in the consolidated balance sheet are determined as follows:</b>		
Present value of funded obligations	827	796
Fair value of plan assets	-663	-662
	<b>164</b>	<b>134</b>

	Defined benefit plans	
	2017	2016
<b>The amounts recognized in consolidated comprehensive income are as follows:</b>		
Costs pertaining to service during the current year	29	20
Interest expenses	17	17
Interest income	-15	-14
Employees' contributions paid	-3	-2
<b>Total, included in employee costs (Note 6)</b>	<b>28</b>	<b>21</b>

	Pension costs	
	2017	2016
<b>Total pension costs recognized in the consolidated income statement are as follows:</b>		
Total costs for defined contribution plans including employer's contribution	76	89
<b>Total</b>	<b>76</b>	<b>89</b>

	Defined benefit plans	
	2017	2016
<b>Movement in the net liability recognized in the consolidated balance sheet:</b>		
Net liability at start of year	134	128
Net cost recognized in the income statement	28	21
Benefits paid	-10	-9
Disbursement of funds from the foundation	10	9
Contributions by employer to funded obligations	-25	-24
Revaluation of defined benefit pension plans based on changed assumptions	15	-5
Exchange rate differences on foreign plans	2	4
Reclassifications	10	10
<b>Net liability at year-end</b>	<b>164</b>	<b>134</b>

	Defined benefit plans	
	2017	2016
<b>Asset distribution in foundation on reporting date (%):</b>		
Fixed income	39	36
Shares	21	19
Properties	5	5
Alternative investments	35	40

The entire pension obligation in the Netherlands concerns alternative investments.

	Defined benefit plans	
	2017	2017
	The Netherlands	Sweden
<b>The principal actuarial assumptions used on reporting date (%):</b>		
Discount rate	1.85	2.90
Future annual salary increases	2.35	2.80
Future annual pension increases	1.00	2.80
Employee turnover	4.00	5.00

	Defined benefit plans	
	2016	2016
	The Netherlands	Sweden
<b>The principal actuarial assumptions used on reporting date (%):</b>		
Discount rate	1.80	3.00
Future annual salary increases	2.35	2.80
Future annual pension increases	1.00	2.80
Employee turnover	4.00	5.00

Charges for plans for retirement benefits are expected to amount to SEK 25 million in the 2018 financial year.

The weighted average term of the pension obligation is 17–19 years.



## NOTE 10 – OTHER OPERATING INCOME

	Group		Parent	
	2017	2016	2017	2016
Other operating income	129	109	0	0
<b>Total</b>	<b>129</b>	<b>109</b>	<b>0</b>	<b>0</b>

## NOTE 11 – FINANCIAL ITEMS

	Group		Parent	
	2017	2016	2017	2016
Interest income	11	6	-	-
Share of profit in associated companies	10	10	-	-
Other financial income	3	0	-	-
Group contributions	-	-	67	63
<b>Financial income</b>	<b>24</b>	<b>16</b>	<b>67</b>	<b>63</b>
Interest expenses	-112	-159	-5	-0
Changes in exchange rates	-9	-7	-1	-0
Other financial expenses	-23	-20	-3	-4
<b>Financial expenses</b>	<b>-144</b>	<b>-186</b>	<b>-9</b>	<b>-4</b>
<b>Net financial items</b>	<b>-120</b>	<b>-170</b>	<b>58</b>	<b>59</b>

## NOTE 12 – TAX EXPENSES

### Tax expenses for the year

	Group		Parent	
	2017	2016	2017	2016
Current tax	-409	-453	-1	-5
Deferred tax	-45	48	3	-
<b>Total</b>	<b>-454</b>	<b>-405</b>	<b>2</b>	<b>-5</b>

### Determination of the current tax expense

The Group's weighted average underlying tax rate is approximately 27–28 percent. The Group's weighted average tax rate for 2017, based on the tax rates in each of the various countries involved, was 27 percent. The tax rate in Sweden is 22 percent (22).

	Group		Parent	
	2017	2016	2017	2016
Profit before taxes	1,666	1,445	-11	-14
Weighted average tax rate based on the tax rates in each country	-400	-384	2	3
Tax effect of non-deductible expenses	-17	-22	-3	-3
Tax effect of tax-exempt income	13	12	-	-
Effect of deficit deductions not carried forward	-70	-28	-	-
Effect of tax rate changes	35	2	-	-
Adjustment for current tax for previous years	-15	15	3	-5
<b>Tax expense</b>	<b>-454</b>	<b>-405</b>	<b>2</b>	<b>-5</b>

**Deferred tax asset/provisions for deferred tax**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset the recognized tax assets and liabilities and when the deferred taxes refer to the same tax authority. The offset amounts are as follows:

<b>Deferred tax assets</b>	<b>Group</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Tax loss carry-forwards	24	23	-	-
Non-current assets	29	60	-	-
Inventory	5	10	-	-
Current assets	12	-26	3	-
Provisions	32	66	-	-
Non-current liabilities	0	3	-	-
Current liabilities	4	65	-	-
Offset	-33	-	-	-
<b>At year-end</b>	<b>73</b>	<b>201</b>	<b>3</b>	<b>-</b>

<b>Deferred tax liabilities</b>	<b>Group</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Non-current assets	512	515	-	-
Inventory	7	11	-	-
Current assets	11	1	-	-
Provisions	-23	-18	-	-
Non-current liabilities	0	1	-	-
Current liabilities	-37	10	-	-
Offset	-33	-	-	-
<b>At year-end</b>	<b>437</b>	<b>520</b>	<b>-</b>	<b>-</b>

**Income tax liabilities and tax assets**

In addition to deferred tax assets and liabilities, AAK has the following current tax liabilities and tax receivables:

	<b>Group</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Current tax liabilities	-389	-357	0	0
Current tax receivables	257	219	8	6
<b>Income tax liabilities/tax assets</b>	<b>-132</b>	<b>-138</b>	<b>8</b>	<b>6</b>

**NOTE 13 – EARNINGS PER SHARE**

	<b>Group</b>	
	<b>2017</b>	<b>2016</b>
Earnings attributable to shareholders of the Parent (SEK million)	1,194	1,003
Weighted average number of ordinary shares in issue	42,288,489	42,288,489
Earnings per share before and after dilution, SEK	28.24	23.71

Earnings per share are calculated for 2017 based on net profit for the year attributable to shareholders in the Parent – SEK 1,194 million (1,003) – and on a weighted average number of ordinary shares in issue of 42,288,489 (42,288,489).

**NOTE 14 – EVENTS AFTER THE BALANCE SHEET DATE**

For the 2017 financial year, the Board of Directors and Chief Executive Officer propose the distribution of a dividend in the amount of SEK 9.75 per share. A decision will be made at the Annual General Meeting on May 30, 2018. It is proposed that the record date for the dividend will be June 1 and the dividend is expected to be distributed to shareholders by June 7.

**NOTE 15 – INTANGIBLE ASSETS**

<b>Group</b>	<b>Goodwill</b>	<b>Patents and other intangible assets</b>	<b>Total</b>
Cost at January 1, 2016	1,567	597	2,164
Investments	-	11	11
Acquired through business combination	46	-	46
Disposals	-	-6	-6
Reclassifications	-	-9	-9
Exchange differences	73	15	88
<b>Accumulated cost at December 31, 2016</b>	<b>1,686</b>	<b>608</b>	<b>2,294</b>
Cost at January 1, 2017	1,686	608	2,294
Investments	-	37	37
Disposals	-	-1	-1
Reclassifications	-	-6	-6
Exchange differences	-85	-15	-100
<b>Accumulated cost at December 31, 2017</b>	<b>1,601</b>	<b>623</b>	<b>2,224</b>
Amortization and impairment loss at January 1, 2016	0	220	220
Impairment losses for the year	-	34	34
Disposals	-	-6	-6
Exchange differences	-	3	3
<b>Accumulated amortization and impairment loss at December 31, 2016</b>	<b>0</b>	<b>251</b>	<b>251</b>
Amortization and impairment loss at January 1, 2017	0	251	251
Impairment losses for the year	-	29	29
Disposals	-	-1	-1
Reclassifications	-	-6	-6
Exchange differences	-	1	1
<b>Accumulated amortization and impairment loss at December 31, 2017</b>	<b>0</b>	<b>274</b>	<b>274</b>
<b>Residual value at December 31, 2016</b>	<b>1,686</b>	<b>357</b>	<b>2,043</b>
<b>Residual value at December 31, 2017</b>	<b>1,601</b>	<b>349</b>	<b>1,950</b>

**Reviewing impairment of goodwill**

In preparing the financial statements for 2017, the Group has reviewed impairment of goodwill.

Goodwill is allocated to cash-generating units. The recoverable amount for a cash-generating unit is determined by calculating its value in use. These calculations are based on estimated future cash flow as stated in budgets and forecasts covering a five-year period. Cash flow beyond this period has been extrapolated by no more than 3 percent (3) in any case. Working capital beyond the five-year period is estimated at the same level as year five. Discount rates are assumed to be 9 percent (9) after tax and 12.8 percent (12.8) before tax. Goodwill testing of the Swedish, Danish, Belgian and Dutch units was done at an aggregate level, whereby the four production units were considered as a single cash-generating unit. Other goodwill testing considered cash-generating units at country level. Approximately 35 percent of goodwill is attributable to the business area Chocolate & Confectionery Fats and the remaining approximately 65 percent to Food Ingredients.

Testing has not demonstrated any need for impairment. The sensitivity in these calculations indicates that recognized goodwill is still intact even if the discount rate increases by 1 percent or if long-term growth is 1 percent less.

**Goodwill by cash-generating unit**

	<b>2017</b>	<b>2016</b>
Sweden, Denmark, Belgium and the Netherlands	545	535
United Kingdom	65	66
Turkey	44	52
USA	630	700
Colombia	47	51
Mexico	41	43
India	229	239
<b>Total</b>	<b>1,601</b>	<b>1,686</b>

**NOTE 16 – PROPERTY, PLANT AND EQUIPMENT**

<b>Group</b>	<b>Land and buildings</b>	<b>Plant and machinery</b>	<b>Equipment, tools and fixtures and fittings</b>	<b>Non-current assets under construction</b>	<b>Total</b>
Cost at January 1, 2016	1,655	7,272	546	942	10,415
Investments	29	322	31	579	961
Acquired through business combinations	79	411	8	3	501
Disposals	-	-89	-38	-	-127
Reclassifications	49	117	22	-179	9
Exchange differences	39	75	7	129	250
<b>Accumulated cost at December 31, 2016</b>	<b>1,851</b>	<b>8,108</b>	<b>576</b>	<b>1,474</b>	<b>12,009</b>
Cost at January 1, 2017	1,851	8,108	576	1,474	12,009
Investments	37	193	23	525	778
Disposals	-29	-132	-28	-4	-193
Reclassification to tax assets	-	-	-	-87	-87
Reclassifications	397	721	10	-1,076	52
Exchange differences	-69	-157	-16	-65	-307
<b>Accumulated cost at December 31, 2017</b>	<b>2,187</b>	<b>8,733</b>	<b>565</b>	<b>767</b>	<b>12,252</b>
Depreciation at January 1, 2016	895	4,819	372	-	6,086
Acquired through business combinations	58	299	6	-	363
Disposals	-	-83	-36	-	-119
Reclassifications	5	-5	-	-	0
Depreciations for the year	45	348	37	-	430
Exchange differences	17	29	5	-	51
<b>Accumulated depreciation at December 31, 2016</b>	<b>1,020</b>	<b>5,407</b>	<b>384</b>	<b>-</b>	<b>6,811</b>
Depreciation at January 1, 2017	1,020	5,407	384	-	6,811
Disposals	-29	-129	-27	-	-185
Reclassifications	11	47	-6	-	52
Depreciations for the year	54	366	42	-	462
Exchange differences	-19	-72	-9	-	-100
<b>Accumulated depreciation at December 31, 2017</b>	<b>1,037</b>	<b>5,619</b>	<b>384</b>	<b>-</b>	<b>7,040</b>
Impairment loss at January 1, 2016	13	21	-	-	34
Exchange differences	-1	1	-	-	0
<b>Accumulated impairment loss at December 31, 2016</b>	<b>12</b>	<b>22</b>	<b>-</b>	<b>-</b>	<b>34</b>
Impairment loss at January 1, 2017	12	22	-	-	34
<b>Accumulated impairment loss at December 31, 2017</b>	<b>12</b>	<b>22</b>	<b>-</b>	<b>-</b>	<b>34</b>
<b>Residual value according to plan at December 31, 2016</b>	<b>819</b>	<b>2,679</b>	<b>192</b>	<b>1,474</b>	<b>5,164</b>
of which land	150				
<b>Residual value according to plan at December 31, 2017</b>	<b>1,138</b>	<b>3,092</b>	<b>181</b>	<b>767</b>	<b>5,178</b>
of which land	143				

## NOTE 17 – INVESTMENTS IN GROUP COMPANIES

	Parent	
	2017	2016
Start of year	2,426	2,421
Formation of subsidiaries	-	5
<b>Accumulated cost</b>	<b>2,426</b>	<b>2,426</b>

### List of shareholdings and book value as of December 31, 2017

	Domicile	2017			2016		
		No. of shares	Capital %	Book value	No. of shares	Capital %	Book value
AarhusKarlshamn Invest AB, Sweden	Malmö	1,000	100	0	1,000	100	0
<b>AAK Colombia, Colombia</b>	<b>Bogotá</b>	<b>2,079,740</b>	<b>100</b>		<b>2,079,740</b>	<b>100</b>	
<b>AAK Belgium N.V., Belgium</b>	<b>Antwerpen</b>	<b>6,150</b>	<b>100</b>		<b>6,150</b>	<b>100</b>	
<b>AAK Zhangjiagang Ltd, China</b>	<b>Zhangjiagang</b>	<b>-</b>	<b>100</b>		<b>-</b>	<b>100</b>	
AarhusKarlshamn Finance AB, Sweden	Malmö	100,000	100	472	100,000	100	472
AarhusKarlshamn Holding AB, Sweden	Malmö	100	100	481	100	100	481
<b>AAK Kamani Pvt Ltd, India</b>	<b>Mumbai</b>	<b>650,250</b>	<b>51</b>		<b>650,250</b>	<b>51</b>	
<b>AAK Sweden AB, Sweden</b>	<b>Karlshamn</b>	<b>21,864,928</b>	<b>100</b>		<b>21,864,928</b>	<b>100</b>	
<b>AAK Netherlands BV, the Netherlands</b>	<b>Zaandijk</b>	<b>500</b>	<b>100</b>		<b>500</b>	<b>100</b>	
AAK Denmark Holding A/S, Denmark	Aarhus	400,000,000	100	1,468	400,000,000	100	1,468
<b>AAK Denmark A/S, Denmark</b>	<b>Aarhus</b>	<b>100,000,000</b>	<b>100</b>		<b>100,000,000</b>	<b>100</b>	
<b>AarhusKarlshamn Latin America S.A., Uruguay</b>	<b>Cousa</b>	<b>163,045,852</b>	<b>100</b>		<b>163,045,852</b>	<b>100</b>	
<b>AAK do Brasil Indústria e Comércio de Óleos Vegetais Ltda, Brazil</b>	<b>São Paulo</b>	<b>1,511,529,749</b>	<b>100</b>		<b>1,511,529,749</b>	<b>100</b>	
<b>AAK (UK) Ltd, United Kingdom</b>	<b>Hull</b>	<b>23,600,000</b>	<b>100</b>		<b>23,600,000</b>	<b>100</b>	
<b>AAK USA Inc., USA</b>	<b>New Jersey</b>	<b>20,300,000</b>	<b>100</b>		<b>20,300,000</b>	<b>100</b>	
<b>AAK Mexico, S.A. de C.V., Mexico</b>	<b>Morelia</b>	<b>201,006,799</b>	<b>99,9976</b>		<b>201,006,799</b>	<b>99,9976</b>	
AAK Miyoshi Japan Co. Ltd, Japan	Tokyo	70,000,000	70	5	70,000,000	70	5
<b>Total</b>				<b>2,426</b>			<b>2,426</b>

The list includes certain shares and ownership interests owned by the Parent, either directly or indirectly, as of December 31, 2017. A complete listing of all holdings of shares and interests prepared in accordance with the rules of the Swedish Annual Accounts Act and which is included in the annual reports filed with the Swedish Companies Registration Office can be requested from AAK AB, Corporate Communications, Skrivaregatan 9, 215 32 Malmö, Sweden.

## NOTE 18 – INVENTORIES

	Group	
	2017	2016
Raw materials and consumables	2,619	2,737
Goods in transit	556	511
Work in progress	847	894
Finished products and goods for resale	634	708
<b>Total according to balance sheet</b>	<b>4,656</b>	<b>4,850</b>
Change in fair value	13	245
<b>Inventory at fair value</b>	<b>4,669</b>	<b>5,095</b>

"Raw materials and consumables and changes in inventories of finished products and work in progress" for the Group includes impairment loss on inventories of SEK 15 million (7).

## NOTE 19 – CASH AND CASH EQUIVALENTS

	Group	
	2017	2016
Cash equivalents	460	552
Current investments	20	34
<b>Total</b>	<b>480</b>	<b>586</b>

## NOTE 20 – SHAREHOLDERS' EQUITY

### Group

#### Share capital

As of December 31, 2017 the Group's registered share capital was 42,288,489 shares (SEK 422,884,890).

#### Reserves

##### Translation reserve

Translation reserves include all exchange differences that arise when translating financial statements from foreign operations whose financial statements are stated in currencies other than the Group's presentation currency. The Parent company and the Group present their financial statements in SEK.

##### Hedging reserve

The hedging reserve encompasses the effective portion of the accumulated net change in the fair value of a cash flow hedging instrument attributable to hedging transactions yet to take place.

##### Statutory reserve

The statutory reserve refers to a reduction of the share capital carried out previously.

##### Retained profits and profit for the year

Retained profits and profit for the year include profits earned and retained by the Parent and subsidiaries, investments in associates, revaluation of the net pension commitment, subscription warrants, net effect of acquisition of minority share and profit for the year.

##### Treasury shares

The Group owned a total of 0 (0) treasury shares as of December 31, 2017.

#### Specification of equity item "Reserves"

	Statutory reserve	Hedging reserve	Translation reserve	Total
2016 opening balance	5	7	243	255
Exchange differences	-	-	188	188
Cash flow hedges recognized in "Other comprehensive income"	-	23	-	23
Tax on cash flow hedges recognized in "Other comprehensive income"	-	-5	-	-5
<b>2016 closing balance</b>	<b>5</b>	<b>25</b>	<b>431</b>	<b>461</b>
2017 opening balance	5	25	431	461
Exchange differences	-	-	-704	-704
<b>2017 closing balance</b>	<b>5</b>	<b>25</b>	<b>-273</b>	<b>-243</b>

### Parent company

#### Share capital

In accordance with the articles of association for AAK AB (publ.), share capital shall be a minimum of SEK 300 million and a maximum of SEK 1.2 billion. All shares are fully paid and entitle the holder to equal voting rights and shares in Company assets. Share capital consists of 42,288,489 shares (42,288,489) at a quota value of SEK 10 per share, and shareholder equity of SEK 422,884,890 (422,884,890).

#### Statutory reserve

The statutory reserve refers to a reduction of the share capital carried out previously.

#### Retained profit

Retained profit includes non-restricted equity from the previous year after any dividend distribution. This comprises profit for the year and subscription warrants, total non-restricted equity, i.e. the amount available for dividends to shareholders.

#### Dividend

In accordance with the Swedish Companies Act, the Board of Directors proposes payment of a dividend, for the consideration and approval of the Annual General Meeting of the Shareholders. The proposed dividend for payment in 2017 is SEK 412 million (SEK 9.75 per share), which has not yet been considered by the Annual General Meeting. This amount is not recognized as a liability.

#### Proposed appropriation of profits

The Board of Directors and Chief Executive Officer propose that

The disposable profit brought forward	SEK	3,444,859,746
and profit/loss for the year	SEK	-9,327,150
Total	SEK	3,435,532,596

be appropriated as follows:

To be distributed to shareholders, a dividend of SEK 9.75 per share	SEK	412,312,768 <sup>1)</sup>
To be carried forward	SEK	3,023,219,828
Total	SEK	3,435,532,596

<sup>1)</sup> Calculated on the number of outstanding shares as at the balance sheet date.

## NOTE 21 – BORROWINGS

Non-current	Group		Parent	
	2017	2016	2017	2016
Liabilities to banks and credit institutions	2,354	2,857	-	-
<b>Total</b>	<b>2,354</b>	<b>2,857</b>	<b>-</b>	<b>-</b>

Current	Group		Parent	
	2017	2016	2017	2016
Liabilities to banks and credit institutions	628	217	-	-
<b>Total</b>	<b>628</b>	<b>217</b>	<b>-</b>	<b>-</b>

Maturity for non-current borrowing is as follows:

	Group		Parent	
	2017	2016	2017	2016
Between 1 and 5 years	1,930	2,356	-	-
More than 5 years	424	501	-	-
<b>Total</b>	<b>2,354</b>	<b>2,857</b>	<b>-</b>	<b>-</b>

## NOTE 22 – OTHER PROVISIONS

Group	Restruc- turing	Environ- mental restoration	Other	Total
Opening balance at January 1, 2016	34	25	153	212
Provisions for the year	-	-	45	45
Provisions claimed for the year	-10	-	-64	-74
Exchange differences	-1	1	8	8
<b>Closing balance as at December 31, 2016</b>	<b>23</b>	<b>26</b>	<b>142</b>	<b>191</b>

Group	Restruc- turing	Environ- mental restoration	Other	Total
Opening balance at January 1, 2017	23	26	142	191
Provisions for the year	-	-	16	16
Provisions claimed for the year	-15	-	-63	-78
Reversal of unused amounts	-8	-	-3	-11
Exchange differences	1	1	-4	-2
<b>Closing balance as at December 31, 2017</b>	<b>1</b>	<b>27</b>	<b>88</b>	<b>116</b>

Provisions include	2017	2016
Non-current	63	70
Current	53	121
<b>Total</b>	<b>116</b>	<b>191</b>

### Restructuring

A provision for restructuring is reported when the Group has adopted a comprehensive and formal restructuring plan, and the restructuring has either been started or published. No provisions are made for future operating expenses.

### Environmental restoration

These provisions are primarily related to restoring contaminated land.

## NOTE 23 – ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent	
	2017	2016	2017	2016
Employee-related expenses	298	309	36	29
Other	695	590	6	10
<b>Total</b>	<b>993</b>	<b>899</b>	<b>42</b>	<b>39</b>

**NOTE 24 – ASSETS PLEDGED**

	Group		Parent	
	2017	2016	2017	2016
<b>Collateral for provisions and liabilities</b>				
Property mortgages	529	525	-	-
Other assets	390	334	-	-
<b>Total</b>	<b>919</b>	<b>859</b>	<b>-</b>	<b>-</b>

**NOTE 25 – CONTINGENT LIABILITIES**

	Group		Parent	
	2017	2016	2017	2016
Other contingent liabilities	1,795	1,547	1,795	1,547
<b>Total</b>	<b>1,795</b>	<b>1,547</b>	<b>1,795</b>	<b>1,547</b>

Contingent liabilities refer primarily to counter-guarantees issued for Group companies' commitments to financial institutions to cover local borrowings.

Over and above the contingent liabilities stated above, guarantees for the completion of various contractual undertakings are sometimes involved as part of the Group's normal business activities. There was no indication at year-end that any contractual guarantees provided will require any payment to be made.

**NOTE 26 – RELATED-PARTY TRANSACTIONS**

For the Parent, SEK 97 million (95), i.e. 100 percent (100) of sales were to Group companies. The Parent's purchasing from Group companies is related to administrative services of limited scope. All transactions were carried out on commercial terms. As at December 31, 2017, the Parent had intragroup receivables of SEK 109 million (135) and intragroup liabilities of SEK 28 million (20).

**Transactions with key management personnel**

Besides those transactions stated in Note 8 Remuneration of the Board of Directors and Senior Executives and in the description of the Board of Directors on pages 32–33, no transactions with related physical persons have taken place.

**NOTE 27 – SEGMENT REPORTING**

The Group's operations are organizationally divided into business segments based on product. The marketing organization also reflects this structure.

All transactions between business segments are recognized at market value. Assets and liabilities not attributed to a segment include tax assets and tax liabilities, financial investments and financial liabilities, as well as cash and cash equivalents and interest-bearing receivables.

The external sales are based on where our customers are located. The carrying amounts of assets and the direct investment in plant for the period are determined by the location of the assets. The Group has applied hedge accounting based on fair-value hedging.

Segment-based reporting is prepared in accordance with the accounting policies described in Note 2 "Accounting Policies".

**Reporting by primary segments/business areas**

2017	Food Ingredients	Chocolate & Confectionery Fats	Technical Products & Feed	Group Functions	Eliminations	Group
<b>Net sales</b>						
External sales	17,665	7,354	1,417	-	-	26,436
Internal sales	2,246	3,916	29	-	-6,191	-
<b>Group total</b>	<b>19,911</b>	<b>11,270</b>	<b>1,446</b>	<b>-</b>	<b>-6,191</b>	<b>26,436</b>



**Operating profit/loss by business segment**

<b>2017</b>	<b>Food Ingredients</b>	<b>Chocolate &amp; Confectionery Fats</b>	<b>Technical Products &amp; Feed</b>	<b>Group Functions</b>	<b>Eliminations</b>	<b>Group</b>
Operating profit/loss	1,107	735	84	-140	-	1,786
<b>Total</b>	<b>1,107</b>	<b>735</b>	<b>84</b>	<b>-140</b>	<b>-</b>	<b>1,786</b>
<b>Other</b>						
Assets	9,021	6,166	841	14	-	16,042
Unallocated assets	-	-	-	-	-	850
<b>Group total</b>	<b>9,021</b>	<b>6,166</b>	<b>841</b>	<b>14</b>	<b>-</b>	<b>16,892</b>
Liabilities	2,537	1,656	464	245	-	4,902
Unallocated liabilities	-	-	-	-	-	4,256
<b>Group total</b>	<b>2,537</b>	<b>1,656</b>	<b>464</b>	<b>245</b>	<b>-</b>	<b>9,158</b>
Investments	450	325	36	4	-	815
Depreciation, amortization and impairment loss	265	184	37	5	-	491

**Reporting by market**

<b>2017</b>	<b>Sweden</b>	<b>Denmark</b>	<b>Other Nordic countries</b>	<b>Central and Eastern Europe</b>	<b>Western Europe</b>	<b>North and South America</b>	<b>Asia</b>	<b>Other countries</b>	<b>Total</b>
External sales	1,973	422	721	2,391	5,862	10,667	3,976	424	26,436
Intangible assets and property, plant and equipment	1,062	1,194	-	0	967	2,651	1,206	48	7,128
Other assets	2,026	863	6	121	1,493	3,208	1,605	442	9,764
<b>Total assets</b>	<b>3,088</b>	<b>2,057</b>	<b>6</b>	<b>121</b>	<b>2,460</b>	<b>5,859</b>	<b>2,811</b>	<b>490</b>	<b>16,892</b>
Investments	112	70	-	0	132	307	191	3	815

**Reporting by primary segments/business areas**

<b>2016</b>	<b>Food Ingredients</b>	<b>Chocolate &amp; Confectionery Fats</b>	<b>Technical Products &amp; Feed</b>	<b>Group Functions</b>	<b>Eliminations</b>	<b>Group</b>
<b>Net sales</b>						
External sales	14,707	6,117	1,233	-	-	22,057
Internal sales	1,512	2,662	46	-	-4,220	-
<b>Group total</b>	<b>16,219</b>	<b>8,779</b>	<b>1,279</b>	<b>-</b>	<b>-4,220</b>	<b>22,057</b>

**Operating profit/loss by business segment**

<b>2016</b>	<b>Food Ingredients</b>	<b>Chocolate &amp; Confectionery Fats</b>	<b>Technical Products &amp; Feed</b>	<b>Group Functions</b>	<b>Eliminations</b>	<b>Group</b>
Operating profit/loss	996	664	100	-145	-	1,615
<b>Total</b>	<b>996</b>	<b>664</b>	<b>100</b>	<b>-145</b>	<b>-</b>	<b>1,615</b>
<b>Other</b>						
Assets	9,082	6,103	856	105	-	16,146
Unallocated assets	-	-	-	-	-	1,038
<b>Group total</b>	<b>9,082</b>	<b>6,103</b>	<b>856</b>	<b>105</b>	<b>-</b>	<b>17,184</b>
Liabilities	2,920	1,644	468	270	-	5,302
Unallocated liabilities	-	-	-	-	-	4,306
<b>Group total</b>	<b>2,920</b>	<b>1,644</b>	<b>468</b>	<b>270</b>	<b>-</b>	<b>9,608</b>
Investments	413	520	33	6	-	972
Depreciation, amortization and impairment loss	247	176	39	2	-	464

## Reporting by market

2016	Sweden	Denmark	Other Nordic countries	Central and Eastern Europe	Western Europe	North and South America	Asia	Other countries	Total
External sales	1,840	362	754	1,851	5,326	8,578	3,064	282	22,057
Intangible assets and property, plant and equipment	1,070	1,212	-	0	914	2,851	1,004	156	7,207
Other assets	2,102	911	4	102	1,504	3,421	851	1,082	9,977
<b>Total assets</b>	<b>3,172</b>	<b>2,123</b>	<b>4</b>	<b>102</b>	<b>2,418</b>	<b>6,272</b>	<b>1,855</b>	<b>1,238</b>	<b>17,184</b>
Investments	99	99	-	0	128	335	303	8	972

## NOTE 28 – OPERATING LEASES

Future minimum leasing fees under non-cancellable operating lease agreements are distributed as follows:

	Group	
	2017	2016
Within 1 year	102	99
Between 1 and 5 years	269	226
More than 5 years	277	317
<b>Total</b>	<b>648</b>	<b>642</b>

Operating lease expenses of SEK 96 million (94) are recognized in profit or loss for the period.

## NOTE 29 – SUPPLEMENTAL CASH FLOW STATEMENT

### Adjustment for items not included in cash flow

	Group		Parent	
	2017	2016	2017	2016
Sales of non-current assets	-0	3	-	-
Changes in pensions and provisions	-42	-25	-	-
Unrealized exchange rate effects on financial instruments	-93	-	-	-
Non-recurrent item concerning acquisition in subsidiary	-	-15	-	-
Others	-128	-	-	-
<b>Total</b>	<b>-263</b>	<b>-37</b>	<b>-</b>	<b>-</b>

### Cash flow from financing activities

Group	Dec 31, 2016	Cash flows	Changes that do not affect cash flow		Dec 31, 2017
			Acquisition-related	Exchange rate effects	
Non current financial assets	8	18	-	-0	26
Current financial assets	4	2	-	-0	6
Non current financial liabilities	3,107	-461	-60	68	2,654
Current financial liabilities	218	448	-	-33	633
<b>Total liabilities from financing activities</b>	<b>3,313</b>	<b>-33</b>	<b>-60</b>	<b>35</b>	<b>3,255</b>

Parent	Dec 31, 2016	Cash flows	Changes that do not affect cash flow		Dec 31, 2017
			Acquisition-related	Exchange rate effects	
Current financial liabilities	1,301	139	-	-	1,440
<b>Total liabilities from financing activities</b>	<b>1,301</b>	<b>139</b>	<b>-</b>	<b>-</b>	<b>1,440</b>

## ALTERNATIVE PERFORMANCE MEASURES (APM)

<b>Organic volume growth</b>		
<b>%</b>	<b>2017</b>	<b>2016</b>
<b>Food Ingredients</b>		
Organic volume growth	4	-2
Acquisitions/divestments	5	7
<b>Volume growth</b>	<b>9</b>	<b>5</b>
<b>Chocolate &amp; Confectionery Fats</b>		
Organic volume growth	10	13
Acquisitions/divestments	-	5
<b>Volume growth</b>	<b>10</b>	<b>18</b>
<b>Technical Products &amp; Feed</b>		
Organic volume growth	1	4
Acquisitions/divestments	-	-
<b>Volume growth</b>	<b>1</b>	<b>4</b>
<b>AAK Group</b>		
Organic volume growth	5	2
Acquisitions/divestments	3	5
<b>Volume growth</b>	<b>8</b>	<b>7</b>
<b>EBITDA</b>		
<b>SEK million</b>	<b>2017</b>	<b>2016</b>
Operating profit (EBIT)	1,786	1,615
Add back depreciation and amortization	491	464
<b>EBITDA</b>	<b>2,277</b>	<b>2,079</b>
<b>Return on Capital Employed (ROCE)</b>		
<b>SEK million</b>	<b>2017</b>	<b>2016</b>
Total assets	16,892	17,184
Cash and cash equivalents	-480	-586
Financial assets	-6	-3
Accounts payables	-3,137	-3,258
Other non-interest-bearing liabilities	-2,058	-2,293
<b>Capital employed</b>	<b>11,211</b>	<b>11,044</b>
<b>Operating profit (Rolling 12 months)</b>	<b>1,786</b>	<b>1,615</b>
<b>Return on Capital Employed (ROCE), %</b>	<b>15.9</b>	<b>14.6</b>

<b>Working capital</b>		
<b>SEK million</b>	<b>2017</b>	<b>2016</b>
Inventory	4,656	4,850
Accounts receivables	3,210	3,027
Other current receivables, non-interest-bearing	1,299	1,277
Accounts payables	-3,137	-3,258
Other current liabilities, non-interest-bearing	-2,058	-2,293
<b>Working capital</b>	<b>3,970</b>	<b>3,603</b>

<b>Net debt</b>		
<b>SEK million</b>	<b>2017</b>	<b>2016</b>
Current interest-bearing receivables	5	3
Cash and cash equivalents	480	586
Pension liabilities	-164	-134
Non-current liabilities to banks and credit institutions	-2,354	-2,857
Current liabilities to banks and credit institutions	-628	-217
Other interest-bearing liabilities	-5	-1
<b>Net debt</b>	<b>-2,666</b>	<b>-2,620</b>

<b>Equity to assets ratio</b>		
<b>SEK million</b>	<b>2017</b>	<b>2016</b>
Shareholders' equity	7,664	7,522
Non-controlling interests	70	54
<b>Total equity including non-controlling interests</b>	<b>7,734</b>	<b>7,576</b>
<b>Total assets</b>	<b>16,892</b>	<b>17,184</b>
<b>Equity to assets ratio, %</b>	<b>45.8</b>	<b>44.1</b>

# Corporate Governance Report

## Corporate Governance Report 2017

This Corporate Governance Report has been drawn up in accordance with the rules of the Annual Accounts Act and the Swedish Corporate Governance Code ("the Code"). The Corporate Governance Report has been subject to the statutory review by the company's auditor.

Effective and clear corporate governance contributes to the safeguarding of trust among AAK's stakeholder groups and also increases the focus on business benefit and shareholder value in the company. AAK's Board of Directors and management team endeavor, through a high level of transparency, to make it easy for individual shareholders to understand the company's decision-making process and to clarify where in the organization responsibilities and authorities reside. AAK's corporate governance is based on applicable legislation, the Code, NASDAQ OMX Stockholm's regulatory framework for issuers, generally accepted practice in the stock market and various internal guidelines. Where AAK has chosen to diverge from the rules in the Code, the reason is provided under each heading in this Corporate Governance Report.

## General

AAK is a Swedish public limited liability company, the shares of which are traded on NASDAQ OMX Stockholm within the Large Cap segment, Consumer Commodities sector. AAK has around 10,200 shareholders. Its business operations are global, with a presence in more than 100 countries. As at December 31, 2017, the number of employees was 3,399. Responsibility for management and control of AAK is divided between the shareholders at the Annual General Meeting, the Board of Directors, its elected committees and the CEO in accordance with the Swedish Companies Act, other legislation and ordinances, applicable rules for companies traded on a regulated market, the Articles of Association and the Board's internal control instruments. AAK's goal is to be the obvious first choice for its customers, and to create the best possible value for the company's various stakeholder groups – in particular customers, suppliers, shareholders and employees. At the same time, AAK aims to be a good corporate citizen and take long-term responsibility. The aim of corporate governance is to define a clear allocation of responsibility and roles between the owners, the Board, the executive management team and various control bodies. In line with this, corporate governance covers the Group's management and control systems.

## Ownership structure

Information about shareholders and shareholdings can be found on pages 90–91.

## Articles of Association

AAK's current Articles of Association were adopted at the Annual General Meeting on May 17, 2017. The Articles of Association state that the company is to operate manufacturing and trading business, primarily within the food industry, to own and manage shares and securities and other associated business. The Articles of Association also state the shareholders' rights, the number of Board members and auditors, that the Annual General Meeting shall be held yearly within six months of the end of the financial year, how notification of the Annual General Meeting shall be effected and that the registered office of the Board of Directors shall be in Malmö, Sweden. The company's financial year is the

calendar year. The Annual General Meeting shall be held in Malmö or Karlshamn, Sweden. The Articles of Association contain no restrictions on the number of votes each shareholder may cast at a general meeting. Furthermore, the Articles of Association contain no special provisions on the appointment and removal of Members of the Board of Directors and on amendments to the Articles of Association. For the current Articles of Association, please see [www.aak.com](http://www.aak.com).

## Annual General Meeting

The Annual General Meeting of AAK is the highest decision-making body and the forum through which the shareholders exercise their influence over the company. The tasks of the Annual General Meeting are regulated by the Swedish Companies Act and the Articles of Association. The Annual General Meeting makes decisions on a number of central issues, such as adoption of the income statement and balance sheet, discharge from liability for the Board members and CEO, the dividend to shareholders and the composition of the Board. Further information about the Annual General Meeting and complete minutes from previous Annual General Meetings and Extraordinary General Meetings are published at [www.aak.com](http://www.aak.com).

## Annual General Meeting 2017

The Annual General Meeting held on May 17, 2017 was attended by shareholders representing around 66 percent of the share capital and votes in the company. Mikael Ek Dahl was elected Chairman of the Meeting. The Annual General Meeting adopted the income statement and balance sheet, as well as the consolidated income statement and consolidated balance sheet. Following this, the Annual General Meeting approved the Board's proposal for a dividend for the 2016 financial year of SEK 8.75 per share. Märta Schörling Andreen, Lillie Li Valeur, Marianne Kirkegaard and Arne Frank were re-elected as ordinary members of the Board of Directors. Bengt Baron, Gun Nilsson and Mikael Ek Dahl were elected as new members of the Board of Directors. Mikael Ek Dahl was elected Chairman of the Board. The employee organizations had appointed Annika Westerlund (PTK-L) and Leif Håkansson (IF Metall) as employee representative members of the Board, and Ingvar Andersson (IF Metall) and Annica Edvardsson (PTK-L) as deputy members of the Board. The Annual General Meeting did not authorize the Board to resolve on the issue of new shares by the Company or the acquisition of the Company's own shares.

## Nomination committee

The Annual General Meeting decides on the election of the Board, among other items. The task of the Nomination Committee is to make proposals to the Annual General Meeting regarding the election of the Chairman and other members of the Board and of the Chairman of the Meeting, and regarding remuneration issues and related issues.

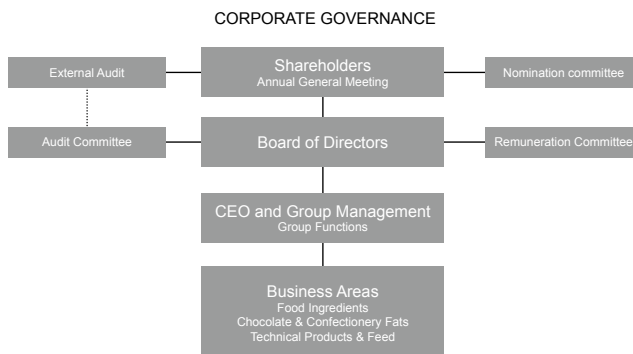
## Nomination Committee for the Annual General Meeting in 2018

At the Annual General Meeting in 2017, Märta Schörling Andreen (Melker Schörling AB), Lars-Åke Bokenberger (AMF Fonder), Henrik Didner (Didner & Gerge fonder) and Yvonne Sörberg (Handelsbanken Fonder) were appointed members of the Nomination Committee for the Annual General Meeting in 2018. Märta Schörling Andreen was appointed Chair of the Nomination Committee.

The members of the Nomination Committee represent around 46 percent of the votes in AAK. The decision also included the opportunity to change the composition of the Nomination Committee in the event of a change in ownership. During the year, the Nomination Committee held one minuted meeting. At this meeting, the Chairman reported on the evaluation work, whereupon the Nomination Committee discussed any changes and new recruitment. The Nomination Committee has been contactable by letter with proposals from shareholders. The members of the Nomination Committee have not received any remuneration from AAK for their work. Shareholders who wish to contact the Nomination Committee can send letters addressed to AAK AB (publ.), Valberedningen, Skrivaregatan 9, SE-215 32 Malmö, Sweden.

### The Board of Directors and its activities

The tasks of the Board are regulated in the Swedish Companies Act and the Articles of Association. In addition to this, the work of the Board is regulated by the working practices adopted by the Board each year. The procedural rules of the Board also regulate the distribution of work and responsibilities between the Board, the Chairman of the Board and the CEO and also include procedures for financial reporting by the CEO to the Board. According to the current working practices, the Board shall meet at least six times each year, including a statutory meeting following election held immediately after the Annual General Meeting. The tasks of the Board shall include setting strategies, business plans, budgets, interim reports and year-end reports for AAK. The Board shall also monitor the work of the CEO, appoint and dismiss the CEO and decide on important changes to AAK's organization and operation. The most important tasks of the Board are to set the overriding goals for the company's operation and to decide on the company's strategy for achieving the goals; to ensure the company has an effective executive management team and appropriate remuneration terms; to ensure the transparency and accuracy of the company's external reporting; and that external reporting provides a fair presentation of the company's performance, profitability and financial position and exposure to risk; to monitor the financial reporting, including instructions to the CEO and the establishment of requirements for the content of the financial reporting to be submitted to the Board on a continuous basis; to ensure the company's insider policy and logging procedures are adhered to in accordance with legislation and the guidelines of the Swedish Financial Supervisory Authority; to ensure there are effective systems for follow-up and control of the company's operational and financial position against set goals; to follow up and evaluate the company's development and to recognize and support the work of the CEO in carrying out the required measures; to ensure there is sufficient control of the company's compliance with legislation and other rules applicable to the operation of the company, to ensure the required ethical guidelines are set for the company's behavior; and to propose to the Annual General Meeting any dividend, repurchase of shares, redemption or other proposals falling within the competence of the Annual General Meeting. The Chairman of the Board of Directors is responsible for evaluating the work of the Board. During 2017, he conducted surveys of the members and, based on this and interviews in the previous year, analyzed the results. The results of the surveys were then presented and discussed on the Board and on the Nomination Committee as the basis for assessing the size and composition of the Board. The evaluation focused on Board work in general and on the contributions of individual members, including the Chairman of the Board and the CEO. The Board evaluations clearly contributed to continued development of the work of the Board and the committees.



### Composition of the Board

Under the Articles of Association, AAK's Board shall consist of at least three and at most ten members. The current Board consists of six members elected by the Annual General Meeting. Under Swedish law, employee organizations have a right to be represented on the Board, and have appointed two ordinary members and two deputies. In accordance with the proposal by the Nomination Committee, four members were re-elected and three new members were elected. Mikael Ekdahl was appointed Chairman of the Board of Directors. At the statutory Board meeting following the Annual General Meeting, the Board chose to appoint an Audit Committee and a Remuneration Committee. Gun Nilsson was appointed Chair of the Audit Committee and Lillie Li Valeur and Märta Schörling Andreen were appointed members. Mikael Ekdahl was appointed Chairman of the Remuneration Committee and Märta Schörling Andreen was appointed member. Mikael Ekdahl is also Chairman of the Board of Melker Schörling AB (publ.), which holds around 32.9 percent of the votes in AAK. Mikael Ekdahl cannot, therefore, be considered to be independent in relation to major shareholders in the Company in accordance with the Code. Märta Schörling Andreen, a member of the Board of Directors of Melker Schörling AB, and Gun Nilsson, CEO of Melker Schörling AB, also cannot be considered to be independent in relation to AAK's major shareholders. The other three members elected by the Annual General Meeting, Bengt Baron, Marianne Kirkegaard and Lillie Li Valeur, are independent in relation to AAK, the Company management and the Company's major shareholders in accordance with the Code.

The Board therefore fulfils the requirement of the Code that at least two Board members who are independent of the Company and the Company management shall also be independent of the Company's major shareholders. Fredrik Nilsson, CFO and acting CEO, acts as secretary to the Board. The application and result of the diversity policy are described on the Company's website in the Nomination Committee's reasoned statement regarding proposals to the Board of AAK AB (publ.).

### Working practices

The Board's working practices, containing instructions for the division of work between the Board and the CEO and for financial reporting, are updated and adopted annually. Board meetings consider the financial reporting and monitoring of day-to-day business operations and profitability trends, as well as goals, strategies for the business operation, acquisitions and significant investments and matters relating to capital structure. Business area managers and other senior executives report on business plans and strategic issues on a continual basis.

Remuneration and audit issues are prepared within the respective committees. The Board holds a statutory meeting immediately after the Annual General Meeting. At this meeting, the Board's working practices are also adopted, as are the instructions to the CEO and the Committees and other internal management instruments. The current Board held its statutory meeting on May 17, 2017, at which meeting all members were in attendance.

#### Chairman of the Board

At the Annual General Meeting held on May 17, 2017, Mikael Ekdahl was elected Chairman of the Board. The role of the Chairman of the Board is to lead the work of the Board and ensure the Board fulfils its tasks. The Chairman shall monitor the progress of the business in dialogue with the CEO, and is responsible for ensuring the other members continuously receive the information required to carry out the work on the Board, maintaining the required quality and in accordance with the Swedish Companies Act and other applicable laws and ordinances, the Articles of Association and the working practices of the Board. The Chairman is responsible for ensuring the Board constantly develops its knowledge about the Company, that an evaluation of the Board's work is carried out and that the Nomination Committee is provided with this evaluation. The Chairman shall also participate in evaluation and development issues relating to senior executives in the Group.

#### The work of the Board in 2017

The Board held 13 meetings during the year. All business area managers reported on the goals and business strategies of the business areas. The Board has handled issues relating to staffing and organization. Decisions have been made relating to investments, acquisitions and disposals. Other areas handled are the Group's work on raw materials supply, risk management and the Company's strategy for capital structure and borrowing.

#### Attendance at Board and committee meetings in 2017

Member	Board of Directors	Audit Committee	Remuneration Committee
Number of meetings	13	4	2
Mikael Ekdahl	7		2
Marianne Kirkegaard	12		
Gun Nilsson	7	2	
Lillie Li Valeur	13	4	
Märta Schörling Andreen	12	4	2
Arne Frank	6		
Leif Håkansson	13		
Melker Schörling	6		
Bengt Baron	7		
Annika Westerlund	13		

Mikael Ekdahl, Gun Nilsson and Bengt Baron have attended all Board meetings since they were elected members of the Board at the Annual General Meeting on May 17, 2017.

Information about the members of the Board can be found on pages 32–33.

#### Fees to Board members

According to the decision of the Annual General Meeting, the total fees to the Board amounted to SEK 3,200,000, to be allocated between the members as follows: SEK 800,000 to the Chairman and SEK 350,000 to each of the other members elected at the Annual General Meeting who are not employed by the company.

The Chairman of the Audit Committee received SEK 250,000 and the members SEK 125,000 each. The Chairman of the Remuneration Committee received SEK 100,000 and the member SEK 50,000. The CEO, the secretary to the Board and employee representatives to the Board do not receive any compensation other than for costs in connection with their participation in Board activities. For further information about remuneration to members of the Board, please see page 66.

#### Evaluation of the CEO

The Board continuously evaluates the work and competence of the CEO and the Company's management team. This is discussed at least once a year without representatives of the Company management being present.

#### Guidelines for remuneration of senior executives

The 2017 Annual General Meeting approved the principles for the remuneration of senior executives. The principles for the remuneration of AAK's senior executives are designed to ensure, from an international perspective, that AAK can offer compensation that is competitive and at the prevailing market level to attract and retain qualified people. The total remuneration package paid to senior executives shall consist of fixed basic salary, annual variable salary, pension, company car and severance payment. The fixed salary shall be individually differentiated on the basis of responsibility and performance, and shall be set on market principles and revised annually. In addition to annual salary, senior executives shall also receive a variable salary, which shall have a pre-set ceiling and be based on the outcome in relation to goals set annually. The goals shall be related to the company's performance and shall also be able to be linked to individual areas of responsibility. The annual variable portion must not exceed 110 percent of the fixed salary. In addition to the variable salary mentioned, share or share-price related incentive programs may be added as determined from time to time by the Annual General Meeting. The right to a pension for senior executives shall apply from the age of 60 at the earliest. Pension plans for senior executives shall primarily be defined benefit plans. In the event of termination of employment by the Company, the notice period for the President and other senior executives shall be twelve months, and they shall be entitled to receive severance pay with a pre-determined ceiling corresponding to twelve months' salary. For termination of employment by the employee, a notice period of six months shall normally apply and no severance pay shall be payable. These guidelines will cover those persons who are in Group management positions during the period of time in which the guidelines apply. The guidelines apply to agreements entered into after a resolution by the Annual General Meeting, and in the event that changes are made to existing agreements after this point in time. The Board will be entitled to diverge from the guidelines if there are particular reasons to do so in an individual case.

#### Board committees

Audit and remuneration issues within the Board are handled in committees, whose task it is to prepare issues arising and submit proposals for decisions to the Board. The tasks and working practices of the committees are determined by the Board in written instructions, which constitute part of the Board's working practices.

#### Remuneration Committee

In accordance with the Board's working practices, issues of remuneration to the Chief Executive Officer and senior executives shall be prepared by the Remuneration Committee. The Remuneration Committee prepares and presents proposals to the Board

relating to remuneration to the CEO and other senior executives. The final task of the Remuneration Committee is to monitor and evaluate the ongoing programs for variable remuneration of the company management team, and programs terminated during the year, as well the application of the guidelines for the remuneration of senior executives and the current remuneration structure and remuneration levels in the company. During 2017, the members of the Remuneration Committee were Mikael Ek Dahl (Chairman) and Märta Schörling Andreen. The recommendations of the Remuneration Committee to the Board include principles for remuneration, the relationship between fixed and variable salary, conditions for pensions and severance pay and other benefits payable to the management. Remuneration to the CEO of the Group has been decided by the Board on the basis of the recommendations of the Remuneration Committee. Remuneration to other senior executives has been decided by the Chief Executive Officer in consultation with the Remuneration Committee. For further information, see page 66. During 2017, the Remuneration Committee met on two occasions, on which both members attended. The Board's proposal for guidelines for remuneration to senior executives can be found in Note 8, and will be put to the Annual General Meeting in 2018 for a decision.

#### **Audit Committee**

During 2017, the members of the Audit Committee were Gun Nilsson (Chair), Märta Schörling Andreen and Lillie Li Valeur. The Committee held four ordinary meetings during the year, which the Company's external auditors and representatives of the management team attended. Areas dealt with by the Audit Committee primarily related to planning, scope and follow-up of the audit for the year. Other issues dealt with include risk management, integration and systematics of Group procedures, coordination of insurance issues, corporate governance, internal control, accounting rules, development of the global finance function, financing operations and other issues that the Board has requested the Committee to prepare. Under the provisions of Chap. 8, Section 49 a, of the Swedish Companies Act (2005:551), at least one member of the Audit Committee must be independent in relation to major shareholders in the Company, and have expertise in accounting or auditing, and the Company fulfils this requirement of the Code.

#### **External auditors**

AAK's auditors are appointed by the Annual General Meeting. At the Annual General Meeting in 2017, the audit company PricewaterhouseCoopers AB was re-elected as auditors up to and including the Annual General Meeting in 2018. Sofia Götmär-Blomstedt, Authorized Public Accountant, was appointed auditor in charge. Sofia Götmär-Blomstedt also has auditing tasks in companies including Coop Sverige, Oatly, Genovis AB, Pågengruppen AB and Beijer Electronics Group AB. All services requested in addition to the statutory audit are tested separately to ensure there is no conflict arising involving independence or disqualification. No agreements with related parties exist.

#### **Operational management**

It is the task of the CEO to lead operations in accordance with the guidelines and instructions of the Board. In conjunction with this, the CEO shall use the required control systems to ensure the company complies with applicable laws and ordinances. The CEO reports to the Board meetings and shall ensure the Board receives as much factual, detailed and relevant information as is required for the Board to reach well-informed decisions. The CEO also maintains continual dialogue with the Chairman of the Board and keeps him informed of the development and financial position of the Company and the Group.

AAK's Group management team consists of eleven persons from six countries: the acting CEO and CFO who also is responsible for HR, CMO, CTO and President European Supply Chain, as well as seven persons in charge of business areas/countries. The Group management team meets every other month and deals with the Group's financial development, investments, synergy and productivity projects, acquisitions, Group-wide development projects, leadership and competence supply and other strategic issues. The meetings are chaired by the CEO, who make decisions in consultation with the other members of the Group management team. The Group has a small number of Group employees, who are responsible for Group-wide activities, such as financial performance, tax, IT, internal audit, strategy, investor relations, information and legal issues. The CEO and Group management team are presented on pages 34–35. For remuneration principles and salaries and other fees paid to the CEO and Group management team, please see Note 8.

AAK's business areas are Food Ingredients, Chocolate & Confectionery Fats and Technical Products & Feed. The heads of each business area/country are responsible for goals, strategies, product development and day-to-day business issues, as well as for profit, cash flow and balance sheets for the unit in question. The business areas in turn are organized into different sectors with responsibility for day-to-day business issues. Direction is exercised through internal boards, which meet four times a year. AAK's CEO chairs the meetings. Other executives are co-opted as necessary. In all countries where AAK has subsidiaries, a Country Manager has legal charge of operations. The Country Manager's task is to represent AAK vis-à-vis public authorities in the country, to coordinate operations on the ground, organization and Group-wide procedures/projects and to ensure that Group-wide guidelines are complied with. For each such country, one member of the Group management team has been appointed to have overriding responsibility for operations. This person is the superior of the Country Manager, and in most cases acts as chairman of the local legal board.

#### **The Board's description of internal control and risk management relating to financial reporting**

The Board is responsible for AAK's internal control, the overall purpose of which is to protect the owners' investments and the Company's assets. The Board shall provide a description of how internal control and risk management relating to financial reporting are organized in a separate section of this Corporate Governance Report. Internal control relating to financial reporting is a process involving the Board, the company management team and personnel.

The process has been designed to ensure the reliability of external reporting. According to the commonly accepted framework established for this purpose, internal control is usually described from five different aspects, which are described below. The control environment forms the basis for internal management and control. Risk assessment and risk management mean that the management is aware of and has itself assessed and analyzed risks and threats to operations.

Control activities are the measures and procedures designed by the management to prevent errors from arising and for discovering and correcting errors that do arise. In order for individual tasks to be carried out in a satisfactory manner, the personnel in an organization need to have access to current and relevant information. The final module of the model relates to follow-up of internal management and the design and effectiveness of controls.



### **Control environment**

AAK's organization is designed to facilitate quick decision-making. Operational decisions are therefore made at business area or subsidiary level, while decisions about strategies, acquisitions and overriding financial issues are taken by the company's Board and Group management team. The organization is characterized by clear division of responsibilities and effective and established management and control systems, covering all units within AAK.

The basis for the internal control relating to financial reporting consists of an overall control environment in which the organization, decision-making routes, authorities and responsibilities have been documented and communicated in management documents, such as AAK's financial policy, raw material purchasing policy, the manual on financial reporting and the authorization rules set by the CEO. AAK's finance functions are integrated through a joint consolidation system and joint accounting instructions. The Group's finance unit works closely and effectively with the controllers of subsidiaries in relation to year-end financial statements and reporting.

As a supplement to the internal control, under a specific plan, an annual audit of some units in the Group is carried out on a rotating basis by the Group's central Finance Department, in collaboration with an independent international accounting firm. AAK has decided not to set up a separate review function (internal audit), as the functions mentioned above fulfil this task well. All of AAK's subsidiaries report on a monthly basis. These reports form the basis for the Group's consolidated financial reporting. Each legal unit has a controller who is responsible for the financial management of each business area, and for ensuring the financial reports are correct, complete and delivered in time for consolidated reporting.

### **Risk assessment and risk management**

Through its international presence, the AAK Group is exposed to a number of different risks. Risk management within the Group is run in accordance with fixed policies and procedures, which are reviewed annually by AAK's Board. Risks relating to commodities are managed using the Group's raw material purchasing policy. Risks relating to currency, interest and liquidity are mainly governed by AAK's finance policy. The Group's credit policy directs the management of credit and contract risks. Effective risk management unites operational business development with the requirements of owners and other stakeholders for improvements in control and long-term value. Risk management aims to minimize risks, but also to ensure that opportunities are utilized in the best possible way. Risk management covers the following areas of risk: strategic risks relating to the market and sector, commercial, operational and financial risks, compliance with external and internal regulatory frameworks and financial reporting. The main components of risk assessment and management are identification, evaluation, management, reporting, follow-up and control. For further information about AAK's risk management, please see Note 3.

### **Control activities**

The risks identified relating to financial reporting are handled via the company's control activities. These control activities aim to prevent, identify and correct errors and discrepancies. Control activities take the form of manual controls, such as reconciliation and stocktaking, automatic controls via the IT systems and general controls of the underlying IT environment. Detailed financial analyses of the result and follow-up against budgets and forecasts supplement the operation-specific controls and provide overall confirmation of the quality of the reporting.

### **Information and communication**

To ensure the completeness and accuracy of its financial reporting, the Group has adopted guidelines for information and communication aimed at ensuring relevant and significant exchange of information within business operations, both within each unit and to and from management and the Board. Policies, handbooks and working practices relating to the financial process are communicated between the management and employees, and are available in electronic format and/or printed format. The Board receives regular feedback on internal control from the Audit Committee. To ensure that external information is correct and complete, AAK has an information policy adopted by the Board, which states what is to be communicated, by whom and in what way.

### **Follow-up**

The effectiveness of the process for risk assessment and execution of control activities is followed up continuously. The follow-up covers both formal and informal procedures, which are used by those responsible at each level. The procedures include follow-up of results against budgets and plans, analyses and key figures. The Board receives monthly reports about the Group's financial position and development. The company's financial situation is discussed at each Board meeting, and the management team analyzes the financial reporting at detailed level on a monthly basis.

At Audit Committee meetings, the Committee follows up the financial reporting and receives reports from the auditors about their observations.

### **Policy documents**

AAK has a number of policies for the operations of the Group and its employees. These include:

#### *Ethics policy*

Ethical guidelines for the Group have been drawn up with the aim of clarifying the Group's fundamental approach to ethical issues, both within the Group and externally with regard to customers and suppliers.

#### *Finance policy*

The Group's finance function works in accordance with instructions adopted by the Board, which provide a framework for how the Group's operations shall be financed, and for how, for example, currency and interest risks are to be handled.

#### *Information policy*

The Group's information policy is a document describing the Group's general principles for the publication of information.

#### *Environmental policy*

The Group's environmental policy provides guidelines for environmental work within the Group.

The consolidated income statement and balance sheet will be presented to the Annual General Meeting on May 30, 2018 for adoption.

The Board of Directors and the Chief Executive Officer declare that the consolidated accounts have been prepared in accordance with IFRS International Accounting Standards, as adopted by the EU, and provide a true and fair view of the Group's financial position and results. The annual accounts have been prepared in accordance with generally accepted accounting practices and provide a true and fair view of the Parent's financial position and results.

The Directors' Report for the Group and Parent provides a true and fair view of the development of the business operations, financial position and results of the Group and Parent and describes the significant risks and uncertainty factors facing the Parent and the companies belonging to the Group.

**Malmö, April 23, 2018**

Mikael Ekdahl  
Chairman of the Board

Fredrik Nilsson  
CFO, acting CEO and President

Märta Schörling Andreen  
Member

Marianne Kirkegaard  
Member

Bengt Baron  
Member

Gun Nilsson  
Member

Lillie Li Valeur  
Member

Leif Håkansson  
Employee representative

Annika Westerlund  
Employee representative

Audited and submitted on April 23, 2018  
PricewaterhouseCoopers AB

Sofia Götmar-Blomstedt  
Authorized Public Accountant  
Auditor in charge

Linda Corneliussen  
Authorized Public Accountant

# Auditor's report

To the general meeting of the shareholders of AAK AB (publ.) corporate identity number 556669-2850

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of AAK AB (publ.) for the year 2017 except for the corporate governance statement on pages 81–85. The annual accounts and consolidated accounts of the company are included on pages 39–86 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of December 31, 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of December 31, 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 81–85. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's and the group's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Our audit approach

#### *Audit scope*

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered areas where the Managing Director and the Board of Directors made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of the Board of Directors and the Managing Director override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

#### **Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

#### **Key audit matters**

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

**Revenue recognition****– accounting of entered sales contracts**

The accounting of revenues comprises a significant risk based on their importance in the financial information and the complexity in the valuation of entered sales contracts.

As seen on page 24 and Note 3 of the annual report, AAK applies active risk management. The value of the sales contracts entered, are reported in accordance with IAS 39 which implies that all of these are valued and reported at market value as at balance sheet date.

The market value is determined, as appropriate, on the basis of liquid market prices in an open market and on stock exchange prices. Any possible error in the applied market price has a direct impact on the reported revenues and results.

Any possible omission in the reporting of entered contracts, or the risk of fictitious agreements being reported, would imply an impact on reported revenues and would limit AAK's possibility to achieve appropriate risk management measures.

In order to verify that revenues are complete, correctly reported and valued, and that they comprise of existing sales contracts, our audit has included, amongst other things, a combination of :

- a review and testing of AAK's internal controls
- tests of detail through, amongst other measures, random sampling
- analytical procedures, amongst other things, with the help of data analyses

The audit activities described above refer to the sales process in its entirety (registration of sales contracts, delivery to the customer, inventory transactions, invoicing, receipt of payments and valuation).

In order to ensure the completeness and correctness of the reporting regarding signed contracts, we have, amongst other things:

- created an understanding for, and tested, the controls intended to identify un-allowed activities linked to the signing and valuation of sales contracts,
- tested confirmations from counterparties regarding established sales contracts.

No deviations have been noted in the reporting of established sales contracts based on the executed audit, as described above.

**Valuation of purchase contracts regarding raw materials and inventory on hand**

AAK has a purchase process implying that as soon as a sales contract has been signed, the equivalent currency and raw material price is hedged.

The active risk management applied by AAK is described on page 24 and in Note 3 in the annual report. Entered purchase contracts (physical contracts and derivative instruments), including inventory on hand, are reported according to IAS 39, which implies that all of these items are valued and reported at market value as at balance sheet date.

The reporting of raw materials purchases is complex and fluctuations in raw materials prices can have a significant impact on the financial information, which is the reason an incorrect valuation of purchase contracts and inventories can have a direct impact on costs and results.

A possible omission in reporting entered contracts or the risk that a fictive contract is reported, would imply an impact on reported costs and would limit AAK's possibilities to achieve an appropriate risk management.

In order to verify that raw material costs are complete, correctly reported and valued, and that they are comprised of existing purchase contracts, our audit has included, amongst other things:

- a review and testing of AAK's internal controls regarding the updating and registration of market prices,
- data analyses, tests of detail through random sampling and other analytical procedures in order to ensure the registration of signed contracts, received deliveries, inventory transactions, received invoices, payments and registered market prices.

In order to ensure the completeness and correctness of the accounts regarding signed purchase contracts, we have, amongst other things:

- obtained an understanding of, and tested, the controls referring to the identification of un-allowed activities associated with the subscription and valuation of purchase contracts,
- tested the confirmations received from counter parties regarding established purchase contracts.

No deviations have been noted based on the audit activities described above.

**Other information than the annual accounts and consolidated accounts**

This document also contains other information than the annual accounts and consolidated accounts and is found on pages I–III, 1–36, 81–85 and 90–92. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Board of Directors and the Managing Director**

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, the Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Directors' responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### **Auditor's responsibility**

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website [www.revisorsinspektionen.se/revisorsansvar](http://www.revisorsinspektionen.se/revisorsansvar). This description is part of the Auditor's report.

### **Report on other legal and regulatory requirements**

#### *Opinions*

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of AAK AB (publ.) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

#### *Basis for Opinions*

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

#### *Responsibilities of the Board of Directors and the Managing Director*

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### *Auditor's responsibility*

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: [www.revisorsinspektionen.se/revisorsansvar](http://www.revisorsinspektionen.se/revisorsansvar). This description is part of the auditor's report.

### *The auditor's examination of the corporate governance statement*

The Board of Directors is responsible for that the corporate governance statement on pages 81–85 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts.

PricewaterhouseCoopers AB, Box 4009, 203 11 Malmö was appointed auditor of AAK AB (publ.) by the general meeting of the shareholders on the May 17, 2017 and has been the company's auditor since the financial year May 1, 2005–December 31, 2005.

Malmö, April 23, 2018  
PricewaterhouseCoopers AB

Sofia Götmar-Blomstedt  
Authorized Public Accountant  
Auditor in charge

Linda Corneliussen  
Authorized Public Accountant

# The AAK share

AAK's shares have been traded since October 2, 2006 on the NASDAQ OMX, Stockholm, the Nordic List. As from January 2, 2014, AAK shares have been traded in the Large Cap (previously Mid Cap) segment in the Consumer Commodities sector. The abbreviation is AAK and the ISIN code is SE0001493776.

## Turnover and price trend

During 2017, 13.1 (13.4) million shares were traded at a total value of SEK 8,083 million (7,959), which corresponds to a turnover rate of 31 percent (32). The average trade per trading day was 52,007 (53,160) shares or SEK 32 million (31). At the year-end, the price was SEK 702.50 (599.50) and AAK's market value was SEK 29,708 million (25,352). The highest price during the year was SEK 703.00 (December 27) and the lowest price was SEK 575.50 (September 4).

## Share capital

As at December 31, 2017, the share capital of AAK was SEK 422,884,890 (422,884,890). The number of shares was 42,288,489 (42,288,489). The quota value per share was SEK 10. Each share entitles the holder to one vote. All shares have equal rights to participate in the profits and assets of the Company.

## Ownership

There were 10,209 (9,641) shareholders as at December 31, 2017.

## Planned dividend policy

The Board of Directors has adopted a dividend policy. According to the policy, the objective of the Board of Directors, taking into account the development of Group earnings, its financial position and future development opportunities, is to propose annual dividends equivalent to at least 30–50 percent of the profit for the year, after tax, for the Group.

## Ordinary dividend

The Board of AAK proposes a dividend for the 2017 financial year of SEK 9.75 (8.75) per share, a total of SEK 412 million (370).

## AAK's Investor Relations work

AAK's aim is for the shares to be valued on the basis of relevant, accurate and up-to-date information. This requires a clear strategy for financial communication, reliable information and regular contact with financial market stakeholders.

Contact with the financial markets takes place via presentations in conjunction with quarterly reports and meetings with analysts, investors and journalists at capital market days, seminars and visits to AAK's divisions.

During 2017, a capital market day was held in Stockholm, and a large number of meetings were held with analysts and other professional operators on site in Copenhagen, London and Stockholm.

Those interested can obtain presentation material and listen to audio recordings from quarterly presentations at [www.aak.com](http://www.aak.com).

## Analysts

ABG Sundal Collier – Casper Blom  
Berenberg Bank – James Targett  
Carnegie Investment Bank – Kenneth Toll Johansson  
Exane BNP Paribas – Heidi Vesterinen  
Handelsbanken – Karri Rinta  
Nordea Bank – Carl Mellerby  
SEB Enskilda – Richard Koch  
Danske Bank – Oskar Lindström

Financial information about AAK is available at [www.aak.com](http://www.aak.com), where financial reports, press releases and presentations can be obtained. The Company's press releases are distributed via Cision and are also available on the Company's website.

The Company management can be contacted as follows:

Telephone: +46 (0)40 627 83 00

Email: [info@aak.com](mailto:info@aak.com)

## Shareholder contacts

*Fredrik Nilsson*

CFO and acting CEO

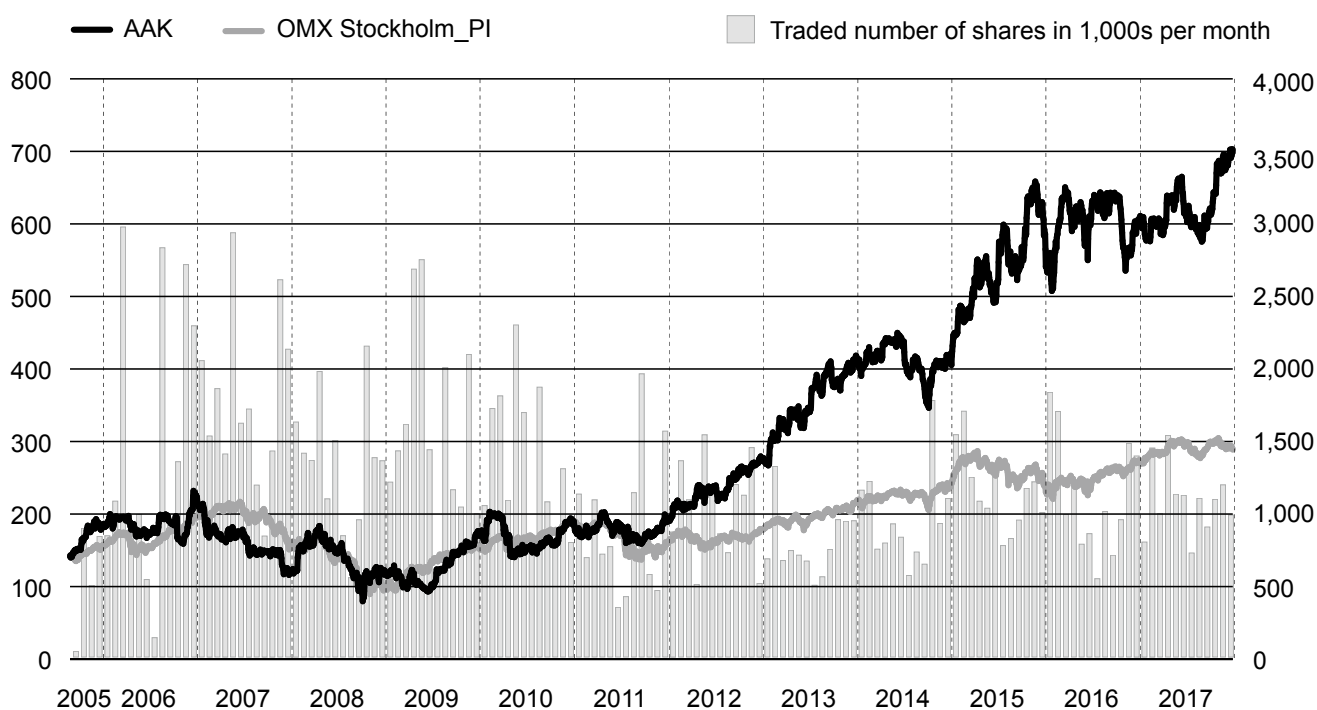
Telephone: +46 (0)40 627 83 00

Email: [fredrik.nilsson@aak.com](mailto:fredrik.nilsson@aak.com)

## Major shareholders, December 29, 2017

	No. of shares	Proportion of share capital and votes, %
Melker Schörling AB	13,899,301	32.9
AMF – Försäkring och Fonder	2,152,756	5.1
Alecta Pensionsförsäkring	2,050,000	4.8
Didner & Gerge Fonder Aktiebolag	1,881,555	4.4
Swedbank Robur Fonder	1,515,796	3.6
Handelsbanken Fonder	1,475,079	3.5
SEB Investment Management	1,105,122	2.6
NTC Various Fiduciary Capacit	752,542	1.8
Kirkbi Invest A/S	744,712	1.8
Livförsäkringsbolaget Skandia	702,500	1.7
Other shareholders	16,009,126	37.8
Total	42,288,489	100.0

## The AAK share September 29, 2005 to December 31, 2017



Source: SIX Financial Information

### Distribution of shareholdings, December 29, 2017

No. of shares	No. of shareholders	Proportion of all shareholders, %	Proportion of share capital and votes, %
1–500	8,350	81.7	2.6
501–1,000	858	8.4	1.6
1,001–5,000	694	6.8	3.6
5,001–10,000	98	1.0	1.7
10,001–15,000	47	0.5	1.4
15,001–20,000	18	0.2	0.7
20,001–	144	1.4	88.4
<b>Total</b>	<b>10,209</b>	<b>100.0</b>	<b>100.0</b>

### Information per share

	2017	2016
Share price, reporting date, SEK	702.50	599.50
Dividend, SEK	9.75	8.75
Direct yield, %	1.39	1.46
Earnings per share, SEK	28.24	23.71
Equity per share, SEK	181.23	177.87
Share price/Equity	3.88	3.37

Definitions, see page 92.

# Definitions

**Capital turnover rate**

Net sales divided by average operating capital.

**Cash and cash equivalents**

Cash and bank balances plus short-term investments with a maturity of less than three months.

**Direct yield**

Dividend per share as a percentage of the share price.

**Dividend pay-out ratio**

Dividend per share as a percentage of earnings per share.

**Earnings per share**

Profit/loss for the year divided by the average number of shares on the balance sheet date.

**Equity/assets ratio**

Equity including non-controlling interests as a percentage of balance sheet total.

**Equity per share**

Equity divided by average number of shares at the balance sheet date.

**Gross contribution**

Operating income minus cost of goods.

**Interest coverage ratio**

Operating profit/loss plus financial income divided by financial expenses.

**Net borrowings**

The total of interest-bearing liabilities minus interest-bearing assets.

**Net debt/equity ratio**

Net borrowings divided by equity including non-controlling interests.

**Operating capital**

Total assets minus cash and cash equivalents, interest-bearing receivables and non-interest-bearing operating liabilities, but excluding deferred tax.

**Organic volume growth**

Total volume growth, excluding effects of acquisitions/disposals.

**P/E ratio**

Share price divided by earnings per share.

**Proportion of risk-bearing capital**

Equity, non-controlling share of equity and deferred tax liability divided by balance sheet total.

**Return on operating capital**

Operating profit divided by average operating capital.

**Return on shareholders' equity**

Profit/loss for the year as a percentage of average shareholders' equity.

**Share price/Equity**

Share price divided by equity per share.

**Working capital**

Non-interest-bearing current assets minus non-interest-bearing liabilities excluding deferred tax.



# Financial Calendar, Annual General Meeting

## Reporting schedule

AAK AB (publ.) will provide financial information for the 2018 financial year on the following occasions:

- The interim report for the first quarter will be published on April 23.
- The half-year report will be published on July 18.
- The interim report for the third quarter will be published on October 25.
- The year-end report for 2018 will be published on February 1, 2019.

Reports and press releases are available in English and Swedish and can be ordered from

AAK AB (publ.)  
Corporate Communications  
Skrivaregatan 9  
215 32 Malmö, Sweden  
Telephone: +46 (0)40-627 83 00  
Fax: +46 (0)40-627 83 11  
Email: [comm@aak.com](mailto:comm@aak.com)

More information on AAK AB (publ.) is available on the Company's website: [www.aak.com](http://www.aak.com)

## Annual General Meeting

AAK AB (publ.)'s Annual General Meeting will take place at 2 p.m. on Wednesday, May 30, 2018 at Malmö Arena, Hyllie Stations-torg 2, in Malmö. Doors to the Annual General Meeting open at 1 p.m. and registration must be completed before 2 p.m., at which time the voting list will be established.

### Right to attend the Annual General Meeting

Shareholders are entitled to attend the Annual General Meeting if they are registered in the printout of the shareholders' register created on Thursday, May 24, 2018, and if they have given notice that they will attend the Annual General Meeting by 4 p.m. on Thursday, May 24, 2018.

### Registration in the shareholders' register

The company is a reconciliation company and its shares are affiliated with Euroclear Sweden AB, the Swedish central securities depository. This means that, in order to be entitled to attend the Annual General Meeting, shareholders must be entered in the shareholders' register held by Euroclear Sweden AB on Thursday, May 24, 2018. Anyone who has had shares registered through a nominee must temporarily register the shares in their own name to be able to attend the Annual General Meeting. This should be done in good time before this date.

### Notification

Shareholders who wish to attend the Annual General Meeting must notify the Company by one of the following alternatives:

- by post to:  
AAK AB  
Annual General Meeting  
C/o Euroclear Sweden AB  
Box 191  
101 23 Stockholm, Sweden
- by telephone: +46 (0)8-4029045  
or via the website at [www.aak.com](http://www.aak.com) as soon as possible and no later than 4 p.m. on Thursday, May 24, 2018.

In the notification, the shareholder must specify his or her name, address, phone number, personal or corporate identity number and shareholding. For shareholders who are represented by proxies, the original proxy form must be sent with the notification. Anyone representing a legal entity must show a copy of the certificate of incorporation or equivalent authorization documents showing they are an authorized signatory.

### Notice of Annual General Meeting

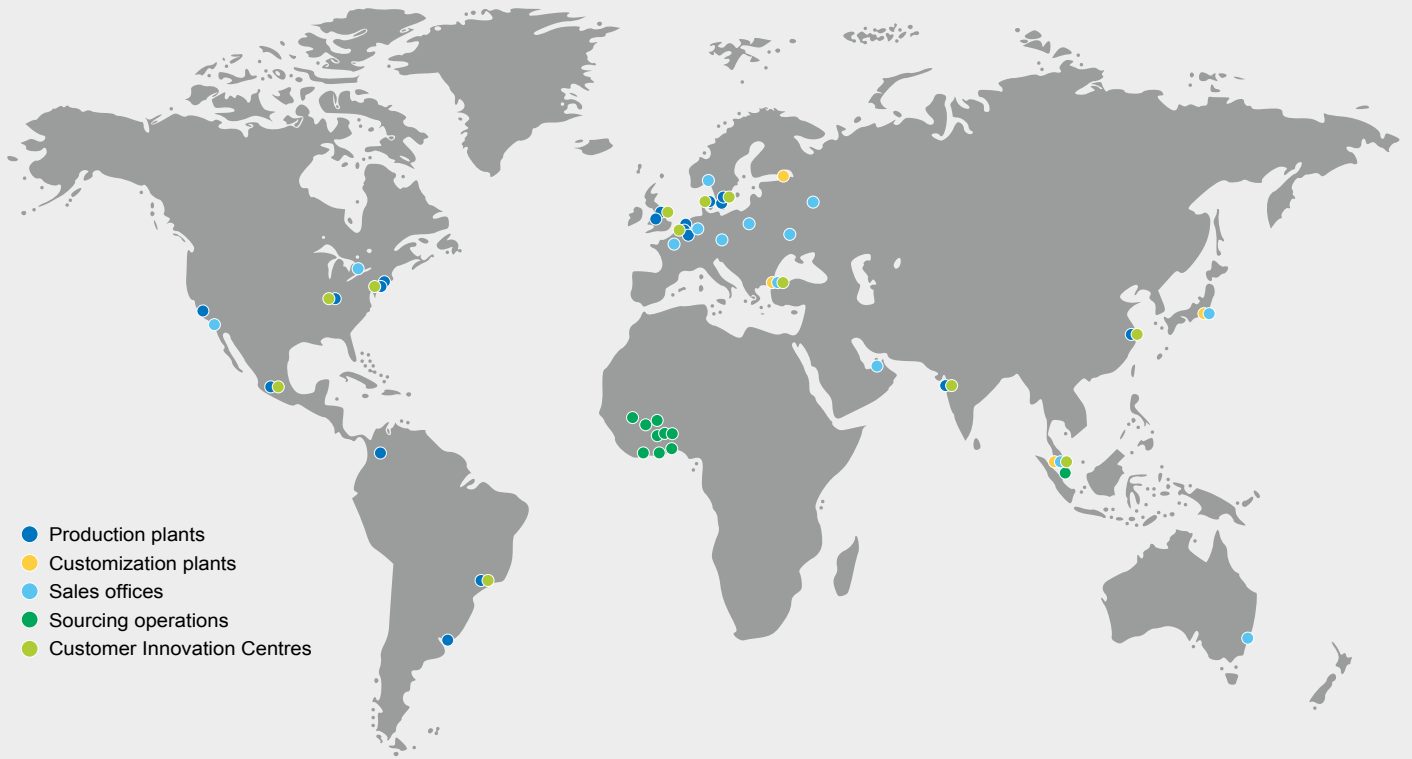
Notice of the Annual General Meeting is published in Post- och Inrikes Tidningar and on the Company's website, including a full agenda. An advertisement regarding the Annual General Meeting being convened will be published in Svenska Dagbladet.

## Address

AAK AB (publ.)  
Skrivaregatan 9  
215 32 Malmö, Sweden  
Telephone: +46 (0)40 627 83 00  
Fax: +46 (0)40 627 83 11  
Email: [info@aak.com](mailto:info@aak.com)  
[www.aak.com](http://www.aak.com)  
Corporate identity no. 556669-2850

For further information, please visit our website at [www.aak.com](http://www.aak.com)

This document is a translation of the Swedish language version. In the event of any discrepancies between the translation and the original Swedish AAK Annual Report 2017, the latter shall prevail.



# We are AAK

AAK is a leading provider of value-adding vegetable oils & fats. Our expertise in lipid technology within foods and special nutrition applications, our wide range of raw materials and our broad process capabilities enable us to develop innovative and value-adding solutions across many industries – Chocolate & Confectionery, Bakery, Dairy, Special Nutrition, Foodservice, Personal Care, and more.

AAK's proven expertise is based on more than 140 years of experience within oils & fats. Our unique co-development approach brings our customers' skills and know-how together with our own capabilities and mindset for lasting results.

Listed on the NASDAQ OMX Stockholm and with our headquarters in Malmö, Sweden, AAK has 20 different production facilities, sales offices in more than 25 countries and more than 3,300 employees.



We are AAK – The Co-Development Company.

