



Annual Report 2005



## AarhusKarlshamn in 60 seconds

- AAK is one of the world's leading producers of high value-added, speciality vegetable fats. These fats are characterised by a high technological content and are used as a substitute for butterfat and cocoa butter, trans-free solutions for fillings in chocolate and confectionery products, and in the cosmetics industry.
- Its leading position in speciality vegetable fats was strengthened during the year as a result of the merger between Aarhus United and Karlshamns.
- Its products come from the plant kingdom and are natural and nutritious. The Company's wide product portfolio meets customer requirements worldwide. The majority of its customers come from the food, chocolate and confectionery industries, the cosmetics industry and the catering/food service segment.
- AAK is organised in the following business areas: Chocolate & Confectionery Fats, Food Ingredients Continental Europe, Food Ingredients UK, Food Ingredients Nafta, Technical Products & Feed and Lipids for Care.
- AAK's financial reporting will comprise on the following segments:
  - Chocolate & Confectionery Fats.
  - Food Ingredients.
  - Technical Products & Feed.
  - Other Business (including Lipids for Care).
- Food Ingredients consists of three geographical units. The product range can overlap these areas and can also be unique to each geographical unit. The products are designed for the food and bakery industries and for caterers.
- Chocolate & Confectionery Fats is a supplier to the chocolate and confectionery industry. Its development has made the Company a world leader in the cocoa butter alternatives (CBA) segment.
- Lipids for Care is a rapidly growing business area which manufactures and sells speciality fats to the cosmetics industry worldwide.
- Technical Products & Feed refines and markets fat-based products intended mainly for technical applications for customers in Europe. It also develops and sells vegetable protein and fat to the animal feed industry in Northern Europe.
- AAK has production facilities in Denmark, Mexico, the Netherlands, Sweden, the UK, Uruguay and the USA.
- AAK's expertise regarding the properties of the fat molecule, which is developing all the time in its contacts with customers, the academic world and, not least, national and international authorities, is driving forward the trend towards more nutritious products.
- The AAK share is traded on Nya Marknaden and is sponsored by Enskilda Securities. In the third quarter of 2006 the Company intends to apply to be put on the O-list of the Stockholm Stock Exchange.

# AarhusKarlshamn's organisation

Prior to the merger, Aarhus United and Karlshamns were organised in different ways. Aarhus United had a country-based organisation, while Karlshamns had a business area-oriented matrix organisation.

The ambition of the management was not to lose any time in the merger process. What was important was to get the organisation in place as soon as possible, to agree on the strategic lines of approach and to find synergies. Most of the latter were identified in the European units: Sweden, Denmark, the Netherlands and the UK. Discussing the synergies is one of the most effective ways for individuals in the organisation to learn about one another and about the merged units. The organisation is based on optimum

utilisation of the strengths of both companies in a powerful organisation with short decision-making routes.

It was important to take advantage of Aarhus United's positions in Nafta (the USA, Canada and Mexico) and to combine them with Karlshamns' positions in Northern and Eastern Europe.

The result was a geographical, customer-oriented matrix organisation consisting of six business areas:

- Chocolate & Confectionery Fats.
- Food Ingredients Continental Europe.
- Food Ingredients UK.
- Food Ingredients Nafta.
- Technical Products & Feed.
- Lipids for Care.

From 2006 the financial reporting of the Company will concentrate on the following segments:

- Chocolate & Confectionery Fats.
- Food Ingredients.
- Technical Products & Feed.
- Other Business.

The operations of Lipids for Care will be included in Other Business.

The Parent Company, AarhusKarlshamn AB, is a Swedish registered limited liability company, with its registered office in Malmö.

## Key ratios – Proforma (SEK m unless otherwise specified)

	2005	2004
Net sales	10,573	9,720
Gross contribution	2,901	2,644
Gross contribution, %	27.4	27.2
Operating profit, incl. non-recurring items	329	414
Operating margin, %	3.1	4.3
Operating profit, excl. non-recurring items	530	414
Operating margin, excl. non-recurring items, %	5.0	4.3
Net profit, excl. non-recurring items	340	274
Operating profit before depreciation (EBITDA), excl. non-recurring items	837	695
Operating cash flow	3	418
Investments	485	261
Shareholders' equity	3,504	3,265
Minority interest	50	46
Net liability	1,629	1,208
Equity/assets ratio, %	52	52
Net debt/equity ratio, multiple	0.46	0.34
Net operating assets	5,581	4,907
Return on net operating assets, excl. non-recurring items, %	10.1	8.4
Return on equity, excl. non-recurring items, %	9.9	8.3
Earnings per share, excl. non-recurring items, SEK	8.22	6.62
Number of shares at year end, thousands	41,384	41,384

For definitions, see page 85.

For the Annual General Meeting, see page 92.

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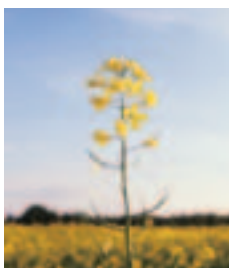
## 3 AarhusKarlshamn's organisation

The organisation is based on optimum utilisation of the strengths of both companies in a powerful organisation with short decision-making routes. The result of the merger was a geographical, customer-oriented matrix organisation consisting of six business areas.



## 6 The merger

The merger between Aarhus and Karlshamns was realised through a direct offer to the shareholders for the redemption of the shares in each company for cash or for shares in the newly formed company BNS Industrier AB. The offer was welcomed by the market, enabling the merger to be carried out and BSN Industrier to change its name to AarhusKarlshamn AB.



## 7 Vision, goals, growth and environmental activities

AAK's ambition is to have the highest growth rate, innovativeness and profitability on the global speciality fats arena.



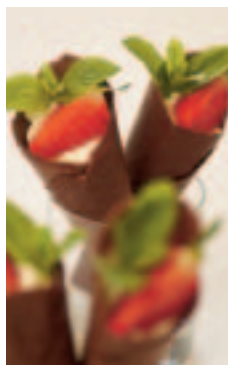
## 8 Comment by the CEO

The reason for the merger was the opportunity to create a world-leading company in the area of speciality vegetable fats, which with a larger critical mass, a competitive cost structure and effective use of capital could grow faster and acquire stronger positions in the growing global market for speciality fats in particular.



## 10 Vegetable oils for health and wellbeing

Fat is an important part of our diet and is necessary for our health. If we are to avoid various diseases caused by an excessive fat intake, the type of fat we eat is crucial. Vegetable fats have a number of nutritional advantages over animal fats.



## 12 Chocolate & Confectionery Fats

The business area Chocolate & Confectionery Fats manufactures speciality vegetable fats which are used as a substitute for cocoa butter in chocolate products. AAK has unique expertise in this area and its ambition is to spread its knowledge in close cooperation with its customers.



## 16 Food Ingredients

The business area develops and markets vegetable oils and fats for the food industry. AAK offers a complete range of food fats, consisting of everything from everyday cooking oil and oil for the manufacture of margarine to advanced products with specific, tailor-made properties.



## 24 Technical Products & Feed

The AAK Group also manufactures technical oils, and in the new organisation technical products and feed raw materials have been brought together in a separate business area. Technical Products & Feed plays an important role in the Group's operations and acts as a strong and independent player in the market.



## 28 Other business units

The business area includes Lipids for Care and head office expenditure, together with other operations such as Ceylon Trading, Frank Fontannaz Holdings, BSP Pharma A/S and Group head office expenditure.



## 32 Research & development

R&D is a central component of AAK's strategy and an important reason behind the merger, which gives an opportunity to utilise the overall knowledge to be found in the companies in the Group.



## 34 Employees

Successful development calls for an organisation that is capable of responding rapidly to changes in the world at large. The shape of the new organisation makes it possible to make effective use of employees in more than one unit, potentially increasing flexibility and efficiency. Ensuring the effective functioning of the organisation will be a key task in 2006.



## 36 AAK's environmental activities

Environmental activities are in general closely linked to national legislation of various kinds, which means that there are many advantages in carrying out this work at local level. Each facility takes care of its own environmental activities in line with the requirements placed on it by national legislation.

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# The merger

The merger between Aarhus United and Karlshamns was realised through a direct offer for the shares of each company in return for cash or for shares in the newly formed company BNS Industrier AB (now AarhusKarlshamn AB).



The principal shareholders of each company, United International Enterprises Ltd in Aarhus United and Melker Schörling AB in Karlshamns, merged to form BNS Industrier AB. On 12 July 2005, the Board of Directors of this company decided to present all shareholders with interrelated offers regarding Karlshamns and Aarhus United.

The offer was welcomed by the market. It was accepted by 94.3 percent of the shareholders of Aarhus United and 98.2 percent of the shareholders of Karlshamns, enabling the merger to go through and BNS Industrier to change its name to AarhusKarlshamn AB.

On 29 September 2005 trading of the shares of the new company began on Nya Marknaden.

Behind United International Enterprises (UIE) is the Bek-Nielsen family, which has been active in the vegetable industry since 1950 and operates palm plantations in Malaysia. UIE's holding in Aarhus United amounted to 45.9 percent of the share capital and the votes at the time when it took the decision in August 2004 to try and find a buyer for this holding who could better utilise the full potential of Aarhus United. The company had then undergone a successful shakeup and the four companies in Denmark, the UK, Mexico and the USA were all showing a high level of profitability. Karlshamns was one of the companies that were invited to tender.

Karlshamns' principal shareholder since 2001, Melker Schörling AB, with its wide industrial background, had seen the potential that existed in Aarhus United and was making an effort to find a larger international market in order to make better use of its technology base.

Karlshamns carried out an in-depth analysis of the prospects of acquiring Aarhus United. Although the analysis pointed to the value of merging the two companies and the considerable scope for obtaining synergies, the decision was made refrain from an acquisition, a solution being sought instead which entailed a lower financial burden for Karlshamns.

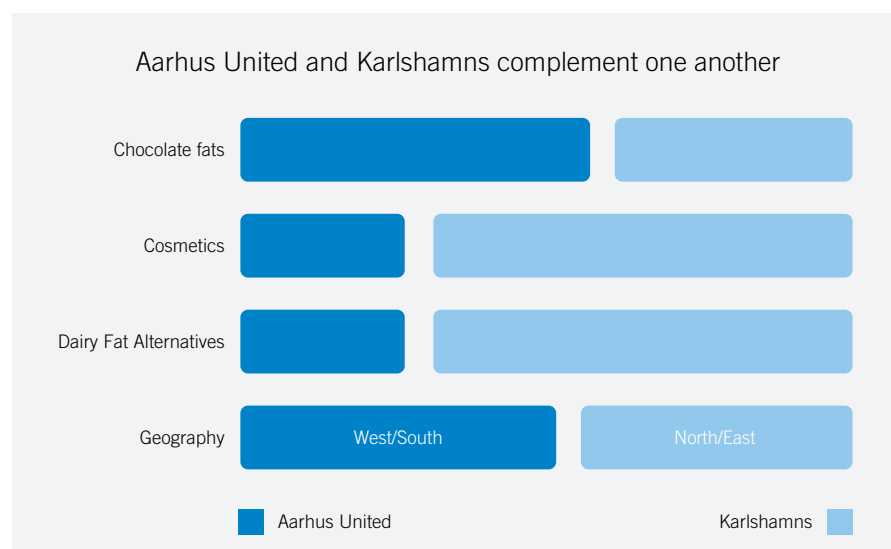
Following discussions with the Bek-Nielsen family, BNS Industrier AB was formed, the offer was drawn up and the result was a merger between Karlshamns and Aarhus United. This enabled the establishment of the world's largest company for high value-added, speciality vegetable fats.

Both Aarhus United and Karlshamns were doing well with their products and had achieved a lot in the area of speciality fats, moving away from bulk products with a low degree of refinement and low margins.

Since 2001 Karlshamns had worked purposefully on developing its organisation, moving away from weak task orientation towards a stronger focus on technology and productivity. The company's international image had been strengthened, and achievements in a number of product areas had made the company ripe for the next step.

The prospects of the two companies, which had been competitors for many decades, exploring a merger from a position of strength were the best that could be imagined. Moreover, the companies complemented one another geographically and in terms of products.

A feature of the autumn of 2005 was intensive work aimed at merging the companies and creating a new organisation. A period of heightened activity made it possible, very shortly after the merger became a reality, to deal with customers and suppliers as a Group with the same name – AarhusKarlshamn (AAK).





# Vision, goals, growth and environmental activities



## Vision

- AAK's vision is to strengthen its leading, global market positions, which are based on the Group's knowhow in the area of vegetable oils and fats.
- Our success factors are innovativeness, customer orientation and high productivity.
- AAK's ambition is to have the highest growth rate, innovativeness and profitability on the global speciality fats arena.

## Goals

- AAK's growth rate shall surpass that of market in targeted segments, where its considerable expertise in the area of speciality vegetable fats gives innovative, value-creating products which increase its cash flow and return on net operating assets.

## Growth

- Intensive development of vegetable oils and their properties shall further increase the proportion of high value-added products.
- Utilising the new combined strength to grow in new markets.
- Exploiting synergies to the full and releasing the potential that exists in the new Group opens up opportunities for new business.
- A focus on the increasing demands of customers for nutritious products and responding with innovative product solutions.

## Environmental activities

- AAK works with products that have a natural origin, in this way meeting high environmental demands. It is the ambition of the Group, as far as possible, to reduce its impact on the environment. At the same time this has positive financial consequences through more efficient use of resources.

# Comment by the CEO

The reason for the merger between Aarhus United and Karlshamns was the opportunity to create a world-leading company in the area of speciality vegetable fats which, by means of a larger critical mass, a competitive cost structure and effective use of capital, will grow faster and acquire stronger positions in the growing global market for speciality fats.

The focus during the first-quarter operations of the new Group has been on establishing the strategic direction, creating a new organisational structure and identifying synergies. The intensive integration process has proceeded according to plan.

The business areas to be prioritised are Chocolate & Confectionery Fats, Lipids for Care, Food Ingredients and Technical Products & Feed.

Chocolate & Confectionery Fats and Lipids for Care enjoy world-leading positions, which are successively to be developed in an increasingly global arena. Food Ingredients has strong regional positions, mainly in Europe/Nafta, while Technical Products & Feed has strong positions in Northern Europe. Through the strong link with the Karlshamn unit in Sweden, extensive synergies are created when focusing on growth in the surrounding area.

The development of the new Group will take place through a combination of organic growth and acquisitions.

## Synergies

We expect to achieve synergies of the order of SEK 150 m on an annual basis, the full impact of this coming in 2008. Coordination gains exist throughout the value chain: from the acquisition of raw materials, through our production processes, to the marketing and sales outlets. The bulk of the synergies have been identified in the European units in Sweden, Denmark, the Netherlands and the UK. One example is the restructuring of the UK business, where two small production units are being closed down and integrated with the main facility in Hull.

The synergies at AAK of SEK 150 m are not linked to the ongoing efficiency programme that was begun at Karlshamns in the autumn of 2004. This will have a planned effect in 2006.

## Earnings in 2005

Continued intense competition and over-capacity are prevalent in the less specialised part of the vegetable oil industry and this, combined with the consolidation of the retail sector worldwide, is driving the demands for cost-effective solutions. The restructuring of our sector is therefore intensive.

For AAK the year has been characterised by good volume growth and stable margins after the falling trend of several years. Costs have been adversely affected by sharply increasing energy prices.

## Driving forces for growth

There are a number of positive external factors which will drive growth in the new Group:

- The increasing consumption in Eastern Europe, Asia and South America.
- The 5 percent rule allowing the substitution of cocoa butter in chocolate, which was introduced in Europe in 2003, is starting to have a considerable effect globally.
- Vegetable solutions in the dairy industry, which are driven by lower cost and positive health effects.
- Vegetable solutions in the cosmetics industry which are replacing mineral oils and animal fats.

Added to these are our efforts to move forward in the value chain in order to create growth opportunities in segments such as food service (restaurants, caterers etc.).

## The future

A feature of 2006-07 will be extensive adjustments throughout our value chain, from sales of raw material components, the adaptation of our plants to an optimum manufacturing process and the streamlining of sales outlets. This will mean higher ongoing costs and also some one-off costs.

On top of this there is a threat from the repercussions of increasing energy prices.

The synergies will develop gradually, as is characteristic of a process-related industry, and be fully realised after a couple of years. Through organic growth in combination with investments and acquisitions, our objective is to increase our share of products that have a high degree of specialisation and attractive margins. A very important step in this direction, therefore, is a decision to carry out a significant enlargement of our CBE capacity for the fast-growing cocoa butter equivalents segment. Growth has exceeded our expectations and this has meant that our raw material purchases are not commensurate with the demand. At the same time global capacity utilisation is high, which will limit our growth in 2006.

Our objective in 2008 is to have an effective and restructured AAK with strong market positions, satisfactory growth and fully realised synergies of the order of SEK 150 m. Our financial strength should also enable us to develop both our global ambitions and products with high value added. We will be active in the ongoing consolidation process in the sector.

One important element in the continued integration work is the establishment of a new Group office in Malmö, which is due to open in April. This office will serve as a workplace for the central management group and a small number of employees, and will provide an important cost-effective forum for the entire organisation.

Malmö, 21 April 2006



Jerker Hartwall  
President and CEO





# Vegetable oils for health and wellbeing

Fat is an important part of our diet and is necessary for our health. If we are to avoid suffering from various diseases caused by an excessive fat intake, the type of fat we eat is crucial. Vegetable fats have a number of nutritional advantages over animal fats.

A fat-free diet does not help to bring about a rapid loss of weight; what determines whether we are overweight is our total intake of calories. Whether these come from fat, carbohydrates or protein plays a minor role. At least 20 percent of our energy must come from fat and most of our fat intake should come from fish, shellfish and vegetable fats. The link between cardiovascular disease and the make-up of our diet has been shown to depend, among other things, on the type of fat involved. Saturated fatty acids and trans fatty acids have an adverse effect on the cholesterol in our blood, while unsaturated fats have beneficial effects.

Vegetable oils contain essential fatty acids, i.e. fatty acids which the body cannot produce by itself but which must be obtained from our diet. There are two types of essential fatty acids – omega 3 and omega 6. In addition, vegetable fats are important sources of a number of vitamins, including vitamins E and K.

## Different types of fat

Fats are usually divided into three groups – saturated, monounsaturated and polyunsaturated fats.

### Saturated fat

Saturated fat is found in animal products such as butter, cream, milk and meat. Vegetable oils from tropical plants, e.g. coconut oil and palm oil, are rich in saturated fat. It is easy to recognise saturated fat since its consistency is solid at room temperature.

### Monounsaturated fat

Monounsaturated fat is found in olive oil, rapeseed oil and other vegetable oils. It is convenient for cooking since it withstands being heated better than polyunsaturated fat.

### Polyunsaturated fat

Polyunsaturated fat is found in shellfish, fatty fish (salmon, mackerel, herring and sardines) and rapeseed, linseed, corn and soya oil.



## What is trans fat?

Trans fat refers to unsaturated fats in a particular form: trans fatty acids. Trans fatty acids are present naturally in milk and fat from ruminants, but may also be formed when vegetable fats are hardened. Several scientific studies have shown that trans fatty acids, in common with saturated fat, increase the risk of cardiovascular disease. This is one of the main reasons why the authorities in most industrialised countries are trying to limit the intake of both saturated fat and trans fat.

## Where the products are used

Vegetable fats are important ingredients of a number of products in various areas.

### Food

In the food industry fats are used, for example, to give the end product its desired shape, structure and consistency. Apart from their competitive price, vegetable oils also offer several health-related benefits as they do not contain cholesterol and have low amounts of saturated fatty acids and trans fatty acids.

### Cosmetics and skin-care products

Fat is used here to create the right con-

sistency and “softness” of the products. In this area, too, the natural origin of the vegetable oils plays an important role.

### Animal feed

In animal feed the composition of the fat plays a crucial role in the yield of dairy cows and the rate of growth of pigs and poultry.

### Technical oils

In industry, fats are used as a vital component in technical and other oils. Vegetable fats here have important benefits since they are environmentally friendly, perform well and ensure a competitive overall cost.

## AAK's most important raw materials

In order to offer a broad range of specialties, use is made of a large number of raw materials, the most common of which are rapeseed, palm and shea.

### Rapeseed

Rapeseed is grown in Europe, India, China, Australia and Canada. In Europe winter rapeseed is the dominant variety, whereas Canada's harsh winters make summer rapeseed the only alternative.

The oil is rich in beneficial omega-3 fatty acids and has the lowest amount of saturated fatty acids of all oils.

### **Palm**

Palm oil has become an increasingly important raw material thanks to the growing demand for products that are low in trans fat. The oil is extracted by crushing the pulp of the nuts. Malaysia and Indonesia account for 80 percent of world production.

### **Shea**

Shea is an exotic raw material that has become increasingly important. The nuts are picked from the shea tree, which grows wild on the savannahs of West Africa. The unique properties of shea oil make it an excellent choice for widely differing applications, such as chocolate and cosmetic products.

### **Soya**

Soya is one of the oldest cultivated plants in the world and is used mainly as an ingredient in cooking fat, mayonnaise, oil for deep frying, salad oil and margarine.

### **Sunflower**

Like tobacco, maize and groundnuts, the sunflower comes originally from the tropical parts of Central and South America. Production takes place predominantly in Argentina, Russia, Ukraine and the EU.

### **Cotton**

Although cotton is grown all over the world, the most important regions are China, India, America and Pakistan. Oil from the cotton shrub is used in several food areas.

### **Maize**

Maize was originally cultivated by the Indians in Latin America. Today the most important growing areas, besides America, are in Eastern and Southern Europe. The oil (corn oil) is used mainly as salad and cooking oil.



## **AAK's raw materials – a healthy choice**

AAK's knowledge of vegetable fats and their composition makes it possible to create tailor-made solutions for various purposes and types of products. Vegetable oils and fats from AAK have a number of benefits:

- They are a safe and healthy choice. Vegetable oils have a low saturated fat content and contain essential fatty acids.
- In addition to a competitive price, they also offer flexible delivery solutions which further reduce customers' production costs. Examples of this include pumpable fats, which lower customers' handling costs considerably.

### **Groundnuts**

Groundnuts (or peanuts) are grown in China, India, West and North Africa and America. Groundnut oil is especially popular for deep frying.

### **Coconut**

The coconut palm is one of the most versatile plants and is used in such widely differing areas as food and building materials.

# Chocolate & Confectionery Fats

The business area develops and markets speciality vegetable fats used in the chocolate and confectionery industries.

The market for chocolate and confectionery is largely characterised by the fact that its customers are global, leading to a similar demand for speciality fats worldwide. The Chocolate & Confectionery Fats business area thus has a global responsibility.

AAK is the world's leading supplier of cocoa butter alternatives (CBA). The Company also offers a wide range of speciality fats for fillings and spreadable confectionery products. Each step in the value chain requires specialist expertise – from purchasing of the raw material to marketing and sales.







## Chocolate & Confectionery Fats

Proforma – whole year

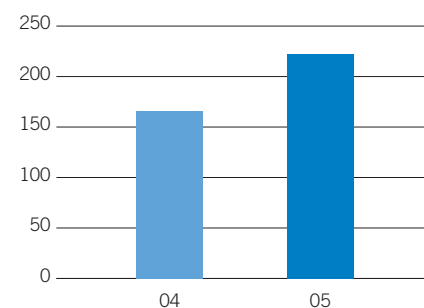
(SEK m)	2005	2004
Net sales	3,081	2,907
Gross contribution	1,039	912
Operating profit	222	166

Volumes, thousands of tonnes      311      280

**In 2005 Chocolate & Confectionery Fats reported an increase in both volumes and profit. The volume increase amounted to 11 percent, due mainly to strong growth in cocoa butter alternatives (CBA) and filling fats. A two-figure increase rate in demand in the chocolate industry for cocoa butter equivalents (CBE) was an important growth factor, with an emphasis on Europe, Asia and South America.**

### Operating profit

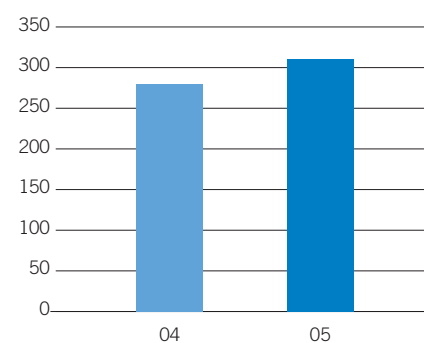
(SEK m)



**The operating profit rose in 2005 by SEK 56 m (or 34 percent) to SEK 222 m compared with the previous year.**

### Volume growth

(Thousands of tonnes)



**Volumes increased by 11 percent.**



# Chocolate & Confectionery Fats

The Chocolate & Confectionery Fats business area develops, manufactures and markets vegetable fats for the chocolate and confectionery industries. There was a very strong increase in sales throughout 2005, resulting in a volume increase of 11 percent.

## Special products for chocolate

Cocoa butter is a key ingredient in chocolate products. Cocoa is a relatively expensive raw material and its market price can exhibit large variations from year to year. This means that chocolate manufacturers can make substantial cost savings by replacing the cocoa butter with alternative vegetable fats, while at the same time AAK's products add technical value added.

AAK is one of the leading players in low trans fats and in 2005 the range of filling fats was extended by several new fats with a low or no trans content.

AAK's range to its customers includes filling fats, fats for chocolate coatings and moulded chocolate products, together with specialities for spreadable products.

## Understanding customer needs

The wide product range is the result of single-minded research and development that has been carried out for many years in the Company's own laboratories, combined with close collaboration with the customer. In this way development work is also characterised by strong market orientation, which aims to be one step ahead of the competition. The objective is to supply innovative solutions which reflect market trends, thereby anticipating customer needs.

In November 2005, at the large Food Ingredients Europe trade fair, AAK's DeliAir™ product, a filling fat with the best whipping properties on the market, was nominated for the year's award. Thousands of manufacturers from the entire food industry attend the fair each year and the nomination had the effect of attracting a lot of attention at the AAK stand.

## Raw materials for special products

In order to manufacture a wide range of specialities, several different exotic raw materials are required. Many of the products are based on or contain fat that has been extracted from the shea kernel, which is bought from West Africa via AAK's local purchasing organisation. Other important raw materials are palm and palmkernel oil, which mainly come from Malaysia.

## A merger that has created opportunities

For the Chocolate & Confectionery Fats business area, the merger has given AAK fresh opportunities to emerge as a global leader with strong market positions.

AAK in its new form achieves the critical mass which provides scope for development in all respects, from creating a new generation of speciality fats to making optimum investments. The merger has also created a more effective sales organisation with a global reach.

## The healthy choice

A number of trends are beginning to take shape around the market in which Chocolate & Confectionery Fats operates. One of the strongest of these is the ever more important factor of health, which has increased the demand for new fats. AAK is well to the fore in this respect and is able to meet the new consumer demands.

## The 5-percent rule

Since 2003 what is known as the 5-percent rule has applied, i.e. new legislation in the EU and several other countries which makes it possible to substitute up to 5-percent of the cocoa butter in a chocolate product with other vegetable. This new rule has had a positive effect on the demand for cocoa butter equivalents.

## Increased globalisation

The range of Chocolate & Confectionery Fats comprises ingredients in products that are more or less of a luxury. This is a growing market worldwide, especially in the developing countries with rapidly growing economies. In order to develop in line with this trend, AAK is endeavouring to become even more global in its marketing behaviour, while at the same time the value added of its product portfolio is increasing.



## Jørgen Balle, Head of the business area Chocolate & Confectionery Fats

Jørgen Balle joined Aarhus United in 1990 as a trader, with responsibility for risk management and purchases of the Group's raw materials. In 2004 he took up the position of President of Aarhus United Denmark.

### What advantages do you see from the merger in your business area?

"First and foremost our market coverage is improving since we complement one another well geographically. Our product portfolios complement each other, particularly in filling fats, although also to some extent as far as

CBA is concerned, which is an alternative to cocoa butter."

"Another big advantage is the logistical synergies that exist, especially in production. The result is better and better utilisation of the production facilities, lower logistical costs and global capacity planning."



In this process the comprehensive global network, consisting of sales offices, agents and distributors, is crucial for AAK's contact with the market. They function not only as a link to different geographical markets, but also serve to keep the Company informed about trends and changes. Participating in the global market growth is of crucial importance.

### Competition

The merger has made AKK a leading supplier of speciality fats to the chocolate and confectionery industries. Our competitors include companies such as Fuji Oil and IOI/Loders Crocklaan.

### The future

In 2006 Chocolate & Confectionery Fats will concentrate on developing its customer base, especially among key global customers and regional market leaders, which is in line with the trend towards greater globalisation.

In the product range, the assortment of cocoa butter equivalents (CBE) will expand in order to meet the increasing demand, while the development of new filling fats will intensify.

The full return on the investments made before and during 2005 are expected to be seen in 2006. This also applies to the investment in the produc-

tion facility in Uruguay. Growth-generated investments have also been made in the extraction of speciality oils as well as enlarged packaging capacity. In 2006 additional investments will be made in order to secure our competitiveness and with it the opportunities of benefiting from the growth of the global chocolate and confectionery market. This increase in capacity will be completed during 2008.

"Last, but not least, we have been able to make use of the synergies offered by the merger in regard to fixed costs, since there was some duplication of functions."

### What will your biggest challenge be in 2006?

"To make use of AAK's strong market position in order to develop further in the form of accelerated global growth. We will challenge each other in order to further improve our position as a leading supplier."

"Further, we have to make sure that the customer obtains even better product solutions and we must guarantee our customers a

continued high level of service. This calls for internal synchronisation and for all employees to demonstrate commitment to the goals and values we have formulated together."

### How will these united strengths contribute to product development in your business area?

"Our complementary specialist knowledge and considerable experience will strengthen our product development, in regard to both filling fats and cocoa butter alternatives."

### Do you foresee any novelties when it comes to the trend towards more natural products based on vegetable oils?

"We're now focusing mainly on minimising trans fats and saturated fatty acids in our products and will be upgrading our product range the whole time in this respect."

# Food Ingredients

The Food Ingredients business area develops and markets vegetable oils and fats for the food industry.

AAK offers a comprehensive range of food fats, consisting of everything from simple standard oils to advanced products with specific, tailor-made properties. In connection with the merger between Aarhus United and Karlshamns, the Group decided to divide the Food Ingredients business area up into three areas: Continental Europe, the UK and Nafta. The last-mentioned area is also divided up into the USA and Mexico.

At the same time as there is a lot which sets these three areas apart, the merger has given rich opportunities to pass on knowledge, to exchange experience and to find synergies throughout Food Ingredients. A larger number of production facilities, a more extensive product range and more platforms from which to serve the market are only a few of the benefits which have arisen as a result of the merger and which will make a strong contribution to future profitability.

A common denominator for the different areas of Food Ingredients is that customer offers comprise both standard products and specialised products with high value added. Since Food Ingredients operates in a market that is characterised by ever greater competition in the standard range, AAK has chosen to focus on value-added, speciality products – a strategy that has proved to be extremely successful.

Other key questions in health- and environment-related areas are traceability and sustainable manufacturing methods. In order to contribute to the sustainable production of palm oil, AAK is the founder and an active member of the Roundtable for Sustainable Palm Oil, a non-profit-making initiative involving a number of global sector companies in collaboration with the World Wide Fund of Nature.







## Food Ingredients

Proforma – whole year

(SEK m)	2005	2004
Net sales	6,191	5,420
Gross contribution	1,559	1,382
Operating profit	294	232
Volumes, thousands of tonnes	943	855

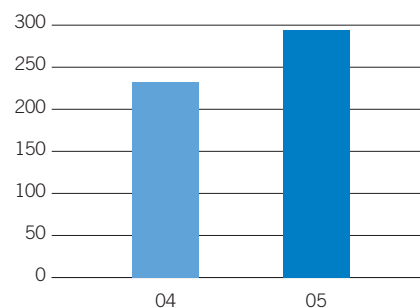
In 2005 sales volumes rose by 10 percent.

The principal areas of growth were:

- Speciality products, infant food and Dairy Fat Alternatives in the Nordic countries and Eastern Europe.
- Increased brand sales and a large number of new products in the UK.
- A large increase in sales of new trans-free products in the USA.
- Moderate growth in Mexico.

### Operating profit

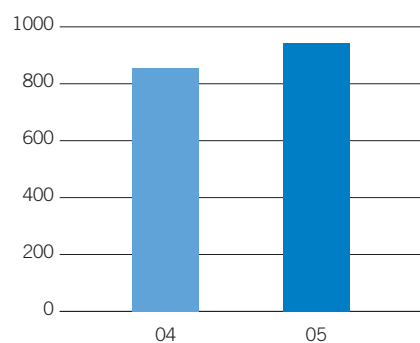
(SEK m)



The operating profit increased by SEK 62 m or 27 percent.

### Volume trend

(Thousands of tonnes)



Volumes increased by 10 percent.

## Food Ingredients Continental Europe

The business area Food Ingredients Continental Europe serves the greater part of the European market, apart from the Great Britain. About 55 percent of its sales are to the Nordic market, the rest going to mainland Europe. As transportation accounts for a relatively large proportion of total costs, Food Ingredients is to a large extent a regional operation, even if speciality products with high value added have a more global range than standard products.

In terms of volume, the sales of the business area are divided fairly equally between standard and speciality products. The latter are in turn divided into four segments: Dairy, Bakery, Food Service and Nutrition.

One of the main strengths of the business area is its ability to respond quickly and adjust to changes and new demands in the food industry. The Group's comprehensive know-how and constant development work mean that trends are identified and quickly lead to new products. The ambition of Food Ingredients Continental Europe is to make use of the constant market changes in order to create continued growth.

### Trends in the food industry

The trend regarding health continues to dominate developments in the food industry. In order to satisfy the demands of end users, customers are increasingly asking for omega 3, trans-free alternatives or products with less saturated fat. AAK has the advantage of being able to offer a healthier alternative, based solely on vegetable raw materials with an optimum nutritional profile.

A part of the health trend is functional foods, a segment which covers food offering various kinds of additional functions. One example is an oil containing sterol, a natural substance which lowers the amount of cholesterol in the blood.

In this area AAK offers a patented product known as Vividol®. The fastest growing market segment in the food industry is the fast-food market, a product group which includes ready-made food and snacks. More and more meals are eaten outside the home, a trend that is expected to continue increasing.

One trend which will inevitably affect the fat industry in the next few years is the rapidly increasing production of biofuels. Several players will probably move from simply adding value to food oils to also producing biofuels. The demand for vegetable oils will increase as a result, which may affect the industry in two ways. One positive effect may be an improvement in the industry's capacity utilisation, which

should strengthen margins. On the other hand, an adverse effect may be that the fat industry is affected by rising raw material prices, which will further increase the pressure on the food industry.

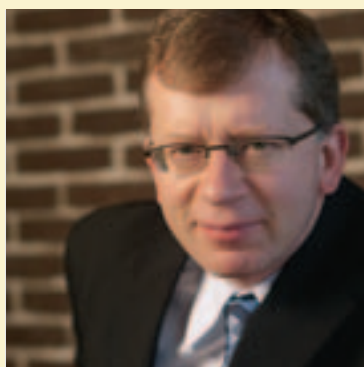
### 2005 – a year of growth

In 2005 the business area's profits and sales volumes rose, volumes going up by 11 percent and profits going up by more than 15 percent. This growth was generated mainly in speciality products, Nutrition and Dairy. Success has been achieved in most geographical markets and a continued positive trend is to be expected.

### Solution provider

One reason contributing strongly to customers preferring AAK is the fact that its products are developed more with the aim of adding value to the customer's end product. One alternative may involve offering unchanged functionality at a lower cost, while another offers greater value of the end product in order to strengthen the customer's market position. A uniform and high level of quality is naturally also important, as is high product safety. In both these respects AAK is out in front in relation to the industry generally.

Prioritised measures in product development and customer-targeted research have made Food Ingredients an expert in its field. As a result of sound application know-how, the ability to rapidly adapt



### Håkan Christensson, Head of the business area Food Ingredients Continental Europe

Håkan Christensson is a graduate in chemical engineering and has been an employee at Karlshamns since 1986 – first at Research & Development, later as product manager, and most recently as head of the business area Food Ingredients Continental Europe.

#### What advantages do you see from the merger in your business area?

"The merger gives us access to a larger market, with production as well as sales units in a large number of countries."

#### What will your biggest challenge be in 2006?

"As far as the actual integration is concerned, we must overcome the internal differences that always exist in a merged business in order to present as soon as possible a uniform face to



operations to changes in the market and close collaboration with the customer, the market can continually be offered nutritional products with good functionality. Through optimum handling of raw materials and value added, new functions are constantly being created in combination with innovative products.

### New launches

In 2005 two new products were introduced, Akocrisp and Akochurn. They were both launched at the Food Ingredients Europe trade fair. Akocrisp is a pumpable fat for the bakery segment. It replaces the traditional solid margarine and is much easier to handle.

Akochurn is an alternative to butter fat that can be used in low-fat products. By replacing animal fat with a vegetable alternative, dairies can offer healthier products.

### A tough market

Food Ingredients Continental Europe has a large number of competitors. The foremost of these are ADM and Cargill/IOI, for standard products and IOI/Loders Crocklaan and Fuji Oil for speciality and niche products. The market as a whole is characterised by stiff competition. In certain segments, however, AAK has the advantage of its spearhead position in product development, especially where dairy fat alternatives (DFA) are concerned.



### The future

The prospects for 2006 are judged to be good. The strategy for the coming year is to retain the market share for standard products in the Nordic market, while the ambition is to increase the growth of higher value-added products throughout Europe.

In order to achieve these goals, the business area will continue the expansion of its speciality range, which will be done partly by increasing the degree of value added in existing products.

the outside world, to our customers. We must also gain support for our speciality products in our new global market by marketing not only the actual products, but also our soft values. Finally, we must achieve profitable growth by improving our market positions in Europe."

### How will these united strengths contribute to product development in your business area?

"In two ways. Firstly, we now have a wider market and much better opportunities of testing newly developed products. Secondly, customer needs and trends will influence the development of new products much more quickly now because of our global market presence."

### Do you foresee any novelties when it comes to the trend towards more natural products based on vegetable oils?

"Vegetable oils are the raw material of the future. It is essential for people to eat the right fat. Vegetable fat is a renewable raw material which is more environmentally friendly than mineral oil and less expensive than animal fat such as butter."

## Food Ingredients UK

The business area Food Ingredients UK, which is based in Hull, serves the Great Britain and Ireland. In a market characterised by extremely keen competition, Food Ingredients UK has approximately one-third of the domestic market for bulk oils. At the same level, namely about 30 percent, are its deliveries to the market segment Food Services, restaurants, catering and similar operations, where its brands are market leaders. The range includes a number of speciality oils, such as olive oil, flavoured olive oil, dipping oil, tapenade and spreads. The three most important market segments are the food industry, the restaurant and catering sector and the retail trade.

With a background in strong business relationships lasting many years, Food Ingredients UK has secured its position as the supplier of choice to a broad customer base. Its ambition is also to continually develop its customer relationships, mainly through constant and open dialogue. The business area is known for responding to all kinds of customer initiatives with promptness and flexibility, and it goes without saying that this strengthens and develops its relationships with its customers.

Food Ingredients UK not only strives to deliver the product quality that the customer demands and expects, but also

seeks to give the customer high service, innovative products and services as well as market and product information at a reasonable cost. This strategy has proved successful over many years.

In order to live up to its ambitions, a feature of its operations is extremely high flexibility – an attribute which is necessary to enable the business to adapt to new customer expectations and market trends. Product development is about being continually one step ahead of market trends, carrying out detailed research in particular areas of need and then developing products which satisfy these needs.

### The past year

In 2005 keen competition continued to be a feature of the market, coming mainly from ADM and Cargill. The past year was characterised by a continued focus on customers and the retail trade. Food Ingredients UK succeeded, despite this, in retaining an extensive customer base in all market segments.

Sales under its own brand names continued to grow and a large number of new products were introduced onto the market. The launch that attracted most attention in 2005 was Prep ZT, a trans-free deep-frying oil. In April the successful launch took place of a similar product in the USA under the brand name FryChef, and sales are expected to increase further in 2006.

For the business area, the merger has brought exciting opportunities to enlarge its product range, while at the same time deriving considerable benefit from the Group's overall process knowledge. As a consequence of the merger, the business in the Great Britain will be concentrated at one plant.

### Focus on sustainability

The dominant trend for food ingredients in the Great Britain has its origin in the ever-stronger awareness of health among today's consumers. This shows itself, among other things, in the form of increased demand for low-fat products, trans-free products and products containing less saturated fat. In order to meet this trend, the range is adapted in line with customer requirements.

Another important market trend is an ever-increasing priority for long-term, sustainable manufacturing methods.

The consumption and manufacture of biodiesel and other biofuels continue to increase, partly as a result of EU subsidies. The consequences of this development are felt most by companies operating in the area of food fats. The ever-stronger demand for vegetable oils is driving up the price of raw materials, inevitably affecting value-added oils for food applications.



Ian McIntosh, Head of the business area  
Food Ingredients UK

Ian McIntosh, a graduate in engineering and in economics, joined Aarhus United in 1998 after an international career. He is now responsible for operations in the Great Britain.

### What advantages do you see from the merger in your business area?

"The biggest question for us is the integration of the Great Britain operations, which will involve closing two production units, thereby bringing substantial cost savings.

Another important question is benefiting fully from the variety of complementary knowledge and experience to be found in the Group, e.g. in regard to technology, refining and product development."



### Strong brands

Food Ingredients UK has a strong position when it comes to its own brands. The range includes no less than four of these:

- Again & Again – a deep-frying oil for the retail trade with an extra-long shelf life.
- Prep – deep-frying oils for the market segment Food Service throughout Europe.
- International Collection – speciality oils for the global retail market.
- Chalice – speciality oils for the Great Britain retail market.

In connection with the launch of Prep, a bonus programme was introduced in the Great Britain market. The programme has proved successful and similar activities may also be introduced in other Prep markets in the future.

A common denominator for the branded products in Food Service is their long shelf life. Despite the fact that the prices of the products may be seen as somewhat high, the combination of high performance and a long shelf life means that end consumers still lower their overall costs by choosing a product from AAK. Most of the products are based on palm oil, other important raw materials being rapeseed oil and sunflower oil.

### The future

Expectations for 2006 are high. A large number of new product launches are planned, while extensive marketing activities are under starter's orders, mainly in the Food Service segment. New business opportunities will be addressed and collaboration with existing customers will be extended.

The plans for the closure of the plants in Formby and Wincolmlee are expected to be put into effect before the end of the year, when their operations will be moved to the unit at King George's Dock.

### What will your biggest challenge be in 2006?

"Carrying out the restructuring and amalgamating three production units into one."

### How will the combined strengths of the new Group contribute to product development in your business area?

"Aarhus United and Karlshamns had rather different ways of working on product development, and the merger will bring considerable opportunities of learning from one another."

### Do you foresee any novelties when it comes to the trend towards more natural products based on vegetable oils?

"We will also in the future continue to concentrate on developing and supplying products which give our customers what they want. It goes without saying that what we offer customers includes new products based on vegetable oils."

## Food Ingredients Nafta, Mexico

The business area Food Ingredients Nafta, Mexico is based in the town of Morelia in the interior of Mexico, where there is access to 60 percent of the country's total purchasing power within a radius of 300 km. The bulk of sales take place in the domestic market of 100 million inhabitants. Operations include a tank terminal for vegetable oils in the port of Lázaro Cárdenas. The terminal, which ensures effective supplies of raw materials, is the only one of its kind on the west coast and has a capacity of 15,000 tonnes.

The Mexican market is characterised by very keen competition. By offering functional products with extra value for the customer, e.g. in the form of technical service and customer training, the business area strives to react quickly to its customers' needs and wishes. With its Scandinavian Group affiliation and local roots, the business area is also characterised by high flexibility and considerable creativity, which are a prerequisite for being able to adapt quickly to changes in the market and create confidence among customers.

### Market segments

The business area's most important market segments are Bakery, Snacks and DFA (dairy fat alternatives), together with

Frying Oils and Margarine. The market is very cost conscious, which means that a competitive cost level and high service are required to strengthen relationships with the customers. In line with the changing demand, the products are also becoming increasingly specialised and the product range is being developed constantly to correspond to customer needs.

### A look back at 2005

2005 involved growth generally of 4 percent for Food Ingredients Nafta, Mexico. The product segments DFA and bakery fats developed at a faster rate, with growth of around 10 percent.

During the year the business area was voted "Supplier of the Year" by the Bimbo Group, which is Mexico's largest manufacturer of snacks and bakery products. The Bimbo Group has been one of the most important customers for several years and this business relationship is expected to be strengthened in 2006. An important factor of success in this connection is the ability of Food Ingredients Nafta, Mexico to quickly develop and deliver trans-free products.

An important milestone in 2005 was the start of operation of a brand-new packaging plant. The plant has been designed in line with the latest requirements of hygiene and safety, is HACCP-certified and will increase and bring its level of hygiene up to international standards.

### Market trends

Mexican consumers, too, are increasingly health conscious, which stimulates the demand for products with low or no trans fat. This is a trend that is expected to grow more strongly over the next few years. As a result of AAK's continual work on product development, it has been possible to provide the market for a long period with these sought-after alternatives.

### A market exposed to competition

In the Mexican market costs are prioritised to a very high degree, leading to very intense competition. There are ten important competitors in the market, the biggest of them Cargill.

### The future

The merger has meant a wider product range, and sales of DFA and other more complex products are expected to increase as a result. The AAK Group has extended its global reach, which also helps to reinforce its image in the Mexican market.

Competition in 2006 is expected to remain intense; nevertheless, in combination with growth, the business is expected to achieve a satisfactory result. The year will be devoted to strengthening the business area's market position, partly through higher efficiency and increased production capacity.

Jan Astrup,  
Head of the business area  
Food Ingredients Nafta,  
Mexico

Jan Astrup, who is a graduate chemical engineer and economist, has been employed at Aarhus United for 18 years. He started work at the company as a process engineer and not long after was put in charge of the refinery at Aarhus. For a period of one year he was based in Egypt, but for almost four years now he has been President of the production unit in Morelia, Mexico.



### What advantages do you see from the merger in your business area?

"In the Mexican market the merger has strengthened our image and we are now perceived as a global company."

### What will your biggest challenge be in 2006?

"Something that will definitely be a big challenge is to change the old corporate structure,

adapt to the new matrix model and create a common corporate culture for the entire organisation. The ongoing merger process is certainly a challenge in itself. Another important task will be to increase our efficiency."

### How will the combined strengths of the new Group contribute to product development in your business area?

"In the DFA segment, in particular, we are looking forward to introducing the vegetable cheese fats which have been developed in Sweden. Our strategy will then be to prioritise improvements and developments within the segment for dairy fat alternatives."

### Do you foresee any novelties when it comes to the trend towards more natural products based on vegetable oils?

"Food Ingredients Nafta, Mexico is currently developing trans-free products for the bakery industry and low-trans products with low levels of saturated fatty acids for the deep-frying industry."



# Food Ingredients Nafta, USA

The home of Food Ingredients Nafta, USA is Port Newark, New Jersey, in the north-east of the country. From here the business area can reach about 60 percent of US customers in the food industry within 24 hours, making its geographical location an important asset. Food Ingredients Nafta, USA is a market leader in North America for coconut oil and palmkernel oil. The business area is known in the food industry for its high level of quality and service.

The most important product segments are Bakery Fat, Frying Fat and DFA (dairy fat alternatives), all of which application areas are characterised by strong growth.

## The past year

In 2005 demand rose in the bakery industry, generating growth for the business area. In order to meet this demand, more new products were launched in this segment than by any other supplier. A feature of 2005, generally, was a large number of product novelties designed to replace trans fats.

One of these was EsSense, a range of specially composed products designed to meet the demands for trans-free, non-hydrogenated products with low levels of saturated fatty acids.

As a result of new advances in product development, a patent application has been filed for a unique trans-free product for puff pastry. In 2005 production capacity rose further as a consequence of previ-

ous investments, whose full impact on production efficiency is being felt for the first time. At the same time a number of new process units meant that the volumes of trans-free products increased.

## At the forefront of new trends

One of the principal strengths of the business area is its ability to be one step ahead of sector trends and customer expectations. Knowledgeable sales staff, experienced and service-minded technicians and flexible production processes mean that there is a good knowledge of the market and the ability to deliver products and solutions based entirely on what customers want.

As in so many other markets worldwide, a feature of the North American vegetable oil market is the increasing awareness on the part of customers of various aspects of health. Demand is growing correspondingly for vegetable oils without trans fat, without hydrogenation and with low levels of saturated fat. The contents of consumer products are being scrutinised in greater and greater detail and the product portfolio of the business area is well-adapted to this trend.

At the beginning of 2006 new regulations came into force governing food labels, which state that levels of trans fatty acids must be declared. In connection with this change, Food Ingredients Nafta, USA was quickly out on the market with trans-free margarine and trans-free deep-frying oil.

This is just one of many examples illustrating AAK's strong ambition to be the foremost supplier of trans-free, non-hydro-

genated fats with low levels of saturated fatty acids.

The development of new products and solutions is an area of high priority. The objective is to continually introduce increasingly healthy alternatives.

## Competitors

In the North American market the business area competes mainly with ADM, Cargill, IOI/Loders Crokiaan and Bunge, all of which are global market players.

## 2006

In 2006 the current health trend is expected to continue to dominate the market, with positive effects on sales of non-hydrogenated vegetable oils without trans fat and with low levels of saturated fat. For the coming year, growth is expected in all the food segments, especially in the bakery market.

The merger means that Food Ingredients Nafta, USA is able to utilise the opportunities of increasing the product portfolio that are offered within the framework of the new Group and to start marketing these products in the North American market. The focus will be on dairy fat alternatives (DFA) and the functional and nutritional benefits offered by this range.

Josipa M. Paska,  
Head of the business area  
Food Ingredients Nafta,  
USA

Josipa Paska, an experimental biology graduate with a past in the food industry in Canada and the USA, has been responsible for operations in the USA since 2004.



### How will the combined strengths of the new Group contribute to product development in your business area?

"Every part of the world market has its distinctive features and special needs, and

satisfying these needs is the key to success. We make sure that we have the products and services that the market demands. At the same time there are a number of very interesting products in our sister companies in Europe,

which may be relevant for a launch here in the USA. The new Group has wholly unique technical opportunities which we look forward to being able to benefit from."

### Do you foresee any novelties when it comes to the trend towards more natural products based on vegetable oils?

"It's quite clear that all markets are demanding healthier products and this is the thread that runs through the whole of our product portfolio. We are having a lot of success with our EsSense products, which are both trans-free and non-hydrogenated. At the same time EsSense has insignificant levels of saturated fatty acids combined with high levels of polyunsaturated fatty acids, which is also something that our customers ask for."



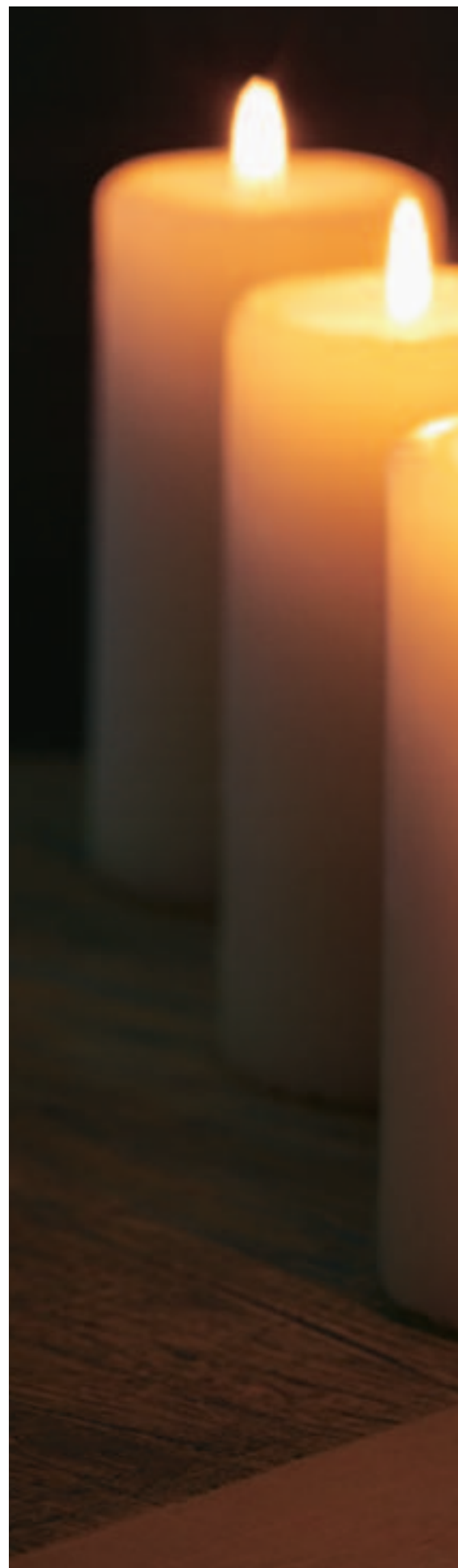
# Technical Products & Feed

The business area Technical Products & Feed comprises a broad spectrum of products whose common denominator is that they are intended for other than human consumption. The range targets a number of markets that differ from each other and sales have therefore been organised in three business sectors: Tefac (renewable raw materials for the chemical industries) Binol (vegetable based lubricants) and Feed (animal feed raw materials).

In 2005 AAK decided to combine Technical Products and Feed Materials into a single business area, the change being made in connection with the merger. This was the result of an effort to achieve optimum resource utilisation and improved access to one another's special knowledge and experience.

One important benefit of bringing together the two areas in one organisation was that in this way the various segments could more easily derive benefit from each other's know-how and coordinate a number of functions. Consolidating and developing the leading positions in the Nordic countries is of the highest priority for the business area. At the same time the merger makes it possible to interchange the product range internationally in a new way.

Continued structural change is also anticipated in the sector, opening up new opportunities for AAK.





## Technical Products & Feed

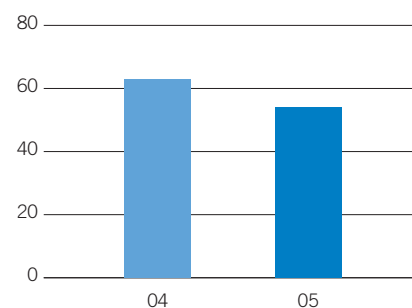
Proforma – whole year

(SEK m)	2005	2004
Net sales	902	1,002
Gross contribution	196	205
Operating profit	54	63
Volumes, thousands of tonnes	293	319

In terms of sales, 2005 remained a tough year for Tefac. Volumes were squeezed further, ending up at –6 percent. The fatty acids market is strongly influenced by rising raw material prices, which in turn is due to the fact that the raw materials used to make fatty acids are also sought after by the European energy industry for the manufacture of biofuels.

### Operating profit

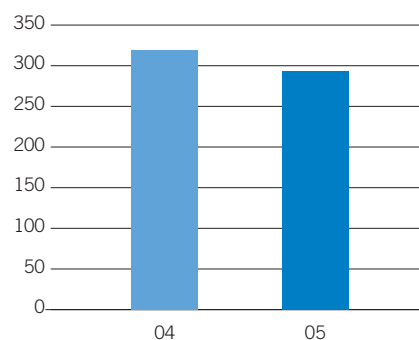
(SEK m)



The operating profit in 2005 was SEK 54 m, SEK 9 m down on the previous year.

### Volume trend

(Thousands of tonnes)



Volumes fell by 8 percent.

# Technical Products & Feed

The business area Technical Products & Feed comprises a broad spectrum of products whose common denominator is that they are intended for other than human consumption. The range targets a number of markets that differ from each other and sales have therefore been organised in three business sectors: Tefac (chemically based products), Binol (vegetable lubricating oils) and Feed (animal feed raw materials).

## Tefac business sector

### – Renewable raw materials for the chemical and technical industries

AAK manufactures fatty acids and glycerine, which are marketed under the brand name Tefacid. Both types of products are extracted through splitting of the fat molecule and are used in a large number of different applications.

Due to relatively high transportation costs, the market for fatty acids and glycerine is regional in nature. About 30 percent of volumes are sold in the Nordic countries, where Tefac has a strong market position. Other important markets are Germany, the UK, Russia and the Baltic States.

Fatty acids are used mainly as raw materials in the chemical and household products industry, where they are used as input goods for several applications, such as paper chemicals, soap, detergents, rubber and plastic. One product that consists exclusively of fatty acid is stearin candles.

Glycerine is used in such widely varying products as cosmetics, explosives, paint and food.

### Structural change

In terms of sales figures, 2005 was another tough year. The fatty acids market is characterised to a very large extent by rising raw material prices. This is due largely to the fact that the very same raw materials used to make fatty acids are

also sought after by energy producers throughout Europe, since they constitute the base for biofuels. Rising prices of fuel oil in combination with EU subsidies for biofuels affect Tefac's profit margins.

The subsidised biodiesel production has an additional effect: the supply of glycerine, which is a by-product of biodiesel production, currently outstrips demand by a substantial margin. As a result, prices for glycerine are squeezed and with them profit margins. The EU is expected to continue to subsidise the manufacture of biofuel and biodiesel for the foreseeable future. AAK has therefore decided to respond to the adverse effects of this trend with a gradual increase in the value added of its product range and by more proactive behaviour throughout the entire value chain. At the same time its sales activities are also being stepped up in the Nordic market.

## Binol business sector

### – vegetable based lubricants

Under the brand names Binol and BioSafe, AAK develops, manufactures and markets environmentally friendly lubricants such as metalworking fluids and lubricants for the manufacturing industries, together with hydraulic and chain saw oils for the forestry and construction industries.

In 2005 the most specialised hydraulic oil range was extended with a number of new products, which were positively



received by the market. These hydraulic oils with a maximised lifetime, based on renewable raw materials, are the first of their kind and so were the first to be assigned the EU flower eco-label.

The majority of Binol's products are sold in the Nordic market, making the business relatively regional. About 10 percent of sales are outside the Nordic countries, mainly in the USA, Canada and Germany. Sales continued to rise throughout 2005, a trend that is expected to continue in 2006.

In the Nordic countries the products are sold directly to the end user under the brand names Binol and BioSafe. In other markets AAK collaborates with various partners, sales then taking place under the brand names of the latter.

### Kind to people and the environment

Greater awareness of the environment in society and in the marketplace has a very positive effect on sales of Binol products. When mineral oils are replaced with vegetable based lubricants, several



## Magnus Jörsmo, Head of the business area Technical Products & Feed

Magnus Jörsmo, a graduate chemical engineer, came to Karlshamns in 1986, since when he has occupied a number of positions within the Group.

### What advantages do you see from the merger in your business area?

"For us at Technical Products & Feed, the merger opens up the way for increased internationalisation, especially for Binol, but also for Feed and Tefac."

### What will your biggest challenge be in 2006?

"Managing the threat that biofuels and biodiesel pose to Tefac and Feed and getting Tefac's operations up to a satisfactory level again in terms of profitability. At the same time we must safeguard Binol's positive growth trend."



benefits arise such as improved performance in the form of lubricating properties, a lower overall cost and, last but not least, a much better workplace environment. At the same time as the overall market for lubricants is dwindling, bio-alternatives are capturing ever-increasing market shares. This trend, which has been further reinforced by the rising prices of mineral oils, clearly benefits sales of Binol.

#### Feed business sector

The feed raw materials marketed by AAK contain vegetable protein and fat raw materials for the animal feed industry. The most important applications are feed for dairy cows, pigs and poultry.

2005 can be regarded as a satisfactory year in terms of earnings.

#### Competitive product offers

What Feed offers customers consists mainly of various product lines in proteins and feed fats. When rapeseed is crushed, rapeseed oil and rapeseed meal is extracted. The meal is further refined

at the plant in Karlshamn and marketed under the trade name ExPro™, a product which improves the effectiveness of the feed protein and increases the milk yield of cows. This product is sold mainly to the Nordic animal feed industry, where the business sector has a leading position in the market for bypass proteins.



Feed's range comprises both solid bypass fats and liquid fats. The fats are used as

ingredients in feed for cattle, pigs and poultry. Their composition affects to a high degree the yield, for instance, of dairy cows and the growth rate of pigs and poultry.

An important part of the sales service of the business sector involves helping customers to create the optimum feed mix best suited to their individual needs.

As agriculture expands, more and more farmers prefer to make up their own feed mixes at home on the farm instead of purchasing ready mixed products.

#### Product safety

In the animal feed industry more and more importance is placed on traceability and feed safety. AAK is at the forefront of this area and is able, among other things, to guarantee salmonella-free products, a guarantee which makes the company unique in the industry. In 2005 AAK developed a rapid analysis method for detecting salmonella trends in the outdoor environment, thereby further strengthening its position in feed safety.

#### How will the combined strengths of the Group contribute to product development in your business area?

"Through the opportunity we now have of learning from each other and of exchanging experience between the various business areas. Another major asset is the close collaboration between the production and development units."

#### Do you foresee any novelties when it comes to the trend towards more natural products based on vegetable oils?

"Yes, I'm convinced that renewability will become an increasingly important selling point, which will have positive effects for both Binol and Tefac. With regard to Feed, feed safety, nutritional value and locally produced goods will instead be of greater importance."



# Other business units

The segment Other Business includes the business area Lipids for Care and other operations such as Ceylon Trading, Frank Fontannaz Holdings, BSP Pharma A/S and Group head office expenditure.

## Lipids for Care

AAK's business sector Lipids for Care markets and sells vegetable fats (lipids) for use in cosmetics, skin and hair care, and clinical nutrition. Constant renewal in combination with high value added has given AAK a market-leading position in this segment.

## Ceylon Trading Company Ltd.

Ceylon Trading Company Ltd., which is wholly-owned by AAK, is a holding company with a number of subsidiaries active in the manufacture and export of rubber products, the manufacture and distribution of foodstuffs, and forwarding and shipping operations in Sri Lanka.

## Frank Fontannaz Holdings Ltd.

The Fontannaz Group, with offices in London, Rotterdam and Kuala Lumpur, engages in the international broking of vegetable oils.

## BSP Pharma A/S

BSP Pharma is a company owned jointly by AarhusKarlshamn Denmark A/S and Astion A/S. The company's mission is to develop and market patented anti-inflammatory products with high standards of documentation, safety and efficacy.

## Group head office

The new office in Malmö houses the central management group, i.e. the Chief Executive Officer, the Chief Financial Officer and the Chief Information Officer, together with a small number of employees. The office serves as a cost-effective forum for the entire organisation.







## Other business units

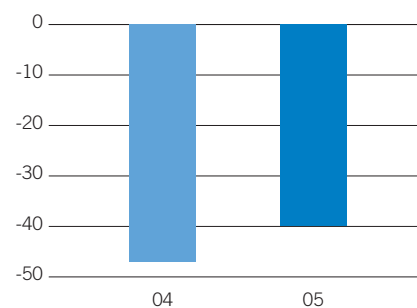
Proforma – whole year

(SEK m)	2005	2004
Net sales	399	391
Gross contribution	107	145
Operating loss	-40	-47

The core activity in this segment consists of the business area Lipids for Care. For the business area, 2005 was yet another year characterised by growth. The largest successes were reported in Europe and Asia, the latter being a market that is taking on increasing interest.

### Operating loss

(SEK m)



The operating loss of Other Business decreased by SEK 7 m.

## Lipids for Care

### Expert in lipids

The niche character of this business unit affects the whole of its operations, throughout the value chain. Both products and markets require special knowledge when it comes to purchases of raw materials, production, R&D, marketing and sales. The business area Lipids for Care has successfully built up the necessary expertise and experience and also works very closely with its customers in order to guarantee effective product development that creates value added.

AAK has worked with lipids for many years and its experience makes it the world's foremost expert in this area.

### A natural product

Undoubtedly the most important property of the products in the Lipex® family is their natural origin. All products from AAK are based exclusively on vegetable oils.

### Lipids for Care – a natural part of AAK

Viewed as a business area, Lipids for Care is the ideal complement to AAK's business area Chocolate & Confectionery Fats. Both business areas complement one another since they make use of the same knowledge, the same production equipment and the same raw materials.

### The past year

2005 also proved to be a year that was characterised by growth, the largest increase being recorded in Europe and Asia.

The market trends that have emerged in recent years continue to be strong. The number of consumers is rising in line with the broadening of the customer base in the market for skin- and hair-care products with increasingly younger and older persons. At the same time interest is growing among male consumers.

In parallel with this can be seen a continued strong trend of more and more customers who to a growing extent are demanding natural products. As a result of this, customers want to have products that are free of ingredients based on synthetic, animal and mineral oils.

For the business area Lipids for Care, the merger has brought large opportunities. Both companies were active in the refinement and marketing of lipids, and the shared knowledge and experience of the two former competitors bode well for the future. As a result, the integrated range can reach a much larger target group, which means that what AAK offers customers in the global cosmetics industry has become even better.

### Gentle processes

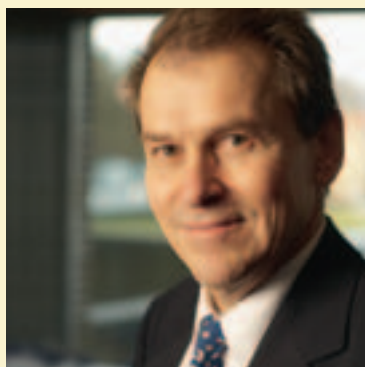
The Lipex® range is based on natural and renewable raw materials.

A large number of product series are based on shea oil. The beneficial properties of this oil have made it one of the favourites in the cosmetics industry. Owing to its softening and moisturising properties, shea oil provides an agreeable skin feel, while its anti-inflammatory functions add valuable bioactivity. Among other exotic raw materials are mango, illipe, almond, sesame, grape, apricot and coconut.

AAK has built up a strong network which supplies it with the best possible information and knowledge of raw materials, their price trends, harvest forecasts and deliveries.

The key to success when it comes to lipids lies in their gentle manufacturing process. In order to create products with the functions and the quality that customers seek, use is made of a number of different production processes, all of which are available at AAK's own facilities. Among these may be mentioned specially developed fractionation methods, which play a key part in the development of products based on shea.

With the help of gentle processes, the natural substances in the oils are preserved, which contributes positively to the performance of the end product. Examples of such naturally occurring substances are antioxidants and vitamins. As a result of the mild form of purification used, these beneficial minor components



Jan Gunnerdal, Head of the business unit  
Lipids for Care

Jan Gunnerdal is a graduate in chemical engineering and has been employed at Karlshamns since 1970. He was formerly responsible for Chocolate & Confectionery Fats.

### What advantages do you see from the merger in your business area?

"Since both Karlshamns and Aarhus United were active in the cosmetics segment, we an-

ticipate certain synergies. The higher net sales also make possible further ventures in R&D and sales/marketing. Our network for purchases of raw materials has been strengthened, as



can be preserved, while all the unwanted substances, such as those that impart taste and odour, are effectively removed.

#### **Leader in product development**

Lipids for Care is characterised to a high degree by application-oriented product development, work that is largely done in its own cosmetics laboratories. The business area is one of the leaders in the sector in research and development. A large part of the development work is carried out in a close and continuous dialogue with its customers. This dialogue covers both technical and commercial aspects, which makes Lipids for Care very familiar with each customer's individual needs and wishes.

At present a large part of product development concentrates on creating

products which offer certain basic functions, e.g. moisturising or cleansing, while adding a number of more advanced functions. The product may, for example, have an anti-inflammatory action or protect against UV radiation from the sun, against exhaust fumes or against other environment-related contaminants.

#### **A market exposed to competition**

Lipids for Care continues to develop positively. Its position as the technically most advanced market player, a position that has been consolidated with the aid of the Company's global expertise, close collaboration with its customers and unique processes that give value added, amounts to a strong business advantage. At the same time innovative products will continue to be offered which are natural,

healthy and safe. The comprehensive and global distribution network also guarantees safe and reliable deliveries.

In the global market Lipids for Care competes with large, global chemical groups such as Cognis, Croda and Uniqema. Among the world's manufacturers of speciality fats, AAK is virtually alone in serving the cosmetics market.

#### **The future**

The goal for 2006 is to grow faster than the most important markets. The merger entails a number of new platforms for Lipids for Care, with direct sales channels to several markets. Sales are therefore expected to rise, especially to the USA, Russia and Mexico. At the same time doors are opening the whole time to new markets around the world.

have also been the number of production facilities and sales offices, which means that we are closer geographically to our global customers and in this way can improve our service. At the same time our overlap in our respective product portfolios is marginal, which means that our range has widened significantly."

#### **What will your biggest challenge be in 2006?**

"The biggest challenge will naturally be to integrate the organisation. The employees in the cosmetics segment are knowledgeable and very committed. We must now make sure that we utilise this situation in the correct way."

#### **How will the combined strengths of the new Group contribute to product development in your business area?**

"The merger has widened our knowledge base of experienced and specialised technicians, which means new opportunities."

# Research and Development

In the Group there is a strong link between development work and the needs and demands of customers. All in all, AAK possesses a knowledge of the properties and possibilities of the fat molecule that is unique in its sector. It is the prerequisite for development towards products of high value added.



Knowledge of the fat molecule constitutes the very core of AAK's business. The Group's scope for competitiveness in the future is based on its ability to exploit and develop this knowledge and to transform it into attractive products. The merger provides conditions for research and development reinforcing the Group's position in the increasingly tough climate of competition.

## Central part of AAK's strategy

R&D is a central part of AAK's strategy and an important reason behind the merger. The latter makes it possible to utilise the overall knowledge present in the companies in the Group in success-

ful product development in order to take further steps upward in the value chain in the direction of higher value-added products.

An ability to respond quickly to changes and demands is essential. This is the reason for R&D resources in the business units, where a continual exchange with customers provides an impetus for new products. Being able to meet the demand for new products is a basic condition for growth.

## The food industry

The trend towards health continues to dominate developments in the food industry. In order to satisfy the demand among

end consumers, customers are increasingly asking for omega 3, alternatives that are free of trans fat, and products with less saturated fat. AAK has the advantage of being able to offer healthier alternatives based solely on vegetable raw materials.

In 2005 two new novelties were introduced onto the European market.

Akocrisp is a pumpable fat intended for laminated doughs, e.g. pastry. It replaces the traditional solid margarine, making way for substantially easier handling since it can be pumped directly into the production process. The concept entails several advantages for the customer since the total production cost can be reduced, while the end product is given a better nutritional profile. This product has been developed in close collaboration with one of the Company's customers. A patent has been sought.

Akochurn is a butter fat alternative that can be used in churned low-fat blends. By replacing animal fat with a vegetable alternative, dairies can offer healthier products. In Akochurn a large step forward has been taken in the development of butter blends, which contain both butter and vegetable fat.

A feature of 2005 was a large number of newly developed products designed to replace trans fats.

EsSense was introduced in the USA market in 2005. This is a range of specially composed fats which meet the requirement of being trans-free, non-hydrogenated and having low levels of saturated fatty acids.

A patent has been sought for one trans-free product for pastry doughs, which is also intended for the American market. Mexican consumers are also becoming more and more health conscious, which stimulates the demand for products with low or no levels of trans fat. As a consequence of AAK's constant work on product development, it has been possible to supply the market for a long time with these sought-after alternatives.



### Chocolate and confectionery

In November 2005, at the large Food Ingredients Europe trade fair, AAK's DeliAir product, a filling fat with the best whipping properties on the market, was nominated for the year's award for innovation, as a result of which AAK's stand attracted a considerable degree of interest.

In common with the rest of the food industry, the confectionery sector has an increased focus on health and wellbeing, which has created a sharply rising demand for trans-free fats. A recently developed range of trans-free filling fats has made the Company a leader in this area.

### Cosmetics

The business area Lipids for Care is characterised to a high degree by customer-oriented product development with the aid of in-house formulation laboratories. Further development of the existing product range takes place continuously at the same time as innovative development of brand-new products based on the Company's vegetable raw-material base. A large part of the development work is carried on in close dialogue with the Company's customers.

At present a large part of product development concentrates on devising products with specific functions and active substances. The aim is to create products which offer basic functions, e.g. moisturising or cleansing, while adding a number of more advanced functions. A new ingredient may be multifunctional by acting, for example, as an anti-inflammatory or protecting against UV radiation from the sun, against exhaust fumes or against other environment-related contaminants.

### AAK's Scientific Board

In order to have access to the latest research findings from the academic world, AAK has set up an international Scientific Board, which consists of researchers and experts from Denmark, the UK, Sweden and the USA.



# Employees

## The organisation

Successful development calls for an organisation that is capable of responding rapidly to changes in the world at large.

This requirement is met by organising operations in business areas. This new matrix organisation makes it possible to effectively use personnel at more than one unit, something that can noticeably enhance flexibility and efficiency. In addition, it provides individual employees with greater scope for acquiring more stimulating duties and a deeper knowledge of various areas.

In all of AAK's units worldwide there is an extensive knowledge of oils and fats, and with the matrix organisation the employees will to a greater extent help and learn from each other.

Ensuring that the organisation functions effectively will be a key task in 2006. The changeover will require patience, considerable commitment and a strong willingness to contribute. A number of cultures and many different ways of working must meet, come to terms with each other and be harmonised.

## Values

Since the harmonisation of corporate cultures and leadership styles is absolutely crucial for how well one succeeds with integration, work started in 2005 on surveying the differences in corporate culture and leadership style between the various countries and companies as well as on a process for harmonising them. It is important to derive benefit from the strengths present in the various parts of the Group and to formulate an approach to how this should be done in practice. As part of this process, a framework is being created for common values for the whole of AAK, and their make-up and implementation will define how we should work. The work on values will start in 2006. A tailor-made, leadership-development process will also start, aimed at supporting and further



improving the ability of the leaders of the organisation to succeed with the integration process.

### Leadership development at AAK

One example of leadership development in the Group is the work that has been done at AarhusKarlshamn Denmark.

In December 2005 the last training activity was carried out, which means that all managers at every level have now completed a 15-day programme aimed at:

- Developing self-awareness.
- Increasing an overall understanding of the business.
- Developing a common view of being a manager and managerial tools.

The leadership programme is an important part of the strategy of the business and is based on a desire to strengthen the role of manager and the climate of cooperation. The aim is to develop the potential of the employees in order to increase the degree to which they take on responsibility and become involved on the basis of the values and strategy of the business.

The starting point for the design of the programme is extensive analysis, in which the central management group and heads of departments collaborate.

## Questions to three employees:

**What expectations do you have of your work in the new matrix organisation?  
What pitfalls do we need to watch out for?**

### **Maria Wennermark, Marketing Manager**

*Maria works in Sweden at Chocolate & Confectionery Fats, reporting to Lars Krause-Kjear, Director for Global Sales & Commercial Product Management in Denmark.*

"I anticipate that each business area will be able to develop faster than it does today. I believe that overall effective resource planning can contribute to the optimum production of our products. We must not forget that we are a global company and that what should be maximised is our overall earnings."



### **Renald Mackintosh, Business Development Director**

*Renald is employed at Food Ingredients Continental Europe, reporting to the head of the unit, Håkan Christensson. Renald is based in the Netherlands, while Håkan is based in Sweden.*

"The matrix organisation requires us to work cross-functionally and across national boundaries, with a focus on the overall earnings of the company. I therefore think it is important for the results of each business area to be measured and not how each individual plant performs, since we would then risk not achieving all the synergies we can make."

### **Susanne Bakman Andersen, Application Manager**

*Organisationally, Susanne, who works in Denmark, reports to her manager in Sweden, Jan-Olof Lidefelt, Product Management and R&D Director. They both work at Food Ingredients Continental Europe.*

"I think that it will be very interesting to work in the new organisation. I hope that the members of our team will stimulate each other to think along new lines, and we will make an effort to develop our customers' products. My greatest fear is the risk of duplication of work, and this is a pitfall that we must avoid at all costs. Accordingly, it is essentially to keep each other informed about what is happening in our daily work. For example, we must ensure that our colleagues learn the results of the development experiments we carry out, whether they are large or small."





# Environmental activities of AarhusKarlshamn

The merger between Aarhus United and Karlshamn has meant new conditions for the Group's global activities in a number of important areas. As environmental issues are by their nature long-term, they require a well-thought-out plan, which means that the question of the way in which environmental activities within the Group should be carried out has still to be resolved. Environmental activities are strongly bound up with national legislation, which means that there are many advantages of carrying them out at local level.

AAK's plants have varying objectives and consequently impact on the environment in different ways. The plants in the UK, the Netherlands, the USA and Mexico refine oils for bulk deliveries or other consignments. The environmental impact then consists mainly of moderate amounts of effluent, with a low degree of pollution, waste and energy consumption.

The nature of the plants in Aarhus and Karlshamn is different. Here the extraction of oil from oil-yielding crops takes place, together with the fractionation and production of technical products. The environmental impact that arises takes the form of odours, discharges of solvents (VOCs), dust and extensive wastewater treatment. To illustrate AAK's environmental activities, the two plants in Aarhus and Karlshamn are described in more detail.







### **The plants in Sweden and Denmark**

AAK's plants in Sweden and Denmark have many similarities. Operations involve producing fat from oil-yielding crops through crushing and extraction. In both cases hexane is the extraction solvent used. The solid, protein component is sold to animal feed manufacturers and the oils are then refined in various process steps. The products are delivered in tankers or containers or packed in barrels, drums or boxes.

The plants must be licensed under the environmental legislation of both countries. They both have permits that are kept up to date and cover existing expansion plans.

Both the plants have environment management systems certified to ISO 14001. Within the framework of these management systems, work is carried out systematically on controlling and setting environmental targets and on constantly improving operations.

The environmental impact of both operations consists of the consumption of energy, fresh water, cooling water, raw materials and auxiliary chemicals. Air emissions consist of carbon dioxide, nitrogen oxides, sulphur dioxide and particulates from incineration as well as the discharge of solvents, dust and odours. Effluents consist of phosphates, together with fat and other oxygen-consuming substances. Noise and waste are other important issues from an environmental standpoint.

Environmental activities are aimed at efficient resource utilisation, effective recycling of waste products and openness in regard to information about environmental issues.

### **Environmental targets 2005**

The plants have succeeded in achieving their energy reduction targets for 2005.

This has been done mainly by carrying out a large number of small improvements. In Aarhus there has been an increase in the recycling of condensate,

which saves both energy and water, and at both plants multiple-stage evaporation has been installed.

Karlshamn has also had a target of reducing its emissions of fossil carbon dioxide. Apart from making the application more efficient, this has been done by choosing non-fossil residues, such as wood pellets.

In recent years Aarhus has worked on reducing the amount of fresh water used. Its use has been reduced by 26 percent, adjusted for the level of activity, which means that the target has been achieved by a good margin. The amount going down the drain has fallen by as much as 21 percent.

The Karlshamn plant has worked on reducing unpleasant odours in the surrounding environment, which come mainly from the processing of oil-yielding crops at the crushing and extraction plant. New incineration of exhaust air has been installed, together with a condenser for process ventilation. In Aarhus an odour destruction system with UV light has been installed for the diffuse odour emissions of the crushing section.

An additional environmental target for the Karlshamn plant is to reduce discharges of solvents. An investigation has also begun into the possibility of reducing emissions of nitrogen oxides. In Denmark, too, stricter rules for such emissions are on the way, for which reason measures are also being explored there.

In Aarhus work is being done on reducing the consumption of compressed air, with good results.

### **Air emissions**

Besides saving energy, both plants are concentrating on keeping down their emissions. Aarhus has worked on improving its incineration so that maximum use is made of the fuel and in order to reduce the particulate emissions. Efficient incineration also leads to low emissions of nitrogen oxides.

# Environmental activities of AarhusKarlshamn

In Karlshamn a lot of work has been done to reducing dust emissions from the handling of seeds and meal. This has been done, among other things, with the aid of the condenser mentioned above. At the port new dust-separation equipment for the unloading of ships has been installed and this has reduced the formation of dust. New equipment for loading meal onto ships is planned during the year, together with better handling in connection with the temporary storage and moving of materials. In Aarhus, too, loading and unloading equipment has been replaced by closed handling, which does not create dust.

## Effluents

In order to reduce effluents, both plants are carrying out a number of measures. Sanitary waste, for example, goes to the respective municipal treatment works and in both Denmark and Sweden the plants take cooling water from the port.

The process wastewater is treated differently. In Aarhus it also goes to the municipal treatment works after pre-

treatment, while in Karlshamn treatment is carried out internally in a treatment works for process wastewater.

## Waste

Both businesses carry out strict sorting of waste. Different types of packaging and scrap are sorted and sent for recycling, together with organic material, which undergoes composting or digestion. Energy-rich waste is utilised and sold or used as fuel, enabling a reduction in the amount of waste going to landfill. In 2005 building work was carried out in Aarhus, giving rise to a large amount of building waste of a one-off kind.

## Noise

Since the plants are located next to towns, noise can disturb those living in the surrounding area. Continual work is carried out in order to keep the noise at a level which is acceptable and which complies with official guidelines.

A dialogue is held with those living nearby in order to identify and quickly rectify any problems that arise.

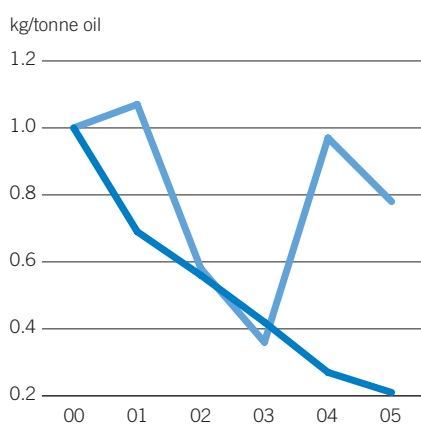
## Transportation

A large part of the raw materials used in the businesses is transported over long distances.

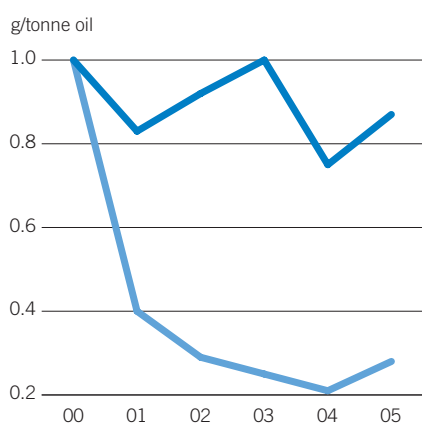
The plants in Aarhus and Karlshamn have in common the fact that they are located close to natural harbours. Transportation by ship is efficient from both an energy and an environmental standpoint.

In the case of finished products, ships are used to a limited extent; instead, the products travel by lorry and to some extent by rail. The highest priority is given to delivering products in bulk, as this is the most effective solution.

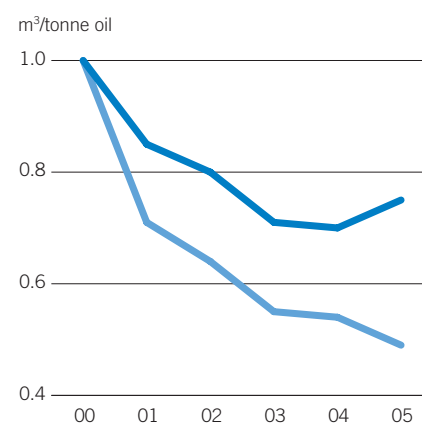
Waste to landfill



Hexane



Flow to treatment works



— Karlshamn — Aarhus

### Environmental targets for 2006

In Aarhus work is being carried out on the following environmental targets:

- Reducing energy consumption.
- Reduce consumption of fresh water.
- Reducing the flow of effluent.
- Reducing the use of compressed air.
- Reducing particulates from incineration.
- Reduce nitrogen oxide emissions.

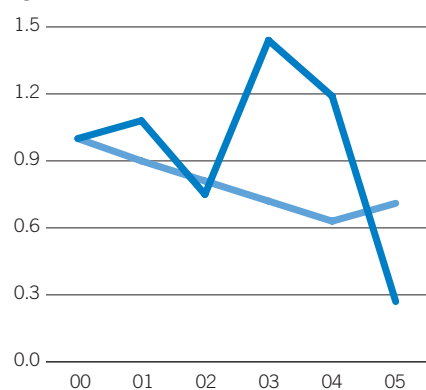
In Karlshamn the following environmental targets have been set:

- Reducing energy consumption.
- Reducing odours in the surroundings.
- Reducing the environmental impact of operations.
- Reducing dust from port operations.
- Reducing nitrogen oxide emissions.
- Reducing discharges of solvents.



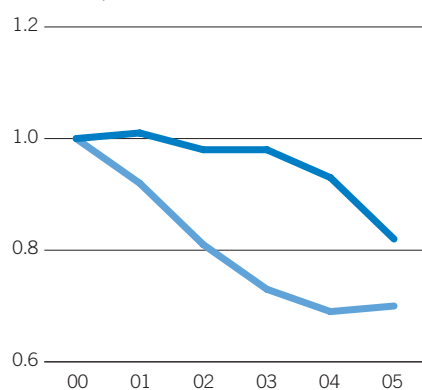
### Carbon dioxide

kg/tonne oil



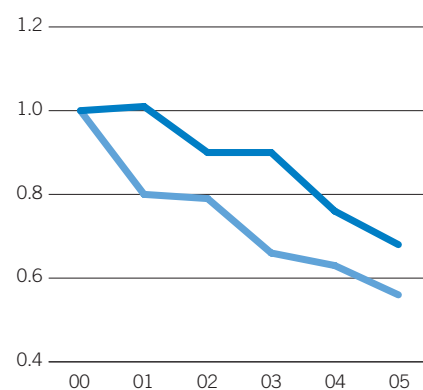
### Energy

kWh/tonne product



### Fresh water

m<sup>3</sup>/tonne oil



— Karlshamn — Aarhus

# Proforma

## whole year 2004 and 2005

AarhusKarlshamn AB (publ)

Review of earnings and key ratios – Proforma January-December (unaudited)

(SEK m, unless otherwise stated)	2005	2004	Change (%)
Net sales	10,573	9,720	8.8
Gross contribution	2,901	2,644	9.7
Gross contribution (%)	27.4	27.2	
Operating profit, incl. non-recurring items	329	414	-20.5
Operating margin, %	3.1	4.3	
Operating profit, excl. non-recurring items	530	414	28.0
Operating margin, excl. non-recurring items, %	5.0	4.3	
Net profit, excl. non-recurring items	340	274	24.1
Operating profit before depreciation (EBITDA), excl. non-recurring items	837	695	20.3
Operating cash flow	3	418	
Investments	485	261	
Shareholders' equity	3,504	3,265	
Minority interest	50	46	
Net liability	1,629	1,208	
Equity/assets ratio, %	52	52	
Net debt/equity ratio, multiple	0.46	0.34	
Operating capital	5,581	4,907	
Return on operating capital excl. non-recurring items, %	10.1	8.4	
Return on equity, excl. non-recurring items, %	9.9	8.3	
Earnings per share, excl. non-recurring items, SEK	8.22	6.62	
Number of shares at year end, thousands	41,384	41,384	

- Net sales rose by 9 percent, from SEK 9,720 m in 2004 to SEK 10,573 m in 2005.
- The operating profit, excluding non-recurring items, amounted to SEK 530 m (414), an improvement of 28 percent.
- Non-recurring items, mainly restructuring costs arising from the merger, are charged to profit in an amount of SEK 201 m.
- Profit before tax (excluding non-recurring items) amounted to SEK 461 m (360).
- Profit after tax (excluding non-recurring items) amounted to SEK 340 m (274).

Definitions, see page 85.



## Proforma accounts

### January – December

The consolidated proforma accounts below have been drawn up to illustrate what the merger between Karlshamns and Aarhus United would look like had it taken place on 1 January 2004.

The proforma statements have only been produced for illustrative purposes and are not aimed at presenting the financial position or result that the business would actually have had if the merger had taken place on the reported dates; neither are they aimed at showing the financial position or the result of the business for any future date or period.

The proforma statements for 2004 are based on Karlshamns' and Aarhus United's audited closing accounts in accordance with accepted Swedish and Danish accounting practice (GAAP). The proforma statements for January–September 2005 are based on unaudited accounts drawn up for Karlshamns in accordance with IFRS and for Aarhus United in accordance with Danish GAAP. The income statements and balance sheets are therefore not fully comparable for 2004 and the period January–September 2005. For the period October–December, the new Group, Karlshamns and Aarhus all report in accordance with IFRS.

### Principles and assumptions

The proforma income statements for 2004 and 2005 have been drawn up as if the merger had taken place on 1 January 2004. The proforma balance sheet for 2004 has been drawn up as if the merger had taken place on 31 December 2004. The balance sheet as of 31 December 2005 has been drawn up in accordance with IFRS and is the first consolidated balance sheet of the new Group.

### Consolidation

The proforma statements for the merged companies have been drawn up for 2004 on the basis of remaining parts of the acquisition value calculation as of 31 December 2005. The acquisition analysis is drawn up in accordance with IFRS 3, with the assessment that the identified acquirer is Karlshamns.

The proforma accounts are stated in SEK m. The income statements and balance sheets for Aarhus United have been translated at the average rate of exchange for the periods 1 January to 31 December 2004 and 1 January to 31 December 2005 and at the closing rate of exchange on 31 December 2004 and 31 December 2005, respectively.

### Translation rates

SEK/DKK	2005	2004
Average rate	1.245	1.225
Closing rate	1.264	1.211

No adjustments have been made to the proforma accounts in order to illustrate possible coordination gains that may be achieved from a merger between Karlshamns and Aarhus United.

All the participations in Aarhus United had been acquired on 31 December 2005. The remaining (not acquired) participations in Karlshamns are reported as a minority share on a separate line, under the heading minority interest. These remaining participations are subject to compulsory redemption.

An interest expense on the acquisition loan has been calculated for the periods in accordance with existing borrowing conditions. Consistent with the fact that the acquisition value calculation has been

drawn up according to IFRS 3, no depreciation is made for goodwill, which will be subject to an annual review.

Aarhus United's shareholding (23.4 percent of outstanding shares) in United Plantations Berhad was sold on 30 September 2005 for DKK 465 m (about SEK 580 m). In the proforma accounts it is assumed that the payment will be used for amortisation of liabilities. A corresponding reduction in the interest expense has been taken into account.

Proforma statements  
January – December

Proforma accounts

## Income statement, proforma (unaudited)

(SEK m)	Whole year Jan-Dec 2005	Whole year Jan-Dec 2004
Net sales	10,573	9,720
Other income	13	43
<b>Total operating income</b>	<b>10,586</b>	<b>9,763</b>
Raw materials, supplies and goods for resale	-7,640	-7,076
Value change in raw material and currency derivatives (IAS 39)	-32	-
Other external expenses	-1,074	-978
Costs of remuneration to employees	-992	-1,014
Depreciation and write-downs	-307	-281
Other expenses	-11	-
<b>Total operating expenses</b>	<b>-10,056</b>	<b>-9,349</b>
<b>Operating profit</b>	<b>530</b>	<b>414</b>
Net financial items	-69	-54
<b>Profit before tax</b>	<b>461</b>	<b>360</b>
Tax	-121	-86
<b>Net profit</b>	<b>340</b>	<b>274</b>
Attributable to minority	16	8
Attributable to the Parent Company's shareholders	324	266

## Income statement, proforma – “Bridge” (unaudited)

(SEK m)	Jan-Sep 2005	Oct-Dec 2005	Adjustment non-recurring items	Adjusted Oct-Dec 2005	Whole year Jan-Dec 2005
Net sales	7,583	2,990	-	2,990	10,573
Other income	2	11	-	11	13
<b>Total operating income</b>	<b>7,585</b>	<b>3,001</b>	<b>-</b>	<b>3,001</b>	<b>10,586</b>
Raw materials, supplies and goods for resale	-5,347	-2,343	50	-2,293	-7,640
Value change in raw material and currency derivatives (IAS 39)	-40	8	-	8	-32
Other external expenses	-805	-298	29	-269	-1,074
Costs of remuneration to employees	-798	-264	70	-194	-992
Depreciation and write-downs	-218	-141	52	-89	-307
Other expenses	-	-11	-	-11	-11
<b>Total operating expenses</b>	<b>-7,208</b>	<b>-3,049</b>	<b>201</b>	<b>-2,848</b>	<b>-10,056</b>
<b>Operating profit/loss</b>	<b>377</b>	<b>-48</b>	<b>201</b>	<b>153</b>	<b>530</b>
Net financial items	-61	-8	-	-8	-69
<b>Profit/loss before tax</b>	<b>316</b>	<b>-56</b>	<b>201</b>	<b>145</b>	<b>461</b>
Tax	-81	16	-56	-40	-121
<b>Net profit/loss</b>	<b>235</b>	<b>-40</b>	<b>145</b>	<b>105</b>	<b>340</b>
Attributable to minority	15	1	-	1	16
Attributable to the Parent Company's shareholders	220	-41	145	104	324

## Balance sheet, proforma (unaudited)

(SEK m)	IFRS 31 Dec 2005	Proforma 31 Dec 2004
<b>ASSETS</b>		
Goodwill	593	593
Other intangible assets	92	70
Tangible fixed assets	2,670	2,380
Financial fixed assets	136	126
<b>Total fixed assets</b>	<b>3,491</b>	<b>3,169</b>
Inventories	1,429	1,281
Current receivables	1,706	1,516
Liquid funds	211	365
<b>Total current assets</b>	<b>3,346</b>	<b>3,162</b>
<b>TOTAL ASSETS</b>	<b>6,837</b>	<b>6,331</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
Shareholders' equity	3,504	3,265
Minority interest	50	46
<b>Total shareholders' equity, including minority</b>	<b>3,554</b>	<b>3,311</b>
<b>Long-term liabilities</b>	<b>1,429</b>	<b>905</b>
Accounts payable	547	523
Other current liabilities	1,307	1,592
<b>Total current liabilities</b>	<b>1,854</b>	<b>2,115</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>6,837</b>	<b>6,331</b>

## Operating cash flow, proforma (unaudited)

(SEK m)	Whole year 2005	Whole year 2004
Operating profit	530	414
Depreciation and write-downs	307	281
Change in operating capital	-349	-16
Operating investments	-485	-261
<b>Operating cash flow</b>	<b>3</b>	<b>418</b>

## Definitions

### Earnings per share

Profit for the year divided by the average number of shares on the closing date.

### Equity/assets ratio

Shareholders' equity, including minority interests, divided by the balance sheet total.

### Operating capital

Total assets minus liquid funds, interest-bearing assets and non-interest-bearing operating liabilities, but excluding deferred tax.

### Return on equity

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

### Return on operating capital

Operating profit/loss divided by average operating capital.

### Shareholders' equity per share

Shareholders' equity divided by the average number of shares on the closing date.

## Operations – Proforma (unaudited)

### The Group

(SEK m)	12 mths Jan-Dec 2005	12 mths Jan-Dec 2004
Net sales	10,573	9,720
Gross contribution	2,901	2,644
Operating profit	530	414
Volumes (thousands of tonnes)	1,554	1,460

The Group's net sales rose by SEK 853 m or almost 9 percent. The volume of sales rose by 94,000 tonnes (6 percent).

The operating profit, excluding non-recurring items, improved by SEK 116 m or 28 percent.

#### The fourth quarter of 2005 compared with the fourth quarter of 2004

Net sales in the fourth quarter of 2005 amounted to SEK 2,990 m, which is an increase of SEK 333 m or 13 percent compared with the corresponding period in the previous year.

The operating profit, excluding non-recurring items (proforma), was SEK 153 m, SEK 82 m up on the corresponding period in the previous year.

Non-recurring items were charged to the fourth quarter in an amount of SEK 201 m.

### Chocolate & Confectionery Fats

(SEK m)	12 mths Jan-Dec 2005	12 mths Jan-Dec 2004
Net sales	3,081	2,907
Gross contribution	1,039	912
Operating profit	222	166
Volumes (thousands of tonnes)	311	280

In 2005 there was an increase in both volumes and profit in the business area Chocolate & Confectionery Fats. The volume increase amounted to 11 percent, mainly due to strong growth in the CBA (cocoa butter alternatives) segment and filling fats. A two-figure increase in demand in the chocolate industry for CBE (cocoa butter equivalents) was an important growth factor, with a geographical focus in Europe, Asia and South America. This positive trend is expected to continue.

In CBE the unexpectedly high growth of 2005 made inroads into the Group's stocks of strategically important shea nuts, limiting supplies of this raw material for 2006.

In addition, we are now approaching full capacity utilisation at global level for the important manufacture of CBE.

These factors have had a stabilising effect on margins in CBE, and in certain areas some increases have even been reported. Due to the above-mentioned factors, however, the high growth seen by us in 2005 is expected to level out during most of 2006 and then pick up speed again from 2007.

In the last few years very strong results have been achieved in CBE, and the future prospects also seem very good in the longer term. We will thus continue to be open to strategic investments that can contribute to further strengthening of AarhusKarlshamn's leading position in CBE and CBA.

Apart from the positive sales trend in 2005 for chocolate and confectionery fats, the business area also did an extremely good job in regard to the extraction (crushing) of different raw materials. The background to this was the general upturn in crushing and extracting operations worldwide, which in turn is a result of the fact that demand is greater for oil than for meal, thereby generally increasing profitability in the sector.

### Food Ingredients

(SEK m)	12 mths Jan-Dec 2005	12 mths Jan-Dec 2004
Net sales	6,191	5,420
Gross contribution	1,559	1,382
Operating profit	294	232
Volumes (thousands of tonnes)	943	855

#### Food Ingredients Continental Europe

In 2005 the sales volumes of the business area Food Ingredients Continental Europe improved. Volumes were 11 percent up on the previous year. This growth was generated mainly in speciality products, infant food and DFA (dairy fat alternatives). Successes were achieved mainly in the Nordic and Eastern European markets.

In 2004 the business was acquired from a UK company specialising in flaked fats for convenience foods. The result of this acquisition are now reflected in the sales figures for 2005.

Following the closure by a competitor of its business in Norway, AAK established a strong position in the Norwegian market during the year.

#### Food Ingredients UK

In 2005 the market in which Food Ingredients UK operates continued to be characterised by keen competition.

A feature of the past year was continued concentration on customers and on the retail trade.

Sales of branded goods continued to grow and a large number of new products were introduced onto the market.

Perhaps the launch during 2005 which attracted most attention was that of Prep ZT, a trans-free, deep-frying oil. In April the successful launch took place of a similar product in the USA under the trade name FryChef, and sales there are expected to rise further in 2006.



Food Ingredients UK won three awards in 2005:

- Grocery Exporter of the Year.
- Private Label Exporter of the Year.
- Overall Category Food and Drink Exporter of the Year.

### Food Ingredients Nafta

– *Food Ingredients Nafta, USA.*

In 2005 sales of our new trans-free products doubled, a trend generated mainly in the bakery industry, where demand grew strongly. In order to meet the increased demand, Food Ingredients Nafta, USA launched more new products in the bakery segment than any other supplier. A feature of 2005 generally, therefore, was a large number of product novelties, with a focus on trans-free alternatives.

As a result of the development work of recent years, Food Ingredients Nafta, USA has now filed a patent application for four product types, making us unique in the vegetable oil industry.

In 2005 production capacity increased as a result of investments made in previous years, although this was the first time that their full impact was felt in regard to production volumes. At the same time a number of new process units made it possible to increase the rate of manufacture of trans-free products.

– *Food Ingredients Nafta, Mexico*

In 2005 the rate of growth rose by 3 percent in all product segments, with higher sales volumes and net sales as a result.

Especially strong was growth in DFA (dairy fat alternatives) and bakery fats. AAK Mexico was voted Supplier of the Year in 2005 by the Bimbo Group, Mexico's largest manufacturer of snacks and bakery products.

An important milestone in 2005 was also the development and start of operation of a new packaging plant, which eliminated a limiting bottleneck and increased capacity.

### Technical Products & Feed

	12 mths Jan-Dec 2005	12 mths Jan-Dec 2004
(SEK m)		
Net sales	902	1,002
Gross contribution	196	205
Operating profit	54	63
Volumes (thousands of tonnes)	293	319

### Tefac business sector

#### – products for the chemical and technical industries

In terms of sales, 2005 was another tough year for Tefac. Volumes were squeezed further, ending up at –6 percent. The fatty acids market is strongly influenced by sharply rising raw material prices, which are in turn due to the fact that the raw materials used to make fatty acids are also sought after by the European energy industry for the manufacture of biofuels. At present we see rising prices of heating oil at the same time as the EU is subsidising the manufacture of biofuels. Tefac's margins are thus being adversely affected.

Tefac is responding to these negative trends and the tough business environment by investing instead in new process equipment. This investment will enable a larger raw material base and its full effects on earnings will be felt as early as 2006. The company will in this way be able to increase the rate at which it refines its fatty acid products, while at the same time improving its cost position in relation to its competitors.

An additional effect of the biodiesel manufacture subsidised by the EU is a substantial surplus in glycerine, which is a by-product of biodiesel production.

In this way the prices of glycerine are being forced down and, as a result, margins.

### Binol business sector

#### – Vegetable technical oils

AAK develops and manufactures a number of environmentally friendly lubricating oils, which are marketed under the trade names Binol and BioSafe.

Sales continued to rise in 2005, a trend which is expected to continue in 2006.

### Feed business sector

The Feed business sector is a leading supplier of feed raw materials in the Nordic market. Its product portfolio comprises vegetable proteins and fat raw materials, developed specially for the animal feed industry. The products are used mainly as feed for dairy cows, pigs and poultry.

2005 resulted in satisfactory earnings, with a weak, though clear-cut, improvement in profitability.

## Other Business

	12 mths Jan-Dec 2005	12 mths Jan-Dec 2004
<b>(SEK m)</b>		
Net sales	399	391
Gross contribution	107	145
Operating profit	-40	-47

Other Business includes Lipids for Care, Ceylon Trading, Frank Fontannaz Holdings, BSP Pharma A/S and head office expenditure.

### Lipids for Care

For the Lipids for Care business unit, 2005 was another year characterised by growth. The largest successes were reported in Europe and China, the latter a market that is taking on increasing interest.

The trends that have characterised the market in recent years continued to be strong. The number of consumers is increasing as increasingly younger and older customers are entering the market for hair- and skin-care products. At the same time we are seeing a growing demand among men. Consumers in developing countries are benefiting the whole time from higher and higher disposable incomes. The road to new geographical markets is opening up as a result, and the number of potential end customers is constantly increasing.

### Ceylon Trading Company Ltd.

Ceylon Trading Company Ltd., which is wholly-owned by AAK, is a holding company with a number of subsidiaries active in the manufacture and export of rubber products, the manufacture and distribution of foodstuffs, and forwarding and shipping operations in Sri Lanka.

### Frank Fontannaz Holdings Ltd.

The Fontannaz Group, with offices in London, Rotterdam and Kuala Lumpur, engages in the international broking of vegetable oils.

In common with the business operation in Sri Lanka, the Fontannaz Group has been part of Aarhus United for many years and is now wholly owned by AAK.

### BSP Pharma A/S

BSP Pharma is a company owned jointly by AarhusKarlshamn Denmark A/S and Astion A/S. The company's mission is to develop and market patented anti-inflammatory products with high standards of documentation, safety and efficacy.

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SEK m unless otherwise stated



# Directors' Report

For the financial year October-December 2005

The Board of Directors and President of AarhusKarlshamn AB (publ), registration number 556669-2850, with its registered office in Malmö, have pleasure in presenting their annual accounts for the financial year May – December 2005 and the consolidated accounts for the financial year October–December 2005.

## Operations and significant events

### Focus on growth and productivity in the new Group

The new Group, AarhusKarlshamn (AAK), was formed on 29 September 2005 through a merger between Aarhus United and Karlshamns. The reason has been to create a world-leading Group in speciality vegetable fats, which with a larger critical mass will grow faster, create a more competitive cost structure and more efficient use of capital.

### The merger

During the first financial year of the Group (October–December 2005) the strategic aims and direction were fixed, a new organisational structure was drawn up and synergies were identified. The intensive integration process has proceeded according to plan.

The business areas are as follows: Chocolate & Confectionery Fats, Food Ingredients (Continental Europe, UK and Nafta), Technical Products & Feed and Other Business, including Lipids for Care.

The growth of the new Group will be generated through a combination of organic growth and acquisitions.

Chocolate & Confectionery Fats and Lipids for Care have world-leading positions, which are to be developed by degrees in an increasingly global arena. Food Ingredients has strong positions, mainly in Europe/Nafta. Here, too, the Company has long-term global ambitions. Technical Products & Feed has strong positions in northern Europe and will focus on growth locally through its strong links with the Karlshamn unit in Sweden, with extensive coordination benefits.

### Synergies

AAK expects to realise synergies of the order of SEK 150 m, the full effect of which will come in 2008. Coordination gains are to be found throughout the value chain: from the procurement of raw materials and production processes to the marketing and sales channels.

The bulk of the synergies have been identified in the European units: Sweden, Denmark, the Netherlands and the UK.

One example is the restructuring of the UK operations, where two small production units are being closed and integrated with the main facility in Hull.

### Important events after the end of the financial year

Through organic growth in combination with investments and acquisitions, the objective is to increase our share of products with a high degree of specialisation and attractive margins. A very important step in this direction, therefore, is the approval by the Board in February 2006 of a significant enlargement of our CBE capacity for the rapidly growing business area cocoa butter equivalents.

## The future

2006–07 will be characterised by extensive changes throughout our value chain, from supplies of raw material components and the adaptation of our plants to an optimum structure to the streamlining of sales channels. This will entail higher current costs and also some non-recurring costs. The synergies will be realised gradually and be fully implemented after two years, a phenomenon that is a feature of process-related industry. Through organic growth, combined with investments and acquisitions, the objective is to increase the Group's share of products with a high degree of specialisation and attractive margins. A very important step in this direction, therefore, is the approval by the Board in February 2006 of a significant enlargement of our CBE capacity for the rapidly growing business area cocoa butter equivalents. Growth has surpassed

our expectations and has meant that our purchases of raw materials do not meet the demand. At the same time our global capacity utilisation is very high. This limits our potential growth in 2006.

The objective then is to have an efficient and restructured AAK in 2008, with strong market positions, satisfactory growth and synergies of the order of SEK 150 m, fully realised.

Our financial strength shall also enable us to develop our global ambitions as well as products with higher value added. We will be active in the ongoing consolidation process.

### Financial goals

AAK's financial goals are to grow more quickly than the underlying market and to generate strong cash flows. The objective is also to gradually improve the return on operating capital.

### Planned dividend policy

The Board has adopted a policy in regard to dividends, whereby the aim of the Board, taking into account the Group's earnings trend, financial position and future development opportunities, is to recommend an annual dividend which corresponds to at least 30–50 percent of the consolidated profit for the year after tax.

### Ordinary dividend and correction of the capital structure

The Board recommends a dividend of SEK 4 per share plus a one-off dividend of SEK 25 per share. This entails a decision being taken by the AGM in May 2006 to change restricted reserves in the balance sheet to unrestricted reserves and the expectation that an extraordinary general meeting in September/October 2006 will be able to approve the above dividends once the customary registration has taken place of the change decided at the AGM.

The reasons for the recommendation of the Board are technical and financial. As a result of the design of the merger, all the funds in the balance sheet came to be of a non-distributable nature. The proposed decision regarding the change corrects this problem. As a result of the



fact that almost all the shareholders in the merger opted for shares instead of a cash payment, the new AAK Group came to be overcapitalised, with a very low debt/equity ratio. The proposed one-off dividend corrects this situation.

#### Election committee

At the AGM on 23 May 2006 AAK's nominating committee will put forward the names of Ebbe Simonsen and Märit Beckeman as independent Board members, together with Jerker Hartwall.

Ebbe Simonsen was a member of the Aarhus United Board from 1992 to 2005.

Erik Højsholt has declined re-election.

Märit Beckeman was a member of the Karlshamns Board from 2004 to 2005.

The nominating committee further propose election of Melker Schörling as Chairman of the Board and Carl Bek-Nielsen as Deputy Chairman of the Board.

AAK's nominating committee before the 2006 AGM consists of:

Melker Schörling (Chairman)

Erik Højsholt

Carl Bek-Nielsen

Henrik Didner, Didner&Gerge Mutual Fund  
Jan-Erik Erenius, AMF Pension

Together, the nominating committee represents three of the five largest shareholders, with 46.7 percent of the votes as of 30 December 2005.

#### Listing on the Stockholm Stock Exchange

AarhusKarlshamn AB (publ) intends to apply to be listed on the Stockholm Stock Exchange's O-list in the third quarter of 2006. OMX plans to introduce a common Nordic list on 2 October 2006, and the Company is following this development with great interest. The new list will replace the A- and O-lists on the Stockholm Exchange, the I- and NM-lists in Helsinki and the list on the Copenhagen Exchange. Should these plans for a common Nordic list be realised, no separate listing on the Copenhagen Exchange will arise. Transfer from the O-list to the new OMX-list will take place automatically and does not require any further action by the Company.

## Research and development

The Group's activities in research and development are described further in the section Research & Development on pages 32–33.

## Ownership

The situation regarding ownership is described in the section The AAK share on page 81.

## The environment

The plants impact on the environment in the form of emissions of odorous substances, solvents and smoke gases into the atmosphere, the discharge of fat, oxygen-consuming substances and nutritive salts into water, and the production of organic waste and noise pollution. Continuous improvements to AAK's environmental performance are made at every level. Operations in all countries have official permits (see the environmental section on pages 36–39).

## Risk management and sensitivity analysis

The management by the Group of risks is described in Note 3, Financial risk management.

## Corporate Governance Report

The composition and the work of the Board are described in the section entitled Corporate Governance Report on page 82.

## The Parent Company

For the period 1 May to 28 September 2005, the Parent Company has, in principle, been dormant. It started its operations on 29 September 2005 and is a holding company for the AarhusKarlshamn Group, its business consisting mainly of Group-wide duties

linked to the development and administration of the Group. The Parent Company will, for example, contain expertise linked to financing, accounting, IT and human resources. It will also be responsible for the Group's strategic and risk management and for providing legal and tax-related services to the Group companies. The Group's President, CFO (Chief Financial Officer) and CIO (Chief Information Officer) etc. will be employed by the Parent Company. The intention is also that the trademarks of the Group should be owned by the Parent Company.

The loss before financial items amounted to SEK 12.0 m. This loss is entirely related to non-recurring items for consulting costs for restructuring.

Net financial items in the Parent Company amounted to SEK –2.4 m. Loss after financial items was SEK 14.4 m and loss after tax was SEK 10.4 m.

The balance sheet total of the Parent Company was SEK 5.8 bn and its shareholders' equity amounted to SEK 5.6 bn.

## Proposed treatment of accumulated loss

The Board recommends that the accumulated loss of SEK 10,363,954 be carried forward.

The Board recommends a dividend of SEK 4 per share plus a one-off dividend of SEK 25 per share. This entails a decision being taken by the AGM in May 2006 to change restricted reserves in the balance sheet to unrestricted reserves and the expectation that an EGM to be held in September/October 2006 will be able to approve the above dividends once the customary registration has taken place of the change decided at the AGM.

# Consolidated Income Statement

SEK m	Note	Oct-Dec 2005
Net sales	29	2,990
Other operating income		11
<b>Total operating income</b>		<b>3,001</b>
Change in inventories		-8
Raw materials and supplies		-2,258
Goods for resale		-77
Other external expenses	5	-298
Costs for remuneration to employees	6, 7, 8	-264
Depreciation and write-downs	15, 16	-141
Other operating expenses		-11
<b>Total operating expenses</b>	9, 30	<b>-3,057</b>
<b>Operating loss</b>		<b>-56</b>
<b>Income from financial items</b>		
Interest income and similar items	10	14
Interest expense and similar items	11	-22
<b>Net financial items</b>		<b>-8</b>
<b>Loss before tax</b>		<b>-64</b>
Income tax	12	18
<b>Net loss for the year</b>		<b>-46</b>
<b>Attributable to:</b>		
Minority interest		1
Parent Company shareholders		-47
		<b>-46</b>
<b>Earnings per share attributable to</b>		
<b>Parent Company shareholders during the year</b>		
(expressed in SEK per share) – before and after dilution	13	-1,12

# Consolidated Cash Flow Statement

SEK m	Note	Oct-Dec 2005
<b>OPERATING ACTIVITIES</b>		
Operating loss		-56
Depreciation		141
Changes in provisions		3
		<b>88</b>
Interest received		1
Interest paid		-12
Income tax paid		8
		<b>85</b>
<b>Change in working capital</b>		
Change in inventories		5
Change in other current receivables		195
Change in other current operating liabilities		105
<b>Cash flow from operating activities</b>		<b>390</b>
<b>INVESTING ACTIVITIES</b>		
Sale of tangible fixed assets		9
Acquisition of tangible fixed assets		-220
Acquisition of intangible assets		-1
Acquisition of the subsidiary Aarhus United	28	429
<b>Cash flow from investing activities</b>		<b>217</b>
<b>FINANCING ACTIVITIES</b>		
Payment for shares in Karlshamns <sup>1</sup>		-29
Loans raised		508
Amortisation of loans		-939
<b>Cash flow from financing activities</b>		<b>-460</b>
<b>Cash flow for the year</b>		<b>147</b>
Liquid funds on 29 September 2005		-
Liquid funds in Karlshamns <sup>1</sup> at the time of acquisition		61
Exchange difference in liquid funds		3
<b>Liquid funds at year end</b>	21	<b>211</b>

<sup>1</sup> Changed name to AarhusKarlshamn Sweden AB

# Consolidated Balance Sheet

SEK m	Note	31 Dec 2005
<b>ASSETS</b>		
<b>Fixed assets</b>		
Tangible assets	15	
Land and buildings		655
Plant and machinery		1,623
Equipment, tools, fixtures & fittings		59
Construction in progress		333
		<b>2,670</b>
Intangible assets	16	
Goodwill		593
Capitalised expenditure for IT		43
Patents, trademarks and similar rights		49
		<b>685</b>
Financial assets		
Deferred tax receivables	18	108
		<b>108</b>
<b>Total fixed assets</b>		<b>3,463</b>
<b>Current assets</b>		
Inventories	19	1,429
Accounts receivable – trade	20	1,395
Other receivables		288
Prepaid expenses and accrued income		23
Derivatives		25
Other financial assets valued at fair value via the income statement		1
Liquid funds	21	211
<b>Total current assets</b>		<b>3,372</b>
<b>TOTAL ASSETS</b>		<b>6,835</b>



# Consolidated Balance Sheet (continued)

SEK m	Note	31 Dec 2005
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<b>Shareholders' equity</b>		
Share capital		414
Other capital contribution		3,089
Other reserves		52
Retained earnings, including loss for the year		-51
<b>Shareholders' equity attributable to Parent Company shareholders</b>		<b>3,504</b>
Minority interest		50
<b>Total shareholders' equity</b>		<b>3,554</b>
<b>Long-term liabilities</b>		
Borrowings	22	1,030
Pension commitments	8	7
Other provisions	23	46
Deferred tax liabilities	18	318
<b>Total long-term liabilities</b>		<b>1,401</b>
<b>Current liabilities</b>		
Borrowings	22	808
Accounts payable – trade		550
Current tax liabilities		52
Other current liabilities		181
Accrued expenses and deferred income	24	272
Derivatives		17
<b>Total current liabilities</b>		<b>1,880</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>6,835</b>

# Changes in Consolidated Shareholders' Equity

SEK m	Attributable to Parent Company shareholders				Minority interest	Total share-holders' equity
	Share capital	Other capital contribution	Other reserves	Retained earnings		
<b>Opening balance on 29 September 2005</b>	-	-	-	-	-	-
Non-cash issue						
- Karlshamns <sup>1</sup>	215	772	-	-	19	1,006
- Aarhus United	199	2,342	-	-	156	2,697
Acquisition of shares in						
- Karlshamns <sup>1</sup>	-	-	-	-4	-	-4
- Aarhus United	-	-	-	-	-121	-121
Issue costs	-	-25	-	-	-	-25
Exchange rate differences	-	-	52	-	-5	47
<b>Total transactions reported directly in shareholders' equity</b>	<b>-</b>	<b>-25</b>	<b>52</b>	<b>-</b>	<b>-5</b>	<b>22</b>
Profit/loss for the year	-	-	-	-47	1	-46
<b>Closing balance on 31 December 2005</b>	<b>414</b>	<b>3,089</b>	<b>52</b>	<b>-51</b>	<b>50</b>	<b>3,554</b>

<sup>1</sup> Changed name to AarhusKarlshamn Sweden AB

For further information about acquisitions during the year, please refer to Note 28.

The exchange rate differences above relate to translation of foreign subsidiaries.

Shares subscribed for by Aarhus United in the non-cash issue have reduced other capital contribution in the Group by SEK 77 m, in relation to how the non-cash issue is reported in the Parent Company's shareholders' equity.

# Parent Company Income Statement

SEK m	Note	May-Dec 2005
Net sales		-
Other operating income		-
<b>Total operating income</b>		<b>-</b>
Other external expenses	5, 6, 7, 9	-12
Other operating expenses		0
<b>Total operating expenses</b>		<b>-12</b>
<b>Operating loss</b>	27	<b>-12</b>
<b>Income from financial items</b>		
Interest income and similar items		0
Interest expense and similar items	11	-3
<b>Net financial items</b>		<b>-3</b>
<b>Loss before tax</b>		<b>-15</b>
Income tax	12	4
<b>Net loss for the year</b>		<b>-11</b>

# Parent Company Balance Sheet

SEK m	Note	31 Dec 2005	30 April 2005
<b>ASSETS</b>			
<b>Fixed assets</b>			
Financial assets			
Participations in Group companies	17	5,793	-
Deferred tax receivables	18	4	-
		<b>5,797</b>	<b>-</b>
<b>Total fixed assets</b>		<b>5,797</b>	<b>-</b>
<b>Current assets</b>			
Receivables from Group companies		1	-
Other receivables		5	1
		<b>6</b>	<b>1</b>
Cash and bank balances		0	-
<b>Total current assets</b>		<b>6</b>	<b>-</b>
<b>TOTAL ASSETS</b>		<b>5,803</b>	<b>1</b>



# Parent Company Balance Sheet (continued)

SEK m	Note	31 Dec 2005	30 April 2005
<b>SHAREHOLDERS' EQUITY</b>			
<b>Restricted equity</b>			
Share capital		414	1
Legal reserve		5,170	-
		<b>5,584</b>	<b>1</b>
<b>Accumulated loss</b>			
Loss for the year		-11	-
		<b>-11</b>	<b>-</b>
<b>Total shareholders' equity</b>		<b>5,573</b>	<b>1</b>
<b>LIABILITIES</b>			
<b>Long-term liabilities</b>			
		-	-
<b>Current liabilities</b>			
Liabilities to credit institutions	22	224	-
Accounts payable – trade		2	-
Accrued expenses and deferred income	24	4	-
<b>Total current liabilities</b>		<b>230</b>	<b>-</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>5,803</b>	<b>1</b>
Pledged assets	25	None	None
Contingent liabilities	26	None	None

## CHANGES IN PARENT COMPANY SHAREHOLDERS' EQUITY

SEK m	Restricted equity			Accumulated loss	Total share holders' equity
	Share capital	Share premium reserve	Legal reserve		
<b>Opening balance on 1 May 2005</b>	<b>1</b>	-	-	-	<b>1</b>
Non-cash issue	413	5,170	-	-	5,583
Transfer of share premium reserve to legal reserve	-	-5,170	5,170	-	-
Loss for the year	-	-	-	-11	-11
<b>Closing balance on 31 December 2005</b>	<b>414</b>	<b>-</b>	<b>5,170</b>	<b>-11</b>	<b>5,573</b>

The total number of shares is 41,383,803, with a quota value of SEK 10 per share.

# Parent Company Cash Flow Statement

SEK m	Note	May-Dec 2005
<b>OPERATING ACTIVITIES</b>		
Operating loss		-12
		<b>-12</b>
Interest paid		-2
		<b>-14</b>
<b>Change in working capital</b>		
Change in other current receivables		-6
Change in other current operating liabilities		6
<b>Cash flow from operating activities</b>		<b>-14</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of subsidiary	17	-210
<b>Cash flow from investing activities</b>		<b>-210</b>
<b>FINANCING ACTIVITIES</b>		
Loans raised		224
<b>Cash flow from financing activities</b>		<b>224</b>
<b>Cash flow for the year</b>		<b>0</b>
Liquid funds, opening balance		-
<b>Liquid funds, closing balance</b>		<b>0</b>

# Notes

Amounts in SEK m unless otherwise stated

## NOTE 1 – GENERAL INFORMATION

AarhusKarlshamn AB (publ), the Parent Company, registration number 556669-2850, together with its subsidiaries (referred to collectively as AAK or the Group), is one of the world's leading producers of high added-value speciality vegetable fats, with production facilities in Denmark, the Netherlands, Mexico, Sweden, the UK and the USA.

The Parent Company is a registered limited liability company with its registered office in Malmö. The address of its head office is Skeppsgatan 19, SE-211 19 Malmö, Sweden.

During the period 1 May to 28 September 2005, the Parent Company was, in principle, dormant. It started its operations on 29 September 2005 and is a holding company for the AarhusKarlshamn Group, its business consisting mainly of Group-wide duties linked to the development and

administration of the Group. The Parent Company will, for example, contain expertise linked to financing, accounting, IT and human resources. It will also be responsible for the Group's strategic and risk management and for providing legal and tax-related services to the Group companies. The Group's President, Chief Financial Officer and Chief Information Officer etc. will be employed by the Parent Company. The intention is also that the trademarks of the Group should be owned by the Parent Company. The shares of the Parent Company are traded on Nya Marknaden.

These consolidated financial statements were approved for publication by the Board of Directors on 21 April 2006. The consolidated financial statements may be subject to alteration by the shareholders subsequent to Board approval.

## NOTE 2 – SUMMARY OF IMPORTANT ACCOUNTING PRINCIPLES

The most important accounting principles applied in the preparation of this annual report and consolidated accounts are reported below. These principles have been applied consistently since the Group was formed on 29 September 2005.

### Basis for the annual report and consolidated accounts

The annual report and consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, the Swedish Annual Accounts Act and Recommendation RR 30 (supplementary accounting reporting rules for groups) of the Swedish Financial Accounting Standards Council. The annual accounts of the Parent Company have been prepared in accordance with the Swedish Annual Accounts Act and Recommendation RR 32 of the Swedish Financial Accounting Standards Council. Since this is the first year of operations of the Group, there are no comparison figures. At its meeting on 28 February 2006 the Board of AAK laid down how the operations of the Group should, in principle, be divided up into primary and secondary segments. Accordingly, starting from its first interim report in 2006, the Group intends to present segment information according to IAS 14.

Both the annual report and the consolidated accounts have been prepared under the historical cost convention, apart from currency, interest and raw material derivatives, which are valued at fair value and reported in the income statement.

The preparation of reports in conformity with the IFRS standards requires the use of a number of important accounting estimates. The management is also required to make certain assessments when applying the Group's accounting principles.

### Consolidated accounts

#### Subsidiaries

The consolidated accounts comprise AarhusKarlshamn AB and all its subsidiaries. Companies qualifying as subsidiaries are those in which the Group has the power to govern the financial and operational policies generally accompanying a shareholding of more than one half of the voting rights. Sub-

sidaries are fully consolidated from the date of acquisition onwards (i.e. on the day the Group achieved a controlling influence) and up to the date of disposal (the day on which the Group ceased to have a controlling influence).

#### The purchase method of accounting

The Group's acquisitions of subsidiaries are reported in line with the purchase method of accounting. The cost of an acquisition consists of the fair value of the assets used as payment, plus expenses directly referable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The surplus value arising from the difference between the acquisition value of the shares in the acquired subsidiary and the fair value of the subsidiary's net assets on the acquisition date is reported as goodwill. All inter-company transactions, balance sheet items and unrealised inter-company profits are eliminated, unless the transaction constitutes evidence of a decrease in value of the assets sold. Whenever it has been deemed necessary, the accounting principles applied to subsidiaries have been adjusted to guarantee consistent reporting in line with the Group's accounting principles.

#### Minority

Minority transactions are dealt with in the same way as transactions with external parties. The disposal of shares to the minority results in a profit or loss, which is reported in the consolidated income statement. Acquisitions of minority participations may result in goodwill if the acquisition cost exceeds the book value of the minority interest.

#### Translation of the accounts of foreign subsidiaries

##### Functional currency and presentation currency

Items included in the annual accounts of foreign subsidiaries are valued in the currency used in the financial environment in which the subsidiary in question mainly operates (the functional currency). In the consolidated accounts use is made of Swedish kronor (SEK), which is the functional currency and the presentation currency of the Parent Company.

*Transactions and balance sheet items*

Transitions in a foreign currency are translated to the functional currency at the exchange rate prevailing on the date of the transaction. Exchange gains and losses arising from the payment of such transactions and from the translation of monetary assets and liabilities in a foreign currency at the closing rate of exchange are reported in the income statement. The Group's makes no use of hedge accounting.

*Group companies*

The accounts of foreign subsidiaries (where none have a hyperinflationary currency) that have a functional currency other than the presentation currency are translated to the Group's presentation currency as follows:

- Assets and liabilities are translated at the closing rate of exchange.
- Income and expenses are translated at the average rate of exchange.
- All exchange rate differences are taken directly to shareholders' equity. On the disposal of a foreign subsidiary, the accumulated exchange rate differences are recognised in the income statement as part of the capital gain/loss.

Goodwill and adjustments of fair value arising on the acquisition of a foreign business are treated as assets and liabilities in this business and are translated at closing rates of exchange.

*Exchange rates used*

Translation has taken place at the following exchange rates:

Currency	Average rate	Closing rate
	Oct–Dec 2005	31 Dec 2005
EUR	9.50	9.43
DKK	1.25	1.26
GBP	13.93	13.73
LKR	0.08	0.08
MXN	0.75	0.75
USD	8.00	7.95

*Revenue recognition*

Sales comprise the fair value of goods sold, exclusive of VAT, rebates and discounts and after intra-Group sales have been eliminated. Sales are recorded on delivery of products to customers in accordance with the agreed terms of sale, to the extent that invoice payment is deemed reasonably safe. Interest income is reported proportionally over the duration, in accordance with the effective interest method.

*Employee benefits**a) Pension commitments*

Pension plans differ among Group companies and are usually funded by means of premium payments to insurance companies or trustee-administered funds in line with periodic actuarial calculations. The Group has both defined-benefit and defined-contribution plans. A defined-benefit plan is a plan stating a fixed amount to be paid to employees after their retirement, usually based on one or more factors such as age, period of service and/or salary. A defined-contribution plan is a plan under which the Group pays fixed contributions to a separate legal entity.

The Group has no legal or informal obligations to pay additional contributions should the assets held by the pension fund prove insufficient for the remuneration to which employees are entitled under current or previous periods of service.

The liability reported in the balance sheet for defined-benefit plans represents the present value of the defined-benefit obligation on the balance sheet date less the fair value of the plan assets, with adjustments for unrecognised actuarial gains/losses. The defined-benefit obligation is calculated regularly by independent actuaries using the projected unit credit method. This calculation is not performed annually as the obligation is negligible. The present value of the defined-benefit obligation is established by discounting estimated future cash flows using the interest rate for first-class corporate bonds issued in the same currency as the one in which pension benefits are to be paid, and with terms comparable to the actual pension liability. Actuarial profits/losses arising from experience-based adjustments and changes in actuarial assumptions exceeding 10 per cent of the value of the plan assets or 10 per cent of the defined-benefit obligation, whichever is greater, are charged or credited to income over the estimated average remaining period of service of the employees.

Past service costs are recognised immediately in the income statement, unless the pension plan adjustments are conditional and require the employees to remain in service throughout the specified period (the vesting period). In such cases the past-service costs are amortised on a straight-line basis over the vesting period.

Commitments for retirement pensions and family pensions for Swedish salaried employees are guaranteed by an insurance policy with Alecta or KP. According to a statement (URA 42) made by the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council, the Alecta insurance is a defined-benefit plan comprising several employers. For the period 1 October to 31 December 2005, AarhusKarlshamn Sweden AB lacked access to the information necessary to report this plan as a defined-benefit plan. The pension plan according to ITP, which is guaranteed by insurance with Alecta, is therefore reported as a defined-contribution plan. Fees paid for the period for pension insurances with Alecta amounted to SEK 142,000. Alecta's surplus may be distributed to the policyholders and/or the insured. Equivalent conditions apply to the insurance with KP (KP Pensionskassa). Fees paid during the year for pension insurances with KP totalled SEK 971,000. Alecta publishes information about its degree of consolidation on its website each month. The collective consolidation level consists of the market value of Alecta's assets as a percentage of the insurance obligations calculated according to Alecta's actuarial calculation assumptions, which do not correspond with those of IAS 19.

*b) Compensation when notice is given*

Compensation is paid whenever an employee is given notice before his or her normal retirement age or when an employee accepts voluntary retirement in exchange for such compensation. The Group recognises severance payments in cases where it is under a manifest obligation either to give notice to employees in accordance with a detailed, formal plan with no right of rescission or to provide compensation in the event of notice being given as a result of an offer made as an incentive for voluntary resignation.

*Leasing*

Leasing contracts where the lessor retains a significant part of the risks and awards of ownership are classified as operating leases. All of the Group's current leasing agreements are so classified. Payments made during the lease term (after deduction of any possible incentives given by the lessor) are charged to the income statement on a straight-line basis over the lease term.



**R&D**

Research and development costs are expensed as incurred. R&D operations mainly focus on the optimisation of the properties and functions of vegetable oils and speciality fats, partly to add value to the end products for which the oil or fat is destined and partly to improve production efficiency for the end product in question. None of these activities fulfil the requirements for capitalisation in IAS 38 and R&D costs are therefore carried as expenses.

**Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation, but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changed circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the carrying value of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less sales costs and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels of separate, identifiable cash flows (cash-generating units).

**Interest expense**

Interest expense is reported in the period to which it refers.

**Intangible assets***Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the acquired subsidiary's identifiable net assets at the time of acquisition. Goodwill on acquisitions of subsidiaries is reported as intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Profit/loss on the disposal of an entity includes the remaining carrying value of the goodwill relating to the entity disposed of.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. In 2006 the Group will determine what cash-generating units it consists of.

*Other intangible assets*

Other intangible assets relate to assets such as capitalised expenditure on IT, patents and trademarks and similar rights. The assets have a definite useful life and are carried at cost less accumulated amortisation and impairment loss. Additional expenditure on an intangible asset is added to the carrying amount of the asset or recognised as a separate asset only when it is likely that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be reliably measured. Other expenditure is expensed as incurred. Other intangible assets are amortised using the straight-line method over their estimated useful lives, which is normally 5–10 years.

**Tangible fixed assets**

Land and buildings mainly comprise factory buildings and offices. All tangible fixed assets are reported at historical cost, less accumulated depreciation. Historical cost includes expenditure directly related to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset – as appropriate – only in cases where it is likely that the future economic benefits associated with the item will flow to the Group and the cost of the item can be reliably measured. All other types of repairs and maintenance are expensed in the reporting period in which they occur.

Land is not depreciated. Depreciation on other tangible fixed assets is calculated using the straight-line method to allocate their cost to their estimated residual value over their estimated useful lives. For plant and machinery as well as equipment, tools, fixtures & fittings, depreciation periods of between 3 and 15 years apply. For industrial buildings and research laboratories, depreciation periods of 20 or 25 years apply and for office buildings, 50 years. Whenever the carrying amount of an asset exceeds its estimated recoverable amount, the asset in question is written down immediately to its recoverable amount.

The residual value and useful life of each asset are reviewed on each balance sheet date and, if necessary, adjusted.

Profit/loss on the disposal of assets is determined through a comparison between sales income and carrying amount, the difference being reported in the income statement.

**Inventories**

Inventories are stated at the lower of cost and net realisable value, cost being determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises direct material costs, direct labour, other manufacturing direct costs and a reasonable portion of overhead costs, based on normal production capacity but excluding interest expense. The net realisable value is based on the estimated sales price under normal conditions, less the cost of completion, if any, and variable sales costs applicable.

**Financial instruments**

The Group classifies its holdings of financial instruments in the following categories: Financial assets valued at their fair value via the income statement, loans and receivables. The first-mentioned category consists primarily of raw material and currency derivatives. All derivatives are valued at their fair value via the income statement. The Group does not make use of hedge accounting.

Loans and receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are characterised by the fact that they arise when the Group supplies a debtor (generally a customer) directly with money, goods or services with no intention of trading in the receivable. They are part of current assets if the due date is within twelve months from the balance sheet date. Loans and receivables are part of the items accounts receivable – trade and other receivables in the balance sheet.

**Accounts receivable**

Accounts receivable are initially reported at their fair value and thereafter at their accrued acquisition value with application of the effective interest method, less any provisions made for a decrease in value. Such a provision is made whenever there is objective proof that the Group will not be able to recover all the amounts originally due. The size of the provision consists of the difference between the carrying value of the assets and the present value of expected future cash flows, discounted at the effective interest rate. The provision is reported in the income statement.

**Shareholders' equity**

Ordinary shares are classified as shareholders' equity. Transaction costs directly relating to the issue of new shares or warrants are posted to equity, net of tax, as a deduction from paid-in capital.

Whenever a Group company buys shares in the Parent Company, the purchase price paid, including any directly referable transaction costs, reduces (net of tax) that portion of shareholders' equity relating to the Parent Company

shareholders until the shares are cancelled, reissued or sold. If these shares are later sold or reissued, the amounts received are reported, net of any directly referable transaction costs and income tax effects, in that portion of shareholders' equity referable to the shareholders of the Parent Company.

#### **Borrowings**

Borrowings are initially reported at their fair value, net of transaction costs, and subsequently at their accrued acquisition value. The difference between the amount received (net of transaction costs) and the repayment amount are reported in the income statement distributed over the loan period, using the effective interest method

#### **Other provisions**

Other provisions are reported whenever the Group has a legal or informal obligation arising from previous events, the probability of a necessary outflow of resources to honour the commitment is greater than the unlikelihood of such outflow, and the amount has been calculated in a reliable way. Provisions for restructuring relate to anticipated future costs for restoring manufacturing sites.

#### **Income tax**

Tax expense in the income statement includes all taxes on net profits. Such taxes have been calculated according to the tax rules approved or announced on the balance sheet date which are expected to apply when the deferred tax assets are realised or the deferred tax liabilities are due for payment. Tax expense consists of both actual tax and deferred tax.

Deferred tax is accounted for in its entirety using the liability method to reflect the net tax effects of all temporary differences between the financial reporting and tax bases of assets and liabilities. The main part of such temporary differences arises from depreciation of tangible fixed assets, pension provisions and other pension benefits as well as the carry-forward of unused tax losses.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary tax differences may be utilised.

Deferred taxes are calculated on temporary differences arising from shares in subsidiaries, unless timing for the reversal of temporary differences is controlled by the Group and the temporary differences are unlikely to be reversed in the near future.

#### **Other items**

##### **Liquid funds**

Liquid funds comprise cash in hand, bank balances, and other short-term investments that are convertible into cash within three months.

#### **Segment information**

A business segment is a group of assets and operations that supply products exposed to risks and potentials that differ from those in other business segments. Geographical areas supply products in an economic environment exposed to risks and potentials that differ from those in other economic environments. The AAK Board at its meeting on 28 February 2006 laid down how the Group's operations should be divided up into primary and secondary segments. Accordingly, starting with the first quarterly report in 2006, the Group intends to present segment information according to IAS 14.

#### **Internal pricing**

Intra-Group sales and purchases are made at market prices.

#### **Comparison figures**

As this is the first year of operations of the Group, no comparison figures are presented.

#### **Accounting principles of the Parent Company**

The annual accounts of the Parent Company have been drawn up in accordance with the Annual Accounts Act and recommendation RR 32 of the Swedish Financial Accounting Standards Council.

#### **Standards and statements that have come into force**

The following standards will affect the Group, though only in the form of increased information requirements:

- Amendment to IAS 19.
- IFRS 7.

The following amendments and new standards will not affect the Group:

- Amendments to IAS 39 relating to the hedging of intra-Group transactions, a change to the definition of financial instruments, which must be valued at their fair value, and financial guarantees issued by companies. The latter also affects IFRS 4, which will also not apply to the Group.
- IFRS 6 and amendment to IFRS 1 as a consequence thereof relating to mineral rights.
- IFRIC 4 relating to determining whether an arrangement contains a lease.
- IFRIC 5 relating to rights to interests arising from decommissioning, restoration and environmental rehabilitation funds.
- IFRIC 6 relating to electronics and electrical scrap.

### **NOTE 3 – FINANCIAL RISK MANAGEMENT**

By virtue of its international presence, the AAK Group is exposed to a number of risks. Risk management within the Group is guided by established policies and procedures, which are revised annually by the AAK Board.

Risks related to raw materials are governed by the Group's policy regarding raw materials. Exchange-, interest- and liquidity-related risks are governed mainly by AAK's finance policy.

The Group's credit policy sets out the managing of credit and contract risks.

#### **External and business-related risks**

The most important risks related to the business environment consist of economic trends in AAK's various customer segments. This necessitates an ever-growing understanding of current and future needs, requirements and wishes of customers. In order to reduce this risk, AAK strives for close cooperation with its customers, access to comprehensive market intelligence and a continuous reassessment of selected strategies.

### Energy price risks

AAK's business is energy-demanding, which means that changes in its energy costs can have relatively large effects on its earnings. The Group makes a constant effort to reduce its energy consumption and to have several alternative energy sources

Hedging of future energy costs is achieved through long-term contracts, combined with optimisation of the different types of energy.

### Raw material price risks

Raw material sourcing is handled by the purchasing organisation of each subsidiary, which constantly monitors and controls the Group's raw material exposure. The Group's annual costs for raw materials amount to around three-quarters of sales. The price of most of the products are set according to the prevailing world market price for the raw materials, plus a gross contribution that is exposed to competition.

As the average customer contract has a delivery time of around six months, the raw materials required are hedged by means of futures contracts on the world market. AAK's bottom line is thereby only marginally affected by changes in raw material prices, whereas the effects are considerably larger on net sales and the need for working capital.

Raw material prices fluctuate and a top priority for raw material sourcing is therefore to continuously monitor and manage the Group's raw material exposure. To streamline the purchasing processes, however, purchases of raw material are permitted, within the framework of the trading policy issued by the Board, to take limited risks in raw material prices.

A large part of the Group's raw materials are purchased in Southeast Asia, where there are extended lead-times between purchase and sale. Prices are hedged by means of futures contracts or purchasing contracts based on a fixed price level. Purchases of raw materials and sales of processed materials are hedged by means of standardised raw material contracts on commodity exchanges or via brokers.

Raw material purchases are made and administered on the basis of various portfolios of equivalent oil or seed products: liquids (rapeseed and soya oil), palm, laurics (coconut and palm-kernel oil), seed/meal (rapeseed) and exotic raw materials (shea and illipe). For the exotic raw materials, there is an absence of effective forward operations, which means that their price cannot be safeguarded by hedging.

Hedge accounting according to IAS 39 is not applicable.

### Gross contribution for rapeseed

Gross contribution is a way of measuring the difference the price AAK is able to charge for a processed product and the purchase price it pays for the raw materials used in the product. The gross contribution from the extraction of rapeseed oil and rapeseed meal varies considerably over time, with direct effects on profitability in the business area Feed Materials.

By selling crude rapeseed oil and rapeseed meal on the futures market when rapeseed is purchased, price risks are eliminated at the same time as the gross contribution is hedged.

### Financial risks

AAK's treasury operations are centralised to the Parent Company's treasury function, which is responsible for borrowing, cash management and all financial risk management. All financing matters are governed by a Group-wide financial policy, which is reviewed by the Board of Directors once a year.

The financial policy states the goals of financial management, describes the overall division of responsibilities in financial matters and contains rules for managing the financial risks. The principal objectives of treasury operations are:

- To limit financial risks.
- To minimise the costs of loan capital.
- To ensure access to the necessary financing.

### Currency risk

Changes in exchange rates affect AAK in several different ways:

- Commercial flows with invoicing and incoming and outgoing payments in different currencies give risk to a transaction risk.
- The results of foreign subsidiaries are affected by changes in exchange rates when they are translated to SEK.
- The Group's shareholders' equity is affected when the shareholders' equity for the foreign subsidiaries are translated to SEK.

A significant proportion of the Group's sales and purchases, together with purchases of raw materials, takes place in foreign currencies.

It is AAK's policy to hedge all sales and raw material contracts entered in accordance with a policy laid down by the Board of Directors. The gross contribution for each sales contract is thus hedged in the domestic currency of each subsidiary. No hedging takes place of the shareholders' equity of the foreign subsidiaries.

### Refinancing risk

By refinancing risk we mean the risk of being unable to finance Karlshamns' operations, and/or the risk of having to renew a loan under unfavourable market conditions.

This may be the case when a loan must be raised to finance a new investment or when a current loan matures. To minimise these risks, AAK strives for a loan portfolio that matures at regular and manageable intervals. The average duration of all outstanding loans shall be linked to the Group's debt/equity ratio.

In periods when the Group's debt/equity ratio is high, the loan portfolio is given a longer duration. The Group's financial policy requires a liquidity reserve sufficient in the event of a temporary squeeze. Business operations must have access to capital or financing at short notice, which means that there must at all times be liquidity and unutilised credit facilities amounting to 50 percent of the need for working capital.

### Interest-rate risks

Interest-rate exposure refers to the effect of a change in current interest rates on the Group's net financial items.

The Group's interest-rate risk is limited as a result of all borrowing apart from 50 percent of shareholders' equity taking place at a fixed rate with an average term of 30 months. In order to meet this target, the Group makes use of financial derivatives.

The financing of working capital shall take place in such a way that the average loan has a term of at least six months.

### Financial credit risks

The Group's financial policy defines financial credit risks as those entailed by transactions and contracts with financial institutions. Accepted counterparts in financial transactions are banks given a high credit rating by Standard & Poor's or Moody's.

### Contract and customer credit risk

By counterpart and credit risks we mean the risk of the Group suffering financial losses due to a counterpart failing to fulfil its contractual obligations. Customer relations are handled by the respective business units. As a consequence, counterpart and credit risks are handled at the level of the business unit.

AAK's customer structure shows that the largest single customer accounts for less than five percent and the average-size customer for less than one percent of revenues.

The risk and the potential effect on profits may be considered to be low. Just over one-quarter of the Group's sales are to countries where commercial and political risks are judged to be higher than in the Nordic countries and Western Europe.

### Insurance-related risks

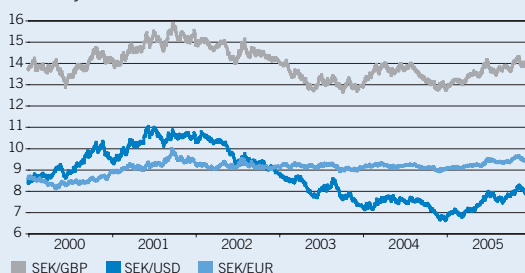
The management of insurance contracts takes place centrally for the entire Group, resulting in coordination gains in the form of lower insurance premiums and uniform insurance cover for the various units.

### Sensitivity analysis

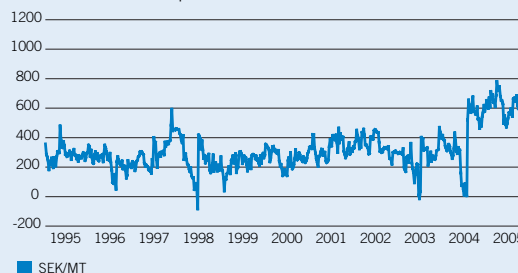
All the risks described above affect the Group's bottom line in one way or another. The following tables illustrate the theoretical effects in the course of a normal year.

Risk factors	Change +/-	Impact on the Group (SEK m)		
		Profit	Sales	Working capital
Raw material prices (hedged)	10 %	+/- 0	+/- 700	+/- 150
Gross contribution rapeseed	SEK 50/tonne	+/- 15	—	—
Energy costs	10 %	+/- 40	—	—
Interest expense (average rate)	1 %	+/- 20	—	—

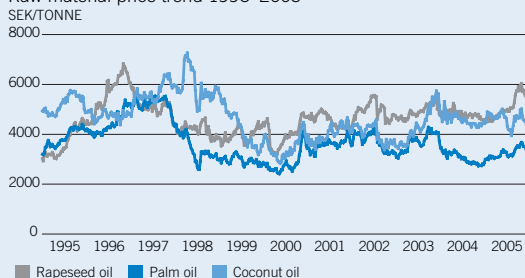
Currency trend 2000–2005



Gross contribution rapeseed 1995–2005



Raw material price trend 1995–2005



## NOTE 4 – IMPORTANT ACCOUNTING ESTIMATES AND ASSESSMENTS

The Group Management and the Board of Directors make assessments and assumptions regarding the future. These assessments and assumptions affect the reported assets and liabilities as well as income and expenses and other information provided, including contingent liabilities. These assessments are based on historical experience and the various assumptions that are judged to be reasonable under the prevailing circumstances.

Areas which include such assessments and assumptions that can lead to a significant effect on the Group's profits and financial positions are:

- The valuation of identifiable assets and liabilities in connection with the acquisition of companies and operations.
- Reviews of the need for write-downs for goodwill and other assets.
- Calculations relating to legal disputes and contingent liabilities.
- Calculations of provisions for restructuring measures, other provisions and accrued expenses.

**NOTE 5 – FEES TO AUDITORS (SEK 000s)**

	<b>Group 2005</b>	<b>Parent Company 2005</b>
Audit assignments		
PricewaterhouseCoopers	1,773	1,000
KPMG	1,594	-
Others	529	-
Other assignments		
PricewaterhouseCoopers	3,488	842
KPMG	462	-
Others	8	-
<b>Total</b>	<b>7,854</b>	<b>1,842</b>

Audit assignments refer to audits of the annual report and financial statements as well as the administration by the Board of Directors and the President, other duties that fall to the Company's auditor to perform and advice or other assistance arising from observations in the course of such audits or performance of such other duties. Everything else comes under other assignments.

**NOTE 6 – COSTS OF REMUNERATION TO EMPLOYEES (SEK 000s)**

	<b>Group 2005</b>	<b>Parent Company 2005</b>
Salaries and other remuneration	197,892	-
Payroll overhead	62,545	-
(incl. pension costs)	(22,297)	(-)

Of the Group's pension costs, SEK 2,405,000 relates to the Board, the President and other senior executives.

**Salaries and other remuneration broken down by country and between Board members etc. and other employees:**

	<b>2005 Board, President, other senior executives</b>		<b>2005 Other employees</b>
	<b>Salary and remuneration</b>	<b>Of which bonuses</b>	<b>Salary and remuneration</b>
Parent Company Sweden	-	-	-
Subsidiaries Sweden	3,023	1,680	57,125
	<b>3,023</b>	<b>1,680</b>	<b>57,125</b>
Subsidiaries abroad:			
Ceylon	125	-	3,419
Denmark	7,423	2,268	67,341
UK	3,679	1,867	30,868
Finland	-	-	589
Lithuania	-	-	153
Malaysia	136	-	112
Mexico	151	-	4,867
The Netherlands	265	-	7,845
Norway	-	-	491
Poland	-	-	524
Czech Republic	141	-	240
USA	1,144	-	8,231
	<b>13,064</b>	<b>4,135</b>	<b>124,680</b>
<b>Group total</b>	<b>16,087</b>	<b>5,815</b>	<b>181,805</b>

The President was paid a salary for the period October–December 2005 totalling SEK 1,000,000 as well as a bonus of SEK 150,000 related to AAK's performance. There are altogether ten other senior executives, to whom salaries, benefits and, in certain cases, bonuses amounting to SEK 3,643,000 were paid in October–December 2005.

During the period pension premiums for the President were paid to KP, (KP Pensionskassa), totalling SEK 388,000, excluding special employer's contribution. From 2006 the maximum premium for the President's pension is SEK 1.5 m, excluding special employer's contribution.



Other senior executives have pension rights in accordance with existing pension rules in the country concerned. The period of notice from the Company for the President is 12 months, and 6 months at his request. In the event of the Company giving notice, the President is entitled to severance pay equal to 12 months' salary. Similar conditions for the giving of notice apply to all those in the group other senior executives.

Salaries and other benefits to the President and other senior executives are proposed by the remuneration committee and approved by the Board.

#### NOTE 7 – AVERAGE NUMBER OF EMPLOYEES ETC.

Average number of employees	2005 No. of employees	2005 Men	2005 Women
Parent Company Sweden	-	-	-
Subsidiaries Sweden	686	530	156
	<b>686</b>	<b>530</b>	<b>156</b>
Subsidiaries abroad:			
Ceylon	429	257	172
Denmark	495	358	137
UK	375	312	61
Finland	5	2	3
Lithuania	3	2	1
Malaysia	6	3	3
Mexico	324	267	57
The Netherlands	73	59	14
Norway	1	1	1
Poland	10	4	6
Czech Republic	4	2	1
USA	68	60	8
	<b>1,793</b>	<b>1,327</b>	<b>464</b>
<b>Group total</b>	<b>2,479</b>	<b>1,857</b>	<b>620</b>
<b>Members of the Board and senior executives</b>		<b>2005 Number on closing date</b>	<b>2005 Men (%)</b>
Group (incl. subsidiaries)			
Members of the Board		159	90
President and other senior executives		81	91
Parent Company			
Members of the Board <sup>1</sup>		8	88
President and other senior executives		1	100

<sup>1</sup> Including 2 employee representatives, one male.

## NOTE 8 – PROVISIONS FOR PENSIONS AND SIMILAR COMMITMENTS

### Defined-benefit plans

Within the Group there are defined-benefit plans giving employees the right to a pension benefit after termination of employment, based on their final salary and period of service. The defined-benefit plans apply in Sweden and in the Netherlands. There are also commitments in respect of retirement pensions and family pensions for Swedish salaried employees, which are guaranteed by means of an insurance policy with Alecta or similar policy with KP (KP Pensions-kassa).

	Defined benefit plans 2005
<b>The amounts reported in the consolidated balance sheet have been calculated as follows:</b>	
Present value of funded obligations	399
Fair value of plan assets	-369
	<b>30</b>
Present value of unfunded obligations	-
Unrecognised actuarial profits (–) and losses (+)	-23
<b>Net liability in the balance sheet</b>	<b>7</b>

The net amount is reported under the following items in the consolidated balance sheet:

Pension commitments	7
<b>Net liability in the balance sheet</b>	<b>7</b>

	Defined-benefit plans 2005
<b>The following amounts are reported in the consolidated income statement:</b>	
Costs related to service in the current year	3
Interest expense	4
Expected return on plan assets	-4
<b>Total, forms part of employee costs (note 6)</b>	<b>3</b>

	Pension costs 2005
<b>Total pension costs reported in the consolidated income statement:</b>	
Total costs for defined-benefit plans, including special employer's contribution	3
Total costs for defined-contribution plans, including special employer's contribution	19
<b>Total</b>	<b>22</b>

	Defined-benefit plans 2005
<b>Specification of net liability movements reported in the consolidated balance sheet:</b>	
Net liability on 30 September 2005	7
Net cost as reported in the income statement	3
Benefit payments	-3
Employer's contributions to fund assets	0
Exchange rate differences on foreign benefit plans	0
<b>Net liability at year end</b>	<b>7</b>

	2005 The Netherlands	Defined-benefit plans 2005 Sweden
<b>Important actuarial assumptions on the balance sheet date (%):</b>		
Discount rate	4.5	4.1
Expected return on plan assets	4.5	4.5
Future annual salary increases	2.0	3.0
Future annual pension increases	2.0	2.0
Employee turnover	5.0	5.0

## NOTE 9 – RESEARCH AND DEVELOPMENT COSTS

Research and development costs during the period October–December 2005 amount to SEK 15 m in the Group. The Parent Company has not had any such costs.

**NOTE 10 – INTEREST INCOME AND SIMILAR ITEMS**

<b>Group</b>	<b>2005</b>
Interest income	14
<b>Total</b>	<b>14</b>

**NOTE 11 – INTEREST EXPENSE AND SIMILAR ITEMS**

<b>Group</b>	<b>2005</b>
Interest expense, bank loans	-22
Exchange gains/losses	1
Other financial costs	-1
<b>Total</b>	<b>-22</b>

<b>Parent Company</b>	<b>2005</b>
Interest expense, bank loans	-2
Other financial costs	-1
<b>Total</b>	<b>-3</b>
Of which relating to Group companies	-

**NOTE 12 – INCOME TAX**

	<b>Group 2005</b>	<b>Parent Company 2005</b>
Current tax for the year	38	-
Deferred tax (note 18)	-20	4
<b>Total</b>	<b>18</b>	<b>4</b>

The tax on the pre-tax earnings of the Group and the Parent Company differ from the theoretical amounts that would have emerged in the event of a weighted average tax rate for the earnings of the consolidated companies and the Parent Company as follows:

	<b>Group 2005</b>	<b>Parent Company 2005</b>
Loss reported before tax	-64	-15
Nominal tax of 28%	18	-4
Tax effect of non-deductible expenses	-3	0
Tax effect of non-taxable income	0	-
Adjustment for current tax in previous years	3	-
Effect of foreign tax rates	0	-
<b>Tax expense</b>	<b>18</b>	<b>4</b>

**NOTE 13 – EARNINGS PER SHARE**

	<b>Group 2005</b>
Result related to Parent Company shareholders	-47
Weighted average number of outstanding shares	41,383,803
Earnings per share, SEK	-1.12

**NOTE 14 – DIVIDEND PER SHARE**

No dividend was paid in 2005 since this year was the first accounting year of the Parent Company. The Board of the Parent Company recommends a dividend of SEK 4 per share plus a one-off dividend of SEK 25 per share. This entails a decision being taken by the AGM in May 2006 to change restricted reserves in the balance sheet to unrestricted reserves and the expectation that an extraordinary general meeting in September/October 2006 will be able to approve the above dividends once the customary registration has taken place of the change decided at the AGM.

**NOTE 15 – TANGIBLE FIXED ASSETS**

<b>Group</b>	<b>Land and buildings 2005</b>	<b>Plant and machinery 2005</b>	<b>Equipment, tools, fixtures &amp; fittings 2005</b>	<b>Construction in progress 2005</b>
Acquisition value, opening balance	-	-	-	-
Acquisitions of subsidiaries				
Karlshamns <sup>1</sup>	409	1,339	105	112
Aarhus United, note 28	502	1,014	43	257
Exchange rate differences	29	196	16	175
Reclassification	-1	38	2	-39
Disposals and retirements	-3	-20	-3	-172
<b>Accumulated acquisition values, closing balance</b>	<b>936</b>	<b>2,567</b>	<b>163</b>	<b>333</b>
Depreciation, opening balance	-	-	-	-
Acquisition of subsidiary				
Karlshamns <sup>1</sup>	264	829	91	-
Exchange rate differences	6	20	1	-
Reclassifications	-	-4	-	-
Disposals and retirements	-	-11	-2	-
Depreciation	11	48	14	-
<b>Accumulated depreciation, closing balance</b>	<b>281</b>	<b>882</b>	<b>104</b>	<b>-</b>
Write-downs, opening balance	-	-	-	-
Write-downs	-	63	-	-
Exchange rate differences	-	-1	-	-
<b>Accumulated write-downs, closing balance</b>	<b>-</b>	<b>62</b>	<b>-</b>	<b>-</b>
<b>Planned residual value, closing balance</b>	<b>655</b>	<b>1,623</b>	<b>59</b>	<b>333</b>
Of which land	91			
Tax assessment values				
Swedish companies				
Land and buildings	138			
Book value of corresponding assets	111			

<sup>1</sup> Changed name to AarhusKarlshamn Sweden AB

The write-down of SEK 63 m relates to parts of production facilities at the units in Karlshamn, the Netherlands and the UK and is mainly a consequence of rationalisation measures in connection with the formation of the AAK Group. The write-down has been made to the net realisable value of the respective assets.

**NOTE 16 – INTANGIBLE ASSETS**

Group	Goodwill 2005	Capitalised expenditure for IT 2005	Patents, trademarks and similar rights 2005
Acquisition value, opening balance	-	-	-
Acquisition of subsidiaries			
Karlshamns <sup>1)</sup>	16	14	-
Aarhus United, note 28	573	36	50
Exchange rate differences	6	0	0
Acquisitions	-	1	-
Disposals and retirements	-	-	-
<b>Accumulated acquisition values, closing balance</b>	<b>595</b>	<b>51</b>	<b>50</b>
Depreciation, opening balance	-	-	-
Acquisition of subsidiary			
Karlshamns <sup>1</sup>	2	5	-
Exchange rate differences	-	-	-
Disposals and retirements	-	-	-
Depreciation	-	3	1
<b>Accumulated depreciation, closing balance</b>	<b>2</b>	<b>8</b>	<b>1</b>
Write-downs, opening balance	-	-	-
Write-downs	-	-	-
<b>Accumulated write-down, closing balance</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Planned residual value, closing balance</b>	<b>593</b>	<b>43</b>	<b>49</b>

<sup>1</sup> Changed name to AarhusKarlshamn Sweden AB.

**Assessment of the need to write down goodwill**

In connection with the drawing up of the acquisition analysis in the fourth quarter of 2005, an assessment of the need to write down goodwill was made. This assessment did not give rise to the need for write-downs.

Since the Group's segments had not been established at the time of assessment of the write-down need for goodwill, the two sub-groups (Karlshamns and Aarhus) were used as cash-generating units. Recoverable amounts for each sub-group were defined on the basis of calculations of the value in use. These calculations were based on estimated future cash flows based on financial forecasts approved by the management which cover a period of five years. The discounting factor used was 7–8 percent. The cash flows are based on results in previous years in each sub-group and the expectations of management regarding the market trend for the new Group.

**NOTE 17 – PARTICIPATIONS IN GROUP COMPANIES**

	Parent Company 2005
Acquisition value, opening balance	-
Acquisition of subsidiaries	
Karlshamns <sup>1</sup>	2,994
Aarhus United, note 28	2,799
<b>Accumulated acquisition values, closing balance</b>	<b>5,793</b>

In the accounts up to 31 December 2005 the total purchase price was calculated as follows:

	AarhusKarlshamn Sweden AB	Aarhus United A/S
Cash paid	3	157
Non-cash issue	2,966	2,617
Acquisition costs	25	25
<b>Total purchase price</b>	<b>2,994</b>	<b>2,799</b>



## List of shareholdings and book value on 31 December 2005

	Reg. number	Registered office	No. of shares	Share of equity	Book value
<b>AarhusKarlshamn Sweden AB, Sweden</b>	556478-1796	Karlshamn	21,864,928 <sup>2</sup>	100	2,994
Tefac AB, Sweden	556283-5214	Karlshamn	1,000	100	
Binol AB, Sweden	556111-3472	Karlshamn	20,000	100	
BioSafe Oy, Finland	1877093-5	Reso	100	100	
Belico Holding AB, Sweden	556537-0904	Karlshamn	9,000	100	
AarhusKarlshamn Baltic Holding AB, Sweden	556381-8664	Karlshamn	1,000	100	
AarhusKarlshamn Baltic Ltd, Litauen		Vilnius	254	100	
AarhusKarlshamn Czech Republic Spol.s.r.o	15268853	Prague	-	100	
AarhusKarlshamn Poland Sp.z o.o., Poland	0000124135	Warszaw	100	100	
AarhusKarlshamn Netherlands BV, The Netherlands	35012547	Zaandijk	500	100	
AarhusKarlshamn Norway AS, Norway	988369403	Oslo	1,000	100	
Karlshamns UK Holdings Plc., UK		Hull	4,848,499	100	
AarhusKarlshamn Hull Ltd, UK		Hull	1,500,000	100	
AarhusKarlshamn (Malaysia) Sdn. Bhd., Malaysia	185577P	Kuala Lumpur	1,500,000	100	
<b>Aarhus United A/S, Denmark</b>	45954919	Aarhus	400,000,000	100	2,799
AarhusKarlshamn Denmark A/S, Denmark	15672099	Aarhus	100,000,000	100	
AarhusKarlshamn Cote d'Ivoire Sarl, Ivory Coast	226577	Adidjan	10,000,000	100	
Aarhus United Benin Sarl	2626-B	Cotonou	5,000,000	100	
Aarhus United Ghana Ltd	80539/0671	Accra	117,000	100	
Aarhus United Burkina Faso SARL		Burkina Faso	-	100	
AarhusKarlshamn Asia, Pacific Sdn.Bhd	516423-P	Kuala Lumpur	500,000	100	
Aarhus United Australia Pty Ltd, Australia	094486361	South Wales	167,858	100	
AarhusKarlshamn Sp.zo.o, Poland	0000057626	Gdansk	100,000	100	
Aarhus United ZAO, Russia	1037789094265	Moscow	3,000,000	100	
AarhusKarlshamn Havnen A/S, Denmark	13919232	Aarhus	500,000	100	
Aarhus 2 A/S, Denmark	13919275	Aarhus	500,000	100	
Hydrogen I/S, Denmark	21839639	Aarhus	-	64	
BSP Pharma A/S, Denmark	26254345	Aarhus	1,164,406	70.7	
Aarhus United Latin America S.A., Uruguay	214947990014	Cousa	150,000,000	100	
AarhusKarlshamn do Brasil desenvolvimento de Negocios Ltda, Brazil	07.830.192/0001-02	São Paulo	-	100	
AarhusKarlshamn UK Ltd, UK	1585686	Hull	23,600,000	100	
AarhusKarlshamn USA Inc., USA	13-3445572	New Jersey	20,300,000	100	
AarhusKarlshamn Canada Ltd, Canada	2040468	Toronto	100	100	
AarhusKarlshamn Mexico, S.A. de C.V.	AUM8302244G2	Morelia	209,260,152	92.76	
Aarhus Insurance Brokers ApS, Denmark	14580298	Aarhus	200,000	100	
AarhusKarlshamn Byejeendomme A/S, Denmark	14750576	Aarhus	1,000,000	100	
Aarhus Malaysia Sdn. Bhd., Malaysia	203033-P	Teluk Intan	1,072,860	100	
Ceylon Trading Co. Ltd., Sri Lanka	J 333	Colombo	176,582,000	100	
Frank Fontannaz Holdings Ltd, UK	798 353	London	1,778,932	100	
<b>Total</b>					<b>5,793</b>

The above list includes certain shares and participations directly and indirectly owned by the Parent Company on 31 December 2005. A full list of holdings and shares and participations drawn up according to the provisions set out in the Swedish Annual Accounts Act and included in the annual accounts sent to the National Board of Housing, Building and Planning can be ordered from AarhusKarlshamn Sweden AB, Corporate Communication, SE-374 82 Karlshamn, Sweden.

<sup>1</sup> Changed name to AarhusKarlshamn Sweden AB

<sup>2</sup> AarhusKarlshamn AB owns at present 98.2 percent of the share capital of the subsidiary AarhusKarlshamn Sweden AB (previous known as Karlshamns AB). The outstanding shares of this company, amounting to 387,275 out of a total of 21,864,928, are now subject to compulsory redemption. In the redemption procedure initiated in October 2005, the District Court appointed lawyer Lars Milberg administrator for the minority shareholders, to safeguard their rights in the procedure and to appoint a common arbitrator on their behalf. The compulsory redemption procedure is expected to be completed at the earliest in October 2006.

**NOTE 18 – DEFERRED INCOME TAX ASSETS AND TAX LIABILITIES**

Deferred income tax assets and liabilities are offset when there is a legal right of offset for current tax assets and tax liabilities and when deferred taxes relate to the same tax authority. The offset amounts are as follows:

	<b>Group 2005</b>	<b>Parent Company 2005</b>
<b>Deferred tax assets</b>		
Losses carried forward	9	4
Tangible fixed assets	83	-
Other temporary differences	16	-
<b>At year end</b>	<b>108</b>	<b>4</b>
<b>Deferred tax liabilities</b>	<b>Group 2005</b>	<b>Parent Company 2005</b>
Intangible assets	19	-
Tangible fixed assets	268	-
Tax allocation reserves	30	-
Other temporary differences	1	-
<b>At year end</b>	<b>318</b>	<b>-</b>

Deferred income tax assets are reported for all deductible temporary differences. The Group was formed during the year from two profitable companies. Although some non-recurring expenses have been charged to net profit, coordination gains will come in future years, for which reason it is considered that the deferred income tax assets can be reported as a whole as an asset in the balance sheet. No due dates have been identified.

**NOTE 19 – INVENTORIES**

	<b>Group 2005</b>
Raw materials and supplies	1,097
Work in progress	139
Finished goods and goods for resale	193
<b>Total</b>	<b>1,429</b>

**NOTE 20 – ACCOUNTS RECEIVABLE - TRADE**

	<b>Group 2005</b>
Accounts receivable - trade	1,425
Minus: reserve for decrease in value of receivables	-30
Accounts receivable – net	1,395
Minus: long-term part	-
<b>Short-term part</b>	<b>1,395</b>

There is no concentration of credit risks for accounts receivable since the Group has a large number of customers with an international spread.

The Group recorded a loss of SEK 5 m for a write-down of accounts receivable in 2005. The loss has been included in the item other external expenses in the income statement.

**NOTE 21 – LIQUID FUNDS**

	<b>Group 2005</b>
Cash and bank balances	207
Short-term investments	4
<b>Total</b>	<b>211</b>

**NOTE 22 – BORROWINGS**

	<b>Group 2005</b>	<b>Parent Company 2005</b>
<b>Long-term</b>		
Bank loans	985	-
Other interest-bearing liabilities	45	-
<b>Total</b>	<b>1,030</b>	<b>-</b>

	<b>Group 2005</b>	<b>Parent Company 2005</b>
<b>Short-term</b>		
Bank loans	801	224
Bank overdraft facilities	7	-
<b>Total</b>	<b>808</b>	<b>224</b>

The due date for long-term borrowing is as follows:

	<b>Group 2005</b>	<b>Parent Company 2005</b>
Between 1 and 5 years	708	-
More than 5 years	322	-
<b>Total</b>	<b>1,030</b>	<b>-</b>

The effective interest rates on liabilities to credit institutions on the balance sheet date were as follows:

	<b>SEK</b>	<b>DKK</b>	<b>EUR</b>	<b>Group GBP</b>	<b>LKR</b>	<b>MXN</b>	<b>USD</b>
Bank overdraft facilities	2.03	-	-	-	-	-	-
Bank loans	2.87	3.68	3.29	5.25	10.5	9.97	4.54

The amounts reported for long-term liabilities correspond essentially with the fair values.

Reported amounts, by currency, for borrowing are as follows:

	<b>Group 2005</b>	<b>Parent Company 2005</b>
SEK	518	224
DKK	613	-
EUR	52	-
GBP	187	-
LKR	31	-
MXN	90	-
USD	347	-
<b>Total</b>	<b>1,838</b>	<b>224</b>

**NOTE 23 – OTHER PROVISIONS**

<b>Group</b>	<b>Restructuring</b>	<b>Restoration of environment</b>	<b>Total</b>
Opening balance on 29 September 2005	-	-	-
Acquisition of subsidiaries			
Karlshamns <sup>1</sup>	-	-	-
Aarhus United, note 28	5	40	45
Expensed in the consolidated income statement	-	-	-
Exchange rate differences	0	1	1
Utilised during the year	-	-	-
<b>At year end</b>	<b>5</b>	<b>41</b>	<b>46</b>

<sup>1</sup> Changed name to AarhusKarlshamn Sweden AB

The provisions consist of

	<b>2005</b>
Long-term part	46
Short-term part	-
<b>Total</b>	<b>46</b>

**Restoration of the environment**

The provisions relate mainly to costs for restoring contaminated soil.

**NOTE 24 – ACCRUED EXPENSES AND DEFERRED INCOME**

	<b>Group 2005</b>	<b>Parent Company 2005</b>
Accrued salary costs	61	-
Accrued payroll overhead	34	-
Accrued pension costs	19	-
Accrued customs duties	31	-
Accrued costs for rapeseed	9	-
Accrued costs for oil	46	-
Accrued shipping and transportation costs	12	-
Accrued interest expense	7	-
Other	53	4
<b>Total</b>	<b>272</b>	<b>4</b>

**NOTE 25 – PLEDGED ASSETS**

	<b>Group 2005</b>	<b>Parent Company 2005</b>
<b>For own provisions and liabilities</b>		
Property mortgages	209	-
<b>Total</b>	<b>209</b>	<b>-</b>

**NOTE 26 – CONTINGENT LIABILITIES**

	<b>Group 2005</b>	<b>Parent Company 2005</b>
Other contingent liabilities	20	-
<b>Total</b>	<b>20</b>	<b>-</b>

**NOTE 27 – INTER-COMPANY TRANSACTIONS**

The Parent Company did not make any sales to or purchases from other Group companies during the period.

**NOTE 28 – COMPANY ACQUISITIONS**

On 22 September 2005 the Parent Company acquired 94.3 percent of the share capital of Aarhus United and 95.7 percent of the share capital of Karlshamns. Both Karlshamns and Aarhus United are leading players in the market for fats. On the balance sheet date the Group consisted of subsidiaries in a large number of countries, in addition to local operations in Sweden and Denmark. Apart from Sweden and Denmark, manufacturing takes place in the UK, the USA, the Netherlands and Mexico.

According to IFRS 3, it was not possible for the Parent Company to be regarded as the acquirer. Of the acquired companies, Karlshamns was identified as acquirer. Karlshamns and its subsidiaries are thus reported at their book values at the time of the acquisition. In the case of Aarhus United, fair values have been identified, which has resulted in the preliminary acquisition analysis below.

The acquired business contributed income of SEK 1,955 m and net profits of SEK 12 m to the Group during the Group's financial year, i.e. the period 1 October to 31 December 2005.

The purchase price consists of the following components, SEK m:

Cash payment	157
Direct costs in connection with the acquisition	25
Fair value (market value) of issued shares (some 19.9 million)	2,540
<b>Total purchase price</b>	<b>2,722</b>
<b>Fair value of acquired net assets</b>	<b>2,154</b>
<b>Goodwill</b>	<b>568</b>

Goodwill is attributable to the high level of profitability of the acquired business and the important synergies that are expected to arise following the Group's acquisition of Aarhus United.

The assets and liabilities included in the acquisition of Aarhus United are as follows:

SEK m	Acquired book value (according to IFRS)	Acquired fair value
Liquid funds	611	611
Tangible fixed assets	1,547	1,840
Items that form part of intangible assets	52	90
Deferred tax assets	70	54
Financial assets available for sale	26	26
Inventories	942	987
Receivables	1,137	1,145
Liabilities	-588	-596
Borrowing	-1,865	-1,865
Deferred tax liabilities	0	-104
Net assets	1,932	2,188
Minority interest	-48	-34
Acquired net assets	1,884	2,154
Purchase price paid in cash		-182
Liquid funds in acquired subsidiaries		611
Change in the Group's liquid funds on acquisition		429

## NOTE 29 – SEGMENT INFORMATION

Details of secondary segments – geographical areas

	Group 2005
<b>Net sales</b>	
Sweden	298
Denmark	108
Rest of the Nordic countries	178
Western Europe	956
Central and Eastern Europe	403
America	624
Other countries	423
<b>Total</b>	<b>2,990</b>

The Board of AAK laid down at its meeting on 28 February 2006 how the Group's operations should be divided up into primary and secondary segments. Starting with the first interim report in 2006, the Group thus intends to present segment information according to IAS 14.

In view of the Group's rather short financial year, the substantial work of coordination that has characterised the Group since the merger, and the fact that the Board was prevented from being able to make an earlier decision regarding the division into segments, it has not been possible to recreate information about the primary segments for the period October–December 2005 within the existing timetable for the preparation of the present financial reports. In the case of secondary segments, it has only been possible to produce details of sales. In order to throw light on the segments, proforma accounts have been created, which are based on the respective Group companies' own accounts for the calendar years. However, the segment information in the proforma accounts is also highly limited for the reasons referred to above. Despite this, the Board has decided not to delay publication of the present financial reports because of the obstacles to the recreation of segment reporting for the period October–December 2005.

## NOTE 30 – OPERATING LEASES

Future minimum lease payments under non-cancellable lease agreements are as follows:

	Group 2005
Within 1 year	14
Between 1 and 5 years	33
After more than 5 years	11
<b>Total</b>	<b>58</b>

The variable part of charges included in the result for the period amounts to SEK 11 m.



Malmö, 21 April, 2006

Erik Højsholt  
(Chairman)

Melker Schörling

John Goodwin

Martin Bek-Nielsen

Mikael Ekdahl

Carl Bek-Nielsen

Annika Westerlund

Leif Håkansson

Jerker Hartwall  
President and CEO

Our audit report was submitted on 21 April 2006  
PricewaterhouseCoopers AB

Anders Lundin  
Authorised Public Accountant

# Audit Report

**To the Annual General Meeting of the shareholders of AarhusKarlshamn AB (publ)**  
**Corporate identity number 556669-2850**

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of AarhusKarlshamn AB for the financial year 1 May 2005 to 31 December 2005. The Company's annual report and consolidated accounts are included in this document on pages 48 to 76. The Board of Directors and the President are responsible for these accounts and the administration of the Company as well as for the application of the Annual Accounts Act when preparing the annual accounts and application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

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

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

We recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the loss for the Parent Company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Malmö, Sweden, 21 April 2006

PricewaterhouseCoopers AB

Anders Lundin  
Authorised Public Accountant

# The stock market's analysis of AarhusKarlshamn

The AAK share is traded for the time being on Nya Marknaden. The intention is to apply for a listing on the O-list of the Stockholm Stock Exchange in the third quarter of 2006. Here three analysts give their views about the strengths and weaknesses of the share and applicable analysis models.

**What should I be watching out for in the quarterly reports?**

**Select three key ratios that best describe the development of the company.**

**How should the AAK share be valued compared with the previous shares of Aarhus United and Karlshamns?**



**Stefan Mattsson**  
Enskilda Securities

Earnings compared with expectations. Volume trend and gross contribution, corrected for acquisitions and currency changes. Comments about the future, any changes from previous statements about the future, cost savings etc., together with the cash flow trend.

Growth in volume and gross contribution, return on capital employed, earnings per share and the cash flow trend.

I can't really say. Spontaneously, though, I think higher than before in view of synergies on the cost side, a stronger market position in chocolate and more consolidation in the sector, which increases stability.



**Karl-Johan Bonnevier**  
A-Brokers Securities

The focus should be on the volume trend, the gross contribution margin, the operating profit and the free cash flow in the figures. Among commentators, it goes without saying that how the integration process between Karlshamns and Aarhus develops is important as well as how the synergies are realised. On the product side, whether the trend for CBE and DFA is of central importance.

My favourites are following the average gross contribution per tonne, the absolute volume trend and the operating expenses in relation to the gross contribution. Together they show how effectively sales and the business are developing.

I see no major difference in how the share should be valued, but the merger creates new opportunities which the companies on their own had greater difficulty in exploiting.



**Claus Almer**  
ABG Sundal Collier

Signs of a better situation in regard to competition and the volume trend, particularly in the Group's core operations. Another thing to keep an eye open for is whether the merger synergies and the integration process are developing according to plan.

Volume growth, gross margin, profit margin and, not least, the cash flow.

AAK will have a competitively much stronger position in most respects, e.g. when it comes to optimising investments and ensuring high capacity utilisation. At the same time it should be possible to make the product flow more efficient, given that there are now only three manufacturers of speciality fats.

## Analysts monitoring AarhusKarlshamn

Enskilda Securities  
**Stefan Mattsson**  
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A-Brokers Securities  
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ABG Sundal Collier  
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**What is the biggest challenge, in your view, facing AAK's management?**

Improving/maintaining the gross contribution. Reducing other operating expenses and developing new products with value added for the customer.

**Can you give an example of successful mergers of large companies, and what has marked them out?**

No

**What analysis model do you use to evaluate AAK?**

Cash flow valuation and a relative valuation of the P/E ratio, EV/EBIT, EV/RoCE.

**What is the 12-month trend for the Stockholm Stock Exchange?**

There will be no change.

Amalgamating two previously tough competitors into a new organisation where everyone is pulling in the same direction is a tough challenge, and realising synergies (in terms of both costs and revenues) is not something that happens automatically.

Companies that I've worked with who were successful with an acquisition strategy at least have a few things in common. The management did its homework before the merger, with a detailed plan of action to be carried out in order to realise values. Now, since the start of the process, everyone knows what is required, who should do what, when and how it should be done, so that no time is lost. Companies like Hexagon and Getinge are excellent examples of how strategy can be put into practice by strong managements.

The entire traditional set of analysis models, with an emphasis on cash flow analysis.

I've no view about the market, but AAK should have every opportunity of producing a better return than the average for the Stockholm Stock Exchange.

Clearly a successful merger is the principal challenge. However, the management should ensure at the same time that it makes the most of the many business opportunities that are now open to it.

In Denmark we've seen several successful mergers between ex-competitors, e.g. when DSV merged with DFDS (the transport company), Danske Bank with BG Bank and Navision with Damgaard (IT) – the last two were, of course, later acquired by Microsoft. The common denominator for these companies has been a strong management, a clear strategy and, not least, the ability to exploit and realise the synergies offered to them.

In the first place we base our recommendation on our DCF model, although we also make relative valuations in relation to companies with comparable operations.

ABG Sundal Collier anticipates a total return of 10–15 percent in 2006.

# The AarhusKarlshamn share

On 26 May 2005 the principal owners of Aarhus United and Karlshamns declared their intention to make an offer via the newly formed company BNS Industrier for the shares of the two exchange-listed companies. On 12 July 2005 the conditions for the offer were known to the shareholders of each company.



BNS Industrier at the time of the merger was a wholly-owned company of BNS Holding, owned jointly by United International Enterprises and Melker Schörling AB.

The offers to the shareholders in both companies were conditional on one another.

The share of Aarhus United was listed on the Copenhagen Stock Exchange and that of Karlshamns on the Stockholm Stock Exchange. Based on the current price, the shareholders of Aarhus United were offered for each share they held 5.27 shares in BNS Industrier, while the Karlshamns' shareholders were offered one share in BNS Industrier.

As an alternative, cash equivalents of DKK 500 and SEK 117, respectively, were offered for each Aarhus share and Karlshamns share. The cash offer was limited to 50 percent of the shareholders' total holdings in each company.

Almost all of the Karlshamns' shareholders chose shares in AarhusKarlshamn AB in preference to cash. When the

extended notification period expired on 6 October, the extent to which the offer had been accepted was such that AarhusKarlshamn had acquired 98.2 percent of Karlshamns and 94.3 percent of Aarhus United.

The total number of outstanding shares when the offer was announced was 42,413,474. Following the offer, the number of shares in AarhusKarlshamn amounted to 41,383,803, making the Company's share capital SEK 413,383,803. The number of shareholders on 31 December 2005 was 5,584.

## Compulsory redemption

AarhusKarlshamn currently owns 98.2 percent of the share capital of the subsidiary AarhusKarlshamn Sweden AB (previous name Karlshamns AB). The outstanding shares in this company, which amount to 387,275 of a total of 21,864,928 shares, are now subject to compulsory redemption. In the redemption procedure initiated in October 2005, the District Court appointed lawyer Lars Milberg administrator for the minority shareholders, to safeguard their rights in the procedure and to appoint a common arbitrator on their behalf. The compulsory redemption procedure is expected to be completed at the earliest in October 2006. AarhusKarlshamn owns 100 percent of the share capital of the subsidiary Aarhus United A/S in Denmark.

## Data per share

	2005
Number of shares (000s)	41,384
Number of shareholders	5,584
Share price at year end, SEK	185
Dividend, <sup>2</sup> SEK	29
Direct return, %	2.2
Dividend ratio after tax, %	>100
Earnings per share, <sup>1</sup> SEK	-1.12
Shareholders' equity per share, <sup>1</sup> SEK	135
P/E ratio after tax, SEK	neg.
Market value/shareholders' equity, %	137

<sup>1</sup> There are no options or convertible debentures.

<sup>2</sup> Recommended dividend, 4 SEK per share. One-off dividend, 25 SEK per share.

Definitions, see page 85



### Planned dividend policy

The Board has adopted a policy in regard to dividends, whereby the aim of the Board, taking into account the Group's earnings trend, financial position and future development opportunities, is to recommend an annual dividend which corresponds to at least 30–50 percent of consolidated profit for the year after tax.

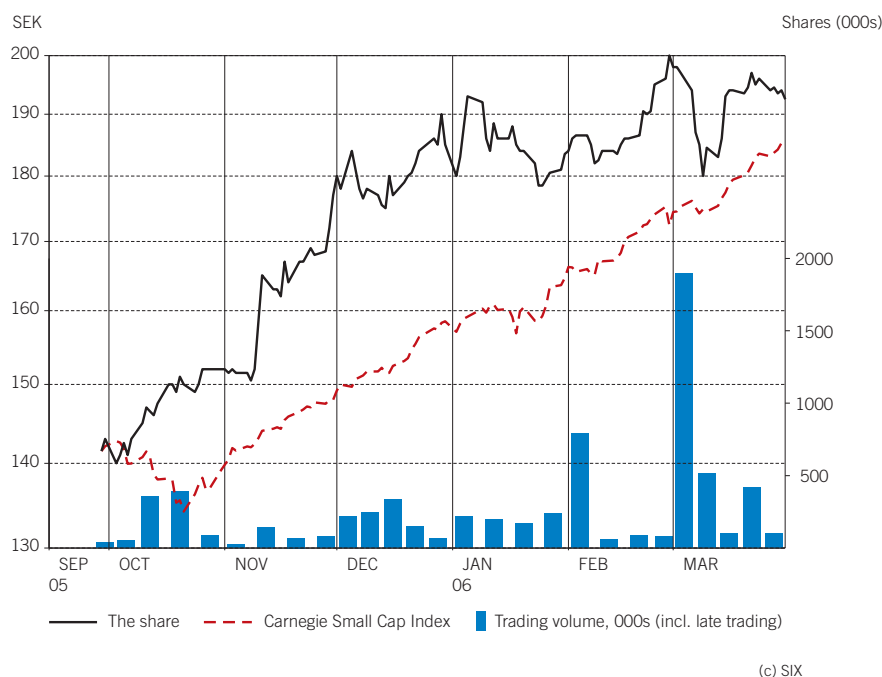
### Ordinary dividend and correction of the capital structure

The Board recommends a dividend of SEK 4 per share plus a one-off dividend of SEK 25 per share. This entails a decision being taken by the AGM in May 2006 to transfer restricted reserves in the balance sheet to unrestricted reserves and the expectation that an Extraordinary General Meeting (EGM) to be held in September/October 2006 will be able to approve the above dividends once the customary registration has taken place of the change decided at the AGM.

The reasons for the recommendation of the Board are technical and financial. As a result of the design of the merger, all the funds in the balance sheet came to be of a non-distributable nature, making dividends impossible. The proposed decision regarding the change corrects this problem. As a result of the fact that almost all the shareholders in the merger opted for shares instead of a cash payment, the new AAK Group came to be overcapitalised, with a very low debt/equity ratio. The proposed one-off dividend corrects this situation.

The management of AarhusKarlshamn has the express aim of conducting a strong dialogue with the media and the capital market. The Management Group intends in connection with the quarterly reports to hold conferences of analysts. The company's press releases are distributed via Observer and are also available on the Company's website, [www.aak.com](http://www.aak.com). The management can be contacted as follows: tel +46 454 820 00, fax +46 454 828 20 and e-mail [info@aaak.com](mailto:info@aaak.com).

### The AarhusKarlshamn share 29 September 2005 to 31 March 2006



### Major shareholders on 31 December 2005

	Number of shares	Share of share capital and voting rights, %
BNS Holding AB	16,247,206	39.26
ATP DK Client Acc.	2,108,711	5.10
JP Morgan Chase Bank	1,733,961	4.19
Didner & Gerge Aktiefond	1,570,000	3.79
AMF Pensionsförsäkrings AB	940,000	2.27
JP Morgan Chase Bank, N.A.	931,213	2.25
Other shareholders	17,852,712	43.14
Total	41,383,803	100.00

### Breakdown of shareholdings on 31 December 2005

Number of shares	Number of shareholders	Share of all shareholders, %	Share of share capital and voting rights, %
1-500	3,765	67.42	1.84
501-1,000	926	16.58	1.90
1,001-5,000	649	11.62	3.72
5,001-10,000	100	1.80	1.79
10,001-15,000	27	0.48	0.85
15,001-20,000	19	0.34	0.82
20,001-	98	1.76	89.09
Total	5,584	100.00	100.00

# Corporate Governance Report

AarhusKarlshamn AB is a Swedish public limited liability company, whose shares are traded on Nya Marknaden. Its Board of Directors and management strive to make it easier by means of considerable openness for the individual shareholder to follow the Company's decision-making process and to make clear where in the organisation responsibility and authority lie.

AAK was formed as the result of a merger between the two listed companies Karlshamns and Aarhus United. The merger is described in more detail on page 6. The newly formed company has followed with interest the development of Swedish guidelines for corporate governance via the arrival and application of the Swedish Code of Corporate Governance ("the Code"). In formal terms, the Code does not apply directly to AAK since the Company's shares are traded on Nya Marknaden, which does not formally constitute a listing. However, the Board of AAK has taken the view that the Company should gradually come into line with the provisions of the Code in connection with a planned listing of the Company on the Stockholm Stock Exchange in the third quarter of 2006.

Against this background, therefore, AAK strives in all essentials to observe the Code. In those parts where AAK has decided to depart from the Code, the reason for doing so is set out in the various sections of the Corporate Governance Report.

AAK has defined clear roles and a division of responsibility between the Board, the management and the various control bodies. Responsibility for the management and control of AAK is divided between the shareholders at the AGM, the Board, its elected committees and the President according to the Swedish Companies Act, other laws and ordinances as well as the Articles of Association and the Board's internal control instruments.

## Articles of Association

AarhusKarlshamn's existing Articles of Association were adopted on 22 September 2005. They make clear that the business of the Company is to engage in manufacturing and trading operations, preferably in the food industry, to own and administer shares and securities and to carry on activities compatible with this. The Articles of Association also set out the rights of the shareholders, the number of Board members and auditors, the duty to

hold an annual general meeting within six months of the end of the financial year, how notice of the annual general meeting is to be given and the proviso that the Board of the Company shall be in Malmö. For the existing Articles of Association, see [www.aak.com](http://www.aak.com).

## Annual General Meeting

The Annual General Meeting (AGM) is the Group's supreme decision-making body and the forum through which the shareholders exert their influence over the Company. The tasks of the AGM are regulated in the Swedish Companies Act and in the Articles of Association. The AGM decides on a number of central issues, such as the adoption of the income statements and balance sheets, the discharge from responsibility of the Board of Directors and the President, the dividend to the shareholders and the composition of the Board. The AGM may only be followed on the spot since the opportunity of participating from elsewhere is not judged to be warranted or financially viable.

The Company held an extraordinary general meeting (EGM) on 22 September 2005 in Karlshamn, at which shareholders were represented holding 100 percent of the shares of the Company. This EGM resolved, among other things, to change the name of the company from BNS Industrier AB to AarhusKarlshamn AB and elected the present Board of Directors.

## Election committee

At the AGM a decision is taken on the procedure governing the election of the Board. The task of the nominating committee is to put forward proposals to the AGM regarding the choice of Chairman and other members of the Board as well as the Chairman of the AGM, questions of remuneration and related matters. The nominating committee does not make proposals for the election and remuneration of auditors as these matters fall within the remit of the audit committee.

The nominating committee before the 2006 AGM consists of Melker Schörling

(Chairman), Carl Bek-Nielsen, Henrik Didner, Didner & Gerge Mutual Fund, and Jan-Erik Erenius, AMF Pension. These members represent approximately 46.7 of the voting rights of AAK.

The major shareholders currently represented in the nominating committee regard it as essential in order to achieve effective nomination work that the number of members of the nominating committee should be limited. At the same time the principal owners must be represented, which is the reason why the number of non-Board members does not exceed the number of principal owners/Board members. The shareholders mentioned also regard it as natural for a representative of the largest shareholder in terms of votes to be the Chairman of the nominating committee.

## The Board and its work

The duties of the Board of Directors are set out in the Swedish Companies Act and in the Articles of Association and are also regulated by the rules of procedure to be adopted each year by the Board, which also specify the division of responsibilities between the Board, its Chairman and the President as well as the President's financial reporting schedule.

The responsibility of the Board includes laying down strategies, approving business plans and budgets, interim reports and the year-end (unaudited) report. The Board shall also supervise the President's performance, appoint and dismiss the President and decide on material changes in AAK's organisation and operations. The Board is also responsible for the Group's external reporting. It monitors the financial reporting with instructions to the President and the laying down of requirements governing the contents of the financial reports that are from time to time submitted to it.

According to the Articles of Association, the AAK Board of Directors shall consist of at least three and at most ten members, with at most ten alternates. The existing Board consists of six members



appointed by the AGM: Carl Bek-Nielsen, Martin Bek-Nielsen, John Goodwin, Mikael Ekdahl, Melker Schörling and Erik Højsholt, who were appointed at the EGM on 22 September 2005. A further presentation of the Board of Directors can be seen on page 88. The Board also includes two employee representatives. Since 1 October 2005 the latter have been Annika Westerlund from PTK and Leif Håkansson from IF Metall. The President of AAK, Jerker Hartwall, has acted as rapporteur at the Board meetings.

The Board elects its officers at a statutory Board meeting held immediately after the AGM. At this meeting the Board's rules of procedure and instructions to the President, together with any instructions to committees and other internal control instruments are also laid down. The existing Board formally took office on 22 September 2005, at which meeting all the members were present.

According to the existing rules of procedure, the Board shall meet on at least five occasions in addition to the statutory meeting immediately after the AGM; it shall also meet whenever the situation requires. Since 22 September 2005 up to the end of the 2005 financial year, the Board has held one meeting in December 2005, when it discussed the interim report for the third quarter and investment issues. All the members of the Board

were present. During the period Bo Svensson, Chief Information Officer, served as Secretary of the Board.

The Board also met on 28 February 2006, when the summarised financial statements for 2005 were discussed and published.

In order to fulfil the requirements of the Code that the majority of the Board members elected by the AGM should be independent of the Company, the nominating committee has proposed in advance of the AGM the election of two new members: Ebbe Simonsen, previously a member of the Board of Aarhus United, and Märit Beckeman, previously a member of the Board of Karlshamns. Jerker Hartwall is also proposed as new board member. Eric Højsholt has declined re-election.

The nominating committee further propose election of Melker Schörling as Chairman of the Board and Carl Bek-Nielsen as Deputy Chairman of the Board.

#### Chairman of the Board

At the Board meeting on 22 September 2005 Erik Højsholt was elected Chairman. The role of the Chairman is to direct the work of the Board and ensure that it fulfils its assignment. The Chairman follows the development of the Company in dialogue with the President and is responsible for seeing that the other members of the

Board continually receive the information required to enable them to exercise their duties with no loss of quality and in accordance with the Swedish Companies Act and other applicable laws and ordinances, the Articles of Association and the Board's rules of procedure. The Chairman is responsible for seeing that the Board continually extends its knowledge of the Company, that evaluation takes place of the work of the Board and that the nominating committee is apprised of this evaluation. The Chairman also takes part in evaluation and development questions relating to the senior executives of the Group.

#### Board committees

The Board deals with questions of auditing and remuneration in committees, whose task is to lay the ground for forthcoming matters and put forward proposals for the approval of the Board.

#### Remuneration committee

The Board has set up a remuneration committee with the task of preparing questions about remuneration and other conditions of employment for the senior management and other questions that the Board requires the committee to prepare. The committee presents its proposals to the Board for the latter to make a decision on.

No directors' fees were paid in 2005. The Chairman of the Board received salary and other benefits according to a previous agreement with Aarhus United.

The Company's President, the Secretary of the Board and the employee representatives do not receive any fees in connection with Board duties in addition to their expenses.

The members of the remuneration committee for the period up to the 2006 AGM are Mikael Ekdahl (Chairman) and John Goodwin. During the 2005 financial year the remuneration committee held one meeting, at which both members were present.

### The audit committee

The Board has set up an audit committee with the task of preparing matters concerning audit procurement and fees, taking note of the plan for auditing and the reporting from this, quality-assuring the Company's financial reporting and continually meeting the Company's auditors to inform itself of the aims and scope of the audit. The duties of the remuneration committee also include a follow-up of the work of the auditors and the Company's internal control systems, a follow-up of the current risk situation, a follow-up of external audits and the Company's financial information and also other matters which the Board asks it to prepare.

The members of the audit committee for the period up to the 2006 AGM are Mikael Ekdahl (Chairman) and Martin Bek-Nielsen. In the 2005 financial year the audit committee met on two occasions, when both members were present.

According to the Code, the Board shall set up an audit committee consisting of at least three Board members. At present the audit committee only has two members. However, the Board intends to increase the number of committee members to three as soon as one of the Board's independent members has acquired the knowledge of the Company required to enable meaningful work to be carried out in the committee.

### Group management

The task of the President is to direct operations in accordance with the Board's guidelines and interactions. In connection with this, the President shall make sure through the necessary control systems that the Company is observing applicable laws and ordinances. The President is rapporteur at Board meetings and shall

ensure that the Board is given as objective, detailed and relevant information required to enable it to take well-founded decisions. In addition, the President conducts a continuous dialogue with the Chairman of the Board and keeps the latter informed about the development and financial position of the Company and the Group.

AAK's Management Group has twelve members from five countries. They consist of the President, the Presidents of the business areas and the CFO and Chief Information Officer. In 2005 the management held two formal and a number of informal meetings, which were led by the President, who takes decisions in consultation with the other members of the Management Group.

A more detailed presentation of the President and the rest of the Management Group is given on page 91.

### Organisation

The AAK Group consists of the Parent Company, AarhusKarlshamn AB (publ), and subsidiaries and associated companies, which are described in the note on page 71. All the subsidiaries report monthly to the President of AAK, either directly or through the relevant business area. AarhusKarlshamn pays market-related and competitive salaries to its senior executives. The right person can be crucial for the development of the Company and any variable element of the salary shall be linked to that part of the earnings trend that the individual in question can influence. For more information about remuneration to the President and senior management, see page 86.

### Significant policies

The business of AAK is regulated, among other things, through a number of policies, which aim at bringing about operational efficiency and promoting correct behaviour both internally and externally. A large number of policies are under evaluation since they have been based on one of the operations of the two former companies.

### Internal control

According to the Swedish Code of Corporate Governance, the Board shall submit a report about internal control, which should be reviewed by the Company's auditors. The AAK Board has chosen to follow the statement issued by the College for Swedish Corporate Governance on 15 December 2005, whereby the reporting of 2005

is sufficient if a description is given in the Corporate Governance Report of how internal control is organised, without any statement about how well it has functioned and without being examined by the auditors.

The Board of the Company is responsible for AarhusKarlshamn's internal control, the overall aim of which is to protect the owners' investments and the Company's assets. AarhusKarlshamn is characterised by a clear division of responsibility and effective and established control systems. Internal control covers all parts of the Group.

AarhusKarlshamn's financial functions are integrated through a common financial and accounting system and a common accounting instruction. The Group's treasury unit has close and effective collaboration with the subsidiaries' controllers in regard to accounts and reporting. AarhusKarlshamn has no internal audit function as the above functions adequately fulfil this task.

### Auditors

AAK's auditors are elected by the AGM and are the certified public accounting firm PricewaterhouseCoopers AB (Certified Public Accountants), with Anders Lundin as the principal auditor. Anders Lundin has been the principal auditor for AAK since the EGM on 7 June 2005.

The auditors of AarhusKarlshamn Sweden AB are the certified public accounting firm Öhrlings PricewaterhouseCoopers AB, with Åke Christiansson as the principal auditor. Öhrlings PricewaterhouseCoopers AB have been auditors for AarhusKarlshamn Sweden AB since 1992 and Åke Christiansson has been the principal auditor since 1999.

The auditors of AarhusKarlshamn Denmark A/S and its subsidiaries are the certified public accounting firm KPMG A/S, with Claus Hammer Pedersen as the principal auditor.

The auditors have had special meetings for reporting to the group management and the Board. Besides regular audit assignments, PricewaterhouseCoopers AB and KPMG A/S also assist AAK with other advice of an auditing nature. All services commissioned outside the range of statutory audit assignments are given due consideration to ascertain that no conflicts can arise with respect to independence or lawful disqualification. No agreement with related parties exists.

This Corporate Governance Report has not been reviewed by AAK's auditors.

# Definitions

## Key ratios

### Capital turnover rate

Net sales divided by average operating capital.

### Dividend ratio

Dividend per share as a percentage of earnings per share.

### Earnings per share

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

### Equity/assets ratio

Shareholders' equity including minority interests as a percentage of the balance sheet total.

### Gross contribution

Operating income less cost of raw materials.

### Interest cover ratio

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

### Liquid funds

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

### Market value/shareholders' equity

Market value divided by shareholders' equity per share.

### Net borrowings

Total interest-bearing liabilities less interest-bearing assets.

### Net debt/equity ratio

Net borrowings divided by shareholders' equity including minority interests.

### Operating capital

Total assets less liquid funds, non-interest-bearing liabilities and non-interest-bearing operating liabilities, but excluding deferred tax.

### P/E ratio

Share price divided by earnings per share.

### Proportion of risk-bearing capital

Shareholders' equity, minority share of equity and deferred tax liability, divided by the balance sheet total.

### Return on operating capital

Operating profit/loss as a percentage of average operating capital.

### Return on shareholders' equity

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

### Shareholders' equity per share

Shareholders' equity divided by the average number of shares on the closing date.

### Working capital

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

### Yield

Dividend per share as a percentage of the market value.



# Remuneration issues



As a result of the merger between Karlshamns and Aarhus United, a new Group Management was created. The remuneration reported relates to the salaries and benefits that were approved for the new Group Management from 1 October 2005. The salaries and benefits set out below are thus based on the period October–December 2005. For pension benefits, the figures are based on premiums paid for the corresponding period. Bonuses, however, relate to the actual bonus payments for the whole of 2005.

## Salaries and benefits

Salaries and benefits for the President and other executives are approved by the Board, following proposals by the remuneration committee.

## Pension benefits for the President

Pension premiums were paid in on behalf of the President during the period October–December to KP, Pension & Insurance, of altogether SEK 0.4 m, excluding special employer's contribution. From 2006 the premium for the President's pension is SEK 1.5 m.

For other senior executives, pension benefits are paid at the customary

levels in each country. The intention is to change to premium-based pension solutions as soon as possible.

## Periods of notice and severance payments for the Group Management

Agreements exist with the President and members of the Group Management relating to severance pay of 12 months' salary in the event of notice being given by the Company. The period of notice from the President and from other senior executives is 6 months. The period of notice from the Company is 12 months. It is not possible for any executive, including the President, to claim the right to severance pay.

## Directors' fees

The members of the Board elected by the AGM receive directors' fees set by the AGM, which are divided among the members according to the decision of the Board. No directors' fees were paid in 2005 for AarhusKarlshamn AB. Salary and other benefits were paid to the Chairman of the Board in accordance with the existing agreement with Aarhus United.

Apart from travel expenses, no other remuneration or benefits have been paid. The Company's President, the Secretary of the Board and the employee representatives do not receive a fee in addition to travel expenses in connection with Board duties.

## Remuneration to the President and other senior executives 2005, SEK m

	Salary 3 months	Bonus Whole of 2005	Pension premiums 3 months
President	1.0	0.6	0.4
Other senior executives	3.6	6.1	0.6



# Board of Directors – AarhusKarlshamn AB (publ)



**Erik Højsholt**



**Carl Bek-Nielsen**

**Erik Højsholt**

Chairman of the Board.

Born: 1948.

Other directorships: Chairman of Aarhus School of Business, Rode & Rode A/S and Director of Royal Unibrew A/S.

Member since: 2005.

Shareholding: 2,850.

erik.hojsholt@aak.com

**Carl Bek-Nielsen**

Born: 1973.

Other directorships: Chairman of United International Enterprises Ltd. Vice Chairman of United Plantations Berhad. Director of Aalborg White Asia Sdn. Bhd.

Member since: 2005.

Shareholding: Carl Bek-Nielsen through UIE Ltd holds 41.5 percent of the shares of BNS Holding AB. BNS

Holding AB in turn has 16,247,206

shares (39.26 percent) in

AarhusKarlshamn AB.

cbn@plantations.biz

**Martin Bek-Nielsen**

Born: 1975.

Other directorships: Director of United Plantations Berhad, Deputy Chairman of United International Enterprises Ltd.

Member since: 2005.

Shareholding: Martin Bek-Nielsen

through UIE Ltd holds 41.5 percent

of the shares of BNS Holding AB.

BNS Holding AB in turn has 16,247,206

shares (39.26 percent) in

AarhusKarlshamn AB.

mbn@plantations.biz

**Mikael Ekdahl**

Born: 1951.

Other directorships: Chairman of Bong Ljungdahl AB and Marco AB. Director of Attendo Group AB, Konstruktionsbakelit AB and Börje Jönsson Åkeri AB.

Member since: 2005.

Shareholding: 8,000.

mek@msa.se

**John Goodwin**

Born: 1944.

Other directorships: Chairman of United Plantations Africa Ltd., Director of United International Enterprises Ltd. and Neptune Resources.

Member since: 2005.

Shareholding: 0.

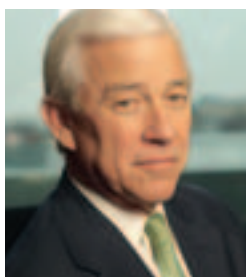
jag@psuk.net



**Martin Bek-Nielsen**



**Mikael Ekdahl**



**John Goodwin**



**Melker Schörling**



**Annika Westerlund**



**Leif Håkansson**

**Melker Schörling**

Deputy Chairman.

Born 1947.

Other Directorships: Chairman of Securitas and Hexagon.

Deputy Chairman of Assa Abloy and director of H&M.

Board member since 2005.

Shareholding: 58.5 percent of the shares of BNS Holding AB (via Melker Schörling AB). BNS Holding in turn

holds 16,247,206 shares (39.26

percent) in AarhusKarlshamn AB.

melker.schorling@securitasgroup.com

## Board members elected by the employees

**Annika Westerlund**

Born: 1956.

AarhusKarlshamn Sweden AB.

Appointed by PTK.

Member since: 2005.

Shareholding: 0

annika.westerlund@aak.com

**Leif Håkansson**

Born: 1957.

AarhusKarlshamn Sweden AB.

Appointed by IF Metall

Member since: 2005.

Shareholding: 679.

leif.hakansson@aak.com

## Deputy members:

**Ann Magnusson**

Ann Magnusson

Born: 1962.

AarhusKarlshamn Sweden AB.

Appointed by PTK.

Deputy member since: 2005.

Shareholding: 0

ann.magnusson@aak.com

**Christer Svantesson**

Born: 1951.

AarhusKarlshamn Sweden AB.

Appointed by IF Metall.

Deputy member since 2005.

Shareholding: 679.

christer.svantesson@aak.com

## Auditor:

PricewaterhouseCoopers AB

**Anders Lundin**

Born: 1956.

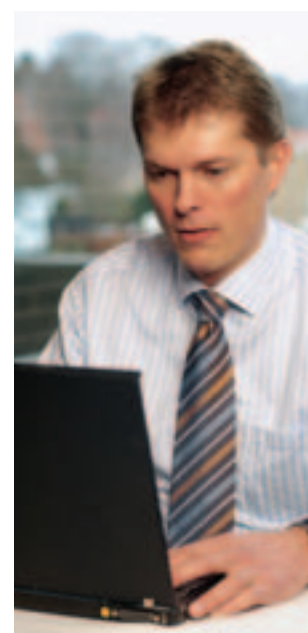
Authorised Public Accountant.

The Company's auditor since 2005.











# AarhusKarlshamn – Group Management

## **Jerker Hartwall**

President AarhusKarlshamn AB and CEO  
(Chief Executive Officer)  
Born: 1952.  
Employed since: 2000.  
Shareholding: 96,653.  
jerker.hartwall@aak.com

## **Jan Astrup**

Vice President AarhusKarlshamn  
and President AarhusKarlshamn,  
Nafta, Mexico, S.A. de C.V.  
Born: 1964.  
Employed since: 1987.  
Shareholding: 0.  
jan.astrup@aak.com

## **Jørgen Balle**

Vice President AarhusKarlshamn,  
President Business Area Chocolate &  
Confectionery Fats and President  
AarhusKarlshamn Denmark A/S.  
Born: 1964.  
Employed since: 1990.  
Shareholding: 2,345.  
jorgen.balle@aak.com

## **Gunnar Bystedt**

Vice President AarhusKarlshamn,  
Global Coordinator Operations and  
Operations Director SE/NL.  
Born: 1955.  
Employed since: 2003.  
Shareholding: 10,045.  
gunnar.bystedt@aak.com

## **Anders Byström**

Vice President AarhusKarlshamn  
and CFO (Chief Financial Officer)  
Born: 1951.  
Employed since: 2006.  
Shareholding: 0.  
anders.bystrom@aak.com

## **Håkan Christensson**

Vice President AarhusKarlshamn  
and President Business Area Food  
Ingredients Continental Europe.  
Born: 1962.  
Employed since: 1986.  
Shareholding: 17,690.  
hakan.christensson@aak.com

## **Jan Gunnerdal**

Vice President AarhusKarlshamn  
and President Business Area  
Lipids for Care.  
Born: 1946.  
Employed since: 1970.  
Shareholding: 30,000.  
jan.gunnerdal@aak.com

## **Benny Jakobsen**

Vice President AarhusKarlshamn,  
Global Coordinator Operations and  
Operations Director AarhusKarlshamn  
Denmark/Uruguay.  
Born: 1956.  
Employed since: 1997.  
Shareholding: 1,306.  
benny.jakobsen@aak.com

## **Magnus Jörsmo**

Vice President AarhusKarlshamn,  
President Business Area Technical  
Products & Feed and President.  
Tefac AB and Binol AB.  
Born: 1965.  
Employed since: 1986.  
Shareholding: 15,070.  
magnus.jorsmo@aak.com

## **Ian McIntosh**

Vice President AarhusKarlshamn  
and President AarhusKarlshamn  
UK Ltd.  
Born: 1956.  
Employed since: 1998.  
Shareholding: 0.  
ian.mcintosh@aak.com

## **Josipa M Paska**

Vice President AarhusKarlshamn,  
President AarhusKarlshamn, Nafta,  
USA Inc. and President of  
AarhusKarlshamn Canada Ltd.  
Born: 1952.  
Employed since: 2004.  
Shareholding: 0.  
josipa.paska@aak.com

## **Bo Svensson**

Vice President AarhusKarlshamn  
and CIO (Chief Information Officer).  
Born: 1951.  
Employed since: 1974.  
Shareholding: 29,900.  
bo.svensson@aak.com



**Jerker Hartwall**



**Jørgen Balle**



**Anders Byström**



**Jan Gunnerdal**



**Magnus Jörsmo**



**Josipa M Paska**



**Jan Astrup**



**Gunnar Bystedt**



**Håkan Christensson**



**Benny Jakobsen**



**Ian McIntosh**



**Bo Svensson**

# Financial Calendar, Annual General Meeting

## Financial Calendar

AarhusKarlshamn AB will publish the following financial information for the 2006 financial year on the following dates:

- The interim report for the period to 31 March will be released at the Annual General Meeting on 23 May.
- The interim report for the first six months of 2006 will be released on 17 August.
- The interim report for the period to 30 September 2006 will be released on 10 November.
- The year-end (unaudited) report for 2006 will be released in February 2007.

All financial reports and press releases are published in Swedish and English, and may be ordered from AarhusKarlshamn AB, Corporate Communication, SE-374 82 Karlshamn, Sweden. Telephone +46 454 820 00, fax +46 454 828 20. E-mail: [info@aak.com](mailto:info@aak.com)

Additional information about AarhusKarlshamn AB is available on the company's website: [www.aak.com](http://www.aak.com).

## Annual General Meeting

The AGM of AarhusKarlshamn AB will be held on Tuesday 23 May 2006 at 2 p.m. in Uppfinnarcentrum, Kreativum, in Karlshamn. The premises will open for registration at 11 a.m. Registration must be completed before 1.55 p.m., at which time the voting list will be approved.

### Right to participate

Shareholders recorded in the shareholders' register kept by VPC AB (Swedish Depository and Clearing House) on 17 May 2006 who have given notice of their intention to attend the meeting no later than 4 p.m. on the same date have the right to participate.

### Registration

AAK is a VPC company, which means that shareholders wishing to attend the AGM must be recorded in the shareholders' register kept by VPC AB no later than 17 May 2006. In order to attend the AGM, shareholders whose shares are held in trust by a bank or private broker must temporarily register their shares in their own names in the shareholders' register. Such registration should be completed well in advance of the date mentioned.

### Notification

Shareholders wishing to attend the AGM must notify the Company as soon as possible and not later than 4 p.m. on 17 May 2006 (the last date for notification) in one of the following ways: by post to AarhusKarlshamn Sweden AB, Kerstin Wemby, SE-374 82 Karlshamn, Sweden, by telephone at +46 454 823 12/825 38, by fax at +46 454 828 20, by e-mail to [kerstin.wemby@aak.com](mailto:kerstin.wemby@aak.com) or on the website [www.aak.com](http://www.aak.com). Notification should contain details of name, address, daytime telephone number, social security number or company registration number and the number of shares held.

### Invitation to attend the AGM

Notice of the AGM, together with the AGM agenda, will be published in Blekinge Läns Tidning, Sydöstra Sveriges Dagblad AB, the Swedish Official Gazette and Svenska Dagbladet.

# AarhusKarlshamn's Glossary

**Amines** – Products made of fatty acids, with surface-active properties. Used as components in a wide range of industries.

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

**Bypass meal** – Rapeseed meal treated in a special process to make it bypass the rumen of ruminants. Nutritionally superior to standard rapeseed meal.

**Cocoa butter** – Another name for cocoa fat.

**CBA (Cocoa Butter Alternatives)** – Fats with 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 that is identical to cocoa butter and that may be used in chocolate in proportions of up to 5 per cent as per current EU regulations. CBE are made from exotic raw materials, such as shea nut oil.

**CBR (Cocoa Butter Replacers)** – CBA with properties similar to those of cocoa butter. CBR are used in chocolate coatings for cookies and biscuits. User-friendlier than CBE, as no tempering is required.

**CBS (Cocoa Butter Substitutes)** – CBA with properties and application areas similar to those of CBR. Made from palm-kernel oil.

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

**DFA (Dairy Fat Alternatives)** – Fats developed for use in dairy products like cheese, cream, cooking and table margarine, ice cream etc. These fats replace butter fat and add beneficial properties to the end product.

**Essential fatty acids** – Two different types of polyunsaturated fatty acids (Omega 3 and Omega 6) that are essential to our health and well-being. Cannot be produced by the human body, but we need food containing these vital components. Rapeseed oil is one of very few vegetable oils that contain both types of essential fatty acids.

**Esters** – Chemical compounds of fatty acids and alcohols. Triglycerides, which are the main constituent of fat, consist of alcohol, glycerine and fatty acids. Consequently, triglycerides are a type of esters.

**Fatty acids** – A fatty acid is a hydrocarbon chain that terminates with an acid group known as carboxylic. The fatty acids most common in vegetable oils contain between 12 and 18 carbon atoms.

**Flaked fats** – Fats with a high melting point, supplied in the form of little solid “flakes” – a type of product that simplifies handling and production for certain customer groups.

**Fractionation** – Multiple-stage crystallisation process used in the manufacture of CBA.

**Glycerine** – An alcohol that is one of the constituents of the fat molecule.

**IPPC** – EU directive on environmental audits of industrial plants. The directive comprises the aggregate environmental impact of the plant, such as emissions into the air, effluents into water, waste production, raw material consumption and energy efficiency.

**Lanolin** – A fat found naturally on sheep's wool and used purified as a base for skin-care products.

**Lipids** – A collective name for a wide range of natural products in which fats constitute one of the ingredients.

**Mould releasers** – Fat-based products applied on the insides of casting moulds. Mould releasers make it easier to remove the casting mould once the concrete has set, without damaging its surface.

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

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

**PCR** – A method used to identify genetically modified seeds (GMO). The abbreviation stands for polymerase chain reaction.

**Polyunsaturated fatty acids** – Fats with two or more double bonds, which are of considerable importance for the biological function of the fats in question.

**Pumpable fats** – Products consisting of fat crystals dispersed in liquid oil, delivered by tank lorry. Pumpable fats are mainly used by bakeries, to replace solid fats in 10-kg packages.

**Saturated fats** – Fats with no double bonds along the carbon chain.

**Trans content** – the proportion of trans fatty acids in a fat.

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

**Unsaturated fats** – Fats with one or more double bonds along the carbon chain.

# Addresses

**AarhusKarlshamn AB**  
**(new head office from April 2006)**

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 SE-211 19 Malmö, Sweden  
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 Fax: +46 454 828 20  
 E-mail: info@aak.com  
 www.aak.com

**AarhusKarlshamn Denmark A/S**  
**Chocolate & Confectionery Fats**

M.P. Bruuns Gade 27  
 DK-8000 Aarhus C  
 Denmark  
 Telephone: +45 8730 6000  
 Fax: +45 8730 6012

**AarhusKarlshamn Mexico S.A. de C.V.**

**Food Ingredients Nafta, Mexico**  
 Av. Héroes de Nucupétaro 1022  
 Col. Industrial, C.P. 58130  
 Morelia, Michoacán  
 Mexico  
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 Fax: +52 443 312 5822

**AarhusKarlshamn Sweden AB**  
**Food Ingredients Continental Europe**  
**Lipids for Care**

**Technical Products & Feed**  
 SE-374 82 Karlshamn, Sweden  
 Visiting address: Västra Kajen  
 Telephone: +46 454 820 00  
 Fax: +46 454 828 20

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**Food Ingredients Nafta, USA**

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**Food Ingredients UK**

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This document is a translation of the Swedish language version. In the event of any discrepancies between the translation and the original Swedish annual report, the latter shall prevail.

AAK's vision is to strengthen its leading global market positions, which are based on the Group's knowhow in the area of vegetable oils and fats.

Our success factors are innovativeness, customer orientation and high productivity.

AAK's ambition is to have the highest growth rate, innovativeness and profitability on the global speciality fats arena.