



Driving  
customer value  
through  
co-development

Annual Report  
2018

**AAK**



# Contents

AAK at a glance.....	2
2018 in brief.....	4
Comments by Johan Westman, President and CEO.....	6
A vision that drives customer value.....	8
Delivering innovation through collaboration.....	9
Fat facts.....	10
A broad range of raw materials.....	11
AAK's business model.....	12
The AAK Way.....	14
AAK's three business areas.....	18
Sustainable growth.....	29
Investing in people for future growth.....	32
Risks and risk management.....	34
Corporate governance and financial information.....	36
Comments from the Chairman of the Board.....	38
Directors' report.....	39
Board of Directors.....	44
Executive Committee.....	46
The AAK share.....	48
Reasons to invest in AAK.....	50
Comments by Fredrik Nilsson, CFO.....	51
Financial statements.....	52
Notes.....	64
Corporate governance report.....	107
Auditor's report.....	117
Financial calendar and Annual General Meeting.....	122
Financial definitions.....	123



President and CEO, p. 6



Innovation at AAK, p. 9



Sustainable growth, p. 29



## AAK at a glance

We develop and provide value-adding vegetable oil solutions in close collaboration with our customers, enabling them to achieve long-lasting business results. We do so through our in-depth expertise in oils & fats, working with a wide range of raw materials and broad process capabilities.

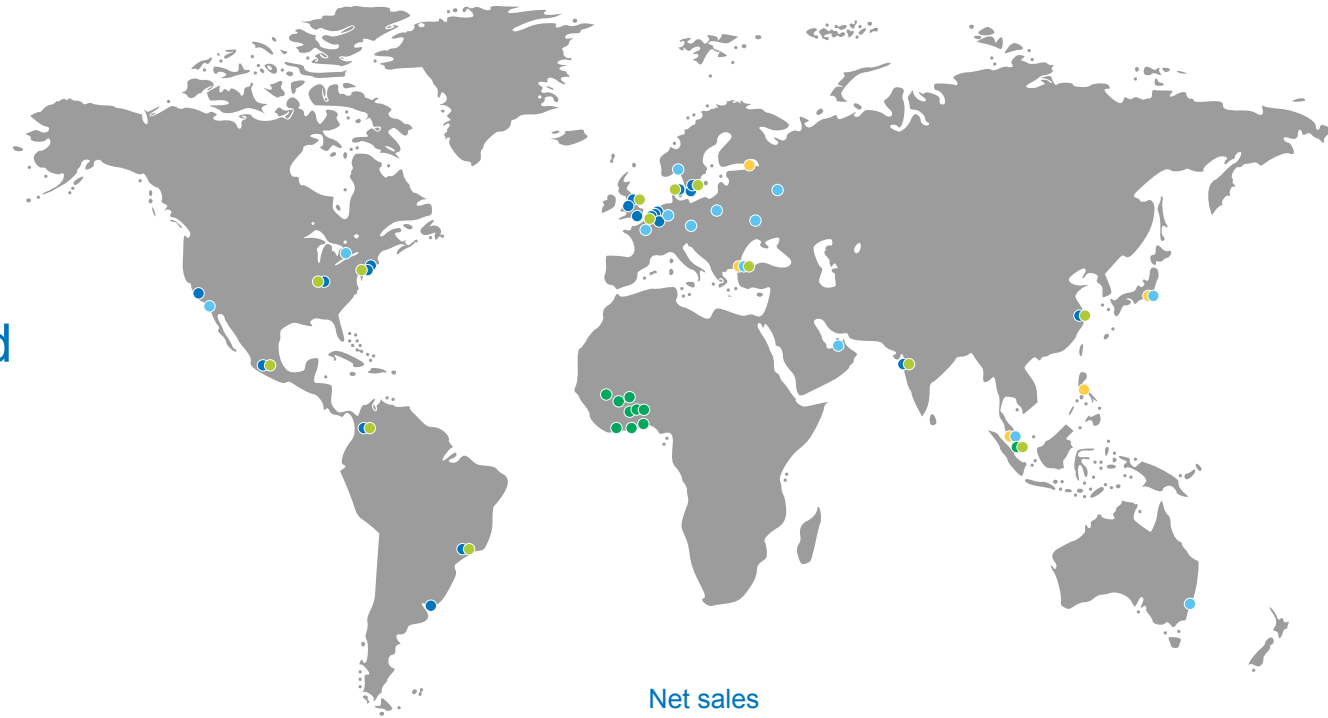
Through our unique co-development approach, we bring together our customers' skills and know-how with our capabilities and mindset. By doing so, we solve customer-specific needs across many industries – Chocolate & Confectionery, Bakery, Dairy, Special Nutrition, Foodservice, Personal Care, and more.

AAK's proven expertise is based on more than 140 years of experience within oils & fats. With our headquarters in Malmö, Sweden, we have more than 20 production facilities and customization plants, and sales offices in more than 25 countries. Our more than 3,600 employees are dedicated to providing innovative value-adding solutions to our customers.

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

## AAK in the world

- Production sites
- Customization sites
- Sales offices
- Sourcing operations
- Customer Innovation Centres



## Three business areas

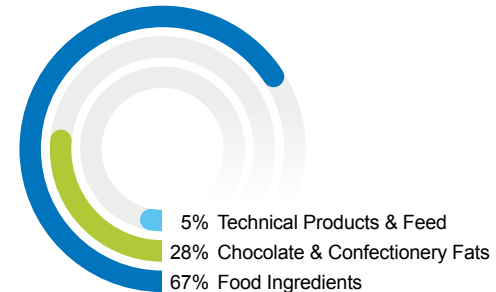
**Food Ingredients** is our largest business area.

It primarily offers solutions to the bakery, dairy, foodservice and special nutrition industries.

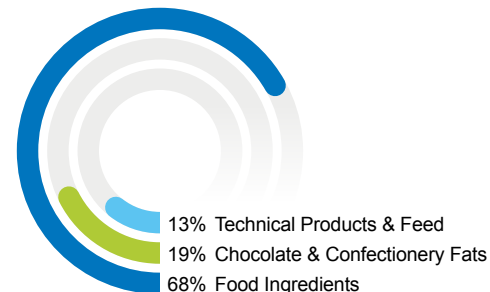
**Chocolate & Confectionery Fats** offers functional cocoa butter alternatives for chocolate, compounds for coating and molding, and speciality fats for confectionery fillings.

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

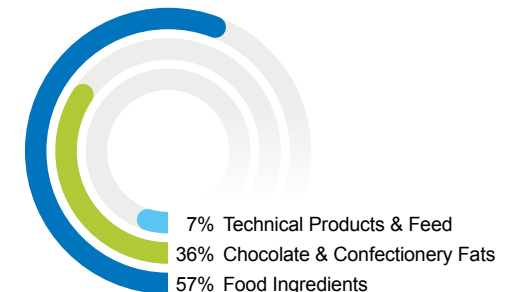
Net sales



Volumes



Operating profit



## 2018 in brief

Operational key figures (SEK million unless otherwise stated)	2014	2015	2016	2017	2018
Volumes, thousand tons	1,703	1,833	1,966	2,129	<b>2,239</b>
Net sales	17,814	20,114	22,057	26,436	<b>27,592</b>
Adjusted operating profit (EBIT)*	1,242	1,411	1,615	1,786	<b>1,956</b>
Operating profit	1,262	1,409	1,615	1,786	<b>1,956</b>
Operating profit per kilo, SEK	0.74	0.77	0.82	0.84	<b>0.87</b>
Cash flow from operating activities	692	1,736	1,213	1,099	<b>1,090</b>
Earnings per share, SEK**	3.53	3.70	3.95	4.71	<b>5.21</b>
Equity per share, SEK**	23.09	26.13	29.65	30.21	<b>35.11</b>
Dividend per share, SEK**	1.13	1.29	1.46	1.63	<b>1.85***</b>
Return on Capital Employed, R12M, %	16.0	15.7	15.8	15.6	<b>15.8</b>

\* Adjusted for non-recurring items and acquisition costs

\*\* Share data recalculated in accordance with the decided share split (6:1) by the Annual General Meeting on May 30, 2018

\*\*\* In accordance with the Board of Directors' proposal

For financial definitions, please see page 123.

- ◆ In January, we officially opened a new Customer Innovation Center in Hull, UK. The center comprises a large test bakery, a state-of-the-art demonstration kitchen, and conference and office facilities. In February, another Customer Innovation Center, focused on co-developing products and solutions within Retail and Foodservice, was inaugurated in Runcorn, UK.
- ◆ In May, Johan Westman assumed his role as President and CEO. 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 its base in Valley City, Ohio, USA.
- ◆ To strengthen our position in yet another important Asian market, we invested in a customization plant in the Philippines at the end of May (picture to the right).
- ◆ For the Annual General Meeting in May, the Nomination Committee of AAK AB proposed new election of Georg Brunstam as Chairman of the Board. The Annual General Meeting resolved in accordance with the proposal. It also resolved upon a share split (6:1) which came into effect in mid-June.
- ◆ In June, we signed an exclusive agent and distributor agreement with Food Specialities Limited (FSL), the leading food and beverage ingredient supplier in the GCC (Gulf Cooperation Council) region.
- ◆ In August, Terry Thomas, President USA, retired from AAK after nearly five and half years with the company. Octavio Díaz de León, President North Latin America, has taken over the responsibility for our US organization and continues to be responsible for North Latin America as well.
- ◆ In September, we inaugurated our new Customer Innovation Center in Singapore. The center will further strengthen our capabilities and customer co-development approach in the Southeast Asian market.
- ◆ In November, AAK established an MTN program (Medium Term Note) with a framework amount of SEK 4,000 million. The following month, the company issued a senior unsecured bond for a total of SEK 1.1 billion with a tenor of three years.



President and CEO:

# A strong year with organic volume and profit growth

My first year as President and CEO for AAK has been a very exciting and stimulating time. I have traveled quite extensively, and I have had many informative and interesting encounters with colleagues, customers, shareholders and other stakeholders.

Aside from visiting our many production facilities, I have also spent some memorable and inspiring time with our sourcing operations in West Africa and Southeast Asia. Wherever I have come, I have been warmly welcomed by professional, highly motivated, and passionate colleagues with great dedication for our customers and our co-development approach.

AAK is a very well-managed company with strong regional leadership and I am extremely proud and privileged to be part of this team. There is no doubt that we have all the prerequisites to continue to be successful.

## Solid financial performance despite challenges

2018 has been another year of strong financial performance. We continue to grow faster than the market and there has been organic volume growth as well as profit growth for all three business areas. Operating profit for the year reached SEK 1,956 million, which, compared to 2017, was an improvement of 10 percent, in line with our ambition.

Raw material yields have been lower than normal within business area Chocolate & Confectionery Fats and we have seen a greater demand for some of our high-end products compared to our capacity.

To mitigate the situation, we have made significant investments to remove bottlenecks and to support current and future volume growth of high-end products. We have also strengthened our sourcing operations in West Africa. The capacity is expected to increase during the later part of 2019 as our investments are implemented.

## Key strategic achievements

Our strategic company program The AAK Way, now in its final year, has seen some good progress and important results during 2018. To further expand our geographic footprint, we have invested in a customization plant in the Philippines. We have also signed an exclusive agent and distributor agreement in the GCC (Gulf Cooperation Council) region. In addition, we have opened new Customer Innovation Centers in Tokyo, Singapore and the UK which will further strengthen our co-development approach in these important regions.

We have furthermore expanded our capacities and production capabilities. For example, through our joint venture AAK Kamani in India we have made important investments, and we have also completed significant upgrades of our production facilities in Louisville, USA.

Other important milestones include our customer survey, reaching out to more than 2,000 customers globally. While confirming our unique customer co-development approach, the survey results also gave us valuable input to further improve our customer value

proposition. To become a “truly customer-centric” company and to further develop the customer experience, we have also continued to train and educate our dedicated sales and customer innovation organization.

During 2019, we will not only conclude The AAK Way in the best possible way, we will also start to plan for our next strategic company program.

## Recognized sustainability work

Sustainability is a fundamental and strategically important driver for our business and during the past year we have seen strong results within all of our CSR focus areas.

Our efforts to continuously improve our sustainability work were recognized in early 2019 when Corporate Knights Inc., after analyzing some 7,500 companies, ranked AAK among the 100 Most Sustainable Corporations in the world. For more information on our efforts within sustainability, please refer to our sustainability report.

## Expansion and continued growth

The growth journey that AAK has experienced over the last years is no doubt impressive and going forward we will continue to build upon the solid foundation that we have created. We remain focused on profitable sustainable growth, organically as well as through strategic mergers and acquisitions.



To further increase our geographic footprint, to broaden our product portfolio to relevant and adjacent markets, and to continue to invest in our production facilities and our people will be key focus areas during the next couple of years.

I would like to take the opportunity to thank our customers, shareholders, the Board of Directors, our dedicated management team and all talented and passionate AAK colleagues for your valuable contributions during the past year.

There are many reasons for us to be optimistic about the future. We have a determined, passionate and very competent organization; world population and urbanization are increasing; and we are supported by strong global megatrends and key drivers such as health, sustainability, personalization, flexitarian diets, and convenience. Taking all these factors into account, we are very well positioned to continue to grow our business in a successful way.

Johan Westman, President and CEO





# A vision that drives customer value

AAK solves challenges and creates opportunities with lasting value through tailored vegetable oils and fats solutions. Through our unique co-development approach, customers can depend upon us to support their needs and help realize their goals.

To achieve this, we have set our standards as high as possible. After more than 140 years, we have the expertise and capabilities to make a positive impact to our customers' business, to the industries we serve, to our employees and stakeholders – and to the future of our planet.

## Our vision

Our vision is simple: to be the industry's first choice for value-adding vegetable oil solutions. This goal is made possible by the attributes that form the foundation of our approach:

We succeed when we add real value to a customer's process and business. We go above and beyond to create opportunities and solve challenges through our unique co-development approach and our in-depth understanding of customer needs. This enables customers to explore and leverage every opportunity from idea generation to launch, generating results that last for years.

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

We aspire to be the first choice for businesses looking for innovative, cost-effective and sustainable vegetable oil solutions. Just as importantly, this ambition applies to all other stakeholders, such as our employees, partners, suppliers and shareholders. We achieve this through our competitiveness, our consistently high-quality standards and our innovation.

We know vegetable oils better than anyone else. This isn't only about developing superior products; it is about creating superior solutions. This is made possible through a unique multi-oil/multi-process approach and personalized services that encompass everything from consultation and customization to technical support and a faster time-to-market.

# Delivering innovation through collaboration

At AAK, innovation means sustainable growth for us and our customers. By constantly exploring new ideas, new raw materials and new technologies, we are able to co-develop unique solutions that open the door to a wealth of opportunities. It is what makes working with AAK different.

## Deep market insight

Our solutions are never a success unless they add tangible, long-term value to our customers. Through our co-development approach, we start by gaining deep insights into the drivers behind market demand, as well as the challenges they present. This gives us a powerful framework to ensure each solution is exactly in line with the customer's specific requirements.

## Value at every stage

When it comes to creating a new solution, our global network of Customer Innovation Centers is home to many of the best engineering and technical minds in the business. We work in close collaboration with our customers' own teams and experts to bring the best resources into play at every stage. This allows us to make sure that value is created throughout the process until the final solution is ready for launch.

AAK's approach to innovation offers significant advantages that help customers to be more competitive and build market share. This is not only through safer, more

cost-efficient processing or a more sustainable supply, but also through superior products with a better sensory experience, better nutritional profile or that tap into the latest consumer trend.

## Breaking new ground

Innovation at AAK has been strong over 2018 and thanks to the proximity of our Customer Innovation Centers to our customer base, we have seen positive results virtually every day. For example, our focus on heat stability in chocolate has added many benefits to our customers' supply chains by optimizing both processes and ingredients. We have also created a range of flavored frying oils for snack production and more sustainable solutions for the plant-based food industry.

## Innovation for the future

Looking forward, we will continue to use market insights and technical excellence to deliver outstanding solutions, which will enable even greater cooperation with customers. In addition, we are also exploring better ways to optimize our solutions for all plant-based segments. Our vision is to find new ways to combine these solutions with others in an open development process, allowing our joint knowledge and competencies to give birth to many new and exciting possibilities.





## Fat facts

As humans, we simply cannot live without fat. Found in every cell in the body, it is essential for producing certain hormones and provides a wide range of other important functions, including:

- ◆ The body's ability to absorb vitamins A, D, E and K is dependent on the presence of fat.
- ◆ Fat is a very important provider of energy (providing 37 kJ/g) and the most energy-dense part of our diet. It is recommended that approximately 30 percent of our daily intake comes from fat, equal to 60–90 grams for adults.
- ◆ Essential fatty acids are precursors to a number of bioactive components which are required for the human body to function.

There are several different types of fat, which are typically divided into four main groups:

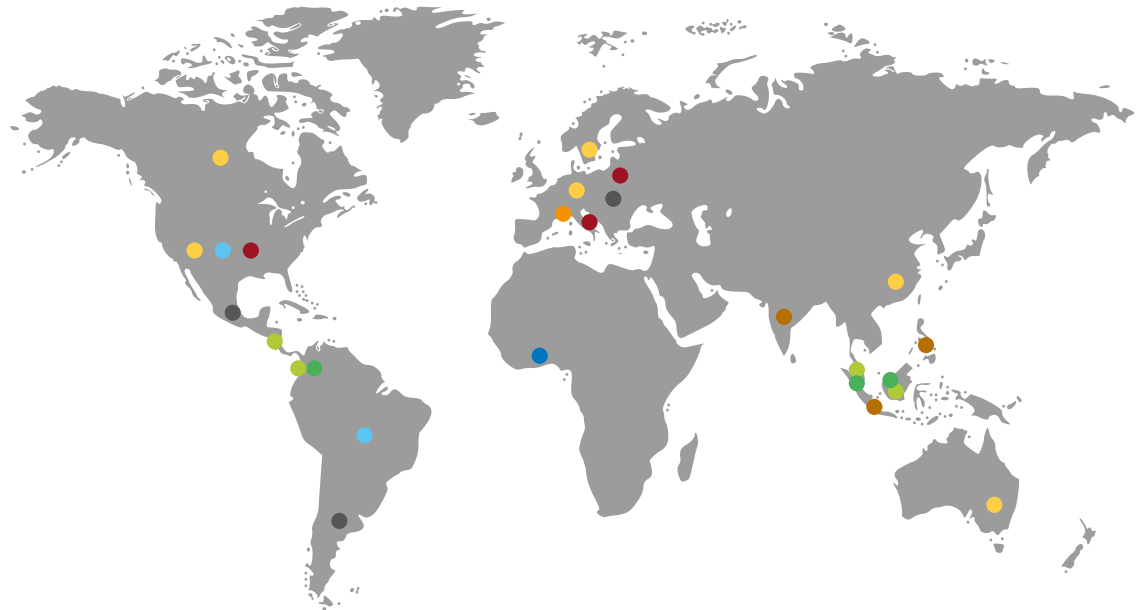
- ◆ **Saturated fat** – found in animal products such as butter, cream, milk, meat and vegetable oils from tropical plants (coconut and palm). Characterized by the ability to remain solid at room temperature.

- ◆ **Monounsaturated fat** – found in almonds, olive oil, rapeseed oil and other vegetable oils. Suitable for cooking, being more heat-stable than polyunsaturated fat.
- ◆ **Polyunsaturated fat** – found in most liquid vegetable oils, for example sunflower and soy bean oil, and, to some extent, in oily fish such as salmon, mackerel, herring and sardines. Polyunsaturated fats are further categorized as omega-3 and omega-6 polyunsaturated fats.
- ◆ **Trans fat** – a particular form of unsaturated fat. Occurs naturally in milk and fat from ruminants, but are also formed when vegetable fat is partially hydrogenated.

Unsaturated fats have a positive (decreasing) effect on blood cholesterol while saturated fats increase all cholesterol, LDL (“bad” cholesterol) as well as HDL. Trans fats, on the other hand, only increase the level of LDL cholesterol and at AAK, we have been developing ways to reduce the majority of industrially-produced trans fats in our products.

# Broad range of raw materials

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



Rapeseed oil/Canola oil



Northern and Central Europe, Canada, United States, Australia, and China

Palm oil



Asia and Central and South America

Palm kernel oil



Asia and South America

Coconut oil



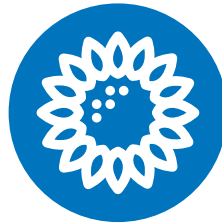
Indonesia, the Philippines and India

Soya bean oil



United States and South America

Sunflower oil



Eastern Europe, Mexico and Argentina

Shea kernels



West Africa

Corn oil



America and Eastern and Southern Europe

Olive oil



Southern Europe



## A business model focused on collaboration, value and growth

**Our industry has changed tremendously since AAK first started helping customers to improve and accelerate product development. Consequently, our business model has also evolved to ensure AAK continues to deliver ever more effective solutions that drive sustainable growth.**

Today, our core business is to provide value-adding vegetable oil solutions to the food, confectionery and cosmetics industries. Customers worldwide rely on our expertise, experience and innovation to deliver lasting business value in markets shaped by shifting consumer trends.

While this inevitably creates challenges to overcome, it also gives way to exciting new ideas and potential. We continuously refine our business model to ensure customers can leverage these developments and turn them into growth opportunities. This model is built around the following key attributes:

### Co-Development creates value

One of AAK's greatest strengths is our unique co-development approach. This was born from our strong relationships with customers, where we could bring the most value by working proactively in close collaboration to deliver value-adding results at every stage. This methodology enables us to work as an efficient team from idea to launch, drawing upon the right expertise at the right time to create solutions with better ideation, faster development times and more effective implementation.



### One size does not fit all

We understand that customers come with their own unique challenges, and therefore require customized solutions to get the results they need to stay competitive. To this end, our multi-oil and multi-process approach gives us an unmatched capability to provide products tailored to specific needs, while our worldwide network of Customer Innovation Centers and production facilities enables us to act effectively as both a local and global partner.

### Exceptional multi-functional solutions

We make products with excellent nutritional and functional value, with outstanding structure, melting and crystallization behavior, rheological properties, flavor release and skin penetration. This enables us to meet specific customer requirements for improved health profile, taste, processing, logistics, labeling and legal requirements. In every case, our technical and commercial experts work closely with customers to identify the optimal solution.

### A focus on health

Many customer demands are inspired by consumer health trends. This is an area we take very seriously, not least to support a customer's product development strategy. Here our expertise has enabled us to maintain high product functionality while reducing the majority of saturated fat solutions, believed to increase the risk of cardiovascular disease.

### Driving down costs

At AAK, we are constantly striving to reduce raw materials and processing costs, but never at the expense of our own high-quality standards. By finding new ways to operate more efficiently, we can help customers strengthen their bottom-line results. We see this as vital to help maintain their growth and development, especially as we work in a highly competitive market where retailers continue to challenge food manufacturers.

### Sustainability is about future growth

Sustainable growth is a cornerstone of our company. For us, it is about taking responsibility towards all our key stakeholders, including the local communities where we operate, customers, employees, investors, and suppliers. The foundation of our model for sustainable growth incorporates the ten principles of the UN Global Compact, the UN's Sustainable Development Goals, and our own policies and codes. This ensures our company maintains the sound business ethics we are known for, as well as a profound understanding of our responsibility for safeguarding customer brands.

# The AAK Way

Our company program The AAK Way was launched in January 2017 and will guide us through 2019. After two very exciting years with the development and implementation of the program, we have seen important achievements across the globe within many functions. This has created a strong foundation going into the final year of the program during which there will be focus on continued execution and harvesting of program initiatives.

The AAK Way 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 us 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. During 2018, we conducted a Global Customer Survey which will guide us in further strengthening our way of selling and our unique customer co-development approach, as well as enhance the customer experience and increase customer loyalty.

## 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. This is enabled by further strengthening our supporting tools and processes.

## 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: Special Nutrition (including Infant, Medical and Senior Nutrition), Dairy (including the plant-based dairy industry), as well as an increased focus on Foodservice.

## 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 when developing new market-driven 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 and invest in leadership development.



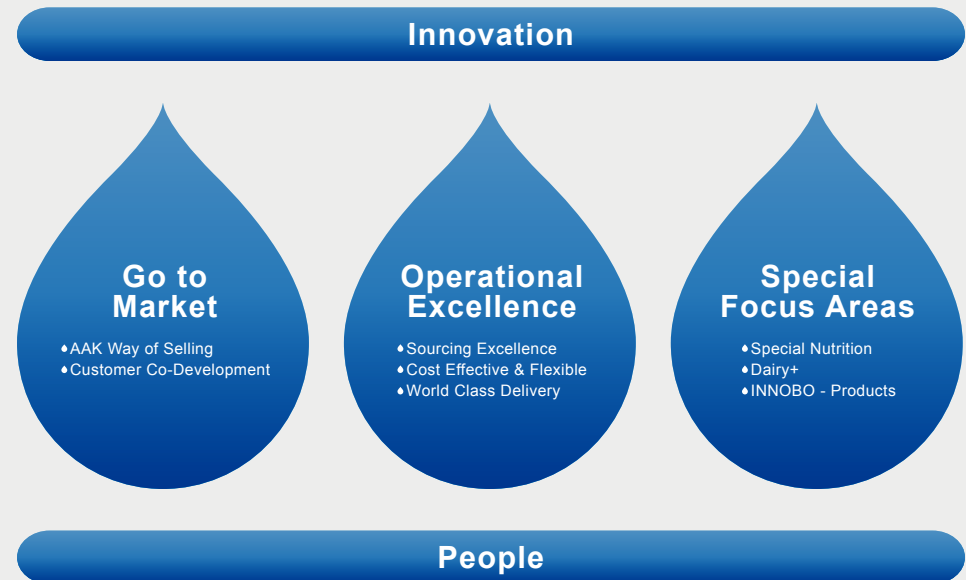
# The AAK Way



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

Two years after launch the program is developing according to plan. We look forward to the final year of execution of The AAK Way to create even more value for our customers and other stakeholders.



# Special Nutrition as a formula for growth

**Since diversifying the Special Nutrition portfolio two years ago, AAK now creates tailor-made solutions for a broader range of segments. Karel Stoschek, President Special Nutrition, outlines how the segment is showing significant growth, with plans in place to expand into new markets.**

## What does Special Nutrition involve?

AAK provides tailor-made speciality lipids solutions for Infant, Medical and Senior Nutrition. Our broad product range helps to improve nutritional intake and health for people of all ages, worldwide.

## Why is Special Nutrition a focus area for AAK?

AAK has a very strong position within Infant Nutrition globally. Two years ago, we decided to broaden our scope, as we saw Senior and Medical Nutrition as areas where our expertise could generate new business opportunities. We now have a broad and balanced portfolio for nutrition applications.

## What are the trends driving this market?

The global megatrends of health, trust, sustainability, premiumization, and personalization are all important drivers for our Special Nutrition segments.

## How do you help customers understand and tap into these trends?

AAK's co-development approach enables us to work very closely with our customers to create new products and solutions together. An important part of this involves close analysis and ideation around these trends and other market demands. We bring deep insight into these areas on a global scale, which customers find invaluable, especially in the vital early stages of the process.

## How has Special Nutrition performed over 2018?

We have continued to grow faster than the market during 2018.

## What new products and solutions have been developed during this time?

AAK is unlike other providers in that all our products are tailor-made to meet specific customer needs; this forms an important aspect to our unique co-development approach. Our Customer Innovation team has been extremely successful in developing new products for customers worldwide within each of our sub-segment. Additionally, we are also now recognized as a global leader in controlling contaminants in Special Nutrition products.

## What are the growth opportunities for AAK within this market?

These are very exciting times. At AAK, we are exploring new avenues where we can support customers in a wider range of nutrition segments, for example Adult Nutrition and Sports Nutrition. There is also a demand within Infant Nutrition for speciality products, such as organic, allergic or premium. The Chinese market for Infant Nutrition continues to show great growth potential.

## How does AAK intend to help shape the future of Special Nutrition?

We are at the forefront of nutrition development and are constantly working to create new ingredients that will help customers to break into new markets with new concepts or improve their existing products. The clinical data we amass during this process will also help us to be more competitive in the development of ever more innovative solutions.



Karel Stoschek  
President Special Nutrition



# Dairy+ – for dairy and plant-based solutions

**Dairy+, including the general dairy and ice cream segments as well as the plant-based dairy segment, continues to be a high-potential focus area, delivering great results for AAK as well as for our customers. Here we speak to Henning Villadsen, Business Development Director Dairy, to get his opinions and insights into this exciting and dynamic market.**

## Why is Dairy+ a focus area for AAK?

Vegetable oils and fats offer a wealth of untapped potential for the general dairy and ice cream industries, especially within sub-industries such as cheese, yellow fats, whipped toppings, and ice cream. We also see the plant-based dairy segment as an extremely interesting growth opportunity with double-digit growth rates and a perfect fit with our plant-based expertise and heritage.

## What are the trends driving this market?

Consumers today want healthier and more sustainable products. Flexitarianism is on the rise, with “Generation Z” and “Millennials” adding more plant-based foods into their diet. These people understand that what they eat has an impact on their well-being as well as the future of the planet. We are now also seeing older generations switching to plant-based foods, although they focus more on replacing animal-originating foods with a plant-based alternative.

## How do you help customers understand and tap into these trends?

Through our co-development approach, we work closely with our customers to understand their needs and to keep our solutions in line with our own market and consumer insights. This is essential to create value-adding end products that deliver great taste experiences as well as many other benefits around our six value drivers: sustainability, health, sensory, functionality, cost efficiency, and food safety.

## How has AAK performed over 2018 within Dairy+?

It has been an extremely good year for Dairy+ with double-digit growth, both in terms of volumes and operating profit. All regions, North Latin America and Europe in particular, have contributed with positive results.

## Which new products and solutions have been developed during this time?

Our Customer Innovation teams have developed some outstanding plant-based solutions, which have repeatedly shown our ability to help customers increase consumer brand loyalty and market share. 2018 was a record year for results from our Customer Innovation organization.

## What are the growth opportunities for AAK within this market?


In only two years, Dairy+ has proved our potential for growth, with opportunities within plant-based dairy exceeding initial estimations. This potential is widely recognized and reported; every day plant-based activities are hitting the headlines with more and more consumers embracing this way of living. Hard market data also confirms the double-digit growth within all plant-based dairy segments.

## How will AAK help to shape the future of this market?

Over 2019, we will continue to execute our successful strategy. We intend to put even more focus on our plant-based activities, which over the coming year will be supported by many different market initiatives that build upon our strong plant-based heritage.



Henning Villadsen  
Business Development Director Dairy



Business area  
Food Ingredients

---

## 2018 – a record year for Food Ingredients

Food Ingredients is our largest business area and primarily provides solutions to the bakery, dairy, special nutrition, and foodservice industries. 2018 has been a record year, both in terms of volumes and operating profit, and there has been an increasing demand for speciality and semi-speciality products.

	2014	2015	2016	2017	2018
Volumes, thousand tons	1,117	1,258	1,325	1,447	<b>1,508</b>
Net sales, SEK million	11,509	13,556	14,707	17,665	<b>18,468</b>
Operating profit, SEK million	803	903	996	1,107	<b>1,205</b>
Operating profit per kilo, SEK	0.72	0.72	0.75	0.77	<b>0.80</b>

### Bakery

By providing solutions to both new and existing customers, our Bakery segment reported organic volume growth during 2018. Our bakery strategy is in full execution with strong leadership, enabling us to exchange best practices and grow as a truly global business.

### Solutions

AAK solutions include dairy fat alternatives, shortenings, laminating fats, margarines, flaked shortenings, melanges, and many other tailor-made products that meet customer requirements for sensory, functionality and process efficiency.

### Trends

Some of the major bakery trends are sugar and calorie reduction, low saturated fats, waste reduction, and shelf-life extension. In addition, consumers demand more and more healthy and sustainable solutions.

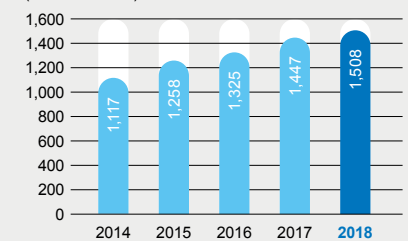
### New products

There have been several new customer-specific products created through our co-development approach, among them solutions that help customers meet market demand, such as sugar reduction.

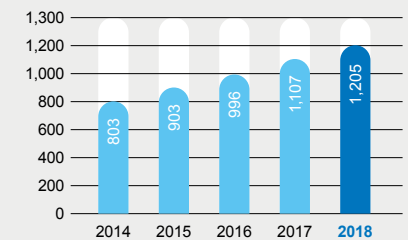
### Future growth

Demand is growing worldwide, especially in Asia, while volume growth is more limited in Europe and the US. In these mature markets we see a greater need for more advanced and complex solutions. Plant-based is a trend that will affect Bakery and with our experience and customer base, we are well placed to provide truly plant-based bakery products.

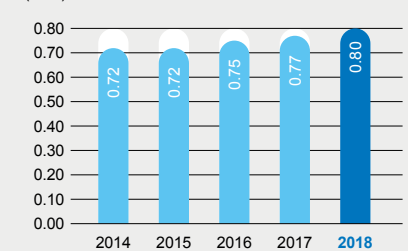
Volumes  
(68% of Group total)  
(Thousand tons)



Operating profit  
(57% of Group total)  
(SEK million)



Operating profit per kilo  
(SEK)





### Dairy

Compared to 2017, Dairy reported double-digit growth, both in terms of volumes and operating profit. All regions, North Latin America and Europe in particular, contributed with positive results.

#### *Solutions*

We provide the whole dairy and ice cream segment with solutions from cheese, whipped toppings and yellow fats to fermented milk products, milk drink & powder, and coffee whitener.

#### *Trends*

The main trends within healthy and sustainable solutions are more plant-based choices, flexitarianism, and plant-based alternatives to animal-originating foods.

#### *New products*

2018 was a record year for our Customer Innovation team in creating outstanding customer-specific solutions which have helped customers to grow their consumer base.

#### *Future growth*

Plant-based dairy opportunities have been proven to exceed initial estimates as more consumers include plant-based alternatives in their diets. Hard market data confirms the double-digit growth within all plant-based dairy segments. In 2019, we will continue our Dairy+ strategy, putting even more focus on plant-based activities.

### Special Nutrition

During 2018, Special Nutrition has been an important growth driver for AAK, with particularly strong growth for our high-end solutions within Infant Nutrition.

#### *Solutions*

AAK provides tailor-made speciality lipids solutions for Infant, Senior, and Medical Nutrition.

#### *Trends*

The global megatrends that are driving AAK's Special Nutrition segments are health, trust, sustainability, premiumization, and personalization.

#### *New products*

Through our co-development approach, the Customer Innovation team has developed a variety of new products around the world for all three sub-segments within Special Nutrition.

#### *Future growth*

AAK is continuing to grow in the wider nutrition area. We are now exploring further opportunities in new segments, for example Adult Nutrition and Sports Nutrition.

## Foodservice

2018 was a stable year for Foodservice. The Nordics reported a good year-over-year profit growth.

### *Solutions*

AAK Foodservice produces over 500 different frying oils, speciality oils, condiments, sauces, dressings, and ingredients for the commercial caterer.

### *Trends*

The main trends are more customization (faster, quicker and better), health and wellness, veganism, gluten-free, new flavors, technology and delivery, and sustainable solutions.

### *New products*

We constantly develop new products in close cooperation with our customers. As a result, a wealth of new and on-trend products has been co-developed and taken to market in 2018. We have, for example, launched a new vegan mayonnaise into several markets.

### *Future growth*

The market is in steady growth as consumer behavior is changing and as their propensity to eat out is on the rise. We see a high interest in the above-mentioned trends, especially veganism, where we will continue to provide customized solutions for customer needs.





Business area  
Chocolate & Confectionery Fats

## Continued growth and high demand

Chocolate & Confectionery Fats primarily serves customers in the chocolate confectionery and caramel, toffee and nougat segments. The market in 2018 was characterized by a strong demand for our chocolate and confectionery solutions. For some solutions demand was even higher than our capacity as we experienced volatility in raw material yields.



	2014	2015	2016	2017	2018
Volumes, thousand tons	314	312	367	404	430
Net sales, SEK million	4,891	5,315	6,117	7,354	7,611
Operating profit, SEK million	460	553	664	735	747
Operating profit per kilo, SEK	1.46	1.77	1.81	1.82	1.74

### Solutions

Our solutions within Chocolate & Confectionery Fats continue to cover a wide range of product applications, including chocolate fats and compound fats for coating and molding, filling fats, barrier fats and spreads.

### Trends

Some of the major global trends are individualization, consciousness, premiumization, lifestyles and seamless experience. In the course of 2018, we have launched our new trend presentation which was very well received by our customers globally.

### New products

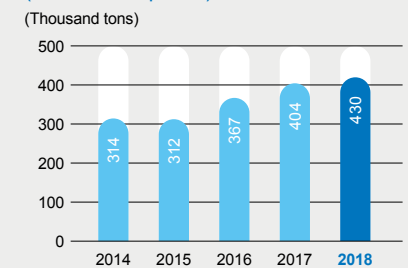
During the year, we have launched a global filling fats campaign. Our tailor-made filling fats give our customers great opportunities to work with new

characteristics, flavors and textures, and enable them to create pralines, truffles, bars, filled tablets, nougat, and wafer fillings for consumers constantly on the lookout for new chocolate products that are tastier, healthier and more natural. The campaign has resulted in a significantly increased demand from both existing and new customers.

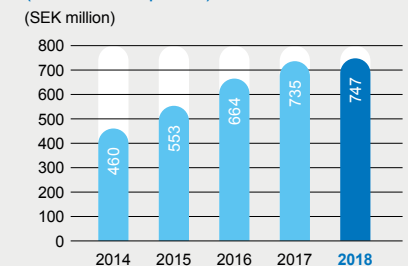
### Future growth

According to Euromonitor, the global chocolate and confectionery market is expected to grow with 2–3 percent per year, with higher numbers predicted for emerging markets. With new products and solutions driven by our co-development approach, we are well positioned to grow with and above the market.

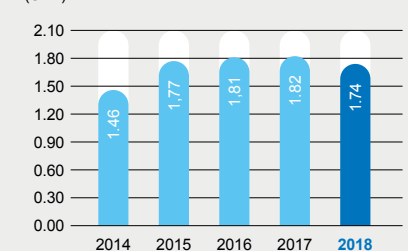
Volumes  
(19% of Group total)



Operating profit  
(36% of Group total)



Operating profit per kilo  
(SEK)





## Personal Care

# 30 years of continued success

AAK applies its technical know-how and expertise in the development of high-performing, functional emollients for the cosmetics industry. 2018 marked our 30th anniversary, having initially started in 1988 to develop customized solutions for cosmetic giant L'Oréal. Today, we serve all customer categories, from local niche brands to multinational brand leaders.

### *Solutions*

Our plant-derived emollients, distinct from synthetic, animal or fossil-based raw materials, are primarily used for skin care applications, including face care, body care, baby care, and sun care; but are also used in hair care, make-up, deodorants and wet wipes. Our product range is appreciated for the moisturizing properties and sensory attributes it brings to final cosmetic formulations.

### *Trends*

Macrotrends supporting the continued global volume and value growth of the industry include a growing population, an increasing spending power in emerging markets, and an aging, active, health-oriented and appearance-focused population (female and male) in mature western economies. The increased demand for natural ingredients is driven by the growing concern and awareness of the health of our body and planet.

### *New products*

The cosmetics industry is constantly looking for new textures or ingredients giving a surprising skin feel. In response to this, our Lipex SMP was launched in April 2018. The product's transition from solid to liquid takes place within a very narrow temperature range, which means that this solid product melts immediately upon skin contact. This gives a "cooling skin feel" which is very appealing in aftershave, after sun and other skin-soothing products.

### *Future growth*

Though the cosmetics industry is global, it continues to be the mature western markets (Europe and North America) that consume the majority of plant-based emollients. This is due to these regions being the biggest manufacturers and consumers of skin care products and having the biggest consumer demand for natural alternatives. China and Brazil are expected to follow suit as their markets mature.



# A unique raw material for AAK

For millions of people in West Africa, shea is an essential crop – both as a nutrition source and as a source of income. But it's also a vital and unique raw material for AAK as we, in close collaboration with our customers, develop tailor-made solutions for the chocolate and confectionery and cosmetics industries.

## Shea – a sustainable crop

The shea tree is a wild tree growing in the shea belt, across Africa south of the Sahara. Countries with the highest population of shea trees, which are indigenous to Africa, include Benin, Burkina Faso, Ghana, Ivory Coast, Mali, and Togo.

Shea is a very sustainable crop. The trees on which shea kernels grow require no use of fertilizers or pesticides.

Traditionally, it is women who collect and process shea kernels. Part of the shea crop is sold, providing an important source of income. The women not only spend money earned to alleviate poverty and hunger, they also invest in their children's education and other income-generating activities.

## Market leader in the shea industry

AAK has more than 60 years of experience sourcing shea kernels from West Africa. Working in close cooperation with shea traders and women's groups, we have built a solid and durable sourcing set-up across the shea production areas. In 2018, AAK's supply chain in Benin and its production site in Aarhus, Denmark passed the ISCC (International Sustainability & Carbon Certification) audit and received certification for the third time.

The traditional supply chain for shea is long and complex, with many middlemen between AAK and the women in the bush. Many of these middlemen have a logistics function moving kernels from the rural areas to the bigger towns. It's a well-functioning supply chain, providing an income to millions of people in West Africa.

As market leader in the shea industry, we have, through our direct sourcing program Kolo Nafaso in Burkina Faso and Ghana, taken responsibility and engaged directly with more than 130,000 women producers of shea kernels.





Business area  
Technical Products & Feed

---

## **Strong growth in specialized markets**

AAK provides a growing range of specialized solutions for the technical products and feed industries. Over 2018, both segments have shown strong volume and profit growth driven by, respectively, an improved product mix and a more reliable production.

	2014	2015	2016	2017	2018
Volumes, thousand tons	268	263	274	278	301
Net sales, SEK million	1,324	1,243	1,233	1,417	1,513
Operating profit, SEK million	89	88	100	84	155
Operating profit per kilo, SEK	0.33	0.33	0.36	0.30	0.51

#### Tefac – industrial applications

AAK's business for industrial applications, Tefac, has developed well over 2018, delivering strong growth. This is mainly due to a continued improved product mix within the fatty acids business.

#### Solutions

AAK offers fatty acids and glycerine that are produced by splitting the fat molecule and refining the outcome into value-adding solutions for various technical products.

#### Trends

Over 2018, we have seen an increase in demand for high-end products and sustainable products.

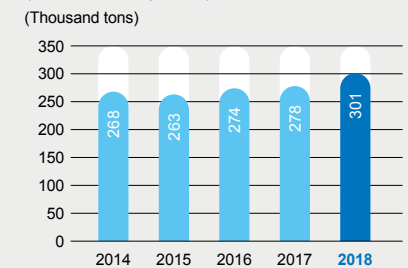
#### New products

To ensure we can offer a complete product portfolio, we have developed a new product range for candle wax applications, which is proving very popular among new and existing customers.

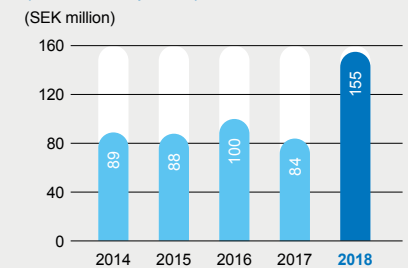
#### Future growth

AAK has historically provided a wide range of products for candle applications. With our newly expanded product portfolio for candle wax applications, we will focus on developing further opportunities in the European market.

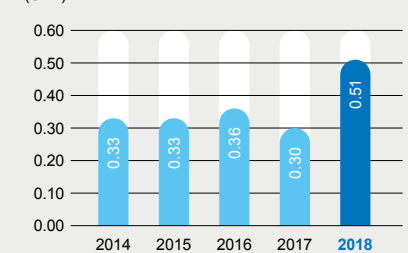
#### Volumes (13% of Group total)



#### Operating profit (7% of Group total)



#### Operating profit per kilo (SEK)





### Feed

2018 has been one of our best years ever and we have now had continuous growth since 2015. Both the Feed business and our crusher have seen an increase in operating profit. We also managed to sell out the extra capacity which was created for ExPro®.

### Solutions

AAK supplies ExPro®, a rapeseed meal, which is exposed to a special heat treatment process to improve the protein quality for ruminants. ExPro® is a perfect soybean meal replacer. We also supply by-pass fats, which are used in dairy cattle feeds to increase milk yield, as well as simple liquid fats.

### Trends

With farms increasingly producing their own feeds, demand is turning to more concentrated feed products. These require smaller volumes of higher quality, containing more protein and more energy. In addition, we are seeing more customers turning to non-GMO feeds.

### New products

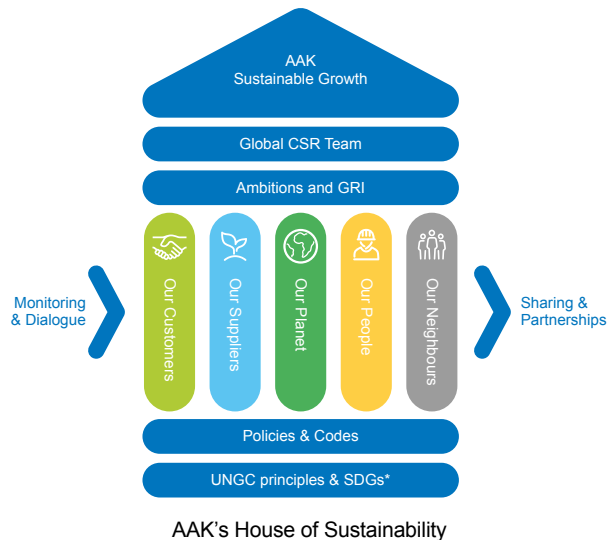
We have developed a new by-pass fat based on rapeseed and shea fatty acids for the Norwegian market.

### Future growth

We aim to grow with ExPro® in non-GMO feeds and with by-pass fats. The most interesting opportunities are in Sweden's neighboring countries where our market share is low. We will also reach out to other regions in AAK to investigate possibilities for increased cooperation in order to help introduce new products to our portfolio, for example equine nutrition.

# Sustainable growth – part of our DNA

**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. During 2018, our House of Sustainability has guided us to continued strong progress within the sustainability area. Our work has not gone unnoticed and in early 2019, Corporate Knights Inc. ranked AAK among the 100 most sustainable corporations in the world.**



## 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 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, we recognize that businesses play an important role in that process and we have included the SDGs in our model. Many of our activities support the specific targets of the 17 SDGs.

## Policies and codes

AAK's sustainability policies and codes are based on the UNGC and our own principles, and implemented globally for all our 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, aak.com.



### Five focus areas

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

The five focus areas are: Our Customers, Our Suppliers, Our Planet, Our People, and Our Neighbours.

#### Our Customers

Our Customers covers all areas in which we interact 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.



#### Our Suppliers

This area covers activities related to the sourcing of raw materials that we use. Sustainable sourcing is the backbone of AAK’s business and a key element in our strategy. To obtain the right raw materials is essential but we place equal emphasis on how they are produced. For this reason, we have implemented a Code of Conduct for Suppliers of Raw Materials that applies to all actors in the supply chain back to the origin of the raw materials.



#### Our People

This focus area is about working life at AAK – how to remain an attractive workplace and assure a healthy and safe workplace. Our employees are our most important resource. AAK is a diverse company with employees from many parts of the world and with many different job functions. Common to every employee is our values and our Code of Conduct. These govern the way our business is conducted and how employees interact with each other and AAK’s stakeholders.



#### Our Planet

Our Planet covers our 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 product even though our stronger focus on more refined products drives a higher degree of processing. Over the years, we have been able to improve within areas such as GHG emissions, water consumption and waste treatment.



#### Our Neighbours

This focus area covers activities that we initiate and engage in – be they local, regional, national or international – to be a part of and act responsibly in society. Contributing to and being part of the communities in which we operate are essential for maintaining a positive relationship with neighbours, politicians and authorities. Through a commitment to community causes, AAK is also instrumental in creating a workplace with highly motivated employees who are proud of representing a company that makes a noticeable difference.





### Sustainability ambitions and GRI

To maintain momentum and drive improvement, we define ambitions within each of the five focus areas. Achievements and future ambitions are publicly available in our Sustainability Report. Further, based on the Global Reporting Initiative Standards, we globally monitor indicators that are material to our stakeholders and ourselves.

Strong smallholder projects in our different supply chains, continued direct engagement with more than 134,000 shea-collecting women in West Africa, and a continued strong track record within our resource efficiency are some of the key achievements during 2018 – achievements that also contribute to the SDGs.

### Global CSR team

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

### Knowledge 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 comes alive. Specifically, we offer to share ethical information with customers via the Sedex platform.

The UN Global Compact encourages companies to engage in partnerships to tackle global challenges more effectively. We strongly believe that this will allow you to accomplish more than you would on your own. Partnering with other businesses, NGOs and governmental agencies are ways to accomplish more. AAK is participating in or partnering with, for example, RSPO (Roundtable on Sustainable Palm Oil), GSA (Global Shea Alliance) and Proforest.

### Monitoring and dialogue

Our sustainability approach is not static but rather adjusted 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 sustainability 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 sustainability achievements, initiatives and ambitions, please refer to our annual Sustainability Report.





# Investing in people for future growth

**We strive to be an attractive employer with a high-performance organization, built on strongly-aligned values with an increasing number of people carrying AAK forward.**

Our People strategy, part of our company program The AAK Way, is at the heart of AAK's ambitions towards people development. Since it was started in 2017, it has given rise to a broad variety of initiatives and programs that have been pivotal to its success. Not only has this delivered very positive results internally and helped to promote an AAK "family" culture across our production plants and offices, but it is proving to contribute significantly towards the value we create for customers.

## **A more unified business**

The strategy focuses on four key areas: Revitalize our company values, AAK leadership, Engaged and skillful people, and Organization for future growth. These are directed towards creating a unified business committed to delivering excellence and growth for AAK and our customers. By implementing what AAK stands for through the attitude and development of our employees, we can elevate our business by strengthening loyalty, fostering innovation and delivering a more passionate, customer-centric service.

## **Co-developing people**

Just as co-development plays a vital role in the success of our customer relationships, it is also a driving force behind our People strategy. To this end, the HR department works closely with team leaders in every AAK segment to ensure the right people are recruited and given the best possible support and opportunities for development. Not only does this help to improve the quality of service we provide through a more skilled and focused workforce, but it helps us to maintain our high employee retention rate.

## **A successful year**

2018 has been a busy year, involving many initiatives designed to support our People strategy. These have included the continued implementation of the AAK leadership model as well as a series of workforce planning, talent management and succession planning programs. We have also implemented a remuneration benchmark tool globally to ensure that we provide salary and benefits in line with local market praxis. We have improved our performance management system to be more employee driven with the purpose to increase empowerment and accountability, and we are developing online training and e-learning courses.

We have also been focusing on our Global Trainee Program. This is where trainees are recruited into "real" jobs from day one that are aligned with a structured 12-month program designed to accelerate a number of attributes, namely:

- ◆ Operational and commercial understanding of our business
- ◆ Personal and professional development of self, others, and business
- ◆ Application of technical knowledge in role
- ◆ International exposure to develop and grow a strong global network
- ◆ Fast-track progress on a career pathway

Since the program was launched in 2012, we have recruited more than 50 trainees and currently have nine on our 2018–2019 program.

#### Planning for the future

Looking ahead towards 2019 and beyond, we will continue to progress our existing initiatives and to develop on-the-job training with local, cross-functional projects. Our online training program is in its early stages and shows great potential, and plans are in place for a new Employee Engagement Survey.

We also aim to develop our employer branding. We want to evolve our position as “the best kept secret” to being “the employer of choice” within the industry through a more proactive and systematic approach to the job market. At AAK, we have much to be proud of – and we want to make sure this message is heard far and wide to help attract even more of the best minds in the business.



**3,609**

Number of employees globally  
(as of December 31, 2018)



**9.1 years**

The average time of  
employment



**Employee  
distribution by region**

Europe: 39%  
Americas: 32%  
Asia/Pacific: 21%  
Africa: 8%



**0.6**

Lost Time Injury Rate (LTIR) –  
the number of work injuries that  
result in one or more days of  
sick leave per 200,000 working  
hours (production sites)

# Risks and risk management

**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 and purchased in foreign currencies. This exposes us to significant currency and raw material price risks.

We have a strategy of active risk management and 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 far away 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 have 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 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 also involve risks such as trade barriers, inflation, environmental and health-related legislation, and changes in national or regional legislation, e.g. the introduction of protective tariffs and taxes, which prevent AAK from operating in a free market.

## 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 value. These include confectionery products and cosmetics, as well as value-adding ingredients for the bakery, dairy and infant nutrition industries.

#### Health trends

We are able to adapt our product range quickly to the latest trends in the health debate. This is mainly because we work with all types of vegetable oils and can reformulate our products to meet customer needs. We focus strongly on 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.





Corporate  
governance  
and financial  
information

WORLD **BUSINESS**

B3

# Contents

Comments from the Chairman of the Board.....	38
Directors' Report.....	39
Board of Directors.....	44
Executive Committee.....	46
The AAK share .....	48
Reasons to invest in AAK .....	50
Comments by Fredrik Nilsson, CFO.....	51
Consolidated Income Statement .....	52
Consolidated Statement of Comprehensive Income .....	53
Consolidated Balance Sheet .....	54
Consolidated Changes in Shareholders' Equity .....	56
Consolidated Cash Flow Statement .....	57
Income Statement – Parent Company .....	58
Statement of Comprehensive Income – Parent Company .....	59
Balance Sheet – Parent Company .....	60
Changes in Shareholders' Equity – Parent Company .....	62
Cash Flow Statement – Parent Company .....	63
Notes .....	64
Alternative Performance Measures .....	104
Corporate Governance Report .....	107
Auditor's report .....	117
Financial calendar and Annual General Meeting.....	122
Financial definitions.....	123

All amounts are denominated in SEK million unless otherwise stated.



Chairman of the Board, p. 38



The AAK share, p. 48



Corporate Governance Report, p.107



Chairman of the Board:

## Profitable growth through customer co-development and globalization

My first year as Chairman of the Board for AAK has come to an end and it is a great pleasure for me to see that we are continuing our path of profitable growth. Although new to this AAK role, I have followed the company closely for a long time and I hope that my experience of profitable organic and acquisitive growth will be of great value to both AAK and its shareholders.

### Corporate governance

For AAK to achieve profitable and sustainable growth and gain market share within its field are goals that characterize all discussions and decisions by the Board and all operations in the organization. But on our way to these goals, it is just as important that our decision-making processes and our division of responsibilities comply with relevant rules and regulations and with the company's business principles. With this report we aim to illustrate our effective and clear corporate governance and show that we always work in the best interests of our shareholders.

### Continued investments

During the past year AAK has, in close collaboration with its customers, continued to develop innovative and tailor-made vegetable oils solutions. With yet another year of strong financial performance, continued investments and strategic agreements in fast-growing markets, and with the opening of several new customer innovation centers throughout the world, the company

has manifested its position as a leader within the world of speciality vegetable oils and fats. With a clear ambition of further accelerating growth through an increased focus on mergers and acquisitions, I look upon the future of AAK with great excitement.

### Encouraging CSR work

As sustainable and ethical considerations are critical for food manufacturers and consumers alike, it is very encouraging to see AAK's broad and determined work within Corporate Social Responsibility. We have continuous progress within many different areas but one that has caught my attention in particular is AAK's tremendous work in West Africa for a more sustainable and efficient shea supply chain. What started out as a project ten years ago is today an integrated and successful AAK program involving more than 130,000 shea-collecting women in Burkina Faso and Ghana.

On behalf of the Board of Directors, I would like to thank AAK's very accomplished management team and dedicated and hard-working employees around the organization for their contributions during 2018. Your efforts and achievements have further strengthened AAK and put the company in a very good position for years to come.

Georg Brunstam, Chairman of the Board



# Directors' report

For the financial year January 1 – December 31, 2018

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, 2018.

## Performance and financial position

- Net sales increased by SEK 1,156 million to SEK 27,592 million (26,436). There was an underlying growth in sales due to a positive product mix, organic volume growth, and a positive currency translation impact of SEK 149 million. Organic volume growth was 5 percent (5), primarily due to a strong demand for speciality and semi-speciality products.
- Operating profit was record-high and reached SEK 1,956 million (1,786), an improvement of 10 percent. The currency translation impact was SEK 22 million. Operating profit at fixed foreign exchange rates improved by 8 percent. Food Ingredients reported a strong improvement by 9 percent and Technical Products & Feed had a very strong year with an improvement by 85 percent. Chocolate & Confectionery Fats had a more challenging year and reported a 2 percent improvement compared to last year.

- Operating profit per kilo reached SEK 0.87 (0.84). At fixed foreign exchange rates operating profit per kilo increased by 3 percent.
- The Group's profit after financial items amounted to SEK 1,829 million (1,666). Net financial items amounted to negative SEK 127 million (negative 120), an increase of SEK 7 million. The higher financial expenses are due to increased borrowings in high interest rate countries and increased interest rates in a few markets, mainly Turkey.
- The equity/assets ratio was 50 percent as at December 31, 2018 (46 percent as at December 31, 2017). Consolidated net debt as at December 31, 2018 was SEK 2,667 million (2,666 as at December 31, 2017). On December 31, 2018, the Group had total credit facilities of approximately SEK 6,339 million.
- Operating cash flow including changes in working capital amounted to SEK 1,090 million (1,099). Cash flow from working capital was negative, amounting to SEK 555 million (negative 388). A modest increase in raw material prices during the third quarter 2017 impacted cash flow from working capital negatively during the first part of 2018 while lower raw material prices had a favorable impact during the latter part of the year. Continued organic volume growth during the year has resulted in an outflow of cash flow from working capital.

Cash outflow from investing activities amounted to SEK 723 million (810). Capital expenditures were mainly related to regular maintenance investments and capacity increases in several regions.

- Calculated on a rolling 12 months basis, Return on Capital Employed (ROCE) was 15.8 percent (15.6 at December 31, 2017). The increased operating profit was partly offset by higher working capital during the first part of 2018. At the balance sheet date, ROCE was 15.5 percent (15.9).
- Earnings per share were SEK 5.21 (4.71), an increase of 11 percent. The increase in operating profit was partly offset by higher financial costs and a one-off tax income in 2017 related to the US tax reform (TCJA).
- The proposed dividend amounts to SEK 1.85 (1.63), an increase of SEK 0.22 or 13 percent.

The Company's largest business area, Food Ingredients, reported a record-high operating profit of SEK 1,205 million (1,107), an increase of 9 percent. The operating profit per kilo increased by 4 percent to SEK 0.80 (0.77). The Bakery segment continued its positive trend. The product mix continued to improve with a greater proportion of customer co-developed solutions. The long-term growth trend within Dairy continued and the segment once again reported good organic volume growth. All regions showed good growth except

the Nordics which experienced decreased volumes of low-end semi-speciality products. Special Nutrition continued to grow organically and the positive trend within Infant, Medical and Senior Nutrition continued. Foodservice had a stable year.

Chocolate & Confectionery Fats reported an improvement in operating profit of 2 percent to SEK 747 million (735). Production capacity, compared to demand, remains stretched for certain high-end products. We continue to make investments to remove bottlenecks and strengthen our supply chain in order to support current and future volume growth of high-end products.

Volatility in raw material yields continue to give lower output and higher production costs. This has, however, to some extent been offset by the price development on high-end products being slightly positive during the second half of 2018. Volumes increased by 6 percent. Operating profit per kilo decreased from SEK 1.82 to SEK 1.74 as a consequence of the yield challenge.

Operating profit for AAK's smallest business area, Technical Products & Feed, increased by 85 percent from SEK 84 million to SEK 155 million. This was due to an improved and extraordinarily favorable product mix in our fatty acids business, volume growth in both our feed and fatty acids businesses, and a good performance in our crushing operation.

## 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 geographic 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.

## Company management

In November 2017, the Board of AAK AB appointed Johan Westman as CEO and President of AAK AB. He was previously 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 SEK 9 billion in revenues.

Johan has nearly 20 years of industrial experience in management consulting and the automotive industry. He was CEO and President 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 began his role as CEO and President on May 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 CEO*

We offer plant-based, healthy, high value-adding oils and fats solutions by using our customer co-development approach. In addition, we see favorable underlying trends in the food industry. Thus, we continue to remain prudently optimistic about the future.

#### [Nomination Committee](#)

For the 2019 Annual General Meeting, the Nomination Committee has proposed re-election of Georg Brunstam, Gun Nilsson, Bengt Baron, Lillie Li Valeur, Märta Schörling Andreen and Marianne Kirkegaard as Board members. In total, the Nomination Committee represents approximately 42 percent of the shares and votes in AAK as at December 31, 2018.

*AAK's Nomination Committee for the 2019 Annual General Meeting consists of:*

- Märta Schörling Andreen (Chair), Melker Schörling AB
- Lars-Åke Bokenberger, AMF Fonder
- Henrik Didner, Didner & Gerge Fonder
- Leif Törnvall (Alecta)

#### *Share capital and shareholder structure*

The total number of shares in AAK as of December 31, 2018 was 253,730,934. 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 has a shareholding which represents at least one-tenth of the number of votes of all shares in AAK. Melker Schörling AB's shareholding as at December 31, 2018 amounted to 31.8 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 on page 49.

#### [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 2018 Annual General Meeting. No deviations from these guidelines have been made. The Board of Directors of AAK proposes that the 2019 Annual General Meeting resolve that the same guidelines for remuneration of senior executives be applied in 2019 as in 2018. 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 18–28.

### 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 and risk management on pages 34–35 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 107–115 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 pages 108–110.

### 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 2018 amounted to SEK 119 million (97). The profit after financial items amounted to SEK 2,211 million (negative 11). Interest-bearing liabilities minus cash and cash equivalents and interest-bearing assets totalled a positive of SEK 1,710 million (negative 1,440 as of December 31, 2017). Investments in intangible and tangible assets amounted to SEK 6 million (3). The Parent had a total of 37 (36) employees on December 31, 2018.

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

### Background to and motivation of the proposed dividend

The objective for the dividend in the long term is to correspond to 30–50 percent of consolidated profits after tax, while always considering AAK's long-term financing requirements. During the last ten years, the

annual dividend has been between 32–37 percent of the net result. The Board of Directors has proposed that the 2019 Annual General Meeting approve an appropriation of profits under which the shareholders will receive a dividend of SEK 1.85 per share (36 percent of net profit). The proposed dividend therefore totals SEK 469 million. 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 3,075 million and the profit for the 2018 financial year is SEK 2,111 million (1,340 for the Group). Provided that the 2019 Annual General Meeting approves the Board's proposed appropriation of profits, a total of SEK 4,716 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 term, to meet all their obligations.

The proposed dividend represents a total of 8 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 76 percent and 48 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 May 17, 2019, and it is estimated that the dividend will be received by the shareholders on May 22, 2019.

#### Proposed appropriation of profits

The Board of Directors propose that	
The disposable profit brought forward	SEK 3,074,947,829
and profit/loss for the year	SEK 2,110,742,748
Total	SEK 5,185,690,577

be appropriated as follows:

To be distributed to shareholders, a dividend of SEK 1.85 per share	SEK 469,402,228 <sup>1)</sup>
To be carried forward	SEK 4,716,288,349
Total	SEK 5,185,690,577

<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 15, 2019 for adoption.

# Board of Directors



**Georg Brunstam**

Chairman of the Board of Directors

*Elected in:* 2018

*Born:* 1957

*Nationality:* Swedish

*Other board positions:* Chairman of the Board of Hexpol AB and Inwido AB. Board member of NIBE Industrier AB; Beckers Industrial Coatings Holding AB and Melker Schörling AB.

*Holdings in AAK:* 71,599 stock options, issued by Melker Schörling AB\*



**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:* 6,000 shares



**Bengt Baron**

Board member

*Elected in:* 2017

*Born:* 1962

*Nationality:* Swedish

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

*Holdings in AAK:* 6,000 shares



**Marianne Kirkegaard**

Board member

*Elected in:* 2015

*Born:* 1968

*Nationality:* Danish

*Other board positions:* Board member of Salling Group

*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

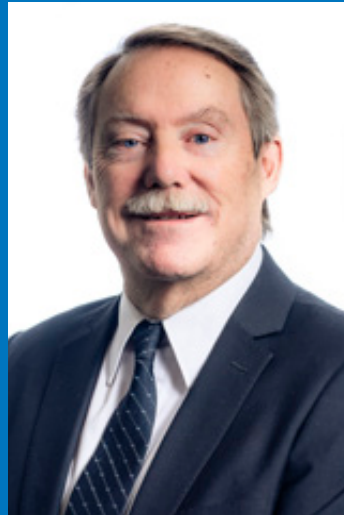
\* Each stock option entitles the option holder to buy six shares.

Members of the Board of Directors appointed by the employees



Lillie Li Valeur

Board member  
*Elected in:* 2013  
*Born:* 1970  
*Nationality:* Danish  
*Other board positions:* None  
*Holdings in AAK:* 3,000 shares



Leif Håkansson

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



Lena Nilsson

AAK Sweden AB  
Appointed by PTK-L  
*Elected in:* 2018  
*Born:* 1960  
*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



**Johan Westman**

President and CEO  
*Born:* 1973  
*Employed:* 2018  
*Nationality:* Swedish  
*Qualifications:* MSc. Industrial Engineering and Management  
*Holdings in AAK:* 105,000 stock options\*



**Fredrik Nilsson**

Chief Financial Officer (CFO).  
Head of Corporate Communications, Mergers & Acquisitions, and IT  
Vice President AAK AB  
*Born:* 1977  
*Employed:* 2007  
*Nationality:* Swedish  
*Qualifications:* MSc. Business Administration  
*Holdings in AAK:* 90,000 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:* 180,000 shares and 50,000 stock options\*



**Torben Friis Lange**

President AAK Asia, Global Sourcing & Trading  
Vice President AAK AB  
*Born:* 1963  
*Employed:* 2010  
*Nationality:* Danish  
*Qualifications:* BSc. Dairy Technology, Graduate Diploma in Business Administration  
*Holdings in AAK:* 90,000 shares and 50,000 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\*



**Octavio Díaz de León**

President AAK USA and North Latin America  
Vice President AAK AB  
*Born:* 1967  
*Employed:* 2007  
*Nationality:* Mexican  
*Qualifications:* MBA, BSc. Mechanical & Electrical Engineering  
*Holdings in AAK:* 240,000 shares and 10,000 stock options\*

\* Each stock option entitles the option holder to buy six shares.





**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, and Food Engineering

*Holdings in AAK:* 18,000 stock options\*



**David Smith**

President Global Operations

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 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 and Personal Care

Vice President AAK AB

*Born:* 1951

*Employed:* 2002

*Nationality:* Dutch

*Qualifications:* MSc. Food Technology

*Holdings in AAK:* 175,000 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:* 45,400 shares and 50,000 stock options\*

# 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 SE0011337708.

## Turnover and price trend

During 2018, 86.1 million (78.3) million shares were traded at a total value of SEK 11,437 million (8,083), which corresponds to a turnover rate of 34 percent (31). The average trade per trading day was 347,107 (312,042) shares or SEK 46 million (32). At the year-end, the price was SEK 122.70 (117.08) and AAK's market value was SEK 31,133 million (29,708). The highest price during the year was SEK 154.06 (September 28) and the lowest price was SEK 115.67 (January 2).

## Share capital

As at December 31, 2018, the share capital of AAK was SEK 422,884,890 (422,884,890). The number of shares was 253,730,934 (42,288,489). In June, the number of shares and votes in AAK AB (publ.) increased as a result of the share split (6:1) resolved upon by AAK AB's Annual General Meeting on May 30, 2018. The quota value per share was SEK 1.67. 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 11,820 (10,209) shareholders as at December 31, 2018.

## 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 Directors proposes a dividend for the 2018 financial year of SEK 1.85 (1.63) per share, a total of SEK 469 million (412).

## 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 2018, a capital market day was held in Blekinge, Sweden 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 – Alexandra Barganowski  
SEB Enskilda – Carl Mellerby  
Danske Bank – Oskar Lindström

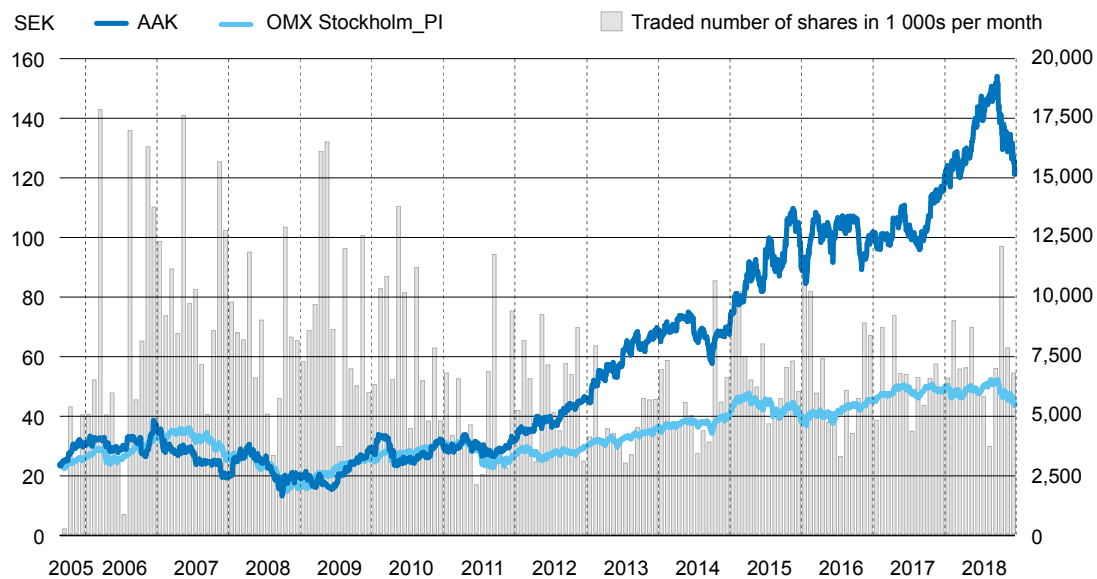
Financial information about AAK is available at [www.aak.com](http://www.aak.com), where financial reports, press releases and presentations can be obtained. The Company's press releases are distributed via Cision and are also available on the Company's website.

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  
Telephone: +46 (0)40-627 83 00  
Email: [fredrik.nilsson@aak.com](mailto:fredrik.nilsson@aak.com)

## The AAK share September 29, 2005 to December 31, 2018



Source: SIX Financial information

Major shareholders, December 28, 2018	No. of shares	Proportion of share capital and votes, %
Melker Schörling AB	80,579,694	31.8
Alecta Pensionsförsäkring	12,300,000	4.8
Swedbank Robur Fonder	10,910,404	4.3
AMF – Försäkring och Fonder	8,896,536	3.5
Didner & Gerge Fonder	8,839,946	3.5
Handelsbanken Fonder	6,842,000	2.7
State Street Bank and Trust Co, W9	6,541,318	2.6
SEB Investment Management	5,737,895	2.3
Kirkbi Invest A/S	4,853,272	1.9
NTC Various Fiduciary Capacit	3,752,151	1.5
Other shareholders	104,477,718	41.1
<b>Total</b>	<b>253,730,934</b>	<b>100.0</b>

Distribution of shareholdings, December 28, 2018	No. of shareholders	Proportion of all shareholders, %	Proportion of share capital and votes, %
1–500	6,174	52.2	0.3
501–1,000	1,770	15.0	0.5
1,001–5,000	2,626	22.2	2.2
5,001–10,000	582	4.9	1.5
10,001–15,000	197	1.7	1.0
15,001–20,000	63	0.5	0.4
20,001–	408	3.5	94.1
<b>Total</b>	<b>11,820</b>	<b>100.0</b>	<b>100.0</b>

Information per share	2018	2017
Share price, reporting date, SEK	122.70	117.08
Dividend, SEK	1.85	1.63
Direct yield, %	1.51	1.39
Earnings per share, SEK	5.21	4.71
Equity per share, SEK	35.11	30.21
Share price/Equity	3.49	3.88
Definitions, see page 123.		

# 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. With our recent greenfield investments and latest acquisitions in growth markets, we have strengthened our geographic 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 2018, 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 11 percent on average. Based on our high go-to-market activity (sales and customer innovation) and new product development, the very solid foundation we have built, our strong executive and local management, and our increased focus on mergers and acquisitions, we see no reason to lower that ambition.

## 3. Strong balance sheet supporting further growth

Despite considerable investments to strengthen our geographic footprint and expand our capacity, we have over recent years built a very strong balance sheet with

an improved equity ratio. Combined with long-term loan agreements and the establishment of an MTN program (Medium Term Note), this has created a solid foundation and a flexible alternative for further growth, both organically and through selective and strategic acquisitions.

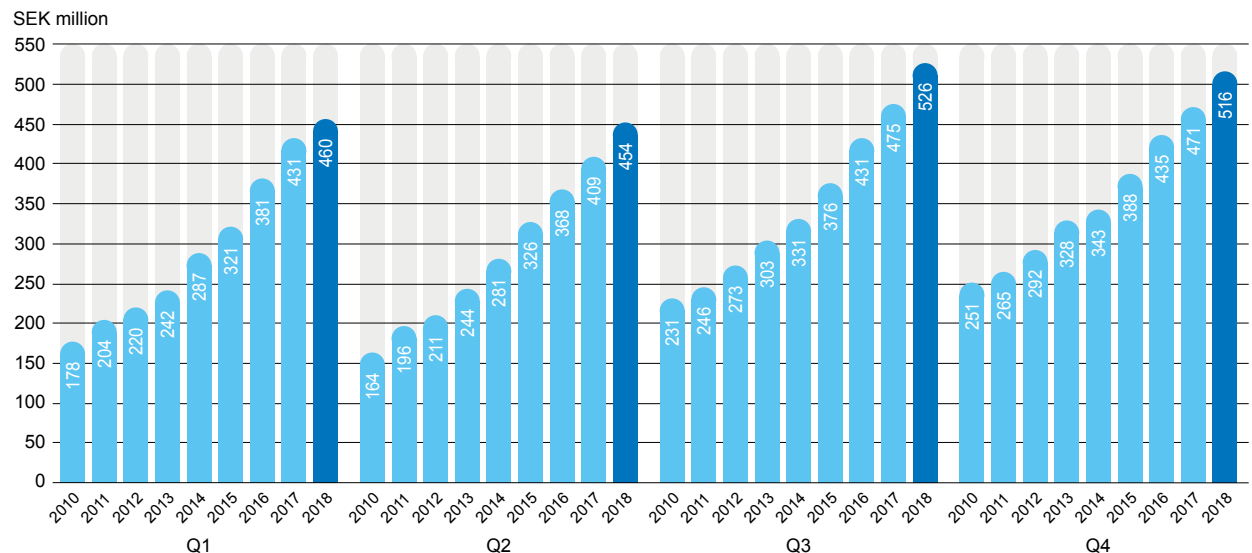
## 4. Very strong underlying megatrends – demography and technology

AAK is represented in regions where both population and urbanization are on the increase – demographic changes that present substantial market opportunities.

We see a growing middle class with a higher income and an increased spending power, and there is also a growing senior population as people live longer.

Technology is another significant growth driver. Today, everything is about sharing online. This is a good opportunity for strong brands to engage with consumers. AAK is, through our customer co-development approach, putting a lot of focus on the trends and global key drivers that affect the behavior of end consumers – indulgence, health, trust, personalization, and convenience.

## AAK's operating profit per quarter 2010–2018



CFO:

## Strong financial performance and gained market share

**2018 saw another record-high full-year result. How would you describe AAK's financial performance?**

I would describe it as very strong. Particularly considering the challenges we have had within Chocolate & Confectionery Fats where volatility in raw material yields has resulted in lower output and higher production costs.

The continued double-digit improvement in operating profit is in line with our management ambition, and we have now had 32 straight quarters with record-high operating profit quarter-over-quarter as well as a record-high full-year result every year since 2010.

The organic growth for our speciality and semi-speciality solutions continued during the year and with 5 percent organic growth we have no doubt gained market share.

**What is your comment on the cash flow?**

Despite growing at a fast pace and investing in more capacity to meet customer demand, we have had a positive cash flow after investment activities during both 2017 and 2018. We expect capital expenditure to be at a slightly higher level in 2019 compared to 2018.

Cash flow from working capital was negative in 2018. Good working capital management has impacted cash flow favorably. This was offset by a modest increase in raw material prices during the second half of 2017, impacting cash flow from working capital negatively

during the first part of 2018 while lower raw material prices had a favorable impact during the latter part of the year. Continued organic volume growth has also resulted in an outflow of cash flow from working capital.

We continue our focus on working capital days and further improvements should be possible, particularly relating to payment terms with our suppliers and late payments from some customers.

Linked to the company's long-term performance, we strive to pay a stable dividend. For the seventh year in a row we increased the dividend paid, totaling SEK 412 million or 35 percent of the consolidated profit after tax.

**How is capital allocated?**

We always try to maximize our ability to invest in growth and create a higher shareholder return. To ensure continued growth, we want to have a strong balance sheet and be well capitalized with a net debt/EBITDA ratio lower than 3. Our current ratio is 1.06.

At the end of 2018 we established an MTN program (Medium Term Note) with a framework amount of SEK 4,000 million. The program will diversify our existing sources of funding and give us a flexible alternative to current bank facilities.

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

Over the last years we have invested significant amounts in organic growth, built 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.

Fredrik Nilsson, CFO



# Consolidated Income Statement

SEK million	Note	Jan–Dec 2018	Jan–Dec 2017
Net sales	27	27,592	26,436
Other operating income	10	180	129
<b>Total operating income</b>		<b>27,772</b>	<b>26,565</b>
Raw materials and consumables and changes in inventories of finished goods and work in progress		-19,784	-19,024
Goods for resale		-939	-1,192
Other external expenses	5, 28	-2,462	-2,208
Employee benefits expenses	6, 7, 8, 9	-2,073	-1,862
Depreciation, amortization and impairment loss	15, 16	-552	-491
Other operating expenses		-6	-2
<b>Total operating expenses</b>		<b>-25,816</b>	<b>-24,779</b>
<b>Operating profit (EBIT)</b>		<b>1,956</b>	<b>1,786</b>
<b>Result from financial items</b>	11		
Financial income		28	24
Financial expenses		-155	-144
<b>Net financial items</b>		<b>-127</b>	<b>-120</b>
<b>Profit before tax</b>		<b>1,829</b>	<b>1,666</b>
Income tax	12	-489	-454
<b>Profit for the year</b>		<b>1,340</b>	<b>1,212</b>
<b>Attributable to:</b>			
Non-controlling interests		18	18
Parent company shareholders		1,322	1,194
Earnings per share attributable to Parent shareholders during the year before and after dilution (SEK per share)	13	5.21	4.71

# Consolidated Statement of Comprehensive Income

SEK million	Note	Jan–Dec 2018	Jan–Dec 2017
Profit for the period		1,340	1,212
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations	9	-28	-15
		<b>-28</b>	<b>-15</b>
Items that may subsequently be reclassified to profit or loss:			
Translation differences		362	-706
		<b>362</b>	<b>-706</b>
<b>Total comprehensive income for the period</b>		<b>1,674</b>	<b>491</b>
<b>Attributable to:</b>			
Non-controlling interests		18	16
Parent company shareholders		1,656	475

# Consolidated Balance Sheet

SEK million	Note	Dec 31, 2018	Dec 31, 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	15		
Goodwill		1,666	1,601
Patents and other intangible assets		333	349
		<b>1,999</b>	<b>1,950</b>
Property, plant and equipment	16		
Land and buildings		1,245	1,138
Plant and machinery		3,255	3,092
Equipment, tools and fixtures and fittings		229	181
Assets under construction		739	767
		<b>5,468</b>	<b>5,178</b>
Financial assets			
Shares in associates		12	14
Deferred tax assets	12	61	73
Other non-current receivables		18	26
		<b>91</b>	<b>113</b>
<b>Total non-current assets</b>		<b>7,558</b>	<b>7,241</b>
<b>Current assets</b>			
Inventories	18	4,705	4,656
Accounts receivable	3	3,441	3,210
Current tax assets	12	305	257
Other receivables		428	378
Derivative instruments	3	698	556
Prepaid expenses and accrued income		163	114
Cash and cash equivalents	19	737	480
<b>Total current assets</b>		<b>10,477</b>	<b>9,651</b>
<b>TOTAL ASSETS</b>		<b>18,035</b>	<b>16,892</b>



SEK million	Note	Dec 31, 2018	Dec 31, 2017
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>	20		
Share capital		423	423
Reserves		119	-243
Retained profit		8,366	7,484
<b>Equity attributable to Parent's shareholders</b>		<b>8,908</b>	<b>7,664</b>
Non-controlling interests		88	70
<b>Total equity</b>		<b>8,996</b>	<b>7,734</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing liabilities			
Liabilities to banks and credit institutions	21	2,551	2,354
Pension provisions	9	206	164
		<b>2,757</b>	<b>2,518</b>
Non-interest-bearing liabilities			
Deferred tax liabilities	12	490	437
Other non-current provisions	22	72	63
Other non-current liabilities		362	300
		<b>924</b>	<b>800</b>
<b>Total non-current liabilities</b>		<b>3,681</b>	<b>3,318</b>
<b>Current liabilities</b>			
Interest-bearing liabilities			
Liabilities to banks and credit institutions	21	661	628
Other current liabilities		7	5
		<b>668</b>	<b>633</b>
Non-interest-bearing liabilities			
Accounts payable	3	2,685	3,137
Current tax liabilities	12	393	389
Other current liabilities		249	209
Other current provisions	22	30	53
Derivative instruments	3	290	426
Accrued expenses and prepaid income	23	1,043	993
		<b>4,690</b>	<b>5,207</b>
<b>Total current liabilities</b>		<b>5,358</b>	<b>5,840</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>18,035</b>	<b>16,892</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, 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>

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, 2018</b>	<b>423</b>	<b>-243</b>	<b>7,484</b>	<b>70</b>	<b>7,734</b>
Profit for the year	-	-	1,322	18	1,340
Other comprehensive income	-	362	-28	-	334
<b>Comprehensive income</b>	<b>-</b>	<b>362</b>	<b>1,294</b>	<b>18</b>	<b>1,674</b>
<b>Transactions with shareholders</b>					
Dividend	-	-	-412	-	-412
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-412</b>	<b>-</b>	<b>-412</b>
Reclassification	-	-25	25	-	-
<b>Closing balance as at December 31, 2018</b>	<b>423</b>	<b>94</b>	<b>8,391</b>	<b>88</b>	<b>8,996</b>

For further information, see Note 20.

# Consolidated Cash Flow Statement

SEK million	Note	Jan–Dec 2018	Jan–Dec 2017
<b>OPERATING ACTIVITIES</b>			
Operating profit		1,956	1,786
Depreciation and amortization		552	491
Other non-cash items	29	-278	-263
<b>Cash flow before interest and tax</b>		<b>2,230</b>	<b>2,014</b>
Interest received and other financial income		26	25
Interest paid and other financial expenses		-128	-139
Tax paid		-483	-413
<b>Cash flow before changes in working capital</b>		<b>1,645</b>	<b>1,487</b>
Changes in inventory		63	21
Changes in accounts receivable		-208	-341
Changes in accounts payable		-538	-18
Changes in other working capital items		128	-50
<b>Changes in working capital</b>		<b>-555</b>	<b>-388</b>
<b>Cash flow from operating activities</b>		<b>1,090</b>	<b>1,099</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of intangible assets		-23	-37
Acquisition of property, plant and equipment		-702	-780
Proceeds from sale of property, plant and equipment		2	7
<b>Cash flow from investing activities</b>		<b>-723</b>	<b>-810</b>
<b>FINANCING ACTIVITIES</b>			
Loans raised	29	1,751	2,377
Amortization of loans	29	-1,462	-2,410
Dividends paid		-412	-370
Subscription warrants		-	37
<b>Cash flow from financing activities</b>		<b>-123</b>	<b>-366</b>
<b>Cash flow for the year</b>		<b>244</b>	<b>-77</b>
Cash and cash equivalents at beginning of year		480	586
Exchange rate difference for cash equivalents		13	-29
<b>Cash and cash equivalents at year-end</b>	19	<b>737</b>	<b>480</b>

# Income Statement – Parent Company

SEK million	Note	Jan–Dec 2018	Jan–Dec 2017
Net sales	26	119	97
Other operating income	10	0	0
<b>Total operating income</b>		<b>119</b>	<b>97</b>
Other external expenses	5	-105	-67
Personnel costs	6, 7, 8, 9	-100	-97
Depreciation, amortization and impairment loss		-3	-2
<b>Total operating expenses</b>		<b>-208</b>	<b>-166</b>
<b>Operating profit (EBIT)</b>		<b>-89</b>	<b>-69</b>
<b>Profit from financial items</b>	11		
Dividend from Group companies		2,110	-
Profit from interests in Group companies		119	67
Interest income and similar items		4	-
Interest expenses and similar items		-22	-9
<b>Net financial items</b>		<b>2,211</b>	<b>58</b>
<b>Profit before tax</b>		<b>2,122</b>	<b>-11</b>
Income tax	12	-11	2
<b>Profit for the year</b>		<b>2,111</b>	<b>-9</b>

# Statement of Comprehensive Income – Parent Company

SEK million	Note	Jan–Dec 2018	Jan–Dec 2017
Profit for the period		2,111	-9
Other comprehensive income		-	-
<b>Total comprehensive income for the period</b>		<b>2,111</b>	<b>-9</b>

# Balance Sheet – Parent Company

SEK million	Note	Dec 31, 2018	Dec 31, 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible non-current assets		11	7
		<b>11</b>	<b>7</b>
Property, plant and equipment		2	3
		<b>2</b>	<b>3</b>
Financial non-current assets			
Shares in Group companies	17	2,426	2,426
Receivables from Group companies		4,604	2,893
Deferred tax assets	12	3	3
Other non-current assets		14	14
		<b>7,047</b>	<b>5,336</b>
<b>Total non-current assets</b>		<b>7,060</b>	<b>5,346</b>
<b>Current assets</b>			
Receivables from Group companies		156	109
Tax assets	12	7	8
Prepaid expenses and accrued income		6	6
Other receivables		1	2
<b>Total current assets</b>		<b>170</b>	<b>125</b>
<b>TOTAL ASSETS</b>		<b>7,230</b>	<b>5,471</b>

SEK million	Note	Dec 31, 2018	Dec 31, 2017
<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		3,074	3,497
Profit/loss for the year		2,111	-9
		<b>5,185</b>	<b>3,488</b>
<b>Total equity</b>		<b>5,613</b>	<b>3,916</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing liabilities			
Liabilities to banks and credit institutions		1,499	-
		<b>1,499</b>	<b>-</b>
Non-interest-bearing liabilities			
Other non-current liabilities		26	25
		<b>26</b>	<b>25</b>
<b>Total non-current liabilities</b>		<b>1,525</b>	<b>25</b>
<b>Current liabilities</b>			
Interest-bearing liabilities			
Liabilities to Group companies		-	1,440
		<b>-</b>	<b>1,440</b>
Non-interest-bearing liabilities			
Accounts payable		18	15
Liabilities to Group companies		27	28
Accrued interest		1	-
Accrued expenses and prepaid income	23	40	42
Other current liabilities		6	5
		<b>92</b>	<b>90</b>
<b>Total current liabilities</b>		<b>92</b>	<b>1,530</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>7,230</b>	<b>5,471</b>

# Changes in Shareholders' Equity – Parent Company

SEK million	Share capital	Statutory reserves	Retained profit	Total equity
<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>

SEK million	Share capital	Statutory reserves	Retained profit	Total equity
<b>Opening balance as at January 1, 2018</b>	<b>423</b>	<b>5</b>	<b>3,488</b>	<b>3,916</b>
Profit for the year	-	-	2,111	2,111
Other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>2,111</b>	<b>2,111</b>
Dividend	-	-	-412	-412
<b>Closing balance as at December 31, 2018</b>	<b>423</b>	<b>5</b>	<b>5,185</b>	<b>5,613</b>

Total shares outstanding were 253,730,934 at quota value of SEK 1.67 per share. For further information, see Note 20.



# Cash Flow Statement – Parent Company

SEK million	Note	Jan–Dec 2018	Jan–Dec 2017
<b>OPERATING ACTIVITIES</b>			
Profit after financial items		2,122	-11
Reversal of amortization and impairment losses		3	2
Income tax paid		-10	-3
<b>Cash flow from operations before changes to working capital</b>		<b>2,115</b>	<b>-12</b>
<b>Changes in working capital</b>			
Net change in other current receivables		-48	180
Net change in other current operating liabilities		2	14
<b>Cash flow from operating activities</b>		<b>2,069</b>	<b>182</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of intangible assets		-6	-3
<b>Cash flow from investing activities</b>		<b>-6</b>	<b>-3</b>
<b>FINANCING ACTIVITIES</b>			
Loans raised from banks and credit institutions		1,499	-
Loans raised from Group companies		-	139
Amortization of loans from Group companies		-3,150	-
Subscription warrants		-	52
Dividend		-412	-370
<b>Cash flow from financing activities</b>		<b>-2,063</b>	<b>-179</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>

## Note General information

**1** 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 2018 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 10, 2019

## Note Summary of significant accounting policies

### **2 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 amended standards applied by the Group**

A number of new standards and interpretations enter into force for financial years that start after January 1, 2018. None

of these will not have any significant effect on the Group's financial statements.

#### **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.

IFRS 9 retains a mixed valuation approach which means that there are three valuation categories for financial assets, amortized cost, fair value through other comprehensive income and fair value through profit or loss. How an instrument is classified depends on the company's business model and the nature of the cash flows attributable to the instrument. The new rules for classification and valuation did not affect AAK's financial position at the transition time as the regulations did not entail any change in valuation of the financial instruments in AAK's balance sheet at this time. Other liabilities and financial assets classified as Loan and Receivables under IAS 39 are classified as Measured at amortized cost under IFRS 9. Financial assets previously classified as Held for sale are classified as Measured at fair value through profit or loss. AAK does not have any financial assets classified as Available for sale under IAS 39.

IFRS 9 also introduced 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 corresponds to the expected loss over the entire life of the account receivables. At the transition, the size of the reserve did not have any material effect on the Group's balance sheet, please see note 3 for further information.

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 had under IAS 39 are deemed to qualify for hedge accounting under IFRS 9 and did 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 has changed, the hedge documentation has been updated, please see note 3 for further information about hedge accounting.

IFRS allows an entity to irrevocably designate and measure a contract to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, at fair value through profit or loss. Under IFRS 9 AAK applies the fair value option for sales and purchase contracts for own use, i.e. contracts that are not derivatives under IFRS 9.

The Group has not recalculated the comparison figures for the 2017 financial year in accordance with the transitional rules of the standard.

Accounting policies applicable to the financial year prior to January 1, 2018 can be found on page 56-57 in AAK Annual Report 2017.

## Note Summary of significant accounting policies

### 2 **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.

The Group has applied IFRS 15 Revenue from Contracts with Customers for their annual reporting period commencing 1 January 2018. IFRS 15 was adopted without restating comparative information since the Group used the modified retrospective transition approach. There were no effects on equity as the previously applied principles are in accordance with 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.

The Group will be affected primarily for lease agreements of rental for premises and lease of vehicles. The Group has applied the simplified transition approach and has, in accordance with the standard, not restated the comparatives.

The Group will apply the majority of the practical expedients allowed for the first time that IFRS 16 is applied, the most significant being to account for leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases. The Group will also, after initial application, apply the practical expedients of accounting for leases with a lease term of 12 months or less and leases of low value as an expense on a straight-line basis in the income statement.

The Group's lease liability as at January 1, 2019 will be approximately SEK 900 million and the right-of-use asset about SEK 900 million. Equity will not be affected in the transition to IFRS 16.

### **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.

## Note Summary of significant accounting policies

### 2 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.

##### **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:

Currency	Average rate	Closing rate
EUR	10.26	10.16
DKK	1.38	1.36
GBP	11.58	11.31
MXN	0.45	0.45
USD	8.71	8.87

#### **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 as from January 1, 2018**

Revenue comprises the fair value of goods sold excluding VAT and discounts after eliminating intra-group sales. Sales are recognized as revenue at a point time when control of the goods has transferred to the customer in accordance with the terms of the contract, which occurs when the goods are delivered to the customer. Revenue from sales is recognized based on the price specified in the contract, net of discounts. In addition to pre-agreed discounts, there are also volume discounts which are set annually. The revenue is reduced by the expected discounts at the time of sale. No element of financing is deemed present as the sales are made with a credit term of 30-45 days. The Group's obligation to repair or replace faulty products under the standard warranty terms is recognized as a warranty provision on a monthly basis. A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional. Prepayments are reported as a liability on the line item Accrued expenses and prepaid income in the Balance Sheet.

## Note Summary of significant accounting policies

**2** Revenue accounting policy applicable to the financial year prior to January 1, 2018 can be found on page 54 in AAK Annual Report 2017.

### **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.

### **Leases up to December 31, 2018**

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.

### **Leases as from January 1, 2019**

The Group leases various land, buildings and vehicles. Rental contracts are typically made for fixed periods of 10 to 30 years for land, 5 to 20 years for buildings and 3 to 5 years for vehicles but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset

is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable in connection with the inception date of the lease
- variable lease payment that are based on an index or a rate, measured based on the index or rate at initial recognition
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee uses the Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received in connection with the inception date of the lease
- any initial direct costs
- restoration costs of the underlying asset in accordance with the lease agreement.

## Note Summary of significant accounting policies

**2** AAK has chosen to apply the practical expedient concerning short-term leases and leases of low-value assets. Short-term leases are leases with a lease term of 12 months or less and Low-value assets have an underlying value of USD 5 000 or less when new. Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss.

Extension and termination options are included in the majority of the property leases across the Group. These terms are used to maximize operational flexibility in terms of managing contracts. When determine the lease term the management consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise an option to extend the lease, or not to exercise an option to terminate the lease. Periods covered by the extension option are included in the lease term only if the lessee is reasonably certain to exercise the extension option, or if the lessee is reasonably certain not to exercise the termination option. Assessment regarding the exercise of options to extend or options to terminate a lease agreement is revised if there is any material event or change in circumstances that affect this assessment and if that change is within AAK's control.

### **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

## Note Summary of significant accounting policies

- 2 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, dividend income 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 as from January 1, 2018**

From January 1, 2018 the group classifies its financial assets in the following categories:

- ◆ Amortized cost
- ◆ Fair value through profit or loss

The classification is dependent on AAK's business model for managing the financial assets and the contractual terms of the cash flows. Management establishes the classification of financial assets at initial recognition. Management reclassifies debt instruments when and only when its business model for managing those assets changes.

### **Measurement**

At initial recognition, the group measures a financial asset at its fair value plus, in case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

### **Recognition and derecognition**

A financial asset or financial liability is recognized in the balance sheet when AAK 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.

### **Debt instruments**

All of AAK's debt instruments are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest and are consequently measured at amortized cost. These are included in current assets, except for items with a maturity of more than 12 months after the end of the reporting period, which are classified as non-current assets. Interest income from these financial assets are included in financial income using the effective interest method. The Group's financial instruments measured at amortized cost consist of accounts receivables and other receivables, as well as cash and cash equivalents in the balance sheet.

### **Equity instruments**

The group subsequently measures all equity investments at fair value through profit or loss.

### **Impairment**

From January 1, 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The expected credit loss rates are calculated based on payment profiles and the corresponding historical credit losses experienced within the same period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indications that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

### **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 has identified hedging of fair value regarding a recognized asset or liability or a firm commitment (fair-value hedging).

When the transaction is undertaken, the Group documents the economic relationship between the hedging instrument and the hedged item, as well as the hedge's role in the

## Note Summary of significant accounting policies

**2** 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 which are not deemed to be for own use (and consequently should be recognized as derivatives). According to IFRS 9, only contracts not designated for physical delivery may be accounted for as derivatives. AAK's business model permits (enables) the net settlement of purchase and sales contracts entered into. The full fair value of a hedging derivative is classified as a non-current asset or liability when remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

### **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 item 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 in inventory. Changes in fair value of raw material in inventory are accounted for as a part of Current assets and liabilities in the balance sheet. The gain or loss attributable to the ineffective portion is recognized with immediate effect in "Raw materials and consumables and changes in inventory".

When forward contracts are used to hedge fair value the group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. The change in the forward element of the contract that relates to the hedged item is recognized within Operating profit.

### **Sales- and purchase contracts**

AAK applies the fair value option to binding commitments (sales- and purchase contracts) for own use since this offset the change in fair value of derivatives not designated for hedge accounting (reducing accounting mismatch) and AAK's business model enables the net settlement of purchase and sales contracts entered into for physical delivery (the contracts are readily convertible to cash). Assets in this category are classified as current assets as they are expected to be settled within 12 months.

### **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 receivable**

Accounts receivable are recognized initially at fair value and thereafter at amortized cost using the effective interest method, less provisions for impairment, see above about impairment. 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



## Note Summary of significant accounting policies

**2** 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 Financial risk management and hedge accounting

### 3 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 AAK's 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. AAK 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. The company 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, 2018

(Thousand tons)	Inventory	Sales contracts	Purchase contracts	Net exposure
Oils and fats	245	-1,917	1,680	8

#### 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

## Note Financial risk management and hedge accounting

### 3 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, 2018

SEK million	Assets	Liabilities	Sales contracts	Purchase contracts	Currency contracts		Net exposure
					Sold	Bought	
USD	3,265	-3,999	-759	170	-2,105	3,332	-96
EUR	1,768	-717	2,172	-699	-3,222	681	-17
GBP	37	-474	45	0	-452	845	1
Other	382	-251	554	-332	-3,032	2,692	13
<b>Total</b>	<b>5,452</b>	<b>-5,441</b>	<b>2,012</b>	<b>-861</b>	<b>-8,811</b>	<b>7,550</b>	<b>99</b>

#### 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>

## Note Financial risk management and hedge accounting

### 3 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 120 million (140) 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 2,100 million (2,000) and Group net working capital by SEK 390 million (350).

#### 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 2018, the Group's interest-bearing net debt, including pensions, amounted to SEK 2,667 million (2,666).

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

	2018	2017
<b>SEK</b>	1.50	0.80
<b>DKK</b>	1.50	0.70
<b>USD</b>	3.30	2.30
<b>CNY</b>	5.00	4.60
<b>TRY</b>	27.00	15.00
<b>BRL</b>	8.00	11.00
<b>INR</b>	7.00	6.50

#### Sensitivity analysis – Interest rates

At the closing date, the Group had a floating-rate-based net debt of SEK 2,274 million (3,191). A 1 percent change in interest rates would therefore have a full-year effect of SEK 23 million (32) 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	2018	2017
Net interest-bearing debt/EBITDA	< 3.0	1.06	1.17

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	2018	2017
SEK	1,182	350
DKK	780	502
USD	399	1,145
CNY	176	244
TRY	270	315
BRL	121	240
INR	241	140
Other	41	46
<b>Total</b>	<b>3,212</b>	<b>2,982</b>

## Note Financial risk management and hedge accounting

**3 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, 2018

	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	2,551	933	-	1,100	518
Other non-current liabilities	362	-	-	-	362
<b>Total non-current liabilities</b>	<b>2,913</b>	<b>933</b>	<b>-</b>	<b>1,100</b>	<b>880</b>
Interest on liabilities to banks and credit institutions	451	144	-	171	136
<b>Total non-current liabilities and interest</b>	<b>3,364</b>	<b>1,077</b>	<b>-</b>	<b>1,271</b>	<b>1,016</b>
<b>Current liabilities</b>					
<i>Financial liabilities</i>					
Liabilities to banks and credit institutions	661	661	-	-	-
Accounts payables	2,685	2,685	-	-	-
Derivative financial instruments	258	258	-	-	-
Accrued expenses	1,044	1,044	-	-	-
Other current liabilities	193	193	-	-	-
<b>Total current liabilities</b>	<b>4,841</b>	<b>4,841</b>	<b>-</b>	<b>-</b>	<b>-</b>
Interest on liabilities to banks and credit institutions	33	33	-	-	-
<b>Total current liabilities and interest</b>	<b>4,874</b>	<b>4,874</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Unused committed credit facilities available to the Group at the 2018 year-end

	Total amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Unused committed credit facilities	4,698	1,034	-	3,664	-

## Note Financial risk management and hedge accounting

### 3 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

The Group's cash and cash equivalents of SEK 737 million, available credit facilities of SEK 7,518 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 receivable 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 AAK's business in these countries is with large multinational companies that also do business worldwide. The partners with whom AAK 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.

## Note Financial risk management and hedge accounting

### 3 Provisions for doubtful accounts receivable

	2018	2017
Provisions at January 1	41	32
Provisions for potential losses	4	14
Reversed amount that is not recoverable	-	-2
Unused amount reversed	-5	-1
Exchange differences	1	-2
<b>Provisions at December 31</b>	<b>41</b>	<b>41</b>

Provisions for impairments are entirely related to accounts receivable. Total accounts receivable excluding provisions were SEK 3,400 million (3,251).

#### Past due assets not considered impaired

SEK million	2018	2017
1–30 days	423	437
31–120 days	53	97
121–360 days	59	12
Over 360 days	9	2
	<b>544</b>	<b>548</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, 2018	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			544	2			544
Currency hedge contracts			123	2			123
Fair value of changes in inventories			31	2			31
<b>Total assets</b>	-		<b>698</b>		-		<b>698</b>
Sales and purchase contracts			180	2			180
Currency hedge contracts			78	2			78
Fair value of changes in inventories			32	2			32
<b>Total liabilities</b>	-		<b>290</b>		-		<b>290</b>

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>

## Note Financial risk management and hedge accounting

**3** 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 2018 confirmed that the fair-value hedge of raw materials qualifies for hedge accounting.

#### ***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 2018 confirmed a perfect critical match.

## Note Critical accounting estimates and assumptions in applying accounting policies

**4** 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.

### **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



## Note Critical accounting estimates and assumptions in applying accounting policies

4 (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 Auditors' remuneration (SEK thousand)

	Group		Parent	
	2018	2017	2018	2017
Audit				
PwC	6,866 <sup>1)</sup>	5,670	1,164 <sup>3)</sup>	1,140
Other	568	445	-	-
Subtotal, audit	7,434	6,115	1,164	1,140
Other audit assignments				
PwC	154	574	-	-
Other	127	121	-	-
Subtotal, other audit assignments	281	695	-	-
Tax consulting				
PwC	178	346	-	-
Other	403	146	-	-
Subtotal, tax consulting	581	492	-	-
Other assignments				
PwC	6,891 <sup>2)</sup>	1,684	6,761 <sup>2)</sup>	1,195
Other	688	35	-	-
Subtotal, other assignments	7,579	1,719	6,761	1,195
<b>Total</b>	<b>15,875</b>	<b>9,021</b>	<b>7,925</b>	<b>2,335</b>

<sup>1)</sup> Of which SEK 2,670,000 concerns PricewaterhouseCoopers AB.

<sup>2)</sup> Of which SEK 696,000 concerns PricewaterhouseCoopers AB.

<sup>3)</sup> Of which SEK 1,164,000 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 Employee benefits (SEK thousand)

6

	Group		Parent	
	2018	2017	2018	2017
Wages and salaries	1,573,568	1,405,359	63,855	65,968
Social security contributions (of which pension costs)	390,872 (113,295)	346,353 (104,536)	32,786 (9,810)	33,842 (10,820)

SEK 6 million (6) 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:

	2018		2018		2017		2017	
	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	
Parent, Sweden	32,222	8,755	31,633		34,283	7,973	31,685	
Subsidiaries, Sweden	3,482	726	281,163		2,565	392	275,393	
	<b>35,704</b>	<b>9,481</b>	<b>312,796</b>		<b>36,848</b>	<b>8,365</b>	<b>307,078</b>	
Foreign subsidiaries	56,673	12,951	1,168,395		59,862	16,869	1,001,571	
<b>Group total</b>	<b>92,377</b>	<b>22,432</b>	<b>1,481,191</b>		<b>96,710</b>	<b>25,234</b>	<b>1,308,649</b>	

Note Average number of employees, etc.

7

Average number of employees	2018			2017		
	Number of employees	Of which men	Of which women	Number of employees	Of which men	Of which women
Parent, Sweden	37	22	15	36	22	14
Subsidiaries in Sweden	505	378	127	507	379	128
	542	400	142	543	401	142
Foreign subsidiaries:						
India	535	502	33	555	522	33
USA	496	377	119	504	389	115
United Kingdom	430	329	101	407	319	88
Mexico	384	315	69	376	308	68
Denmark	214	152	62	203	143	60
Colombia	155	103	52	155	103	52
China	125	90	35	97	65	32
Burkina Faso	113	97	16	98	84	14
Ghana	112	103	9	87	81	6
Brazil	111	80	31	110	79	31
Netherlands	102	76	26	92	74	18
Belgium	90	70	20	87	67	20
Benin	51	51	-	59	59	-
Turkey	42	29	13	44	30	14
Malaysia	22	4	18	24	7	17
Singapore	19	10	9	12	6	6
Uruguay	16	8	8	16	7	9
Russia	16	3	13	15	3	12
Ukraine	7	3	4	7	3	4
Ivory Coast	5	5	-	-	-	-
Japan	4	3	1	3	2	1
Mali	4	4	-	1	1	-
Poland	4	2	2	4	2	2
Philippines	3	2	1	-	-	-
Australia	2	1	1	2	1	1
Czech Republic	2	1	1	2	1	1
Germany	2	1	1	2	1	1
Norway	1	1	-	1	1	-
Lithuania	-	-	-	2	1	1
	3,067	2,422	645	2,965	2,359	606
<b>Group total</b>	<b>3,609</b>	<b>2,822</b>	<b>787</b>	<b>3,508</b>	<b>2,760</b>	<b>748</b>

Note Average number of employees, etc.

7

	2018		2017	
	Total on reporting date	Of which men (%)	Total on reporting date	Of which men (%)
Board members and senior managers				
Group (incl. subsidiaries)				
Board members	165	79	151	78
Chief Executive Officer and other senior managers	43	86	40	85
Parent company				
Board members <sup>1)</sup>	6	33	6	33
Chief Executive Officer and other senior managers	4	75	3	66

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

## Note Remuneration of the Board of Directors and senior executives

### 8 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 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. After the share split in 2018 the number of shares each subscription warrant entitles to is six. The number of outstanding subscription warrants on December 31, 2018 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 3,375,000, including compensation for committee work. Of this amount, the Chairman receives SEK 850,000 and each other external member receives SEK 375,000. 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.

## Note Remuneration of the Board of Directors and senior executives

### 8 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>					
Georg Brunstam, Chairman	950,000	-	-	-	950,000
Bengt Baron	375,000	-	-	-	375,000
Marianne Kirkegaard	375,000	-	-	-	375,000
Gun Nilsson	625,000	-	-	-	625,000
Märta Schörling Andreen	550,000	-	-	-	550,000
Lillie Li Valeur	500,000	-	-	-	500,000
<b>Subtotal for Board</b>	<b>3,375,000</b>	-	-	-	<b>3,375,000</b>
<i>Senior Managers</i>					
Johan Westman, Chief Executive Officer*	5,674,860	2,983,215 <sup>3)</sup>	86,256	2,017,337	10,761,668
Fredrik Nilsson, acting Chief Executive Officer**	1,200,000	518,824 <sup>3)</sup>	0	0	1,718,824
Other senior managers	40,346,800	22,314,244 <sup>3)</sup>	3,672,295	4,277,098	70,610,438
<b>Subtotal, senior managers</b>	<b>47,221,660</b>	<b>25,816,284</b>	<b>3,758,551</b>	<b>6,294,435</b>	<b>83,090,930 <sup>4)</sup></b>
<b>Total</b>	<b>50,596,660</b>	<b>25,816,284</b>	<b>3,758,551</b>	<b>6,294,435</b>	<b>86,465,930 <sup>5)</sup></b>

\* Chief Executive Officer from May 1, 2018.

\*\* Position-related supplement from January 1 to April 30, 2018. Remuneration and other benefits for his role as CFO are recognized under "Other senior managers".

1) Refers to items recorded as an expense in 2018.

2) Other benefits refer primarily to company cars.

3) Final amounts approved by the Remuneration Committee to be paid in 2019. During the year, variable remuneration expensed in 2017 of SEK 24,632,185 was paid.

4) Refers to the following for 2018: Anne Mette Olesen, David Smith, Fredrik Nilsson, Gerardo Garza López de Hereida, Jan Lenferink, Karsten Nielsen, Octavio Díaz de León, Renald Mackintosh, René Schou, Terry Thomas and Torben Friis Lange.

5) Of the amount of SEK 86,465,930, SEK 34,621,102 relates to the Parent company, AAK AB.

## Note Provisions for pensions and similar obligations

### 9 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. 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, 2018 AAK AB 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 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 2018, Alecta's

and Folksam's surplus in the form of their collective consolidation levels was 142 percent and 174 percent, respectively (154 percent and 178 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.

	2018	2017
<b>The amounts recognized in the consolidated balance sheet are determined as follows:</b>		
Present value of funded obligations	899	827
Fair value of plan assets	-693	-663
	<b>206</b>	<b>164</b>
<b>The amounts recognized in consolidated comprehensive income are as follows:</b>		
Costs pertaining to service during the current year	29	29
Interest expenses	18	17
Interest income	-12	-15
Employees' contributions paid	-5	-3
<b>Total, included in employee costs (Note 6)</b>	<b>30</b>	<b>28</b>

## Note Provisions for pensions and similar obligations

9

	2018	2017
<b>Total pension costs recognized in the consolidated income statement are as follows:</b>		
Total costs for defined contribution plans including employer's contribution	83	76
<b>Total</b>	<b>83</b>	<b>76</b>
<b>Movement in the net liability recognized in the consolidated balance sheet:</b>		
	Defined benefit plans	
Net liability at start of year	164	134
Net cost recognized in the income statement	30	28
Benefits paid	-10	-10
Disbursement of funds from the foundation	10	10
Contributions by employer to funded obligations	-25	-25
Revaluation of defined benefit pension plans based on changed assumptions	28	15
Exchange rate differences on foreign plans	2	2
Reclassifications	7	10
<b>Net liability at year-end</b>	<b>206</b>	<b>164</b>
<b>Asset distribution in foundation on reporting date (%):</b>		
Fixed income	42	39
Shares	22	21
Properties	6	5
Alternative investments	30	35
<i>The entire pension obligation in the Netherlands concerns alternative investments.</i>		
<b>The principal actuarial assumptions used on reporting date (%):</b>		
<b>The Netherlands</b>		
Discount rate	1.85	1.85
Future annual salary increases	2.35	2.35
Future annual pension increases	1.00	1.00
Employee turnover	4.00	4.00
<b>Sweden</b>		
Discount rate	2.60	2.90
Future annual salary increases	3.00	2.80
Future annual pension increases	3.00	2.80
Employee turnover	5.00	5.00
<i>Charges for plans for retirement benefits are expected to amount to SEK 29 million in the 2019 financial year.</i>		
<i>The weighted average term of the pension obligation is 17–19 years.</i>		



## Note Other operating income

10	Group		Parent	
	2018	2017	2018	2017
Other operating income	180	129	0	0
<b>Total</b>	<b>180</b>	<b>129</b>	<b>0</b>	<b>0</b>

## Note Financial items

11	Group		Parent	
	2018	2017	2018	2017
Dividend from Group companies	-	-	2,110	-
Interest income	6	11	4	-
Share of profit in associated companies	17	10	-	-
Changes in exchange rates	2	-	-	-
Other financial income	3	3	-	-
Group contributions	-	-	119	67
<b>Financial income</b>	<b>28</b>	<b>24</b>	<b>2,233</b>	<b>67</b>
Interest expenses	-124	-112	-17	-5
Changes in exchange rates	-2	-9	-1	-1
Other financial expenses	-29	-23	-4	-3
<b>Financial expenses</b>	<b>-155</b>	<b>-144</b>	<b>-22</b>	<b>-9</b>
<b>Net financial items</b>	<b>-127</b>	<b>-120</b>	<b>2,211</b>	<b>58</b>

## Note Tax expenses

12	Group		Parent	
	2018	2017	2018	2017
Tax expenses for the year				
Current tax	-431	-409	-11	-1
Deferred tax	-58	-45	-	3
<b>Total</b>	<b>-489</b>	<b>-454</b>	<b>-11</b>	<b>2</b>

### Determination of the current tax expense

The Group's weighted average underlying tax rate is approximately 26–27 percent. The Group's weighted average tax rate for 2018, based on the tax rates in each of the various countries involved, was 27 percent. The tax rate in Sweden is 22 percent (22).

## Note Tax expenses

12

	Group		Parent	
	2018	2017	2018	2017
Profit before taxes	1,829	1,666	2,122	-11
Weighted average tax rate based on the tax rates in each country	-415	-400	-467	2
Tax effect of non-deductible expenses	-20	-17	-3	-3
Tax effect of tax-exempt income	6	13	459	-
Effect of deficit deductions not carried forward	-57	-70	-	-
Effect of tax rate changes	14	35	-	-
Adjustment for current tax for previous years	-17	-15	-	3
<b>Tax expense</b>	<b>-489</b>	<b>-454</b>	<b>-11</b>	<b>2</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:

	Group		Parent	
	2018	2017	2018	2017
<b>Deferred tax assets</b>				
Tax loss carry-forwards	21	24	-	-
Non-current assets	1	29	-	-
Inventory	-5	5	-	-
Current assets	-15	12	3	3
Provisions	36	32	-	-
Non-current liabilities	0	0	-	-
Current liabilities	23	4	-	-
Offset	-	-33	-	-
<b>At year-end</b>	<b>61</b>	<b>73</b>	<b>3</b>	<b>3</b>

	Group		Parent	
	2018	2017	2018	2017
<b>Deferred tax liabilities</b>				
Non-current assets	477	512	-	-
Inventory	5	7	-	-
Current assets	16	11	-	-
Provisions	-30	-23	-	-
Non-current liabilities	0	0	-	-
Current liabilities	22	-37	-	-
Offset	-	-33	-	-
<b>At year-end</b>	<b>490</b>	<b>437</b>	<b>-</b>	<b>-</b>

## Note Tax expenses

### 12 Income tax liabilities and tax assets

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

	Group		Parent	
	2018	2017	2018	2017
Current tax liabilities	-393	-389	0	0
Current tax receivables	305	257	7	8
<b>Income tax liabilities/tax assets</b>	<b>-88</b>	<b>-132</b>	<b>7</b>	<b>8</b>

## Note Earnings per share

### 13

	Group	
	2018	2017
Earnings attributable to shareholders of the Parent (SEK million)	1,322	1,194
Weighted average number of ordinary shares in issue	253,730,934	253,730,934
Earnings per share before and after dilution, SEK	5.21	4.71

Earnings per share are calculated for 2018 based on net profit for the year attributable to shareholders in the Parent – SEK 1,322 million (1,194) – and on a weighted average number of ordinary shares in issue of 253,730,934 (253,730,934). The weighted average number of ordinary shares and earnings per share are recalculated in accordance with the decided share split (6:1) by the Annual General Meeting on May 30, 2018.

## Note Events after the balance sheet date

14 In February 2019 AAK acquired Dutch company MaasRefinery B.V., specialized in toll refining of vegetable oils and fats for the food industry. The company has a capacity of 40,000 MT and had revenues of SEK 50 million in 2018 and has 20 full-time employees.

In March 2019 British foodservice company BD Foods was acquired. The company is a producer of tailor-made restaurant quality meal accompaniments and had revenues of SEK 120 million in 2018 and has 100 employees.

For the 2018 financial year, the Board of Directors propose the distribution of a dividend in the amount of SEK 1.85 per share. A decision will be made at the Annual General Meeting on May 15, 2019. It is proposed that the record date for the dividend will be May 17 and the dividend is expected to be distributed to shareholders by May 22.

## Note Intangible assets

### 15

Group	Goodwill	Patents and other intangible assets	Total
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>
Cost at January 1, 2018	1,601	623	2,224
Investments	-	20	20
Acquired through business combinations	4	-	4
Reclassifications	-	3	3
Exchange differences	61	-6	55
<b>Accumulated cost at December 31, 2018</b>	<b>1,666</b>	<b>640</b>	<b>2,306</b>
Amortization and impairment loss at January 1, 2017	0	251	251
Amortization 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>
Amortization and impairment loss at January 1, 2018	0	274	274
Amortization for the year	-	30	30
Reclassifications	-	1	1
Exchange differences	-	2	2
<b>Accumulated amortization and impairment loss at December 31, 2018</b>	<b>0</b>	<b>307</b>	<b>307</b>
<b>Residual value at December 31, 2017</b>	<b>1,601</b>	<b>349</b>	<b>1,950</b>
<b>Residual value at December 31, 2018</b>	<b>1,666</b>	<b>333</b>	<b>1,999</b>

## Note Intangible assets

### 15 Reviewing impairment of goodwill

In preparing the financial statements for 2018, the Group has reviewed impairment of goodwill.

Goodwill is allocated to the following cash-generating units; Business Area Food Ingredients, Chocolate & Confectionery Fats and Technical Products & Feed. These cash-generating units correspond to the operating segments of AAK. 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 8 percent (9) after tax and 11.4 percent (12.8) before tax.

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

	2018	2017
Food Ingredients	1,080	1,025
Chocolate & Confectionery Fats	586	576
Technical Products & Feed	-	-
<b>Total</b>	<b>1,666</b>	<b>1,601</b>

## Note Property, plant and equipment

### 16

Group	Land and buildings	Plant and machinery	Equipment, tools and fixtures and fittings	Non-current assets under construction	Total
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>
Cost at January 1, 2018	2,187	8,733	565	767	12,252
Investments	50	306	56	290	702
Disposals	-	-33	-6	-	-39
Reclassification to tax assets	-	-	-	-8	-8
Reclassifications	116	174	38	-329	-1
Exchange differences	41	252	19	19	331
<b>Accumulated cost at December 31, 2018</b>	<b>2,394</b>	<b>9,432</b>	<b>672</b>	<b>739</b>	<b>13,237</b>

## Note Property, plant and equipment

16

	Land and buildings	Plant and machinery	Equipment, tools and fixtures and fittings	Non-current assets under construction	Total
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>
Depreciation at January 1, 2018	1,037	5,619	384	-	7,040
Disposals	-	-30	-4	-	-34
Reclassifications	-	2	-2	-	0
Depreciations for the year	69	401	52	-	522
Exchange differences	31	162	13	-	206
<b>Accumulated depreciation at December 31, 2018</b>	<b>1,137</b>	<b>6,154</b>	<b>443</b>	<b>-</b>	<b>7,734</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>
Impairment loss at January 1, 2018	12	22	-	-	34
Exchange differences	-	1	-	-	1
<b>Accumulated impairment loss at December 31, 2018</b>	<b>12</b>	<b>23</b>	<b>-</b>	<b>-</b>	<b>35</b>
<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				
<b>Residual value according to plan at December 31, 2018</b>	<b>1,245</b>	<b>3,255</b>	<b>229</b>	<b>739</b>	<b>5,468</b>
of which land	127				

## Note Investments in Group companies

17

	Parent	
	2018	2017
Start of year	2,426	2,426
<b>Accumulated cost</b>	<b>2,426</b>	<b>2,426</b>

### List of shareholdings and book value as of December 31, 2018 and 2017

	Domicile	2018			2017		
		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, 2018. 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 Inventories

18

	Group	
	2018	2017
Raw materials and consumables	2,905	2,619
Goods in transit	289	556
Work in progress	832	847
Finished products and goods for resale	679	634
<b>Total according to balance sheet</b>	<b>4,705</b>	<b>4,656</b>
Change in fair value	-1	13
<b>Inventory at fair value</b>	<b>4,704</b>	<b>4,669</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 28 million (15).

## Note Cash and cash equivalents

19

	Group	
	2018	2017
Cash equivalents	712	460
Current investments	25	20
<b>Total</b>	<b>737</b>	<b>480</b>



## Note Shareholders' equity

### 20 Group

#### Share capital

As of December 31, 2018 the Group's registered share capital was 253,730,934 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, 2018.

#### Specification of equity item "Reserves"

	Statutory reserve	Hedging reserve	Translation reserve	Total
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>
2018 opening balance	5	25	-273	-243
Exchange differences	-	-	362	362
Reclassification	-	-25	-	-25
<b>2018 closing balance</b>	<b>5</b>	<b>-</b>	<b>89</b>	<b>94</b>

## Note Shareholders' equity

### 20 Parent company

#### Share capital

In accordance with the articles of association for AAK AB, share capital shall be a minimum of SEK 300 million and a maximum of SEK 1,200 million. All shares are fully paid and entitle the holder to equal voting rights and shares in Company assets. Share capital consists of 253,730,934 shares (253,730,934) at a quota value of SEK 1.67 per share, and shareholder equity of SEK 422,884,890 (422,884,890). In June, the number of shares and votes in AAK AB increased as a result of the share split (6:1) resolved upon by AAK AB's Annual General Meeting on May 30, 2018.

#### 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 2019 is SEK 469 million (SEK 1.85 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 propose that

the disposable profit brought forward	SEK	3,074,947,829
and profit/loss for the year	SEK	2,110,742,748
<b>Total</b>	<b>SEK</b>	<b>5,185,690,577</b>

be appropriated as follows:

To be distributed to shareholders, a dividend of SEK 1.85 per share	SEK	469,402,228 <sup>1)</sup>
To be carried forward	SEK	4,716,288,349
<b>Total</b>	<b>SEK</b>	<b>5,185,690,577</b>

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

## Note Borrowings

### 21

	Group		Parent	
	2018	2017	2018	2017
<b>Non-current</b>				
Liabilities to banks and credit institutions	2,551	2,354	1,499	-
<b>Total</b>	<b>2,551</b>	<b>2,354</b>	<b>1,499</b>	<b>-</b>

	Group		Parent	
	2018	2017	2018	2017
<b>Current</b>				
Liabilities to banks and credit institutions	661	628	-	-
<b>Total</b>	<b>661</b>	<b>628</b>	<b>-</b>	<b>-</b>

Maturity for non-current borrowing is as follows:

	Group		Parent	
	2018	2017	2018	2017
Between 1 and 5 years	2,033	1,930	399	-
More than 5 years	518	424	1,100	-
<b>Total</b>	<b>2,551</b>	<b>2,354</b>	<b>1,499</b>	<b>-</b>

## Note Other provisions

22 Group	Restructuring	Environmental 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>
Opening balance at January 1, 2018	1	27	88	116
Provisions for the year	-	-	21	21
Provisions claimed for the year	-2	-	-37	-39
Reclassification	7	-	-7	-
Exchange differences	-1	1	4	4
<b>Closing balance as at December 31, 2018</b>	<b>5</b>	<b>28</b>	<b>69</b>	<b>102</b>
<b>Provisions include</b>			2018	2017
Non-current			72	63
Current			30	53
<b>Total</b>			<b>102</b>	<b>116</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 Accrued expenses and deferred income

	Group		Parent	
	2018	2017	2018	2017
Employee-related expenses	322	298	33	36
Other	721	695	7	6
<b>Total</b>	<b>1,043</b>	<b>993</b>	<b>40</b>	<b>42</b>

## Note Assets pledged

	Group		Parent	
	2018	2017	2018	2017
<b>Collateral for provisions and liabilities</b>				
Property mortgages	663	529	-	-
Other assets	498	390	-	-
<b>Total</b>	<b>1,161</b>	<b>919</b>	<b>-</b>	<b>-</b>

## Note Contingent liabilities

	Group		Parent	
	2018	2017	2018	2017
Other contingent liabilities	1,781	1,795	1,781	1,795
<b>Total</b>	<b>1,781</b>	<b>1,795</b>	<b>1,781</b>	<b>1,795</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 Related-party transactions

**26** For the Parent, SEK 119 million (97), 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, 2018, the Parent had intragroup receivables of SEK 156 million (109) and intragroup liabilities of SEK 27 million (28).

### 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 44–45, no transactions with related physical persons have taken place.

## Note Segment reporting

**27** 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

2018	Food Ingredients	Chocolate & Confectionery Fats	Technical Products & Feed	Group Functions	Eliminations	Group
<b>Net sales</b>						
External sales	18,468	7,611	1,513	-	-	27,592
Internal sales	2,115	5,109	3	-	-7,227	-
<b>Group total</b>	<b>20,583</b>	<b>12,720</b>	<b>1,516</b>	<b>-</b>	<b>-7,227</b>	<b>27,592</b>

### Operating profit/loss by business segment

2018	Food Ingredients	Chocolate & Confectionery Fats	Technical Products & Feed	Group Functions	Eliminations	Group
Operating profit/loss	1,205	747	155	-151	-	1,956
<b>Total</b>	<b>1,205</b>	<b>747</b>	<b>155</b>	<b>-151</b>	<b>-</b>	<b>1,956</b>
<b>Other</b>						
Assets	10,016	5,913	906	67	-	16,902
Unallocated assets	-	-	-	-	-	1,133
<b>Group total</b>	<b>10,016</b>	<b>5,913</b>	<b>906</b>	<b>67</b>	<b>-</b>	<b>18,035</b>
Liabilities	2,432	1,417	360	156	-	4,365
Unallocated liabilities	-	-	-	-	-	4,674
<b>Group total</b>	<b>2,432</b>	<b>1,417</b>	<b>360</b>	<b>156</b>	<b>-</b>	<b>9,039</b>
Investments	442	243	28	8	-	721
Depreciation, amortization and impairment loss	293	216	36	7	-	552

## Note Segment reporting

### 27 Reporting by market

2018	Sweden	Denmark	Other Nordic countries	Central and Eastern Europe	Western Europe	North and South America	Asia	Other countries	Total
External sales	2,141	483	696	2,443	6,245	10,796	4,241	547	27,592
Intangible assets and property, plant and equipment	1,033	1,227	-	0	1,044	2,864	1,249	50	7,467
Other assets	2,319	1,046	7	148	1,428	3,356	1,706	558	10,568
<b>Total assets</b>	<b>3,352</b>	<b>2,273</b>	<b>7</b>	<b>148</b>	<b>2,472</b>	<b>6,220</b>	<b>2,955</b>	<b>608</b>	<b>18,035</b>
Investments	91	108	-	0	143	267	105	7	721

### 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

2017	Food Ingredients	Chocolate & Confectionery Fats	Technical Products & Feed	Group Functions	Eliminations	Group
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

## Note Segment reporting

### 27 Reporting by market

2017	Sweden	Denmark	Other Nordic countries	Central and Eastern Europe	Western Europe	North and South America	Asia	Other countries	Total
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

## Note Operating leases

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

	Group	
	2018	2017
Within 1 year	110	102
Between 1 and 5 years	238	269
More than 5 years	304	277
<b>Total</b>	<b>652</b>	<b>648</b>

Operating lease expenses of SEK 102 million (96) are recognized in profit or loss for the period.



## Note Supplemental cash flow statement

### 29 Adjustment for items not included in cash flow

	Group		Parent	
	2018	2017	2018	2017
Sales of non-current assets	2	0	-	-
Changes in pensions and provisions	22	-42	-	-
Unrealized exchange rate effects on financial instruments	-24	-93	-	-
Others	-278	-128	-	-
<b>Total</b>	<b>-278</b>	<b>-263</b>	<b>-</b>	<b>-</b>

### Cash flow from financing activities

Group	Dec 31, 2017	Cash flows	Changes that do not affect cash flow		Dec 31, 2018
			Acquisition-related	Exchange rate effects	
Non-current financial assets	26	-8	-	-0	18
Current financial assets	6	14	-	-0	20
Non-current financial liabilities	2,654	196	-59	122	2,913
Current financial liabilities	633	99	-	-64	668
<b>Total liabilities from financing activities</b>	<b>3,255</b>	<b>289</b>	<b>-59</b>	<b>58</b>	<b>3,543</b>

Parent	Dec 31, 2017	Cash flows	Changes that do not affect cash flow		Dec 31, 2018
			Acquisition-related	Exchange rate effects	
Non-current financial liabilities	-	1,499	-	-	1,499
Current financial liabilities	1,440	-1,440	-	-	-
<b>Total liabilities from financing activities</b>	<b>1,440</b>	<b>59</b>	<b>-</b>	<b>-</b>	<b>1,499</b>

## Alternative performance measures (APM)

Organic volume growth %	2018	2017
<b>Food Ingredients</b>		
Organic volume growth	4	4
Acquisitions/divestments	-	5
<b>Volume growth</b>	<b>4</b>	<b>9</b>
<b>Chocolate &amp; Confectionery Fats</b>		
Organic volume growth	6	10
Acquisitions/divestments	-	-
<b>Volume growth</b>	<b>6</b>	<b>10</b>
<b>Technical Products &amp; Feed</b>		
Organic volume growth	8	1
Acquisitions/divestments	-	-
<b>Volume growth</b>	<b>8</b>	<b>1</b>
<b>AAK Group</b>		
Organic volume growth	5	5
Acquisitions/divestments	-	3
<b>Volume growth</b>	<b>5</b>	<b>8</b>
<b>EBITDA</b>		
SEK million		
Operating profit (EBIT)	1,956	1,786
Add back depreciation and amortization	552	491
<b>EBITDA</b>	<b>2,508</b>	<b>2,277</b>

## Alternative performance measures (APM)

### Return on Capital Employed (ROCE)

SEK million	2018	2017
Total assets	18,035	16,892
Cash and cash equivalents	-737	-480
Financial assets	-20	-6
Accounts payable	-2,685	-3,137
Other non-interest-bearing liabilities	-1,973	-2,058
<b>Capital employed</b>	<b>12,620</b>	<b>11,211</b>
<b>Operating profit (Rolling 12 months)</b>	<b>1,956</b>	<b>1,786</b>
<b>Return on Capital Employed (ROCE), %</b>	<b>15.5</b>	<b>15.9</b>

### Working capital

SEK million	2018	2017
Inventory	4,705	4,656
Accounts receivable	3,441	3,210
Other current receivables, non-interest-bearing	1,574	1,299
Accounts payable	-2,685	-3,137
Other current liabilities, non-interest-bearing	-1,973	-2,058
<b>Working capital</b>	<b>5,062</b>	<b>3,970</b>

## Alternative performance measures (APM)

<b>Net debt</b>		
SEK million	2018	2017
Current interest-bearing receivables	20	5
Cash and cash equivalents	737	480
Pension liabilities	-205	-164
Non-current liabilities to banks and credit institutions	-2,551	-2,354
Current liabilities to banks and credit institutions	-661	-628
Other interest-bearing liabilities	-7	-5
<b>Net debt</b>	<b>-2,667</b>	<b>-2,666</b>
<b>Equity to assets ratio</b>		
SEK million		
Shareholders' equity	8,908	7,664
Non-controlling interests	88	70
<b>Total equity including non-controlling interests</b>	<b>8,996</b>	<b>7,734</b>
<b>Total assets</b>	<b>18,035</b>	<b>16,892</b>
<b>Equity to assets ratio, %</b>	<b>49.9</b>	<b>45.8</b>

# Corporate Governance Report

## Corporate Governance Report 2018

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 11,800 shareholders. Its business operations are global, with a presence in more than 100 countries. As at December

31, 2018, the number of employees was 3,609. 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 48–49.

## Articles of Association

AAK’s current Articles of Association were adopted at the Annual General Meeting on May 30, 2018. 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 2018

The Annual General Meeting held on May 30, 2018 was attended by shareholders representing around 63 percent of the share capital and votes in the company. Mikael Ekdahl 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 2017 financial year of SEK 8.75 per share. Märta Schörling Andreen, Gun Nilsson, Bengt Baron, Lillie Li Valeur and Marianne Kirkegaard were re-elected as ordinary members of the Board of Directors. Georg Brunstam was elected as new member of the Board of Directors. Georg Brunstam was elected Chairman of the Board. The employee organizations had appointed Lena Nilsson (PTK-L) and Leif Håkansson (IF Metall) as employee representative members of the Board, and Ingvar Andersson (IF Metall) and Fredrik Rydberg (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 2019

At the Annual General Meeting 2018, Märta Schörling Andreen (Melker Schörling AB), Henrik Didner (Didner & Gerge Fonder), Lars-Åke Bokenberger (AMF Fonder) and Yvonne Sörberg (Handelsbanken fonder) were elected members of the Nomination Committee in respect of the Annual General Meeting 2019. Märta Schörling Andreen was elected Chairman of the Nomination Committee. In accordance with the Annual General Meeting's resolution, and the share register as of August 30, 2018, Leif Törnvall (Alecta) has replaced Yvonne Sörberg (Handelsbanken fonder) as member of the Nomination Committee. The members of the Nomination Committee represent around 42 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 two minuted meetings. 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

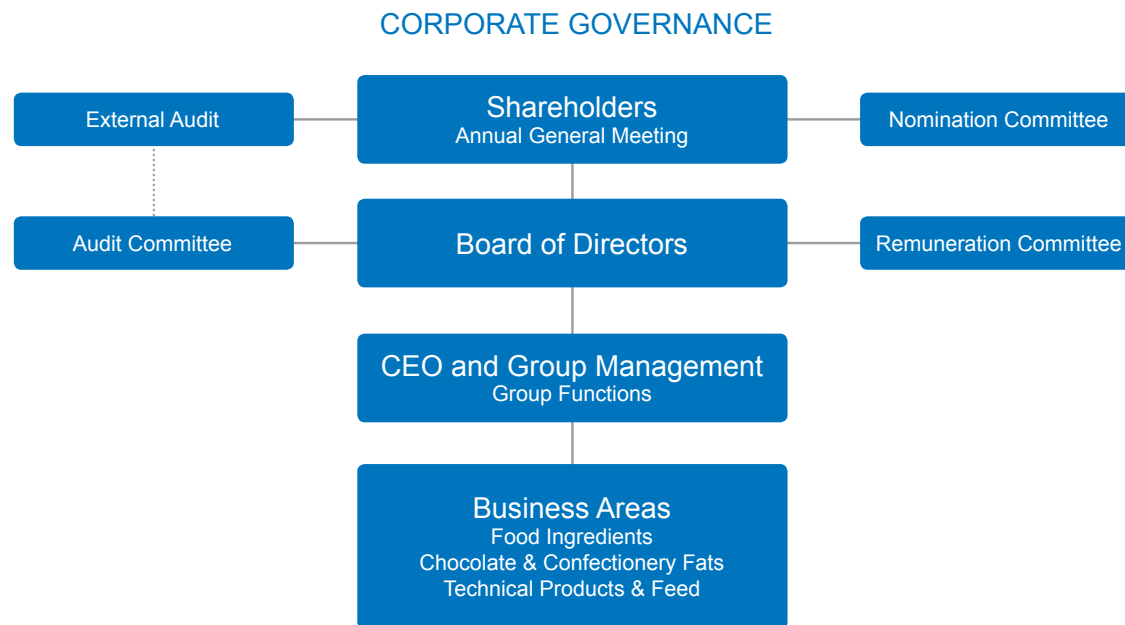
The tasks of the Board are regulated in the Swedish Companies Act and the Articles of Association. In addition to this, the work of the Board is regulated by the working practices adopted by the Board each year. The procedural rules of the Board also regulate the distribution of work and responsibilities 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 overall 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 2018, 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 one new member were elected. Mikael Ekdahl declined re-election. Georg Brunstam 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. Georg Brunstam was appointed Chairman of the Remuneration Committee and Märta Schörling Andreen was appointed member. Georg Brunstam is also Director of the Board of Melker Schörling AB, which holds around 31.8 percent of the votes in AAK. Georg Brunstam 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. Mikael Ekdahl, lawyer, 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.

#### 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 30, 2018, at which meeting all members were in attendance.

#### Chairman of the Board

At the Annual General Meeting held on May 30, 2018, Georg Brunstam 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 2018

The Board held 10 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 2018

Member	Board of Directors	Audit Committee	Remuneration Committee
Number of meetings	10	4	2
Georg Brunstam	7		1
Marianne Kirkegaard	10		
Gun Nilsson	10	4	
Lillie Li Valeur	10	4	
Märta Schörling			
Andreen	10	4	2
Leif Håkansson	10		
Bengt Baron	10		
Lena Nilsson	7		

Georg Brunstam has attended all Board and Remuneration Committee meetings since he was elected member of the Board at the Annual General Meeting on May 30, 2018. The same is valid for the union representative Lena Nilsson.

Information about the members of the Board can be found on pages 44–45.

### Fees to Board members

According to the decision of the Annual General Meeting, the total fees to the Board amounted to SEK 3,375,000, to be allocated between the members as follows: SEK 850,000 to the Chairman and SEK 375,000 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 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 83.

### 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 2018 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 as the application of the guidelines for the remuneration of senior executives and the current remuneration structure and remuneration levels in the Company. During 2018, the members of the Remuneration Committee were Georg Brunstam (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 83. During 2018, 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 2019 for a decision.

### Audit Committee

During 2018, the members of the Audit Committee were Gun Nilsson (Chair), Märta Schörling Andreen and Lillie Li Valeur. The Audit 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 Audit 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 2018, the audit company PricewaterhouseCoopers AB was re-elected as auditors up to and including the Annual General Meeting in 2019. Sofia Götmar-Blomstedt, Authorized Public Accountant, was appointed auditor in charge. Sofia Götmar-Blomstedt also has auditing engagements in companies including Coop Sverige, Scandic Hotels Group AB, 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 regulations. 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 five countries: the CEO who is also responsible for HR, CFO who also is responsible for Mergers & Acquisitions, Corporate Communications, and IT, CMO, CTO and President Global Operations, as well as six 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 control, strategy, investor relations, information and legal issues. The CEO and Group management team are presented on pages 46–47. 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/region 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 overall 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 15, 2019 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 10, 2019

Georg Brunstam  
Chairman of the Board

Johan Westman  
President and CEO

Märta Schörling Andreen  
Member

Bengt Baron  
Member

Gun Nilsson  
Member

Lillie Li Valeur  
Member

Leif Håkansson  
Employee representative

Lena Nilsson  
Employee representative

Audited and submitted on April 10, 2019  
PricewaterhouseCoopers AB

Sofia Götmar-Blomstedt  
Authorized Public Accountant  
Auditor in charge

Linda Corneliusson  
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 2018 except for the corporate governance statement on pages 107–115. The annual accounts and consolidated accounts of the company are included on pages 39–116 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, 2018 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, 2018 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. 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 annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company'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 where management 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 management 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 judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated 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.

Key audit matter	How our audit addressed the Key audit matter
<p><b>Revenue recognition</b> <b>– accounting of entered sales contracts</b></p> <p>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.</p> <p>As seen on page 34 and Note 3 of the annual report, AAK applies active risk management. The value of the sales contracts entered, are reported in accordance with IFRS 9 which implies that all of these are valued and reported at market value as at balance sheet date.</p> <p>The market value is determined, as appropriate, on the basis of liquid market prices in an open market and on stock exchange prices.</p> <p>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.</p>	<p>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:</p> <ul style="list-style-type: none"><li>- a review and testing of AAK's internal controls</li><li>- tests of detail through, amongst other measures, random sampling</li><li>- analytical procedures, amongst other things, with the help of data analyses</li></ul> <p>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).</p> <p>In order to ensure the completeness and correctness of the reporting regarding signed contracts, we have, amongst other things:</p> <ul style="list-style-type: none"><li>- created an understanding for, and tested, the controls intended to identify unallowed activities linked to the signing and valuation of sales contracts,</li><li>- tested confirmations from counterparties regarding established sales contracts.</li></ul> <p>No deviations have been noted in the reporting of established sales contracts based on the executed audit, as described above.</p>



## Key audit matter

### **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 34 and in Note 3 in the annual report. Entered purchase contracts (physical contracts and derivative instruments), including inventory on hand, are reported according to IFRS 9, 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.

## How our audit addressed the Key audit matter

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 unallowed activities associated with the subscription and valuation of purchase contracts,
- tested the confirmations received from counterparties 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 1–38, 107–115 and 122–123. The Board of Directors and the Chief Executive Officer 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 Chief Executive Officer

The Board of Directors and the Chief Executive Officer 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 Chief Executive Officer 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 Chief Executive Officer 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 Chief Executive Officer 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/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). 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 Chief Executive Officer of AAK AB for the year 2018 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 Chief Executive Officer 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 Chief Executive Officer*

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 Chief Executive Officer 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 Chief Executive Officer 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/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar).

This description is part of the auditor's report.

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

The Board of Directors is responsible to ensure that the corporate governance statement on pages 107–115 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 by the Annual General Meeting of the shareholders on the May 30, 2018 and has been the company's auditor since the financial year May 1, 2005–December 31, 2005.

Malmö, April 10, 2019  
PricewaterhouseCoopers AB

Sofia Götmar-Blomstedt  
Authorized Public Accountant  
Auditor in charge

Linda Corneliusson  
Authorized Public Accountant

# Financial calendar and Annual General Meeting

## Reporting schedule

AAK AB will provide financial information for the 2019 financial year on the following occasions:

- ◆ The interim report for the first quarter will be published on April 23.
- ◆ The interim report for the second quarter will be published on July 16.
- ◆ The interim report for the third quarter will be published on October 24.
- ◆ The fourth quarter and year-end report 2019 will be published in February, 2020.

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  
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 Annual General Meeting will take place at 2 p.m. on Wednesday, May 15, 2019 at Malmö Arena, Hyllie Stationstorg 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 9, 2019, and if they have given notice that they will attend the Annual General Meeting by 4 p.m. on Thursday, May 9, 2019.

### *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 9, 2019. 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
- or by telephone: +46 (0)8-4029045
- or via [www.aak.com](http://www.aak.com) as soon as possible and no later than 4 p.m. on Thursday, May 9, 2019.

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.

# Financial 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.

# Address

## Contact information

AAK AB (publ.)

Skrivaregatan 9

215 32 Malmö, Sweden

Telephone: +46 (0)40 627 83 00

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

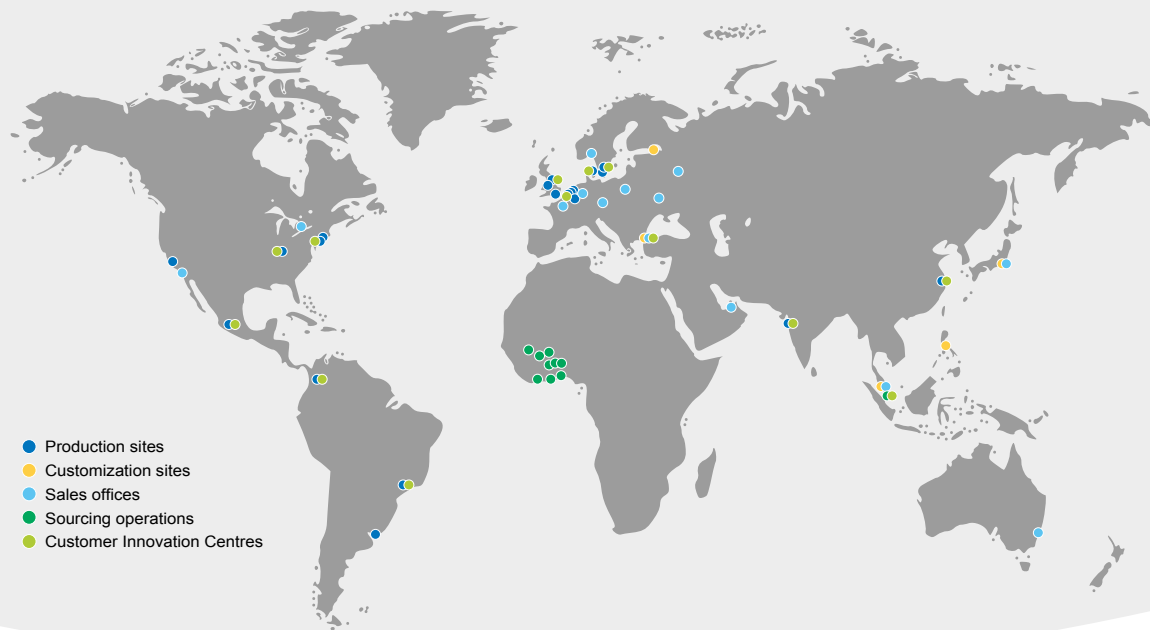
[www.aak.com](http://www.aak.com)

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 2018, 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 more than 20 different production facilities, sales offices in more than 25 countries and more than 3,600 employees.

We are AAK – The Co-Development Company.

