

A close-up photograph of a baby with light skin and blue eyes, smiling broadly. The baby is wearing a long-sleeved shirt with horizontal green and white stripes. They are holding a pink sippy cup with both hands. The background is bright and out of focus, suggesting an indoor setting with natural light. A diagonal white line runs from the top right corner towards the center of the image.

**AAK**

Annual Report  
**2009**



Cover:

AAK has developed InFat, a product with a fat composition similar to mother's milk. At present, InFat has a limited effect on AAK's results, but the future potential of the product is exciting.



## 6-7 AAK's vision

"The first choice for value-added vegetable oil solutions"

With this vision in mind, AAK has, since the merger in 2005, worked in partnership with its customers to create solutions with a value-added content in the form of product quality and sustainable production, with the aim of making products as the first choice.



## 8-9 Summary by the Chairman of the Board

Melker Schörling sums up the four years since the merger and introduces a new President and CEO.



## 10-11 Comments by the CEO

"I am very gratified that my final accounts for AAK will show a significant lower net debt of SEK 2 billion. The improved balance sheet will enable the company to increase the rate at which products with greater value content can be developed in line with specialisation strategy. At the same time, it presents opportunities for acquisitions." Jerker Hartwall is now handing over the reins to Arne Frank.



## 12-13 Healthier alternatives for health-conscious consumers

In recent years, increasing health awareness has resulted in the average consumer becoming much better informed of what he or she should eat to achieve a healthy lifestyle. Despite this, the proportion of overweight people is on the rise, as are cholesterol levels, which means that cardiovascular disease remains a massive problem.



## 14-17 The business model – from purchase to delivery

AAK works exclusively with natural products as its raw material. These are obtained primarily from West Africa and Asia, but also from Europe and the American continent. The raw material is refined in ten production plants. These deliver products which are used as input goods in everyday products and in own-brand end products – in everything from infant foods to lubricating oils.

## 18-29 AAK's three business areas



### Food Ingredients

The principal focus is on trans fat-free alternatives. Consumer demand for sustainable production and healthier products is growing strongly across the world. By working in close partnership with its customers, AAK has been successful in meeting this demand. Through its involvement with the Roundtable on Sustainable Palm Oil, AAK has been one of the first producers to accept responsibility for sustainable development.



### Chocolate & Confectionery Fats

The shortage of cocoa beans and the option of replacing cocoa butter with five percent vegetable oil has opened up a huge market. At present, AAK is a world-leader in this area. Although the global financial crisis has depressed the market in 2009. A strong increase in demand is expected in future years.

The business area also includes raw materials for the cosmetics industry. Vegetable oils have a long tradition as ingredients in skincare products.



#### Technical Products & Feed

The business area includes products as diverse as lubricants for forestry operation machinery, where vegetable oils minimise the problem of emissions to nature, and ingredients for animal feeds.

Stearine candles made from fatty acids produce less carbon dioxide than candles made from paraffin. Vegetable fat leaking from a chain saw becomes part of the natural cycle. Dairy cattle can be given feed made from guaranteed salmonella-free vegetable ingredients.



#### 30-31 Risks and threats

AAK's operations are constantly exposed to risks, threats and external factors which impact on the company. The company has adopted a proactive approach to situational analysis, with the aim of anticipating changes in the factors which affect the company's operations. Plans and policies are adjusted continuously to counteract any negative effects on the company.



#### 32-35 Increased demand for organic and healthy alternatives

Consumer awareness of food and its content has increased in recent times. How food is produced and what ingredients are used are coming under careful scrutiny. One sign of this is the growing demand for organic products, and the range of such products is steadily increasing in the shops.



#### 36-43 Our responsibility for the natural environment and our social responsibility

Social responsibility must go hand-in-hand with environmental responsibility and economic development, otherwise the company's credibility would be seriously damaged. This is an essential attitude, and it is deeply embedded in the Group's operations.

It is, therefore, an obvious step for AAK to develop economically sustainable production methods while taking responsibility for the world around it, right up to the point where its products reach its customers.

#### Financial review

- 45 Directors' Report
- 50 Consolidated Income Statement
- 50 Consolidated Statement of Comprehensive Income
- 51 Consolidated Cash Flow Statement
- 52 Consolidated Balance Sheet
- 54 Consolidated Changes in Shareholders' Equity
- 55 Income Statement – Parent Company
- 56 Balance Sheet – Parent Company
- 58 Changes in Shareholders' Equity – Parent Company
- 58 Cash Flow Statement – Parent Company
- 59 Notes
- 65 Financial Risk Management
- 87 Auditors' Report

#### Supplementary financial information

- 88 The AAK Share
- 97 Definitions

#### Corporate Governance

- 90 Corporate Governance Report

#### Other information

- 98 Board of Directors and Auditors
- 100 Group Management
- 102 Financial Calendar
- 102 Annual General Meeting
- 103 AAK's Glossary
- 104 Addresses

## AAK in 60 seconds



- ◆ AAK uses its specialist expertise and active monitoring of trends and changes in the world in which it operates to turn vegetable oils into products which meet its customers' high standards. In partnership with customers, AAK develops leading global positions with excellent profitability.
- ◆ AAK's products originate in the vegetable kingdom and are renewable. AAK's products are used, for example, as lubricants for forestry machinery. The waste products discharged by the machinery to the ecosystem during the production process have no harmful impact on the environment.
- ◆ The company's head office is in Malmö, Sweden, where it acts as a hub for the whole Group.
- ◆ AAK should be the first choice for customers whose production relies on high value-added vegetable oils. The products are used as substitutes for dairy fat and cocoa butter, as trans-free solutions for fillings for chocolate and confectionery products, as well as by the cosmetics industry. With its high value-added products, AAK is a growing producer of speciality fats for infant formula.
- ◆ Raw materials are obtained from areas such as Asia and West Africa. AAK is committed to sustainable development and is one of the founders behind RSPO, the Roundtable on Sustainable Palm Oil, and GreenPalm Ltd. Through these initiatives, AAK has contributed to the extraction of palm oil through natural agricultural development.
- ◆ AAK has production plants in Denmark, Mexico, the Netherlands, Sweden, United Kingdom, Uruguay and the US.
- ◆ AAK has purchasing and sales offices in several key locations around the world.
- ◆ The parent company, AarhusKarlshamn AB, is a Swedish-registered joint-stock company based in Malmö. The company's shares are listed on NASDAQ OMX, Stockholm, in the Mid Cap segment, Consumer Commodities sector.
- ◆ AAK is organised in three business areas; Chocolate & Confectionery Fats, Food Ingredients and Technical Products & Feed.

## 2009 in summary

- Record high operating profit for Food Ingredients and Technical Products & Feed.
- For the first time the operating result for Food Ingredients exceeded the operating result for Chocolate & Confectionery Fats. The specialisation strategy remains an important factor in the growth of Food Ingredients business.
- Substantial operating profit recovery for Chocolate & Confectionery Fats during the second half of the year relative to the first.
- A world-wide survey among customers in the chocolate industry places AAK at the top.
- Prep ZT, a product used by restaurants and catering kitchens to replace traditional fats, such as margarine, is launched in Mexico.
- The filling fat, DeliAir™, is nominated for the Food Ingredients Excellence Award.
- With growth of 61 percent, Uruguay presents AAK Latin America with an export award. For the second time running, it is also presented with the “Top Sectoral Exporter” award as the country’s largest exporter of oils and fats.
- During the second quarter, AAK recorded insurance compensation of SEK 70 million recognised as non-recurring income and not included in the operating profit of SEK 827 million above. A final settlement with the insurance companies has not yet been concluded.
- A Group-wide CSR policy is adopted. “Sustainable development is a cornerstone of AAK’s operations.”
- Arne Frank has been appointed as President and CEO for AAK as from April 6, 2010.

Operational key ratios (SEK million unless otherwise stated)	2009	2008	2007	2006
Gross contribution	3,744	3,644	3,134	2,723
Gross contribution per kilo, SEK	2.61	2.36	2.12	1.90
Operating profit/loss	827	851	653	455
Operating profit per kilo, SEK	0.58	0.55	0.44	0.32
Earnings per share, SEK	10.14	10.80	8.53	6.32
Return on operating capital, %	12.6	11.0	10.9	7.8
<b>Financial key ratios including IAS 39 and non-recurring items (SEK million unless otherwise stated)</b>				
Net sales	15,884	17,207	13,005	10,929
Operating profit	1,475	151	646	342
Investments	316	396	712	501
Operating cash flow after investments	1,952	-370	-1,083	-325
Net debt	3,186	5,112	4,273	3,026
Equity/assets ratio, %	35	25	28	33
Net debt/equity ratio, multiple	1.08	2.15	1.75	1.31
Earnings per share, SEK*	20.19	0.04	7.67	4.18

\* Earnings per share was calculated using a weighted average of the number of outstanding shares during 2009. Definitions, see page 97. Annual General Meeting, see page 102.

# AAK's vision

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

The vision consists of three important parts:

### First choice

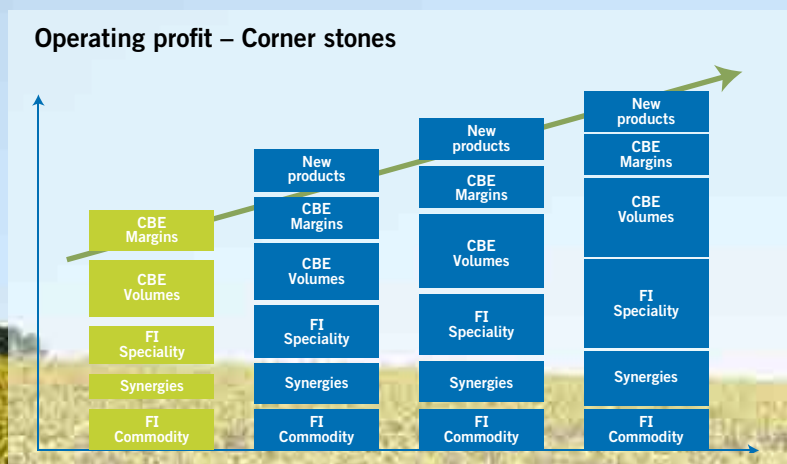
- ◆ The first choice for our stakeholders: customers, employees, suppliers and shareholders.
- ◆ We aspire to be our customers' preferred choice which requires us to be competitive, have consistent quality standards, and to be an ultra reliable supplier.
- ◆ First choice is also about time. We aim to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

### Value-added solutions

- ◆ We sell complete solutions, not just products.
- ◆ Our value-added solutions are based on our expert knowledge of customer needs.
- ◆ A value-added solution is not just a final product but also a complex bundle of services, such as customisation, problem-solving, market advice, delivery systems, technical support and whatever else is required to meet our customers' needs.
- ◆ We continually strive to increase our share of value-added solutions relative to bulk products sales.

### Vegetable oils

- ◆ This is our core business.
- ◆ Our business is built around the world of vegetable oils.
- ◆ We offer a wide range of products and services related to vegetable oils.



# Strategy for the vision

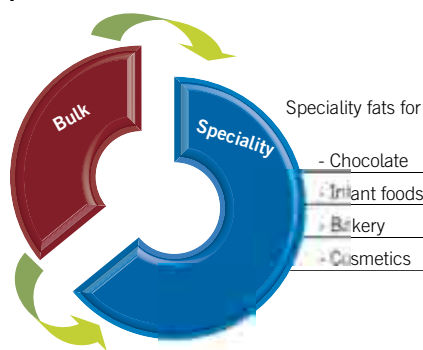
AAK's core business is vegetable oils. The basic business idea is to purchase raw materials and refining them in any of the ten production units in Europe, North America, Mexico and Uruguay.

The raw materials, which are exclusively from the plant kingdom, are found in various parts of the world. They include well-known products such as rapeseed, palm, soya, shea, sunflower and olives. A large proportion of the raw materials are found in Asia and West Africa.

Since the merger in 2005, AAK's fundamental strategy has been to develop products higher up in the value chain, with the aim of reducing the company's dependence on bulk products with relatively low margins and meeting the growing demand for quality products with a high value-added content.

AAK works in close partnership with its customers. Together, we analyse needs and market potential to ensure that AAK can offer attractive solutions which improve the customers' business opportunities. This strategy has resulted in a number of new products,

## From bulk to more speciality products

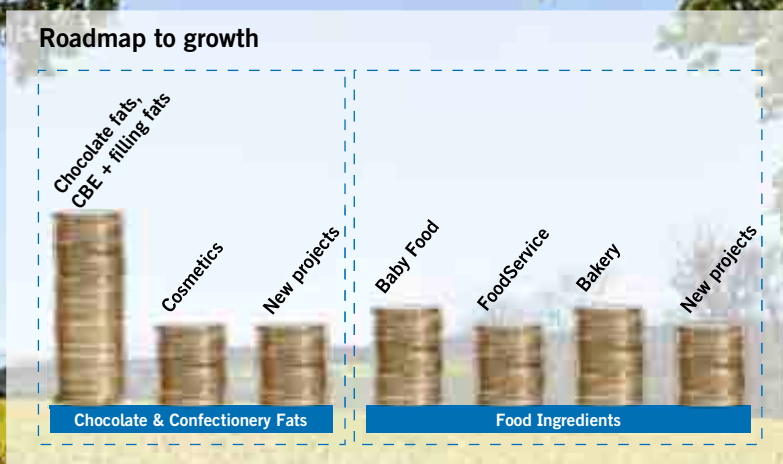


which have generated business opportunities in the bakery sector and the confectionery and cosmetics industries.

AAK's products are only exceptionally marketed to consumers. A significant part of the company's vision of being the first choice is to offer a strong package of services aimed at meeting customers' needs for marketing, transport and development solutions, where

AAK's extensive expertise in the vegetable oil area can, in partnership with customers, result in new products and new business opportunities. A product which has generated a lot of interest in recent years is a fat for infant formula, which is produced in a new facility at the Karlshamn plant in Sweden.

The merger between Aarhus United A/S and Karlshamns AB was the key to developing a strategy for the vision of becoming the first choice for customers looking for value-added solutions. The two companies were competitors with similar products, but with the emphasis on different markets. The merger provided the opportunity for faster expansion, greater competitiveness, optimised investment and improved cash flow. The joint resources have made it possible to build the most advanced plant in the world, where vegetable oils undergo a fractionation process to produce the value-added products which have made AAK a world-leader in the area.



# Summary by Melker Schörling, Chairman of the Board

## Expansion of a world-leading company in profitable niches

***You acquired KF Industri AB share of Karlshamns AB in 2001 and became the principal shareholder of the company. Why did you decide that Karlshamns AB was the company to invest in?***

We monitor businesses with exciting products, which we believe may have the potential for long-term growth in their sectors and which provide a sound basis for international expansion. We noticed that Karlshamns AB had precisely such potential.

***What was your vision for the company when you made the investment?***

Our aim was to turn the company into a world-leader in profitable niches. AAK is now a significant player in the speciality fats market.

***In 2005, Karlshamns AB merged with Aarhus United A/S. Prior to this, both companies had been managing well on their own for decades. Why did you decide to merge?***

The merger of Karlshamns AB and Aarhus United A/S was based on sound industrial logic. The merger made it possible to consolidate the volume product operations in the Nordic region, and provided scope for profitable specialisation at the production plants in Aarhus and Karlshamn. At the same time, the synergies created allowed us to speed up the specialisation process for both companies. Not least, the merger made us a stronger market force.

***From a cultural perspective, how did the merging of a Danish and a Swedish operation work out?***

All mergers have their challenges. But generally speaking, it has worked well. The organisations had different strengths in different areas, for example cocoa butter alternatives in Denmark and food production products in Sweden. The cultural differences have generated a dynamic learning process which has, in turn, improved the company. I really want to emphasise that, today, AAK is a global company with operations in several countries.

***Melker Schörling AB has an active partnership with the Bek-Nielsen brothers, who owned Aarhus United and who are also major shareholders in AAK. How do you work together and how effective is the partnership?***

We work together extremely well. The Bek-Nielsen brothers' expert knowledge of the vegetable fat industry is an extremely important contribution to the work of the Board of Directors.

We complement each other well, which creates positive dynamics among active shareholders. It is something that the company can really benefit from.

***When you invested in Karlshamns AB, the company had sales of SEK 2.5 billion. Today, AAK has sales worth SEK 16 billion. Do you feel that the company has achieved the position you wished for when you made your investment?***

Our strategy is to try to turn all holdings into leaders in their respective business areas. With AAK, we are, at present, well on the way. The company is now a leader in a number of niches, such as cocoa butter replacement products. But there is more to do. I am planning to make even better use of the company's deep expertise in the speciality fats area.

***What does the future hold for AAK? Where do you hope the company will be in, let's say, ten years' time?***

By broadening the speciality fat range, not least in the health area, we can expand the operation into new market segments. We can also continue our efforts in the areas of sustainable raw materials supplies and production. An excellent example of AAK's approach is the profitable collaboration with the population of West Africa, which earns a living from collecting shea.

***Will Melker Schörling AB still be an owner in ten years' time?***

We always take a long-term view of our holdings, so I assume that it will. We want to work closely with others, to provide support for the company on its exciting journey.

***Jerker Hartwall is stepping down as CEO after ten years. He will be replaced by Arne Frank. Will this involve any changes to AAK's strategy?***

Ten years is a long time as a CEO of a quoted company. Jerker has done an excellent job, and a change at the helm is a natural next step. Arne will take over and will continue to improve AAK in line with the goals we have adopted. He has demonstrated a great deal of energy and ambition, and has been highly successful in previous appointments. I am completely confident that everything will be just fine.





*Arne Frank took over as President and CEO from Jerker Hartwall on 6 April 2010. Arne Frank is 52 years old and has a degree in industrial economics from the Institute of Technology at Linköping University. He is the Chairman of the Board of Carl Zeiss Vision where he previously worked as President/CEO. Prior to this, Arne Frank's principal career included working as the CEO of TAC for many years.*

## Comments by the CEO, Jerker Hartwall

### ***In your view, what were the most important events in 2009?***

I am obviously delighted with the operating profit. Our action programme bites. It is a clear sign that the fundamental idea behind the merger was correct. At the end of 2010, there will be cost savings of SEK 100 million, with additional reductions of SEK 200 million in 2011. As of 2012, we will be running an operation with costs around SEK 500 million lower than when the companies were merged.

### ***The market has not been impressed by the cash flow level.***

I am very gratified that my final accounts for AAK will show a significant lower net debt of SEK 2 billion. The improved balance sheet will enable the company to increase the rate at which products with greater value content can be developed in line with our specialisation strategy. At the same time, it presents opportunities for acquisitions.

### ***Looking at the operating profit per business area, it is clear that Chocolate & Confectionery Fats, CCF, has experienced a drop compared with previous years. Any comments?***

Confectionery products and cosmetics were hit harder by the global downturn. In Western Europe, the fall is expected to be around 5-10 percent. At the same time, clients dealt with some of their own financing issues by reducing inventories. Consumer patterns also changed and the effect for us was that CCF was put under greater pressure. But we noticed a significant recovery in the second half of the year. This also coincided with a poor cocoa bean harvest, which resulted in increased demand for replacement fats.

### ***Arne Frank's first impressions***

*During an extremely interesting introduction period, I have had the privilege of meeting many of the key members of AAK's management team and of the various business area teams, as well as a large number of customers. Sharing their knowledge, experiences and views has proved extremely useful as I prepare to formally take over the reins. It has been particularly important to gain an in-depth understanding of the values of the company, such as respect for the world in which we operate. The reactions of our clients have been a strong indication that our strategies are right on the mark, with a strong focus on the continued development of speciality products. This, as well as a selective acquisition strategy based on a strong balance sheet, will move AAK forward and ensure a continued strong improvement in profitability, says Arne Frank.*

### ***FI (Food Ingredients) contributes even more than CCF to the Group's profits.***

Yes, this is further proof that our strategy holds water. Specialisation is an important factor for our growth. FI produced a record profit. The business area is selling more of its own brands to the bakery sector, while it continues to develop new products in partnership with its clients. Much of this is due to pressure from the consumer market for products with more health benefits. Our oils and fats, which are produced from natural vegetable raw materials, can meet this demand.

TPF (Technical Products & Feed), which is our smallest business area, also performed well and generated its best results ever. This business area is based on residual products from our production operations. TPF supplies lubricating oils which re-enter the natural cycle in an environmentally-appropriate manner. We also offer livestock feeds based on vegetable ingredients, which reduce the health risks to the animals.

### ***Would you like to comment on the trends in the various markets?***

I believe that all markets are performing well. The trend in Central Europe and on the American continent is very strong. In the US, expansion is somewhat hampered by a shortage of production capacity. This has been offset by deliveries from our plants in Europe. We have reduced the risk of excessive exposure in Eastern Europe.

### ***How significant was the impact of the fire in Aarhus during the year?***

Of course, delivery volumes were affected. But I don't believe that it had any negative impact on our long-term customer relations. Financially, we received compensation in line

with our insurance policies. The final settlement is, however, not yet completed, but we included compensation worth SEK 70 million as a non-recurring item in the accounts for the second quarter. This is, therefore, not included in the operating profit of SEK 827 million.

### ***If you were to put the spotlight on one of your products in 2009, which one would it be?***

There are so many developed by our skilled engineers, but one which I would really like to promote is the speciality fat for mother's milk replacement, which we have developed in partnership with the Israeli company, Enzymotec. This type of product is subject to very specific requirements, and we are now right in the lead. The fat is produced at our plant in Karlshamn, and we are expecting considerable growth in this area.

### ***2009 was your tenth and final year at Karlshamns AB and AAK. What do you think of your time here?***

You should always be careful when dwelling on the past. The future is far more important, but without a past there is no future. During my years here, I have worked for a group consisting of two companies both with a long history, and which have been around since the turn of the 20th century. I have had the privilege of working with products which form part of people's everyday lives, and nowhere is this more obvious than in the products included in the food we eat. Our oils are also used in a large number of other products and production processes, and I feel proud to have been part of that.

But without a loyal and competent employees, it would have been impossible to achieve improvements which, at times, have been the result of fierce cost-cutting exercises. The merger has also required employees to work hard to achieve tough targets. In this, my last comments as the CEO of AAK, I would, therefore, like to thank those who have been part of the journey. I now hand over the responsibility to Arne Frank.

# Healthier alternatives for health-conscious consumers

**In recent years, increasing health awareness has resulted in the average consumer becoming much better informed of what he or she should eat to achieve a healthy lifestyle. Despite this, the proportion of overweight people is on the rise, as are cholesterol levels, which means that cardiovascular disease remains a massive problem.**

**The explanation for this somewhat contradictory picture is that the preparation of food from fresh ingredients is increasingly being replaced by the use of convenience and semi-processed foods. This trend means that food producers must offer foods which are both “convenient” and tasty, but which also meet the requirements of a healthy nutritional profile.**

## **ALA – an essential Omega-3 fatty acid**

The modern western diet normally contains too little polyunsaturated fat, and is especially deficient in Omega-3 fatty acids.  $\alpha$ -linolenic acid, ALA, is an essential Omega-3 fatty acid; it is essential to our wellbeing, but is not produced by our bodies. It must be obtained through our food intake. ALA can be found,

for example, in rapeseed and linseed. Long-chain Omega-3 fatty acids are found naturally in fish in particular. Anyone who does not eat sufficient quantities of these foods may have to obtain fatty acids from other Omega-3 enriched sources.

## **AAK offers Omega-3 in the form of Specidol**

Omega-3 fatty acids are polyunsaturated fatty acids which are easily oxidised, taste of fish or go rancid if not handled carefully. Specidol is an oil blend with neutral flavour and odour, which contains high levels of Omega-3. Controlled processing in a protected environment, as well as the addition of carefully-tested antioxidants, ensures a highly stable product.

By replacing some of the fats in food with Specidol, the end product can obtain added value in the form of a healthier fat profile. As a step in its large review of nutritional and health claims, the European Food Safety Authority, EFSA, recently approved the health claims attached to Omega-3 fats. If the product contains sufficient quantities of Omega-3 fatty acids, it may be labelled “rich in Omega-3” or “a source of Omega-3”.

Specidol is used in a number of different products, such as dairy products, bread, dressings, convenience food etc.

## **Cholesterol-lowering plant sterols**

Cardiovascular disease remains one of the most common reasons for early deaths in many Western European countries. High levels of the bad LDL cholesterol is a contributory factor. Scientific studies have shown that a daily intake of plant sterols – the plant equivalent to cholesterol – reduces the amount of LDL cholesterol in the blood.

Plant sterols count as “Novel Food” and must be approved before they can be sold in the EU. There is also special legislation which governs the labelling of products containing plant sterols. In accordance with current legislation, AAK has obtained approval from the EU commission to market Vividol®.

## **AAK offers plant sterols in Vividol®**

Vividol® looks like a “regular” fat and can be used to replace part or all of the fat in a food product. Adding Vividol® to a product generates added value in the form of a cholesterol-lowering effect. Just as with Omega-3, the authority has adopted rules for what claims may be made on packaging, with the aim of providing consumers with accurate information. Products containing Vividol® are permitted, for example, to carry the following consumer information:

“2 g sterols per day can reduce cholesterol by 10 percent in 3-4 weeks”.

The application area for Vividol® is also regulated under Novel Foods approval and includes portion packs of dressings, dairy products and margarine.

## **Strong growth predicted for enriched products**

A number of reports predict that the market for products enriched with Omega-3 and/or plant sterols will continue to grow. Health-conscious consumers are willing to pay for the added value of healthier products. According to a report published by Frost & Sullivan, products enriched with plant sterols may fetch a price five times that of the traditional equivalent.





# The business model – from purchase to delivery

**AAK's business model is based on the opportunity to take advantage of the properties of vegetable oils. AAK purchases vegetable raw materials from around the globe in an ethically and environmentally appropriate manner. These are processed in the company's plants and turned into products which have often been developed in partnership with clients.**

Rapeseed, palm and shea are important elements of the company's strategy of developing products with a higher value added, primarily for use by the food, confectionery and cosmetics industries.

AAK has a deep and wide-ranging knowledge of fats. This is the result of decades of operation in an area essential to human life.

- ◆ We need fat. It is part of all the cells in the body. Our bodies need it to produce hormones and other important substances.
- ◆ Vitamins A, D, E and K are fat-soluble. This means that the body's ability to absorb these vitamins is dependent on the presence of fat.
- ◆ Fat provides us with energy. Every gram of fat contains nine calories. Carbohydrates and proteins contain four calories per gram.
- ◆ One-third of the energy we require daily has to come in the form of calories from fat. For adults, this means a daily fat intake of 60-90 grams.

Fat is a substance essential to life. There are different types of fats. They are primarily divided into four groups. Saturated fats and trans fats increase a person's cholesterol level, while unsaturated fats lower it.

- ◆ *Saturated fat* is found in animal products such as butter, cream, milk, meat and vegetable oils from tropical plants, such as coconut oil and palm oil. Saturated fats are recognised by the fact that they remain solid at room temperature.
- ◆ *Monounsaturated fat* is found in almonds, olive oil, rapeseed oil and other vegetable oils. Monounsaturated fat is suitable for cooking, since it copes better with heating than polyunsaturated fat.
- ◆ *Polyunsaturated fat* is found in shellfish, oily fish such as salmon, mackerel, herring and sardines, as well as in vegetable oils made from rapeseed, sunflower seed, soya and corn. Polyunsaturated fats are called Omega-3 and Omega-6.
- ◆ *Trans fats* are a particular form of unsaturated fats. They occur naturally in milk and fat from ruminants, but are also formed when vegetable fat is hardened.

The development of the properties of fat involves continuous work to offer the market healthier products. AAK uses a wide range of raw materials to develop, in partnership with its clients, types of fats aimed at meeting increasingly diverse requirements.

## Raw materials gathered from all over the world

- ◆ Rapeseed from Northern and Central Europe.
- ◆ Palm oil from Asia and Latin America.
- ◆ Olive oil from Southern Europe.
- ◆ Soya from the US and South America.
- ◆ Sunflower seed from Eastern Europe.
- ◆ Shea from West Africa.
- ◆ Corn primarily grown in America, Eastern and Southern Europe.
- ◆ Coconut from Malaysia and the Philippines.

While we must continue to respect the world around us, there is increasing demand for more sophisticated fats. Much of the raw materials supplied to AAK's refineries is made up of rapeseed, palm and shea.

The oil palm is a native of West Africa, but was introduced as an ornamental plant in Malaysia around 1875. Palm oil production really took off after the Second World War, and each palm tree produces bunches of up to 3,000 fruits. Palm oil is extracted from the pulp, while kernels are used in the production of palm-kernel oil. Today, palm oil is the most common vegetable oil in the world.

With the exception of palm oil, most oils must be hardened to make them sufficiently solid. Palm oil is, therefore, an important raw material for AAK. In partnership with WWF, AAK is one of the initiators of the Roundtable on Sustainable Palm Oil (RSPO), with representation at committee level. As such, AAK supports sustainable production methods for palm oil. AAK formed a subsidiary, GreenPalm Ltd, with the aim of organising trading in RSPO certificates. This AAK company has an exclusive contract with RSPO, under which it can offer buyers and sellers of palm oil a unique opportunity to avoid the ruthless exploitation of the plantations.

In 2008, AAK was the first company in the world to import segregated RSPO – certified palm oil into Europe.

Shea is another raw material of increasing significance to AAK. This has been used in West Africa since time immemorial as a skin care and protection product. Shea butter is also used in cooking. "The holy tree" is highly treasured by the local population. It is only in recent years that the western world has become aware of the moisturising and protective properties of shea butter.

AAK was quick to take the initiative and has now become a world-leading producer of shea fat for the chocolate and cosmetics industries.



## From the savannahs of West Africa to AAK's factories

Shea trees



Local population



Market



AAK



This has largely been achieved through a strong local presence in West Africa.

The shea tree grows wild on the savannah, and the raw material is found in the Sahel area of West Africa, Burkina Faso, Benin, the Ivory Coast and Ghana. It is in these countries that AAK has built up an extensive supply chain, from offices in towns and cities to local gathered.

As a world-leading producer of shea fats, it is important that AAK accepts social and ethical responsibility for both the raw material itself, and for the whole production chain.

The shea fruit is about the size of a chestnut. As soon as it is collected, it is dried and later used to produce shea butter. Shea is collected by the local population in the villages, and sold to AAK. The quality is checked a final time by AAK's own local laboratories, before the shea kernels are shipped to Aarhus (Denmark).

AAK is one of the few companies in the world which is able to use a multi-stage cooling process to separate the shea oil infractions. This forms a product which can be used as a cocoa butter equivalent in chocolate production.

Oil pressed from shea has become increasingly important to AAK, in line with the growth in chocolate products around the world. Cocoa is a relatively expensive raw material, and market prices fluctuate wildly from one year to another. This means that the chocolate manufacturers can make significant savings by replacing cocoa butter with vegetable fat alternatives.

In the EU, it has been permissible since 2003 to replace up to 5 percent of the cocoa butter in a chocolate product with other vegetable fats and still sell the product as chocolate. This rule, which has been adopted in several ways by different countries, has had and continues to have a positive impact on the demand for cocoa butter equivalents.

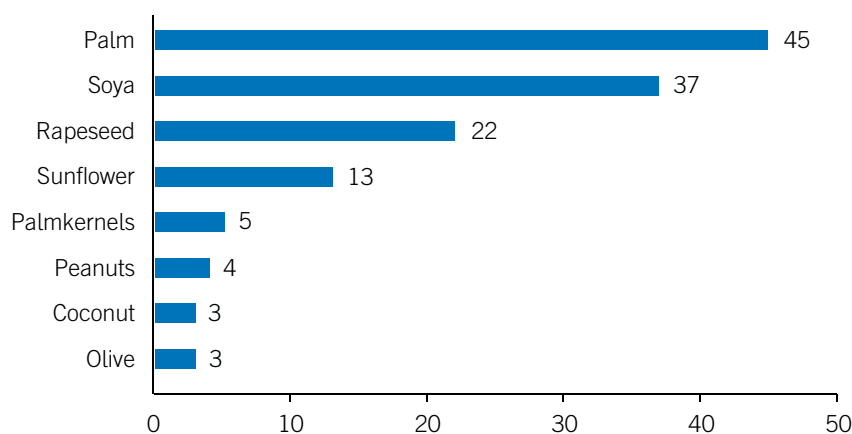
In 2009, there was a drop in the cocoa harvest towards the end of the year. The price of cocoa rose on the cocoa exchange to its highest level in 30 years.

AAK's value-added is created in ten factories in seven countries. The factories in Aarhus and Karlshamn are responsible for the bulk of production, especially for the production of more sophisticated, high value-added products.

### Raw materials

- ◆ *Rapeseed*
  - 6 % saturated
  - 94 % unsaturated of which 11 % Omega-3
- ◆ *Sunflower*
  - 10 % saturated
  - 90 % unsaturated
- ◆ *Olive*
  - 15 % saturated
  - 85 % unsaturated
- ◆ *Palm*
  - 50 % saturated
  - 50 % unsaturated
- ◆ *Coconut*
  - 91 % saturated
  - 9 % unsaturated

### World production 2009\*



\* Preliminary figures.

Million tonnes



### USA

#### Port Newark, New Jersey

*Products:* Speciality fats for the bakery and general food processing industries, as well as speciality fats for the chocolate and confectionery industries. Trans-free products with low saturated fat levels.



### Mexico

#### Morelia

*Products:* Speciality fats for the chocolate and confectionery industries, including a completely trans-free range, and a number of DFA (dairy fat alternatives) products, as well as speciality products for the bakery and general food processing industries.



### Uruguay

#### Montevideo

*Products:* Speciality products for the chocolate and confectionery industries in the South American market.



### Denmark

#### Aarhus

*Products:* Speciality fats for the chocolate and confectionery industries, bulk oils, speciality products for the cosmetics and pharmaceutical industries.





## United Kingdom

### Hull

*Products:* Oils and fats for restaurants and catering kitchens, bulk oils, speciality products for the bakery, cosmetics and pharmaceutical industries.

### Oldham

*Products:* Speciality products for the bakery industry.

### Runcorn

*Products:* Oils and fats for restaurants and catering kitchens.

## The Netherlands

### Zaandijk

*Products:* A number of different special products, including trans-free powder fats and ingredients for infant formula and bakery products.



## Sweden

### Karlshamn

*Products:* From basic oils to speciality fats for the chocolate and confectionery, cosmetics and pharmaceutical industries, as well as a number of food processing applications which includes a complete range of trans-free products and a number of DFA (dairy fat alternatives) products. Production of speciality oils for infant foods, animal feed raw materials, technical oils, fatty acids and glycerol.

### Dalby

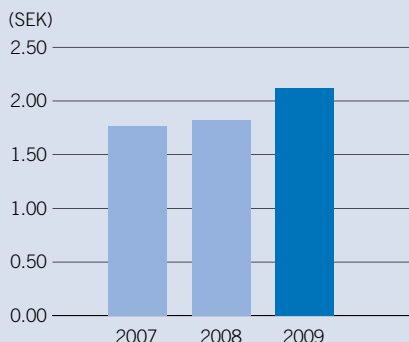
*Products:* Margarine and oil for restaurants, bakeries and catering kitchens.



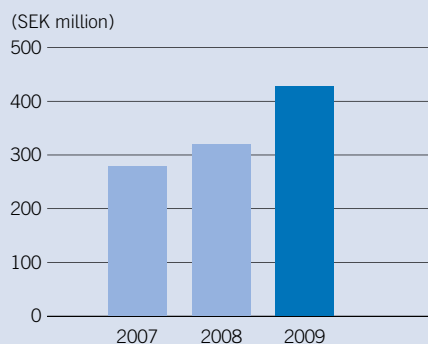
## Food Ingredients

(SEK million)	2009	2008	2007
Net sales	9,702	10,413	7,500
Gross contribution	1,906	1,708	1,585
Gross contribution SEK per kilo	2.12	1.82	1.76
Operating profit	427	319	279
Volumes, thousand tonnes	898	940	898

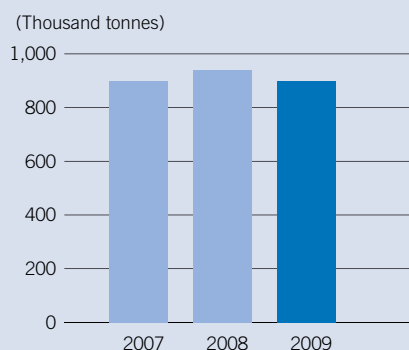
### Gross contribution per kilo



### Operating profit



### Volumes



## Food Ingredients

**Food Ingredients is AAK's largest business area. 2009 was a highly successful year, despite the global recession. One of the business area's main strengths is its ability to develop customised solutions fast in response to health trends in the industry.**

Food Ingredients has continued to defend its position as the natural choice for vegetable oil for a broad customer base in a market which remains volatile, and in the face of extremely tough competition. One of the business area's prime strengths is its ability to respond quickly and adapt to changes and new requirements in the food processing industry. The Group's extensive know-how and constant development work mean that it can respond rapidly to new trends by offering new products quickly. Food Ingredients' ambition, to put it simply, is to utilise the constant changes in the market, with the aim of generating continued growth.

### Trends in the food processing industry

The trend towards healthy food continues to dominate developments in the food processing industry. Rapeseed is one of the most important raw materials for AAK, and the company buys virtually the whole Swedish rapeseed harvest. The composition of rapeseed oil, with the lowest saturated fatty acid content of any oil and a high level of healthy Omega-3, makes it an increasingly sought-after food ingredient.

The demand for reduced trans fat and saturated fat levels is driving development for products with greater value-added, and this benefits AAK. The company's customers are responding to calls from consumers for trans fat-free alternatives, as well as products containing lower levels of saturated fat. A relatively new trend is functional foods, an area where AAK enjoys an important advantage, since it can offer healthy alternatives based on purely vegetable raw materials.

The fastest-growing market segment in the food processing industry is convenience foods, a product group which includes ready meals and snacks, which require speciality oils in their preparation. More and more meals are consumed outside the home, and this trend is expected to continue over the next few years.

The market is increasingly demanding traceability and long-term sustainable production methods. As one of the founders of RSPO (the Roundtable on Sustainable Palm Oil), AAK is working actively with businesses and voluntary organisations to develop sustainable methods for palm oil production. Through its subsidiary, GreenPalm Ltd, AAK has developed a system for trading in certificates for RSPO-certified, sustainably-produced palm oil. The certificates system is essential if the proportion of certified palm oil is to increase, and the trade in certificates has, to date, been responsible for 75 percent of the total trade in certified palm oil. GreenPalm has an exclusive agreement with RSPO for the trade in certificates.

AAK also offers segregated certified palm oil. AAK's plant in Hull was the first refinery in the world to be approved by RSPO for delivery of segregated certified palm oil. The plant was also the first to offer this to customers at the end of 2008.

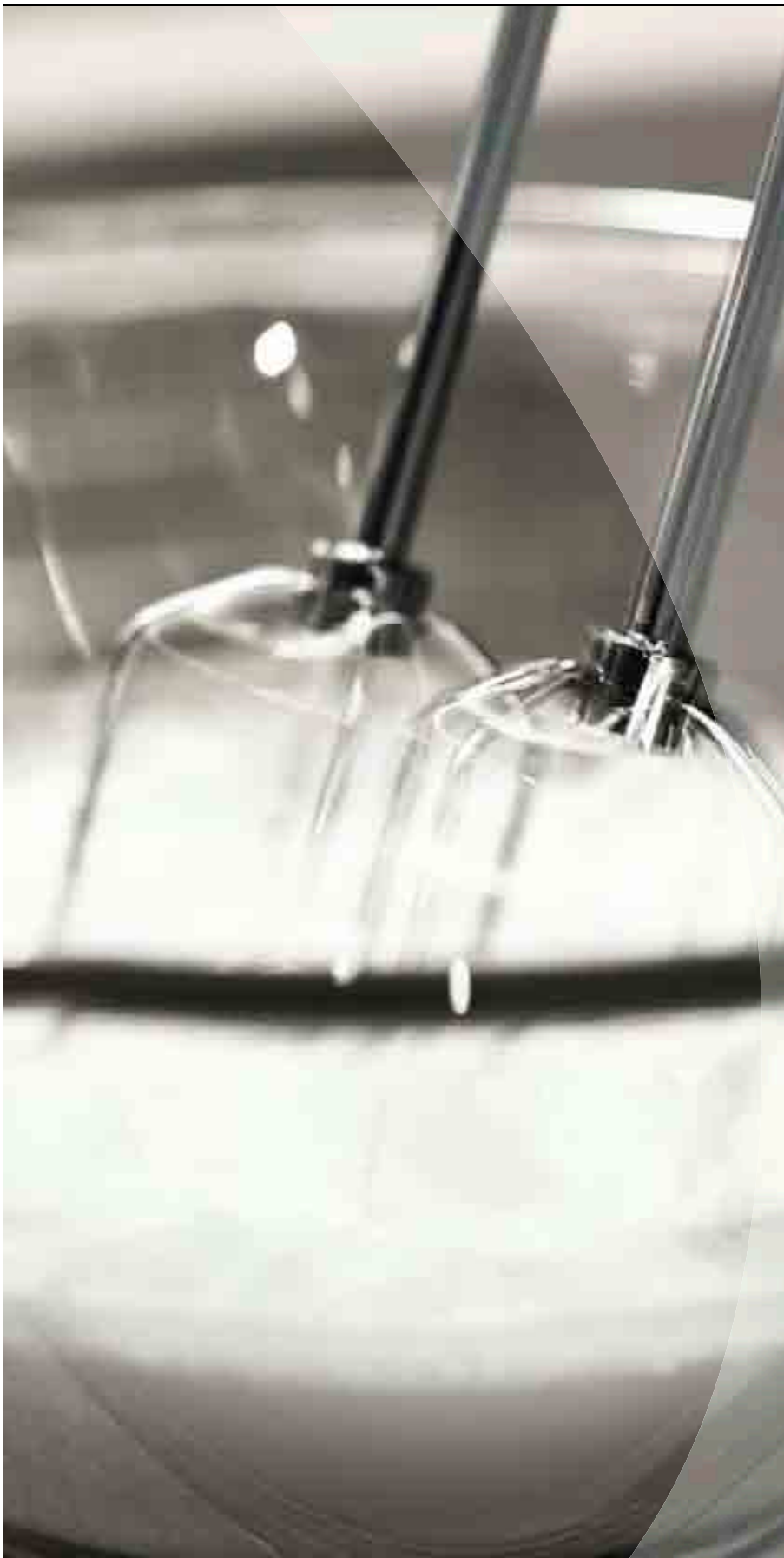
The company has purchased certificates for palm oil used in own-brand products for catering kitchens.

The demand for certified palm oil is expected to grow and several major customers have specified dates by which they aim to switch to certified palm oil.

### A tough market

Food Ingredients has several major competitors, primarily ADM, Bunge and Cargill in the standard products area, and IOI, Lodgers and Fuji Oil in the speciality and niche product segment. In Europe, there are, in addition, 120 local refineries which together have a real impact on the competition in the market. The market as a whole is the subject of fierce competition. In certain segments, AAK does, however, benefit from its cutting-edge position in product development, particularly with reference to dairy fat alternatives, oils and fats for the bakery industry and speciality fats for infant formula.





### Customised solutions

The products can be divided into three main categories:

- ◆ The most basic consist of bulk oils, and this is where most of the competitors are found.
- ◆ The next category consists of more customised solutions, which meet specific customer requirements in respect of function, adaptation to production methods, health and marketing issues.
- ◆ The third category consists of speciality products, which are primarily aimed at the following segments;
  - Dairy
  - Bakery
  - FoodService (Restaurants and catering kitchens)
  - Baby Food

AAK aims to progress up the value chain and increase its proportion of speciality products. At present, the distribution of standard and speciality products is relatively even. Since transports are responsible for a relatively large share of overall costs, Food Ingredients is, to a great extent, a regional operation, although the market for speciality products with high added value is more global than that for standard products.

The flexibility of the business area as a market player starts in the production plant. The complex infrastructure has been designed with careful regard for both efficiency and flexibility. This is something which permeates the whole value chain, including delivery of raw materials, warehousing, refining, packaging and distribution to customers.

AAK's product solutions are aimed at adding value to the customers' end product. Consistent and high quality is, of course, also important, as is a high level of product reliability. In both these areas, AAK is well ahead of the industry as a whole. A genuine understanding of applications, an ability to adapt quickly the operation to changes in the market and close collaboration with customers have earned AAK an excellent reputation as a supplier of products with high added value.

In recent years, AAK has developed numerous new products. For all markets, the focus has been on lowering saturated fat levels. The focus on these products is increasing further. The authorities in, for example, United

Kingdom, as well as the potential introduction of a tax in Denmark, are driving a trend for increasing demand for polyunsaturated fats among producers and consumers alike.

One example is Essence™, which was launched for the US bakery industry.

New products in this area include Akomix LS, a patent-pending fat for the production of ice-cream. It contains less than half the amount of saturated fat of the standard products. Another is Akotop NH100, a non-hydrogenated fat for vegetable cream.

The concept provides AAK customers with the opportunity to offer their customers healthier products. It is yet another example of how AAK develops new products in close collaboration with its customers.

InFat is a new ingredient for infant formula. It is a product with an exciting potential for the future.

### Knowledge transfer at AAK

In 2008, AAK started utilising the opportunity to combine the skills of employees in different countries in development projects, and using this as a resource as and when needed. The competence transfer has proved successful, and in 2009, knowledge of flaked fat and FoodService was transferred from United Kingdom to Mexico. This contributed to an increase in interest in AAK products among a new group of customers.

## Regional markets

### Europe

The plants in Denmark and Sweden make AAK a leader in the Nordic market. The company offers the food industry a comprehensive range of products. The acquisition of Rapsona in Sweden in 2008 confirmed AAK's position as a supplier of vegetable oils within the FoodService segment (restaurants, catering kitchens and bakeries).

AAK's position as one of the leading suppliers of speciality oils to the infant foods industry was confirmed through the investment in a new production unit in 2008. In combination with the Dutch plant, the plant in Sweden is the base for the company's efforts in the infant foods segment.

The position as one of the leading suppliers of speciality oils for the infant foods industry was established following the investment in a new production unit in 2008. Together,

the plants in Sweden and the Netherlands represent the basis for the venture in the infant foods segment.

AAK enjoys a historically strong position as a supplier for the food industry in Central and Eastern Europe. The year was dominated by intensive competition and the effects of the global financial crisis.

In United Kingdom, the focus was on defending existing market shares. The company's principal operation continues to be the plant in Hull, the Oldham-based AAK Bakery Service and the Runcorn-based AAK Foods. The vegetable oils produced, for example, from palm, sunflower and rapeseed, are primarily used by the United Kingdom food industry.

One of the most important customer segments is the bakery industry. AAK Bakery Services offers an extensive product range to the industry. This has improved AAK's relations with some of the major players on the market.

The Prep brand is a market leader in United Kingdom in the segment dealing with oils for restaurants and catering kitchens. This range includes high-quality vegetable oils for deep-frying, and the sale of Prep products increased as a result of the launch of new products. Sauces sold under the Lion brand continued to grow in 2009. AAK Foods principal success is, however, due to the production of own-brand products, which have been very well received.

### Mexico

In the Mexican market, AAK is now one of the largest companies in vegetable oil, even though Mexico is a country with many competitors. AAK has an excellent reputation for quality, service level and the ability to develop new products.

Food Ingredients Mexico can look back at yet another successful year despite the deep recession which dramatically reversed the positive trend in GNP, even though consumption within the country remained relatively stable. The trend for Mexico to become a production base for markets in the US continued. The production plant in Morelia has a central location, right in the middle of the major food producers. The health trend which characterises the US food industry continues to make inroads in Mexico, and multinational producers are encouraging

this by using healthier oils and fats in their products.

Food Ingredients offers customers a broad range of products suitable for most food industry operations. The most important production range are fats for the bakery industry, snacks, deep-frying oils, margarine and other alternatives to animal fats.

### USA

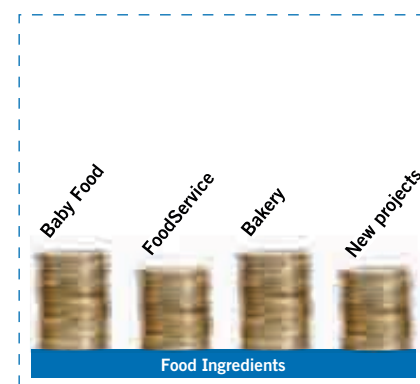
In 2009, AAK's products were in great demand in the US market for industrial raw materials.

Based in Port Newark, New Jersey, in the densely populated north-eastern part of the country, AAK enjoys an excellent position in comparison with most of its Midwest-based competitors.

The North American market for vegetable oils is characterised by a growing health awareness. Demand continues to increase for vegetable oils free from trans and hydrogenated fats. A further challenge is posed by the fact that customers are demanding the lowest possible amounts of saturated fat.

Food Ingredients is very well positioned to satisfy this trend. AAK's principal strength lies in its ability to stay one step ahead of modern product trends and customer expectations. Excellent customer relationships, skilled field-based technicians and flexible production methods are the key to a company which can deliver solutions adapted to customer needs.

### Growth areas





# Chocolate & Confectionery Fats

**Business area Chocolate & Confectionery Fats produces speciality vegetable fats used as cocoa butter replacements in chocolate products, as well as speciality products for the cosmetics industry. For several consecutive years, the market for chocolate fats experienced strong growth, but this slowed down somewhat in 2009.**

AAK enjoys a world-leading position. The total production of chocolate-based confectionery products on the world market is around 7 million tonnes. Due to the financial crisis, consumption fell slightly in the past year.

AAK develops and markets products based on vegetable fats (lipids) for use in the cosmetics industry. The trend towards natural raw materials in the cosmetics industry, in combination with AAK's unique products, has produced significant growth in the segment in recent years.

## Speciality products for the chocolate and confectionery industry

**CBE (Cocoa Butter Equivalents) is responsible for the greatest growth in the Chocolate & Confectionery Fats area, with an historic annual growth in double digits. For 2009, a slight fall has been noted as a result of the global recession. The opportunity to replace some cocoa butter with comparable alternatives made from other vegetable fats has opened a market in which AAK has proved successful.**

In addition to growth in the CBE (Cocoa Butter Equivalents) area, AAK has successfully introduced new CBR (Cocoa Butter Replacer) and CBS (Cocoa Butter Substitute) products. AAK has a broad product range of specialised and customised cocoa butter alternatives, which makes this a multifaceted business area. Every stage of the value chain requires specialist expertise – from the purchasing of raw materials to marketing and sales.

AAK has unique expertise, and the ambition is to work in close partnership with customers to expand the competence in this area.

The chocolate and confectionery market is largely dominated by global manufacturers. Six producers – Mars, Nestlé, Cadbury, Kraft,

Ferrero and Hershey – have 60 percent of the market in total.

Most of the products supplied to the market by AAK come from plants in Aarhus (Denmark), Karlshamn (Sweden), Hull (United Kingdom), Morelia (Mexico), New Jersey (USA) and Montevideo (Uruguay), but some production also takes place in Zaandijk (the Netherlands).

Cocoa butter is an ingredient used in all kinds of chocolate products. One of the strongest driving forces behind the substitution of cocoa butter with AAK cocoa butter alternatives is the price. The price of cocoa butter as a driver for expansion increased further in 2009, when cocoa butter prices reached its highest level for 30 years.

### Shea the principal raw material

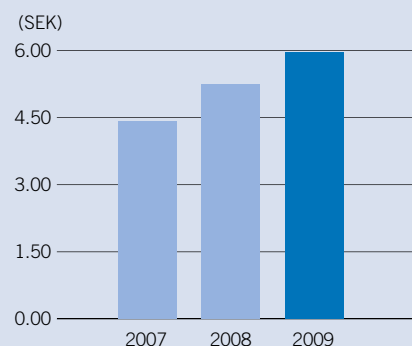
The production of a broad speciality range of cocoa butter replacement fats requires a large number of exotic raw materials. Shea is the most important of these. Most of AAK's products are based on or contain fat extracted from shea. Other significant raw materials are palm and palm kernel oils, most of which come from Malaysia.

Shea trees grow wild in West Africa. Shea is harvested by the local population, who collect the fallen fruits and dry the kernels.

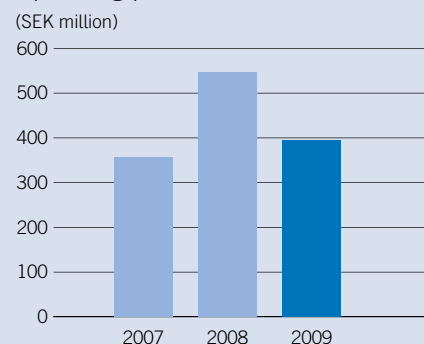
## Chocolate & Confectionery Fats

(SEK million)	2009	2008	2007
Net sales	4,564	4,878	3,914
Gross contribution	1,508	1,653	1,270
Gross contribution SEK per kilo	5.96	5.47	4.42
Operating profit	394	547	356
Volumes, thousand tonnes	253	302	288

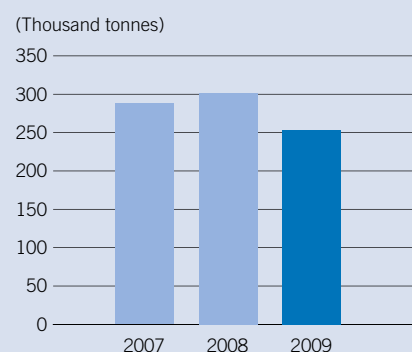
### Gross contribution per kilo



### Operating profit



### Volumes



# Speciality products for the chocolate and confectionery industry



These are purchased locally and are then traded on a market where industrial purchasers meet local sellers.

The estimated total annual quantity of shea in West Africa is 1,800,000 tonnes. Since around two-thirds of the fallen fruit remains unharvested by the local population, and is left to rot on the ground, there is significant growth potential. Around 500,000 tonnes is consumed locally, while a further 200,000 tonnes reaches the export market.

Actions taken by AAK in West Africa, including the establishment of the company's own representatives, has resulted in a stable situation which allows AAK to meet the rapidly increasing demand for CBE in a satisfactory way.

AAK's products do not just replace cocoa butter. They also add new properties to the end products. Many of AAK's products guarantee greater stability in fat bloom and temperature, while others provide better consistency and optimised crystallisation properties.

AAK's customer offer includes filling fats, fats for chocolate coatings and moulded chocolate products, as well as speciality fats for spreadable products.

## In-house development resources

The wide product range is a result of targeted development which, for many years,

has been carried out in AAK's own laboratories in close collaboration with customers. The development operation is, therefore, highly focused on the market, with the aim of remaining one step ahead at all times. AAK's aim is to deliver innovative solutions which reflect market trends and anticipate customer requirements.

In its new form following the merger, AAK achieves the critical mass which provides scope for all aspects of development, from the creation of a new generation of speciality fats to optimum investment in new process technologies.

One of the most significant milestones in 2007 was the construction of the world's largest CBE production plant in Aarhus (Denmark). This plant will guarantee that AAK can fulfil its strategy of achieving a leading position in Chocolate & Confectionery Fats.

AAK's position in the rapidly-growing Latin American market has improved further, since AAK are now able to supply the market with products from the local plant in Uruguay.

An increasing demand for cocoa butter alternatives will be met from the production plant in Port Newark (USA).

Overall, the global production strategy has allowed AAK to respond effectively to the significant increase in demand. During 2009, further opportunities emerged to produce several speciality fat variants locally, with the aim of adapting to customer requirements for quality, cost and logistics.



## Closer to the customer

During the year, AAK's worldwide sales and product organisation expanded further, with greater representation closer to customers. This was supported by a strong vision aimed at improving AAK's world-leading position in vegetable fats for the chocolate and confectionery industry.

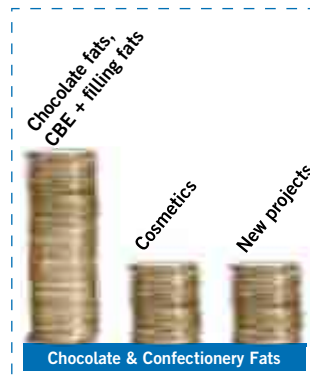
In this process, the comprehensive global network plays an important role in AAK's contact with the market. It not only acts as a link to the different geographical markets, but also guarantees that the company can monitor global trends and changes.

One of the strongest trends is the increasing importance of health aspects. Consumers are becoming increasingly aware, and this has resulted in increased demand for healthy fats. AAK, with its flexible and, at the same time, targeted product development, is at the forefront of this trend, and can respond well to the new consumer requirements.

AAK is constantly expanding its global presence through its market activities, while, at the same time increasing the value-added of its product portfolio.

AAK is the largest supplier on the chocolate and confectionery market. Competitors include companies such as Fuji Oil in Japan and IOI Loders in the Netherlands.

## Growth areas



# Speciality products for the cosmetics industry

**Under the Lipex® brand, AAK develops and sells vegetable fat-based products for use in skin and hair care products, make-up and various types of hygiene products for washing, showering and bathing. The Lipex® family includes everything from softening products to products with biological effects. In addition, there are products for parenteral nutrition.**

AAK has worked with lipids for the cosmetics industry for many years, and possesses a level of experience which makes the company one of the world's foremost specialists in the area. All AAK products are based exclusively on vegetable oils, unlike the synthetic, animal or mineral oil-based products commonly used in cosmetic and skincare products.

## Global market

The products are global, and are sold all over the world. The main competitors are global companies such as Cognis and Croda. Half of the cosmetic products market is represented by ten global players with brands such as L'Oréal, Procter & Gamble, Unilever, Beiersdorf (Nivea) and Estée Lauder.



## Market trends

The number of consumers is increasing as the skin care and hair care products market broadens. At the same time, there is a growing interest among male customers. New geographical markets are gradually opening up, as consumers in emerging economies achieve a higher disposable income. This means that the potential customer base is also increasing over time.

## Speciality products for the cosmetics industry

In parallel with this, there is a continued strong trend of health and environmental awareness, with a larger number of customers increasingly demanding healthy and safe products. These customers are looking for new products free from synthetic, animal and mineral oil-based ingredients.

## Natural raw materials

The range is based on various natural and renewable raw materials. The beneficial properties of shea butter have made it the most sought-after raw material in the cosmetics industry. The softening and moisture-retaining properties of shea butter provide an attractive skin sensation, while its anti-inflammatory function adds valuable bioactivity.

Other exotic raw materials include mango, illipe, almond, sesame, apricot and coconut. The rapeseed grown in Sweden (Canola) also contains high levels of valuable bioactive lipids which are excellent for sensitive skin and baby care.

## Product development and the future

The product range is undergoing constant development. A significant proportion of the development work is carried out in close consultation with the company's customers. This consultation covers both technical and commercial aspects, and provides AAK with a thorough understanding of each customer's individual needs and wishes.

At present, much of the product development is focused on producing products with

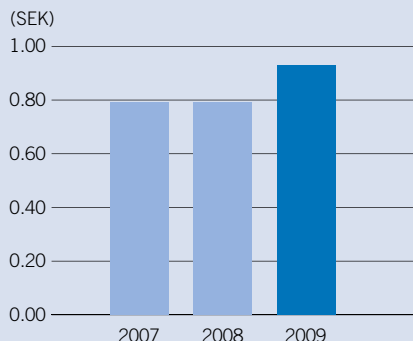
certain specific functions and active substances. The aim is to create new ingredients which combine basic functions, e.g. moisturising or cleansing properties, with more advanced functions, such as protection against UV-rays and environmental contaminants.



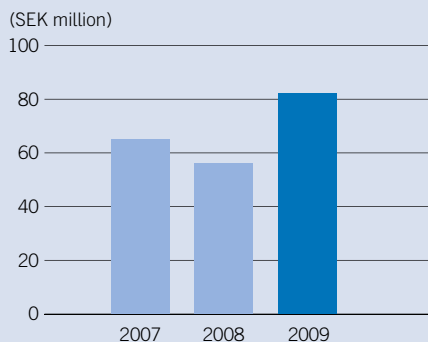
## Technical Products & Feed

(SEK million)	2009	2008	2007
Net sales	1,295	1,578	1,307
Gross contribution	261	238	233
Gross contribution SEK per kilo	0.93	0.79	0.79
Operating profit	82	56	65
Volumes, thousand tonnes	282	301	295

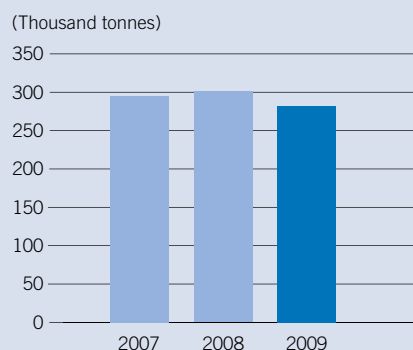
### Gross contribution per kilo



### Operating profit



### Volumes



## Technical Products & Feed

**Business area Technical Products & Feed is an excellent example of the role that vegetable oils play in society with respect to the environment and health. The business area covers animal feed ingredients and lubricating products for felling machinery, where vegetable oils minimise the problem of discharge to the natural environment.**

**Candles made from fatty acids have lower carbon dioxide emissions than paraffin candles, vegetable lubricating oil spilled from a chainsaw is biodegradable. Dairy cattle can be fed guaranteed salmonella-free vegetable-based feed.**

### Fatty acid – glycerol

AAK produces fatty acids sold under the Tefacid brand, as well as glycerol. Both types of products are extracted by splitting the fat molecule.

Fatty acids are primarily used by the chemical engineering industry, where they are turned into amines and esters, for example. These are used as inputs in many application areas, e.g. paper chemicals, soap, detergents, rubber and plastic.

One example of products which exclusively consists of fatty acids is stearine candles.

Glycerol is used in such diverse products as cosmetics, explosives, paint and food. The majority of AAK's customers operate in the chemical engineering industry.

Croda (Uniqema), Cognis and Oleon are AAK's main competitors in the European market in fatty acids and glycerol. The structure of the market is continuing to change, a process which will result in fewer but larger players.

### Environmental-friendly technical oils

AAK develops, produces and markets environmental-friendly technical oils, such as metal processing fluids and lubricating oils for the engineering industry, as well as hydraulic and chainsaw oils for the forestry and contracting industries, under the brands Binol and BioSafe.

Increased environmental awareness in society and in the market has had a positive impact on sales. The replacement of mineral oil with Binol products by the engineering industry has created many benefits, including improved performance in the form of lubricating properties, reduced overall cost and, not least, a significantly better working environment.

The fact that the products in the Binol range are also based on renewable raw materials further reduces their environmental impact. Even though the total market for lubricants is shrinking, the bio alternatives are gaining increasing market share.

### Feed

The customer offer consists primarily of various product groups in the protein and feed fats areas. When rapeseeds are pressed, rapeseed oil and rapeseed meal are extracted. The rapeseed meal is processed in the Karlshamn plant, and is marketed under the ExPro™ brand, a product which improves the effectiveness of the feed protein and increases the milk yield from dairy cattle. This product is sold mainly to the Nordic feed industry, where the Feed business sector enjoys a leading position in the market for bypass proteins.

The Feeds range also includes both solid bypass fats and liquid feed fats. Most of the feed fats are used as ingredients in cattle feed and, to some extent, in pig and poultry feeds.

AAK is able to provide guaranteed salmonella-free products – a guarantee which makes the company unique in the industry.

AAK's prime rivals are ADM, Bunge, Cargill, Berg & Schmidt, as well as small, regional producers.

### The market

The business area utilises some of the residual products from the production of food oils carried on by AAK's other operations. These are products with low margins, which cannot carry high transport costs. The market is, therefore, regional, primarily in Northern Europe.





**Tefac**

In the fatty acids and glycerol area, AAK is the leader in the Nordic market, where most of the products are sold. The company has continued to secure its strong logistics position in the Nordic region. Other important markets are Germany, Poland and Russia. Fatty acids make up around 85 percent of sales, with glycerol representing the remaining 15 percent.

**Binol**

The majority of products are sold straight to end-users in the Nordic market under the

Binol and BioSafe brands. In other markets, AAK collaborates with various partners and the products are sold under the partners' brands.

**Feed**

98 percent of feed raw material sales take place in the Nordic region, where AAK is the market leader.

Despite the steady fall in the number of dairy farms, the market for feed raw material has remained largely static for many years. In 2009, the dramatic drop in profitability for dairy farmers was felt strongly, and the total

market for cattle feed fell by 10-15 percent. The drop in some types of feed for high-yield dairy cattle was even greater. AAK's volumes fell less than those of the total market, and this could also be offset by a cut in costs.

Bypass protein are proteins which are not digested in the rumen of dairy cattle. The body can, therefore, absorb this protein, resulting in significantly lower feed costs during rearing.



# Risks and threats

AAK's operations are constantly exposed to risks, threats and external factors which impact on the company. The company has adopted a proactive approach to business intelligence, with the aim of anticipating changes in the factors which affect the company's operations. Plans and policies are adjusted continuously to counteract any negative effects on the company. AAK uses active risk management, such as the hedging of raw material prices and currencies, to reduce such risks.

## Raw materials

Harvests are weather-dependent. A year of poor harvests drives up prices, while a year of successful harvests reduces them. Most of the raw materials are traded on the international world market, and raw materials are purchased in foreign currencies. Essentially, this means that AAK has significant currency and raw materials price exposure. AAK has adopted a strategy of active risk management, which means that as soon as a sales contract has been signed, AAK will hedge the equivalent currency and raw material price exposure. This safeguards the company's margins and AAK's results are, therefore, not dependent on currency and raw materials price risks on signed sales contracts. The tools for managing this are described in Note 3 on pages 65-70.

Since many of the raw materials are produced at considerable distance from production plants and markets, transport costs are an important factor, not least through the potential impact on margins of the growing demand for environmentally-acceptable transport methods. There is also fierce competition.

## The impact on financial systems

Historically, AAK has never been particularly affected by changes in the economic cycle, since demand for foodstuffs is relatively stable. The deep recession, particularly in 2009, has, however, meant that for the first time since records began, there has been a fall in the consumption of chocolate throughout the world. During the first half of 2009, the company was affected by the drop in demand for chocolate, and this was exacerbated by a substantial reduction in inventories at customer level. There was a substantial recovery in the second half of 2009.

Much of AAK's production consists of



substitution products, such as fillings and cocoa butter replacements for the confectionery industry.

Improvements in living standards affect growth in the market. The expansion of the EU, with the associated improvements to living standards, has had a positive effect on AAK's growth.

There are major markets for confectionery products in Eastern Europe, and the rise in these markets has benefited AAK.

## The processing industry

AAK operates as part of the processing industry. The company is not primarily driven by volumes, but improvements in results are achieved through an increase in the proportion of speciality products with higher margins than the relatively low-margin bulk products. Capacity expansion aimed at increasing total volumes and meeting growing demand has a relatively long planning horizon. AAK must analyse potential growth well in time, but can, in the meantime, balance production among its ten plants, with the aim of achieving greater proximity to markets for specific products, as well as covering swings in supply and demand.

Important speciality products are produced by the individual plants, and problems with machinery can have a major impact. AAK has taken out insurance to cover a loss in margins.

## Political instability

Operating globally always carry risks, but can also be a stabilising factor. Although AAK largely operates in mature markets in the US and Europe, a significant proportion of the company's growth is generated in developing markets, which are vulnerable to political

instability. AAK also operates in Eastern Europe and Asia – regions which are, to some extent, characterised by instability. On the other hand, AAK is a well-established operator in these areas, with plenty of experience of handling the relevant issues. In addition, AAK has adopted a strategy of deliberate risk management.

Political instability can impact on currencies and, to some extent, on exchange rates.

Global operations also involve a number of other risks, including:

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

## Changes in the competitive situation

The sector in which AAK operates is undergoing structural changes. At the same time, these structural changes provided the opportunity for the merger between Aarhus United A/S and Karlshamns AB. It is a sector which has existed for just over a century, and which, fundamentally, is dependent on natural products. There is great pressure for more intensive development, including demands for sustainable, ethical production, with producers accepting responsibility for social issues and the impact of their operations on the environment in general.

AAK operates on the basis of both an organic growth strategy and a selective acquisition strategy. A strong balance sheet has laid the financial foundations for future acquisitions.

There is tough competition in the industry.

Several competitors operate in the global market, and deliver large volumes of bulk products with limited margins, as well as products with greater value added.

AAK is responding to the competition by focusing more on products with better margins and greater value added. Examples of this include confectionery products and cosmetics, as well as products for the food processing sector, such as the bakery industry, which generate higher margins.

### **The health debate**

There is an ongoing debate on healthy alternative foods. For example, the debate on trans fats has been intensive, on occasion. AAK's product base is made up of vegetable oils taken straight from the natural world. The problem of trans fats has, among other things, resulted in a greater use of raw materials such as palm oil. Palm oil is hugely significant to AAK. It has a broad application area – from chocolate to foods and cosmetics. It is a great alternative to hardened fat. It is semi-solid at room temperature, which makes it an attractive alternative in the production of many different foods. By using palm oil, trans fats can be eliminated from many food products. AAK has a great ability to adapt its product range quickly, to reflect the latest trends in the health debate. This is largely due to the fact the company works with all types of vegetable oils and can reformulate its products fairly easily to meet customer needs.

Political measures also pose a risk. Active involvement in issues relating to CSR, Corporate Social Responsibility, is, therefore, becoming increasingly important to the industry as a whole, to forestall legislation on issues which are a natural development of human requirements.

### **High level of competence among management and employees**

The business operation is affected by raw material prices, transport costs, energy prices, interest rates and exchange rates. AAK has adopted policies and rules as to the risks which may be taken and, as explained above, has adopted a comprehensive risk management strategy. The company's management and employees have long and sound experience of reacting quickly to changes in external factors, and of adapting the operation and the company's range of products and services to the customers' needs.



## Increased demand for organic and healthy alternatives



**Consumer awareness of food and its content has increased in recent times. How food is produced and what ingredients are used are coming under careful scrutiny. One sign of this is the growing demand for organic foods, and the range of such products is steadily increasing in the shops. An investigation carried out by the Swedish Board of Agriculture has concluded that the range of organic products available does not match the demand, and that there is a growing need for more organic products. The health aspect is also something which has been highlighted and discussed. There is awareness of what kinds of fat are healthy, and which should be avoided.**

In response to these new requirements, AAK has developed a broad range of both organic and healthy products which do not compromise on flavour or function.

### **Organic oils**

AAK has developed a comprehensive range of organic oils and formulated fats. Safety in the production chain is monitored closely, and the raw materials selected with great care. These organic oils are produced using sustainable methods, without chemical pesticides or artificial fertilisers, and they do not come from genetically-modified crops. This allows AAK to offer customers and consumers an organic alternative of extremely high

quality. The range can be used not only in foods such as bakery products, margarine, infant formula and deep-frying oils, but also in beauty and health care products.

### **Healthier fats for ice-cream and vegetable whipping cream**

AAK has developed new products for its range of Dairy Fat Alternatives. These can be used in the production of healthier ice-cream and vegetable whipping cream products. The products are called Akoblend, Akotop NH100 and Akomix. They are also trans fat-free and do not contain any hydrogenated fat, which means that they clearly meet the market's requirements for healthier alternatives.

#### *Akomix – healthy ice-cream*

Some producers still use coconut oil with a high proportion of saturated fat, over 90 percent, in the production of ice-cream. By using AAK's alternative, Akomix, the proportion of saturated fat in ice-cream can be cut to 30 percent, while, at the same time, the proportion of unsaturated fatty acids is increased. This makes Akomix different from most other vegetable fats used in ice-cream, resulting in products healthier than ice-cream made from coconut oil or dairy fats. With more than 30 years' experience of developing fats for the segment, AAK has also been able to ensure that Akomix performs better than the competition by providing just the right texture, flavour and melting-properties for ice-cream.

#### *Akotop NH100 and Akoblend – for a healthier “cream”*

Akotop NH100 is a non-hydrogenated alternative for vegetable cream products. Demand for non-hydrogenated fats is increasing in the food processing industry as a whole, and AAK has developed Akotop NH100 in response.



Akotop NH100 has several benefits compared with traditional cream products, including improved whipping properties, form stability and sensory characteristics. The quality of the end products is the same as if dairy fat

had been used. Other health benefits include Akotop NH100's ability to reduce a product's fat content to 25 percent, compared with the 40 percent of dairy cream. In addition to reduced total fat content, it contains reduced levels of saturated fatty acids, as well as no trans fatty acids. For cooking and single cream, Akoblend can be used to replace some or all of the dairy fat. Akoblend also allows the customer to attach specific properties to the end product, including increased levels of Omega-3 or particularly low levels of saturated fatty acids.

#### **What is AAK's response?**

AAK has a high level of technical expertise and constantly works to find new alternatives for, and in partnership with, its customers. Meeting customer expectations is an extremely important part of the operation, and is a major driving force in the development of new products. Organic as well as healthier alternatives is what the customers demand, and AAK's range includes many ideal, high-quality options.



# Speciality fats for infant formula

Nothing can replace the unique properties of mother's milk. It contains everything a growing baby needs. Sometimes, however, there is not enough mother's milk, and this is where the producers of infant formula step in with an alternative. For fat producers, this is one of the most demanding customer segments, with high standards on nutritional content and safety. AAK has achieved a strong position as a supplier to this segment. InFat is an important addition to the company's range, with an exciting future potential.

The objective of infant formula is to emulate as closely as possible the composition of mother's milk in all its details. This includes a long list of components, such as fat, protein, carbohydrate, trace elements, minerals and vitamins.

## Fat composition important to infant growth

Fat is the prime source of energy for babies, and simulation of mother's milk requires a blend of several different vegetable oils. Palm oil provides palmitic acid C16, which is the dominant saturated fatty acid. Coconut or

palmkernel oil is added to achieve the right amount of short-chain saturated fatty acids; C8, C10, C12 (lauric acid) and C14 (myristic acid). The product must also contain sufficient quantities of essential fatty acids. Rapeseed oil or soya oil contributes linolenic acid, while sunflower oil provides linoleic acid. Oils with this composition are found in the majority of infant formulas on the market.

## InFat one step closer to mother's milk

Vegetable fats differ from the fats in mother's milk in several ways. The fat molecule consists of three fatty acids held together by a glycerol molecule.

In mother's milk, the palmitic acid is positioned in the middle of the glycerol molecule, while in vegetable oils, palmitic acid is located on the perimeter. This means that the fat is absorbed slightly differently by the body. The result can be a somewhat poorer absorption of energy from vegetable fats, and babies with a tendency to constipation and, in extreme cases, blockages.

InFat, the speciality fat for infant formula recently launched by AAK provides the answer to this dilemma. A unique process is used to produce a fat which, just like mother's milk, has most of the palmitic acid located in the middle of the glycerol molecule.

## New production facility

AAK has built a completely new unit for the production of InFat at its plant in Karlshamn. The fat for infant formula is also produced at the company's other plants, primarily in the Netherlands.

An advanced supplier is expected to be able to offer specific blends with a narrow, precise composition, as well as handle a broad range of oils. High quality and a carefully documented food safety system are other components which contribute to AAK's position as a leading supplier in the segment.

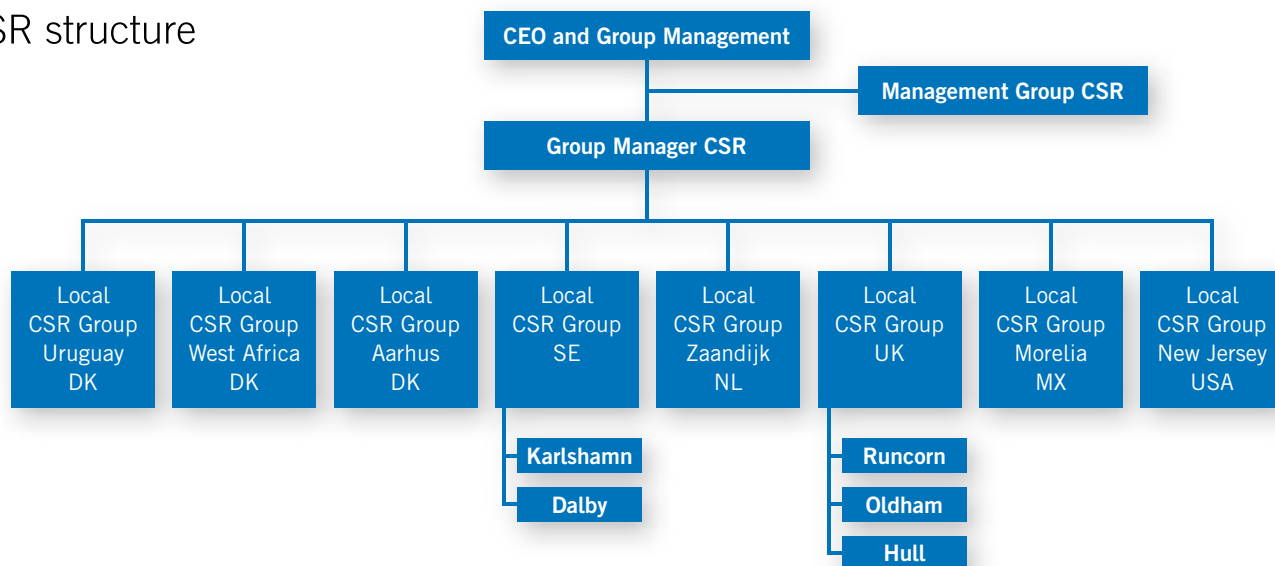
AAK's investment in the production of InFat has provided the company with yet another tool to meet customer demand. In recent years, the company has noticed an increase in demand, and regards the future potential of the product as extremely exciting.





## CSR – AAK in the world

### CSR structure



**Vegetable fats form the basis for AAK's operations. The business thrives on the expertise in the area of fats. The company started operating a century ago. Right from the outset, the aim was to supplement raw materials such as rapeseed, sunflower seed and corn with products from Asia and Africa. A detailed Sustainability Audit is being drawn up and will be distributed in June.**

At present, products from palm plantations and the wild shea tree constitute important raw materials, which are transported to refineries in Sweden and Denmark for fractionating and the extraction of fats for use in a wide variety of areas.

Palm oil and shea are important elements in the company's strategy of developing products with greater value-added which, in turn and through collaboration with customers, can meet the demands of their customers for attractive products. These customers primarily operate in the food processing, confectionery and cosmetics industries.

AAK's vision is to be the first choice of all stakeholders; customers, employees, suppliers and shareholders. Consequently, the company must, in all respects, carry on an operation which involves a long-term commitment to the people and the environment that are dependent on AAK, and upon whom AAK depends.

AAK uses a wide range of raw materials to develop, in partnership with customers,

fats which meet increasingly diverse requirements while, at the same time, maintaining its respect for the world. Demand for more sophisticated fats is growing, and an increasing proportion of the raw material supplied to AAK's refineries involves palm oil and shea oil.

The oil palm is a native of West Africa, but was introduced as an ornamental plant in Malaysia around 1875. Palm oil production really took off after the Second World War, and each palm tree produces bunches of up to 3,000 fruits. Palm oil is extracted from the

pulp, while kernels are used in the production of palm-kernel oil. Today, palm oil is the most common vegetable oil in the world.

The world production of palm oil has more than doubled in a decade. Malaysia has been overtaken by Indonesia as the world-leading palm oil producer. Together, the two countries are responsible for 90 percent of global production.

#### **AAK and the global responsibility**

Responsibility for how the operation impacts on the world around rests with the



senior management of AAK. The current policy describes the social responsibility. A separate CSR structure describes how this responsibility is distributed throughout the global organisation.

Today, issues concerning social responsibility are a natural part of every company's operations. AAK makes no distinction between nations. The policy applies to all activities and there is obvious interest among all individuals in caring for their environment.

This section of the annual report highlights the ongoing work by the Group and the Group's contacts in the rest of the world. It describes the acceptance of responsibility for the development of sustainable production methods, including social responsibility, environmentally-sustainable transport operations, attitudes to customers, suppliers and the Group's own employees, as well as how to make the most of this resource while respecting and accepting responsibility for it.

### **Our responsibility for the natural world and the environment**

AAK's products are based on vegetable oil, a product extracted from natural plant material. Such products do not have a negative impact on the environment.

It is, therefore, an obvious step for AAK to develop economically sustainable production methods while taking responsibility for the world around it, right up to the point where it's products reaches it's customers. AAK aims to contribute to long-term ecological development by producing and selling products which, during their lifecycle, have a minimum impact on the environment. Care for the environment is the responsibility of the whole company, and every employee plays an important part in this.

The local external environment at the production sites is another important area. Every plant has it's own local programme aimed at minimising it's environmental impact.

### **Our social responsibility and our responsibility for the sustainable supply of raw materials**

Social responsibility must go hand-in-hand with environmental responsibility and economic development, otherwise the company's credibility would be seriously damaged. This is an essential attitude, and it is deeply embedded in the Group's operations.



AAK is a world-leading producer of shea fats for the chocolate and cosmetics industries, largely due to a strong local presence in West Africa. This also implies far-reaching social and ethical responsibility, and AAK has it's own personnel on-site to guarantee that operations, at all levels, are carried on with respect for people and the environment.

In line with the UNDP (United Nations Development Programme), AAK works for a long-term improvement in the living standards of it's local collectors of shea. This initiative includes improving their everyday lives by providing access to basic machinery which makes both handling the fruit and their household chores easier.

This has, in turn, resulted in higher income, improvements to village economies and people being able to afford education for their children. Today, members of the population are running their own small companies which were initially financed by microloans.

### **Initiatives to reduce overexploitation**

Palm oil is an important raw material for AAK. It's excellent properties have generated a growing market for the company. But competition for palm oil is fierce. It is, for example, used in the production of alternative fuels for the automotive industry. Production has doubled in less than a decade.

AAK was quick to accept responsibility

for promoting sustainable production. The company was one of the founders of Roundtable on Sustainable Palm Oil (RSPO), which was set up in 2002 on the initiative of World Wildlife Fund (WWF).

"Book & claim", which is based on trading in certificates, is an idea developed by AAK. The great benefit of this system is that it works in harmony with the bulk trade.

### **Local responsibility**

In addition to active involvement in global projects such as RSPO, AAK regularly uses the strong link between environmental activities and national legislation to work with environmental issues at a local level. The aim is to ensure that AAK's activities are in no way harmful to the environment and do not have any negative impact on human health.

### **Financial responsibility**

To sum up, these CSR issues concern rolling targets. Progress is being made and more environment-friendly technology is being developed constantly. AAK is governed by policies which regulate the Group's approach, with the aim of contributing to financially sustainable growth. These policies form an important part of the Group management's agenda and are embedded through regular meetings and communication with employees, suppliers and customers.

## Global Compact – a guide to social responsibility

AAK supports the United Nation's programme for social responsibility. The programme is summed up in the following ten principles:

1. Support and respect for human rights
2. No complicity in human rights abuses
3. Freedom of association and effective recognition to the right to collective bargaining
4. Elimination of all forms of forced and compulsory labour
5. Effective elimination of child labour
6. Effective elimination of discrimination in respect of employment and occupation
7. Support for a precautionary approach to environmental challenges
8. Initiatives to promote greater environmental responsibility
9. Encourage the development and diffusion of environmentally-friendly technologies
10. Work against corruption in all its forms, including extortion and bribery.



February 2009

### AAK Group Policy:

#### Corporate Social Responsibility

AAK supports in its actions the ten principles of United Nations Global Compact in the areas of human and labour rights, environment and anti-corruption, and we perceive the principles as a powerful platform for our activities within sustainability.

AAK will integrate social and environmental concerns into our business operations and in our interaction with our stakeholders. We will use our resources in order of priority based on risk assessment and sphere of influence.

#### Human rights

We support and respect the protection of internationally proclaimed human rights and constantly supervise within our sphere of influence that we are not complicit in human rights abuse.

#### Freedom of association

We respect the freedom of association and the right to collective bargaining.

#### Forced labour

We do not accept any form of forced labour such as bonded labour, prison labour, slavery, human trafficking or retention of important personal documents of employees.

#### Child labour and young workers

We cannot accept the employment of children. The minimum age of employment shall not be less than the age of completion of compulsory schooling and in any case not less than 15 years (14 years in some developing countries).

Where national law permits it, children between the age of 12 and 15 may perform a few hours of light work per day. The work must not interfere with the children's education.

For young workers below the age of 18 special precautions are taken to protect them against accidents and damage to their health.

#### Discrimination

We will not engage in or support any form of discrimination in hiring and employment practices.

Employment related decisions shall be based on relevant and objective criteria.

#### Working hours

We comply with all applicable local and national standards on working hours and overtime.

#### Remuneration

We comply at least with local and international legal minimum standards concerning wages and benefits including compensation for overtime. The size of wages enables workers to meet basic needs.

#### Notification

We give fair notice to employees of significant changes that could substantially affect them.

#### Working environment

We strive to offer a safe working environment for all employees. Adequate health and safety procedures are implemented. As a minimum, we comply with all local and national health and safety legislation in the countries in which we operate.

#### Workplace violence

We protect employees in the working place against physical, verbal, sexual or psychological harassment, abuse or threats.

#### Environment

We strive to minimise the environmental impact of our activities through responsible management, widespread environmental awareness and the use of technologies with low environmental impact. We recognise that prevention rather than cure is a more cost-effective approach to avoid environmental damage.

#### Corruption

Our businesses should work against corruption in all its forms, including extortion and bribery.

Yours faithfully

AarhusKarlshamn AB (publ)

Jerker Hartwall, President and CEO  
February 2009

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A company in the AAK Group

## Biological diversity

Palm oil is an important raw material for AAK. It's excellent properties have created a growing market for AAK.

AAK has developed an idea for trading in certificates, [www.greenpalm.org](http://www.greenpalm.org). This means that the harvest is certified as a result of long-term sustainable cultivation. AAK was the first company to buy raw materials from sustainable oil palm plantations, but competition for palm oil is fierce. It is, for example, used in the production of alternative fuels for the automotive industry. Production of alternative fuels has doubled in less than a decade.

The EU has adopted a target that 10 per cent of transport fuel must be renewable by 2020. Just over half of the fuel will be replaced by biofuel, and the rest by fuel from other sources. Both India and China have set up extensive development programmes for bioethanol and biodiesel. Agricultural products grown specifically for the biofuel industry include corn and soyabeans, primarily in the US, and wheat, linseed and rapeseed in Europe, sugar cane in Brazil and palm oil in South East Asia. India is expanding its plantations for jatropha, an oil-producing tree, to support the country's biodiesel production. But palm oil is an attractive alternative and this is creating increased competition for one of AAK's most important raw materials.

## Environmental concerns

AAK aims to contribute to long-term ecological improvement by producing and selling products which, during their lifecycle, have minimum impact on the environment. Care for the environment is the responsibility of the whole company, and every employee plays an important part in this.

The company's approach is entirely based on the importance of complying with international and national agreements at creating long-term sustainable development. As a result of the strong link between environmental activities and national legislation, AAK regularly works with environmental issues at a local level. The aim is to ensure that AAK's activities are in no way harmful to the environment and do not have any negative impact on human health.

AAK's operations are relatively energy intensive, primarily because the processes are heat-dependent and use large quantities of steam. AAK is constantly working to improve

## WWF (World Wildlife Fund) and RSPO (the Roundtable on Sustainable Palm Oil)

AAK is a member of the committee of RSPO (the Roundtable on Sustainable Palm Oil) and, as part of this, works in partnership with the WWF (World Wildlife Fund for Nature).

AAK is one of Europe's largest importers of palm oil. As a result of its close collaboration with United Plantations of Malaysia, the company has direct experience of advanced plantation management.

The global production of vegetable oil is over 130 million tonnes per year. More than 43 million tonnes of palm oil is produced throughout the world. This makes palm oil the world's most common vegetable oil, and an important food for people in all geographical areas. Even though palm oil is completely gen-modified-free and provides the highest yield per hectare of all oils or oil plants, it is a recognised fact that it does have a negative impact on the environment. This is particularly the case since palm can only be grown in tropical countries, such as Malaysia, Indonesia and Colombia. Sales of palm oil are expected to continue to increase, particularly to the growing economies of China and India. Sales of palm oil are also increasing in Europe. This is due to the fact that palm oil is an effective replacement for partially hydrogenated oils and, consequently, eliminates trans fatty acids in many products. There is also demand for energy from renewable sources.



it's energy processes, with the aim of creating cleaner combustion. The market for alternative fuels is under constant review.

In Sweden, steam is produced using 85 percent biofuel in the form of wood chips, production waste and oil recovered from customers. The plants in the Netherlands and United Kingdom primarily use gas, while the plant in Denmark uses heating oil. Some of the electricity consumed is generated in-house via back-pressure turbines, but the rest is purchased from external sources.

Within the framework of an energy management system, AAK has investigated how energy for the company's production plants is

produced. In recent years, this has resulted in energy investments with clear benefits:

- ◆ 8-10 percent improved energy usage in steam production at the plants in Sweden and the Netherlands.
- ◆ Installation of solar energy convertors for heating tank terminals in Mexico, equivalent to 80 tonnes of heating oil per year.
- ◆ A biofuel plant in Karlshamn which, in combination with electricity purchased from external sources, provides 85 percent renewable energy.
- ◆ AAK UK, in Hull, United Kingdom, optimises the energy consumption of it's electrical motors by using portable energy meters.

## The fundamental principles of AAK's environmental policy are:

- ◆ *Efficient use of resources:* AAK's industrial operations must be outstanding for the efficient use of resources and the use of natural energy, such as hydropower.
  - ◆ *Waste and emissions:* Waste and emissions from AAK's production plants will be minimised, and waste will, as far as possible, be recycled.
  - ◆ *Safety:* AAK will work actively to prevent accidents and uncontrolled discharges by carrying out systematic risk analysis, taking preventive measures, ensuring that the company is prepared to handle crises, and through long-term technical planning.
  - ◆ *Plants and equipment:* When changes are made to production processes, plants or products, AAK will, as far as possible, investigate opportunities for adopting measures aimed at improving the environment.
  - ◆ *Research and development:* The aim of research and development projects will be to develop environmentally low-impact technologies, products and packaging.
  - ◆ *Legislation and regulations:* AAK's industrial operations will meet current environmental legislation and implement environmental management systems such as ISO 14001.
  - ◆ *Partners:* When selecting partners and transport operators, the environmental aspect will be assessed. AAK will inform consumers and suppliers of the company's environmental approach, and will work in partnership with them to achieve improvements in this area.
  - ◆ *Information:* AAK will provide transparent and objective information on the company's environmental approach to the general public, the authorities, consumers, the media and other stakeholders.
  - ◆ *Assessment and ambition:* AAK will assess it's environmental work by monitoring emissions and implementing environmental audits.
- AAK's environmental activities will undergo continuous improvement with the aid of well-defined and carefully communicated targets.
- ◆ *Training:* AAK will improve it's employees' understanding and knowledge of environmental issues.







## Employees

### Beliefs & Behaviours

Following extensive and intensive work in 2008, AAK's Beliefs & Behaviours were adopted at the 2008 management conference. Discussions about and the choice of which values will form the basis for the Group's future approach remained a common theme of the Global Leadership Academy programme in 2008. The purpose of the programme was to create *one AAK* and a shared global philosophy.

In 2009, the principal task in relation to AAK's values has been to implement them in various ways throughout the organisation, and this has been pursued by all units.

The managers who attended the Global Leadership Academy programme have explicit responsibility for transforming these values into a natural basis for the company's actions, and the leadership programme gives all managers thorough instruction in how to achieve this.

AAK's strategy sets out what the company will achieve (strategy, plans, projects etc). The values explain clearly how employees will go about achieving these targets.

In 2009, a large number of activities were carried out. The nature of these activities may have varied, but the purpose has been the same – to improve the knowledge and understanding of AAK's strategies and of the company's leadership and values.

#### Beliefs

- We are results-oriented.
- We inspire, challenge and support each other.
- We drive change.
- We encourage initiative and innovation.
- We act with integrity.

#### Behaviours

- I facilitate teamwork across AAK.
- I give constructive feedback in a timely manner.
- I deliver what I promise.



This process has been combined with deeper and more extensive work aimed at implementing the values at departmental level and at clarifying the significance of Beliefs & Behaviours to each employee's work.

The most common method has been departmental meetings, where the future approach to work has been discussed and measures aimed at achieving improvements have been identified. The value-related work has been described in different ways on the various units' Intranet pages, and in the internal employees magazines. In Mexico, a video was produced in which the employees participated.

The Global Leadership Academy and the work on AAK's Beliefs & Behaviours has provided greater knowledge of the company's strategy, and has also contributed to a noticeable increase in collaboration between different units within the Group. Many employees

now regard asking for help from colleagues outside their own unit as a natural part of their work.

This development would not have been possible without the joint strategy and the common values set out in AAK's Beliefs & Behaviours.

#### Average number of employees 2009

	Total	Men	Women
Sweden	663	503	160
Denmark	395	296	99
Mexico	359	296	63
The Netherlands	63	52	11
United Kingdom	486	383	103
Uruguay	11	6	5
USA	91	75	16
Other	63	30	33



# Content

	Page
Directors' Report .....	45
Consolidated Income Statement.....	50
Consolidated Statement of Comprehensive Income .....	50
Consolidated Cash Flow Statement.....	51
Consolidated Balance Sheet .....	52
Consolidated Changes in Shareholders' Equity.....	54
Income Statement – Parent Company .....	55
Balance Sheet – Parent Company.....	56
Changes in Shareholders' Equity – Parent Company .....	58
Cash Flow Statement – Parent Company .....	58
Notes .....	59
Financial Risk Management.....	65
Auditors' Report .....	87

All amounts are dominated in SEK million unless otherwise stated.

The Board of Directors and the President of AarhusKarlshamn AB (publ), corporate identity number 556669-2850, with registered office in Malmö, herewith present the Financial Statements for the financial year January– December 2009 and Consolidated Financial Statements for the financial year January–December 2009.

## Performance and financial position\*

*\*All financial information under this heading excludes non-recurring items and IAS 39.*

- Operating profit reached SEK 827 million (851).
- The company recorded additional preliminary insurance compensation in the second quarter of SEK 70 million, which is not included in the operating profit of SEK 827 million.
- Strong cash flow from operating activities at SEK 2,265 million (17).
- Earnings per share were SEK 10.14 (10.80); including the IAS 39 adjustment and non-recurring items, earnings per share were SEK 20.19 (0.04).
- Net sales amounted to SEK 15,884 million (17,207).
- Proposed dividend of SEK 4.25 (4.00) per share.

Net sales for the Group declined by SEK 1,323 million, from SEK 17,207 million to SEK 15,884 million, following lower raw material prices and a decline in volume by 7 percent compared to 2008.

Gross contribution increased to SEK 3,744 million (3,644), including positive translation effects of SEK 100 million.

Gross contribution per kilo improved from SEK 2.36 to SEK 2.61.

Operating profit amounted to SEK 827 million (851). A record operating profit was recorded for both Food Ingredients and Technical Products & Feed despite hard market conditions. Chocolate & Confectionery Fats, which historically has shown stability in difficult times, was heavily affected by the worldwide recession primarily during the first six months of 2009. The business was negatively affected by an industry-wide destocking and lower worldwide chocolate consumption. The business area has been

able to limit exposure to the East European countries by proactive risk management. In the third quarter the business area experienced a seasonal improvement, which continued during the fourth quarter. The above mentioned operating profit includes positive translation effects of SEK 34 million (1).

The Group recorded a strong cash flow recovery from 2007 and 2008. Cash flow from operating activities before investments amounted to SEK 2,265 million (17) mainly due to the impact of lower raw material prices relative to 2008 and as a result of improvements in working capital management. Cash flow after net investments of SEK 313 million (387) was SEK 1,952 million (negative 370).

The Group's net investments in fixed assets totalled SEK 316 million (387), mainly comprising maintenance investments. Over a business cycle, investments, excluding acquisitions, should be in line with annual depreciation. In 2009 capital investment was below annual depreciation.

## Performance and financial position including non-recurring items and IAS 39

Operating profit, including insurance compensation of SEK 70 million and an IAS 39 effect of SEK 578 million (negative: 747), amounted to SEK 1,475 million (151).

In earlier reports (both interim and annual reports), the Company has pointed out that the IAS 39 effect can have a significant effect on earnings, both positive and negative, in individual quarters, owing to the contract mix, raw materials prices and exchange-rate trends. In the Group's internal accounting, hedge contracts, the underlying commercial contracts and inventories are measured at their current market price, which implies that the margin in the sales contracts is hedged. According to IAS 39, however, only hedge contracts may be valued at market price. Physical purchase contracts and sale contracts may not be valued at their market price.

The difference between internal valuation at market price and valuation at market price according to IAS 39 is the reported "IAS 39 effect." The IAS 39 effect has no effect on

net cash flow; rather, it is an entirely technical accounting effect.

Net financial items was negative in an amount of SEK 176 million (negative: 288) and profit after net financial items amounted to SEK 1,298 million (loss: 137). The underlying tax rate was just under 30 percent excluding deferred tax relating to IAS 39 and adjustments pertaining to prior years. Profit for the full year amounted to SEK 843 million (loss: 4), of which SEK 826 million is attributable to shareholders in the parent company. Earnings per share were SEK 20.19 (0.04).

The equity/assets ratio was 35 percent (31 December 2008: 22 percent), and this has improved significantly since the preceding year.

Consolidated equity as at 31 December 2009 totalled SEK 2,949 million (31 December 2008: SEK 2,383 million), and the balance sheet total was SEK 8,513 million (11,078).

### Non-recurring item

The company reported additional insurance compensation of SEK 70 million in the second quarter. The insurance compensation of SEK 70 million is not included in the operating profit, above, of SEK 827 million.

## Operations and significant events

### New CEO

Arne Frank was appointed to succeed Jerker Hartwall as President and CEO of AAK. He took up duties on 6 April 2010. In the fourth quarter of 2009, Arne Frank acquired 264,550 stock options for the purchase of shares in AAK from the principal shareholder, BNS Holding AB, at market price.

### Divestment of operations in Sri Lanka

The operations in Sri Lanka, which do not belong to the Group's core operations (a majority interest in the publicly listed company, CW Mackie), were divested, generating a small capital gain in the fourth quarter of 2009. The remaining holding in Ceylon Trading Co. consists of a dormant holding company for a few small local minority shareholdings.

## **Growth and productivity the focus for AarhusKarlshamn**

The AarhusKarlshamn Group (AAK) was formed on 29 September 2005 through the merger of Aarhus United A/S and Karlshamns AB. Our goal was to create a global leader in producing specialty vegetable fats that could benefit from economies of scale to permit faster growth, create a highly competitive cost structure and use our capital resources more effectively. Group growth is generated through a combination of organic growth for special products, and business combination.

## **Business areas**

The business areas are: Chocolate & Confectionery Fats (including Lipids for Care), Food Ingredients, and Technical Products & Feed. Group-wide functions are included in the Group Functions segment.

Chocolate & Confectionery Fats has a world-leading position, and this will be expended gradually to an increasingly global arena.

Food Ingredients maintains its strong regional positions in both Europe and North America.

Technical Products & Feed has a strong local position in Northern Europe and will continue to focus its growth efforts in these geographical segments through its close links to the Karlshamn unit in Sweden, bringing significant coordination benefits. Financial information for the business areas is provided in Note 28, page 84.

## **Ongoing rationalisation programme**

The original rationalisation programme was announced in the second quarter of 2007, when the company expensed a non-recurring item of SEK 150 million referring to expected restructuring costs. The programme is continuing according to plan and it has been found that the rationalisation opportunities are greater than the company originally expected. Over and above the original cost savings of SEK 100 million, which will take effect at the end of 2010, additional annual cost savings of SEK 200 million will be implemented in the latter part of 2011 without involving any additional non-recurring items. AAK began to see the first results of this rationalisation programme in the fourth quarter of 2009.

## **Insurance compensation**

On 4 December 2007, an explosive fire occurred in AAK's factory in Aarhus, Denmark.

The incident occurred in that part of the factory where vegetable oils are produced for use as components in speciality fats for chocolate and confectionery products, especially CBE. All the plants were back in operation during the fourth quarter of 2008.

To date, AAK has received around SEK 421 million in insurance compensation for business interruption, including the reported insurance compensation of SEK 70 million in the second quarter of 2009. The insurance compensation received in the second quarter of 2009 refers to business interruption in 2008 and 2009.

Given the complexity of the pending claims handling process with the relevant insurance companies, any predictions of the final outcome are subject to uncertainty. A final settlement with the insurance companies has not yet been concluded.

## **Treasury shares**

At the time of the merger between Aarhus United A/S (Aarhus) and Karlshamns AB in 2005, Aarhus held treasury shares. Since Aarhus accepted the public offer, Aarhus received shares in AAK in exchange for its own treasury shares. As a result of this, Aarhus currently owns 485,614 shares in AAK, which is equivalent to 1.17 percent of the capital and votes. On 19 May 2009, the Annual General Meeting voted to reduce the share capital by annulling the 485,614 shares in the Company that are held by Aarhus United A/S, whereby the Company's share capital decreased by SEK 4,856,140 through the transfer of this amount to the statutory reserve.

## **Significant events after the end of the financial year**

No significant events occurred after the end of the financial year.

## **The future**

### **Prospects**

AAK is today a company with a stronger balance sheet and a good balance between the business areas. The cost rationalisation programme and the working capital improvement project are being executed according to plan.

Volumes for speciality products are expected to continue to increase in Food Ingredients as well as Chocolate & Confectionery Fats. There remains, however, a general uncertainty about the impact of excess supply capacity in the industry and about lower demand as a consequence of the global recession.

Despite some market uncertainty AAK sees growth opportunities in all business areas. Organic growth for speciality products, in combination with a selective acquisition strategy, is our way forward.

### **Financial goals**

AAK aims to grow faster than the underlying market and to generate strong cash flows. We also intend to continually improve return on operating capital.

### **Dividend policy**

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

## Nomination Committee

AAK's Nomination Committee proposes for the Annual General Meeting on 21 May 2010 that the number of members of the Board shall be ten, and that all members of the current Board be re-elected. The Nomination Committee proposes in addition that Melker Schörling be re-elected Chairman of the Board, and Carl Bek-Nielsen Vice-Chairman.

AAK's Nomination Committee for the Annual General Meeting 2010 consists of:

- Mikael Ekdahl (Chairman)
- Carl Bek-Nielsen
- Henrik Didner  
(Didner & Gerge Mutual Fund)
- K-G Lindwall  
(Swedbank Robur Fund)

In total, the Nomination Committee represents 49.16 percent of the shares and votes in AAK as at 31 December 2009.

## Share capital and ownership circumstances

The total number of shares of AAK as at 31 December 2009 was 40,898,189. In AAK there is one class of share, and each share gives entitlement 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 as regards provisions in law or in the Articles of Association.

Of the Company's shareholders, only BNS Holding AB has a shareholding which represents at least one-tenth of the number of votes of all shares of AAK, BNS Holding AB's shareholding as at 31 December 2009 amounted to 39.73 percent of the total number of votes.

AAK is not aware of any agreement between direct shareholders of AAK that would involve limitations in the right to transfer shares. On the other hand, there is a shareholder agreement between the owners of BNS Holding AB – Melker Schörling AB and United International Enterprises Ltd. – that may involve a limitation of the right to transfer shares of AAK.

Ownership circumstances are described further in the section on the AAK Share, page 89.

## Articles of Association

The Articles of Association stipulate that appointment of Board Members shall be made by the Annual General Meeting of AAK. The Articles of Association do not contain any 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 advanced 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 management

Guidelines for the remuneration of the President and the benefits of other senior management were established by the 2009 Annual General Meeting. No deviations from these guidelines have been made. The Board of Directors of AAK proposes that the 2010 Annual General Meeting adopt the same guidelines for 2010 as 2009 for the remuneration of senior management. The guidelines are contained in Note 8, Remuneration of the Board of Directors and Senior Management.

These guidelines shall cover the persons who are in senior management positions during the period of time that the guidelines apply. The guidelines apply to agreements entered into after they were approved by the Annual General Meeting, and amendments are made to existing agreements after that. The Board of Directors shall have the right to deviate from the guidelines if, in individual cases, there are special reasons for doing so.

## Product development

Please refer to page 32 above, for further information concerning the Group's product development.

## Environmental impact

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 minerals into the water, and also creating organic waste and noise. We continually review our impact on all levels to further improve performance at AAK. We operate all our plants with appropriate official permits in all countries. In Sweden, the operations in Karlshamn is licensable, by Swedish law.

## Employees

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

## Risk management and sensitivity analysis

All business operations involve risk – a controlled approach to risk-taking is a prerequisite of maintaining good profitability. Risk may depend on events in the outside world 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 continuing process which is carried on within the framework of operational management and forms a natural part of the day-to-day monitoring of the operation.

## External risks

The AAK Group is exposed to the fierce competition which characterises the industry, as well as fluctuations in raw material prices which affect capital tied up.

### Operational risk

The raw materials used in the operation 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

For information on the composition and work, etc., of the Board of Directors, see the Corporate Governance Report on page 90.

## Parent Company

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 Company employs personnel with skills and competence for the execution of group-wide financing, accounting, information and Human Resources. The Parent Company is also responsible for Group Strategy and Risk Management, and provides legal and tax-related services to the Group subsidiaries.

The Parent Company's invoicing amounted to SEK 42 million (41) in 2009. Earnings after financial items amounted to SEK 68 million (188). Interest-bearing liabilities minus cash and cash equivalents and interest bearing receivables were SEK 227 million (31 December 2008: SEK 160 million). Investments in intangible and tangible fixed assets amounted to SEK 2 million (2). During the year, the Parent Company divested one of its subsidiaries to another Group subsidiary. The divestment had no effect on earnings.

There was a total of 13 (12) employees as of 31 December 2009.

No significant events occurred during or after the end of the financial year.

## Background and explanation to the proposed dividend

The Board of Directors has proposed that the 2010 Annual General Meeting approve an appropriation of profits under which the shareholders will receive a dividend of SEK 4.25 per share. The proposed dividend therefore totals SEK 174 million. The objective is that the dividend in the long term shall be equivalent to 30–50 percent of the consolidated profit after tax, always bearing in mind AAK's long-term financing requirements. The Parent Company owns no financial instruments valued in accordance with Chap. 4 §14a Annual Accounts Act (1995:1554). The Board of Directors hereby make the following statement regarding the proposed dividend, in accordance with Chap. 18 §4 (2005:551) of the Swedish Companies Act.

Retained profits from the previous year total SEK 3,830 million and the profit for the 2009 financial year totals SEK 70 million (843 for the Group). Provided that the 2010 Annual General Meeting approves the Board's proposed appropriation of profits, a total of SEK 3,726 million will be carried forward. The Company's restricted reserves will be fully covered after distribution of the dividend.

In our assessment, 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 operations. In making this assessment, the Board has taken account of the historical development of the Company and the Group, the budgeted performance and the economic situation.

In our view, the Company is in a position and has the capacity, in both the short and the long term, to meet all its obligations. The proposed dividend represents a total of 4.0 percent of the Company's equity and 5.9 percent of the Group's equity attributable to the Parent Company's shareholders.

After payment of the dividend, the equity/assets ratio of the Company and the Group will be 78.4 percent and 32.6 percent, respectively.

The Company's and the Group's equity/asset ratios are therefore strong in relation to other businesses in our industry. The Board of Directors assesses that the Company is in a good position to meet future business risk as well as withstand possible losses. Distribution of the dividend will not negatively affect the ability of the Company 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 ability to meet certain current liabilities. However, we consider that we have sufficient access to both short and long-term credit that can be obtained on 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 to the above, the Board of Directors has considered other known circumstances that can materially affect the financial position of the Company and the Group. We consider there are no circumstances currently to make the proposed dividend distribution seem indefensible.

It is proposed that the record date for the dividend shall be 26 May, and it is estimated that the dividend will be with the shareholders on 31 May.

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## Proposed appropriation of earnings

The Board of Directors and President propose that

The disposable profit brought forward	SEK 3,829,536,264
net profit for the year	SEK 70,522,603
Total	SEK 3,900,058,867

Shall be appropriated as follows:

To be distributed to shareholders, a dividend of SEK 4.25 per share	SEK 173,817,303
To be carried forward	SEK 3,726,241,564
Total	SEK 3,900,058,867

The consolidated and Parent Company's financial statements will be presented for adoption to the Annual General Meeting of the shareholders on 21 May 2010.

## Consolidated Income Statement

SEK million	Note	Jan-Dec 2009	Jan-Dec 2008
Net sales	28	15,884	17,207
Other operating income	10	98	375
<b>Total operating income</b>		<b>15,982</b>	<b>17,582</b>
Raw materials and consumables and changes in inventory of finished products and products in progress		-11,126	-14,008
Goods for resale		-396	-506
Other external expenses	5, 29	-1,350	-1,389
Employee benefits expense	6, 7, 8, 9	-1,222	-1,120
Depreciation/amortisation and impairment loss expense	15, 16	-403	-375
Other operating expenses		-10	-33
<b>Total operating expenses</b>		<b>-14,507</b>	<b>-17,431</b>
<b>Operating profit</b>		<b>1,475</b>	<b>151</b>
<b>Result from financial items</b>	11		
Financial income		35	29
Financial expenses		-212	-317
<b>Net financial items</b>		<b>-177</b>	<b>-288</b>
<b>Profit/loss before tax</b>		<b>1,298</b>	<b>-137</b>
Income tax	12	-455	133
<b>Profit/loss for the year</b>		<b>843</b>	<b>-4</b>
<b>Attributable to:</b>			
Minority interest		17	-5
Parent Company shareholders		826	1
		<b>843</b>	<b>-4</b>
<b>Earnings per share attributable to Parent Company shareholders during the year</b> (SEK per share) – before and after dilution	13	20.19	0.04

## Consolidated Statement of Comprehensive Income

SEK million	Jan-Dec 2009	Jan-Dec 2008
Net profit/loss for the period	843	-4
Translation differences	-113	104
<b>Total comprehensive income for the period</b>	<b>730</b>	<b>100</b>
<b>Attributable to:</b>		
Minority interest	-18	6
Parent Company shareholders	748	94

# Consolidated Cash Flow Statement

SEK million	Note	Jan-Dec 2009	Jan-Dec 2008
<b>OPERATING ACTIVITIES</b>	30		
Profit/loss after financial items		1,298	-137
Recoveries on amortisation and impairment losses		403	375
Adjustment for items not included in cash flow	30	-608	723
Income tax paid		-78	-141
<b>Cash flow from operations before changes to working capital</b>		<b>1,015</b>	<b>820</b>
<b>Changes in working capital</b>			
Net change in inventories		750	-456
Net change in other current receivables		1,645	-1,426
Net change in other current operating liabilities		-1,145	1,079
<b>Cash flow from operating activities</b>		<b>2,265</b>	<b>-17</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of intangible assets		0	-23
Acquisition of tangible fixed assets		-316	-368
Acquisition of operations and shares, net of cash acquired	27	-	-
Proceeds from sale of tangible fixed assets		3	4
<b>Cash flow from investing activities</b>		<b>-313</b>	<b>-387</b>
<b>FINANCING ACTIVITIES</b>			
Change in loans		-1,560	461
Sale of treasury shares		-	5
Dividends paid		-164	-164
<b>Cash flow from financing activities</b>		<b>-1,724</b>	<b>302</b>
<b>Cash flow for the year</b>		<b>228</b>	<b>-68</b>
Cash and cash equivalents at beginning of the year		105	167
Exchange rate difference for cash equivalents		-11	6
<b>Cash and cash equivalents at year-end</b>	19	<b>322</b>	<b>105</b>

# Consolidated Balance Sheet

SEK million	Note	31 Dec 2009	31 Dec 2008
<b>ASSETS</b>			
<b>Fixed assets</b>			
Intangible assets	16		
Goodwill		652	682
Patents and other intangible assets		112	134
		<b>764</b>	<b>816</b>
Property, plant and equipment	15		
Land and buildings		619	694
Plant and machinery		2,095	2,205
Equipment, tools and fixtures & fittings		83	89
Fixed assets under construction		181	201
		<b>2,978</b>	<b>3,189</b>
Financial assets			
Shares in associated companies		7	8
Financial investments		1	2
Deferred income tax assets	12	114	194
Other non-current receivables		9	26
		<b>131</b>	<b>230</b>
<b>Total fixed assets</b>		<b>3,873</b>	<b>4,235</b>
<b>Current assets</b>			
Inventories	18	2,237	3,098
Trade receivables	3	1,458	2,219
Current income tax	12	42	145
Other receivables		217	306
Derivative financial instruments	3	287	882
Prepaid expenses and accrued income		77	88
Cash and cash equivalents	19	322	105
<b>Total current assets</b>		<b>4,640</b>	<b>6,843</b>
<b>TOTAL ASSETS</b>		<b>8,513</b>	<b>11,078</b>

## Consolidated Balance Sheet (cont)

SEK million	Note	31 Dec 2009	31 Dec 2008
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholdings equity</b>	20		
Share capital		409	414
Reserves		-139	-66
Retained earnings, including result for the year		2,657	1,995
<b>Equity attributable to Parent Company's shareholders</b>		<b>2,927</b>	<b>2,343</b>
Minority interest		22	40
<b>Total equity</b>		<b>2,949</b>	<b>2,383</b>
<b>Non-current liabilities</b>			
Financial liabilities			
Liabilities to banks and credit institutions	21	3,403	4,959
Pension provisions	9	0	5
		<b>3,403</b>	<b>4,964</b>
Non-financial liabilities			
Deferred tax liabilities	12	336	217
Other provisions	22	94	139
Other non-current liabilities		4	7
		<b>434</b>	<b>363</b>
<b>Total non-current liabilities</b>		<b>3,837</b>	<b>5,327</b>
<b>Current liabilities</b>			
Financial liabilities			
Liabilities to banks and credit institutions	21	107	249
Other current liabilities		2	7
		<b>109</b>	<b>256</b>
Non-financial liabilities			
Accounts payable – trade	3	568	1,019
Current tax liabilities	12	144	81
Other current liabilities		160	723
Other current provisions	22	22	6
Derivative instruments	3	237	941
Accrued expenses and prepaid income	23	487	342
		<b>1,618</b>	<b>3,112</b>
<b>Total current liabilities</b>		<b>1,727</b>	<b>3,368</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>8,513</b>	<b>11,078</b>

## Consolidated Changes in Shareholders' Equity

SEK million	Attributable to the Parent Company's shareholders			Minority interests	Total equity
	Share capital	Reserves <sup>1)</sup>	Retained earnings		
<b>Opening balance at 1 January 2008</b>	<b>414</b>	<b>-159</b>	<b>2,154</b>	<b>34</b>	<b>2,443</b>
Profit for the year	-	-	1	-5	-4
Comprehensive income	-	93	-	11	104
<b>Total comprehensive income</b>	<b>-</b>	<b>93</b>	<b>1</b>	<b>6</b>	<b>100</b>
Sale of treasury shares	-	-	4	-	4
Dividend	-	-	-164	-	-164
<b>Dividends</b>	<b>-</b>	<b>-</b>	<b>-160</b>	<b>-</b>	<b>-160</b>
<b>Closing balance at 31 December 2008</b>	<b>414</b>	<b>-66</b>	<b>1,995</b>	<b>40</b>	<b>2,383</b>
<b>Opening balance at 1 January 2009</b>	<b>414</b>	<b>-66</b>	<b>1,995</b>	<b>40</b>	<b>2,383</b>
Profit for the year	-	-	826	17	843
Comprehensive income	-	-78	-	-35	-113
<b>Total comprehensive income</b>	<b>-</b>	<b>-78</b>	<b>826</b>	<b>-18</b>	<b>730</b>
Reduction of the share capital	-5	5	-	-	0
Dividend	-	-	-164	-	-164
<b>Dividends</b>	<b>-5</b>	<b>5</b>	<b>-164</b>	<b>-</b>	<b>-164</b>
<b>Closing balance at 31 December 2009</b>	<b>409</b>	<b>-139</b>	<b>2,657</b>	<b>22</b>	<b>2,949</b>

<sup>1)</sup> Reserves consists of currency translation differences. Of the total reserves, SEK 4,856,140 relates to a statutory reserve in the Parent Company that is entirely attributable to a reduction of the share capital carried out previously.

## Income Statement – Parent Company

SEK million	Note	Jan - Dec 2009	Jan - Dec 2008
Net sales	26	42	41
Other operating income	10	45	15
<b>Total operating income</b>		<b>87</b>	<b>56</b>
Other external expenses	5	-50	-43
Personnel costs	6, 7, 8, 9	-48	-30
Depreciation, amortisation and impairment losses		-1	-1
Other operating expenses		0	0
<b>Total operating expenses</b>		<b>-99</b>	<b>-74</b>
<b>Operating result</b>		<b>-12</b>	<b>-18</b>
<b>Profit from financial items</b>	11		
Interest income and similar items		115	252
Interest expenses and similar items		-35	-46
<b>Net financial items</b>		<b>80</b>	<b>206</b>
<b>Profit before tax</b>		<b>68</b>	<b>188</b>
Income tax	12	2	10
<b>Net result for the year</b>		<b>70</b>	<b>198</b>

## Balance Sheet – Parent Company

SEK million	Note	31 Dec 2009	31 Dec 2008
<b>ASSETS</b>			
<b>Fixed assets</b>			
Intangible assets		1	0
		<b>1</b>	<b>0</b>
Tangible assets		4	4
		<b>4</b>	<b>4</b>
Financial assets			
Shares in associated companies	17	1,495	5,671
Receivables from Group companies		3,743	727
Deferred income tax assets	12	0	0
		<b>5,238</b>	<b>6,398</b>
<b>Total fixed assets</b>		<b>5,243</b>	<b>6,402</b>
<b>Current assets</b>			
Receivables from Group companies		28	56
Other receivables		2	3
Prepaid expenses and accrued income		6	11
Cash and cash equivalents		0	1
<b>Total current assets</b>		<b>36</b>	<b>71</b>
<b>TOTAL ASSETS</b>		<b>5,279</b>	<b>6,473</b>

## Balance Sheet – Parent Company (cont)

SEK million	Note	31 Dec 2009	31 Dec 2008
<b>EQUITY</b>	20		
<b>Restricted equity</b>			
Share capital		409	414
Statutory reserve		5	-
		<b>414</b>	<b>414</b>
<b>Non-restricted equity</b>			
Retained earnings		3,830	3,791
Result for the year		70	198
		<b>3,900</b>	<b>3,989</b>
<b>Total equity</b>		<b>4,314</b>	<b>4,403</b>
<b>LIABILITIES</b>			
Non-current liabilities			
Financial liabilities			
Liabilities to banks and credit institutions	21	906	887
Other non-current liabilities		0	0
		<b>906</b>	<b>887</b>
<b>Current liabilities</b>			
Non-financial liabilities			
Trade payables		6	8
Income tax liabilities	12	0	0
Liabilities to Group companies		18	1,156
Other current liabilities		2	5
Accrued expenses and prepaid income	23	33	14
		<b>59</b>	<b>1,183</b>
<b>Total liabilities</b>		<b>965</b>	<b>2,070</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>5,279</b>	<b>6,473</b>
Pledged assets	24	-	-
Contingent liabilities	25	-	-

## Changes in Shareholders' Equity – Parent Company

SEK million	Share capital	Restricted equity Statutory reserve	Non-restricted equity Retained earnings	Total equity
<b>Opening balance at 1 January 2008</b>	<b>414</b>	-	<b>3,934</b>	<b>4,348</b>
Dividends	-	-	-166	-166
Group contributions	-	-	32	32
Tax effect on Group contribution	-	-	-9	-9
Net profit for the year	-	-	198	198
<b>Closing balance at 31 December 2008</b>	<b>414</b>	-	<b>3,989</b>	<b>4,403</b>
Dividends	-	-	-165	-165
Reduction of the share capital	-5	5	-	-
Group contributions	-	-	8	8
Tax effect on Group contribution	-	-	-2	-2
Net profit for the year	-	-	70	70
<b>Closing balance at 31 December 2009</b>	<b>409</b>	<b>5</b>	<b>3,900</b>	<b>4,314</b>

Total shares outstanding were 40,898,189 at par value SEK 10 per share.

## Cash Flow Statement – Parent Company

SEK million	Note	Jan-Dec 2009	Jan-Dec 2008
<b>OPERATING ACTIVITIES</b>	30		
Profit after financial items		68	188
Reversal of amortisation and impairment losses		1	0
Adjustment for items not included in cash flow	30	8	32
Income tax paid		0	0
<b>Cash flow from operating activities before changes to working capital</b>		<b>77</b>	<b>220</b>
<b>Working capital</b>			
Net change in other current receivables		34	-2
Net changes in other current operating liabilities		15	-155
<b>Cash flow from operating activities</b>		<b>126</b>	<b>63</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of tangible fixed assets		-2	-2
Acquisition of shares in subsidiaries		-27	-
Divestment of shares in subsidiaries		0	-
Repayment of capital injection	17	-	167
<b>Cash flow from investing activities</b>		<b>-29</b>	<b>165</b>
<b>FINANCING ACTIVITIES</b>			
Changes in borrowings		68	-61
Dividends		-166	-166
<b>Cash flow from financing activities</b>		<b>-98</b>	<b>-227</b>
<b>Cash flow for the year</b>		<b>-1</b>	<b>1</b>
Cash and cash equivalents at the beginning of the year		1	-
<b>Cash and cash equivalents at year-end</b>		<b>0</b>	<b>1</b>

**NOTE 1 – GENERAL INFORMATION**

AarhusKarlshamn AB (publ), corporate identity number 556669-2850, is a Swedish registered limited liability company domiciled in Malmö, Sweden. The shares of the Parent Company are listed on the NASDAQ OMX Stockholm, Mid Cap list, and Consumer Commodities. The head office is located at Jungmansgatan 12, SE-211 19 Malmö, Sweden.

These consolidated financial statements for 2009 are for the Group consisting of the Parent Company and all subsidiaries. The Group includes shares of associated companies and joint ventures. The Board of Directors approved these consolidated financial statements for publication as of 6 April 2010.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

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

**Basis of presentation for 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, the Swedish Financial Reporting Board's recommendation RFR 1.2 'Supplementary accounting rules for groups of companies'. The Parent Company has prepared its financial reports according to the Swedish Annual Accounts Act (Årsredovisningslagen) and the Swedish Financial Reporting Board's recommendation RFR 2.2 'Accounting for legal entities'.

The annual report and the consolidated financial statements have been prepared in accordance with the historical cost convention for valuation except for currency, interest, and commodity derivative instruments, which are measured at fair value through profit and loss. Preparing these financial statements requires that the Board of Directors and the Group 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 also disclosure Note 4. Actual outcome can vary from these estimates and assumptions under different circumstances.

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

The following new standards, changes and interpretations of existing standards have been published and are compulsory for the Group's financial statements for financial years starting on 1 January 2009 or later:

***IAS 1 Presentation of financial statements (revised)***

Presentation of financial statements is effective as from 1 January 2009. The revised standard will prohibit the presentation of income and expenditure items in the report of changes to equity, but will require that 'changes to equity excluding transactions with shareholders' are reported separately from changes to equity relating to transactions with shareholders. It will be required that all changes to equity that do not relate to shareholders are reported in a statement of comprehensive income. Therefore, the Group presents all ownership-related changes in equity in the statement of consolidated changes in equity, whereas all changes in equity that do not relate to transactions with shareholders will be reported in the consolidated statement of comprehensive income. Comparison information has been restated to harmonise with the revised standard. Since this change of accounting principle only affects the layout, it has no effect on earnings per share.

***IAS 23 Borrowing costs***

Borrowing costs apply as from 1 January 2009. The change requires a company to capitalize borrowing costs directly attributable to the purchase, design or production of an asset that require significant time to produce for use or sale, as a portion of the amortised cost of the assets. Previously, the Group expensed all borrowing expenses immediately. This change of accounting principle is the result of the application of the transitional rules contained in IAS 23, Borrowing costs (2007). Comparison information has therefore not been restated. The change of accounting principle has no significant effect on earnings per share.

***IAS 36 Impairment of assets***

The change applies as of 1 January 2009. When fair value minus cost of sale is estimated on the basis of discounted cash flows, disclosures corresponding to the disclosures relating to the calculation of value in use must be provided. The Group has applied IAS 36 and provides, where appropriate, the required information on the reviewing of assets to determine whether a need for impairment exists.

***IFRS 7 Financial instruments – Disclosures (changed)***

The revised standard applies as from 1 January 2009. The change requires expanded disclosures concerning valuation at fair value and liquidity risk. In particular, the change requires the disclosure of the fair value valuation per level in a valuation hierarchy. Since this change only entails additional disclosures, it has no effect on earnings per share.

***Interpretations and changes to existing standards which have not yet come into force and which have not been applied prematurely by the Group.***

The following standards and interpretations of existing standards have been published and are compulsory for the Group's financial statements for financial years starting on 1 January 2010 or later, but have not been applied prematurely:

#### *IAS 1 Presentation of financial statements (revised)*

The revision is part of the IASB's annual improvement project that was published in April 2009. The change clarifies that the potential regulation of a debt through a share issue is not relevant for its classification as current or non-current term. Through a change in the definition of current liability, the revision allows a liability to be classified as non-current (provided the company has an unconditional right to postpone settlement of the liability through a transfer of cash funds or other assets for at least 12 months after the end of the financial year) despite the fact that the counterparty may demand settlement through shares at any time. The Group will apply IAS 1 (change) as of 1 January 2010. This is not expected to have any significant effect on the consolidated financial statements.

#### *IFRS 3 Business combinations (revised)*

The revised standard (applies as of 1 July 2009) continues to prescribe that the acquisition method be applied to business combinations, but with a few key changes. For example, all payments to purchase an operation are recognized at fair value on the acquisition date, but the ensuing conditional payments are classified as liabilities that are subsequently measured over profit and loss. For every acquisition, shareholdings without a controlling influence in the acquired operation may be measured either at fair value or according to the proportional share of the acquired operation's net assets held by the shareholder without a controlling influence. All transaction costs relating to acquisitions must be expensed. As of 1 January 2010, the Group will apply IFRS 3 (revised) to all business acquisitions.

#### ***Interpretations and changes to existing standards which have not yet come into force and which are not relevant to the Group's operation***

The following interpretations and changes of existing standards have been published and are compulsory for the Group's financial statements for financial years starting on 1 January 2010 or later, but are not relevant to the Group.

- IAS 17 Leases (effective as from 1 January 2010).
- IAS 27 Consolidated and Separate Financial statements (effective as from 1 January 2010).
- IAS 38 Intangible Assets (effective as from 1 January 2010).
- IAS 39 Financial Instruments Recognition and Measurement (effective as from 1 January 2010).
- IFRS 2 Share-based Payment (effective for financial year starting on 1 July 2009 or later).
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (effective as from 1 January 2010).
- IFRS 8 Operating Segments – Segment Assets (effective as from 1 January 2010).
- IFRIC 9 Embedded Derivatives (effective for financial year starting on 1 July 2009 or later).
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective as from 1 July 2009).
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective for financial year starting 1 July 2009 or later).
- IFRIC 18 Transfers of Assets from Customers (effective for financial year starting 1 July 2009 or later).

#### **Consolidated accounts**

##### ***Subsidiaries***

The consolidated accounts cover AarhusKarlshamn AB and all its subsidiaries. Such subsidiaries are all companies in which the Group exercises a decisive influence in determining financial and operation strategies to the extent usually associated with shareholding of more than 50 percent of the voting rights. Subsidiaries are consolidated as of the date of acquisition (the date when the decisive influence is transferred to the Group) and to the date of disposal (the date when the decisive influence terminates).

##### ***Purchase method***

Acquisition of subsidiaries is accounted for using the purchase method of accounting. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially as the fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of cost of acquisition for the Group's share of the subsidiary and the fair value of the identifiable net assets and contingent liabilities of the subsidiary as of the acquisition date is recorded as goodwill. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated, unless the transactions provide 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.

##### ***Associated companies***

Associated companies are all companies where the Group has significant influence, but not a decisive influence over the operational and financial management, usually through a participation shareholding of between 20 percent and 50 percent of the voting rights. As from the time the considerable influence is acquired, participations in associated companies are reported in the consolidated accounts using the equity method of accounting. The equity method entails that the value of the shares in the associated companies reported for the Group corresponds to the Group's participation in the equity of the associated companies plus Group-related goodwill and any remaining values of Group-related surplus or shortfall in value. The consolidated income statement reports participation in the profit of associated companies as the Group's share of the profit of associated companies, adjusted for any amortisation, impairment or dissolution of acquired surplus or shortfall values. Dividends received from associated companies reduce the reported value of the investment.

The equity method is used until significant influence ceases.

### **Minority interests**

Transactions with minority interests are treated the same as transactions with external parties. Sale of participations to minority interests resulting in gain or loss are reported in the consolidated income statement. Acquisition of minority interests may result in goodwill if the consideration paid exceeds the carrying value of the acquired net assets.

### **Foreign currency translation**

#### *Functional and presentation currency*

Items included in the financial statements of each of the Group's foreign 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 Company's functional and presentation currency. Exchange rate differences that arise in translation of Group companies are reported as a separate item in comprehensive income.

### **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at 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 are recognised as of the reporting date in the income statement. The Group does not use hedge accounting.

### **Group companies**

The results and financial position of the group's foreign subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency other than the presentation currency are translated to the 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 rate differences are charged directly to comprehensive income and are reported as a separate item. When a foreign subsidiary is sold, any exchange rate differences are recognised in the income statement 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	10.61	10.28
DKK	1.42	1.38
GBP	11.85	11.41
LKR	0.07	0.06
MXN	0.56	0.55
USD	7.64	7.18

### **Segment reporting**

Operating segments are accounted for in a manner corresponding to the internal accounting given to the chief operating decision maker. The chief operating decision maker is the function in charge of resource allocation and of evaluating the results of the operating segments. In the Group, this function has been identified as the Board of Directors, which makes strategic decisions.

The Group's operations are organically divided into business areas based on product. The marketing organisation also reflects this structure. The business areas therefore make up the Group's primary segments and the geographical markets are the secondary segments. 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. Items not attributable in this way include interest and dividend revenues, gains or losses from the sale of financial investments, interest expenses, and tax expenses. Assets and liabilities not attributed to a segment include income taxes recoverable and income tax liabilities, financial investments, and financial liabilities.

### **Revenue recognition**

Revenue comprises the fair value of goods sold excluding VAT and discounts after eliminating intra-group sales. Revenue is recorded on delivery of the goods, after customer acceptance and the receivable can reasonably be expected to be received. Interest income is recorded allocated over the maturity of the security using the effective interest method. Insurance revenue is recognised as revenue when the amount can be measured reliably and it is probable that the revenue will flow to the Group.

### **Employee benefits**

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

The Group companies have various pension schemes. These schemes are generally funded through payments to insurance companies or trustee administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that 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 compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate 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 employees the benefits relating to employee service in the current and prior periods.

The liability recognised in the balance sheet in respect to defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains/losses. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. This calculation is done annually since the obligations are insignificant. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate 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 liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions exceeding the greater of 10 percent of the value of the plan assets and 10 percent of the defined benefit obligation are periodised over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time. In this case, the past-service costs are allocated on a straight-line basis over the vesting period.

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

Employees receive compensation upon termination before normal retirement age or whenever they voluntarily accept termination in exchange for these benefits. The Group recognises 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.

### **Leasing**

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

### **Product development**

Product development work is an integrated part of production relating to process-improving measures that is written off 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 optimise the attributes and function of oils and speciality fats, either for the finished product in which these oils and fats are ingredients or to add value to the finished product through greater efficiency in the production process.

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

Assets with indefinite useful lives are tested for impairment annually rather than being depreciated. All assets are assessed in terms of impairment whenever events or circumstances indicate that its carrying cost exceeds its recoverable amount. Impairment reflects the excess of the asset's carrying cost over its recoverable amount. The recoverable amount is the higher of the asset's fair value less any selling costs and value in use. For the purposes of assessing, assets are grouped on the basis of the lowest level on which there are separate identifiable cash flows (cash generating units). Assets, other than financial assets and goodwill, for which impairment loss was previously recognised, are tested to ascertain whether any reversal should be made every balance sheet date.

### **Borrowing costs**

All borrowing costs are recognised in the period to which they can be attributed if not attributable to purchase, design or production of an assets that require significant time to produce for use or sale. No assets are considered to exist that would qualify for capitalisation of interest.

### **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 at the date of acquisition. Goodwill on acquisitions of subsidiaries are included in intangible assets. Goodwill recognised 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 be benefited by the acquisition. Goodwill is carried at cost less accumulated excess impairment losses. Gains and losses on the disposal of an entity include the 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 recognised immediately in income.

#### *Other intangible assets*

Other intangible assets include such assets as capitalised expenditure on IT, patents and trademarks. These assets have a defined useful life and are carried at cost less accumulated amortisation and impairment losses. Cost associated with maintaining an intangible asset is recognised 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 recognised as they arise. Other intangible assets are amortised 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 tangible fixed assets are carried at cost less accumulated depreciation. The acquisition value includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or are recognised 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 charged to the income statement in the financial period they arise.

Land is not depreciated. Depreciation of other tangible assets is calculated using the straight-line method to allocate their cost down to their residual values over their estimated useful lives. 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 and office buildings over 50 years. When an asset's carrying amount may not be recoverable, impairment loss is recognised immediately to its recoverable amount.

Assets' residual value and useful life are reviewed at each balance sheet date and are adjusted as required. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

#### **Inventory**

Inventories are stated at the lower of cost or net selling price. 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. Cost of finished goods and products in progress includes direct material costs, direct labour and other direct manufacturing costs and a reasonable allocation of indirect manufacturing expenses based on normal production capacity, excluding borrowing costs. Net selling price is the estimated sale price in the ordinary course of business less costs of completion and applicable variable selling expenses.

#### **Financial instruments**

A financial asset or financial liability is reported in the balance sheet when the Company enters a contract for the instrument. Liability is recognised when the counterparty has performed and a contractual duty to pay arises, even if no invoice is received.

A financial asset is derecognised when the rights in the contract are realised, matures or the Company loses control of them. 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. The same applies to parts of financial liabilities.

The Group classifies its financial instruments in the following categories: Financial assets at fair value through profit or loss, and loans and receivables. The former category is primarily commodity and currency derivatives. All such hedges are measured at fair value through profit or loss. The Group does not use hedge accounting.

All financial instruments held in the Group that are measured at fair value in the balance sheet are classified as level two in the fair value hierarchy according to IFRS 7.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise when the Group provides money, goods or services directly to a debtor (most often a customer) with no intention of trading the receivable. These are recorded as current assets when the maturity is less than 12 months from the transaction date. Loans and receivables are recognised in accounts receivable and other receivables.

#### **IAS 39 effects**

Raw material prices are hedged operationally through forward contracts or through purchase contracts at fixed price. The Group also hedges all exchange rate transaction risks. This means that the gross contribution of each sale contract is hedged. Hedge accounting according to IAS 39 is not used. In the internal follow-up, all sales contracts and raw material purchases (including inventory) are measured at market price in relation both to raw material prices and exchange rates.

According to IAS 39, only contracts not designed for physical delivery may be measured at market price, which means that a real difference arises between the internal and the external reporting. It is this effect that AAK reports as an IAS 39 effect. The reported IAS 39 effect is reported as the type of cost 'Raw materials and consumables and changes to inventory of finished goods and work in progress'.

**Trade receivables**

Trade receivables are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less provisions for impairment. Provision for impairment of trade receivables is recognised when there is objective evidence that the Company will not receive the cash flow due according to the original terms of the receivable. Provisions are measured as the difference between the assets' carrying amount and the present value of future cash flows discounted at the financial asset's original effective interest rate. Such provisions are stated in the income statement as other external expenses.

**Share capital**

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

**Debts to banks and credit institutions**

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

**Trade payables**

Trade payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

**Provisions**

Provisions are recognised 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 reasonably estimated. No provisions are made for future operating losses. If the effect of when in time payment is made is significant, provision is calculated through discounting of 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 recognised when the Group has adopted a comprehensive and formal restructuring plan, and the restructuring has either been started or details of the plan have been published.

**Income tax**

Income tax stated in the income statement includes taxes due on net profit. Income tax is determined using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date and that are expected to apply when the related deferred income tax asset is realised or the deferred income 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 the 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 are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets are reduced where it is no longer probable that future taxable profit will be available against which they can be utilised.

Deferred income tax assets are recognised 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 reverse in the foreseeable future.

**Cash and cash equivalents**

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

**Cash flow analysis**

Payments in and out have been divided up into three categories: operational activities, investing activities and financing activities. The indirect method is used for flows from operational 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 reported under investing activities. The assets and liabilities that the acquired and disposed of companies had at the time of change are not included in the analysis of the changes in operating capital, nor in changes to balance sheet items reported under the investing and financing activities.

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**Earnings per share**

The calculation of Earnings per share is based on Group profit for the year attributable to the Parent Company shareholders and the weighted average number of shares outstanding during the year.

**Transfer pricing**

Pricing between Group companies is done using market terms.

**Dividends**

Dividend to shareholders in the Parent Company is recognised as a liability in the Group financial statements in the period when the dividend was approved by the shareholders.

**Accounting principles for the Parent Company**

The Parent Company has prepared its financial reports according to the Swedish Annual Accounts Act (Årsredovisningslagen) and the Swedish Financial Reporting Board RFR 2.2 'Accounting for legal entities'. No differences against the Group's accounting principles have been identified.

### NOTE 3 – FINANCIAL RISK MANAGEMENT

The AAK Group's operations expose it to various financial risks, including market price risks (on raw materials, currencies and interest rates), liquidity risk and credit risk. The Group's products are sold throughout the world, why its sales revenues are exposed to market fluctuations in the exchange rates of the currencies involved. Further, the Group buys its raw materials on international markets, why 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 make managing these risks a significant prerequisite to our successful operation. We feel that we succeed in this risk management to a large degree using the policies and procedures established for the Group.

The Group's managing of price risk and other risks related to buying raw materials is regulated in the AAK policy and principles for managing market risk for raw materials, while currency risks and other financial risks are regulated by AAK financial policy and principles. Both policies and principles are established by the AAK Board of Directors, who monitors, evaluates and updates these policies annually

**Raw material price risks**

The Group's annual costs for raw materials are three-fourths of the sales value of the finished products. AAK hedges both operational raw material price risk and the underlying operational currency risk when the sales agreement with the customer is entered.

Raw material prices fluctuate, so the Company has set a high priority in raw material procurement and for managing this exposure. Raw material procurement is managed by the Group procurement organization, which continuously monitors and controls raw material market exposure for the Group. However, to maintain an effective organisation, 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 positions are managed appropriately, AAK results are affected only marginally by any price changes; the affect on total sales and requirements for working capital is, however, significantly larger.

Raw material hedge contracts are used to hedge raw material price risk. We hedge purchases of raw materials and sales of processed products using standard commodity futures traded on commodity exchanges or by using OTC-hedge contracts using brokers. Price risk hedging is done and administered using various portfolios of equivalent oil and seed products: Liquids (rapeseed and soya), palm (palm oil), laurics (coconut and palm seed oil) seed/meal (rapeseed) and exotic materials (shea and illipe).

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 strives to limit this exposure on exotic raw materials by entering new exotic based sales contracts during the months, where the exotic raw materials are sourced.

Hedge accounting according to IAS 39 is not applied. Therefore the Group's operating profit includes an IAS 39 effect of SEK 578 million (-747), which is entered as part of "Cost of goods sold".

In the Group's management accounts the hedge contracts as well as the underlying commercial contracts/stocks are valued at actual marked value – making zero the net effect of the marked price valuation. However, IAS 39 allows market price valuation of the hedge contracts only. This difference between the management accounts and IAS 39 market price valuation is the "IAS 39 effect" reported. This IAS 39 effect can result in changes (both positive and negative) to the management accounts from quarter to quarter depending partly on the actual mix of contracts, partly on developments in prices for raw material and exchange rates. The IAS 39 effect does not change cash flows, as it only represents the difference between the market value of all contracts and stock versus the market value of hedge contracts only.

#### Raw materials hedge contracts to manage raw material price risk December 31, 2009

(thousand tonnes)	Stocks	Commercial purchase contracts	Commercial sales contracts	Raw material hedge contract		
				Bought	Sold	Net exposure
Oils and fats	143	403	-548	428	-404	22

#### Raw materials hedge contracts to manage raw material price risk December 31, 2008

(thousand tonnes)	Stocks	Commercial purchase contracts	Commercial sales contracts	Raw material hedge contract		
				Bought	Sold	Net exposure
Oils and fats	175	446	-846	729	-509	-5

#### 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 will have an insignificant effect on the Group's profit margin. Thus a 10 percent change in all raw material prices will have a negligible effect on Group's operating profit, whereas it will change net sales by  $\pm$  SEK 1,000 million (1,250) and working capital by  $\pm$  SEK 250 million (350) annually.

The IAS 39 effect is the effect from price changes on hedge contracts only. Based on the year-end 2009 hedge contract position (+25,000 MT) (+200,000) a 10 percent price change on all raw materials will imply a IAS 39 effect of SEK 15 million (150).

#### Gross contribution for rapeseed

As explained above, our policies and procedures for risk management in general implies that our profit margin is not affected by changes in raw material prices. However, we cannot eliminate our exposure from market price fluctuations in relation to rape seed crushing. Thus the crush margin (oil plus meal value less seed price) can vary significantly over time and can thereby directly affect profitability for our Food Ingredients Continental Europe segment.

#### Exposure to foreign currency

A significant portion of the Group's raw materials buying and selling is denominated in foreign currency. Further the larger part of the Group's operational subsidiaries are located in foreign countries. Thus changes in currency rates affect AAK in several ways:

1. Sales contracts and raw material contracts in foreign currency gives rise to transaction risk
2. Profit/loss for our foreign subsidiaries is affected by changes in currency rates, when they are translated to SEK.
3. The Group's equity is affected when equity in these foreign subsidiaries is translated to SEK.

AAK hedges all its currency transaction risks. Gross contribution on all sales contracts is thereby hedged into the local currency of the subsidiaries having entered these sales contracts.

Exchange rate risk related to translating equity and profit/loss in our foreign subsidiaries into SEK is not hedged.

Hedge accounting according to IAS 39 is not applied.

#### Exposure to transaction risk, 31 December 2009

SEK million	Assets	Liabilities	Sales contracts	Purchase contracts	Currency contracts		Net exposure
					Sold	Bought	
USD	607	-390	1,754	-1,345	-1,372	712	-34
EUR	359	-64	1,443	-270	-1,755	355	68
Other	118	-17	337	-62	-487	123	12
<b>Total</b>	<b>1,084</b>	<b>-471</b>	<b>3,534</b>	<b>-1,677</b>	<b>-3,614</b>	<b>1,190</b>	<b>46</b>

#### Sensitivity analysis – Currency

With all foreign currency translation 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 against SEK will affect the Groups consolidated profit, when the profit of each foreign subsidiary are translated into SEK. Thus a 10 percent in all currencies against SEK will affect the Groups consolidated operating profit by SEK 75 million. Further a 10 percent change in all currencies against SEK will affect the Groups net sales by SEK 1,000 million (1,250) and the Groups net working capital by SEK 250 million (250).

The IAS 39 effect is the effect from price changes on hedge contracts only. Based on the year-end 2009 currency hedge contracts position a 10 percent change in all currencies against the local currency of each subsidiary will imply an IAS 39 effect of SEK 250 million (200).

## Exposure to transaction risk, 31 December 2008

Million	Assets	Liabilities	Sales contracts	Purchase contracts	Currency contracts		Net exposure
					Sold	Bought	
USD	1,307	-1,147	2,571	-2,332	-3,058	2,690	31
EUR	442	-89	1,679	-475	-2,208	629	-22
Other	87	-137	392	-99	-505	268	6
<b>Total</b>	<b>1,836</b>	<b>-1,373</b>	<b>4,642</b>	<b>-2,906</b>	<b>-5,771</b>	<b>3,587</b>	<b>15</b>

## Interest rate risk

AAK's policy on interest rate risk management is to minimize volatility in cash flow earnings and net profit from fluctuations in interest rates. This is accomplished when the Group's net interest bearing debt is floating rate based. However, during abnormal market conditions – e.g. a financial crises –, 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.

By year-end 2009 the Group's net interest bearing debt is SEK 3,186 million (5,112), of which DKK 200 million is swapped into a 2-6 year fixed borrowing rates by way of interest rate swaps. Further a DKK 500 million zero cost collar is entered capping a borrowing rate at 5 percent. Hedge accounting according to IAS 39 is not applied.

## Effective interest rate on debt to banks and credit institutions on closing date:

	SEK	DKK	EUR	GBP	LKR	MXN	USD
<b>2009</b>	1.06	2.12	-	1.01	-	5.73	0.94
<b>2008</b>	4.07	5.06	3.50	3.01	21.00	9.39	1.96

## Sensitivity analysis – Interest rates

At closing date the Group has a floating rate based net debt of SEK 3,186 million. Thus a 1 percent change in interest rates will have a full year effect of SEK 23 million on the group's interest costs after tax.

## Loans and capital structure

AAK's policy on capital structure is to maximise 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:

1. Net interest bearing debt / EBITDA < 3.00
2. EBITDA / interest cost > 5.00
3. Net interest bearing debt / Equity < 1.25

These target ratios are considered to be relatively conservative and will help to ensure that AAK will be able to maintain its high-grade credit rating.

Changes in world vegetable oil prices affects the Group's working capital with a lag of 6-9 months. The vegetable oil prices peaked at historical high levels in July 2008, after when they more than halved during the second half of 2008. This price drop together with a strong focus on reducing our working capital has reduced our net working capital by SEK 926 million during 2009. The Group will continue its strong focus on reducing its net working capital.

The Group's policy is to allocate total net borrowings per subsidiary relative to each subsidiary's share of the Group's total cash flow earnings. By this policy we minimize the exchange rate risk in relation to the Group's ability to service the debt and thus we strengthens the Group's debt capacity.

### Currency break down of debt to banks and credit institutions at closing date

	2009	2008
SEK	904	1,211
DKK	1,961	2,377
EUR	-	15
GBP	178	404
LKR	-	45
MXN	98	411
USD	379	745
Other	-91	-
<b>Total</b>	<b>3,511</b>	<b>5,208</b>

### Liquidity risk

Liquidity risk concerns the Groups ability to meet its financial commitments, as they fall due.

### Disclosure of financial liabilities by maturity date, 31 December 2009

The table below presents an analysis of all financial commitments of the Group categorised by their earliest contractual maturity date at the balance sheet date. All liabilities to banks and credit institutions are floating rate based and thus the year-end book value very well represents the present value of those liabilities. All liabilities in foreign currency are converted into SEK at year-end closing rates.

	Total amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>Non-current liabilities</b>					
<i>Financial liabilities</i>					
Liabilities to banks and credit institutions	3,403	-	2,651	170	582
Other provisions	94	-	94	-	-
Other non-current liabilities	4	-	-	-	4
<b>Total non-current liabilities</b>	<b>3,501</b>	<b>-</b>	<b>2,745</b>	<b>170</b>	<b>586</b>
Interest on liabilities to banks and credit institutions	169	-	29	40	100
<b>Total non-current liabilities and Interest</b>	<b>3,670</b>	<b>-</b>	<b>2,774</b>	<b>210</b>	<b>686</b>
<b>Current liabilities</b>					
<i>Financial liabilities</i>					
Liabilities to banks and credit institutions	107	107	-	-	-
Other current liabilities	22	22	-	-	-
Trade payables	574	574	-	-	-
Derivatives	237	237	-	-	-
Accrued expenses	154	154	-	-	-
Other current liabilities	487	487	-	-	-
<b>Total Current financial liabilities</b>	<b>1,581</b>	<b>1,581</b>	<b>-</b>	<b>-</b>	<b>-</b>
Interest on liabilities to banks and credit institutions	61	61	-	-	-
<b>Total Current liabilities and Interest</b>	<b>1,642</b>	<b>1,642</b>	<b>-</b>	<b>-</b>	<b>-</b>

Future payments for financial instruments amount to SEK 7,041 million and future receipts amount to SEK 6,835 million.

### Interest on liabilities to banks and credit institutions

Unused credit facilities available to the Groups at year-end 2009.

	Total amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>Unused credit facilities</b>	<b>2,434</b>	<b>150</b>	<b>-</b>	<b>2,284</b>	<b>-</b>

The unused credit facilities available to the Group at year-end 2009 and the liquid assets generated by operations are considered sufficient for the Group to fully meet all its financial commitments.

## Disclosure of financial liabilities by maturity date, 31 December 2008

	Total amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>Non-current liabilities</b>					
<i>Financial liabilities</i>					
Liabilities to banks and credit institutions	4,959	-	107	4,165	687
Other provisions	139	-	130	-	9
Other non-current liabilities	7	-	-	-	7
<b>Total non-current liabilities</b>	<b>5,105</b>	<b>0</b>	<b>237</b>	<b>4,165</b>	<b>703</b>
Interest on liabilities to banks and credit institutions	1,277	232	230	406	409
<b>Total non-current liabilities and Interest</b>	<b>6,382</b>	<b>232</b>	<b>467</b>	<b>4,571</b>	<b>1,112</b>
<b>Current liabilities</b>					
<i>Financial liabilities</i>					
Liabilities to banks and credit institutions	249	249	-	-	-
Other current liabilities	7	7	-	-	-
Trade payables	1,019	1,019	-	-	-
Derivatives	941	941	-	-	-
Accrued expenses	342	342	-	-	-
Other current liabilities	729	729	-	-	-
<b>Total Current financial liabilities</b>	<b>3,287</b>	<b>3,287</b>	-	-	-
Interest on liabilities to banks and credit institutions	12	12	-	-	-
<b>Total Current liabilities and Interest</b>	<b>3,299</b>	<b>3,299</b>	-	-	-

Unused credit facilities available to the Groups at year-end 2008.

	Total amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>Unused credit facilities</b>	<b>1,017</b>	<b>82</b>	-	<b>935</b>	-

## Credit risk

The Company is exposed to credit risk primarily in relation to accounts receivable-trade and customer contracts. Risk in the latter case is represented by our customers' failure to meet commitments entered previously due to changes in market prices.

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

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

Nearly one-fourth of the Group's sales occur in countries where the political and commercial risks are deemed to be higher than in Western economies. However, even in these countries we experience limited impairments due to impaired receivables. This is largely due to the fact that a significant portion of our business in these countries is with large multi-national companies, who also do business world-wide. As well, we do business in these countries primarily with partners with whom we have stabile, long-term relationships.

Each business segment is responsible for managing their customer credit risks, while our larger production facilities are responsible for managing their counter-party risk in relation to raw material procurement.

## Provisions for doubtful trade receivables

	2009		2008	
SEK million	Gross amount underlying	rec. Provisions	Gross amount underlying	rec. Provisions
Provisions at 1 January	48	40	20	16
Provisions for potential losses	16	16	49	45
Unused amount reversed	-8	-8	-1	-1
Actual credit losses	-22	-22	-20	-20
Exchange rate differences	0	0	0	0
<b>Provisions at 31 December</b>	<b>34</b>	<b>26</b>	<b>48</b>	<b>40</b>

Provisions for impairments are entirely related to receivables trade. Total trade receivables excluding provisions were SEK 1,484 million (2,259).

**Past due assets but not considered as impaired**

SEK million	2009	2008
1–30 days	249	524
31–120 days	60	121
121–360 days	10	26
Over 360 days	6	13
	<b>325</b>	<b>684</b>

**Derivatives classified as financial instruments**

The Group classifies its financial instruments (hedge instruments) in the following categories: Raw materials hedge contracts, Currency hedge contracts and Interest rate hedge swaps. Notional principle amounts of outstanding financial instruments reported in the balance sheets.

SEK million	2009		2008	
Financial instruments	Asset	Liabilities	Asset	Liabilities
Raw material hedge contracts	213	161	584	665
Currency hedge contracts	74	67	276	252
Interest rate hedge swaps	-	9	22	24
<b>Total</b>	<b>287</b>	<b>237</b>	<b>882</b>	<b>941</b>

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

In preparing these financial statements, the Group management and Board of Directors must make estimates and assumptions that affect the reported 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 considering their degree of significance in judgments and uncertainty. Our estimates and assumptions in this regard change as the circumstances for AAK's operations change.

**Estimating impairment of goodwill and other assets**

The Group tests if any goodwill impairment is suffered on an annual basis or whenever events or changed 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. Goodwill is allocated to cash-generating units for the purpose of impairment testing, and is determined when the event or circumstances have an impact on the estimated future 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.

**Income tax**

The Group is liable to pay taxes in many countries. Extensive assessments and testing are necessary to establish world-wide provisions for income tax liabilities. There are many transactions and calculations involved leading to uncertainties at the time these transactions and calculations are made. The Group records a liability for anticipated tax audit issues based on assessments of whether an additional tax liability will arise. In cases where the final tax for these matters differs from the amounts first recorded, These differences will impact current and deferred tax receivables and tax liability in the period when these determinations are made.

**Application of IAS 39**

Future contracts or fixed price contracts are used to hedge raw material price risk. Moreover, the Group employs currency hedging on all of its transaction risks. This means that the administrative compensation of every sales contract is hedged. As part of the internal follow-up, the market value of all sales contracts and raw material purchases (including inventory) is valued with respect to both raw material prices and currency prices. According to IAS 39, only contracts not designed for physical delivery are subject to market valuation, which results in differences between the internal and the external accounting. It is this effect that AAK reports as an IAS 39 effect.

#### NOTE 5 – AUDITORS' REMUNERATION (SEK THOUSAND)

	Group		Parent Company	
	2009	2008	2009	2008
Audit				
PricewaterhouseCoopers	4,669	4,646	753	772
Other	191	24	-	-
Subtotal, audit	4,860	4,670	753	772
Other assignments				
PricewaterhouseCoopers	1,669	2,333	425	82
Other	69	738	-	288
<b>Total</b>	<b>6,598</b>	<b>7,741</b>	<b>1,178</b>	<b>1,142</b>

The auditing assignment includes auditing the annual report and accounts as well as the administration of the Company by the Board of Directors and CEO, other duties the Company auditor must perform, as well as advice and other assistance arising from the audit or in carrying out these duties. All other assignments are listed as 'Other assignments'.

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

	Group		Parent Company	
	2009	2008	2009	2008
Wages and salaries	950,868	864,522	31,142	20,361
Social security costs	248,656	241,665	18,467	11,695
(of which pension costs)	(96,755)	(99,597)	(8,577)	(5,021)

SEK 7 million (3) of the Group pension costs relates to the Board of Directors, the CEO and other senior managers.

Wages and salaries by country and for members of the Board of Directors and others:

	2009		2009	2008		2008
	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 salaries	Wages and salaries	Wages and salaries	Of which variable salaries	Wages and salaries
Parent Company, Sweden	21,763	3,294	9,379	12,617	3,139	7,744
Subsidiaries in Sweden	2,911	574	260,106	1,453	252	250,547
	<b>24,674</b>	<b>3,868</b>	<b>269,485</b>	<b>14,070</b>	<b>3,391</b>	<b>258,291</b>
Foreign subsidiaries:						
Bukina Faso	-	-	159	-	-	-
Brazil	-	-	2,743	-	-	-
Sri Lanka	841	-	13,809	-	-	11,664
Denmark	7,655	1,563	265,359	6,084	1,286	242,942
Finland	664	-	2,635	587	-	2,967
Ghana	-	-	1,310	-	-	260
Lithuania	-	-	772	-	-	649
Malaysia	1,249	288	2,075	1,284	-	2,640
Mexico	2,953	-	54,080	3,907	1,953	36,860
The Netherlands	2,168	-	35,703	1,927	189	30,298
Norway	655	5	-	-	-	597
Poland	-	-	1,868	-	-	2,994
Russia	644	-	3,868	728	-	4,384
United Kingdom	10,780	2,677	173,806	12,657	1,339	171,207
Czech Republic	478	-	523	620	-	675
Uruguay	-	-	3,384	119	-	2,566
USA	3,514	199	63,014	1,343	66	52,203
	<b>31,601</b>	<b>4,732</b>	<b>625,108</b>	<b>29,256</b>	<b>4,833</b>	<b>562,906</b>
<b>Group total</b>	<b>56,275</b>	<b>8,600</b>	<b>894,593</b>	<b>43,326</b>	<b>8,224</b>	<b>821,197</b>

## NOTE 7 – AVERAGE NUMBER OF EMPLOYEES

Average number of employees	2009 Number of employees	2009 Of which, male	2009 Of which, women	2008 Number of employees	2008 Of which, male	2008 Of which, women
Parent Company, Sweden	13	6	7	11	6	5
Subsidiaries in Sweden	650	497	153	673	518	155
	<b>663</b>	<b>503</b>	<b>160</b>	<b>684</b>	<b>524</b>	<b>160</b>
Foreign subsidiaries:						
Brazil	5	3	2	9	7	2
Sri Lanka	1	1	-	2	2	-
Denmark	395	296	99	418	316	102
Finland	6	3	3	7	3	4
Ghana	2	2	-	2	2	-
Lithuania	3	2	1	3	2	1
Malaysia	19	9	10	20	8	12
Mexico	359	296	63	344	284	60
The Netherlands	63	52	11	62	51	11
Norway	1	1	-	1	1	-
Poland	5	2	3	10	5	5
Russia	18	5	13	16	5	11
United Kingdom	486	383	103	459	361	98
Czech Republic	3	2	1	4	2	2
Uruguay	11	6	5	12	7	5
USA	91	75	16	92	76	16
	<b>1,468</b>	<b>1,138</b>	<b>330</b>	<b>1,461</b>	<b>1,132</b>	<b>329</b>
<b>Group total</b>	<b>2,131</b>	<b>1,641</b>	<b>490</b>	<b>2,145</b>	<b>1,656</b>	<b>489</b>

	2009 Total on reporting date	2009 Of which, male (%)	2008 Total on reporting date	2008 Of which, male (%)
<b>Board members and senior managers</b>				
Group (incl. subsidiaries)				
Board members	150	95	149	95
CEO and other senior managers	73	97	68	94
Parent Company				
Board members <sup>1)</sup>	10	90	10	90
CEO and other senior managers	2	100	2	100

<sup>1)</sup> and 2 employee representatives, of whom 1 male.

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

### Principles

The principles for remuneration of senior managers at AarhusKarlshamn, in the Parent Company and the Group, are designed to ensure that AAK can offer internationally competitive remuneration that can attract and keep qualified managers.

### Consideration and determination

Compensation of the CEO 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

The total remuneration includes salary, annual variable compensation, pension, car allowance, and termination benefit.

### Salary

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

### Variable remuneration

Annual variable remuneration is based on the meeting of set targets determined on an annual basis. These targets are related to results obtained by the Company. Senior management are entitled to maximum 50 percent of the annual fixed salary in terms of variable remuneration.

## Pension

Pensions for Group managers are according to the Swedish KTP plan (corresponding to ITP).

## Termination benefits

The Company has separate agreements with the CEO 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 CEO nor any Senior manager can independently assert the right to termination compensation.

Termination notice by the CEO and Senior managers is agreed as six 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 the determination of the Annual General Meeting of shareholders.

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

The AGM has resolved that compensation of elected external members of the Board totals SEK 2,650,000, including compensation for committee work. Of this total amount, the Chairman receives SEK 400,000, the Vice Chairman SEK 300,000 and external members SEK 200,000. Compensation for committee work is distributed, in accordance with a decision of the AGM, as SEK 200,000 to the chairman of the Audit Committee, SEK 100,000 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.

## Compensation for the year <sup>1)</sup>

SEK	Salary/ board of directors	Annual variable salary	Other benefits <sup>2)</sup>	Pension cost	Total
<i>Board of Directors</i>					
Melker Schörling, Chairman	400,000	-	-	-	400,000
Carl Bek-Nielsen, Vice Chairman	300,000	-	-	-	300,000
Martin Bek-Nielsen	300,000	-	-	-	300,000
John Goodwin	250,000	-	-	-	250,000
Mikael Ekdahl	400,000	-	-	-	400,000
Anders Davidsson	200,000	-	-	-	200,000
Ulrik Svensson	400,000	-	-	-	400,000
Ebbe Simonsen	200,000	-	-	-	200,000
Mårit Beckeman	200,000	-	-	-	200,000
<b>Subtotal for Board</b>	<b>2,650,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,650,000</b>
<i>Senior Managers</i>					
Jerker Hartwall, CEO	4,880,539 <sup>3)</sup>	2,353,581 <sup>4)</sup>	107,304	1,500,000	8,841,424 <sup>5)</sup>
Other senior managers <sup>6)</sup>	11,101,323	5,201,942 <sup>4)</sup>	397,341	1,945,864	18,646,470
<b>Subtotal, Senior Managers</b>	<b>15,981,862</b>	<b>7,555,523</b>	<b>504,645</b>	<b>3,445,864</b>	<b>27,487,894</b>
<b>Total</b>	<b>18,631,862</b>	<b>7,555,523</b>	<b>504,645</b>	<b>3,445,864</b>	<b>30,137,894 <sup>7)</sup></b>

1) Refers to items carried as an expense in 2009.

2) Other benefits primarily involve company car.

3) In addition to salary, a total of SEK 246,933 was paid, primarily from holiday pay due or reduced working hours.

4) Charged in the income statement 2009 and estimated to be paid in 2010. The total of SEK 6,657,928 in variable salary, of which the CEO was paid SEK 2,241,750, charged in the income statement 2008, was paid.

5) A cost provision for the amount of SEK 12,133,948 was made for the 2009 financial year in AarhusKarlshamn AB, corresponding to severance pay and other benefits relating to Jerker Hartwall that are expected to be paid in 2010 and 2011.

6) Refers to the following persons in 2009: Anders Byström, Jörgen Balle (left the Company on 31 December 2009), Magnus Jörsmo (left the Company on 31 December 2009), Ian McIntosh and Renald Mackintosh.

7) Of the amount of SEK 30,137,894, SEK 15,042,722 relates to the Parent Company, AarhusKarlshamn AB.

Jerker Hartwall, the CEO, is currently paid an annual fixed salary of SEK 4,630,000 plus of a company car, as of 1 January 2009. In addition, a maximum of 50 percent of the fixed salary can be paid in variable salary. In 2009, SEK 2,353,581 was carried as an expense for variable salary. Jerker Hartwall's retirement age is 65. To fund the pension obligation, the Company pays an annual premium to the selected insurance company. This premium is set in the Company's agreement with Jerker Hartwall's at SEK 1,500,000. Retirement age for other senior managers is either 62 years or 65 years.

## NOTE 9 – PENSION PROVISIONS

### 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 ending salary and time of service. The defined benefit retirement plans exist primarily in Sweden and the Netherlands. There are further commitments for retirement and survivors' pensions for managers and officers in Sweden that are ensured through KP Pensionskassa.

The obligations for retirement and survivors' pension for professional employees in Sweden are insured through policies with Alecta or correspondingly in KP Pensionskassa. According to a statement of Rådet för finansiell rapportering (The Financial Accounting Standards Council's Emerging Issues Task Force), UFR 3, this is a defined benefit plan that involves several different employers.

For the period from 1 January to 31 December 2009, AarhusKarlshamn AB (publ) and AarhusKarlshamn Sweden AB have not had access to sufficient information to enable the Company to recognise this plan as such. The pension plan according to KTP that is insured through KP Pensionskassa is therefore recognised as a defined contribution plan. Alecta's excess can be allocated to the insured individuals or their beneficiaries. Corresponding provisions also apply to insurance policies with KP Pensionskassa. Charges for pensions insured through KP Pensionskassa in the current year are SEK 20 million (18).

	Defined benefit plans	
	2009	2008
<b>The amounts recognised in the consolidated balance sheet are determined as follows:</b>		
Present value of funded obligations	514	481
Fair value of plan assets	-429	-419
	<b>85</b>	<b>62</b>
Present value of non-funded obligations	-	-
Unrecognised actuarial gains (-) and losses (+)	-85	-57
<b>Net liability in the balance sheet</b>	<b>0</b>	<b>5</b>

### Net amount is recognised in the following items in the consolidated balance sheet:

Pension provisions	0	5
<b>Net liability in the balance sheet</b>	<b>0</b>	<b>5</b>

	Defined benefit plans	
	2009	2008
<b>The amounts recognised in the consolidated income statement are as follows:</b>		
Costs pertaining to service during the current year	10	8
Interest expense	22	20
Expected return on plan assets	-17	-20
Actuarial gains (+) and losses (-)	4	-
Past service cost	-	-
Employees' contributions paid	-	-
<b>Total, included in employee costs (Note 6)</b>	<b>19</b>	<b>8</b>

	Pension costs	
	2009	2008
<b>Total pension costs recognised in the consolidated income statement are as follows:</b>		
Total costs for defined benefit plans including employer's contribution	12	7
Total costs for defined contribution plans including employer's contribution	85	93
<b>Total</b>	<b>97</b>	<b>100</b>

	Defined benefit plans	
	2009	2008
<b>Movement in the net liability recognised in the consolidated balance sheet:</b>		
Net liability at year-end	5	13
Net cost recognised in the income statement	19	8
Benefits paid	-24	-16
Contributions by employer to funded obligations	-	-
Exchange-rate differences on foreign plans	-	-
<b>Net liability at year-end</b>	<b>0</b>	<b>5</b>

	Defined benefit plans The Netherlands	
	2009	2008
<b>The principal actuarial assumptions used on the reporting date (%):</b>		
Discount rate	5.2	5.9
Expected return on plan assets	4.6	4.6
Future annual salary increases	2.5	2.0
Future annual pension increases	2.0	2.0
Employee turnover	5.0	5.0

	Defined benefit plans Sweden	
	2009	2008
<b>The principal actuarial assumptions used on the reporting date (%):</b>		
Discount rate	3.75	3.75
Expected return on plan assets	4.0	4.0
Future annual salary increases	3.0	3.0
Future annual pension increases	3.0	3.0
Employee turnover	5.0	5.0

#### NOTE 10 – OTHER OPERATING INCOME

	Group		Parent	
	2009	2008	2009	2008
Insurance compensation	70	351	45	15
Other operating income	28	24	-	-
<b>Total</b>	<b>98</b>	<b>375</b>	<b>45</b>	<b>15</b>

#### NOTE 11 – FINANCIAL ITEMS

	Group		Parent	
	2009	2008	2009	2008
Interest income	6	8	0	0
Interest income, Group companies	-	-	28	30
Changes to fair value – derivative instruments	-	9	-	-
Other financial income	29	12	-	-
Intra-Group dividends	-	-	87	222
<b>Income from financial items</b>	<b>35</b>	<b>29</b>	<b>115</b>	<b>252</b>
Interest expense	-164	-285	-31	-43
Exchange rate fluctuation	-18	-16	-	0
Changes to fair value – derivative instruments	-23	-16	-	-
Other financial expenses	-7	-	-4	-3
<b>Financial expenses</b>	<b>-212</b>	<b>-317</b>	<b>-35</b>	<b>-46</b>
<b>Net financial income/expense</b>	<b>-177</b>	<b>-288</b>	<b>80</b>	<b>206</b>

## NOTE 12 – INCOME TAX EXPENSES

### Income tax expenses for the year

	Group		Parent	
	2009	2008	2009	2008
Current tax	-253	-134	2	10
Deferred tax	-202	267	0	0
<b>Total</b>	<b>-455</b>	<b>133</b>	<b>2</b>	<b>10</b>

### Determination of the actual tax expense

The Group's weighted average underlying tax rate, excluding deferred tax on the IAS 39 effect, is approximately 29 percent. The Group's weighted average tax rate for 2009, based on the tax rates in each of the various countries involved, was 30 percent. The tax rate in Sweden is 26.3 percent (28.0). The Parent Company's actual tax rate for 2009 is lower than the nominal tax rate, which is primarily an effect of tax-free dividends.

	Group		Parent	
	2009	2008	2009	2008
Net profit/loss before taxes	1,298	-137	68	188
Weighted average tax rate, based on the tax rates in each country	-367	41	-18	-53
The tax effect of the various tax rates in other countries	0	37	-	-
The tax effect of non-deductible expenses	-3	-5	-3	1
The tax effect of non-deductible income	8	18	23	62
Net effect of loss carry-forwards	2	6	-	-
Effect of tax rate changes	-40	12	-	-
Adjustment for current tax for previous years	-55	24	-	-
<b>Tax expense</b>	<b>-455</b>	<b>133</b>	<b>2</b>	<b>10</b>

### Tax items recognised in equity

	Group		Parent	
	2009	2008	2009	2008
Current tax in Group contribution received	-	-	2	9
<b>Total</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>9</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 recognised tax assets and liabilities and when the deferred taxes refer to the same tax authority. The offset amounts are as follows:

	Group		Parent	
	2009	2008	2009	2008
<b>Deferred tax assets</b>				
Loss carry-forwards	0	0	-	-
Fixed assets	32	24	-	-
Inventory	3	-3	-	-
Current assets	3	3	-	-
Provisions	21	40	-	-
Non-current liabilities	5	-	-	-
Current liabilities	50	130	-	-
Other temporary differences	-	-	0	0
<b>At year-end</b>	<b>114</b>	<b>194</b>	<b>0</b>	<b>0</b>

	Group		Parent	
Deferred tax liabilities	2009	2008	2009	2008
Intangible assets	19	10	-	-
Fixed assets	254	166	-	-
Inventory	8	29	-	-
Current assets	33	13	-	-
Untaxed reserves	10	11	-	-
Current liabilities	12	-12	-	-
<b>At year-end</b>	<b>336</b>	<b>217</b>	<b>-</b>	<b>-</b>

#### Deferred tax assets not recognised

The Company has no loss carry-forwards not reflected in deferred tax assets.

#### Income tax liability and tax assets

In addition to deferred tax assets and liabilities AarhusKarlshamn has the following current tax liabilities and income tax recoverable:

	Group		Parent	
	2009	2008	2009	2008
Income tax liability	-144	-81	0	0
Tax assets	42	145	-	-
<b>Income tax liability/tax assets</b>	<b>-102</b>	<b>64</b>	<b>0</b>	<b>0</b>

### NOTE 13 – EARNINGS PER SHARE

	Group	
	2009	2008
Earnings attributable to equity holders of the Parent Company	826	1
Weighted average number of ordinary shares in issue	40,898,189	40,892,113
Earnings per share, SEK	20.19	0.04

Earnings per share are calculated for 2009 based on net profit for the year attributable to equity holders in the Parent Company – SEK 826 million (1) – and on a weighted average number of ordinary shares in issue of 40,898,189 (40,892,113). The change in the weighted average number of shares outstanding is entirely attributable to the number of treasury shares.

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

For the 2009 financial year, the Board of Directors and President propose distribution of a dividend in the amount of SEK 4.25 per share. A decision will be made at the Annual General Meeting on 21 May 2010. It is proposed that the record day for the dividend be 26 May, and the dividend is expected to be distributed to shareholders on 31 May.

# NOTE 15 – PROPERTY, PLANT, AND EQUIPMENT

	Land and buildings	Plant and machinery	Equipment, tools and fixtures and fittings	Fixed assets under construction	Total
<b>Group</b>					
Beginning of the year					
1 January 2008	996	4,331	301	408	6,036
Acquisitions	15	216	24	110	365
Disposals	-1	-49	-16	-	-66
Re-classifications	4	347	4	-355	0
Exchange differences	103	188	23	38	352
<b>Accumulated cost at 31 December 2008</b>	<b>1,117</b>	<b>5,033</b>	<b>336</b>	<b>201</b>	<b>6,687</b>
Beginning of the year					
1 January 2009	1,117	5,033	336	201	6,687
Acquisitions	12	110	28	164	314
Disposals	-42	-5	-14	-	-61
Re-classifications	18	147	8	-173	0
Exchange differences	-30	-82	-15	-11	-138
<b>Accumulated cost at 31 December 2009</b>	<b>1,075</b>	<b>5,203</b>	<b>343</b>	<b>181</b>	<b>6,802</b>
Depreciation at 1 January 2008	327	2,470	225	-	3,022
Disposals	-1	-40	-12	-	-53
Depreciation charge	49	284	21	-	354
Exchange differences	48	64	13	-	125
<b>Accumulated depreciation at 31 December 2008</b>	<b>423</b>	<b>2,778</b>	<b>247</b>	<b>-</b>	<b>3,448</b>
Depreciation at 1 January 2009	423	2,778	247	-	3,448
Disposals	-5	-2	-5	-	-12
Depreciation charge	44	313	25	-	382
Exchange differences	-14	-23	-7	-	-44
<b>Accumulated depreciation at 31 December 2009</b>	<b>448</b>	<b>3,066</b>	<b>260</b>	<b>-</b>	<b>3,774</b>
Impairment losses at 1 January 2008	-	50	-	-	50
Impairment loss during the year	-	-	-	-	-
Exchange differences	-	-	-	-	-
<b>Accumulated impairment loss at 31 December 2008</b>	<b>-</b>	<b>50</b>	<b>-</b>	<b>-</b>	<b>50</b>
Impairment losses at 1 January 2009	-	50	-	-	50
Impairment loss during the year	-	-	-	-	-
Re-classifications	8	-8	-	-	-
Exchange differences	-	-	-	-	-
<b>Accumulated impairment loss at 31 December 2009</b>	<b>8</b>	<b>42</b>	<b>-</b>	<b>-</b>	<b>50</b>
<b>Residual value according to plan at 31 December 2008</b>	<b>694</b>	<b>2,205</b>	<b>89</b>	<b>201</b>	<b>3,189</b>
of which land	109				
Tax assessment value					
Swedish companies					
Land and buildings	143				
Net residual value for corresponding assets	100				

	Land and buildings	Plant and machinery	Equipment, tools and fixtures and fittings	Fixed assets under construction	Total
<b>Residual value according to plan at 31 December 2009</b>	<b>619</b>	<b>2,095</b>	<b>83</b>	<b>181</b>	<b>2,978</b>
of which land	106				
Tax assessment value					
Swedish companies					
Land and buildings	148				
Net residual value for corresponding assets	99				

## NOTE 16 – INTANGIBLE ASSETS

Group	Goodwill	Patents and other intangible assets	Total
Cost at 1 January 2008	614	172	786
Acquisitions	-	31	31
Exchange differences	68	11	79
<b>Accumulated cost at 31 December 2008</b>	<b>682</b>	<b>214</b>	<b>896</b>
Cost at 1 January 2009	682	214	896
Acquisitions	-	2	2
Exchange differences	-30	2	-28
<b>Accumulated cost at 31 December 2009</b>	<b>652</b>	<b>218</b>	<b>870</b>
Amortisation and impairment loss at 1 January 2008	0	57	57
Impairment losses for the year	-	21	21
Exchange differences	0	2	2
<b>Accumulated amortisation and impairment loss at 31 December 2008</b>	<b>0</b>	<b>80</b>	<b>80</b>
Amortisation and impairment loss at 1 January 2009	0	80	80
Impairment losses for the year	-	21	21
Exchange differences	0	5	5
<b>Accumulated amortisation and impairment loss at 31 December 2009</b>	<b>0</b>	<b>106</b>	<b>106</b>
<b>Residual value at 31 December 2008</b>	<b>682</b>	<b>134</b>	<b>816</b>
<b>Residual value at 31 December 2009</b>	<b>652</b>	<b>112</b>	<b>764</b>

### Reviewing impairment of goodwill

In preparing the Financial Statements for 2009, the Group has reviewed impairment of goodwill.

Goodwill is allocated to cash-generating units. The recoverable amount for a cash-generating unit is determined by calculating its value in use. These calculations are based on estimated future cash flow as stated in budgets and forecasts covering a five-year period. Cash flow beyond this period has been extrapolated but in no case in excess of 3 percent (3). Working capital beyond the five-year period is estimated at the same level as year five. Discount rates are assumed to be 9 percent (9) after tax and 12.8 percent (12.8) before tax. Since production, sales and such in acquired operations are most often integrated into the existing operations of the AarhusKarlshamn Group to such an extent that it is no longer possible to separate cash flows for the originally acquired operation, goodwill testing is done to a greater degree at a higher level in the Company structure. Goodwill testing of the Swedish, Danish and Dutch units was therefore done at an aggregate level, where the three production units were considered a single cash flow generating unit. Other goodwill testing considered cash flow generating units on the country level.

The sensitivity in these calculations indicates that the value of recognised goodwill is still intact even if the discount rate increases by one percent or if long-term growth is one percent less.

## NOTE 17 – INVESTMENTS IN GROUP COMPANIES

	Parent	
	2009	2008
Beginning of the year	5,671	5,838
Repayment of capital injection	-1,151	-167
Formation of subsidiaries	27	0
Intra-Group sales of subsidiaries	-3,052	-
<b>Accumulated cost</b>	<b>1,495</b>	<b>5,671</b>

### List of shareholdings and book value as per 31 December 2009

Corporate identity number	Domicile	2009		2008	
		No. of shares	Capital %	No. of shares	Capital %
AarhusKarlshamn SARL, Luxemburg	B139655	-	-	1,500	100
AarhusKarlshamn Invest AB, Sweden	556747-6931	1,000	100	1,000	100
AarhusKarlshamn Holding Malta Ltd, Malta	C48134	274,999	100	27	-
Advanced Lipids AB, Sweden	556728-5837	100	50	100	50
<b>AarhusKarlshamn Holding AB, Sweden</b>	<b>556759-7918</b>	<b>1,000</b>	<b>100</b>	<b>1,000</b>	<b>100</b>
AarhusKarlshamn Sweden AB, Sweden	556478-1796	21,864,928	100	21,864,928	100
Tefac AB, Sweden	556283-5214	1,000	100	1,000	100
Binot AB, Sweden	556111-3472	20,000	100	20,000	100
BioSafe Oy, Finland	1877093-5	100	100	100	100
Belico Holding AB, Sweden	556537-0904	9,000	100	9,000	100
AarhusKarlshamn Baltic Holding AB, Sweden	556381-8664	1,000	100	1,000	100
AarhusKarlshamn Baltic Ltd, Lithuania	110478793	254	100	254	100
AarhusKarlshamn Czech Republic Spo.s.r.o, Czech Rep.	15268853	-	100	-	100
AarhusKarlshamn Poland Sp.z o.o., Poland	0000124135	100	100	100	100
AarhusKarlshamn Netherlands BV, The Netherlands	35012547	500	100	500	100
AarhusKarlshamn Norway AS, Norway	988369403	1,000	100	1,000	100
Karlshamns UK Holdings Plc., United Kingdom	83553	4,848,499	100	4,848,499	100
Karlshamns International Plc., United Kingdom	2366565	50,000	100	50,000	100
Chamber & Fargus Ltd, United Kingdom	2352279	1,642,461	100	1,642,461	100
AarhusKarlshamn Hull Ltd, United Kingdom	2193829	1,500,000	100	1,500,000	100
AarhusKarlshamn (Malaysia) Sdn. Bhd., Malaysia	185577-P	1,500,000	100	1,500,000	100
Rapsona AB, Sweden	556759-4600	1,000	100	1,000	100
<b>Aarhus United A/S, Denmark</b>	<b>45954919</b>	<b>400,000,000</b>	<b>100</b>	<b>400,000,000</b>	<b>100</b>
AarhusKarlshamn Denmark A/S, Denmark	15672099	100,000,000	100	100,000,000	100
AarhusKarlshamn Benin Sarl, Benin	2626-B	-	-	500	100
AarhusKarlshamn Ghana Ltd, Ghana	80539/0671	500,000	100	500,000	100
KNAR Benin Sarl, Benin	19 269B	200	100	200	100
Kassardjian Industries Ghana Ltd, Ghana	C-933	10,000,000	100	10,000,000	100
AarhusKarlshamn Asia Pacific Sdn.Bhd, Malaysia	516423-P	500,000	100	500,000	100
AarhusKarlshamn Australia Pty Ltd, Australia	094486361	167,858	100	167,858	100
AarhusKarlshamn Sp.zo.o, Poland	0000057626	-	-	100,000	100
AarhusKarlshamn RU OOO, Russia	7709734935	1	100	1	100
AarhusKarlshamn Havn A/S, Denmark	13919232	1	100	1	100
Aarhus 1 A/S, Denmark	10112265	5,000	100	5,000	100
Aarhus 3 A/S, Denmark	16335770	5,000	100	5,000	100
Hydrogen I/S, Denmark	21839639	-	65,5	-	65,5
AarhusKarlshamn Latin America S.A., Uruguay	214947990014	150,000,000	100	150,000,000	100
AarhusKarlshamn do Brasil desenvolvimento de Negocios Ltda, Brazil	07.830.192/0001-02	24,000	100	24,000	100
AarhusKarlshamn UK Ltd, United Kingdom	1585686	23,600,000	100	23,600,000	100
Book & Claim Ltd, United Kingdom	5997462	100,000	100	100,000	100
AarhusKarlshamn USA Inc., USA	13-3445572	20,300,000	100	20,300,000	100
AarhusKarlshamn Canada Ltd, Canada	2040468	100	100	100	100
AarhusKarlshamn Mexico, S.A. de C.V., Mexico	AUM8302244G2	201,006,799	94.34	201,006,799	94.34
AarhusKarlshamn Byejeendomme A/S, Denmark	14750576	1,000,000	100	1,000,000	100
Aarhus Malaysia Sdn. Bhd., Malaysia	203033-P	1,072,860	100	1,072,860	100
Ceylon Trading Co. Ltd., Sri Lanka	J 333	955,000	100	955,000	100
<b>Total</b>			<b>1,495</b>		<b>5,671</b>

The list includes certain shares and participations owned by the Parent Company, either directly or indirectly, as of 31 December 2009. A complete listing of all holdings of shares and participations prepared in accordance with the rules of the Swedish Annual Accounts Act and which is included in the annual accounts filed with the Swedish Companies Registration Office can be requested from AarhusKarlshamn AB (publ), Corporate Communication, SE-374 82 Karlshamn, Sweden.

## NOTE 18 – INVENTORIES

	Group	
	2009	2008
Raw materials and consumables	1,221	1,859
Goods in transit	384	481
Products in process	308	334
Finished products and goods for resale	324	424
<b>Total</b>	<b>2,237</b>	<b>3,098</b>

Raw materials and consumables and changes in inventory of finished products and products in process' for the Group includes impairment loss on stock of SEK 16 million (14).

## NOTE 19 – CASH AND CASH EQUIVALENTS

	Group	
	2009	2008
Cash equivalents	293	97
Current investments	29	8
<b>Total</b>	<b>322</b>	<b>105</b>

## NOTE 20 – SHAREHOLDERS' EQUITY

### Group

#### Share capital

As of 31 December 2009 the Group's registered share capital was 40,898,189 shares (SEK 408,981,890).

#### Reserves

Reserves are mainly translation reserves. Of the total reserve, SEK 4,856,140 refers to a statutory reserve in the Parent Company that is entirely attributable to an impairment of the share capital carried out earlier.

Translation reserves include all foreign exchange differences that arise when translating financial accounts and reports from foreign operations whose financial reports are stated in currencies other than that used in the consolidated financial statements and accounts. The Parent Company and consolidated financial reports are stated in Swedish Kronor (SEK).

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

Retained profits and net profit for the year includes profits earned and retained by the Parent Company, subsidiaries, and associated companies.

#### Treasury shares

The Group owned a total of 0 treasury shares (485,614) as of 31 December 2009.

#### Specification of equity item 'Reserves'

	Group	
Translation reserve	2009	2008
Translation reserve at 1 January	-66	-159
Translation differences for the year	-78	93
<b>Translation reserve at 31 December</b>	<b>-144</b>	<b>-66</b>

	Group	
Statutory reserve	2009	2008
Statutory reserve at 1 January	-	-
Changes for the year	5	-
<b>Statutory reserve at 31 December</b>	<b>5</b>	<b>-</b>

	Group	
Total reserves	2009	2008
Translation reserve at 1 January	-66	-159
Total changes in reserves during the year:		
Translation reserve	-78	93
Statutory reserve	5	-
<b>Translation reserve at 31 December</b>	<b>-139</b>	<b>-66</b>

### Parent company

#### Share capital

In accordance with the Articles of Association for AarhusKarlshamn AB (publ), share capital shall be at least SEK 300 million and at most SEK 1.2 billion. All shares are fully paid and entitle the holder to equal voting rights and shares in Company assets. Share capital includes 40,898,189 shares (41,383,803) at par value of SEK 10 per share, and shareholder equity of SEK 408,981,890 (413,838,030).

#### Statutory reserve

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

### Retained profits

Includes non-restricted equity from the previous year and after any dividend distribution. Is added to profit/loss for the year and any funded fair value non-restricted equity – that is, the total amount available for dividend distribution to shareholders.

### Dividends

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 2009 is SEK 174 million (SEK 4.25 per share) and has not been considered by the Annual General Meeting. This amount is not reported as a liability.

## NOTE 21 – BORROWINGS

	Group		Parent	
	2009	2008	2009	2008
<b>Non-current</b>				
Debts to banks and credit institutions	3,403	4,959	906	887
<b>Total</b>	<b>3,403</b>	<b>4,959</b>	<b>906</b>	<b>887</b>
	Group		Parent	
	2009	2008	2009	2008
<b>Current</b>				
Debts to banks and credit institutions	107	249	-	-
<b>Total</b>	<b>107</b>	<b>249</b>	<b>-</b>	<b>-</b>

Maturity for non-current borrowing is as follows:

	Group		Parent	
	2009	2008	2009	2008
Between 1–5 years	2,821	4,272	906	887
More than 5 years	582	687	-	-
<b>Total</b>	<b>3,403</b>	<b>4,959</b>	<b>906</b>	<b>887</b>

## NOTE 22 – OTHER PROVISIONS

Group	Restructuring	Environmental restoration	Other	Total
Balance at 1 January 2008	112	25	9	146
Provisions for the year	2	5	7	14
Provisions claimed for the year	-12	-	-3	-15
<b>At 31 December 2008</b>	<b>102</b>	<b>30</b>	<b>13</b>	<b>145</b>

Group	Restructuring	Environmental restoration	Other	Total
Balance at 1 January 2009	102	30	13	145
Provisions for the year	7	-	3	10
Provisions claimed for the year	-36	-	-1	-37
Exchange differences	-	-2	-	-2
<b>At 31 December 2009</b>	<b>73</b>	<b>28</b>	<b>15</b>	<b>116</b>

Provisions include

	2009	2008
Non-current	94	139
Current	22	6
<b>Total</b>	<b>116</b>	<b>145</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 expense.

### Environmental restoration

These provisions are primarily related to restoring contaminated land.

**NOTE 23 – ACCRUED EXPENSES AND DEFERRED INCOME**

	Group		Parent	
	2009	2008	2009	2008
Employee related expenses	242	124	26	10
Other	245	218	7	4
<b>Total</b>	<b>487</b>	<b>342</b>	<b>33</b>	<b>14</b>

**NOTE 24 – ASSETS PLEDGED**

	Group		Parent	
	2009	2008	2009	2008
<b>Collateral for provisions and liabilities</b>				
Property mortgage	960	1,061	-	-
Floating charge*	-	70	-	-
<b>Total</b>	<b>960</b>	<b>1,131</b>	<b>-</b>	<b>-</b>

\* The entire amount relates to a floating charge in Ceylon Trading.

**NOTE 25 – CONTINGENT LIABILITIES**

	Group		Parent	
	2009	2008	2009	2008
Other contingent liabilities	124	130	-	-
<b>Total</b>	<b>124</b>	<b>130</b>	<b>-</b>	<b>-</b>

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

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

**NOTE 26 – RELATED PARTY TRANSACTIONS**

For the Parent Company, SEK 42 million (41) of total sales was to related parties, equalling 100 percent (100) of sales to Group companies. The Parent Company's purchasing from Group companies is related to administrative services of limited scope. All transactions were carried out at market value.

**Transactions with key management personnel**

Other than is stated in Note 8, Remuneration of Board Members and senior managers, and in the description of the Board of Directors on page 98, the following transactions with key management personnel have taken place: During the year, the Group had transactions with Unitata Berhad in Malaysia, that through Carl Bek-Nielsen and Martin Bek-Nielsen can be considered as being of a close nature.

An outstanding trade receivable amounted to SEK 3 million (18). Outstanding trade payable amounted to SEK 28 million (113). Purchasing during the year amounted to SEK 545 million (732) and sales to SEK 152 million (189). All transactions were carried out at market value.

**NOTE 27 – BUSINESS COMBINATIONS****Business combinations in 2009**

No business combinations were carried out during the year.

## NOTE 28 – SEGMENT REPORTING

Reporting per primary segments – business areas.

2009	Chocolate & Confectionery Fats	Food Ingredients	Technical Products & Feed	Group Functions	Eliminations	Group 2009
<b>Net sales</b>						
External sales	4,564	9,702	1,295	323	-	15,884
Internal sales	794	159	33	79	-1,065	-
<b>Group total</b>	<b>5,358</b>	<b>9,861</b>	<b>1,328</b>	<b>402</b>	<b>-1,065</b>	<b>15,884</b>

### Operating profit/loss per business area

	Chocolate & Confectionery Fats	Food Ingredients	Technical Products & Feed	Group Functions	Eliminations	Group 2009
Operating profit/loss	394	427	82	-76	-	827
IAS 39	-	-	-	578	-	578
Non-recurring item	70	-	-	-	-	70
<b>Total</b>	<b>464</b>	<b>427</b>	<b>82</b>	<b>502</b>	<b>-</b>	<b>1,475</b>

### Other

Assets	3,656	3,650	470	250	-	8,026
Un-allocated assets	-	-	-	-	-	487
<b>Group total</b>						<b>8,513</b>

Liabilities	468	778	44	48	-	1,338
Un-allocated liabilities	-	-	-	-	-	4,226
<b>Group total</b>						<b>5,564</b>

Investments	143	158	7	8	-	316
Depreciation/amortisation and impairment loss	198	167	26	12	-	403

All transactions between business areas are recorded at market value. Assets and liabilities not attributed to a segment include income taxes recoverable and income tax liabilities, financial investments, and financial liabilities.

### Reporting per market

	Sweden	Denmark	Other Nordic countries	Central and Eastern Europe	Western Europe	America	Other countries	Total
External sales	1,973	452	1,066	1,958	5,343	4,010	1,082	15,884
Total assets	2,039	3,033	55	55	1,633	1,524	174	8,513
Investments	109	94	-	-	39	70	4	316

The external sales are based on where our customers are located. The reported values of assets and the direct investment in plant for the period are determined by the location of the assets. The IAS 39 effect is not allocated to particular segments, because the IAS 39 adjustment is done on the Group level and is not followed up for individual segments. In the internal follow-up, all sales contracts and raw material purchases (including inventory) are measured at market price in relation both to raw material prices and exchange rates. According to IAS 39, only contracts not designed for physical delivery may be measured at market price, which means that a real difference arises between the internal and the external accounting.

2008	Chocolate & Confectionery Fats	Food Ingredients	Technical Products & Feed	Group Functions	Eliminations	Group 2008
<b>Net sales</b>						
External sales	4,878	10,413	1,578	338	-	17,207
Internal sales	1,092	179	34	80	-1,385	-
<b>Group total</b>	<b>5,970</b>	<b>10,592</b>	<b>1,612</b>	<b>418</b>	<b>-1,385</b>	<b>17,207</b>

#### Operating profit/loss per business area

	Chocolate & Confectionery Fats	Food Ingredients	Technical Products & Feed	Group Functions	Eliminations	Group 2008
Operating profit/loss	547	319	56	-71	-	851
IAS 39	-	-	-	-747	-	-747
Non-recurring item	47	-	-	-	-	47
<b>Total</b>	<b>594</b>	<b>319</b>	<b>56</b>	<b>-818</b>	<b>-</b>	<b>151</b>

#### Other

Assets	4,903	4,807	493	421	-	10,624
Un-allocated assets	-	-	-	-	-	454
<b>Group total</b>						<b>11,078</b>

Liabilities	1,181	1,894	62	51	-	3,188
Un-allocated liabilities	-	-	-	-	-	5,507
<b>Group total</b>						<b>8,695</b>

Investments	165	208	14	9	-	396
Depreciation/amortisation and impairment loss	177	167	21	10	-	375

All transactions between business areas are recorded at market value. Assets and liabilities not attributed to a segment include income taxes recoverable and income tax liabilities, financial investments, and financial liabilities.

#### Reporting per market

	Sweden	Denmark	Other Nordic countries	Central and Eastern Europe	Western Europe	America	Other countries	Total
External sales	2,100	487	1,207	2,243	5,869	4,227	1,074	17,207
Total assets	2,803	3,858	48	83	1,904	2,110	272	11,078
Investments	134	163	-	-	41	49	9	396

The external sales are based on where our customers are located. The reported values of assets and the direct investment in plant for the period are determined by the location of the assets. The IAS 39 effect is not allocated to particular segments, because the IAS 39 adjustment is done on the Group level and is not followed up for individual segments. In the internal follow-up, all sales contracts and raw material purchases (including inventory) are measured at market price in relation both to raw material prices and exchange rates. According to IAS 39, only contracts not designed for physical delivery may be measured at market price, which means that a real difference arises between the internal and the external reporting.

#### NOTE 29 – OPERATING LEASES

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

	2009	Group 2008
Within 1 year	33	34
1 to 5 years	66	92
More than 5 years	3	9
<b>Total</b>	<b>102</b>	<b>135</b>

Operating leasing expenses of SEK 20 million (34) are reported in the profit/loss for the period.

## NOTE 30 – SUPPLEMENTAL CASH FLOW STATEMENT

	Group		Parent	
	2009	2008	2009	2008
Interest paid and dividends received				
Interest received	6	21	-	-
Interest received from Group companies	-	-	24	30
Interest paid	-165	-301	-31	-46
Interest paid to Group companies	-	-	-	-
Dividends received	6	1	-	-
Dividends received from Group companies	-	-	87	222
<b>Total</b>	<b>-153</b>	<b>-279</b>	<b>80</b>	<b>206</b>

	Group		Parent	
	2009	2008	2009	2008
Adjustment for items not included in cash flow				
Provisions	-29	-18	-	-
Group contribution	-	-	8	32
Sale of fixed assets	1	0	-	-
IAS 39 effects	-578	747	-	-
Other	-2	-6	0	0
<b>Total</b>	<b>-608</b>	<b>723</b>	<b>8</b>	<b>32</b>

The annual accounts and consolidated accounts will be submitted for resolution to the Annual General Meeting of the shareholders to be held 21 May 2010.

The Board of Directors and the CEO declare that the consolidated accounts have been prepared in accordance with IFRS international accounting standards as adopted by the EU, and provide a full and fair view of the Group's position and earnings. The annual accounts have been prepared in accordance with generally accepted accounting practice and provide a full and fair view of the position and result of the Parent Company.

The Directors' Report for the Group and the Parent Company provides a full and fair overview of the operation, position and performance of the Group and the Parent Company, and describes significant risks and uncertainty factors faced by the Company and the companies that are members of the Group.

Malmö, 6 April 2010

Melker Schörling  
Chairman

Carl Bek-Nielsen  
Vice Chairman

John Goodwin  
Board member

Martin Bek-Nielsen  
Board member

Mikael Ekdahl  
Board member

Mårit Beckeman  
Board member

Ebbe Simonsen  
Board member

Annika Westerlund  
Employee representative

Anders Davidsson  
Board member

Ulrik Svensson  
Board member

Leif Håkansson  
Employee representative

Jerker Hartwall  
President and CEO

Audited and submitted on 6 April 2010 by  
PricewaterhouseCoopers AB

Anders Lundin  
Authorised Public Accountant  
Lead Auditor

Eric Salander  
Authorised Public Accountant

# Auditors' Report

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## **To the annual meeting of the shareholders of AarhusKarlshamn AB (publ)**

**Corporate identity number 556669-2850**

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of AarhusKarlshamn AB (publ) for the year 2009. The company's annual accounts and the consolidated accounts are included in the printed version on pages 44-86. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Malmö, April 6, 2010

PricewaterhouseCoopers AB

Anders Lundin  
Authorised Public Accountant  
Lead auditor

Eric Salander  
Authorised Public Accountant

# The AAK Share

The AAK share has been traded since 2 October 2006 on the NASDAQ OMX, Stockholm, the Nordic List, within the Mid Cap segment, Consumer Commodities sector. A trading lot is 100 shares. The abbreviation is AAK and the ISIN code is SE0001493776.

## Turnover and price trend

During 2009, 19.5 (16.0) million shares were traded at a total value of SEK 2,295 million (2,173), which corresponds to a turnover rate of 47.6 (38.7) percent. The average trade per trading day was 77,500 (63,630) shares or SEK 9,142 thousand (8,621). At year-end, the price was SEK 157 (106) and AAK's market value was SEK 6,421 million (4,387). The highest price during the year was SEK 164 (30 Nov 2009) and the lowest price was SEK 92 (17 Jul 2009).

## Share capital

On 31 December 2009, the share capital of AAK amounted to SEK 408,981,890 (413,838,030). The number of shares was 40,898,189 (41,383,803). The quota value per share was SEK 10. Each share gives entitlement to one vote. All shares have equal rights to participate in the profit and assets of the Company.

## Treasury shares

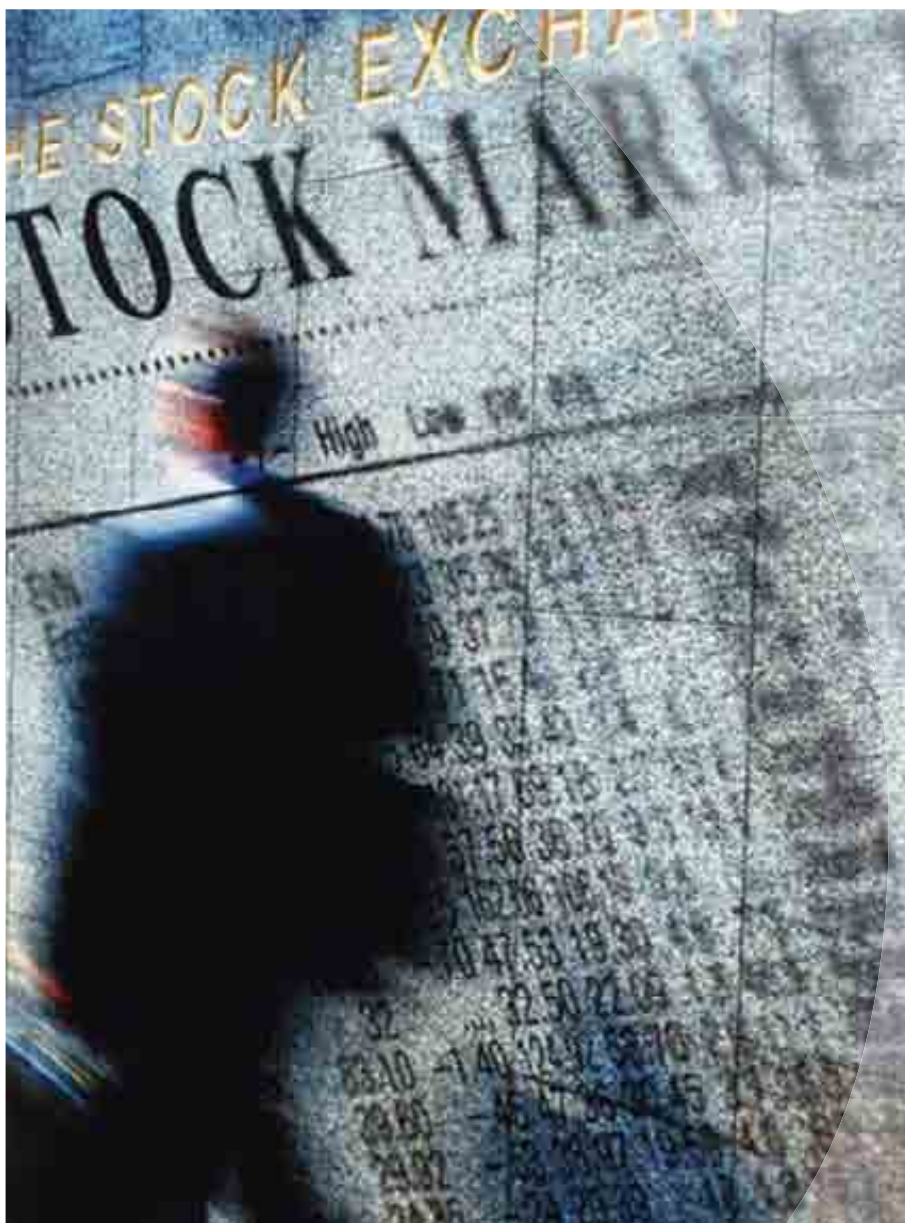
At the time of merger of Aarhus United A/S (Aarhus) and Karlshamns AB in 2005, Aarhus owned treasury shares. As Aarhus was to accept the public offering, Aarhus received shares in AAK in exchange for its own treasury shares. As a result of this, Aarhus owned 485,614 shares in AAK, which corresponded to 1.17 percent of the capital and votes. The Annual General Meeting on 19 May 2009 decided to reduce the share capital, by declaring Aarhus United A/S's 485,614 shares in the company invalid, entailing a reduction in the Company's share capital of SEK 4,856,140, with a transfer of this amount to the statutory reserve.

## Ownership situation

The number of shareholders on 31 December 2009 was 8,600 (7,272).

## Planned dividend policy

The Board of Directors has decided on a dividend policy. According to the new policy,



the Board's goal, after considering earnings trends for the Group, its financial position and future growth potential, is to propose annual dividends corresponding to at least 30 to 50 percent of annual earnings after tax for the Group.

## Ordinary dividend and revision of capital structure

The Board of AAK proposes a dividend for the financial year 2009 of SEK 4.25 (4.00) per share, a total of SEK 174 million (166).

## AAK's IR work

AAK's management has an expressed goal of conducting a strong dialogue with the media and capital markets.

In conjunction with the publication of financial reports, AAK has held press and analyst conferences, where the company meets analysts and other professional participants in Stockholm, Copenhagen, London and Zürich. Interested parties can also download presentation materials and listen to sound recordings from the conferences from [www.aak.com](http://www.aak.com), which makes the conferences available to all shareholders.

The AAK share from 29 Sep 2005 to 28 Feb 2010



### Shareholder contact

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Finance Director and CFO  
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### Analysts

Carnegie Investment Bank AB – Mathias Wallestam  
Danske Bank – Bile Daar  
Enskilda SEB – Daniel Schmidt  
Nordea Bank A/S – Patrik Setterberg  
Swedbank – Jan Ihrfelt

Financial information about AAK is available on [www.aak.com](http://www.aak.com). Financial reports, press

releases and presentations can be downloaded from this site. The Company's press releases are distributed via Cision and are also available on the Company's website.

The Company management can be contacted via  
Telephone: +46 40 627 83 00  
Fax: +46 40 627 83 11  
E-mail: [info@aak.com](mailto:info@aak.com)

Information per share	2009	2008
Share price reporting date, SEK	157	106
Dividend, SEK	4.25	4.00
Direct yield, %	2.70	3.80
Earnings per share, SEK	20.19	0.04
Equity per share, SEK	71.56	57.30
Share price/Equity	2.19	1.85

For definitions, see page 97.

### Major shareholders, 31-12-2009

	Number of shares	Proportion of share capital and votes, %
BNS Holding	16,247,206	39.7
Arbetsmarknedets Tillægspension	2,993,217	7.3
Didner & Gerge Aktiefond	2,130,000	5.2
JP Morgan Chase Bank, W9	1,021,256	2.5
Svolder Aktiebolag	700,000	1.7
Government of Norway	577,033	1.4
Northern Trust Company, The, W9	502,502	1.2
Danica Pension 70054179	389,687	0.9
Other shareholders	16,337,288	40.1
Total	40,898,189	100.00

### Distribution of shareholdings, 31-12-2009

Number of shares	Number of shareholders	Proportion of all shareholders, %	Proportion of share capital and votes, %
1 - 500	6,247	72.64	2.92
501 - 1,000	1,181	13.73	2.46
1,001 - 5,000	890	10.35	4.94
5,001 - 10,000	118	1.37	2.20
10,001 - 15,000	28	0.33	0.88
15,001 - 20,000	14	0.16	0.64
20,001 -	122	1.42	85.96
Total	8,600	100.00	100.00

# Corporate Governance Report

## Corporate Governance Report 2009

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 strive, through great openness, to make it easy for individual shareholders to understand the company's decision-making process and to clarify where in the organisation responsibilities and authorities reside.

AAK's corporate governance is based on applicable legislation, NASDAQ OMX Stockholm's regulatory framework for issuers, the Swedish Code of Corporate Governance (the Code) and various internal guidelines. Where AAK has chosen to diverge from the rules in the Code, the reason why is provided under each heading in this Corporate Governance Report.

## General

AAK is a Swedish public limited company, whose shares are traded on NASDAQ OMX Stockholm within the Mid Cap segment, Consumer Commodities sector. AAK has around 8,600 shareholders. The operation is global with a presence in almost 100 countries. As at 31 December, the number of employees was 2,140.

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 President 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-hand 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 shall be a good member of society 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, the corporate governance covers the Group's management and control systems.

## Ownership structure

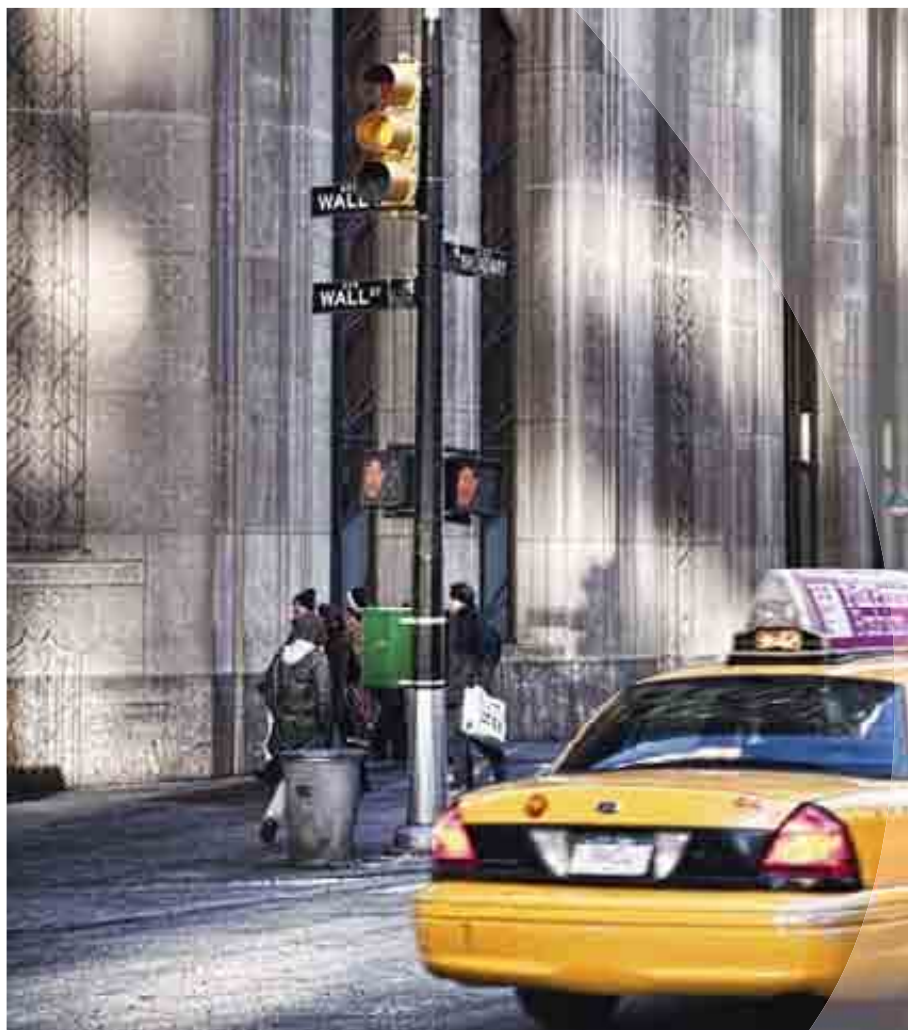
Information about shareholders and shareholdings can be found on page 89.

## Articles of Association

AAK's current Articles of Association were adopted at the Annual General Meeting on 23 May 2006. 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 (AGM) shall be held yearly within six months of the end of the financial year, how notification of the AGM 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 AGM shall be held in Malmö or Karlshamn, Sweden. For the current Articles of Association, please see [www.aak.com](http://www.aak.com).

## Annual General Meeting

The Annual General Meeting (AGM) 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 AGM are regulated in the Swedish Companies Act and the Articles of Association. The AGM makes decisions on a number of central issues, such as adoption of income statement and balance sheet, discharge from liability for the Board members and President, dividend to shareholders and the composition of the Board. Further information about the AGM and complete minutes from previous AGMs and Extraordinary General Meetings are published on [www.aak.com](http://www.aak.com).



## CORPORATE GOVERNANCE



### Annual General Meeting 2009

The Annual General Meeting on 19 May 2009 was attended by shareholders representing around 57 percent of the share capital and votes in the company. The Chairman of the Board, Melker Schörling, was elected Chairman of the AGM. The AGM adopted the income statement and balance sheet, as well as the consolidated income statement and consolidated balance sheet. In association with this, the AGM approved the Board's proposal for a dividend for the financial year 2008 of SEK 4.00 per share. In his speech, Jerker Hartwall, President and CEO, commented on the financial year 2008 and the development during the first quarter of 2009. He also reported on trends within the growth area of replacement fats for the chocolate industry and the strategy for AAK and the goals for future development. He also commented on the economic crisis in relation to AAK and the various business areas. Chocolate & Confectionery Fats was affected negatively through inventory cut-backs throughout the sector and lower demand, as well as the very restrictive credit policy towards countries in Eastern Europe. Food Ingredients is developing ever better and showed a strong profit, despite the recession. Cash flow had improved and would continue to improve during the year.

Melker Schörling, Carl Bek-Nielsen, Martin Bek-Nielsen, John Goodwin, Mikael Ekdahl, Ebbe Simonsen, Märit Beckeman, Jerker Hart-

wall, Ulrik Svensson and Anders Davidsson were re-elected as Members of the Board. Melker Schörling was elected Chairman of the Board, and Carl Bek-Nielsen was elected Vice Chairman of the Board. The employee organisations had appointed Annika Westerlund (PTK-L) and Leif Håkansson (IF Metall) as employee representative members of the Board, and Christer Svantesson (IF Metall) and Ulf Friberg (PTK-L) as deputy members of the Board.

At the meeting, the AGM decided, in accordance with a proposal for a conditional change to the Articles of Association, that Clause 9 of the Articles of Association relating to notification of the Annual General Meeting should be changed to read "Notification of the Annual General Meeting shall be done by means of an advertisement in Post- och Inrikes Tidningar and on the company's website". An advertisement in Svenska Dagbladet shall state that notification has been made.

The condition for the change was that a change in the way notification of the Annual General Meeting is given in accordance with the Swedish Companies Act (SFS 2005:551) will come into force, which means that the proposed wording of Clause 9 complies with the Companies Act.

As the change in the Companies Act has not yet come into force, the change has not been registered, nor has it been implemented in accordance with the decision.

### 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, remuneration issues and issues relating to this.

### Nomination Committee for the Annual General Meeting 2010

The Annual General Meeting in 2009 decided that the Nomination Committee should have four members, whereby Mikael Ekdahl (BNS Holding AB), Carl Bek-Nielsen (BNS Holding AB), Henrik Didner (Didner & Gerge Fond) were re-elected and KG Lindvall (Swedbank Robur Fonder) was elected as a new member of the Nomination Committee for the Annual General Meeting in 2010. Mikael Ekdahl was also appointed Chairman of the Nomination Committee. The members of the Nomination Committee represent around 50 percent of the shares in AAK.

The decision also included the opportunity to change the composition of the Nomination Committee in the event of a change in ownership. The major shareholders who are currently represented on the Nomination Committee consider it important to achieve effective nomination work and that the number of members in the Nomination Committee is limited. At the same time, the major sharehold-

## Corporate Governance Report

ers must be represented, which is the reason why the Nomination Committee consists of two Board members representing the main shareholder in the company, and two representatives from institutional shareholders who are not represented on the Board. As AAK's main shareholder, BNS Holding AB, is in turn owned by two different shareholders, it is natural that one representative from each shareholder is represented on the Nomination Committee.

The shareholders in question also consider it natural that a representative of the largest shareholder in voting terms is the Chairman of the Nomination Committee. This is the reason why a Board member is the Chairman of the Nomination Committee.

During the year, the Nomination Committee has held two minuted meetings. At these, the Chairman reported on the evaluation work, whereafter 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 AarhusKarlsamn AB (publ), Valberedningen, Jungmansgatan 12, SE-211 19 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 working practices of the Board also regulate the distribution of work and responsibilities between the Board, the Chairman of the Board and the President and also include procedures for financial reporting by the President 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 President, appoint and dismiss the President and decide on important changes to AAK's organisation



and operation. The most important tasks of the Board are to set the overriding goals for the company's operation and to decide on the company's strategy for achieving the goals, to ensure the company has a well functioning executive management team and well adjusted remuneration terms, to ensure the company's external reporting is characterised by openness and factuality and provides a true and fair view of the company's development, profitability and financial position and exposure to risk, to monitor the financial reporting with instructions to the President and establishment of requirements for the content of the financial reporting 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 operation and financial position against set goals, to follow up and evaluate the company's development and to recognise and support the work of the President 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 company's operation, to ensure the required ethical guidelines are set for the company's behaviour 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.

### Composition of the Board

According to the Articles of Association, AAK's Board shall consist of at least three and at most ten members.

The current Board consists of ten members elected by the Annual General Meeting. According to Swedish law, the employee organisations have a right to be represented on the Board, and have appointed two ordinary members and two deputies. In accordance with the proposal of the Nomination Committee, all ten members were re-elected at the Annual General Meeting in 2009. Melker Schörling was appointed Chairman of the Board. At the statutory Board meeting following the Annual General Meeting, the Board chose to appoint an Audit Committee and a Remuneration Committee. Ulrik Svensson was appointed Chairman of the Audit Committee and Mikael Ekdahl and Martin Bek-Nielsen were appointed members. Mikael Ekdahl was appointed Chairman of the Remuneration Committee and John Goodwin was appointed member. Melker Schörling is also Chairman of the Board of BNS Holding AB, which owns around 40 percent of the shares in AAK. Carl Bek-Nielsen, Martin Bek-Nielsen, John Goodwin and Mikael Ekdahl are also members of the Board of BNS Holding AB.

These members and the Chairman can therefore not be considered as independent in relation to major shareholders in the company in accordance with the regulatory framework of NASDAQ OMX Stockholm.

The largest shareholder in BNS Holding AB is Melker Schörling AB, which owns 58.5 percent of the shares and votes.

Ulrik Svensson, who is the President and CEO of Melker Schörling AB, can therefore not be regarded as independent in relation to the company's major shareholders. Anders Davidsson is the President and CEO of Bong Ljungdahl AB, in which Melker Schörling AB owns 29.9 percent of the shares and votes, and can therefore not be regarded as independent in relation to the company's major shareholders either. The President and Chief Executive Officer Jerker Hartwall is, in his capacity as President and employed by the company, not independent in relation to the company management. The other two members elected by the AGM, Mårit Beckeman and Ebbe Simonsen, are independent in relation to AAK, the company management and the company's major shareholders in accordance with the regulatory framework for issuers of NASDAQ OMX Stockholm.

The Board therefore fulfils the requirement in 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. AAK's Information Director and Chief Information Officer, Bo Svensson, acts as secretary to the Board. AAK's Finance Director and Chief Financial Officer, Anders Byström, acts as secretary to the Remuneration Committee and Audit Committee.

### Attendance at Board and Committee meetings during 2009

Member	Board of Directors	Audit Committee	Remuneration Committee
Number of meetings	6	4	2
Mårit Beckeman	5		
Carl Bek-Nielsen	5		
Martin Bek-Nielsen	6	4	
Anders Davidsson	6		
Mikael Ekdahl	6	4	2
Ulf Friberg	1		
John Goodwin	6		2
Jerker Hartwall	6		
Leif Håkansson	6		
Melker Schörling	5		
Ebbe Simonsen	6		
Christer Svantesson	-		
Ulrik Svensson	6	4	
Annika Westerlund	5*		

\*Ulf Friberg has replaced Annika Westerlund due to illness.

Information about the members of the Board can be found on pages 98-99.

### Working practices

The Board's working practices containing instructions for division of work between the Board and the President and for financial reporting are updated and adopted annually. Board meetings consider the financial reporting and follow-up of the day-to-day business operation and profitability development 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 account for business plans and strategic issues on a continuous basis.

Remuneration and audit issues are prepared within each committee. 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 President and the Committees and other internal management instruments. The current Board held its statutory meeting on 19 May 2009, at which meeting all members were in attendance.

### Chairman of the Board

At the Annual General Meeting on 19 May 2009, Melker Schörling 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 development in dialogue with the President and is responsible for ensuring the other members continuously receive the information required to carry out the work on the Board with maintained 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 is constantly furthering 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 2009

The Board held six meetings during the year. All business area managers accounted for the goals and business strategies of the business areas at a special budget and strategy meeting. The Board has handled issues relating to

staffing and organisation, and has investigated and followed up a joint operational location organisation for the operations in Denmark, Sweden and the Netherlands. The Board has also particularly monitored the development in terms of the specialisation projects within the operations in Denmark, Sweden and the Netherlands. Decisions have been made relating to acquisitions, divestments and investments. Other areas handled are the Group's work with raw materials supply, risk management and the company's strategies for capital structure and borrowing.

### Fees to Board members

According to the decision of the Annual General Meeting, the total fees to the Board amount to SEK 2,650,000, to be allocated between the members as follows: SEK 400,000 to the Chairman, SEK 300,000 to the Vice Chairman and SEK 200,000 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 200,000 and the members SEK 100,000 each. The Chairman of the Remuneration Committee received SEK 100,000 and the member SEK 50,000. The President, the secretary to the Board and employees representatives on 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 72.

### Evaluation of the President

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

### Guidelines for remuneration to senior executives

The Annual General Meeting decided on the principles for remuneration to senior executives. The principles for remuneration of AAK's senior executives are designed to ensure that AAK can offer compensation that is competitive and at the prevailing market level to attract and keep qualified members of employees. The total remuneration to senior executives shall consist of fixed basic salary, annual variable salary, pension, company car and severance payment.

# Corporate Governance Report

The fixed salary shall be individually differentiated on the basis of responsibility and performance, and shall be set on market principles and be 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 result and shall also be able to be linked to the individual areas of responsibility. The annual variable portion shall amount to a maximum of 50 percent of the fixed salary.

In addition to the variable salary mentioned, share or share price related incentive programmes may be added as determined from time to time. Currently there are no outstanding share or share price related incentive programmes.

The right to a pension for senior executives shall apply from the age of 60 at the earliest. Pension plans for senior executives shall be either defined benefit or defined contribution plans, or a combination of the two.

In the event of termination by the company, the notice period for the President and other senior executives shall be twelve months, whereby a right shall exist to receive severance pay with a pre-determined ceiling corresponding to twelve monthly salaries. For termination by the employee, a notice period of six months shall normally apply and no severance pay shall be payable.

These guidelines shall cover the persons who are part of the Group management team during the period the guidelines apply. The guidelines apply to agreements entered into after the decision by the Annual General Meeting, and in the event changes are made to existing agreements after this point in time. The Board shall be entitled to diverge from the guidelines if there are particular reasons in an individual case.

## Reduction of share capital following invalidation of shares

According to the decision by the Annual General Meeting on 19 May 2009, the share capital has been reduced following the invalidation of the shares held by Aarhus United.

At the time of AarhusKarlshamn AB's (then known as BNS Industrier AB) public offering to the shareholders in Aarhus United A/S and Karlshamn AB in 2005, Aarhus United A/S owned treasury shares. In contravention of the parties' intention as

expressed in the prospectus, Aarhus United A/S did accept the public offering and received shares in AarhusKarlshamn AB in exchange for its own treasury shares. As a result of this, Aarhus United A/S was the registered shareholder of 485,614 shares, corresponding to 1.17 percent of the capital and shares in AarhusKarlshamn AB.

The Swedish Companies Act (2005:551) does not permit subsidiaries to hold shares in their parent company. Disposal of Aarhus United A/S's shares within the deadline stated in Chapter 19, Clause 9 of the Companies Act did not take place. In accordance with Chapter 19, Clauses 6 and 9 of the Companies Act, the Board declared Aarhus United A/S's shares invalid and submitted a proposal to the Annual General Meeting in 2009 to reduce the share capital.

In accordance with the Board's proposal, the Annual General Meeting 2009 decided to reduce the company's share capital with the proportion of the total capital represented by the invalid shares, i.e. the quota value of the shares multiplied with the number of shares, thus SEK 4,856,140. The amount of the reduction was transferred to the statutory reserve.

After the reduction, the share capital now amounts to SEK 408,981,890.

## Board committees

Audit and remuneration issues within the Board are handled in committees, which are 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

According to the Board's working practices, issues of remuneration to the President 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. During 2009, the members of the Remuneration Committee were Mikael Ekdahl (Chairman) and John Goodwin.

The recommendations of the Remuneration Committee to the Board includes principles for remuneration, the relationship between fixed and variable salary, conditions for pen-

sions 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 President in consultation with the Remuneration Committee. For further information, please see page 72. During 2009, the Remuneration Committee met on two occasions, at which both members attended. The Board's proposal for guidelines for remuneration to senior executives can be found in Note 8 on page 72, and will be put to the Annual General Meeting in 2010 for a decision.

## Audit Committee

During 2009, members of the Audit Committee were Ulrik Svensson (Chairman), Martin Bek-Nielsen and Mikael Ekdahl. The Committee has held four ordinary meetings during the year, at which the company's external auditors and representatives of the management team have attended. Areas dealt with by the Audit Committee have 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 the Board has requested the Committee to prepare.

According to the Code, at least one member of the Audit Committee shall be independent in relation to major shareholders in the company. During 2009, none of the members was independent in this respect. However, the Board considered that the composition of the Audit Committee was that which best utilised the experience and competence of the Board on the issues the Committee is intended to handle.

## External auditors

AAK's auditors are appointed by the Annual General Meeting. At the Annual General Meeting in 2009, the audit company PricewaterhouseCoopers AB was appointed auditors up to and including the Annual General Meeting in 2013. Anders Lundin, Authorised Public Accountant, was appointed auditor in charge, and Eric Salander, auditor, was appointed co-signatory. Anders Lundin also



has audit assignments from Electrolux AB, Husqvarna AB, AB Industrivärden, Melker Schörling AB, Loomis AB and Svenska Cellulosa AB SCA.

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 closely related parties exist.

### Operational management

It is the task of the President to lead the operation in accordance with the guidelines and instructions of the Board. In conjunction with this, the President shall use the required control systems to ensure the company complies with applicable laws and ordinances. The President reports to the Board meetings and shall ensure the Board gets as much factual, detailed and relevant information as is required in order for the Board to reach well-informed decisions. The President also maintains a continuous 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 six persons from four countries: CEO, CFO and four persons in charge of business areas/countries.

The Group management team meets on a monthly basis 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 President, who reaches decisions in consultation with the other members of the Group management team. The Group has a small number of Group employees, who are responsible for Group-wide activities, such as financial performance, tax, IT, internal audit, strategy, investor relations, information and legal issues.

The President and Group management team are presented on page 100. For remuneration principles and salaries and other fees paid to the President and Group management team, please see Note 8 on page 72.

AAK's business areas are Chocolate & Confectionery Fats, Food Ingredients and Technical Products & Feed. The heads of each business area/country are responsible for goals, strategies, product development and day-to-day business issues, as well as for profit, cash flow and balance sheets for the unit in question. The business areas in turn are organised into different sectors with responsibility for day-to-day business issues. The direction is exercised through internal boards, who meet four times per year. At these, AAK's President/CEO acts as chairman of the board, and the Group CFO also participates. Other executives, such as the Group Controller and Strategist are co-opted as necessary. In all countries where AAK has subsidiaries, a Country Manager has legal

charge of the operation. The Country Manager's task is to represent AAK vis-à-vis public authorities in the country, to coordinate the operating location, organisation and Group-wide procedures/projects and to safeguard that Group-wide guidelines are complied with. For each such country, one member of the Group management team has been appointed to have overriding responsibility for the operation (Group Management Representative). The Group Management Representative is the superior of the Country Manager, and in most cases acts as chairman of the local legal board.

### The Board's description of the 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 is organised 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 employees. The process has been designed to constitute a guarantee of the reliability of the external reporting. According to the commonly accepted framework (COSO) established for this purpose, the internal control is usually described from five different aspects, which are described below.

The control environment is the basis for internal management and control. Risk assessment and risk management means that the management is aware of and has itself assessed and analysed risks and threats to the operation. Control activities are the measures and procedures designed by the management to prevent errors from arising and for discovering and correcting errors that arise.

In order for individual tasks to be carried out in a satisfactory manner, the employees in an organisation needs to have access to current and relevant information. The final module of the model relates to follow-up of the internal management and the design and effectiveness of controls.

### Control environment

AAK's organisation is designed to facilitate

# Corporate Governance Report

rapid 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 organisation is characterised by clear division of responsibilities and well-functioning 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, where the organisation, decision-making routes, authorities and responsibilities have been documented and communicated in management documents, such as AAK's financial policy, raw material purchasing policy and the manual for financial reporting and the authorisation order set by the President. AAK's finance functions are integrated through a joint consolidation system and a joint accounting instruction.

The Group's finance unit works in close and well-functioning cooperation with the controllers of subsidiaries in relation to year-end accounts and reporting. AAK does not have an internal audit function, 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 the 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 every year 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 directed 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 control and long-term good value development.

Risk management aims to minimise risks, but also to ensure that opportunities

are utilised in the best possible way. Risk management covers the following risk areas: 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 the risk work are identification, evaluation, management, reporting, follow-up and control. For further information about AAK's risk management, please see Note 3 on pages 65-70.

## Control activities

The risks identified relating to financial reporting are handled via the company's control activities. The control activities aim to prevent, discover and correct errors and discrepancies. The handling is done using 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

In order to safeguard completeness and correctness of the financial reporting, the Group has guidelines for information and communication aimed at ensuring relevant and significant information exchange within the operation, both within each unit and from and to the management and 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 gets regular feedback via the Audit Committee regarding internal control. In order to safeguard 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 which way.

## Follow-up

The effectiveness of the process for risk assessment and execution of control activities is continuously followed up. 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 analyses 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 operation 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 attitude on ethical issues, both within the Group and externally towards customers and suppliers.

### *Finance policy*

The Group's finance function work in accordance with an instruction adopted by the Board, which provides a framework for how the Group's operation shall be financed, and for how e.g. 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 providing information.

### *Environment policy*

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

## Review

This Corporate Governance Report has not been subject to review by AAK's auditors.

# Definitions

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## Key ratios

### Proportion of risk-bearing capital

Equity, minority share of equity and deferred tax liability divided by balance sheet total.

### Return on equity

This year's earnings as a percentage of average equity.

### Return on operating capital

Operating profit/loss divided by average operating capital.

### Gross contribution

Operating income minus cost of goods.

### Share price/Equity

Share price divided by equity per share.

### Direct yield

Dividend per share as a percentage of the share price.

### Equity per share

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

### Capital turnover rate

Net sales divided by average operating capital.

### Cash and cash equivalents

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

### Earnings per share

This year's earnings divided by the average number of shares on the balance sheet date.

### Net borrowings

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

### P/E ratio

Share price divided by earnings per share.

### Interest coverage ratio

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

### Working capital

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

### Net debt/equity ratio

Net borrowings divided by equity including non-controlling interests.

### Equity/assets ratio

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

### Operating capital

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

### Dividend pay-out ratio

Dividend per share as a percentage of earnings per share.

## AarhusKarlshamn AB (publ) – Board of Directors



### Melker Schörling

Chairman of the Board of Directors.

*Elected in:* 2005.

*Born:* 1947.

*Citizenship:* Swedish.

*Main occupation:* Founder and owner of Melker Schörling AB (MSAB).

*Qualifications:* Master of Business Administration.

*Professional background:* CEO of a number of companies, including Securitas AB 1987-1992 and Skanska 1993-1997.

*Other directorships:* Chairman of the Board of Directors of MSAB, Hexagon AB, Securitas AB and HEXPOL AB and member of the Board of Directors of Hennes & Mauritz AB.

*Number of shares:* Via MSAB, Melker Schörling holds 58.5% of the shares in BNS Holding AB. In turn, BNS Holding AB holds 16,247,206 shares (39.7 %) in AAK.

### Carl Bek-Nielsen

Vice Chairman.

*Elected in:* 2005.

*Born:* 1973.

*Citizenship:* Danish.

*Main occupation:* Executive director (Corporate Affairs) United Plantations Berhad.

*Qualifications:* Bachelor of Science.

*Professional background:* Executive director, director-in-charge.

*Other directorships:* Chairman of the Board of Directors of United International Enterprises Ltd, Vice Chairman of the Board of Directors of United Plantations Berhad.

*Number of shares:* Via UIE Ltd, Carl Bek-Nielsen holds 41.5% of the shares in BNS Holding AB. In turn, BNS Holding AB holds 16,247,206 shares (39.7 %) in AAK.

*Email:* cbn@plantations.biz

### Martin Bek-Nielsen

*Elected in:* 2005.

*Born:* 1975.

*Citizenship:* Danish.

*Main occupation:* Executive director (Finance & Marketing) United Plantations Berhad.

*Qualifications:* Agricultural Economics.

*Professional background:* Executive director (Finance and Marketing).

*Other directorships:* Member of the Board of Directors of United Plantations Berhad, Vice Chairman of the Board of Directors of United International Enterprises Ltd.

*Number of shares:* Via UIE Ltd, Martin Bek-Nielsen holds 41.5% of the shares in BNS Holding AB. In turn, BNS Holding AB holds 16,247,206 shares (39.7 %) in AAK.

*Email:* mbn@plantations.biz

**John Goodwin**

*Elected in:* 2005.

*Born:* 1944.

*Citizenship:* English.

*Main occupation:* Financial Consultant.

*Qualifications:* Chartered Accountant; Bachelor of Commerce.

*Professional background:* Chief Executive, Managing director, Administrative director and President.

*Other directorships:* Chairman of the Directors of Board United Plantations Africa Ltd, MD of United International Enterprises Ltd.

*Number of shares:* 0.

*Email:* jag@psuk.net

**Mikael Ekdahl**

*Elected in:* 2005.

*Born:* 1951.

*Citizenship:* Swedish.

*Main occupation:* Lawyer and partner in Mannheimer Swartling Advokatbyrå.

*Qualifications:* Swedish equivalents of MBA and LLB.

*Professional background:* Lawyer and partner.

*Other directorships:* Chairman of the Directors of Board Bong Ljungdahl AB, Marco AB and EM Holding AB. Vice Chairman of the Board of Directors of Melker Schörling AB, member of the Board of Directors of Absolent AB, Börje Jönsson Åkeri AB and KonstruktionsBakelit AB.

*Number of shares:* 8,000.

*Email:* mek@msa.se

**Märta Beckeman**

*Elected in:* 2006.

*Born:* 1943.

*Citizenship:* Swedish.

*Main occupation:* PhD Candidate.

*Qualifications:* Master of Science and Licentiate in Engineering.

*Professional background:* Project Manager, consultant, business development and product/packaging development.

*Other directorships:* Member of the Board of Directors of Beckeman Consulting AB.

*Number of shares:* 0.

*Email:* marit.beckeman@plog.lth.se

**Ebbe Simonsen**

*Elected in:* 2006.

*Born:* 1940.

*Citizenship:* Danish.

*Main occupation:* Director.

*Qualifications:* Bachelor of commerce.

*Professional background:* Director, Advisor and Administrative Director.

*Other directorships:* Member of the Board of Directors of Bjørn Wiinblads Værksteder A/S (BF), Chairman of the Board of Directors of Ole Haslunds Hus A/S, Vice Chairman of Glasmuseet Ebeltoft.

*Number of shares:* 0.

*Email:* ebbes@mail.tele.dk

**Jerker Hartwall**

*Elected in:* 2006.

*Born:* 1952.

*Citizenship:* Swedish.

*Main occupation:* President and CEO up to and including 5 April 2010.

*Qualifications:* Master of Engineering.

*Professional background:* More than 25 years of experience of international management in the chemicals industry.

*Other directorships:* Member of the Board of Directors of Novozymes A/S.

*Number of shares:* 200.

*Email:* jerker.hartwall@aak.com

**Ulrik Svensson**

*Elected in:* 2007.

*Born:* 1961.

*Citizenship:* Swedish.

*Main occupation:* President and CEO, Melker Schörling AB.

*Professional background:* CFO of several listed companies, including Swiss International Airlines and Esselte.

*Other directorships:* Member of the Board of Directors of Assa Abloy AB, HEXPOL AB, Niscayah Group AB, Loomis AB and Flughafen Zürich AG.

*Number of shares:* 0.

*Email:* ulrik.svensson@melkerschorlingab.se

**Anders Davidsson**

*Elected in:* 2007.

*Born:* 1970.

*Citizenship:* Swedish.

*Main occupation:* President and CEO, Bong Ljungdahl AB.

*Professional background:* Previously a Management Consultant with McKinsey & Co.

*Other directorships:* Member of the Board of Directors of Bong Ljungdahl AB.

*Number of shares:* 1,200.

*Email:* anders.davidsson@bongljungdahl.se

**Members of the Board of Directors appointed by the employees****Annika Westerlund**

AarhusKarlshamn Sweden AB.

Appointed by PTK-L.

*Elected in:* 2005.

*Born:* 1956.

*Citizenship:* Swedish.

*Main occupation:* Laboratory Assistant.

*Qualifications:* Technical College.

*Number of shares:* 0.

*Email:* annika.westerlund@aak.com

**Leif Håkansson**

AarhusKarlshamn Sweden AB.

Appointed by IF Metall.

*Elected in:* 2005.

*Born:* 1957.

*Citizenship:* Swedish.

*Main occupation:* Senior positions in trade unions and local and regional government and Board work.

*Qualifications:* Electrical engineering.

*Number of shares:* 0.

*Email:* leif.hakansson@aak.com

**Deputies****Christer Svantesson**

AarhusKarlshamn Sweden AB.

Appointed by IF Metall.

*Elected in:* 2006.

*Born:* 1951.

*Citizenship:* Swedish.

*Main occupation:* Repairer.

*Qualifications:* Engineering.

*Number of shares:* 679.

*Email:* christer.svantesson@aak.com

**Ulf Friberg**

AarhusKarlshamn Sweden AB.

Appointed by PTK-L.

*Elected in:* 2008.

*Born:* 1954.

*Citizenship:* Swedish.

*Main occupation:* Maintenance engineer.

Head of preventative maintenance.

*Qualifications:* Automation engineer.

*Number of shares:* 0.

*Email:* ulf.friberg@aak.com

**Auditors**

PricewaterhouseCoopers AB

**Anders Lundin**

Born: 1956.

Authorised public accountant.

Lead auditor.

The company's auditor since 2005.

**Eric Salander**

Born: 1967.

Authorised public accountant.

The company's auditor since 2007.

# AarhusKarlshamn AB (publ) – Group Management



Arne Frank



Jerker Hartwall



Anders Byström



Renald Mackintosh



Ian McIntosh



Bo Svensson

## Arne Frank

*Employed:* 2010.

*Born:* 1958.

*Citizenship:* Swedish.

*Main occupation:* President and CEO as from 6 April 2010. President Business Area Chocolate & Confectionery Fats until further notice.

*Qualifications:* Master of Engineering.

*Professional background:* More than 25 years of experience of international management within a number of industries.

*Directorships:* Chairman of the Board of Carl Zeiss Vision GmbH and Contex Holding A/S, member of the Board of Directors of Nibe Industrier AB (publ).

*Number of shares:* 2,000.

*Share purchase options:* 264,550.

*Email:* arne.frank@aak.com

## Renald Mackintosh

*Employed:* 2002.

*Born:* 1951.

*Citizenship:* Dutch.

*Main occupation:* Vice President, AarhusKarlshamn AB, President, Business Area Food Ingredients Continental Europe, and President, AarhusKarlshamn Netherlands B.V.

*Qualifications:* M.Sc. Food technology.

*Professional background:* Research & development and sales & marketing in the food industry.

*Number of shares:* 300.

*Email:* renald.mackintosh@aak.com

## Ian McIntosh

*Employed:* 1998.

*Born:* 1956.

*Citizenship:* British.

*Main occupation:* Vice President, AarhusKarlshamn AB, and President, AarhusKarlshamn UK & Americas.

*Qualifications:* MSc in Engineering; MBA in General Management.

*Professional background:* 25 years experience within the food industry.

*Number of shares:* 0.

*Email:* ian.mcintosh@aak.com

## Bo Svensson

*Employed:* 1974.

*Born:* 1951.

*Citizenship:* Swedish.

*Main occupation:* Vice President, AarhusKarlshamn, CIO (Chief Information Officer), President, AarhusKarlshamn Sweden and President, Technical Products & Feed.

*Qualifications:* Food engineer.

*Professional background:* 35 years experience within the food industry.

*Number of shares:* 210.

*Email:* bo.svensson@aak.com

## Jerker Hartwall

*Employed:* 2000.

*Born:* 1952.

*Citizenship:* Swedish.

*Main occupation:* President and CEO up to and including 5 April 2010.

*Qualifications:* Master of Engineering.

*Professional background:* More than 25 years of experience of international management in the chemicals industry.

*Directorships:* Member of the Board of Directors of Novozymes A/S.

*Number of shares:* 200.

*Email:* jerker.hartwall@aak.com

## Anders Byström

*Employed:* 2006.

*Born:* 1951.

*Citizenship:* Swedish.

*Main occupation:* Vice President, AarhusKarlshamn AB, and CFO.

*Qualifications:* Master in Business Administration, Executive seminar, Harvard Business School.

*Professional background:* CFO, former

Authorised Public Accountant, VP Controller.

*Number of shares:* 0.

*Email:* anders.bystrom@aak.com



# Financial Calendar, Annual General Meeting (AGM)

## Financial Calendar

AarhusKarlshamn AB (publ) will provide financial information for the 2010 financial year on the following occasions:

- The interim report for the first quarter will be presented at the Annual General Meeting on 21 May.
- The half-year report will be published on 18 August.
- The interim report for the third quarter will be published on 2 November.
- The year-end report for the 2010 financial year will be published in February 2011.

Reports and press releases are also available in English and can be ordered from AarhusKarlshamn AB (publ) Corporate Communication, SE-374 82 Karlshamn, Sweden. Telephone: +46 454 820 00 Fax: +46 454 828 20 E-mail: [info@aak.com](mailto:info@aak.com)

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

## Annual General Meeting

The Annual General Meeting for AarhusKarlshamn AB (publ) will take place on Friday 21 May 2010 at 2 pm at Europaporten in Malmö, Sweden. Doors to the AGM open at 1 pm and registration must be completed before 2 pm, at which time the voting list will be adopted.

### Right to attend the AGM

Shareholders are entitled to attend the AGM if they are registered on the print-out of the shareholder register kept by Euroclear Sweden AB done on Saturday 15 May 2010, and if they have given notice they will attend the AGM no later than 4 pm on Monday 17 May.

### Registration in the shareholders' register

The company is a so-called VPC-registered company. This means that shareholders, in order to be entitled to participate in the AGM, must be registered in the shareholders' register kept by Euroclear Sweden AB no later than 15 May 2010. Shareholders who have registered their shares with a nominee must

temporarily re-register their shares in their own name in order to take part in the AGM. This should be done in good time before the date mentioned.

### Notification

Shareholders who want to attend the AGM must notify the company by post to: AarhusKarlshamn AB (publ) Kerstin Wemby SE-374 82 Karlshamn, Sweden or by telephone on +46 454 823 12 by fax on +46 454 828 20 by email: [kerstin.wemby@aak.com](mailto:kerstin.wemby@aak.com) or via the website: [www.aak.com](http://www.aak.com)

as soon as possible and no later than 4 pm on Friday 14 May 2010, when the notification period expires.

In the notification, the shareholder must specify his or her name, address, phone number, personal or corporate identity number and shareholding.

### Notice of AGM

Notice of the AGM is published in Post- och Inrikes Tidningar and Svenska Dagbladet, where all AGM business will be shown.



# AAK's Glossary

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**Amines** – Products made of fatty acids with surface-active properties. Used as inputs in a wide range of industries.

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

**Bypass rapeseed meal** – Rapeseed meal treated in a special process to make it bypass the rumen of ruminants. Nutritionally superior to standard rapeseed meal.

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

**CBE (Cocoa Butter Equivalents)** – A type of CBA which is identical to cocoa butter, and which may be used in chocolate up to 5 percent according to EU legislation. Produced from exotic raw materials, including shea oil.

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

**CBS (Cocoa Butter Substitutes)** – CBA with properties and application areas similar to those of CBR. Made from palm-kernel oil.

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

**Dairy Fat Alternatives (DFA)** – Fats intended for use in dairy products such as cheese, cream, cooking and table margarine, ice-cream, etc. Replace butter fat and add beneficial properties to the end product.

**DHA** – Omega-3 fatty acid found in fish oils.

**EPA** – Omega-3 fatty acid found in fish oils.

**Essential fatty acids** – Two different types of polyunsaturated fatty acids, Omega-3 and Omega-6, which are necessary for good health. Cannot be produced by the human

body, but must be acquired in food. Rapeseed oil is one of the few vegetable oils that contain both types of essential fatty acids.

**Esters** – Chemical components of fatty acids and alcohols. Triglycerides, which are the main constituent of fat, consist of alcohol, glycerol and fatty acids, and are thus a type of ester.

**Fatty sterols** – Sterols from the plant kingdom. Reduce blood cholesterol.

**Fatty acids** – Consist of carbon and hydrogen in long chains. At one end of the carbon chain is a so-called carboxylic group. The most common fatty acids in vegetable oils contain between 12 and 18 carbon atoms.

**Flaked fats** – Fats with a high melting point supplied in the form of little solid "flakes", which simplifies handling for certain customer groups.

**Fractionation** – Multiple-stage crystallisation process used in the manufacture of CBA.

**Glycerol** – An alcohol that is one of the constituents of the fat molecule.

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

**InFat** – A speciality fat for infant formula.

**IPPC** – An EU Directive on environmental audits of industrial plants. The Directive comprises the aggregate environmental impact of the plant, such as emissions into the air, effluents into water, waste production, raw material consumption and energy efficiency.

**Mould releasers** – Fat-based products which are applied to the inside of casting moulds. Make it easier to remove the mould when the concrete has set without damaging the surface.

**Polyunsaturated fatty acids** – The carbon chain contains two or more double bonds, which are of considerable importance for the biological function of the fats in question.

**Nutrition** – Nutrition, food.

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

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

**PCR** – A method used to identify genetically modified seeds (GMO). The abbreviation stands for Polymerase Chain Reaction.

**Pumpable fats** – Products consisting of fat crystals disbursed in liquid oil delivered by tanker lorry. Mainly used by bakeries where they replace solid fats in 10 kilo packages.

**Saturated fats** – Fats with no double bonds along the carbon chain.

**Shortening** – Fats for the bakery industry.

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

**Trans content** – The proportion of trans fatty acids in a fat.

**Unsaturated fats** – Fats with one or more double bonds along the carbon chain.

# Addresses

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This document is a translation of the Swedish language version. In the event of any discrepancies between the translation and the original Swedish annual report, the latter shall prevail.

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

– The vision consists of three important elements which govern what we want to achieve:

- first choice
- value-added solutions
- vegetable oils



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