



# AAK Annual Report 2016

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The Co-Development Company

**AAK**

# AAK in 60 seconds

We develop and provide value-adding vegetable oil solutions in close collaboration with our customers, enabling them to achieve long-lasting business results.

We do so through our in-depth expertise in oils & fats within food applications, working with a wide range of raw materials and broad process capabilities.

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

AAK's proven expertise is based on more than 140 years of experience within oils & fats. With our headquarters in Malmö, Sweden, 20 production facilities and customization plants, and sales offices in more than 25 countries, our nearly 3,000 employees are dedicated to providing innovative value-adding solutions to our customers.

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

We are AAK – The Co-Development Company.

# AAK in the world



# Three business areas



## Food Ingredients

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



## Chocolate & Confectionery Fats

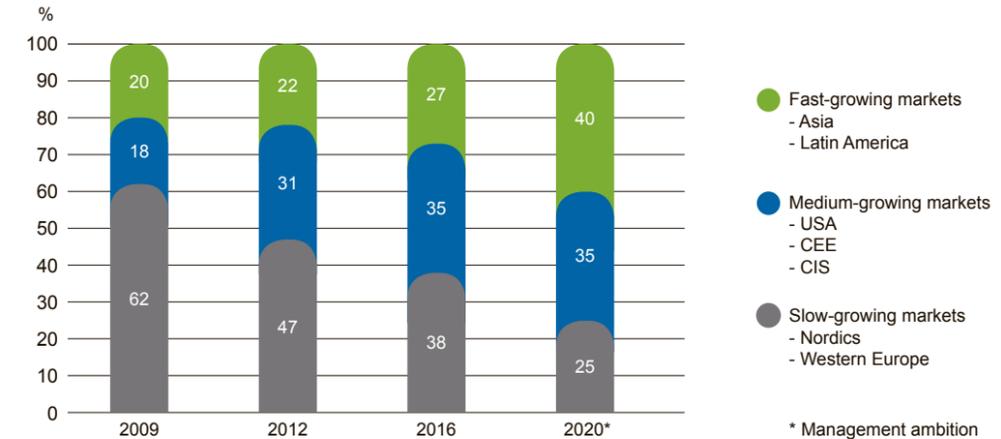
Our second largest business area offers functional cocoa butter alternatives for chocolate, compounds for coating and moulding, and speciality fats for confectionery fillings.



## Technical Products & Feed

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

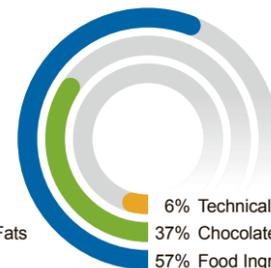
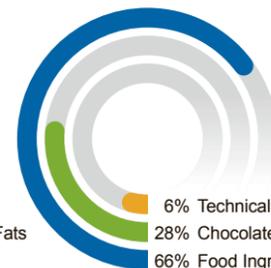
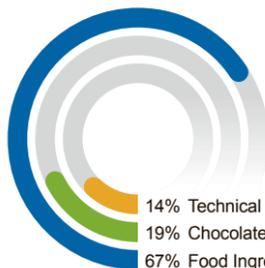
# Medium- and fast-growing markets



### Volumes

### Net sales

### Operating profit



### Operational key figures (SEK million unless otherwise stated)

	2012	2013	2014	2015	2016
Net sales	16,911	16,537	17,814	20,114	22,057
Adjusted operating profit (EBIT)*	1,003	1,127	1,242	1,411	1,615
Operating profit	975	1,117	1,262	1,409	1,615
Operating profit per kilo, SEK	0.66	0.69	0.74	0.77	0.82
Cash flow from operating activities	1,539	1,300	692	1,736	1,213
Earnings per share, SEK	15.66	17.87	21.15	22.17	23.71
Equity per share, SEK	95.32	105.76	138.51	156.77	177.87
Dividend per share, SEK	5.25	6.00	6.75	7.75	8.75**
Return on capital employed, %	14.2	16.4	16.0	15.7	15.8
Return on equity, %	17.6	18.5	18.0	15.1	15.1

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

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

Definitions, see page 90 of the AAK Annual Report.

# 2016 in brief

- Total volumes were up 7 percent (8) and organic volume growth was up 2 percent (3).
- Net sales amounted to SEK 22,057 million (20,114). The increase was mainly due to the positive product mix, increased raw material prices, and acquisitions, partly offset by a negative currency translation impact of SEK 648 million.
- Operating profit, excluding non-recurring items, reached SEK 1,615 million (1,411), an improvement of 14 percent. Operating profit at fixed foreign exchange rates, and excluding non-recurring items, improved by 17 percent.
- Operating profit, including non-recurring items, operating profit reached SEK 1,615 million (1,409), an improvement of 15 percent.
- The largest business area, Food Ingredients, reported an operating profit of SEK 996 million (903), an improvement of 10 percent. Operating profit per kilo increased by 4 percent to SEK 0.75 (0.72).
- The business area Chocolate & Confectionery Fats reported an operating profit of SEK 664 million (553), an improvement of 20 percent. Operating profit per kilo increased by 2 percent, to SEK 1.81 (1.77).
- The smallest business area, Technical Products & Feed, reported an increased operating profit at SEK 100 million (88). Operating profit per kilo increased by 9 percent, to SEK 0.36 (0.33).
- Operating cash flow including changes in working capital amounted to SEK 1,213 million (1,736). Cash flow from working capital was negative, amounting to SEK 263 million (positive 380). This was due to the impact from substantially increased raw material prices during the last quarters, combined with working capital tied up for the two greenfield investments.
- Earnings per share increased by 7 percent, to SEK 23.71 (22.17).
- Return on Capital Employed (ROCE), calculated on a rolling 12 months basis, was 15.8 percent (15.7) despite negative effect of higher working capital due to increased raw material prices, greenfield investments and acquisitions.

## AAK Group

(SEK million unless otherwise stated)	2012	2013	2014	2015	2016
Volumes, thousand tonnes	1,511	1,620	1,703	1,833	<b>1,966</b>
Adjusted operating profit (EBIT)*	1,003	1,127	1,242	1,411	<b>1,615</b>
Earnings per share, SEK	15.66	17.87	21.15	22.17	<b>23.71</b>
Net sales	16.911	16.537	17.814	20.114	<b>22.057</b>

\*Adjusted for non-recurring items and acquisition costs

- Our new speciality and semi-speciality edible oils factory in Jundiaí, Brazil was officially inaugurated in June. With the new plant in operation, we have taken a major step forward in our global growth strategy and it brings us closer to our customers in yet another key market. The fully automated, multi-oil and multi-process plant has an initial production capacity of 100,000 MT per year, and opens up many new possibilities for our customers in Brazil in a wide range of applications.
- In July, we acquired the leading US West Coast based vegetable oils company California Oils Corporation, also known as CalOils, from Mitsubishi Corporation of Japan. In 2015, CalOils had revenues of approximately SEK 1,350 million and a volume of approximately 110,000 MT. The acquisition establishes AAK as the leading supplier of speciality and semi-speciality oils to the bakery, dairy and chocolate and confectionery industries in California and across the west coast of the US and Canada.
- Our very similar speciality and semi-speciality edible oils factory in Zhangjiagang, China was completed at the end of 2016 and the first volumes were delivered in early 2017. Fully utilized, the plant will increase AAK's total capacity by approximately 100,000 MT, with room for further expansion at a later stage.
- Having successfully completed our three years with AAKtion, we launched our new company program, The AAK Way, in January 2017. The AAK Way, which will guide us up through 2019, will focus on the following five priority areas: Go to Market, Operational Excellence, Special Focus Areas, Innovation, and People.
- Our strong and continued commitment to responsible growth was outlined in our annual Sustainability Report, documenting our activities, achievements and future objectives.
- René Schou was in June 2016 appointed President Foodservice Europe and is a member of the AAK Executive Committee.



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Chairman of the Board:

## Continued growth and development

Looking back on yet another inspiring year as Chairman of the Board of AAK, it is with great satisfaction I announce that the company continues to grow – organically and through acquisitions – and to demonstrate its strengths and customer benefits within the world of vegetable oils.

During the past year AAK has, in close collaboration with its customers, continued to develop innovative and customized vegetable oils solutions that meet specific customer needs. The development of such speciality and semi-speciality solutions is really the core of AAK's expertise, built up during the company's 140-year-long history.

The prospects for the future continue to look good and the progress made over the past twelve months is strong evidence that the strategic direction AAK has chosen certainly is the right one to follow.

### AAKtion and new company program

The end of 2016 also marked the end of AAKtion, the company program that has guided AAK over the last three years. A central part of AAKtion was to invest and expand in fast-growing markets. Therefore it has been a great pleasure to witness the completion of the company's two new speciality and semi-speciality factories in Brazil and China.

In addition to these strategic greenfield projects AAK has during the year expanded its footprint in the United States with a very interesting acquisition in California, giving the company a nationwide presence in the important American market.

By adding these new platforms for production and increased sales, AAK has reinforced its position as a global market leader within speciality vegetable oils solutions. To guide AAK in its efforts going forward, a new company program, The AAK Way, was launched in January 2017. Building on the strong foundation that AAKtion has created, combined with new focus areas such as Senior Nutrition, Medical Nutrition and Plant-based dairy, The AAK Way will lead the company up through 2019.

### Strong sustainability commitment

The public demand for a more sustainable world has significantly increased over the last years and sustainability has for many companies become a critical business activity. This has been the case for AAK for many years. It was tremendously encouraging to see that trend continue during 2016.

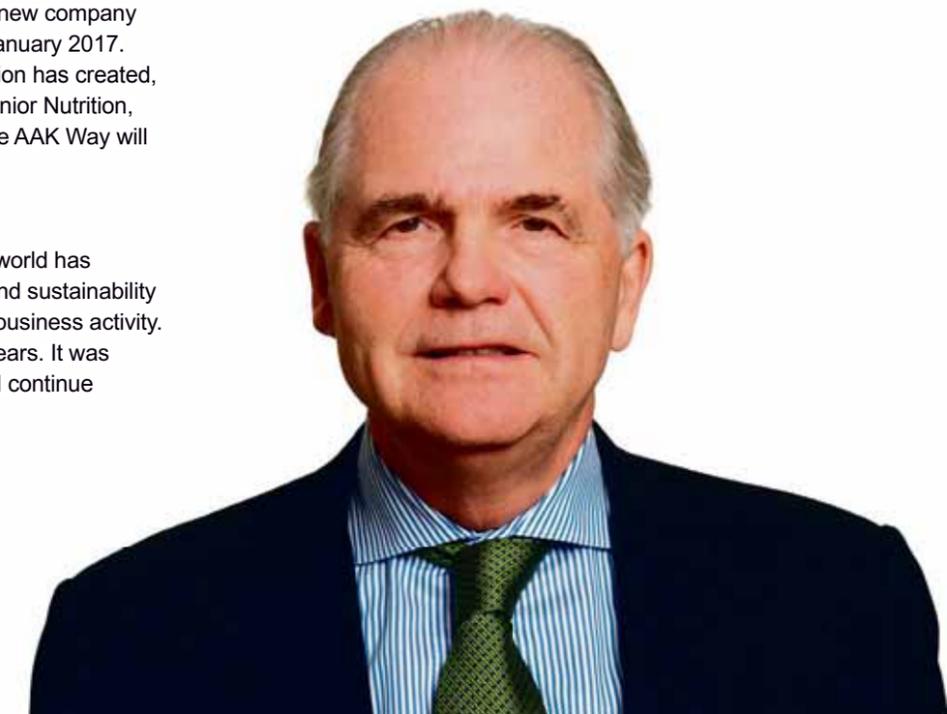
The year saw some very good developments within AAK's palm oil sustainability commitments and important improvements were also made within resource efficiency and workplace safety. Furthermore, AAK's persistent work in West Africa towards a more sustainable and efficient supply chain has continued to benefit hundreds of thousands of local women collecting shea kernels. AAK will, of course, maintain this strong CSR focus as the company continues along the path of business growth.

### Continued engagement

As you all probably know, 2016 will be my last full year as Chairman of the Board of AAK. Nevertheless, AAK will continue to be a core holding of Melker Schörling AB, which demonstrates that our engagement, commitment and belief in the long-term perspective of the company will remain unchanged.

Having developed into a truly global market leader in its industry, it is with a strong sense of pride and optimism that I look upon AAK's continuing growth and development. On behalf of my colleagues on the Board of Directors, I would like to thank AAK's dedicated management team and its hard-working employees around the world for their achievements during 2016. Your great efforts have further strengthened AAK and put the company in a very promising position for the upcoming years.

Melker Schörling, Chairman of the Board





CEO:

## Another successful year for AAK

During the past year AAK has undoubtedly seen some very important and interesting achievements. Most importantly, we have again achieved solid organic growth in our speciality and semi-speciality segments. Furthermore, we have expanded our geographic footprint by completing two large greenfield projects as well as adding an additional strategic acquisition. Further, the integration of previous acquisitions is on plan. We have also continued to develop innovative and value-adding solutions together with our customers, backed up by material additions of sales specialists, customer co-development specialists and appropriate innovation centers. Our strategy works!

The positive trends from 2015 have continued and 2016 showed another solid financial performance with an all-time high operating profit. Once again, Chocolate & Confectionery Fats was the main contributor to the increase in operating profit. Food Ingredients had, all in all, a good year mainly driven by continued strong performance for Special Nutrition (primarily Infant Nutrition) and Dairy. However, Bakery had a challenging year. Our smallest business area, Technical Products & Feed, showed good development during 2016. It is also very satisfying that, despite a very material peak in investments, our ROCE stayed stable. Speaking about

investments, 2017 will be another year above historic levels but clearly below 2016. From 2018 we will be back to normal investment levels.

### End of AAKtion – and the management ambition achieved

With the completion of the AAKtion program, we are happy to announce that the overall implementation of the program has progressed well over its three years. Expansion in growth markets and other important markets have been an integral part of AAKtion and this has continued during the year.

In July, we announced that we had acquired the leading US West Coast based vegetable oils company California Oils Corporation. The company, also known as CalOils, is based in Richmond, California. A strong presence on the US West Coast has been a priority for several years. The West Coast encompasses 20 percent of the US population and economy and this expansion was identified very early as an important component of our long-term growth strategy. The acquisition of CalOils will transform AAK into a true national speciality and semi-speciality edible oils company, improving our ability to serve existing customers on a national scale while at the same time creating new customer opportunities.

During the year we have also completed our two new speciality and semi-speciality factories in Brazil and China which open up many new business possibilities in a wide range of applications. With the production plants in operation we have taken a major step forward in our global growth strategy and moved closer to our customers in two hugely important markets.

During the course of AAKtion we have also, through investments in the organization, further developed our capabilities to provide our customers with tailor-made solutions. New Customer Innovation Centers have been opened and resources have been added particularly in New Product Development, Customer Innovation and Sales. These investments have enabled some important product launches, among them our chocolate solution TROPICAO™ which could be the largest value-adding novelty in our industry for many years. The first sales of this revolutionary solution are expected during the second half of 2017.

In 2010, we launched a management ambition to double our operating profit from SEK 800 million to SEK 1,600 million. With some support from acquisitions and positive FX, we achieved that ambition at the end of 2016, despite all the investments made in the organization in order to build a stronger AAK for the mid and long term and the unexpected headwinds absorbed in for AAK important markets like Russia, Ukraine, Turkey and the Middle East.

### Beginning of The AAK Way – and our new management ambition

The end of AAKtion also marked the beginning of our new company program, The AAK Way, which will guide us up through 2019. Our key focus with The AAK Way is to enable the company to continue to deliver strong organic growth. This will be achieved by focusing on five priority areas: Go to Market, Operational Excellence, Special Focus Areas, Innovation, and People.

In parallel with our new company program we have established a new management ambition for the coming years. We expect, on average, a 10 percent year-over-year improvement in operating profit which will support a good and consistent improvement in earnings per share. The ambition will be achieved through organic growth, innovation, a continued improved product mix, and an improved efficiency.

The AAK Way serves several important purposes; first of all to live up to our vision – to be the first choice for value-adding vegetable oils solutions; secondly, to reach the aforementioned management ambition; and finally, to build an even stronger AAK, for the short, mid and long term.

The AAK Way was launched in January. The first months with the program have developed according to plan. We are, of course, very much looking forward to the continuous execution of the program, creating even more value for all of our stakeholders – customers, shareholders, employees and suppliers.

### Sustainable growth

In the past year we have seen some considerable achievements within our sustainability activities. There have been continued and very important developments within our palm oil sustainability commitments. By August 2016, we had achieved 98 percent traceability of palm oil, palm kernel oil and residuals back to mill origin. In parallel, qualitative risk assessments had been completed for all suppliers, geo-spatial assessments had been completed for all high-risk supplier mills, and on-site verification audits and supplier engagement workshops had been carried out.

In addition, on the shea kernel side, our work with women's groups in West Africa continues to show great progress. During the season 2015/2016, we have included 90,000 women, exceeding our expectations by more than 20,000.

Our continued focus on key areas has produced many more significant results during the year, amongst them a strong progress on our resource efficiency. Furthermore, we managed to reduce waste sent to landfill by 44 percent. Waste to landfill represented 1.3 percent of total waste disposals, leaving 98.7 percent disposed for reuse, recycling or recovery.

We are of course very proud of the significant progress that we have made across all of our key areas. Sustainable growth is a foundation for future success and essential to our aspirations to be our customers' first choice.

### Promising future

Over the last few years we have built, and we continue to build, a very solid foundation. We are supported by strong business drivers, we have a strong organization, and we have had, and will continue to have, a clear and very well-aligned strategy and strategy execution.

Supported by these prerequisites we will continue to work hard in order to create even better conditions and opportunities for all of our stakeholders. One of our main priorities going forward will be to further increase the organic growth in more of our speciality and semi-speciality products through our dedicated work with customer co-development.

We continue to remain prudently optimistic about the future. 2016 has seen some very good achievements and we are determined to bring that momentum into 2017 and the years ahead.

By way of conclusion, I would like to thank all of our customers, shareholders, our Board of Directors, and our business leaders and all their teams for their support during the past year.

Arne Frank, CEO

# AAK's vision

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

Our vision consists of three important parts:

### First choice

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

### Value-adding solutions

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

### Vegetable oils

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



# The AAK Way

Our three-year company program AAKtion has now been completed and 2016 was another exciting year in the execution of the program with many important achievements across the globe within many functions. This has given us a very strong foundation for starting the execution of our new company program.

Our new program, which will guide us up through 2019, is called The AAK Way and is based on six strategic cornerstones:

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

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

### Go to Market

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

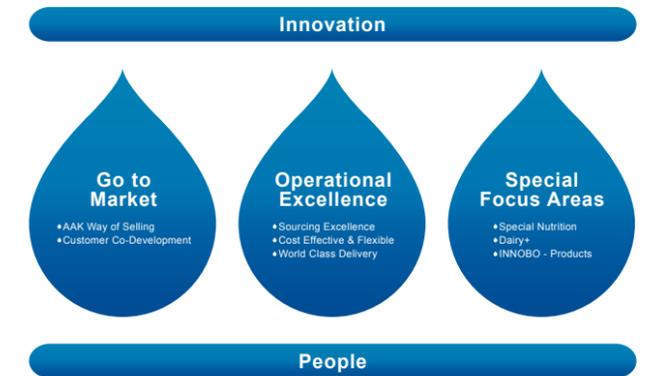
### Operational Excellence

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

### Special Focus Areas

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

## The AAK Way



### Innovation

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

### People

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

The AAK Way serves several important purposes:

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

A few months after our global launch of The AAK Way, the implementation of the program is developing according to plan. We are looking forward to the continuous execution of The AAK Way in order to create even more value for all of our customers and other stakeholders.

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

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

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

## The Co-Development Company

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

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

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

## Functional solutions

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

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



## Our global network of Customer Innovation Centers



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

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

**Rapeseed and rapeseed oil**  
Northern and Central Europe



**Olive oil**  
Southern Europe



**Shea kernels**  
West Africa



**Palm oil**  
Asia and Latin America



**Soya bean oil**  
U.S. and South America



**Corn oil**  
America and Eastern and Southern Europe



**Palm kernel oil**  
Asia



**Sunflower oil**  
Eastern Europe and Mexico



**Coconut oil**  
Malaysia and the Philippines



### Natural raw materials

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

### Health and cost efficiency

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

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

According to the WHO and the Nordic Nutrition Recommendations:

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

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

### Sustainable growth

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

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

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

## What is fat and why do we need it?

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

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

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

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



## Business area Food Ingredients

Our largest business area Food Ingredients primarily offers solutions to the bakery, dairy, special nutrition, and food-service industries. All in all, the business area reported good organic growth 2016 with an increase in speciality and semi-speciality solutions, but the picture between the different segments was very mixed. Dairy and Special Nutrition, comprised of Infant, Senior and Medical Nutrition, showed good organic growth while Bakery continued to struggle.

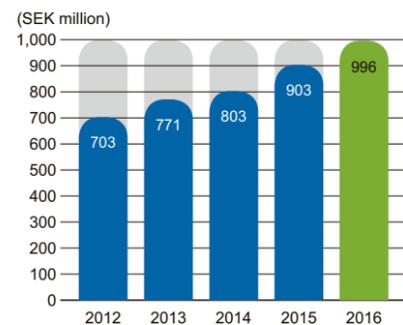
### Food Ingredients

(SEK million)	2012	2013	2014	2015	2016
Volumes, thousand tonnes	937	1,049	1,117	1,258	1,325
Net sales	10,729	10,798	11,509	13,556	14,707
Operating profit	703	771	803	903	996
Operating profit per kilo, SEK	0.75	0.73	0.72	0.72	0.75

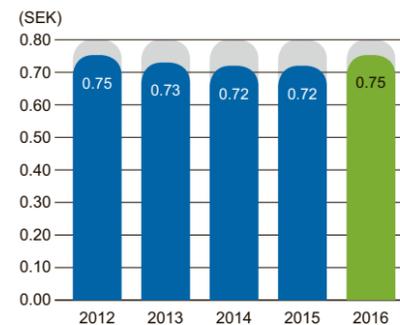
#### Volumes (69% of Group total)



#### Operating profit (56% of Group total)



#### Operating profit per kilo



### Bakery

Bakery, our largest segment within Food Ingredients, had another challenging year and ended up on a slightly lower level than in 2015, with the exception of Central and Eastern Europe. However, the innovation pipeline looks solid and we expect to launch new value-adding solutions during 2017 to further strengthen our customer offer in this segment.

In December 2016, AAK Colombia launched new, high-quality margarines for pastries and cakes and is expected to take a leading position in the market for value-adding solutions. Brazil with its new factory is gaining ground within bakery and the outlook for 2017 is rather positive, taking into account the tough economic environment in the country.

The shift towards value-adding solutions is very clear in the US where some new value-adding business with flaked solutions was gained. The bakery industry in China showed good volume growth during 2016 and we expect a good start for our newly inaugurated speciality and semi-speciality edible oils factory outside of Shanghai.

### Dairy

2016 was a strong year for our dairy business with double-digit volume growth. North Latin America, the US and the Nordics showed particularly strong growth in this segment. The new growth markets Brazil and China very importantly showed great development. Although coming from a small base this is a very positive indication for the return of our investments in the two countries and it will strengthen our global position within the dairy business.

One important focus area within our Dairy segment has been to broaden the business by developing a range of unique value-adding solutions for the plant-based dairy market. Through our co-development approach we are strongly positioned to grow further within this sub-segment which is expected to exhibit double-digit growth every year for the upcoming three years.

### Special Nutrition

Infant Nutrition, which is the largest sub-segment within Special Nutrition, has continued to show strong global growth during 2016. In general, the global infant nutrition market continues to grow with good momentum, mainly driven by the Chinese market. However, our product range Akonino®, with its tailor-made solutions, is still outgrowing the market and gaining market shares through good developments in Europe, North America and Asia. InFat®, a structured lipid component for infant formulas which is sold through Advanced Lipids AB, a joint venture of AAK and Enzymotec, continued to grow as well.

With our new focus areas Medical and Senior Nutrition, we will broaden our market coverage for specialized oils and fats going forward. These two sub-segments show growth all over the world. Our proven track record of being a reliable supplier, combined with our customer co-development approach, will enable us to grow further in the strong and competitive segment of Special Nutrition.

### Foodservice

Foodservice had another strong year, growing significantly faster than the market – a market that is rapidly evolving as consumers' propensity to eat out is on the increase and as their behaviours are changing.

AAK recognizes the regional variations in the taste and functionalities that our customers seek. Therefore, we strive to adapt our solutions to create the greatest possible benefit for our customers' businesses and for the end-users' food experiences. The typical functionalities we offer influence the taste, appearance and texture of the final product.

Within Foodservice AAK has a very strong market focus and we deliver innovative solutions that reflect the newest market trends. In 2017 we will renew and expand our Customer Innovation Centers for Foodservice, where we work with customers and suppliers to develop new recipes with great flavours and textures.





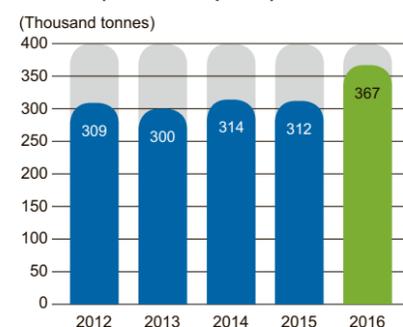
## Business area Chocolate & Confectionery Fats

Business area Chocolate & Confectionery Fats had another strong year driven by customer co-development, taking our new innovative solutions to market, and a continued expansion of our geographical footprint. Our vision is to be the world-leading supplier of value-adding speciality fat solutions to the leaders in the confectionery industry and to bring breakthrough innovations to the market.

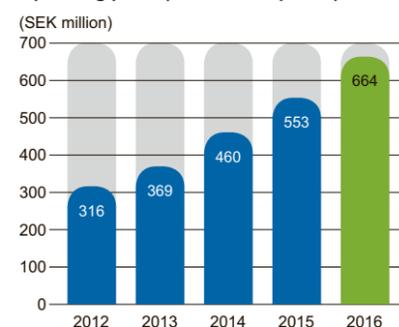
### Chocolate & Confectionery Fats

(SEK million)	2012	2013	2014	2015	2016
Volumes, thousand tonnes	309	300	314	312	367
Net sales	4,583	4,200	4,891	5,315	6,117
Operating profit	316	369	460	553	664
Operating profit per kilo, SEK	1.02	1.23	1.46	1.77	1.81

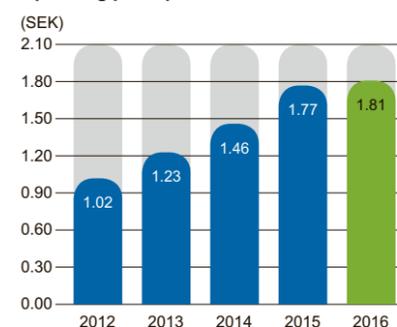
#### Volumes (19% of Group total)



#### Operating profit (38% of Group total)



#### Operating profit per kilo



#### Bringing breakthrough solutions to market

Chocolate & Confectionery Fats supplies speciality vegetable fats used for cocoa butter replacement and improvement in chocolate products and fillings. Based on the market and customer needs, we offer a wide product portfolio. Many of our new product launches are developed and customized in close cooperation with our customers. Our solutions for the confectionery industry cover a wide range of product applications, including chocolate fats and compound fats for coating and moulding, filling fats, barrier fats, and spreads.

In 2016, we have focused on taking our breakthrough innovation TROPICAO™ to the market. TROPICAO™ makes it possible for chocolate manufacturers to produce bloom-stable chocolate and still maintain the chocolate's sensorial properties even under very warm conditions. We have been working closely with customers on implementing and testing this new and exciting innovation. At the same time we have continued to work on new innovation.

Recognizing the regional variations in the functionalities our customers seek, we strive to adapt our solutions to create the greatest possible benefit for the customers' businesses and to the end-users' chocolate experiences. The typical functionalities we offer influence the taste, appearance and texture of the final confectionery product.

Consistent with AAK's strong market focus, we deliver innovative solutions that reflect market trends and anticipate customer requirements. Our wide product range is the result of targeted development work carried out in our Customer Innovation Centers, where we work with our customers. AAK offers technical service to our customers to optimize the use of solutions in their factories. We often organize academies for customers to inspire them with newly developed applications and concept proposals for use in their products.

Our innovative projects to develop healthier versions of our products have proven to be successful. We are able to offer products that both comply with high food safety standards and that are free of trans fats and low in saturated fats. Today, most of our products are completely without trans fats.



### Products for every customer's need

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

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

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

### Right raw materials

Every stage of our value chain requires specialist expertise – from purchasing of raw materials to marketing and sales. When purchasing raw materials, we maintain a high level of quality control to ensure food safety, but also a high focus on initiatives to ensure corporate social responsibility.

For decades, the shea kernel has been an important source of nutrition and income in the rural parts of West Africa. We have been involved ever since the first kernels were exported in the 1950's and are today the biggest consumer of shea kernels outside Africa. Over the past few years, we have successfully shortened the supply chain to include only those participants that actually add value. One consequence of this is that we now also obtain direct supplies from thousands of rural women in Burkina Faso and Ghana.

## Personal Care

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

### Dynamic market trends

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

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

### Global reach

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

### High-performing and sustainable ingredients

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

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

### Product development delivering customer value

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

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



## Business area Technical Products & Feed

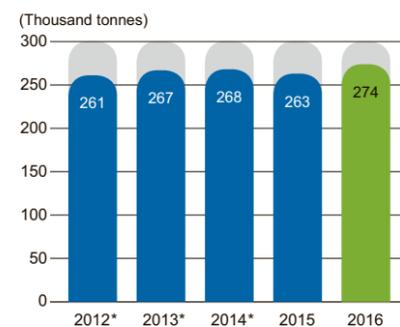
Our business area Technical Products & Feed offers fatty acids and glycerine for various applications, and proteins and fats for animal feed. The business area has seen good development during the year with particularly strong performance for the technical fatty acids business reporting good volume and profit growth.

### Technical Products & Feed

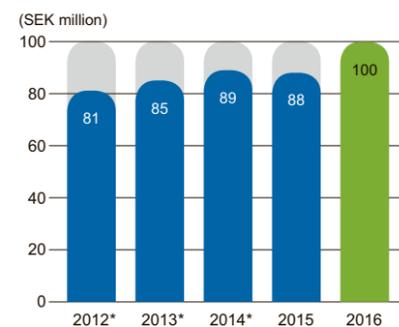
(SEK million)	2012*	2013*	2014*	2015	2016
Volumes, thousand tonnes	261	267	268	263	274
Net sales	1,496	1,439	1,324	1,243	1,233
Operating profit	81	85	89	88	100
Operating profit per kilo, SEK	0.31	0.32	0.33	0.33	0.36

\* 2012, 2013 and 2014 adjusted for Binol divestment.

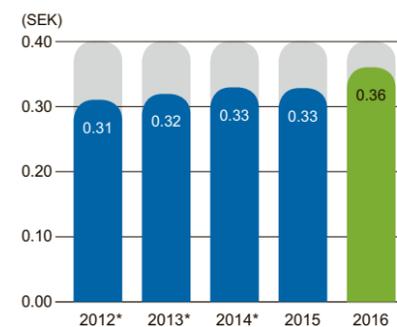
#### Volumes (14% of Group total)



#### Operating profit (6% of Group total)



#### Operating profit per kilo



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

#### Tefac – industrial applications

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

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

Glycerine is used in a diversity of products, for example anti-freeze agents, tobacco products and surface coatings. Over the last years the glycerine market has undergone a

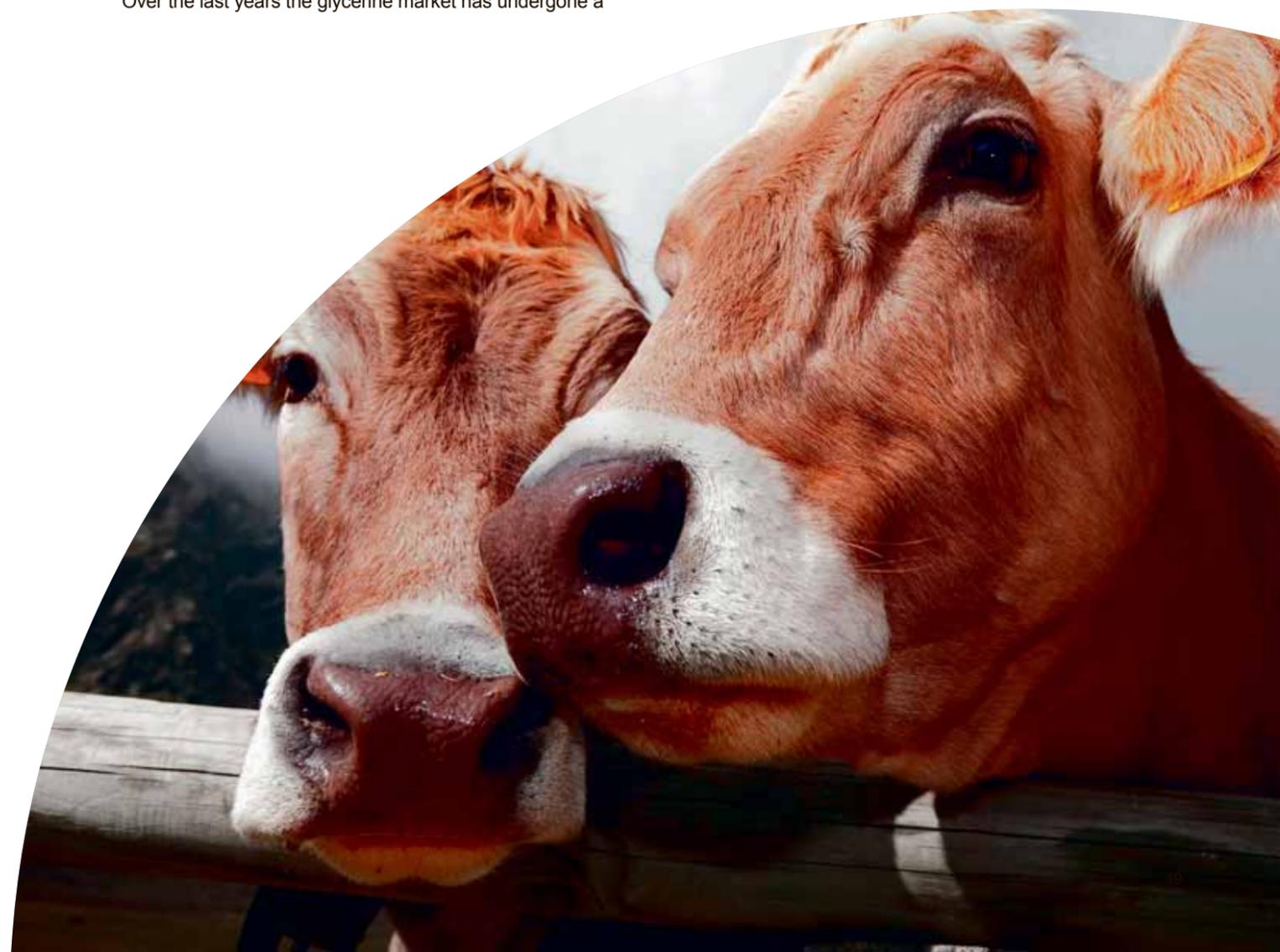
radical change due to the growth of the biodiesel industry, which also generates glycerine as a by-product. Vastly increased supply has caused prices to fall. However, low prices have resulted in new applications for glycerine.

#### Feed

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

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

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



# Regional markets

## Europe

Business dynamics in Europe in 2016 significantly differed between the various markets. Overall, we maintained our market position while continuing to develop our value-adding solutions across the various applications and channels to market. Our investments in our AAKtion program, and specifically in our Go to Market-teams, have effectively allowed more time in the markets with our customers.

Our momentum in Eastern Europe, including Russia, Ukraine and the surrounding countries, improved significantly – albeit from relatively low levels – as we gained new business with both existing and new customers. Northern and Western Europe remained a highly competitive business environment where differentiation through customer-specific innovations allowed us to strengthen our core for future performance. The Bakery segment has performed below expectations. However, we remain confident and determined to enhance performance going forward. Focus on both global and regional strategic accounts resulted in increased share of wallet and in the development of stronger opportunity pipelines.

Customer and consumer concerns clearly increased and centered on sustainability and health, including food safety. Both topics dominated the agenda of the food industry and confirmed that our continued investments and commitment to these critically important aspects are paying off. Our supply chain is recognized as robust and fully compliant and continue to be best in class.

Our new offerings, whether for our strongholds Chocolate & Confectionery Fats, Infant Nutrition, Bakery and Foodservice, or for our strengthening applications within Dairy and Special Nutrition, are well-received and proof that customer intimacy and innovation through our co-development approach are key to success.



## Latin America

AAK Mexico holds a leading position in all segments of the processed food industry and we have seen growth within all of them. Our focus on co-developed solutions beyond oils has resulted in broader and deeper business relations with our customers and allowed us to differentiate ourselves from our competitors. We are well equipped to serve a very demanding market that requires solutions with better functionality, lower cost of use, a healthier profile and that are sustainable. Furthermore, AAK Mexico has, without a doubt, led the industry in eliminating partially hydrogenated oils in food.

AAK Colombia is settling in well and is starting to be recognized as a value-adding solutions provider. The launching of Könditori, the first and only premium margarine brand in Colombia, as well as co-developed solutions for all segments, have set new business ground for future sustained growth and positioned AAK Colombia as the only truly innovative vegetable oils company in the country.

Our new speciality and semi-speciality factory in Jundiaí, Brazil was inaugurated during the year. To be able to deliver the whole product range a gradual ramp-up will continue during the coming quarters. Despite the tough economic environment in the country the outlook for 2017 and beyond looks rather positive.

Operations in Uruguay, which is particularly strong in Chocolate & Confectionery Fats, showed good development during 2016.

## USA

2016 once again brought strong organic growth for AAK USA across a broad spectrum of segments, including Special Nutrition (primarily Infant Nutrition), Chocolate & Confectionery Fats, and Dairy. Again, AAK USA reached a record-high operating profit. Pending US Food and Drug Administration regulations regarding removal of partially hydrogenated oils (PHOs) in all food categories has brought, and will continue to bring, numerous opportunities to co-develop new solutions with customers across all segments.

Numerous investments in assets and people have been made in 2016 to support a strong Go to Market approach including a new Customer Innovation Center in Edison, New Jersey featuring a Chocolate & Confectionery Fats lab and a Bakery lab with equipment that enables our Customer Innovation team to mimic nearly all of our customers' applications in these segments. Further investments are on the drawing board for both Dairy and Personal Care labs.

AAK's foodservice business continues to be a market leader in the Northeast and Mid-Atlantic states where our dressings, sauces and mayonnaise products continue to be standards of excellence.

2016 also brought the acquisition of California Oils Corporation at the end of August. With the acquisition of this business and processing facility in Richmond, California, AAK is now the only oils & fats processor in North America with facilities on both the East and West Coasts. This uniquely positions AAK to serve industrial food producers across the entire USA and Canada.



## Asia

In 2016 operations in Asia progressed overall as expected and there were many positive developments.

Several markets reported good organic growth and we see good opportunities across the whole region from the Middle East to all of Asia.

AAK's business in China has changed rapidly and is today fully operational. AAK has a strong sales and customer platform supported by an integrated supply chain and a plant for speciality and semi-speciality products. The plant will increase our capacity by approximately 100,000 MT when it is fully ramped up. China is undergoing a transition from an export-driven economy to a more domestic-driven one and this is expected to create further demand for our full range of solutions.

AAK Kamani has been a real success story in India where we have presented many new offerings and launched a number of breakthrough innovations. Underlying growth in India is solid and we expect the market to develop strongly as demand continues to grow. During 2016, we invested in a new Customer Innovation Center in Mumbai as well as in increased capacity and plant upgrades.

Our business in other parts of Asia as well as Turkey and the Middle East developed positively. We successfully continued to implement the AAK business model where the focus is on co-development and collaboration with customers either through our own operations (such as Turkey, the United Arab Emirates – from the second half 2016, Malaysia, Singapore, Australia and Japan) or through designated partners.

We have successfully extended our brand promise throughout the Asian region supported by our investment in strategically located Customer Innovation Centers. We remain committed to this path of development in 2017 and beyond.



## Risks

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

### Raw materials

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

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

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

### The processing industry

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

Capacity expansion aimed at increasing total volumes in order to meet growing demand has a relatively long planning horizon. AAK must analyze potential growth in good time. In the meantime, it is possible to balance production among our plants to enable processing of specific products closer

to their markets and accommodate swings in supply and demand. Key speciality products are produced at dedicated plants, where problems with machinery can have a major impact. During 2016, our new production plants in Brazil and China were completed and a gradual ramp-up of the operations will continue in 2017.

### Political instability

Operating globally always carries risks, but it can also be a stabilizing factor. Although AAK largely operates in mature markets in the US and Europe, much of company growth is generated in developing markets, which are vulnerable to political instability that can impact currencies and exchange rates. We also operate in Eastern Europe, the Middle East, Asia, Africa, and South America, where instability may arise. As a well-established operator in these areas, we have extensive experience of handling such issues. In addition, we operate with a deliberate risk management strategy.

Global operations involve a number of other risks, including:

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

### Changes in the competitive environment

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

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

### The health trend

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

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

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

### Changes in external factors

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



# Employees



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

In 2016, we were pleased to welcome 65 new colleagues from California Oils Corporation, also known as CalOils, to the AAK family. During the year, we have also completed two new factories, one in Jundiaí, Brazil and one in Zhangjiagang, China – greenfield projects that of course demand a large number of new recruitments, training and preparation.

AAK had an average of 2,971 employees in 2016 – an increase compared to the prior year due to the mentioned greenfield projects, our continued organic growth, and acquisitions.

## Building an organization for future growth

The “People” project within AAKtion, our company program for 2014–2016, has been developing according to plan and has resulted in improvements of workflows, processes, roles and responsibilities. AAKtion has now been replaced by our new three-year program The AAK Way, under which the “People” project will continue. The important achievements with the project thus far have been many.

For example, we have updated our AAK Trainee Program. During 2016, we finalized our fourth program and welcomed nine new graduates (selected from 808 applicants) to a new program, which this year also includes an international assignment and even more training days.

We have also continued and updated our AAK Sales Training Program, CCV (Creating Customer Value). In 2016, more than 75 people completed the CCV training and an additional 55 people initiated training to be completed in 2017. There has also been an increased focus on both the quality and the timely completion of our Personal Development Plans (PDPs).

Furthermore, during 2016 AAK conducted a global employee engagement survey. A few local engagement surveys have been conducted before, but in June 2016 we carried out our first global survey together with Great Place to Work. 86.6 percent of our employees completed the survey making our participation equal to the top tier companies that have a much stronger tradition of engagement surveys. During the second half of the year, based on the survey results, many activities were initiated in local leadership teams and with a high level of employee participation and engagement.

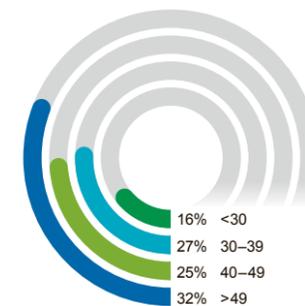
Last but not least, AAK has defined 12 leadership competencies as a foundation for future leadership development within AAK. As a first step, these 12 competencies have been introduced to more than 300 managers globally.



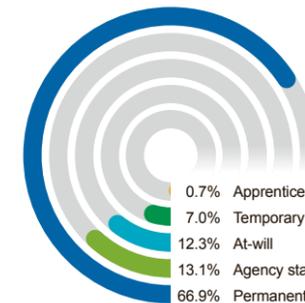
## Going forward

AAK strives to be an attractive employer with a high-performance organization, built on strongly aligned values with an increasing number of people carrying AAK forward. To succeed, we will continue to develop our “People” project by focusing on leadership development, by continuing to develop our people with an increased focus on e-learning/online training, and by strengthening our values and our internal recruitment pipeline.

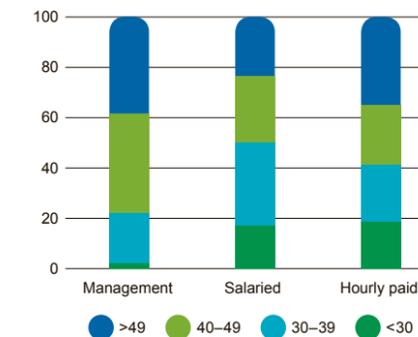
Employees\* by age, %



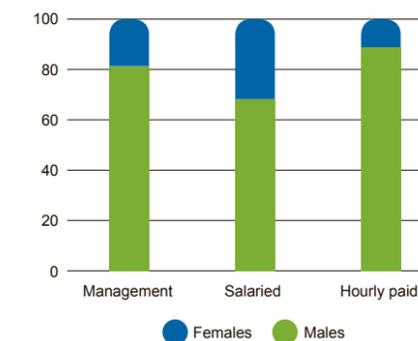
Employment contract type, %



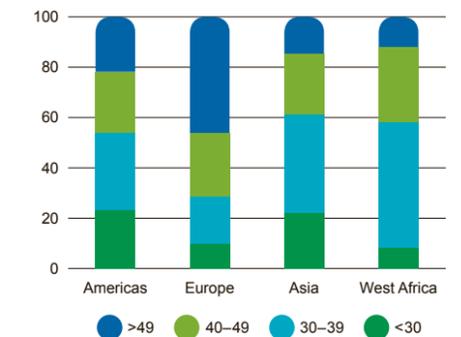
Employee\* category by age, %



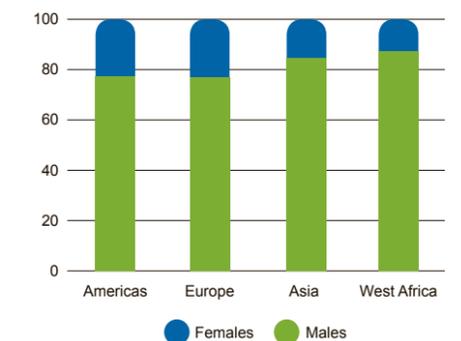
Employee\* category by gender, %



Employees\* by age, %



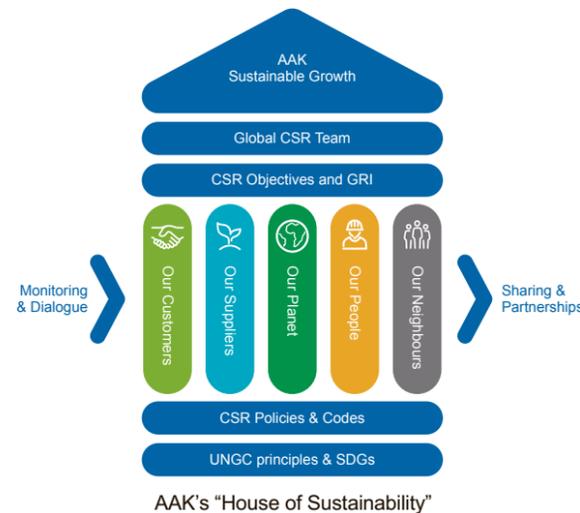
Employees\* gender, %



\* Permanent and at-will employees

# Sustainable growth in AAK

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



## Five CSR focus areas

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

### Our Customers

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

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

### Our Suppliers

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

## UNGCC principles and SDGs

The UN Global Compact (UNGCC) is a solid platform and a broad concept based on ten universal principles within Human and Labour Rights, Environment and Anti-corruption. It enjoys participation by all of the major players in global business and CSR, including the GRI (Global Reporting Initiative), ETI (Ethical Trading Initiative), ICC (International Chamber of Commerce) and OECD (Organization for Economic Cooperation and Development). AAK has been a member of the UNGCC since 2002.

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

## CSR policies and codes

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

### Our Planet

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

### Our People

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

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

### Our Neighbours

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

## CSR objectives and GRI

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

## Global CSR team

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

## Sharing and partnerships

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

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

## Monitoring and dialogue

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

Our overall objective is to grow AAK sustainably and progress within sustainability as a whole. If you would like to learn more about our CSR achievements, initiatives and objectives please refer to our annual Sustainability Report. Our next report is expected to be released during the second quarter 2017 and will be made available on our website.

Fredrik Nilsson, CFO:

## No reasons to lower ambition level

With another good AAK year behind you, how would you describe the company's financial performance?

I would describe it as solid, no doubt. We have now been able to deliver 24 straight quarters with record-high operating profit quarter-over-quarter as well as a record-high full-year result every year since 2010. This is a quite impressive track record.

The organic growth for our speciality and semi-speciality solutions continued during 2016 and we have definitely gained market shares. We have also identified the drivers for further organic growth and continued our effective cost control with annual productivity improvements.

What are your comments on the cash flow?

After a very strong cash flow in 2015 we have seen an outflow from working capital in 2016, mainly due to significantly higher raw material prices. As a consequence of the organic growth, we have also tied up more working capital in accounts receivables. Our focus on working capital days continues and some further minor improvements should be possible, particularly to improve payment terms with our suppliers.

The Group's capital expenditure continued to be at a high level due to our two greenfield projects in Brazil and China. We furthermore acquired California Oils Corporation on the US West Coast – a very strategic acquisition in order for us to be a national player in the US. For 2017, we expect capital expenditure to be another year above historic levels, but clearly below 2016.

For the fifth year in a row AAK increased the dividend paid. AAK strives to pay a stable dividend linked to the company's long-term performance. Total paid dividend was SEK 328 million or 35 percent of the consolidated profit after tax.

With your company program AAKtion now completed, what ambition level for the coming years can we expect?

Our former management ambition was launched in 2010, aiming to double our operating profit from SEK 800 million to SEK 1,600 million, excluding acquisitions and at fixed FX. With some support from acquisitions and positive FX we reached that target by the end of 2016. The average annual improvement year-over-year excluding acquisitions and at fixed FX has been 10 percent since 2010.

The activity levels in our company programs AAK Acceleration and AAKtion have been high and combined with our solid foundation and supported by very strong business drivers we see no reasons to lower the ambition level for the coming years. We expect, on average, a 10 percent year-over-year improvement in operating profit which will support a good and consistent improvement in earnings per share. Our new company program, The AAK Way, will guide us up through 2019. Our key focus with the program is to enable the company to continue to deliver strong organic growth. This will be achieved by focusing on five priority areas: Go to Market, Operational Excellence, Special Focus Areas, Innovation, and People.



## Reasons to invest in AAK

**1** Above the market growth

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

**2** Strong balance sheet supporting further growth

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

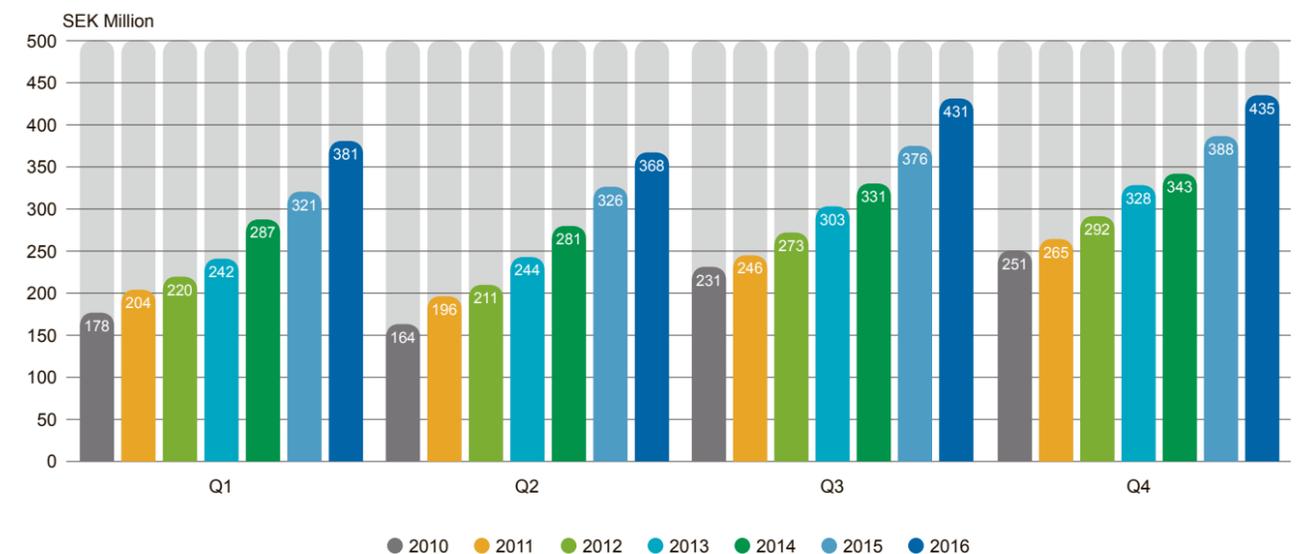
**3** Very strong underlying growth drivers

AAK has an important geographical footprint in regions where both population and urbanization is increasing – demographic changes that open up substantial market opportunities. We are furthermore strongly supported by our customer value propositions for health and reduced costs and our customer product co-development and solutions approach.

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

Between 2010 and 2016 AAK has annually increased its operating profit by 10 percent on average (at fixed foreign exchange rates and excluding acquisitions). Including acquisitions and positive currency translation differences, operating profit has increased 12 percent on average. Based on our high activity within sales, customer innovation and new product development, and based on the very solid foundation we have built and our strong executive and local management, we see no reason to lower that ambition for the coming years.

### AAK's operating profit per quarter 2010–2016



# Board of Directors



**Melker Schörling**

Chairman of the Board of Directors  
*Elected in:* 2005 (Karlshamns AB 2001)  
*Born:* 1947  
*Nationality:* Swedish  
*Main occupation:* Chairman of the Board of Directors of Melker Schörling AB  
*Qualifications:* BSc. in Economics and Business Administration  
*Professional background:* CEO of a number of companies, including Securitas AB 1987–1992 and Skanska AB 1993–1997  
*Other directorships:* Chairman of the Board of Directors of Hexagon AB and HEXPOL AB. Member of the Board of Directors of Hennes & Mauritz AB  
*Holdings in AAK:* Melker Schörling AB holds 13,899,301 shares in AAK



**Arne Frank**

*Elected in:* 2010  
*Born:* 1958  
*Nationality:* Swedish  
*Main occupation:* President and CEO AAK AB  
*Qualifications:* MSc. Industrial Engineering and Management  
*Professional background:* Chairman, CEO and President of TAC, Executive VP of Building Automation Business Unit at Schneider Electric SA, Chairman and CEO of Carl Zeiss Vision Holding GmbH  
*Other directorships:* Member of the Board of Directors of Alfa Laval AB, Chairman of the Board of Directors of Inwido AB  
*Holdings in AAK:* 346,550 shares (together with family through own company)



**Ulrik Svensson\***

*Elected in:* 2007  
*Born:* 1961  
*Nationality:* Swedish  
*Main occupation:* CEO Melker Schörling AB until December 31, 2016  
*Qualifications:* BSc. in Economics and Business Administration  
*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, Loomis AB, Hexagon AB and Flughafen Zürich AG  
*Holdings in AAK:* None  
 \*Resigned from the Board of Directors on December 31, 2016.



**Marianne Kirkegaard**

*Elected in:* 2015  
*Born:* 1968  
*Nationality:* Danish  
*Main occupation:* CEO CSM  
*Qualifications:* MBA in International Trade, Aarhus Handelshøjskole and eMBA SIMI, Copenhagen, Denmark  
*Professional background:* Various positions at Unilever and Carlsberg  
*Other directorships:* Member of the Board of Directors of Dansk Supermarked  
*Holdings in AAK:* 670 shares



**Märta Schörling Andreen**

*Elected in:* 2013  
*Born:* 1984  
*Nationality:* Swedish  
*Main occupation:* Melker Schörling AB  
*Qualifications:* MSc. in Business and Economics  
*Professional background:* Strategy consultant Pond Innovation & Design  
*Other directorships:* Member of the Board of Directors of Melker Schörling AB and HEXPOL AB  
*Holdings in AAK:* None



**Lillie Li Valeur**

*Elected in:* 2013  
*Born:* 1970  
*Nationality:* Danish  
*Main occupation:* Vice President in Arla Foods amba, responsible for Global Milk-based Beverages Business Unit  
*Qualifications:* MBA and BSc. in Medicine  
*Professional background:* General management, strategy and business development; global and Asia market expertise; Food, ingredients, pharmaceutical and consultancy industry experience; B2C and B2B commercial background with Novartis, Arla Foods and Bain & Co.  
*Other directorships:* Member of the Board of Directors of Meda AB  
*Holdings in AAK:* 500 shares

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



**Leif Håkansson**

AAK Sweden AB  
 Appointed by IF-Metall  
*Elected in:* 2005  
*Born:* 1957  
*Nationality:* Swedish  
*Main occupation:* Senior positions in trade unions and local and regional government and board work  
*Qualifications:* Electrical engineering  
*Holdings in AAK:* None



**Annika Westerlund**

AAK Sweden AB  
 Appointed by PTK-L  
*Elected in:* 2005  
*Born:* 1956  
*Nationality:* Swedish  
*Main occupation:* Laboratory Assistant  
*Qualifications:* Technical College  
*Holdings in AAK:* None

## Auditor



**Sofia Götmar-Blomstedt**

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

# Executive Committee



**Arne Frank**  
 President and CEO AAK AB  
*Born:* 1958  
*Elected in:* 2010  
*Nationality:* Swedish  
*Qualifications:* MSc. Industrial Engineering and Management  
*Holdings in AAK:* 346,550 shares (together with family through own company)



**David Smith**  
 President European Supply Chain  
 Vice President AAK AB  
*Born:* 1960  
*Employed:* 2001  
*Nationality:* British  
*Qualifications:* MBA, Graduate Diploma in Business Management  
*Holdings in AAK:* None



**Gerardo Garza López de Hereida**  
 President AAK South Latin America  
 Vice President AAK AB  
*Born:* 1961  
*Employed:* 2014  
*Nationality:* Mexican  
*Qualifications:* Graduate Diploma in Business Administration, Food Engineering  
*Holdings in AAK:* None



**Karsten Nielsen**  
 Chief Technology Officer (CTO)  
 Vice President AAK AB  
*Born:* 1963  
*Employed:* 1988  
*Nationality:* Danish  
*Qualifications:* Graduate Diploma in Food Technology  
*Holdings in AAK:* 15,264 shares



**Fredrik Nilsson**  
 Chief Financial Officer (CFO) including Corporate Communications  
 Vice President AAK AB  
*Born:* 1977  
*Employed:* 2007  
*Nationality:* Swedish  
*Qualifications:* MSc. Business Administration  
*Holdings in AAK:* 15,000 shares



**Torben Friis Lange**  
 President AAK Asia  
 Vice President AAK AB  
*Born:* 1963  
*Employed:* 2010  
*Nationality:* Danish  
*Qualifications:* BSc. Dairy Technology, Graduate Diploma in Business Administration  
*Holdings in AAK:* 100,000 shares



**Renald Mackintosh**  
 Chairman Special Nutrition  
 Vice President AAK AB  
*Born:* 1951  
*Employed:* 2002  
*Nationality:* Dutch  
*Qualifications:* MSc. Food Technology  
*Holdings in AAK:* 28,300 shares



**René Schou**  
 President Foodservice Europe  
 Vice President AAK AB  
*Born:* 1969  
*Employed:* 2011  
*Nationality:* Danish  
*Qualifications:* MBA, and Food Technology  
*Holdings in AAK:* None



**Jan Lenferink**  
 President AAK Europe  
 Vice President AAK AB  
*Born:* 1963  
*Employed:* 2015  
*Nationality:* Dutch  
*Qualifications:* Food Technology  
*Holdings in AAK:* None



**Terrence W. Thomas**  
 President AAK USA and Canada  
 Vice President AAK AB  
*Born:* 1962  
*Employed:* 2013  
*Nationality:* American  
*Qualifications:* MBA, BSc. Chemical Engineering  
*Holdings in AAK:* 20,000 shares



**Jens Wikstedt**  
 President SB&N including HR  
 Vice President AAK AB  
*Born:* 1958  
*Employed:* 2014  
*Nationality:* Swedish  
*Qualifications:* BSc. Economics and Business Administration  
*Holdings in AAK:* 1,000 shares



**Anne Mette Olesen**  
 Chief Marketing Officer (CMO) including CSR  
 Vice President AAK AB  
*Born:* 1964  
*Employed:* 2010  
*Nationality:* Danish  
*Qualifications:* MBA, BSc. Chemical Engineering  
*Holdings in AAK:* 60,000 shares



**Octavio Díaz de León**  
 President AAK North Latin America  
 Vice President AAK AB  
*Born:* 1967  
*Employed:* 2007  
*Nationality:* Mexican  
*Qualifications:* MBA, BSc. Mechanical & Electrical Engineering  
*Holdings in AAK:* 40,000 shares

# AAK's Glossary

**Akonino®** – AAK brand name for vegetable oil blends optimized to meet the nutritional requirements of infants and thus used as an ingredient in infant nutrition and follow-on formulations.

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

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

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

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

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

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

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

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

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

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

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

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

**InFat®** – A speciality fat for infant formulas.

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

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

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

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

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

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

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

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

**Rheological properties** – Flow properties, viscosity. Describe the force it takes to make a material (semi-liquid or solid) to change its form.

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

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

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

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

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

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

## Financial information



# Directors' Report

For the financial year January 1 – December 31, 2016

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All amounts are denominated in SEK million unless otherwise stated.

The Board of Directors and the Chief Executive Officer of AAK AB (publ.), corporate identity number 556669-2850, with its registered office in Malmö, hereby present the Financial Statements and Consolidated Financial Statements for the financial year January 1 – December 31, 2016.

### Performance and financial position

- We are proud to report that our decisive, targeted, hard work, based on our clear strategy, has produced good results. The operating profit was at a record-high level once again. Although parts of the world market are facing significant challenges, the Group continued to report a double-digit improvement in profit compared to the previous year. This is a trend that has continued since 2010.
- Net sales increased by SEK 1,943 million to SEK 22,057 million (20,114). This increase was due primarily to a better product mix, higher raw material prices and acquisitions, but was mitigated in part by a negative currency translation effect of SEK 648 million. Volumes increased by 7 percent, primarily due to the acquisitions made. Organic growth amounted to 2 percent, despite lower volumes for commodity products in Food Ingredients, which showed exceptional growth in 2015.
- Operating profit, excluding non-recurring items, was at a record high of SEK 1,615 million (1,411), an improvement of 14 percent. The currency translation effect was negative and amounted to SEK -37 million (125). Operating profit translated at fixed exchange rates, excluding non-recurring items, improved by 17 percent. All business areas had a double-digit percentage improvement in operating profit in 2016 compared to the previous year.
- Operating profit, including non-recurring items, amounted to SEK 1,615 million (1,409), an improvement of 15 percent. Non-recurring items amounted to SEK 0 million (-2) and consist of acquisition-related expenses of SEK 15 million (15) and a positive net effect of SEK 15 million concerning the acquisition of California Oils Corporation.
- Operating profit per kilo, excluding the above non-recurring items, amounted to SEK 0.82 (0.77). This was due to an improved product mix but was mitigated by a negative currency translation effect and expenses in connection with new investments.
- The Group's profit after financial items amounted to SEK 1,445 million (1,295). Net financial items were SEK -170 million (-114), an increase of SEK 56 million due to an increase in the Group's loans in high-interest rate countries as a consequence of ongoing new investments and recent acquisitions, plus increased working capital on account of higher raw material prices. The equity/assets ratio was 44 percent as at December 31, 2016 (48 percent as at December 31, 2015). Consolidated net debt as at December 31, 2016 was SEK 2,620 million (SEK 2,083 million as at December 31, 2015). On December 31, 2016, the Group had total credit facilities of around SEK 6,139 million.

- Cash flow from operating activities, before changes in working capital, amounted to SEK 1,476 million (1,356). Working capital increased by SEK 263 million (reduction of SEK 380 million), primarily as a consequence of higher raw material prices combined with the working capital tied up in new investments. Cash flow from operating activities, including changes in working capital, amounted to SEK 1,213 million (1,736). After investments, including acquisitions, cash flow amounted to SEK -208 million (720).
- The Group's net investments in non-current assets and acquisitions totalled SEK 1,421 million (1,016), comprising ongoing maintenance and growth investments, and acquisitions in the USA and acquisitions of non-controlling interests in Mexico, plus strategic investments in Brazil and China.
- Return on Capital Employed, calculated on a rolling 12 months basis, amounted to 15.8 percent (15.7 percent on December 31, 2015). This was despite the negative impact of higher working capital as a consequence of higher raw material prices, new investments and acquisitions.
- Earnings per share before dilution were SEK 23.71 (22.17), an increase of 7 percent.
- The proposed dividend amounts to SEK 8.75 (7.75), an increase of SEK 1.00 or 13 percent.

The Company's largest business area, Food Ingredients, reported a record operating profit of SEK 996 million (903), an increase of 10 percent. The operating profit per kilo increased by 4 percent to SEK 0.75 (0.72). This was due to an improved product mix but was mitigated by a negative currency translation effect and expenses in connection with new investments. The Bakery segment had yet another challenging year, particularly in Western Europe. The Dairy segment reported strong organic volume growth. Butterfat prices have been at a very low level for a number of quarters but have risen dramatically since the summer. The Special Nutrition segment, which comprises Infant Nutrition, Senior Nutrition and Medical Nutrition, reported high volume growth, which is due to exceptional volume growth for the Akonino® product range in Infant Nutrition. Our other product range in Infant Nutrition is InFat®, which is sold via Advanced Lipids AB, a joint venture between AAK and Enzymotec. This product segment reported good volume growth combined with an improved product mix. Foodservice reported organic volume growth that was particularly good in the UK and the USA. There was negative volume growth for commodity products, after exceptional growth in 2015.

Chocolate & Confectionery Fats reported a strong improvement in operating profit of 20 percent to SEK 664 million (553), primarily as a consequence of strong volume growth. Volumes increased by 18 percent and, after two years of significantly poorer market conditions in Ukraine and Russia, both countries showed strong growth. The volumes for both high and low value-adding products continued to grow organically, and the volume growth for low value-adding products was particularly good during the second half of the year. The strong product development of recent years

in close collaboration with customers, innovative new solutions and greater geographical presence continue to produce positive results. Operating profit per kilo rose from SEK 1.77 to SEK 1.81 as a consequence of this.

Operating profit for the Company's smallest business area, Technical Products & Feed, was SEK 100 million (88), an increase of 14 percent. This is primarily due to the positive growth in fatty acids that is behind the improvement in profit.

## Operations and significant events

### Business areas

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

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

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

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

### New company program and new management ambition

The company program "AAKtion" for 2014–2016 was ended during the year and developed well during its three years. The new company program, "The AAK Way", will guide operations up to the end of 2019. Our primary focus for the program is that AAK must be able to further increase its organic growth. This will be achieved by means of five priority areas: "Go to Market", "Operational Excellence", "Special Focus Areas", "Innovation" and "People". Parallel to the new company program, a new management ambition has been presented for the years to come. The ambition is to increase operating profit by 10 percent per annum on average via organic growth, innovation, an improved product mix and enhanced efficiency.

### Acquisitions in the USA

In July, AAK acquired California Oils Corporation, the leading company in speciality and semi-speciality oils on the US West Coast, from Mitsubishi Corporation of Japan. The company has an annual volume of approximately 110,000 MT and had sales of approximately SEK 1,350 million in the last financial year. The company has 65 employees.

The acquisition had very limited impact on AAK's operating profit for 2016, and this acquisition consequently had a dilutive effect on the operating profit per kilo for 2016. The acquisition was completed on August 31, 2016, and the entity was consolidated from September 1. The acquisition will start to contribute to AAK's operating profit during the third quarter of 2017. The calculation of the fair value of the assets and liabilities of California Oils Corporation resulted in negative goodwill of SEK 135 million. At the same time, planned integration expenses of SEK 120 million were recognized as expenses, resulting in positive non-recurrent income of SEK 15 million being recognized in the fourth quarter.

### Acquisition of non-controlling interests in AAK Mexico

During the third quarter, AAK acquired 4.5 percent of a non-controlling interest in AAK Mexico from United Plantation Berhad. After the acquisition, AAK holds more than 99 percent of the shares in AAK Mexico.

### Strategic investments in China and Brazil

The new factory in Brazil began operations in the first half of 2016. The work to build a new factory in China is proceeding according to plan and the first volumes are expected to be delivered during the first quarter of 2017.

### Board changes

In October 2016, Melker Schörling announced that he would resign from his office as Chairman of the Board of Directors of AAK AB (publ.) at the Annual General Meeting on May 17, 2017. Melker Schörling will continue to support and advise AAK's management and Board of Directors. Ulrik Svensson left his position as CEO of Melker Schörling AB on December 31, 2016 and resigned from his office as a member of the Board of Directors of AAK AB (publ.) at the same time.

### Financial goals

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

### Planned dividend policy

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

### Concluding comments by the President

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

### Nomination Committee

Ahead of the 2017 Annual General Meeting, the Nomination Committee has proposed that Mikael Ek Dahl be elected as the new Chairman of the Board of Directors and that Gun Nilsson and Bengt Baron be elected as new Board members. The Nomination Committee has also proposed the re-election of Arne Frank, Lillie Li Valeur, Märta Schörling Andreen and Marianne Kirkegaard as Board members. In total, the Nomination Committee represents approximately 48.0 percent of the shares and votes in AAK as at December 31, 2016.

*AAK's Nomination Committee for the 2017 Annual General Meeting consists of:*

- Mikael Ek Dahl (chairman), Melker Schörling AB (publ.)
- Lars-Åke Bokenberger, AMF Fonder
- Henrik Didner, Didner & Gerge Fonder
- Johan Strandberg, SEB Investment Management

### Share capital and shareholder structure

The total number of shares in AAK as at December 31, 2016 was 42,288,489. There is one class of shares in AAK, and each share entitles the holder to one vote. There are no limits as regards how many votes each shareholder may cast at an Annual General Meeting. Nor are there any limitations regarding the transfer of the shares resulting from provisions in law or in the Articles of Association.

Of the Company's shareholders, only Melker Schörling AB (publ.) has a shareholding which represents at least one-tenth of the number of votes of all shares in AAK. Melker Schörling AB (publ.)'s shareholding as at December 31, 2016 amounted to 32.9 percent of the shares and votes.

AAK is not aware of any agreement between direct shareholders of AAK that would involve limitations in the right to transfer shares. The shareholder structure is described further in the section on the AAK Share, pages 88–89.

### Articles of Association

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

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

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

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

### Guidelines for remuneration of senior executives

Guidelines for the remuneration of the CEO and other senior executives were adopted by the 2016 Annual General Meeting. No deviations from these guidelines have been made. The Board of Directors of AAK proposes that the 2017 Annual General Meeting resolve that the same guidelines for remuneration of senior executives be applied in 2017 as in 2016. The present guidelines are contained in Note 8, Remuneration of the Board of Directors and Senior Executives.

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

### Product development

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

### Environment

The environmental impact from our plants includes emissions of odorous substances, solvents, smoke and gases into the atmosphere, as well as discharging fats, oxygen-consuming material, and nutrients into the water, and also creating organic waste and noise. We continually review our impact on all levels to further improve environmental performance at AAK. We operate all our

plants with appropriate official permits in all countries in which we operate. In Sweden, the operations in Karlshamn are licensable under Swedish law.

### Employees

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

### Risk management and sensitivity analysis

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

For more detailed information, please refer to the section on Risks on page 22 and to Note 3, Financial Risk Management.

### External risks

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

### Operational risk

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

### Financial risk

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

### Corporate Governance Report

For information on the composition and work, etc., of the Board of Directors, see the Corporate Governance Report on page 79.

### Parent

The Company is the holding company of the AAK Group, and its activities consist mainly of joint Group functions connected to the development and management of the Group. The Parent employs personnel with skills and competencies to execute group-wide financing, accounting, information, human resources and IT. The Parent is also responsible for Group strategy and risk management, and provides legal and tax-related services to Group companies. The costs of Group Functions have increased, primarily on account of research and development initiatives. This innovation initiative is an important part of both the company program recently ended and the new program, The AAK Way.

The Parent's invoicing in 2016 amounted to SEK 95 million (80). The profit after financial items amounted to SEK -14 million (1). Interest-bearing liabilities minus cash and cash equivalents and interest-bearing assets were SEK -1,301 million (-1,007). Investments in intangible non-current assets and property, plant and equipment amounted to SEK 5 million (4). The Parent had a total of 31 (29) employees on December 31, 2016.

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

### Background to and explanation of the proposed dividend

The Board of Directors has proposed that the 2017 Annual General Meeting approve an appropriation of profits under which the shareholders will receive a dividend of SEK 8.75 per share. The proposed dividend therefore totals SEK 370 million. The objective is for the dividend in the long term to correspond to 30–50 percent of consolidated profits after tax, while always considering AAK's long-term financing requirements. The Parent has no financial instruments valued under Chap. 4, Section 14 a, of the Swedish Annual Accounts Act (1995:1554). The Board of Directors hereby makes the following statement regarding the proposed dividend, in accordance with Chap. 18, Section 4, of the Swedish Companies Act (2005:551).

Retained profits from the previous year total SEK 3,834 million and the profit for the 2016 financial year is SEK -19 million (SEK 1,040 million for the Group). Provided that the 2017 Annual General Meeting approves the Board's proposed appropriation of profits, a total of SEK 3,445 million will be carried forward. The Company's restricted equity will be fully covered after distribution of the dividend.

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

In the view of the Board, the Company and the Group are in a position and have the capacity, in both the short and long terms, to meet all their obligations. The proposed dividend represents a total of 9 percent of the Company's equity and 5 percent of the Group's equity attributable to the Parent's shareholders.

After payment of the dividend, the equity/assets ratio of the Company and the Group will be 74 percent and 43 percent, respectively. These ratios are good in relation to other businesses in our industry. The Board of Director's judges that the Company and the Group are in a good position to meet future business risk and withstand possible losses. Distribution of the dividend will not negatively affect the ability of the Company and the Group to make further investment as planned by the Board of Directors.

The proposed dividend is not expected to have a negative effect on the Company's and Group's ability to meet certain current liabilities. The Company and Group have sufficient access to both short-term and long-term credits that can be obtained at short notice. The Board of Directors therefore considers that the Company and the Group are prepared for likely changes to liquidity, as well as unforeseen events. In addition, the Board of Directors has considered other known circumstances that may materially affect the financial position of the Company and the Group. No circumstance has arisen that makes the proposed dividend distribution appear unjustifiable.

It is proposed that the record date for the dividend be May 19, 2017, and it is estimated that the dividend will be received by the shareholders on May 24, 2017.

### Proposed appropriation of profits

The Board of Directors and Chief Executive Officer propose that

The disposable profit brought forward	SEK 3,834,015,571
and profit/loss for the year	SEK -19,131,546
Total	SEK 3,814,884,025

be appropriated as follows:

To be distributed to shareholders, a dividend of SEK 8.75 per share	SEK 370,024,279 <sup>1)</sup>
To be carried forward	SEK 3,444,859,746
Total	SEK 3,814,884,025

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

The Group's and the Parent's income statements and balance sheets will be presented to the annual general meeting on May 17, 2017 for adoption.

## Consolidated Income Statement

SEK million	Note	Jan–Dec 2016	Jan–Dec 2015
Net sales	28	22,057	20,114
Other operating income	10	109	194
<b>Total operating income</b>		<b>22,166</b>	<b>20,308</b>
Raw materials and consumables and changes in inventories of finished goods and work in progress		-15,148	-14,146
Goods for resale		-1,214	-862
Other external expenses	5, 29	-1,973	-1,833
Employee benefits expenses	6, 7, 8, 9	-1,726	-1,590
Depreciation, amortization and impairment loss	15, 16	-464	-431
Other operating expenses		-26	-37
<b>Total operating expenses</b>		<b>-20,551</b>	<b>-18,899</b>
<b>Operating profit (EBIT)</b>		<b>1,615</b>	<b>1,409</b>
<b>Result from financial items</b>	11		
Financial income		16	14
Financial expenses		-186	-128
<b>Net financial items</b>		<b>-170</b>	<b>-114</b>
<b>Profit before tax</b>		<b>1,445</b>	<b>1,295</b>
Income tax	12	-405	-350
<b>Profit for the year</b>		<b>1,040</b>	<b>945</b>
<b>Attributable to:</b>			
Non-controlling interests		37	12
Parent company shareholders		1,003	933
<b>Earnings per share attributable to Parent shareholders during the year</b>			
(SEK per share) – before dilution	13	23.71	22.17
(SEK per share) – after dilution	13	23.71	22.12

## Consolidated Statement of Comprehensive Income

SEK million	Note	Jan–Dec 2016	Jan–Dec 2015
Profit for the period		1,040	945
Items that will not be reclassified to profit or loss:			
Remeasurements of post employment benefit obligations	9	5	19
		<b>5</b>	<b>19</b>
Items that may subsequently be reclassified to profit or loss:			
Translation differences		189	44
Fair-value changes in cash flow hedges		23	25
Tax attributable to fair-value changes in cash flow hedges		-5	-6
		<b>207</b>	<b>63</b>
<b>Total comprehensive income for the period</b>		<b>1,252</b>	<b>1,027</b>
<b>Attributable to:</b>			
Non-controlling interests		36	7
Parent company shareholders		1,216	1,020

# Consolidated Balance Sheet

SEK million	Note	Dec 31, 2016	Dec 31, 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	15		
Goodwill		1,686	1,567
Patents and other intangible assets		357	377
		<b>2,043</b>	<b>1,944</b>
Property, plant and equipment	16		
Land and buildings		819	747
Plant and machinery		2,679	2,432
Equipment, tools and fixtures and fittings		192	174
Assets under construction		1,474	942
		<b>5,164</b>	<b>4,295</b>
Financial assets			
Shares in associates		24	27
Deferred tax assets	12	201	97
Other non-current receivables		8	25
		<b>233</b>	<b>149</b>
<b>Total non-current assets</b>		<b>7,440</b>	<b>6,388</b>
<b>Current assets</b>			
Inventories	18	4,850	3,599
Accounts receivables	3	3,027	2,426
Current tax assets	12	219	239
Other receivables		171	170
Derivative instruments	3	715	464
Prepaid expenses and accrued income		176	151
Cash and cash equivalents	19	586	459
<b>Total current assets</b>		<b>9,744</b>	<b>7,508</b>
<b>TOTAL ASSETS</b>		<b>17,184</b>	<b>13,896</b>

# Consolidated Balance Sheet (cont.)

SEK million	Note	Dec 31, 2016	Dec 31, 2015
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	20	423	423
Reserves		461	255
Retained profit		6,638	5,919
<b>Equity attributable to Parent's shareholders</b>		<b>7,522</b>	<b>6,597</b>
Non-controlling interests		54	53
<b>Total equity</b>		<b>7,576</b>	<b>6,650</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
<b>Interest-bearing liabilities</b>			
Liabilities to banks and credit institutions	21	2,857	2,132
Pension provisions	9	134	128
		<b>2,991</b>	<b>2,260</b>
<b>Non-interest-bearing liabilities</b>			
Deferred tax liabilities	12	520	454
Other non-current provisions	22	70	62
Other non-current liabilities		250	226
		<b>840</b>	<b>742</b>
<b>Total non-current liabilities</b>		<b>3,831</b>	<b>3,002</b>
<b>Current liabilities</b>			
<b>Interest-bearing liabilities</b>			
Liabilities to banks and credit institutions	21	217	287
Other current liabilities		1	2
		<b>218</b>	<b>289</b>
<b>Non-interest-bearing liabilities</b>			
Accounts payables	3	3,258	2,383
Current tax liabilities	12	357	311
Other current liabilities		200	135
Other current provisions	22	121	150
Derivative instruments	3	724	304
Accrued expenses and prepaid income	23	899	672
		<b>5,559</b>	<b>3,955</b>
<b>Total current liabilities</b>		<b>5,777</b>	<b>4,244</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>17,184</b>	<b>13,896</b>

## Consolidated Changes in Shareholders' Equity

SEK million	Attributable to the Parent's shareholders			Non-controlling interests	Total equity
	Share capital	Reserves	Retained profit		
<b>Opening balance as at January 1, 2015</b>	<b>417</b>	<b>188</b>	<b>5,150</b>	<b>45</b>	<b>5,800</b>
Profit for the year	-	-	933	12	945
Other comprehensive income	-	67	19	-4	82
<b>Comprehensive income</b>	<b>-</b>	<b>67</b>	<b>952</b>	<b>8</b>	<b>1,027</b>
<b>Transactions with shareholders</b>					
New share issue	6	-	101	-	107
Dividend	-	-	-284	-	-284
<b>Total transactions with shareholders</b>	<b>6</b>	<b>-</b>	<b>-183</b>	<b>-</b>	<b>-177</b>
<b>Closing balance as at December 31, 2015</b>	<b>423</b>	<b>255</b>	<b>5,919</b>	<b>53</b>	<b>6,650</b>

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

For further information, see Note 20.

## Consolidated Cash Flow Statement

SEK million	Note	Jan-Dec 2016	Jan-Dec 2015
<b>OPERATING ACTIVITIES</b>			
Operating profit		1,615	1,409
Depreciation and amortization		464	431
Other non-cash items	30	-37	-100
<b>Cash flow before interest and tax</b>		<b>2,042</b>	<b>1,740</b>
Interest paid and received		-163	-114
Tax paid		-403	-270
<b>Cash flow before changes in working capital</b>		<b>1,476</b>	<b>1,356</b>
Changes in inventory		-818	-292
Changes in accounts receivables		-489	126
Changes in accounts payables		814	148
Changes in other working capital items		230	398
<b>Changes in working capital</b>		<b>-263</b>	<b>380</b>
<b>Cash flow from operating activities</b>		<b>1,213</b>	<b>1,736</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of intangible assets		-11	-25
Acquisition of property, plant and equipment		-966	-969
Acquisition of operations and shares, net of cash acquired	27	-449	-123
Proceeds from sale of property, plant and equipment		5	1
Divestment of operations and shares		-	100
<b>Cash flow from investing activities</b>		<b>-1,421</b>	<b>-1,016</b>
<b>FINANCING ACTIVITIES</b>			
New share issue		-	107
Loans raised		2,172	269
Amortization of loans		-1,527	-613
Dividends paid		-328	-284
<b>Cash flow from financing activities</b>		<b>317</b>	<b>-521</b>
<b>Cash flow for the year</b>		<b>109</b>	<b>199</b>
Cash and cash equivalents at beginning of year		459	264
Exchange rate difference for cash equivalents		18	-4
<b>Cash and cash equivalents at year-end</b>	<b>19</b>	<b>586</b>	<b>459</b>

# Income Statement – Parent Company

SEK million	Note	Jan–Dec 2016	Jan–Dec 2015
Net sales	26	95	80
Other operating income	10	0	0
<b>Total operating income</b>		<b>95</b>	<b>80</b>
Other external expenses	5	-63	-96
Personnel costs	6, 7, 8, 9	-101	-88
Depreciation, amortization and impairment loss		-1	-1
Other operating expenses		-3	-15
<b>Total operating expenses</b>		<b>-168</b>	<b>-200</b>
<b>Operating profit (EBIT)</b>		<b>-73</b>	<b>-120</b>
<b>Profit from financial items</b>	11		
Profit from interests in Group companies		63	125
Interest expenses and similar items		-4	-4
<b>Net financial items</b>		<b>59</b>	<b>121</b>
<b>Profit before tax</b>		<b>-14</b>	<b>1</b>
Income tax	12	-5	-1
<b>Profit for the year</b>		<b>-19</b>	<b>0</b>

# Statement of Comprehensive Income – Parent Company

SEK million	Note	Jan–Dec 2016	Jan–Dec 2015
Profit for the period		-19	0
Other comprehensive income		-	-
<b>Total comprehensive income for the period</b>		<b>-19</b>	<b>0</b>

# Balance Sheet – Parent Company

SEK million	Note	Dec 31, 2016	Dec 31, 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible non-current assets		5	3
		<b>5</b>	<b>3</b>
Property, plant and equipment		4	1
		<b>4</b>	<b>1</b>
Financial non-current assets			
Shares in Group companies	17	2,426	2,421
Receivables from Group companies		3,052	3,055
Other non-current liabilities		8	-
		<b>5,486</b>	<b>5,476</b>
<b>Total non-current assets</b>		<b>5,495</b>	<b>5,480</b>
<b>Current assets</b>			
Receivables from Group companies		135	180
Tax assets	12	6	5
Other receivables		1	5
Prepaid expenses and accrued income		2	3
		<b>144</b>	<b>193</b>
<b>TOTAL ASSETS</b>		<b>5,639</b>	<b>5,673</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
20			
<b>Restricted equity</b>			
Share capital		423	423
Statutory reserve		5	5
		<b>428</b>	<b>428</b>
<b>Non-restricted equity</b>			
Retained profit		3,834	4,162
Profit/loss for the year		-19	0
		<b>3,815</b>	<b>4,162</b>
<b>Total equity</b>		<b>4,243</b>	<b>4,590</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Other non-current liabilities		8	-
		<b>8</b>	<b>-</b>
<b>Current liabilities</b>			
Interest-bearing liabilities			
Liabilities to Group companies		1,301	1,007
Non-interest-bearing liabilities			
Accounts payables		9	6
Liabilities to Group companies		20	25
Other current liabilities		19	10
Accrued expenses and prepaid income	23	39	35
		<b>1,388</b>	<b>1,083</b>
<b>Total liabilities</b>		<b>1,396</b>	<b>1,083</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>5,639</b>	<b>5,673</b>

# Changes in Shareholders' Equity – Parent Company

SEK million	Share capital	Statutory reserve	Retained profit	Total equity
<b>Opening balance as at January 1, 2015</b>	<b>417</b>	<b>5</b>	<b>4,345</b>	<b>4,767</b>
Profit for the year	-	-	0	0
Other comprehensive income	-	-	-	-
New share issue	6	-	101	107
<b>Total comprehensive income</b>	<b>6</b>	<b>-</b>	<b>101</b>	<b>107</b>
Dividend	-	-	-284	-284
<b>Closing balance as at December 31, 2015</b>	<b>423</b>	<b>5</b>	<b>4,162</b>	<b>4,590</b>
<b>Opening balance as at January 1, 2016</b>	<b>423</b>	<b>5</b>	<b>4,162</b>	<b>4,590</b>
Profit for the year	-	-	-19	-19
Other comprehensive income	-	-	-	-
New share issue	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-19</b>	<b>-19</b>
Dividend	-	-	-328	-328
<b>Closing balance as at December 31, 2016</b>	<b>423</b>	<b>5</b>	<b>3,815</b>	<b>4,243</b>

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

# Cash Flow Statement – Parent Company

SEK million	Note	Jan–Dec 2016	Jan–Dec 2015
<b>OPERATING ACTIVITIES</b>			
Profit after financial items		-14	1
Reversal of amortization and impairment losses		1	1
Adjustment for items not included in cash flow	30	-	-
Income tax paid		-7	1
<b>Cash flow from operations before changes to working capital</b>		<b>-20</b>	<b>3</b>
<b>Changes in working capital</b>			
Net change in other current receivables		48	-37
Net change in other current operating liabilities		11	12
<b>Cash flow from operating activities</b>		<b>39</b>	<b>-22</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment		-5	-5
<b>Cash flow from investing activities</b>		<b>-5</b>	<b>-5</b>
<b>FINANCING ACTIVITIES</b>			
New share issue		-	107
Loans raised from Group companies		294	204
Dividend		-328	-284
<b>Cash flow from financing activities</b>		<b>-34</b>	<b>27</b>
<b>Cash flow for the year</b>		<b>0</b>	<b>0</b>
Cash and cash equivalents at beginning of year		0	0
<b>Cash and cash equivalents at year-end</b>		<b>0</b>	<b>0</b>

# Notes

Amounts stated in SEK million unless specified otherwise.

## NOTE 1 – GENERAL INFORMATION

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

These consolidated financial statements for 2016 are for the Group consisting of the Parent and all subsidiaries. The Group also has ownership interests in associates and joint ventures. The Board of Directors approved these consolidated financial statements for publication on March 31, 2017.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

### New and changed standards applied by the Group

None of the new standards and changes in and interpretations of existing standards that have been published and are obligatory for the consolidated financial statements for financial years starting on January 1, 2016 or later have had any material impact on the consolidated financial statements.

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

A number of new standards and interpretations enter into force for financial years that start after January 1, 2016 and were not applied when preparing these financial statements. None of these are expected to have any significant effect on the Group's financial statements, except those shown below:

### IFRS 9 Financial instruments

IFRS 9 'Financial instruments' concerns the classification, valuation and reporting of financial assets and liabilities. The full version of IFRS 9 was published in July 2014. It replaces the parts of IAS 39 that concern the classification and valuation of financial instruments. IFRS 9 retains a mixed valuation approach, but simplifies this approach in certain respects. There will be three valuation categories for financial assets, amortized cost, fair value through other comprehensive income and fair value through the income statement. How an instrument should be classified depends on the company's business model and the characteristics of the instrument. Investments in own capital instruments must be recognized at fair value through the income statement, but it is also possible, when the instrument is first recognized, for it to be recognized at fair value through other comprehensive income. No reclassification to the income statement will then take place in connection with disposal of the instrument. IFRS 9 also introduces a new model for calculating credit loss reserves based on expected credit losses. For financial liabilities, the classification and valuation are not changed except where a liability is recognized at fair value through the income statement based on the fair value alternative. Changes in value attributable to changes in own credit risk must then be recognized in other comprehensive income. IFRS 9 reduces the requirements for application of hedge accounting by replacing the 80–125 criterion with requirements for an economic relationship between hedging instruments and hedged items and for the hedging quota to be the same as that used in risk management. Hedging documentation is also changed slightly compared with that prepared under IAS 39. The standard must be applied for the financial year beginning January 1, 2018. Earlier application is permitted. The Group has not yet evaluated the full effect of the introduction of the standard, but will carry out an analysis of this in 2017. A preliminary assessment is that the change in standard will not have a material impact on the Group's financial reports.

### IFRS 15 Revenue from contracts with customers

IFRS 15 'Revenue from contracts with customers' governs how revenue should be recognized. The principles on which IFRS 15 is based are designed to give users of financial statements more useful information about the company's revenue. The extended duty of disclosure means that information on revenue type, the time of settlement, uncertainties linked to recognition of revenue and cash flow attributable to the company's contracts with customers must be provided. According to IFRS 15, revenue must be recognized when the customer gains control over the product or service sold and is able to use the product or service and gain benefit from it.

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and the associated SIC and IFRIC. IFRS 15 enters into force on January 1, 2018. The standard has not yet been adopted by the EU. Premature application is permitted. The Group has not yet evaluated the full effect of the introduction of the standard, but will carry out an analysis of this in 2017. A preliminary assessment is that the change in standard will not have a material impact on the Group's financial reports.

### IFRS 16 Leases

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

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

## Consolidated financial statements

### Subsidiaries

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

### Purchase method

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

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

### Transactions with holders of non-controlling interests

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

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

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

### Associated companies

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

The equity method is used until significant influence ceases.

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

#### Functional and presentation currency

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

### Transactions and balance sheet items

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

### Group companies

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

- Assets and liabilities are translated at the closing day rate.
- Income and expenses are translated at average exchange rates.
- All exchange rate differences are charged directly to comprehensive income and are recognized as a separate item. When a foreign subsidiary is sold, any exchange differences are recognized 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	9.45	9.58
DKK	1.27	1.29
GBP	11.61	11.20
MXN	0.46	0.44
USD	8.59	9.08

### Segment reporting

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

The Group's operations are organically divided into business segments based on product. The marketing organization also reflects this structure. Segment reporting is submitted in accordance with IFRS 8 for the Group only. For each segment, the results, assets and liabilities directly attributable to or items that can reliably be attributed to the segment are included in that segment. Items not attributable in this way include interest and dividend revenues, gains and losses from the sale of financial investments, interest expenses, and tax expenses. Assets and liabilities not attributed to a segment include tax assets and 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. Sales are recognized on delivery of the goods, after customer acceptance and after the receivable can reasonably be deemed safe. Interest income is recognized allocated over the maturity of the security using the effective interest method. Insurance compensation is recognized as revenue when the amount can be measured in a reliable way and it is probable that the revenue will flow to the Group.

### Employee benefits

#### a) Pension liabilities

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate legal entity. The Group has no legal or constructive obligations to pay further contributions if this legal entity does not hold sufficient assets to pay all employee benefits relating to employee service in the current or prior periods. A defined benefit pension plan is a pension plan that is not a defined contribution plan.

The characteristic feature of a defined benefit plan is that it defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and remuneration.

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

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

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

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

#### b) Termination benefits

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

### c) Variable remuneration

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

### Leasing

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

### Product development

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

### Intangible assets

#### Goodwill

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

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

#### Other intangible assets

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

### Property, plant and equipment

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

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

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

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

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

### Impairment of non-financial assets

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

### Inventories

Inventories are stated at cost or net selling price, whichever is lowest. Cost is calculated using the first-in-first-out principle (FIFO) or weighted average prices. The nature and area of use of the product determines the method used. The cost of finished goods and work in progress includes direct material costs, direct 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 costs to sell.

### Financial income and expenses

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

### **Financial instruments**

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

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

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

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

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

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

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

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

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

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

### **Derivatives**

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

(a) hedging of fair value regarding a recognized asset or liability or a firm commitment (fair-value hedging),

(b) hedging of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedging).

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

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

### **Hedge accounting**

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

Changes in fair value of a derivative that has been formally identified for hedging of fair value and meets the conditions for hedge accounting are recognized on the same line in the income statement as any change in fair value attributable to the hedged risk for the hedged asset or liability. The Group applies hedging of fair value for raw materials and foreign currency in sales and purchase contracts. The gain or loss attributable to the ineffective portion is recognized with immediate effect in profit or loss in "Raw materials and consumables and changes in inventory".

#### **Cash flow hedges**

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

Amounts in equity are reversed to the income statement, for those periods during which the hedged item affects profit or loss (e.g. when the forecast sale that is hedged takes place). The gain or loss that is attributable to the effective portion of an interest rate swap that hedges variable-rate borrowing is recognized in the income statement, item "Financial expenses". The gain or loss attributable to the ineffective portion is recognized in the income statement item "Other financial items". If a hedge of a forecast transaction subsequently leads to the recognition of a non-financial asset (e.g. inventory or property, plant and equipment), the

gains and losses previously recognized in equity are transferred from equity and included in the initial cost of the asset. Such transferred amounts will later be recognized in "Cost of goods sold" where they relate to inventory or in "Depreciation" where they relate to non-current assets.

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

### **Determining fair value**

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

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

### **Accounts receivables**

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

### **Share capital**

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

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

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

### **Accounts payables**

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

### **Provisions**

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

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

### **Income tax**

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

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

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

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

### **Cash and cash equivalents**

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

### **Cash flow statement**

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

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

### Earnings per share

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

When determining earnings per share after dilution, a company must base its calculations on the company's shares and stock options which could result in dilution being exercised. Compensation from these instruments will be deemed to have been received from the issuing of ordinary shares at the average market price for ordinary shares during the period. The difference between the number of issued ordinary shares and the number of ordinary shares that should have been issued at the average market price for ordinary shares during the period shall be treated as an issue of ordinary shares without consideration. According to paragraph 47 of IAS 33, options and stock options only have a dilutive effect when the average market price for ordinary shares during the period exceeds the exercise price for options or stock options.

### Transfer pricing

Pricing between Group companies is carried out on market terms.

### Dividend

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

### Accounting policies – Parent

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

## NOTE 3 – FINANCIAL RISK MANAGEMENT AND HEDGE ACCOUNTING

### Financial risk management

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

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

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

### Raw material price risks

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

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

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

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

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

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

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

### Exposure to raw material price risk, December 31, 2015

(Thousand tons)	Inventory	Sales contracts	Purchase contracts	Net exposure
Oils and fats	212	-873	666	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 have no significant effect on the Group's profit margin. A 10 percent change in all raw material prices would therefore have a negligible effect on Group operating profit, even though the annual effect on net sales is ± SEK 1,640 million (1,500) and ± SEK 400 million (300) on working capital.

### Gross contribution for rapeseed

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

### Exposure to foreign currency

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

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

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

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

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

### Exposure to transaction risk, December 31, 2015

SEK million	Assets	Liabilities	Sales contracts	Purchase contracts	Currency contracts		Net exposure
					Sold	Bought	
USD	1,770	-2,726	785	-235	-1,765	2,143	-28
EUR	1,087	-985	1,236	-150	-1,515	366	38
GBP	7	-507	4	0	-57	553	0
Other	819	-326	355	-19	-3,559	2,752	22
<b>Total</b>	<b>3,683</b>	<b>-4,544</b>	<b>2,380</b>	<b>-405</b>	<b>-6,896</b>	<b>5,814</b>	<b>32</b>

### Sensitivity analysis – Currency

With all foreign currency transaction risk hedged by currency hedge contracts, leaving a very limited net exposure, changes in foreign currencies will have an insignificant effect on each subsidiary's profit margin. However, changes in foreign currencies relative to SEK do affect Group profit when the profit of each foreign subsidiary is translated into SEK. A 10 percent change in the exchange rates of all foreign currencies relative to SEK would have an effect of ± SEK 130 million (150) on Group operating profit. Furthermore, a 10 percent change in the exchange rates of all foreign currencies relative to SEK would affect Group net sales by SEK 1,600 million (1,400) and Group net working capital by SEK 300 million (300).

### Interest rate risk

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

At year-end 2016, the Group's interest-bearing net debt, including pensions, amounted to SEK 2,620 million (2,083).

Since October 1, 2011, AAK has applied cash flow hedging with interest rate swaps as a general principle.

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

	SEK	DKK	USD	CNY	TRY	BRL	INR
2016	0.80	0.70	1.50	4.45	11.00	13.50	6.50
2015	1.66	0.59	1.01	5.55	13.75	14.00	8.00

### Sensitivity analysis – Interest rates

At the closing date, the Group had a floating-rate-based net debt of SEK 2,480 million (960). A 1 percent change in interest rates would therefore have a full-year effect of SEK 25 million (10) on the Group's interest costs before tax.

### Loans and capital structure

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

AAK's target key ratios are as follows:	Target	2016	2015
Net interest-bearing debt/EBITDA	< 3.0	1.26	1.13

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

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

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

SEK million	2016	2015
SEK	202	954
DKK	491	468
USD	1,433	441
CNY	81	73
TRY	240	195
BRL	296	66
INR	177	193
Other	154	29
<b>Total</b>	<b>3,074</b>	<b>2,419</b>

### Liquidity risk

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

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

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

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

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

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

### Disclosure of financial liabilities by maturity date, December 31, 2015

	Total amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
<b>Non-current liabilities</b>					
<i>Financial liabilities</i>					
Liabilities to banks and credit institutions	2,132	375	-	1,432	325
Other non-current liabilities	226	-	-	-	226
<b>Total non-current liabilities</b>	<b>2,358</b>	<b>375</b>	<b>-</b>	<b>1,432</b>	<b>551</b>
Interest on liabilities to banks and credit institutions	495	11	-	299	185
<b>Total non-current liabilities and interest</b>	<b>2,853</b>	<b>386</b>	<b>-</b>	<b>1,731</b>	<b>736</b>

### Current liabilities

	Total amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
<i>Financial liabilities</i>					
Liabilities to banks and credit institutions	287	287	-	-	-
Accounts payables	2,383	2,383	-	-	-
Derivative financial instruments	304	304	-	-	-
Accrued expenses	672	672	-	-	-
Other current liabilities	135	135	-	-	-
<b>Total current liabilities</b>	<b>3,781</b>	<b>3,781</b>	<b>-</b>	<b>-</b>	<b>-</b>
Interest on liabilities to banks and credit institutions	1	1	-	-	-
<b>Total current liabilities and interest</b>	<b>3,782</b>	<b>3,782</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Unused credit facilities available to the Group at the 2015 year-end

	Total amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Unused credit facilities	3,766	375	-	3,391	-

The Group's cash and cash equivalents of SEK 586 million, available credit facilities of SEK 3,665 million and future cash generated by the business are together deemed sufficient for the Group to meet its financial commitments.

### Credit risk

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

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

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

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

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

### Provisions for doubtful accounts receivables

	2016	2015
Provisions at January 1	25	23
Provisions for potential losses	9	2
Unused amount reversed	-2	0
Exchange differences	0	0
<b>Provisions at December 31</b>	<b>32</b>	<b>25</b>

Provisions for impairments are entirely related to accounts receivables. Total accounts receivables excluding provisions were SEK 3,059 million (2,401).

### Past due assets not considered impaired

SEK million	2016	2015
1-30 days	398	334
31-120 days	68	52
121-360 days	17	1
Over 360 days	0	0
	<b>483</b>	<b>387</b>

### Derivatives classified as financial instruments

The Group had two classes of financial instruments (hedging instruments): raw material hedge contracts and currency hedge contracts. In December 2016 the Group only had derivative financial instruments that were measured at fair value. The fair value of the derivative financial instruments is measured using valuation methods and observable market data (methodology: level 2). The valuation methods applied are described in the accounting policy.

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

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

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

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

As at December 31, 2015	Assets and liabilities measured at fair value through the income statement		Derivatives held for hedging purposes		Derivatives measured at fair value through equity		Total
	Carrying amount	Valuation level	Carrying amount	Valuation level	Carrying amount	Valuation level	
	SEK million						
Sales and purchase contracts			256	2			256
Currency hedge contracts			103	2			103
Interest rate hedge swaps			-		3	2	3
Fair value of changes in inventories			102	2			102
<b>Total assets</b>	-		<b>461</b>		<b>3</b>		<b>464</b>
Sales and purchase contracts			188	2			188
Currency hedge contracts			90	2			90
Interest rate hedge swaps			-		40	2	40
Fair value of changes in inventories			-14	2			-14
<b>Total liabilities</b>	-		<b>264</b>		<b>40</b>		<b>304</b>

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

**Hedge accounting**

**Inventory hedging at fair value**

Future contracts, and purchase and sales contracts not deemed to be assets for own use are used for hedging, which means that they cannot be exempted from derivative accounting. Since the quality of the underlying raw materials used for hedging differs from the quality of the hedged raw materials, some inefficiency is likely. AAK minimizes this inefficiency by reducing the basis risk between hedged raw material risks and the underlying raw materials used as hedging contracts. Due to the basis risk involved, AAK uses the "dollar offset" method for testing the hedge efficiency of the fair value of raw materials. Hedge efficiency testing in 2016 confirmed that the fair-value hedge of raw materials qualifies for hedge accounting. Hedge efficiency for the 2016 full year was 100 percent (106).

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

The hedging instruments used are future contracts and purchase contracts. As the currency risk of the hedge instruments is identical to the currency risk of the hedged contracts, no material basis risk exists. AAK therefore only uses the "critical match" method to test the hedge efficiency of currency risk on sales contracts that qualify for own use exemption and that may consequently be exempted from derivative accounting. The hedge efficiency testing in 2016 confirmed a perfect critical match.

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

**Impairment testing of goodwill**

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

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

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

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

**Income tax**

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

**Disputes**

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

**Application of IAS 39**

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

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

**Pension obligations**

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

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

**Restructuring**

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

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

	Group		Parent	
	2016	2015	2016	2015
Audit				
PwC	7,259	6,752	1,250	1,078
Other	409	280	-	-
Subtotal, audit	7,668	7,032	1,250	1,078
Other audit assignments				
PwC	521	1,428	-	-
Other	-	-	-	-
Subtotal, other audit assignments	521	1,428	-	-
Tax consulting				
PwC	979	1,272	-	-
Other	-	25	-	-
Subtotal, tax consulting	979	1,297	-	-
Other assignments				
PwC	4,520	10,793	1,616	8,207
Other	-	101	-	-
Subtotal, other assignments	4,520	10,894	1,616	8,207
<b>Total</b>	<b>13,688</b>	<b>20,651</b>	<b>2,866</b>	<b>9,285</b>

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

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

	Group		Parent	
	2016	2015	2016	2015
Wages and salaries	1,306,390	1,199,644	67,287	58,790
Social security contributions (of which pension costs)	342,174 (125,483)	324,581 (101,692)	31,947 (9,557)	26,907 (9,305)

SEK 5 million (5) of the Group pension costs relates to the Board of Directors, the CEO and other senior managers.

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

	2016		2016		2015		2015	
	Board of Directors, CEO and other senior managers	Other employees	Board of Directors, CEO and other senior managers	Other employees	Board of Directors, CEO and other senior managers	Other employees	Board of Directors, CEO and other senior managers	Other employees
	Wages and salaries	Of which variable remuneration	Wages and salaries	Of which variable remuneration	Wages and salaries	Of which variable remuneration	Wages and salaries	Of which variable remuneration
Parent, Sweden	41,313	15,409	25,974	27,870	11,311	30,920		
Subsidiaries, Sweden	2,172	442	274,598	1,323	189	278,307		
	<b>43,485</b>	<b>15,851</b>	<b>300,572</b>	<b>29,193</b>	<b>11,500</b>	<b>309,227</b>		
Foreign subsidiaries:	41,265	12,466	921,068	35,072	4,475	826,152		
<b>Group total</b>	<b>84,750</b>	<b>28,317</b>	<b>1,221,640</b>	<b>64,265</b>	<b>15,975</b>	<b>1,135,379</b>		

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

Average number of employees	2016	2016	2016	2015	2015	2015
	Number of employees	Of which men	Of which women	Number of employees	Of which men	Of which women
Parent, Sweden	31	21	10	25	17	8
Subsidiaries in Sweden	531	401	130	543	408	135
	562	422	140	568	425	143
Foreign subsidiaries:						
USA	469	357	112	392	304	88
United Kingdom	416	328	88	426	338	88
Mexico	371	302	69	371	302	69
India	292	265	27	284	257	27
Denmark	187	141	46	192	142	50
Colombia	149	100	49	147	90	57
Netherlands	87	69	18	84	67	17
Belgium	85	67	18	92	73	19
Brazil	82	60	22	34	22	12
China	69	46	23	38	21	17
Turkey	45	32	13	44	33	11
Benin	33	32	1	36	35	1
Burkina Faso	31	25	6	25	20	5
Malaysia	23	7	16	23	7	16
Uruguay	14	6	8	14	6	8
Russia	14	4	10	13	5	8
Ghana	11	11	-	10	10	-
Singapore	9	4	5	4	3	1
Ivory Coast	4	4	-	4	4	-
Poland	4	2	2	4	2	2
Lithuania	3	1	2	2	1	1
Japan	3	2	1	-	-	-
Czech Republic	2	1	1	2	1	1
Germany	2	1	1	1	-	1
Mali	2	1	1	-	-	-
Norway	1	1	-	1	1	-
	2,408	1,869	539	2,243	1,744	499
<b>Group total</b>	<b>2,970</b>	<b>2,291</b>	<b>679</b>	<b>2,811</b>	<b>2,169</b>	<b>642</b>

Board members and senior managers	2016	2016	2015	2015
	Total on reporting date	Of which men (%)	Total on reporting date	Of which men (%)
Group (incl. subsidiaries)				
Board members	152	80	157	80
Chief Executive Officer and other senior managers	39	92	38	92
Parent company				
Board members <sup>1)</sup>	6	50	6	50
Chief Executive Officer and other senior managers	5	80	6	66

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

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

### Principles

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

### Consideration and determination

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

### Components of remuneration

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

### Salary

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

### Variable remuneration

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

### Pension

Pensions for senior management are in line with the Swedish KTP plan (corresponding to ITP).

### Termination benefits

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

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

### Compensation of Board Members

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

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

Under a resolution of the Annual General Meeting, total compensation of elected external members of the Board is set at SEK 2,580,000, including compensation for committee work. Of this amount, the Chairman receives SEK 650,000 and each other external member receives SEK 320,000. Compensation for committee work is distributed, in accordance with a decision of the AGM, as SEK 250,000 to the Chairman of the Audit Committee, SEK 125,000 to other members of the Audit Committee, SEK 100,000 to the Chairman of the Remuneration Committee, and SEK 50,000 to other members of the Remuneration Committee.

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

SEK	Salary/Board of Directors' fees	Annual variable salary	Other benefits <sup>2)</sup>	Pension cost	Total
<i>Board of Directors</i>					
Melker Schörling, Chairman	750,000	-	-	-	750,000
Ulrik Svensson	620,000	-	-	-	620,000
Lillie Li Valeur	445,000	-	-	-	445,000
Marianne Kirkegaard	320,000	-	-	-	320,000
Märta Schörling Andreen	445,000	-	-	-	445,000
<b>Subtotal for Board</b>	<b>2,580,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,580,000</b>
<i>Senior Managers</i>					
Arne Frank, Chief Executive Officer	9,592,560	7,693,386 <sup>3)</sup>	209,820	2,653,698	20,149,464
Other senior managers	37,678,136	24,905,249 <sup>3)</sup>	4,056,978	4,125,014	70,765,377
<b>Subtotal, senior managers</b>	<b>47,270,696</b>	<b>32,598,635</b>	<b>4,266,798</b>	<b>6,778,712</b>	<b>90,914,841<sup>4)</sup></b>
<b>Total</b>	<b>49,850,696</b>	<b>32,598,635</b>	<b>4,266,798</b>	<b>6,778,712</b>	<b>93,494,841<sup>5)</sup></b>

1) Refers to items carried as an expense in 2016.

2) Other benefits refer primarily to company cars.

3) Charged in the income statement in 2016 and estimated to be paid in 2017. During the year, variable remuneration expensed in 2015 of SEK 21,503,868 was paid.

4) Refers to the following for 2016: Anne Mette Olesen, Carla Leilani Packness, (to September 2016), David Smith, Fredrik Nilsson, Gerardo Garza López de Hereida, Jan Lenferink, Jens Wikstedt, Karsten Nielsen, Octavio Díaz de León, Renald Mackintosh, René Schou (as from June 2016), Terry Thomas and Torben Friis Lange.

5) Of the amount of SEK 93,494,841 SEK 44,884,170 relates to the Parent company, AAK AB.

Arne Frank, President and Chief Executive Officer, is currently paid an annual fixed salary of SEK 9,592,560 plus the value of a company car. In addition, variable remuneration may be paid up to a maximum of 110 percent of the fixed salary. In 2016, SEK 7,693,386 was carried as an expense for variable remuneration. Arne Frank's retirement age is 65. To fund the pension obligation, the Company pays annual premiums to a selected insurance company. This premium is set in the Company's agreement with Arne Frank at 30 percent of his annual fixed salary. The retirement age for other senior managers is 65 years.

## NOTE 9 – PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

### Defined benefit plans

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

The obligations for retirement and survivors' pension for salaried employees in Sweden are insured through policies with Alecta or correspondingly in Folksam (Folksam cooperative occupational pensions). According to a statement by the Swedish Financial Reporting Board, UFR 3, classification of ITP plans financed via insurance with Alecta, this is a defined benefit plan that involves several different employers. For the period from January 1 to December 31, 2016 AAK AB (publ.) and AAK Sweden AB have not had access to sufficient information to recognize their proportional shares of the plan's obligations, plan assets and costs, which has meant that it has not been possible to recognize the plan as a defined benefit plan. The ITP 2 pension plan that is insured through Folksam is therefore recognized as a defined contribution plan. The premium for the defined benefit retirement and survivors' pension is calculated individually and depends on factors including salary, pension earned previously and expected remaining period of service. Charges for ITP 2 pensions insured through Folksam (Folksam cooperative occupational pensions) are SEK 14 million (14 million).

The collective consolidation level consists of the market value of Alecta's assets as a percentage of the estimated insurance commitments, computed using Alecta's actuarial methods and assumptions, which are not in accordance with IAS 19. The collective consolidation level should normally be permitted to vary between 125 and 155 percent. If Alecta's collective consolidation level is below 125 percent or above 155 percent, measures must be taken to create the conditions for the consolidation level to return to the normal range. If the consolidation is low, one measure may be to increase the agreed price for new policies and increasing existing benefits. If the consolidation is high, one measure may be to introduce premium reductions. At year-end 2016, Alecta's and Folksam's surplus in the form of their collective consolidation levels was 149 percent and 186 percent, respectively (153 percent and 119 percent, respectively).

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

	Defined benefit plans	
	2016	2015
<b>The amounts recognized in the consolidated balance sheet are determined as follows:</b>		
Present value of funded obligations	796	662
Fair value of plan assets	-662	-534
	<b>134</b>	<b>128</b>

	Defined benefit plans	
	2016	2015
<b>The amounts recognized in consolidated comprehensive income are as follows:</b>		
Costs pertaining to service during the current year	20	17
Interest expenses	17	15
Interest income	-14	-12
Employees' contributions paid	-2	-
<b>Total, included in employee costs (Note 6)</b>	<b>21</b>	<b>20</b>

	Pension costs	
	2016	2015
<b>Total pension costs recognized in the consolidated income statement are as follows:</b>		
Total costs for defined contribution plans including employer's contribution	104	82
<b>Total</b>	<b>104</b>	<b>82</b>

	Defined benefit plans	
	2016	2015
<b>Movement in the net liability recognized in the consolidated balance sheet:</b>		
Net liability at start of year	128	149
Net cost recognized in the income statement	21	20
Benefits paid	-9	-9
Disbursement of funds from the foundation	9	-
Contributions by employer to funded obligations	-24	-10
Revaluation of defined benefit pension plans based on changed assumptions	-5	-19
Exchange rate differences on foreign plans	4	-3
Reclassifications	10	-
<b>Net liability at year-end</b>	<b>134</b>	<b>128</b>

	Defined benefit plans	
	2016	2015
<b>Asset distribution in foundation on reporting date (%):</b>		
Fixed income	36	27
Shares	19	15
Properties	5	4
Alternative investments	40	54

The entire pension obligation in the Netherlands concerns alternative investments.

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

	Defined benefit plans	
	2015	2015
	The Netherlands	Sweden
<b>The principal actuarial assumptions used on reporting date (%):</b>		
Discount rate	2.30	2.50
Future annual salary increases	2.50	2.50
Future annual pension increases	1.15	2.50
Employee turnover	4.00	5.00

Charges for plans for retirement benefits are expected to amount to SEK 23 million in the 2017 financial year.

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

#### NOTE 10 – OTHER OPERATING INCOME

	Group		Parent	
	2016	2015	2016	2015
Insurance compensation	-	28	-	-
Divestment of subsidiary	-	46	-	-
Other operating income	109	120	0	0
<b>Total</b>	<b>109</b>	<b>194</b>	<b>0</b>	<b>0</b>

#### NOTE 11 – FINANCIAL ITEMS

	Group		Parent	
	2016	2015	2016	2015
Interest income	6	3	-	-
Share of profit in associated companies	10	11	-	-
Other financial income	0	0	-	-
Group contributions	-	-	63	125
<b>Financial income</b>	<b>16</b>	<b>14</b>	<b>63</b>	<b>125</b>
Interest expenses	-159	-99	0	-2
Changes in exchange rates	-7	-10	-	-
Other financial expenses	-20	-19	-4	-2
<b>Financial expenses</b>	<b>-186</b>	<b>-128</b>	<b>-4</b>	<b>-4</b>
<b>Net financial items</b>	<b>-170</b>	<b>-114</b>	<b>59</b>	<b>121</b>

#### NOTE 12 – TAX EXPENSES

##### Tax expenses for the year

	Group		Parent	
	2016	2015	2016	2015
Current tax	-453	-290	-5	-1
Deferred tax	48	-60	-	-
<b>Total</b>	<b>-405</b>	<b>-350</b>	<b>-5</b>	<b>-1</b>

##### Determination of the current tax expense

The Group's weighted average underlying tax rate is approximately 27–28 percent. The Group's weighted average tax rate for 2016, based on the tax rates in each of the various countries involved, was 28 percent. The tax rate in Sweden is 22 percent (22).

	Group		Parent	
	2016	2015	2016	2015
Profit before taxes	1,445	1,295	-14	1
Weighted average tax rate based on the tax rates in each country	-384	-342	3	0
Tax effect of non-deductible expenses	-22	-32	-3	-1
Tax effect of tax-exempt income	12	24	-	-
Net effect of loss carry-forwards	-28	-1	-	-
Effect of tax rate changes	2	1	-	-
Adjustment for current tax for previous years	15	-	-5	-
<b>Tax expense</b>	<b>-405</b>	<b>-350</b>	<b>-5</b>	<b>-1</b>

##### Deferred tax asset/provisions for deferred tax

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

	Group		Parent	
	2016	2015	2016	2015
<b>Deferred tax assets</b>				
Tax loss carry-forwards	23	17	-	-
Non-current assets	60	19	-	-
Inventory	10	3	-	-
Current assets	-26	-22	-	-
Provisions	66	45	-	-
Non-current liabilities	3	11	-	-
Current liabilities	65	24	-	-
<b>At year-end</b>	<b>201</b>	<b>97</b>	<b>-</b>	<b>-</b>

	Group		Parent	
	2016	2015	2016	2015
<b>Deferred tax liabilities</b>				
Non-current assets	515	452	-	-
Inventory	11	7	-	-
Current assets	1	3	-	-
Provisions	-18	-19	-	-
Untaxed reserves	-	-	-	-
Non-current liabilities	1	1	-	-
Current liabilities	10	10	-	-
<b>At year-end</b>	<b>520</b>	<b>454</b>	<b>-</b>	<b>-</b>

##### Deferred tax asset not recognized

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

##### Income tax liabilities and tax assets

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

	Group		Parent	
	2016	2015	2016	2015
Current tax liabilities	-357	-311	0	0
Current tax receivables	219	239	6	5
<b>Income tax liabilities/tax assets</b>	<b>-138</b>	<b>-72</b>	<b>6</b>	<b>5</b>

**NOTE 13 – EARNINGS PER SHARE**

	Group	
	2016	2015
Earnings attributable to shareholders of the Parent (SEK million)	1,003	933
Weighted average number of ordinary shares in issue	42,288,489	42,079,102
Earnings per share, SEK	23.71	22.17
Earnings per share after dilution, SEK	23.71	22.12
Earnings per share after full dilution, SEK	23.71	22.16

Earnings per share are calculated for 2016 based on net profit for the year attributable to shareholders in the Parent – SEK 1,003 million (933) – and on a weighted average number of ordinary shares in issue of 42,288,489 (42,079,102).

The number of shares in the Company increased by 569,400 in 2015 with the exercise of stock options to subscribe for new shares in the Company. The option to subscribe for new shares under the incentive program adopted previously ended on December 1, 2015.

The calculation of earnings per share is based on a weighted average number of outstanding shares after dilution resulting from outstanding stock options in accordance with IAS 33.

Earnings per share after full dilution have been calculated by dividing the profit for the period by the total number of shares in issue during the period, and by converting all outstanding share options to ordinary shares.

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

For the 2016 financial year, the Board of Directors and Chief Executive Officer propose the distribution of a dividend in the amount of SEK 8.75 per share. A decision will be made at the Annual General Meeting on May 17, 2017. It is proposed that the record date for the dividend will be May 19 and the dividend is expected to be distributed to shareholders by May 24.

**NOTE 15 – INTANGIBLE ASSETS**

Group	Goodwill	Patents and other intangible assets	Total
Cost at January 1, 2015	1,327	320	1,647
Investments	-	25	25
Acquired through business combination	230	256	486
Exchange differences	10	-4	6
<b>Accumulated cost at December 31, 2015</b>	<b>1,567</b>	<b>597</b>	<b>2,164</b>
Cost at January 1, 2016	1,567	597	2,164
Investments	-	11	11
Acquired through business combination	46	-	46
Disposals	-	-6	-6
Reclassifications	-	-9	-9
Exchange differences	73	15	88
<b>Accumulated cost at December 31, 2016</b>	<b>1,686</b>	<b>608</b>	<b>2,294</b>
Amortization and impairment loss at January 1, 2015	0	193	193
Impairment losses for the year	-	28	28
Exchange differences	-	-1	-1
<b>Accumulated amortization and impairment loss at December 31, 2015</b>	<b>0</b>	<b>220</b>	<b>220</b>
Amortization and impairment loss at January 1, 2016	0	220	220
Impairment losses for the year	-	34	34
Disposals	-	-6	-6
Exchange differences	-	3	3
<b>Accumulated amortization and impairment loss at December 31, 2016</b>	<b>0</b>	<b>251</b>	<b>251</b>
<b>Residual value at December 31, 2015</b>	<b>1,567</b>	<b>377</b>	<b>1,944</b>
<b>Residual value at December 31, 2016</b>	<b>1,686</b>	<b>357</b>	<b>2,043</b>

**Reviewing impairment of goodwill**

In preparing the financial statements for 2016, the Group has reviewed impairment of goodwill.

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

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

**Goodwill by cash-generating unit**

	2016	2015
Scandinavia, including Belgium and the Netherlands	535	512
United Kingdom	66	74
Turkey	52	58
USA	700	651
Colombia	51	45
Mexico	43	-
India	239	227
<b>Total</b>	<b>1,686</b>	<b>1,567</b>



## NOTE 20 – SHAREHOLDERS' EQUITY

### Group

#### Share capital

As of December 31, 2016 the Group's registered share capital was 42,288,489 shares (SEK 422,884,890).

#### Reserves

##### Translation reserve

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

##### Hedging reserve

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

##### Statutory reserve

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

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

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

##### Treasury shares

The Group owned a total of 0 (0) treasury shares as of December 31, 2016.

#### Specification of equity item "Reserves"

	Statutory reserve	Hedging reserve	Translation reserve	Total
2015 opening balance	5	-12	195	188
Exchange differences	-	-	48	48
Cash flow hedges recognized in "Other comprehensive income"	-	25	-	25
Tax on cash flow hedges recognized in "Other comprehensive income"	-	-6	-	-6
<b>2015 closing balance</b>	<b>5</b>	<b>7</b>	<b>243</b>	<b>255</b>
2016 opening balance	5	7	243	255
Exchange differences	-	-	188	188
Cash flow hedges recognized in "Other comprehensive income"	-	23	-	23
Tax on cash flow hedges recognized in "Other comprehensive income"	-	-5	-	-5
<b>2016 closing balance</b>	<b>5</b>	<b>25</b>	<b>431</b>	<b>461</b>

### Parent company

#### Share capital

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

#### Statutory reserve

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

#### Retained profit

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

#### Dividend

In accordance with the Swedish Companies Act, the Board of Directors proposes payment of a dividend, for the consideration and approval of the Annual General Meeting of the Shareholders. The proposed dividend for payment in 2016 is SEK 370 million (SEK 8.75 per share), which has not yet been considered by the Annual General Meeting. This amount is not recognized as a liability.

#### Proposed appropriation of profits

The Board of Directors and Chief Executive Officer propose that

The disposable profit brought forward	SEK	3,834,015,571
and profit/loss for the year	SEK	-19,131,546
<b>Total</b>	<b>SEK</b>	<b>3,814,884,025</b>

be appropriated as follows:

To be distributed to shareholders, a dividend of SEK 8.75 per share	SEK	370,024,279 <sup>1)</sup>
To be carried forward	SEK	3,444,859,746
<b>Total</b>	<b>SEK</b>	<b>3,814,884,025</b>

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

## NOTE 21 – BORROWINGS

Non-current	Group		Parent	
	2016	2015	2016	2015
Liabilities to banks and credit institutions	2,857	2,132	-	-
<b>Total</b>	<b>2,857</b>	<b>2,132</b>	<b>-</b>	<b>-</b>

Current	Group		Parent	
	2016	2015	2016	2015
Liabilities to banks and credit institutions	217	287	-	-
<b>Total</b>	<b>217</b>	<b>287</b>	<b>-</b>	<b>-</b>

Maturity for non-current borrowing is as follows:

	Group		Parent	
	2016	2015	2016	2015
Between 1 and 5 years	2,356	1,807	-	-
More than 5 years	501	325	-	-
<b>Total</b>	<b>2,857</b>	<b>2,132</b>	<b>-</b>	<b>-</b>

## NOTE 22 – OTHER PROVISIONS

Group	Restructuring	Environmental restoration	Other	Total
Opening balance at January 1, 2015	75	26	130	231
Provisions for the year	-	-	47	47
Provisions claimed for the year	-42	-	-61	-103
Acquired through business combinations	-	-	38	38
Exchange differences	1	-1	-1	-1
<b>Closing balance as at December 31, 2015</b>	<b>34</b>	<b>25</b>	<b>153</b>	<b>212</b>

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

Provisions include	2016	2015
Non-current	70	62
Current	121	150
<b>Total</b>	<b>191</b>	<b>212</b>

#### Restructuring

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

#### Environmental restoration

These provisions are primarily related to restoring contaminated land.

## NOTE 23 – ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent	
	2016	2015	2016	2015
Employee-related expenses	309	242	29	31
Other	590	430	10	4
<b>Total</b>	<b>899</b>	<b>672</b>	<b>39</b>	<b>35</b>

## NOTE 24 – ASSETS PLEDGED

	Group		Parent	
	2016	2015	2016	2015
<b>Collateral for provisions and liabilities</b>				
Property mortgages	525	547	-	-
Other assets	334	289	-	-
<b>Total</b>	<b>859</b>	<b>836</b>	<b>-</b>	<b>-</b>

## NOTE 25 – CONTINGENT LIABILITIES

	Group		Parent	
	2016	2015	2016	2015
Other contingent liabilities	1,547	655	1,547	655
<b>Total</b>	<b>1,547</b>	<b>655</b>	<b>1,547</b>	<b>655</b>

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

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

## NOTE 26 – RELATED-PARTY TRANSACTIONS

For the Parent, SEK 95 million (80), i.e. 100 percent (100) of sales were to Group companies. The Parent's purchasing from Group companies is related to administrative services of limited scope. All transactions were carried out on commercial terms.

### Transactions with key management personnel

Besides those transactions stated in Note 8 Remuneration of the Board of Directors and Senior Executives and in the description of the Board of Directors on pages 28–29, no transactions with related physical persons have taken place.

## NOTE 27 – ACQUISITIONS

### California Oils Corporation

During the third quarter, AAK acquired all shares in California Oils Corporation, the leading company in speciality and semi-speciality oils on the US West Coast, from Mitsubishi Corporation of Japan. The company has an annual volume of approximately 110,000 MT and had sales of approximately SEK 1,350 million in the last financial year. The company has 65 employees.

The assets and liabilities recognized as a consequence of the acquisition are as follows:	Fair value (SEK million)
Tangible assets	138
Financial assets	3
Inventories	368
Other current assets	115
Cash and cash equivalents	114
Provisions	-19
Other current liabilities	-184
<b>Total net assets</b>	<b>535</b>
Goodwill	-15
<b>Total acquisition with cash and cash equivalents</b>	<b>520</b>
<b>Net outflow of cash and cash equivalents on account of the acquisition</b>	
Cash and cash equivalents paid for the acquisition	520
Cash and cash equivalents in the company acquired at the acquisition date	-114
<b>Impact on the Group's cash and cash equivalents</b>	<b>406</b>

The company forms part of AAK's sales and operating profit as from September 1, 2016. The acquisition had very limited impact on AAK's operating profit for 2016.

## NOTE 28 – SEGMENT REPORTING

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

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

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

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

### Reporting by primary segments/business areas

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

### Operating profit/loss by business segment

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

### Reporting by market

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

**Reporting by primary segments/business areas**

2015	Food Ingredients	Chocolate & Confectionery Fats	Technical Products & Feed	Group Functions	Eliminations	Group
<b>Net sales</b>						
External sales	13,556	5,315	1,243	-	-	20,114
Internal sales	1,219	2,263	55	-	-3,537	-
<b>Group total</b>	<b>14,775</b>	<b>7,578</b>	<b>1,298</b>	<b>-</b>	<b>-3,537</b>	<b>20,114</b>

**Operating profit/loss by business segment**

2015	Food Ingredients	Chocolate & Confectionery Fats	Technical Products & Feed	Group Functions	Eliminations	Group
Operating profit/loss	903	553	88	-133	-	1,411
<b>Total</b>	<b>903</b>	<b>553</b>	<b>88</b>	<b>-133</b>	<b>-</b>	<b>1,411</b>

**Other**

Assets	7,213	4,933	812	91	-	13,049
Unallocated assets	-	-	-	-	-	847
<b>Group total</b>	<b>7,213</b>	<b>4,933</b>	<b>812</b>	<b>91</b>	<b>-</b>	<b>13,896</b>
Liabilities	1,987	1,058	480	222	-	3,747
Unallocated liabilities	-	-	-	-	-	3,499
<b>Group total</b>	<b>1,987</b>	<b>1,058</b>	<b>480</b>	<b>222</b>	<b>-</b>	<b>7,246</b>
Investments	310	621	59	4	-	994
Depreciation, amortization and impairment loss	221	167	39	4	-	431

**Reporting by market**

2015	Sweden	Denmark	Other Nordic countries	Central and Eastern Europe	Western Europe	North and South America	Asia	Other countries	Total
External sales	2,035	350	809	1,386	5,568	7,692	857	1,417	20,114
Intangible assets and property, plant and equipment	1,128	1,179	-	1	903	2,206	752	71	6,240
Other assets	1,859	850	3	54	1,286	2,161	611	832	7,656
<b>Total assets</b>	<b>2,987</b>	<b>2,029</b>	<b>3</b>	<b>55</b>	<b>2,189</b>	<b>4,367</b>	<b>1,363</b>	<b>903</b>	<b>13,896</b>
Investments	174	70	-	-	104	560	79	7	994

**NOTE 29 – OPERATING LEASES**

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

	Group	
	2016	2015
Within 1 year	99	78
Between 1 and 5 years	226	157
More than 5 years	317	281
<b>Total</b>	<b>642</b>	<b>516</b>

Operating lease expenses of SEK 94 million (84) are recognized in profit or loss for the period.

**NOTE 30 – SUPPLEMENTAL CASH FLOW STATEMENT**

	Group		Parent	
	2016	2015	2016	2015
Adjustment for items not included in cash flow				
Net profit from divestment of subsidiary	-	-45	-	-
Sales of non-current assets	3	5	-	-
Changes in pensions and provisions	-25	-60	-	-
Non-recurrent item concerning acquisition in subsidiary	-15	-	-	-
<b>Total</b>	<b>-37</b>	<b>-100</b>	<b>-</b>	<b>-</b>

**ALTERNATIVE PERFORMANCE MEASURES (APM)**
**Organic volume growth**

%	Full year 2016	Full year 2015
<b>Food Ingredients</b>		
Organic volume growth	-2	5
Acquisitions/divestments	7	8
<b>Volume growth as reported</b>	<b>5</b>	<b>13</b>
<b>Chocolate &amp; Confectionery Fats</b>		
Organic volume growth	13	-2
Acquisitions/divestments	5	1
<b>Volume growth as reported</b>	<b>18</b>	<b>-1</b>
<b>Technical Products &amp; Feed</b>		
Organic volume growth	4	-2
Acquisitions/divestments	0	-1
<b>Volume growth as reported</b>	<b>4</b>	<b>-3</b>
<b>AAK Group</b>		
Organic volume growth	2	3
Acquisitions/divestments	5	5
<b>Volume growth as reported</b>	<b>7</b>	<b>8</b>

**EBITDA**

SEK million	Full year 2016	Full year 2015
Operating profit (EBIT)	1,615	1,409
Add back depreciation and amortization	464	431
<b>EBITDA</b>	<b>2,079</b>	<b>1,840</b>

**Return on Capital Employed (ROCE)**

SEK million	Full year 2016	Full year 2015
Total assets	17,184	13,896
Cash and cash equivalents	-586	-459
Financial assets	-3	-8
Accounts payables	-3,258	-2,383
Other non-interest-bearing liabilities	-2,293	-1,571
<b>Capital employed</b>	<b>11,044</b>	<b>9,475</b>
<b>Operating profit (Rolling 12 months)</b>	<b>1,615</b>	<b>1,409</b>
<b>Return on Capital Employed (ROCE), %</b>	<b>14.6</b>	<b>14.9</b>

Working capital	Full year 2016	Full year 2015
<b>SEK million</b>		
Inventory	4,850	3,599
Accounts receivables	3,027	2,426
Other current receivables, non-interest-bearing	1,277	1,016
Accounts payables	-3,258	-2,383
Other current liabilities, non-interest-bearing	-2,293	-1,571
<b>Working capital</b>	<b>3,603</b>	<b>3,087</b>
<b>Net debt</b>		
<b>SEK million</b>	<b>Full year 2016</b>	<b>Full year 2015</b>
Current interest-bearing receivables	3	8
Cash and cash equivalents	586	459
Pension liabilities	-134	-128
Non-current liabilities to banks and credit institutions	-2,857	-2,132
Current liabilities to banks and credit institutions	-217	-287
Other interest-bearing liabilities	-1	-3
<b>Net debt</b>	<b>-2,620</b>	<b>-2,083</b>
<b>Equity to assets ratio</b>		
<b>SEK million</b>	<b>Full year 2016</b>	<b>Full year 2015</b>
Shareholders' equity	7,522	6,597
Non-controlling interests	54	53
<b>Total equity including non-controlling interests</b>	<b>7,576</b>	<b>6,650</b>
<b>Total assets</b>	<b>17,184</b>	<b>13,896</b>
<b>Equity to assets ratio, %</b>	<b>44,1</b>	<b>47,9</b>

# Corporate Governance Report

## Corporate Governance Report 2016

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

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

## General

AAK is a Swedish public limited liability company, the shares of which are traded on NASDAQ OMX Stockholm within the Large Cap segment, Consumer Commodities sector. AAK has around 9,600 shareholders. Its business operations are global, with a presence in more than 100 countries. As at December 31, 2016 the number of employees was 2,970. Responsibility for management and control of AAK is divided between the shareholders at the Annual General Meeting, the Board of Directors, its elected committees and the CEO in accordance with the Swedish Companies Act, other legislation and ordinances, applicable rules for companies traded on a regulated market, the Articles of Association and the Board's internal control instruments. AAK's goal is to be the obvious first choice for its customers, and to create the best possible value for the company's various stakeholder groups – in particular customers, suppliers, shareholders and employees. At the same time, AAK aims to be a good corporate citizen and take long-term responsibility. The aim of corporate governance is to define a clear allocation of responsibility and roles between the owners, the Board, the executive management team and various control bodies. In line with this, corporate governance covers the Group's management and control systems.

## Ownership structure

Information about shareholders and shareholdings can be found on pages 88–89.

## Articles of Association

AAK's current Articles of Association were adopted at the Annual General Meeting on May 11, 2016. The Articles of Association state that the company is to operate manufacturing and trading business, primarily within the food industry, to own and manage shares and securities and other associated business. The Articles of Association also state the shareholders' rights, the number of Board members and auditors, that the Annual General Meeting shall be held yearly within six months of the end of the financial year, how notification of the 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 Annual General Meeting shall be held in Malmö or Karlshamn, Sweden. The Articles of Association contain no restrictions on the number of votes each shareholder may cast at a general meeting. Furthermore, the Articles of Association contain no special provisions on the appointment and removal of Members of the Board of Directors and on amendments to the Articles of Association. For the current Articles of Association, please see [www.aak.com](http://www.aak.com).

## Annual General Meeting

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

## Annual General Meeting 2016

The Annual General Meeting held on May 11, 2016 was attended by shareholders representing around 61 percent of the share capital and votes in the company. The Chairman of the Board, Melker Schörling, was elected Chairman of the Annual General Meeting. 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 Annual General Meeting approved the Board's proposal for a dividend for the 2015 financial year of SEK 7.75 per share. Melker Schörling, Ulrik Svensson, Märta Schörling Andreen, Lillie Li Valeur, Marianne Kirkegaard and Arne Frank were re-elected as ordinary members of the Board of Directors. Melker Schörling was re-elected as Chairman of the Board. The employee organizations had appointed Annika Westerlund (PTK-L) and Leif Håkansson (IF Metall) as employee representative members of the Board, and Ingvar Andersson (IF Metall) and Ted Jörgensen (PTK-L) as deputy members of the Board. The Annual General Meeting did not authorize the Board to resolve on the issue of new shares by the Company or the acquisition of the Company's own shares.

## Nomination Committee

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

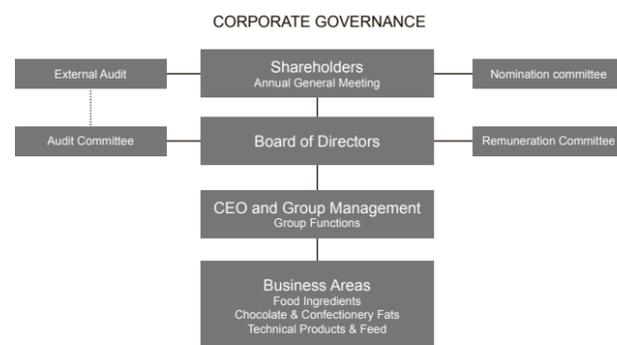
## Nomination Committee for the Annual General Meeting in 2017

At the Annual General Meeting in 2016, Mikael Ekdahl (Melker Schörling AB), Lars-Åke Bokenberger (AMF Fonder), Henrik Didner (Didner & Gerge fonder) and Johan Strandberg (SEB Investment Management) were appointed members of the Nomination Committee for the Annual General Meeting in 2017. Mikael Ekdahl was appointed Chairman of the Nomination Committee.

The members of the Nomination Committee represent around 48.0 percent of the votes in AAK. The decision also included the opportunity to change the composition of the Nomination Committee in the event of a change in ownership. During the year, the Nomination Committee held one minuted meeting. At this meeting, the Chairman reported on the evaluation work, whereupon the Nomination Committee discussed any changes and new recruitment. The Nomination Committee has been contactable by letter with proposals from shareholders. The members of the Nomination Committee have not received any remuneration from AAK for their work. Shareholders who wish to contact the Nomination Committee can send letters addressed to AAK AB (publ.), Valberedningen, Skrivaregatan 9, SE-215 32 Malmö, Sweden.

#### The Board of Directors and its activities

The tasks of the Board are regulated in the Swedish Companies Act and the Articles of Association. In addition to this, the work of the Board is regulated by the working practices adopted by the Board each year. The procedural rules of the Board also regulate the distribution of work and responsibilities between the Board, the Chairman of the Board and the CEO and also include procedures for financial reporting by the CEO to the Board. According to the current working practices, the Board shall meet at least six times each year, including a statutory meeting following election held immediately after the Annual General Meeting. The tasks of the Board shall include setting strategies, business plans, budgets, interim reports and year-end reports for AAK. The Board shall also monitor the work of the CEO, appoint and dismiss the CEO and decide on important changes to AAK's organization and operation. The most important tasks of the Board are to set the overriding goals for the company's operation and to decide on the company's strategy for achieving the goals; to ensure the company has an effective executive management team and appropriate remuneration terms; to ensure the transparency and accuracy of the company's external reporting; and that external reporting provides a fair presentation of the company's performance, profitability and financial position and exposure to risk; to monitor the financial reporting, including instructions to the CEO and the establishment of requirements for the content of the financial reporting to be submitted to the Board on a continuous basis; to ensure the company's insider policy and logging procedures are adhered to in accordance with legislation and the guidelines of the Swedish Financial Supervisory Authority; to ensure there are effective systems for follow-up and control of the company's operational and financial position against set goals; to follow up and evaluate the company's development and to recognize and support the work of the CEO in carrying out the required measures; to ensure there is sufficient control of the company's compliance with legislation and other rules applicable to the operation of the company, to ensure the required ethical guidelines are set for the company's 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. The Chairman of the Board of Directors is responsible for evaluating the work of the Board. During 2016, he conducted surveys of the members and, based on this and interviews in the previous year, analyzed the profit. The profit was then presented and discussed on the Board and on the Nomination Committee as the basis for assessing the size and composition of the Board. The evaluation focused on Board work in general and on the contributions of individual members, including the Chairman of the Board and the CEO. The Board evaluations clearly contributed to continued development of the work of the Board and the committees.



#### Composition of the Board

Under the Articles of Association, AAK's Board shall consist of at least three and at most ten members. The current Board consists of five members elected by the Annual General Meeting. Under Swedish law, employee organizations have a right to be represented on the Board, and have appointed two ordinary members and two deputies. In accordance with the proposal by the Nomination Committee, all six members were re-elected. 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 Lillie Li Valeur and Märta Schörling Andreen were appointed members. Melker Schörling was appointed Chairman of the Remuneration Committee and Ulrik Svensson was appointed member. Melker Schörling is also Chairman of the Board of Melker Schörling AB (publ.), which holds around 32.9 percent of the votes in AAK. Melker Schörling cannot, therefore, be considered to be independent in relation to major shareholders in the Company in accordance with the Code. Märta Schörling Andreen is also a member of the Board of Directors of Melker Schörling AB and cannot, therefore, be considered to be independent in relation to AAK's major shareholders. The President and Chief Executive Officer Arne Frank is, in his capacity as Chief Executive Officer and an employee of the Company, not independent in relation to the Company management. The other two members elected by the AGM, Marianne Kirkegaard and Lillie Li Valeur, are independent in relation to AAK, the Company management and the Company's major shareholders in accordance with the Code.

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

#### Working practices

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

Remuneration and audit issues are prepared within the respective committees. The Board holds a statutory meeting immediately after the Annual General Meeting. At this meeting, the Board's working practices are also adopted, as are the instructions to the CEO and the Committees and other internal management instruments. The current Board held its statutory meeting on May 11, 2016 at which meeting all members were in attendance.

#### Chairman of the Board

At the Annual General Meeting held on May 11, 2016 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 progress of the business in dialogue with the CEO, and is responsible for ensuring the other members continuously receive the information required to carry out the work on the Board, maintaining the required quality and in accordance with the Swedish Companies Act and other applicable laws and ordinances, the Articles of Association and the working practices of the Board. The Chairman is responsible for ensuring the Board constantly develops its knowledge about the Company, that an evaluation of the Board's work is carried out and that the Nomination Committee is provided with this evaluation. The Chairman shall also participate in evaluation and development issues relating to senior executives in the Group.

#### The work of the Board in 2016

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

#### Attendance at Board and committee meetings in 2016

Member	Board of Directors	Audit Committee	Remuneration Committee
Number of meetings	8	5	1
Marianne Kirkegaard	7		
Lillie Li Valeur	8	5	
Märta Schörling Andreen	8	3	
Arne Frank	8		
Leif Håkansson	8		
Melker Schörling	8		1
Ulrik Svensson	8	5	1
Annika Westerlund	8		

Information about the members of the Board can be found on pages 28–29.

#### Fees to Board members

According to the decision of the Annual General Meeting, the total fees to the Board amounted to SEK 2,580,000, to be allocated between the members as follows: SEK 650,000 to the Chairman and SEK 320,000 to each of the other members elected at the Annual General Meeting who are not employed by the company. The Chairman of the Audit Committee received SEK 250,000 and the members SEK 125,000 each. The Chairman of the Remuneration Committee received SEK 100,000 and the member SEK 50,000. The CEO, the secretary to the Board and employee representatives to the Board do not receive any compensation other than for costs in connection with their participation in Board activities. For further information about remuneration to members of the Board, please see page 64.

#### Evaluation of the CEO

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

#### Guidelines for remuneration of senior executives

The 2016 Annual General Meeting approved the principles for the remuneration of senior executives. The principles for the remuneration of AAK's senior executives are designed to ensure, from an international perspective, that AAK can offer compensation that is competitive and at the prevailing market level to attract and retain qualified people. The total remuneration package paid to senior executives shall consist of fixed basic salary, annual variable salary, pension, company car and severance payment. The fixed salary shall be individually differentiated on the basis of responsibility and performance, and shall be set on market principles and revised annually. In addition to annual salary, senior executives shall also receive a variable salary, which shall have a pre-set ceiling and be based on the outcome in relation to goals set annually. The goals shall be related to the company's performance and shall also be able to be linked to individual areas of responsibility. The annual variable portion must not exceed 110 percent of the fixed salary. In addition to the variable salary mentioned, share or share-price related incentive programs may be added as determined from time to time by the Annual General Meeting. The right to a pension for senior executives shall apply from the age of 60 at the earliest. Pension plans for senior executives shall be either defined benefit or defined contribution plans, or a combination of the two. In the event of termination of employment by the Company, the notice period for the President and other senior executives shall be twelve months, and they shall be entitled to receive severance pay with a pre-determined ceiling corresponding to twelve months' salary. For termination of employment by the employee, a notice period of six months shall normally apply and no severance pay shall be payable. These guidelines will cover those persons who are in Group management positions during the period of time in which the guidelines apply. The guidelines apply to agreements entered into after a resolution by the Annual General Meeting, and in the event that changes are made to existing agreements after this point in time. The Board will be entitled to diverge from the guidelines if there are particular reasons to do so in an individual case.

#### Board committees

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

#### Remuneration Committee

In accordance with the Board's working practices, issues of remuneration to the Chief Executive Officer and senior executives shall be prepared by the Remuneration Committee. The Remuneration Committee prepares and presents proposals to the Board relating to remuneration to the President and other senior executives. The final task of the Remuneration Committee is to monitor and evaluate the ongoing programs for variable remuneration of the company management team, and programs terminated during the year, as well the application of the guidelines for the remuneration of senior executives and the current remuneration structure and remuneration levels in the company. During 2016, the members of the Remuneration Committee were Melker Schörling (Chairman)

and Ulrik Svensson. The recommendations of the Remuneration Committee to the Board include principles for remuneration, the relationship between fixed and variable salary, conditions for pensions and severance pay and other benefits payable to the management. Remuneration to the CEO of the Group has been decided by the Board on the basis of the recommendations of the Remuneration Committee. Remuneration to other senior executives has been decided by the Chief Executive Officer in consultation with the Remuneration Committee. For further information, see page 64. During 2016, the Remuneration Committee met on one occasion, on which both members attended. The Board's proposal for guidelines for remuneration to senior executives can be found in Note 8, and will be put to the Annual General Meeting in 2017 for a decision.

#### **Audit Committee**

During 2016, the members of the Audit Committee were Ulrik Svensson (Chairman), Märta Schörling Andreen and Lillie Li Valeur. The Committee held four ordinary meetings and one extraordinary meeting during the year, which the company's external auditors and representatives of the management team attended. Areas dealt with by the Audit Committee primarily related to planning, scope and follow-up of the audit for the year. Other issues dealt with include risk management, integration and systematics of Group procedures, coordination of insurance issues, corporate governance, internal control, accounting rules, development of the global finance function, financing operations and other issues that the Board has requested the Committee to prepare. Under the provisions of Chap. 8, Section 49 a, of the Swedish Companies Act (2005:551), at least one member of the Audit Committee must be independent in relation to major shareholders in the Company, and have expertise in accounting or auditing, and the Company fulfils this requirement of the Code.

#### **External auditors**

AAK's auditors are appointed by the Annual General Meeting. At the Annual General Meeting in 2016, the audit company PricewaterhouseCoopers AB was re-elected as auditors up to and including the Annual General Meeting in 2017. Sofia Götmarm-Blomstedt, Authorized Public Accountant, was appointed auditor in charge. Sofia Götmarm-Blomstedt also has auditing tasks in companies including Coop Sverige, Oatly, Genovis AB, Pågen-gruppen AB and Polykemi AB. All services requested in addition to the statutory audit are tested separately to ensure there is no conflict arising involving independence or disqualification. No agreements with related parties exist.

#### **Operational management**

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

AAK's Group management team consists of thirteen persons from six countries: the CEO, CFO, CMO, CTO and President European Supply Chain, as well as eight persons in charge of business areas/countries, one of whom is also the HR officer. 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 CEO, 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 CEO and Group management team are presented on pages 30–31. For remuneration principles and salaries and other fees paid to the CEO and Group management team, please see Note 8.

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

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

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

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

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

#### **Control environment**

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

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

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

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

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

#### **Control activities**

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

#### **Information and communication**

To ensure the completeness and accuracy of its financial reporting, the Group has adopted guidelines for information and communication aimed at ensuring relevant and significant exchange of information within business operations, both within each unit and to and from management and the Board. Policies, handbooks and working practices relating to the financial process are communicated between the management and employees, and are available

in electronic format and/or printed format. The Board receives regular feedback on internal control from the Audit Committee. To ensure that external information is correct and complete, AAK has an information policy adopted by the Board, which states what is to be communicated, by whom and in what way.

#### **Follow-up**

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

##### *Ethics policy*

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

##### *Finance policy*

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

##### *Information policy*

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

##### *Environmental policy*

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

The consolidated income statement and balance sheet will be presented to the Annual General Meeting on May 17, 2017 for adoption.

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

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

**Malmö, March 31, 2017**

Melker Schörling  
Chairman of the Board

Arne Frank  
Chief Executive Officer  
and President

Märta Schörling Andreen  
Member

Marianne Kirkegaard  
Member

Lillie Li Valeur  
Member

Leif Håkansson  
Employee representative

Annika Westerlund  
Employee representative

Audited and submitted on March 31, 2017  
PricewaterhouseCoopers AB

Sofia Götmar-Blomstedt  
Authorized public accountant  
Auditor in charge

# Auditor's report

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

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of AAK AB (publ.) for the year 2016 except for the corporate governance statement on pages 79–83. The annual accounts and consolidated accounts of the company are included on pages 37–84, in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of December 31, 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of December 31, 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 79–83.

The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

### Basis for Opinions

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

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

### Our audit approach

#### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the annual accounts and consolidated

accounts. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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

### Materiality

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

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

### Key audit matters

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

**Key audit matter****How our audit addressed the Key audit matter****Revenue recognition****– accounting of entered sales contracts**

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

As seen on page 22 and Note 3 of the annual report, AAK applies active risk management. The value of the sales contracts entered, are reported in accordance with IAS 39 which implies that all of these are valued and reported at market value as at balance sheet date.

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

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

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

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

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

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

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

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

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

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

The active risk management applied by AAK is described on page 22 and in Note 3 in the annual report. Entered purchase contracts (physical contracts and derivative instruments), including inventory on hand, are reported according to IAS 39, which implies that all of these items are valued and reported at market value as at balance sheet date.

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

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

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

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

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

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

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

**Acquisition**

As seen on page 38 and in Note 27, in the annual report, AAK acquired California Oils in the US during the year. After allocation of the purchase price, the acquisition resulted in negative goodwill of MSEK 135 which, in accordance with the regulations in effect, was reported in income. At the same time, AAK has provided for future integration costs, the net of which has positively impacted results in an amount of MSEK 15.

The work with identifying and ensuring the completeness and valuation of separately identifiable assets and liabilities is complex and includes judgments. An error either in identifying or valuing these items can lead to an incorrect classification in the balance sheet at point of acquisition and also, later, in the income statement.

We have received copies of and studied and understood the management's assessment of the value of the acquired assets and liabilities, and of their nature. We have evaluated the management's assumptions based on the group's accounting policy by, amongst other things:

- reading agreements, decision-making documentation, due diligence reports and audited financial reports,
- through, amongst other things, meetings with specialists and visits to the plant at California Oils, an independence evaluation, the objectivity and competence of the specialists contracted by management to assist them in the valuation process with the aim of ensuring that they are qualified and have adequate industry knowledge,
- through utilizing our internal valuation specialists to independently evaluate the models and assumptions applied by management in identifying and valuing assets and liabilities.
- assessed the economic useful lives of the assets and ensured that these agree with our understanding of the acquired assets and of the group's accounting principles.

Significant assumptions made by the management have been deemed to be supported and to be correct against the background of current and known circumstances.

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

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 79–83. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

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

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

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

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

**Auditor's responsibility**

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

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämnden's website: [www.revisorsinspektionen.se/rn/showdocument/documents/rev\\_dok/revisors\\_ansvar.pdf](http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf). This description is part of the auditor's report.

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

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of AAK AB (publ.) for the year 2016 and the proposed appropriations of the company's profit or loss.

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

**Basis for Opinions**

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

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

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

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

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

**Auditor's responsibility**

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

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

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

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

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: [www.revisorsinspektionen.se/rn/showdocument/documents/rev\\_dok/revisors\\_ansvar.pdf](http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf). This description is part of the auditor's report.

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

The Board of Directors is responsible for that the corporate governance statement on pages 79–83 has been prepared in accordance with the Annual Accounts Act.

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

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

Malmö, March 31, 2017  
PricewaterhouseCoopers AB

Sofia Götmar-Blomstedt  
Authorized public accountant  
Auditor in charge

# The AAK share

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

## Turnover and price trend

During 2016, 13.4 (13.9) million shares were traded at a total value of SEK 7,959 million (7,345), which corresponds to a turnover rate of 32 percent (33). The average trade per trading day was 53,160 (55,762) shares or SEK 31 million (29). At the year-end, the price was SEK 599.50 (627.50) and AAK's market value was SEK 25,352 million (26,536). The highest price during the year was SEK 650.50 (March 30) and the lowest price was SEK 507.50 (February 8).

## Share capital

As at December 31, 2016 the share capital of AAK was SEK 422,884,890 (422,884,890). The number of shares was 42,288,489 (42,288,489). The quota value per share was SEK 10. Each share entitles the holder to one vote. All shares have equal rights to participate in the profits and assets of the Company.

## Ownership

There were 9,641 (9,124) shareholders as at December 31, 2016.

## Planned dividend policy

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

## Ordinary dividend

The Board of AAK proposes a dividend for the 2016 financial year of SEK 8.75 (7.75) per share, a total of SEK 370 million (328).

## AAK's Investor Relations work

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

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

During 2016, a capital market day was held in Stockholm, and a large number of meetings were held with analysts and other professional operators on site in Frankfurt, Copenhagen, London, New York, Paris and Stockholm.

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

## Analysts

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

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

The Company management can be contacted as follows:

Telephone: +46 (0)40 627 83 00

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

## Shareholder contacts

Fredrik Nilsson

CFO

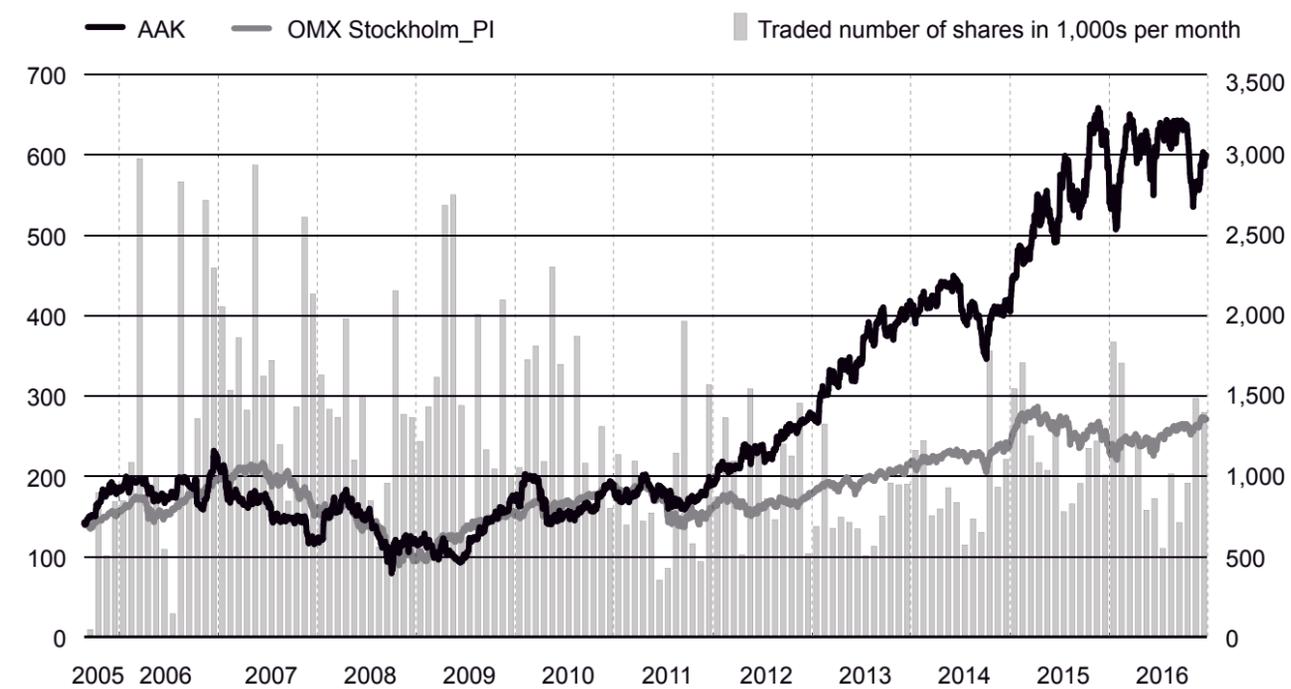
Telephone: +46 (0)40 627 83 00

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

## Major shareholders, December 30, 2016

	No. of shares	Proportion of share capital and votes, %
Melker Schörling AB	13,899,301	32.9
AMF – Försäkring och Fonder	3,509,668	8.3
Handelsbanken Fonder AB	2,359,687	5.6
Alecta Pensionsförsäkring	2,000,000	4.7
Didner & Gerge Fonder Aktiebolag	1,733,053	4.1
Swedbank Robur Fonder	1,310,995	3.1
SEB Investment Management	1,137,345	2.7
NTC Various Fiduciary Capacit	612,645	1.4
Nordea Investment Funds	505,411	1.2
NTC S/A UK Residents	464,767	1.1
Other shareholders	15,260,523	39.1
<b>Total</b>	<b>42,288,489</b>	<b>100.0</b>

## The AAK share September 29, 2005 to December 31, 2016



Source: IXX Financial Information

## Distribution of shareholdings, December 30, 2016

No. of shares	No. of shareholders	Proportion of all shareholders, %	Proportion of share capital and votes, %
1–500	7,727	80.2	2.5
501–1,000	882	9.2	1.7
1,001–5,000	723	7.5	3.7
5,001–10,000	89	0.9	1.5
10,001–15,000	49	0.5	1.5
15,001–20,000	24	0.2	1.0
20,001–	147	1.5	88.1
<b>Total</b>	<b>9,641</b>	<b>100.0</b>	<b>100.0</b>

## Information per share

	2016	2015
Share price, reporting date, SEK	599.50	627.50
Dividend, SEK	8.75	7.75
Direct yield, %	1.46	1.23
Earnings per share, SEK	23.71	22.17
Equity per share, SEK	177.87	156.77
Share price/Equity	3.37	4.00

Definitions, see page 90.

# Definitions

## Proportion of risk-bearing capital

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

## Return on shareholders' equity

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

## Return on operating capital

Operating profit 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 at 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 maturity of less than three months.

## Earnings per share

Profit/loss for the year 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.

# Financial Calendar, Annual General Meeting

## Reporting schedule

AAK AB (publ.) will provide financial information for the 2017 financial year on the following occasions:

- The interim report for the first quarter will be published on April 20.
- The half-year report will be published on July 17.
- The interim report for the third quarter will be published on October 26.
- The year-end report for 2017 will be published on February 5, 2018.

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

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

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

## Annual General Meeting

AAK AB (publ.)'s Annual General Meeting will take place on Wednesday, May 17, 2017 at 2 p.m. at Malmö Arena, Hyllie Stationstorg 2, in Malmö. Doors to the Annual General Meeting open at 1 p.m. and registration must be completed before 2 p.m., at which time the voting list will be established.

### Right to attend the Annual General Meeting

Shareholders are entitled to attend the Annual General Meeting if they are registered in the printout of the shareholders' register created on Wednesday, May 11, 2017 and if they have given notice that they will attend the Annual General Meeting by 4 p.m. on Wednesday, May 11, 2017.

### Registration in the shareholders' register

The company is a reconciliation company and its shares are affiliated with Euroclear Sweden AB, the Swedish central securities depository. This means that, in order to be entitled to attend the Annual General Meeting, shareholders must be entered in the shareholders' register held by Euroclear Sweden AB as per

Wednesday, May 11, 2017. Anyone who has had shares registered through a nominee must temporarily register the shares in their own name to be able to attend the Annual General Meeting. This should be done in good time before this date.

### Notification

Shareholders who wish to attend the Annual General Meeting must notify the Company by one of the following alternatives:

- by post to:  
AAK AB  
Annual General Meeting  
C/o Euroclear Sweden AB  
Box 191  
101 23 Stockholm, Sweden
- by telephone: +46 (0)8 402 90 45  
or via the website at [www.aak.com](http://www.aak.com) as soon as possible and no later than 4 p.m. on Wednesday, May 11, 2017.

In the notification, the shareholder must specify his or her name, address, phone number, personal or corporate identity number and shareholding. For shareholders who are represented by proxies, the original proxy form must be sent with the notification. Anyone representing a legal entity must show a copy of the certificate of incorporation or equivalent authorisation documents showing they are an authorized signatory.

### Notice of Annual General Meeting

Notice of the Annual General Meeting is published in Post- och Inrikes Tidningar and on the Company's website, including a full agenda. An advertisement regarding the Annual General Meeting being convened will be published in Svenska Dagbladet.

## Address

AAK AB (publ.)  
Skrivaregatan 9  
215 32 Malmö, Sweden  
Telephone: +46 (0)40 627 83 00  
Fax: +46 (0)40 627 83 11  
Email: [info@aak.com](mailto:info@aak.com)  
[www.aak.com](http://www.aak.com)  
Corporate identity no. 556669-2850

For further information, please visit our website at [www.aak.com](http://www.aak.com)

This document is a translation of the Swedish language version. In the event of any discrepancies between the translation and the original Swedish AAK Annual Report 2016, the latter shall prevail.



## We are AAK

AAK is a leading provider of value-adding vegetable oils & fats.

Our expertise in lipid technology within foods and special nutrition applications, our wide range of raw materials and our broad process capabilities enable us to develop innovative and value-adding solutions across many industries – Chocolate & Confectionery, Bakery, Dairy, Special Nutrition, Foodservice, Personal Care, and more.

AAK's proven expertise is based on more than 140 years of experience within oils & fats. Our unique co-development approach brings our customers' skills and know-how together with our own capabilities and mindset for lasting results.

Listed on the NASDAQ OMX Stockholm and with our headquarters in Malmö, Sweden, AAK has 20 different production facilities, sales offices in more than 25 countries and nearly 3,000 employees.

We are AAK – The Co-Development Company.

