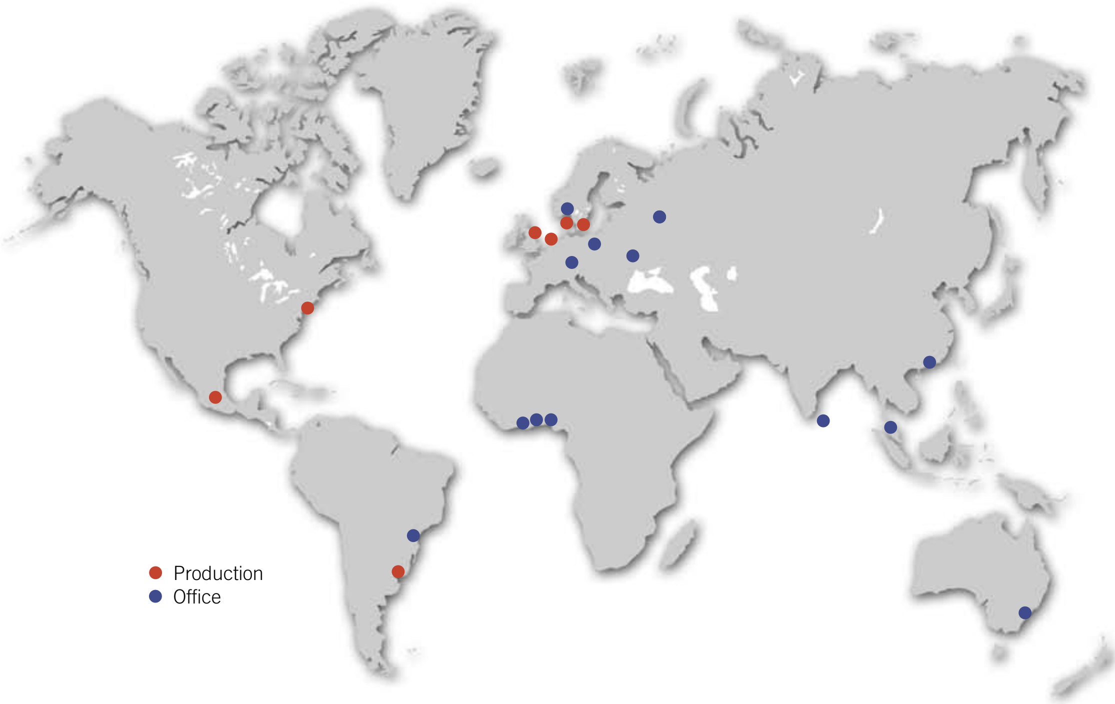
AAK

AarhusKarlshamn

Annual Report 2006



AarhusKarlshamn in 60 seconds

- AAK is the world's leading manufacturer of high value-added speciality vegetable fats. These fats can be used as substitutes for butterfat and cocoa butter, trans-free solutions for fillings in chocolate and confectionary products, and in the cosmetics industry.
- The raw materials come from the plant kingdom and are renewable.
- AAK's fats are used by the food, chocolate, confectionary and cosmetics industries, and as vegetable lubricants for machinery and ingredients in animal feeds.
- AAK is organised into three business areas: Chocolate & Confectionery Fats, Food Ingredients and Technical Products & Feed.
- Group Functions include the head office and the operations of Ceylon Trading.
- Lipids for Care is a rapidly growing business area, responsible for operations involving the cosmetics industry. It reports under Chocolate & Confectionery Fats.
- AAK has production facilities in Denmark, Mexico, the Netherlands, the UK, Sweden, Uruguay and the USA.
- AAK's head office is in Malmö, Sweden. It acts as a central meeting place for the whole Group.
- AAK has procurement and sales offices in several key locations around the world.
- The Parent Company, AarhusKarlshamn AB, is a Swedish-registered joint-stock company based in Malmö. The company's shares are officially listed on the Stockholm Stock Exchange, the Nordic list, Mid Cap segment, Consumer Commodities sector.

2006 in brief

- Net sales totalled SEK 10,929 million.
- Operating profit excluding the effects of IAS 39 and excluding non-recurring items was SEK 455 million.
- The net profit after tax was SEK 177 million.
- Earnings per share were SEK 4.18.
- In 2006, as well as the regular dividend of SEK 4.00 per share, an additional dividend of SEK 25.00 per share was paid.
- In August, AAK's share in BSP Pharma A/S was sold. At the same time, AAK entered into a long-term agreement with the buyer to supply high value-added speciality vegetable fats based on AAK's unique expertise in applications involving the properties and opportunities of the fat molecule.
- As a natural step in strengthening its market position in the FoodService area, AAK acquired Wet Foods, a division of Lion Food Ltd. This expanded AAK UK's sector for sauces, dressings and marinades based on the company's vegetable oils.
- The management organisation was reformed and now consists of six individuals – the CEO, the CFO and the business area managers.
- As of the fourth quarter, Lipids for Care reports under Chocolate & Confectionery Fats.

Key figures (SEK million, unless otherwise stated)	2006	Pro forma 2005
Net sales	10,929	10,515
Gross contribution excluding IAS 39	2,723	2,802
Gross contribution, %	25	26
Operating profit excl. non-recurring items and IAS 39	455	530
Operating margin, %, excl. non-recurring items and IAS 39	4	5
Operating profit incl. non-recurring items excl. IAS 39	298	329
Operating margin, %, incl. non-recurring items excl. IAS 39	3	3
Operating profit incl. non-recurring items and IAS 39	342	329
Operating margin, %, incl. non-recurring items and IAS 39	3	3
Net profit for the year	177	340
Attributable to the Parent Company's shareholders	171	324
Attributable to minority	6	16
Operating profit before depreciation/amortisation (EBITDA)	648	837
Operating cash flow after investments	-325	3
Investments	501	485
Shareholders' equity	2,287	3,504
Minority interest	32	50
Net liability	3,036	1,629
Equity/assets ratio, %	33	52
Net debt/equity ratio, multiple	1.31	0.46
Operating capital	5,830	5,581
Earnings per share, SEK*	4.18	8.35
Number of shares at year end, (thousands)	41,384	41,384
Of which own shares, (thousands)	539	589

* Earnings per share have been calculated using a weighted average of the number of outstanding shares during 2006.

For definitions, see page 91. For the Annual General Meeting, see page 96.

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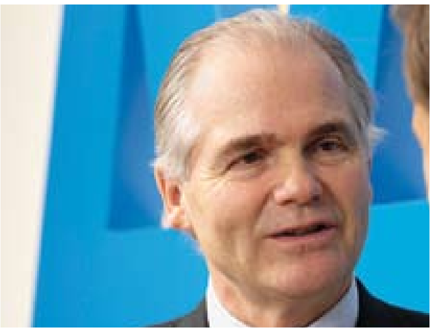


6 Interview with Melker Schörling, Chairman of the Board

AAK is pretty much on target to achieve the expected synergy effects. The members of the Board are unanimous on what has to be done to ensure the long-term growth of AAK. The company's structure is absolutely right.

10 Comment by the CEO

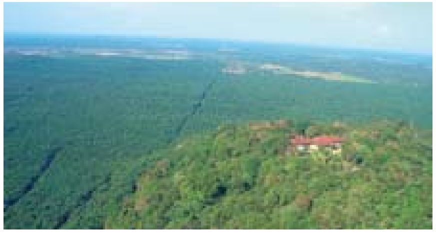
During the year, the merger became a reality. The organisation was formed and the structure of the Group management was established. A new vision was drawn up and communicated to the organisation.

12 The health benefits of vegetable oil

Vegetable fats are a safe and healthy choice. Vegetable fats have several advantages over animal fats; they do not contain cholesterol, are important sources of many vitamins, and contain essential fatty acids, i.e. fatty acids which the body itself cannot produce but which are provided through our diet.

14 Product development

An understanding of the fat molecule is at the heart of AAK's operation. The future competitiveness of the company depends on its ability to use this expertise and transform it into attractive products.



16 Interview with Carl Bek-Nielsen, Vice Chairman of the Board

Our focus is long term. We do not work with dramatic growth figures or with our eyes solely on the next interim report. It is about instincts and values, and we are confident that the management will be able to deliver a satisfactory result.

18 Cocoa – a replaceable ingredient

Cocoa is a relatively expensive raw material, and the market price fluctuates sharply from one year to another. This means that chocolate manufacturers can make significant savings if they replace cocoa butter with alternative vegetable fats.

22 Food Ingredients Continental Europe

The fastest-growing market segment in the food industry is the fast-food market. More and more meals are consumed outside the home, and this trend is expected to increase over the next few years. Another trend is ”functional foods”, a segment which includes foods with various additional functions.

24 Food Ingredients UK & Americas

In the face of fierce competition, AAK holds around a third of the bulk oil market in the Great Britain. Sales to the Food-Service market segment – restaurants, catering and similar operations – are at about the same level, with the AAK brand as market leader.

30 Chocolate & Confectionery Fats

The successful introduction of new chocolate fats and alternatives fillings is, in many cases, a direct result of the merger and the broader knowledge base it has created. AAK has a broad product range with speciality fats and customised cocoa butter substitutes.

32 Lipids for Care

Lipids for Care is a part of business area Chocolate & Confectionery Fats, and is a niche area. Both products and markets are unique and the purchase of raw materials, production, product development, marketing and sales all require specialist knowledge.

36 Technical Products & Feed

A candle, chainsaw and cow clearly illustrate the broad scope of business area Technical Products & Feed. They demonstrate the versatility of vegetable oil as a raw material and are an example of how AAK's vision generates a broad product range. The business area is divided into three sectors: Tefac, which focuses on the chemical industry, Binol, which markets vegetable lubricating oils, and Feed, which markets raw feed ingredients for use in animal feeds.

42 Long-term environmental commitment

Taking responsibility for the environment and observing an ethical code of conduct is, today, a natural part of a company's social responsibility. AAK's environmental commitment is a long-term activity which varies from plant to plant due to the individual focus of the plants and their differing impact on the environment.

Financial review

Supplementary financial information

Corporate Governance

Other information

A merger with the potential to realise a vision

In 2004, when the Bek-Nielsen family sought new owners for its (via United International Enterprises Ltd (UIE)), 45.9 percent shareholding in Aarhus United, Karlshamns was interested. Karlshamns saw the massive potential in turning a joint company into a strong player in the vegetable oil market. The companies were at the same stage in the development of new products with high value-added and greater margins than bulk oils. A merger was a logical step. But during the bidding process, other players claimed to be prepared to pay more than Karlshamns, and it looked like the ”dream merger” was about to go up in smoke.

Fortunately, the principal shareholder in Karlshamns, Melker Schörling, and the principal shareholders in UIE, the Bek-Nielsen family, found a solution which made a merger possible and, at the end of 2005, AarhusKarlshamn AB, AAK, became a reality.

With 39.26 percent of the shares in AAK, BNS Holding is currently the largest shareholder in AAK. With 58.5 percent, Melker Schörling AB is the largest shareholder in BNS Holding and this gives the company a strong influence over AAK.

Melker Schörling, Chairman of AAK, how did you come to this agreement?

”Once we made personal contact with each other, it was clear that we saw the future in a similar light and that we shared values. Carl and Martin Bek-Nielsen subscribed to our aims and the solution was that they would remain as part of the new company, but would exchange half their shares for cash.”

After 18 months, do you feel that it was a good solution to the shareholding issue?

”Firstly, I would like to point out that the other shareholders felt that it was worth investing in the merger. The clear majority of shareholders exchanged their shares for shares in the new company, despite the offer of a cash alternative. This resulted in a very strong balance sheet. We realigned the equity/assets ratio through the extra dividend to shareholders of SEK 25 in the autumn of 2006.

”I would also like to emphasise that the views we shared on the development of AAK have not changed. We have been able to make progress and have always jointly reached decisions which were good for the company. The intentions of both parties are good, and we share the view of what we want to achieve.”

Is the company progressing as you expected?

”We are, by and large, on target for achieving the expected synergy effects. We work well together in the Board, and it is quite clear that the cultural differences between Danes and Swedes have not had a negative impact on the operation. The structure of the company is right. We hoped the merger would lead to more intensive research and development of cocoa butter equivalents, CBEs. We have made great progress in this area.”

”The management is made up of individuals from the two merged companies. I have come to know them on a personal level, and I have great respect for their expertise. We are careful to maintain the balance, and there are no signs of the turf wars which can so easily arise when two competitors merge. The challenge of creating a new, strong company has generated more interest than any issue of how things were in the past.”

AAK's Vision

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

The vision consists of three important parts:

First choice

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

Value-added solutions

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

Vegetable oils

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

The merger between Aarhus United and Karlshams, and the formation of AAK, was aimed at creating a world-leading speciality vegetable fats company which, with greater critical mass, a competitive cost structure and efficient capital utilisation, will grow more quickly and take stronger positions in the expanding global market for speciality fats.

What has your approach been in the past year?

”Over the past year, the merger has resulted in extensive changes throughout the company. Progress has been rapid at all levels within the organisation. After six months, the effects of the merger had been so successful that it was possible to reduce the 12-person management team to a Group management team of six, consisting of the CEO, CFO and the business area managers.

We have now formed an effective working group drawn from three different nations. The relocation of two factories in the UK and the establishment of our own sales channels in strategically-important countries are examples of merger-related activities which have strengthened AAK's future position.”

"Specialisation pays off", says the CEO

"AAK was listed on the Stockholm Stock Exchange Mid Cap list on 2 October 2006."

"Another important part of the integration was the establishment of a new Group office with a small Group staff in Malmö, an effective central meeting place for the whole organisation."

The purpose of the merger was to establish an organisation which could attack the market more aggressively with more high value-added products, and to create the right conditions for more efficient production. Have the expected synergies been realised?

"The first wave of synergies will generate savings of SEK 175 million, fully realised in 2008. Non-recurring costs for the programme are SEK 248 million (2005: SEK 91 million and 2006: SEK 157 million). The positive effect in 2006 was SEK 75 million."

"Further synergies will come from specialisation and optimisation of the Swedish and Danish production units. These improvements will be implemented over the next two years, but it's too early to predict what the final financial effects will be."

AAK's strategy is to develop speciality products based on vegetable raw materials, in which a high level of technological content and/or service provides attractive margins and high growth. How will this strategy be communicated?

"During the year, we have worked on a collective concept for this strategy. We have also formulated our vision as a support for this strategy."

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

"The vision consists of three crucial elements, which govern what we want to achieve:

- first choice
- value-added solutions
- vegetable oils

"AAK's core business is based on vegetable oils, and we offer a broad range of products and services. Starting from this base, and linked to the sale of the products, we will offer value-added comprehensive solutions. This includes customisation, problem solving, marketing advice, delivery systems, technical support and other services required to meet customer requirements. By meeting these requirements, AAK will become the first choice of our stakeholders: customers, employees, suppliers and shareholders."

Can you tell us about any other strategic decisions which have been realised during the year?

"In parallel with the merger, we decided to reinforce the specialisation strategy. This has resulted in serious expansion of our production capacity for CBE (Cocoa Butter Equivalents). We have expanded the operation in the USA by offering customers new trans-free solutions. We have reduced our reliance on bulk oils and implemented a forward integration into the value chain by acquiring Wet Foods, a division of Lion Food in the UK."

"We have concentrated the Group's core business even more through the sale of the development company BSP Pharma, which sells anti-inflammatory consumer products. At the end of the year, the agency operation at Frank Fontannaz Commodities Ltd was also sold."

What external factors have been the greatest driving force?

"The greatest change in the outside world has been the accelerating consumption of vegetable oils in the energy sector which has driven up the price of raw materials for the Group. This trend looks set to continue."

"Along with the competitive pressure in retailing, this has put all players in the food industry's value chain under severe price pressure, and the demand for innovative and cost-effective solutions is increasing."

"Health is a strong driving force, and the most significant change at present is the switch from trans fats to trans-free alternatives, particularly in the USA. AAK successfully exploited this opportunity in 2006. For the vegetable oil industry and the food industry in general, this has, in many cases, involved the introduction of simple trans-free solutions while, in other cases, more complex specialist solutions have been required."

"Simple trans-free solutions include applications such as deep-frying oils, margarine blends and bakery fats. More complicated trans-free fat solutions can be found in applications for chocolate, dairy and baby food products."

What factors may limit the Group's growth in future years?

"AAK is a world-leader in CBE's, and this makes the key ingredient, Shea nuts, a particularly important factor. Despite excellent availability of nuts in West Africa, the handling process throughout the logistics chain, from tree to factory, must be improved to meet AAK's growing raw materials requirement. In the next few years, the supply of Shea nuts may be a restricting factor in AAK's expansion in the CBE segment."

….and what opportunities does AAK have to grow and improve its profitability over the next few years?

"The future will see a continuing move from the supply of raw material components to the optimisation of our production units, particularly in the Nordic region."

"The company is also expecting a clear improvement in operating profit in 2007, largely as a result of cost synergies stemming from the merger."

Malmö 2 April, 2007

The health benefits of vegetable oil

Fat is a vital nutrient. It contains large amounts of energy and calories, and must be consumed with care. Fat can increase the enjoyment of food by improving taste, consistency and appearance. Excessive consumption of the wrong type of fat can, however, have a negative impact on health.

Vegetable fats are a safe and healthy alternative. Compared with animal fats, vegetable fats offer a string of benefits; they contain no cholesterol, are an important source of several vitamins and contain essential fatty acids, i.e. fatty acids which the body itself cannot produce but which must be obtained through 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 vitamin E and K.

Fat is important

Fat is the most energy-rich food source. Fat which is not utilised immediately by the body is stored in fatty tissue, and used as a food reserve.

Fat also enhances the flavour of food. The body needs fat to produce hormones, absorb vitamins, build and repair cells. We also need to store some fat in our bodies as protection against cold and for internal organs.

The amount of fat we consume is important, but the type of fat is equally important to our health. Food contains different types of fat. All food containing fat is made up of a blend of these. The National Swedish Food Administration recommends that we should consume equal amounts of all three; polyunsaturated, monounsaturated and saturated fats.

A reduction in hard fats

The trend in oils and fats is moving towards lower quantities of trans and saturated fats, also known as hard fats. Reducing the amount of trans fats is relatively easy in most applications, but avoiding a simultaneous increase in the amount of saturated fats presents something of a challenge. It is possible to produce ”smart design” fats which make it possible to reduce both saturated fatty acids and trans fatty acids while maintaining the original properties (consistency and taste) of the end-product.

Many scientific studies point to a link between the consumption of large quantities of hard fats (i.e. saturated fatty acids

and trans fatty acids) and cardiovascular diseases. The majority of expert groups, including the European Food Administration, the EFSA, have pointed out that to achieve an actual and lasting improvement, consumption of both of these fatty acids must be reduced.

Essential and beneficial

Vegetable fats consist largely of unsaturated and polyunsaturated fatty acids, including linoleic acid and linolenic acid. Linoleic acid (Omega 6) and linolenic acid (Omega 3) are essential fatty acids, i.e. acids essential to many of the functions of the human body. Most vegetable oils are high in linoleic acid. Sunflower oil, for example, contains more than 60 percent and corn oil more than 55 percent, but neither contain any linolenic acid. Only two of our important oils, rapeseed and soyabean, contain Omega 3. Linseed oil is also rich in Omega 3, but it is primarily used for applications outside the food industry. Another type of Omega 3, EPA and DHA, can be found in fish oil.

Oils with high Omega 3 fatty acid content have proven beneficial effects on the health of the heart.

Another product group which have been shown to be beneficial for the heart are sterol-enriched fat blends. Phytosterol can help to lower blood cholesterol levels and, consequently, reduce the risk of cardiovascular disease. Functional sterol-enriched fat blends (Vividol) have been tailored for use in a large number of products, including spreads, dairy and bakery products.

Who needs fat?

- Fat forms part of all the cells in the body. We also need it to produce hormones and other important substances in our bodies.
- Vitamins A, D, E and K are fat-soluble, which means that the body requires fat to absorb these vitamins. Fat provides us with energy, and the energy content of food is measured in calories. Every gram of fat contains nine kilocalories (kcal). We also obtain energy from carbohydrate and protein, every gram of which provides four kcal.
- According to Swedish nutritional recommendations, about one-third of the daily intake of calories should come from fat. This means around 60 to 90 grams per day for most adults.

Different types of fats

Fats are usually divided into three groups – saturated, monounsaturated and polyunsaturated. The difference between these groups is the composition of fatty acids.

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 chicken, almonds, olive oil, rapeseed oil and other vegetable oils. It is convenient for cooking since it tolerates heating better than polyunsaturated fat.

Polyunsaturated fat

Polyunsaturated fat is found in shellfish, fatty fish (salmon, mackerel, herring and sardines), linseed, corn and rapeseed oil. The most important polyunsaturated fatty acids are Omega 3 and Omega 6.

What is trans fat?

Trans fat refers to unsaturated fats in a particular form. Trans fatty acids are present naturally in milk and fat from ruminants, but may also be formed when vegetable fats are hardened.

Opinion is divided on whether natural trans fats are as hazardous as those produced through an industrial process, but several scientific studies have linked trans fatty acids, as well as saturated acids, to an increased risk of cardiovascular disease. This is one of the primary reasons for the authorities in most industrialised countries aiming to limit the intake of both saturated and trans fats.


Preciso
NS 29/32
WITEG
Preciso
500 ml
200
150

Product development

The Group's development work is closely linked to the needs and requirements of its customers. Overall, AAK possesses a level of knowledge of the properties and potential of the fat molecule that is unique in the industry. This is a precondition for the development of high value-added products.

An understanding of the fat molecule is absolutely central to AAK's operations. The Group's future competitiveness is based on its ability to utilise this knowledge and transform it into attractive products. The merger has provided the right conditions for product development, and this will further strengthen the Group's position in an increasingly fierce competitive climate.

Central part of the AAK strategy

Development forms a central part of the AAK strategy and was an important motive for the merger. It enables AAK to utilise the total knowledge of the component companies for successful product development which, in turn, has allowed the Group to progress up the value chain and increase the value-added of its products.

The ability to respond quickly to changes and requirements is essential and, for this reason, the business areas have development resources which permit a continuous exchange with customers to provide the inspiration for new products. Meeting the demand for new products is a basic condition for growth.

The food industry

Health trends continue to dominate developments in the food industry. To meet demand from end-consumers, customers are increasingly requesting Omega 3, trans-free alternatives and products with less saturated fat. AAK's ability to offer healthy solutions based wholly on vegetable raw materials is proving an advantage in this.

In 2005, two new products, Akocrisp and Akotop Max, were launched on the European market.

Akocrisp is a pumpable fat for laminated doughs, such as pie crusts. It replaces the traditional, hard margarine and is easier to use since it can be pumped straight into the production process. The concept has many benefits for the customer, since it reduces the overall production cost and improves the nutritional profile of the end product. This product has been developed in close collaboration with one of the company's customers. A patent application has been filed for the product.

Akotop Max is a butter fat alternative which is intended for use in whipped cream. AAK was the first company to introduce non-hydrogenated fats in whipped cream. Akotop Max also provides the finished product with properties which are clearly superior to those of traditional cream fat alternatives and equal to those of butter fat.

New speciality fats for baby food

AAK has, in collaboration with an external research company, developed a product which improves the nutritional value of breast milk substitutes. The product, InFat™, has generated a great deal of interest and is currently being tested by a number of leading producers in various parts of the world. At the same time, intensive development work is under way to increase production capacity in response to the growing market demand.

Chocolate and confectionery

AAK is the leader in the new generation of CBR (Cocoa Butter Replacers) with a reduced percentage of trans fats. During the year, the second generation, with less than three percent trans fats, was launched on the market. Solving the trans problem in this product segment has been a major challenge, and the fact that this has now been achieved in practice should be seen as a great leap forward in fat technology.

Just like in other parts of the food industry, the confectionery sector is increasingly focusing on health and wellbeing, and this has generated a significant rise in demand for trans-free fats. The second generation trans-free filling fats with reduced levels of saturated fatty acids is yet another step towards increased health profiling.

Cosmetics

The cosmetics area is dominated by strong demand for innovations in the form of new products and areas of application. Lipids for Care is, therefore, constantly refining its existing product range, alongside the development of completely new, innovative products based on the company's vegetable oil raw materials base. A great deal of the development work is carried on in close consultation with the company's customers.

In 2006, new ingredients based on Shea nuts have been added to the hair care, shower products, decorative cosmetics and advanced skincare product ranges.

United Plantations Berhad's palm plantations.

Members of the Board of AAK, and shareholders in BNS Holding, Carl and Martin Bek-Nielsen, have extensive experience of palm cultivation and palm oil extraction. They are the principal shareholders in the listed company, United International Enterprises Ltd (UIE) which controls the Malaysian company United Plantations Berhad (UPB) and its extensive palm plantations and oil refinery operations.

When the Bek-Nielsen brothers started to sound the market for a buyer for the shares in Aarhus United, their purpose was not to abandon the operation but rather to ensure a sound future for Aarhus United and, at the same time, allow the brothers to focus more on the business of UIE.

Carl Bek-Nielsen, Vice Chairman of AAK, how did you arrive at this solution?

”When we were looking at our options, we met Melker Schörling. We soon arrived at the exciting prospect of creating added value by merging the two leading producers of speciality oils.”

”With Melker Schörling as Chairman of the Board and the biggest shareholder with control over BNS Holding, we work in harmony. At UIE, we feel that the Board is made up of professionals who actively contribute to the success of the company and, therefore, the shareholders. There is great commitment to the company and that is what matters most.”

How do you see the future?

”The focus is on the future. We don't aim for dramatic growth figures or have an eye only on the next interim report. It's about instinct and values, and we have great faith in the management's ability to deliver satisfactory results.”

The brothers don't see any massive problems in merging a Danish and a Swedish company.

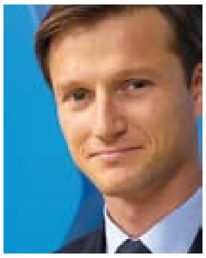
Is the merger moving in the direction you expected?

The reason mergers don't succeed is not due to national characteristics. It is mostly the result either of something lacking or something that isn't necessary. AAK's Group management has every opportunity to jointly create an example of a world-class merger. The Danes and the Swedes share and cherish a past which goes back to the Viking era.

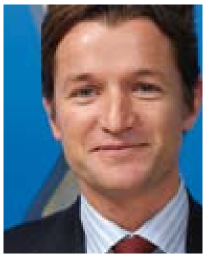
How do you perceive a future collaboration?

UIE and AAK share a view of achieving a sustainable future by developing a business concept which is not just about quick profits on investments made, but rather about caring for the planet and everything which lives on it and, in the long term, responsibility towards our shareholders.

Careful cultivation for pure natural products



Carl Bek-Nielsen



Martin Bek-Nielsen

Cholesterol-free oil is extracted from the flesh of the palm oil species E. Guineensis which is grown on land owned by the Malaysian company UPB. It is rich in natural substances which are important to our health, including carotene and vitamin E.

Normally, every oil palm produces compact bunches weighing between 10 and 25 kg, with 1,000 to 3,000 fruits per bunch. The palms stand up to 20 metres tall, and start producing fruits only 30 months after being planted. They have a productive life of 20-30 years.

With their evergreen growth and dense canopy of leaves, which act like a tropical rainforest, oil palms play an important part in slowing down global warming. Research has shown that oil palm groves absorb carbon – and, consequently, greenhouse gases – much more efficiently than the rain forest. The large leaf surface index of the oil palm is also unique, and ensures extremely efficient photosynthesis. The palm produces large quantities of oxygen and absorbs large amounts of carbon dioxide from the atmosphere.

At present, Malaysia is the world's largest producer and exporter of palm oil, with a production of over 14 million tons per year. This is equivalent to around 30 percent of the global demand for oil and fats.

UPB's principal business is long-term cultivation and production of palm and coconut oil. The operation also includes production of vegetable oils and fats and cocoa butter substitutes, as well as trading in raw palm oil and shipping vegetable oil and molasses. The company also plans palm oil factories and sells machinery for such plants, and produces and sells bread, biscuits and other bakery products.

High prices on the world market alongside an efficient organisation ensured that 2006 was an extremely good year for UPB.

Around 90 percent of the cultivated area of around 40,000 hectares is used for oil palms, and 10 percent for coconut palms.

UPB aims to be the leading company in the cultivation industry – a company which produces high-quality products while focusing on sustainability in all areas of its operation, on employee welfare and on providing a good return for its shareholders.

Last year, UPB's commitment to the social consequences of its operation continued. From a long-term business perspective, the most important event in 2006 was the opening of the new biomass and biogas plants. The biomass and biogas plants will reduce CO_2 emissions by more than 40 percent, and reduce the methane emissions from the Jendarata palm oil factory by at least 85 percent.

In addition, UPB implemented an innovative initiative involving two Clean Development Mechanism Projects (CDMs), where carbon credits were sold to the Danish government in accordance with the Kyoto Protocol. The implemented projects are regarded as landmarks in UPB's overall intention to reduce its atmospheric emissions of the greenhouse gases carbon dioxide (CO_2) and methane (CH_4) significantly, as well as the company's dependence on fossil fuels.

Cocoa butter is a key ingredient in all types of chocolate products. Cocoa is a relatively expensive ingredient, and market prices fluctuate widely from year to year. This means that the chocolate manufacturers can make significant savings by replacing cocoa butter with vegetable fat alternatives.

In the EU, it has been permissible since 2003 to replace up to 5 percent of the cocoa butter in a chocolate product with other vegetable fats and still sell the product as chocolate. The new rule has had, and continues to have, a positive effect on the demand for cocoa butter alternatives.

The chocolate taste is maintained by replacing some of the cocoa butter with CBE (Cocoa Butter Equivalents) while maintaining the cocoa solids. CBE is produced partly from shea nuts growing in the wild. These are found in the same area in West Africa as the cocoa bean.

In Sweden and some other parts of Europe, CBE have been used since the 1970s.

AAK is one of the few companies in the world which replaces cocoa butter in the manufacture of chocolate.

Many opportunities in chocolate

There are a wide range of vegetable fats which facilitate chocolate production. These include everything from the cocoa butter-like fats in cocoa butter equivalents (CBE), which are used in chocolate and chocolate blends, to various rapidly crystallising fats in lauric acid-free cocoa butter replacement products (CBR) and lauric acid-based fats (CBS), which are used in chocolate coatings.

These products have many common denominators: they are cheaper to produce than cocoa butter and offer technical advantages in easier preparation and improved quality throughout the process, from production, distribution and storage to consumption of chocolate and confectionery products. There is great demand for AAK's new generation of cocoa butter replacements with their low trans fatty acid content.

Cocoa and its equivalents

Cocoa butter has a unique composition and specific physical properties. Both cocoa solids and cocoa butter give chocolate its particular characteristics as regards the sensation of tasting and eating it, including its melting properties and the release of aroma and flavour.

Coco butter equivalents (CBE) have the same physical and chemical composition as cocoa butter. Cocoa butter equivalents are primarily made from shea and/or illipe nuts, as well as many other raw vegetable oils. As a result, they are cheaper and just as natural as cocoa butter.

Cocoa – a replaceable commodity in short supply

Many benefits of CBE

If the free cocoa butter in a recipe is wholly or partly replaced, the result is a cost-effective chocolate blend. The taste is approximately the same as that of chocolate. Since the blend still contains a large quantity of cocoa solids, it retains a strong chocolate flavour.

The physical properties of cocoa butter equivalents and cocoa butter are very similar. This ensures similar melting properties, which is something which improves the customer's rating of the end product. When replacements are used, the melting point can be adjusted to create a softer or harder product, as required. This is not possible with cocoa butter.

Chocolate coatings

Chocolate-flavoured blends consist of cocoa powder or cocoa solids, sugar and purpose-made speciality vegetable fats. These can often be a better alternative than proper chocolate. The cost of the ingredients is substantially lower, and production is simplified since various process stages can be skipped.

CBR is primarily used in confectionery and bakery chocolate coatings. Since it tolerates a high cocoa butter content, CBR can be combined with cocoa solids to produce a richer cocoa flavour than if cocoa powder alone had been used.

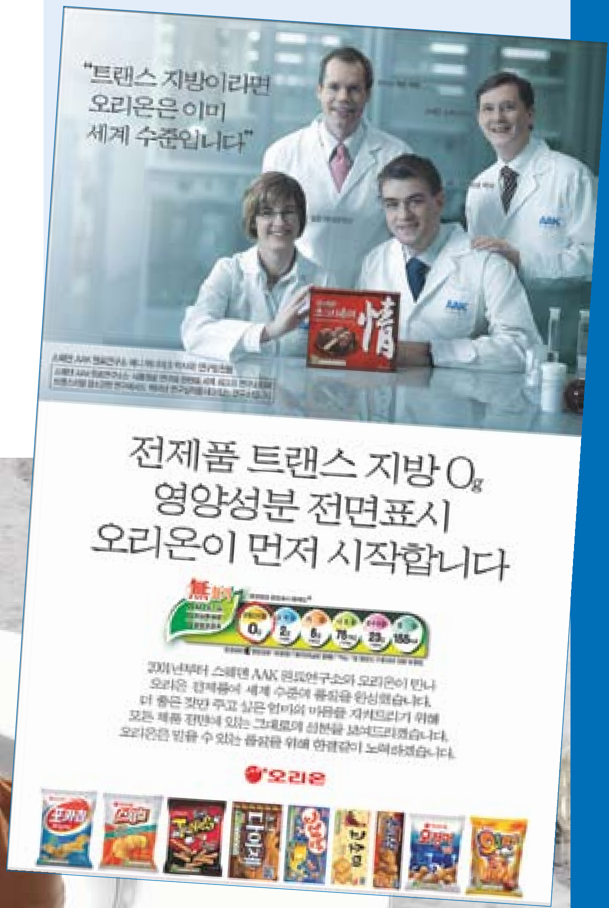
CBS is recommended for use in products which contain cocoa powder. CBS provide rapid crystallisation, a steep melting curve, and excellent melting and taste release.

Orion – South Korea

Orion, one of the leading Asian confectionery producers, arrived in Karlshamn at the end of a completed project. They brought along photographers and stylists, intending to use AAK's project team in Orion's marketing campaign on the Korean market.

Orion's most important brand is Choco Pie, which is a market leader in South Korea, Vietnam and China. Choco Pie is an extremely popular product, consisting of a marshmallow-filled sponge cake coated in chocolate. In response to customer demand, Orion has removed all trans fatty acids from Choco Pie.

AAK has been working as Orion's partner for a long time, and has been part of Orion's latest product development. The Orion advert, which has been featured in all major daily newspapers in South Korea, can be seen below.




AAK
AarhusKarlshamn

Food Ingredients

Food Ingredients is the largest operation at AAK. It consists of two parts: Continental Europe and UK & Americas. The latter is divided into the USA and Mexico. In 2006, the operation experienced some major changes. Following the merger in 2005, the organisation has been given structure and is now working on making the most of the resulting synergies.

Health issues continue to dominate developments in the food industry. In response to demands from end-consumers, customers are increasingly requesting Omega 3, trans-free alternatives and products with less saturated fat. Compared with producers of non-vegetable oils, AAK has an important advantage in that it is able to offer healthier alternatives based solely on vegetable raw materials. The raw material base is, as far as possible, focused on oils with optimal nutritional profiles.

Important key issues in the health and environmental areas include traceability and sustainable production methods. In these areas, AAK complies fully with market requirements. AAK is a founder-member of the Roundtable for Sustainable Palm Oil, a non-profit initiative which involves a number of global companies in the sector working in partnership with the Worldwide Fund for Nature, WWF.

AAK offers a comprehensive range of food fats consisting of everything from regular cooking oil and oil for margarine production, to advanced products with specific and customised properties. Both its market segments and its geographical markets are complex.

The largest competitors are ADM and Cargill for bulk products, and IOI/Loders Croklaan and Fuji Oil for speciality and niche products. In Europe, there are also 120 local refineries which create strong local competition.

Originally, there were significant differences in the two Food Ingredients areas, but the merger has provided a unique opportunity to share knowledge, experiences and synergies. More production plants, a broader product range and more platforms from which to serve the market are just some of the benefits generated by the merger, and these are expected to make a strong contribution to the future profitability of the business area as a whole.

A common factor for the various Food Ingredients areas is that their customer offer covers both bulk oils and specialist products with high added-value. Since Food Ingredients operates in a market characterised by increasing competition in the standard range, AAK has chosen to focus on value-added specialist products – a strategy which has proved successful.

Food Ingredients

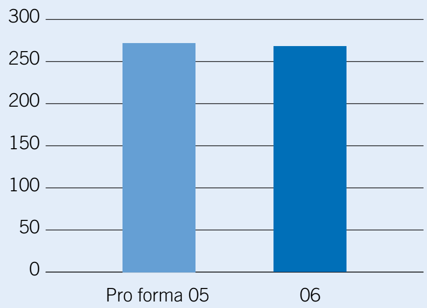
(SEK million)	2006	Pro forma 2005
Net sales	**6,177**	5,934
Gross contribution	**1,461**	1,424
Operating profit excl. non-recurring items	**268**	272
Operating profit incl. non-recurring items	**235**	272
Volumes, thousands of tons	**884**	911

Sales in 2006 increased by SEK 243 million. The sale of speciality fats in the USA, particularly products with no or only low levels of trans fats, has been particularly successful.

During the year, the specialisation strategy proved successful in baby food, functional food, dairy fat alternatives etc.

Operating profit excl. non-recurring items

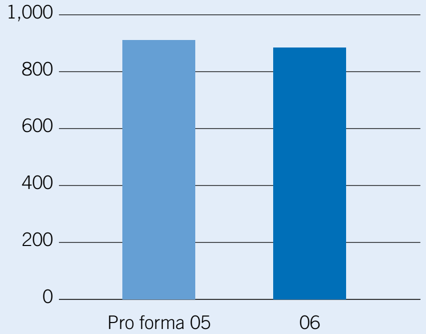
(SEK million)



Operating profit excl. non-recurring items in 2006 fell by SEK 4 million, largely due to higher costs as a result of the restructuring and the merging of factories.

Volume trend

(Thousand tonnes)



Volumes fell by 3 percent, as a result of lower volumes of standard products even though the share of speciality products increased. Gross contribution per tonne improved as a result, form SEK 1,563 to SEK 1,653 per tonne.

Business area Food Ingredients Continental Europe is market leader in the Nordic region. 55 percent of sales are to these countries, while remaining sales go to the rest of Europe (excluding the Great Britain). Vegetable oil is a significant and necessary ingredient in large areas of the food production segment. The market requires more than 15 million tonnes, with annual growth of 1-2 percent. Production is carried out at plants in Karlshamn (Sweden), Aarhus (Denmark) and Zaandijk (the Netherlands).

The products can be divided into two principal groups. The most basic ones are used as cooking oil, for deep-frying snacks, in margarine and marinades, and this is the area with the largest number of competitors.

The second group is made up of more customised solutions, which meet specific customer requirements as regards function, production adaptation, health or marketing issues.

This group is, in turn, divided into four segments: Dairy, Bakery, FoodService and Nutrition. Margins in this category are better and AAK is aiming to climb up the value chain and increase the proportion of specialist products. At present, the division between bulk oils and speciality products is pretty much equal. One of the main strengths of the business area is its ability to respond quickly and adapt to changes and new requirements in the food industry.

The Group's extensive know-how and constant development work mean that it is always aware of the latest trends and can launch new products quickly. The union of the two competitors who merged to form AAK, has provided a larger base for new product development. Food Ingredients Continental Europe aims to utilise the constant changes in the market to generate continued growth.

Since transports are responsible for a relatively large proportion of the overall cost, Food Ingredients is a largely regional operation, although specialist products with higher added value have a greater global scope than pure bulk oils.

The business area's flexibility as a market player starts in the production plant. The complex infrastructure has been created with an eye on efficiency and flexibility, and this permeates the whole value chain, from deliveries of raw materials and storage, through the refining process, to packaging and transport to customers.

Trends in the food industry

The fast-food market is the most rapidly expanding market in the food industry. The product group includes ready-meals and snacks. More and more meals are eaten outside the home, and this trend is expected to grow over the next few years.

A relatively new trend is functional foods, a segment which offers various additional benefits. One example is oil which contains sterol, a natural substance which has a positive impact on blood cholesterol levels. In this area, AAK offers a patented product, Vividol®.

One complex trend that will have an unavoidable impact on the fat industry in the next few years is the increasing production of biofuels. The production of biofuels is subsidised throughout Europe, something which will have consequences

Food Ingredients Continental Europe

for the industry as a whole – from the planting of rape, to extraction and refining. Many of our competitors will probably add the refining of biofuels to their current cooking oil refinery operations. Demand for vegetable oils will, consequently, increase, and this may affect the industry in two ways. A positive effect may be the improved utilisation of capacity in the industry, which ought to strengthen margins. A possible offset in negative effect may be that the fat industry is faced with a rise in the price of raw materials, which will further increase the pressure on the food industry.

Functional products

A strong contributory factor in customers preferring Food Ingredients Continental Europe is the fact that the product development is always aimed at adding value to the customer's end-product. The key to success is functional products. One alternative might be to offer the same level of functionality at a reduced price, another to increase the value of the end product and, through this, improve the market position of the customer. An even and high quality is also important, of course, as is a high level of product reliability. In both respects, AAK is well to the fore of the industry in general.

Prioritised investment in product development and application-focused research has turned Food Ingredients into an expert in its area. As a result of a genuine understanding of applications, an ability to adapt the operation rapidly to changes in the market, as well as close collaboration with customers, Food Ingredients can offer nutritionally correct products with added functionality. By optimising the processing of raw materials and the refining operation, new functions and innovative products are created on a continuous basis.

Akocrisp is a pumpable fat for the bakery segment, and the development and launch of the product have been a success. It replaces the traditional solid margarine and makes handling significantly easier since it can be pumped straight into the production process. The concept offers customers several benefits. The overall production cost can be reduced, while the end product benefits from a better nutritional profile. This product is one example of how AAK develops new products in close collaboration with its customers.

A tough market

Food Ingredients Continental Europe has a large number of competitors. The principal ones are ADM and Cargill in bulk oils, and IOI/Loders Croklaan and Fuji Oil in the area of speciality and niche products. The market as a whole is subject to fierce competition. In some segments, however, AAK's cutting-edge position in product development is a clear advantage. This is certainly the case in Dairy Fat Alternatives (DFA).

The future

Prospects for 2007 are believed to be good. The strategy for the next year is to maintain the market share in bulk oils in the Nordic market, while improving growth in the area of value-added products in the rest of Europe.

To achieve these goals, Food Ingredients Continental Europe will continue the expansion of its specialist range by, in part, increasing the level of value-added of existing products. Food Ingredients Continental Europe will expand its existing markets further. This will be achieved with the help of an attractive and constantly developing product portfolio, as well as strong, long-term customer relations. An important part of the future strategy involves ensuring that the market benefits from the creative effects of the merger between Aarhus United and Karlshamns, and that the company continues to grow in the area of speciality fats.

Håkan Christensson

President Business Area
Food Ingredients
Continental Europe

What were the most important advances and development trends in 2006, and how has the merger progressed?

In 2006, our strategy was to develop value-added products and strengthen the production of goods. Margins improved, which contributed to a profitable year for Food Ingredients Continental Europe. As a result, we can now offer an even more effective product portfolio.

In the past year, our specialist products in the area of breast milk replacement and cholesterol reduction, Vividol®, achieved a major commercial breakthrough. We intended to work in close partnership with our customers to gain their trust. Health issues have been an important factor in the choice of products, and this has resulted in a number of development projects initiated jointly with our customers.

The growth in Dairy Fat Alternative (DFA) continues, especially in the cheese segment, which experienced growth of 70 percent in the past year. The ready-meals segment grew by 25 percent in 2006.

As a result of excellent customer care and rapid organisational changes with clear customer responsibility, the merger between Karlshamns and Aarhus United continues to be a success. We have retained our customers and generated synergies which facilitated the launch of established FoodService brands on new markets.

During the year, the business areas Food Ingredients, divided geographically between Great Britain, the US and Mexico, were merged into a single unit – Food Ingredients UK & Americas. With production units in Great Britain, the US and Mexico, the business area supplies these markets with AAK products.

The business area enjoys strong market positions in the mature markets in the Great Britain and the US, with a growth of 2.0 and 2.2 percent respectively. In Mexico, the growth is just over twice that, at 4.6 percent.

In Great Britain, AAK has a market share of around 30 percent in bulk oils. In the FoodService market segment – restaurants, catering and similar operations – AAK's brands are the market leaders with a market share of 30 percent.

The range includes a number of specialist oils, including olive oil, tapenade and spreads. This makes the food industry and the restaurant and catering sectors the three most important market segments.

In the US, AAK maintains a very strong position in the market for trans-free oils, based on palm oil. As part of an investment programme worth SEK 100 million and spanning several years, AAK invested SEK 40 million to increase production in this area in 2006.

Through business relations spanning several years, Food Ingredients UK has secured its position as the primary supplier to a wide circle of customers. The aim is ongoing customer relations development, with a continuous and open dialogue. Business area Food Ingredients UK is known for its fast and flexible response to all customer initiatives, and this has further strengthened and expanded its relationship with its customers.

Food Ingredients UK aims to deliver the product quality required by its customers and is expected to provide a high level of service, offer innovative products and services, and supply appropriate market information. This strategy has resulted in AAK building a strong position for itself in Great Britain.

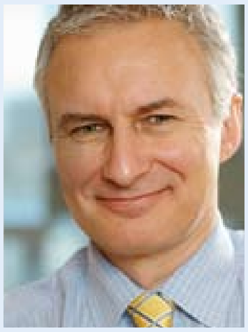
A high level of flexibility is essential if the operation is to adapt itself to new customer requirements and market trends. The main priority of the business area is, and will remain, meeting customer requirements. Product development frequently involves staying a step ahead of market trends, carrying on development in certain areas of need and then developing products which meet these needs.

2006

In 2006, the market continued to be the subject of fierce competition. AAK's main competitors are ADM and Cargill.

Despite this, Food Ingredients UK

Food Ingredients UK & Americas



Ian McIntosh
President Business Area
Food Ingredients
UK & Americas
(USA, Mexico).

What were the most important advances and development trends in 2006, and how has the merger progressed?

In 2006, large investments were made in the British market, and we have consolidated our refinery operations at the King George Dock. The plant in Kelanco has been sold off and the operation in Wincolmlee has been wound down in preparation for the final close-down and transfer of production to the King George Dock in early 2007.

The acquisition of the Wet Foods division from Lion Food in Runcom and the creation of the AAK Foods business sector were important milestones in 2006. The competition on the British market became fiercer during the year, and there was much negative publicity concerning saturated fat.

The US market had a good year, with excellent growth and returns in business area Food Ingredients. Our trans fat-free solutions generated a great deal of interest, and the major investment in the Newark operation has improved our capacity.

The great success of business area Food Ingredients Americas, Mexico, was slightly marred by the increase in the cost of raw materials due to the damage to the infrastructure as a result of the storms which affected the Central American railway network.

The merger has resulted in the effective consolidation of business operations in the Great Britain, and this has generated major cost savings.

succeeded in developing and strengthening its customer relations in all market segments.

The sale of branded goods continued to increase, and a large number of new products were launched on the market. The launch in 2005 of Prep ZT, a trans-free deep-frying oil, probably attracted the greatest attention. In April 2006, a similar product was launched in the US under the FryChef brand, and sales are expected to increase further in 2007.

For Food Ingredients UK, the merger between Aarhus United and Karlshamns has resulted in an exciting opportunity to broaden its product range. At the same time, the business area has benefited greatly from the Group's collective process expertise. During the year, operations were concentrated at the plant in King George Dock, Hull, and the factory in Formby was closed down. At the same time, the Wincolmlee plant began to run down its operation in preparation for its closure in early 2007.

Acquisitions

During the year, AAK acquired the Lion Food Ltd's Wet Foods division, as part of the strategy of forward integration, and of strengthening the position in the Food Service segment. AAK's operation in the sauces, dressings and marinades sector has expanded and is expected to achieve annual sales of around SEK 200 million.

Sustainability

The dominant trend in FoodService is to respond to the growing health awareness among present-day consumers, which is clear in the increasing demand for low-fat products, trans-free products and products which contain less saturated fat.

Another important market trend is the growing prioritisation of long-term sustainable production methods. For a number of years, AAK has been an active member of the Roundtable for Sustainable Palm Oil, a global organisation set up by a number of companies in the industry in partnership with the Worldwide Fund for Nature.

The consumption and production of biodiesel and other biofuels continues to increase, partly as a result of EU subsidies. The consequences of this trend are keenly felt by companies operating in the food fats area. The growing demand for vegetable oils is driving up raw materials prices, and this has an unavoidable impact on refined oils for food applictions.

Food Ingredients UK & Americas

Strong brands

Within the Group, Food Ingredients UK holds a particularly strong position in the area of FoodService brands. The range includes four of these brands:

- Again & Again – Quality-assured deep-frying oil.
- Prep – A range of deep-frying oils targeted at the food industry.
- International Collection – Specially adapted foods and oils aimed at the export market.
- Chalice – flavoured speciality oils – Specially adapted foods and oils aimed at the British market.

In 2005, in connection with the launch of Prep, a loyalty scheme was introduced on the British market. The scheme continued to run during 2006 and has proved highly successful. Similar activities may be introduced in other Prep markets in the future.

A common factor for the branded products in the FoodService segment is their long shelf-life. Although the prices may seem somewhat high, the combination of great performance and longer shelf-life means that the customer, in the final analysis, can reduce overall costs by using a brand from AAK. Most of the products are based on palm oil. Other important raw materials are rapeseed oil and sunflower oil.

Food Ingredients Americas, USA

Food Ingredients Americas, USA, is based in Port Newark, New Jersey, in north-eastern USA. From here, it can reach around 60 percent of its US food industry customer within 24 hours, and this makes the geographical location an important asset. In 2006, AAK decided to invest SEK 40 million in expanding the production capacity at the Port Newark plant.

In the area of coconut and palm kernel oil, Food Ingredients Americas, USA, is the market leader in North America, where the business area is recognised by the food industry for its high quality and excellent service. Close collaboration with

customers, partners and trade unions has also contributed to its excellent reputation.

The most important product segments are bakery fats, deep-frying fats and DFA (dairy fat alternatives), applications which all enjoy strong growth. Some products are also used in snacks and in energy bars.

The market for vegetable oils in North America is, more than any other market, characterised by the increasing awareness of various health issues among customers. As a result, demand for oils without trans or hydrogenated, and with low levels of saturated fat, is growing. The nutritional information on consumer products is coming under closer scrutiny, and the business area's product portfolio is well positioned for this trend.

AAK's strong ambition is to be the primary supplier of trans-free, non-hydrogenated fats with low levels of saturated fatty acids.

AAK's principal strength is its ability to remain one step ahead of both industry trends and customer requirements. Excellent relations with customers, service-minded engineers and a flexible production staff mean that the company can deliver products and solutions which clearly reflect the needs of its customers.

This also means that the work of developing new products and solutions is a high-priority area for Food Ingredients Americas, USA. One of AAK's strengths lies in its ability to act quickly and adapt to current health trends in the USA with the aim of meeting customers' wishes.

Competitors

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

2007

In 2007, the current health trend will continue to dominate the market, with positive effects on the sale of non-hydrogenated vegetable oils without trans fats and with low levels of saturated fat. Growth is expected in all food segments, particularly in the bakery market, in the next year.

Food Ingredients Americas, Mexico

AAK's plant is situated in the town of Morelia in the interior of Mexico. 60 percent of the total purchasing power is located within a 300 km radius. The majority of sales is to the domestic market of 100 million people. The market is characterised by the same views on health issues as the US market.

Competition is fierce. AAK's success in Mexico is based on the same marketing concept as in the rest of the world: sensitivity to customer needs, rapid responses, creativity and a high level of flexibility.

The most important market segments are bakery products, snacks, dairy fat alternatives, deep-frying oils and margarine.

Market trends

Future market trends involve a transition to an increasing number of trans-free alternatives. The merger between the two companies has given AAK a unique opportunity to be at the cutting edge in this respect, and to respond to customer requirements.


Chalice
ENJOY THE TASTE
Garlic
Garlic
Infused oil
made with
Fresh Garlic
and Olive Oil
250ml e

Chocolate & Confectionery Fats

Business area Chocolate & Confectionery Fats manufactures speciality vegetable fats which are used as alternatives to cocoa butter and as filling fats in confectionery products. This specialist area of the market is experiencing strong growth, something which has been further accentuated in 2006. AAK is a global market leader.

The world market for confectionery products has a total consumption of around 6,700 million tonnes. On a global basis, the annual growth is approximately 2.5 percent or 165 million tons.

Lipids for Care

Lipids for Care develops and markets vegetable fats (lipids) for use by the cosmetics industry. The market experienced strong growth, with a trend towards greater use of natural raw materials from the plant kingdom. The high value-added of the products has put AAK in a market-leading position in this segment, which is largely a niche market.

CBA – Cocoa Butter Alternatives
CBE – Cocoa Butter Equivalents
CBR – Cocoa Butter Replacers
CBS – Cocoa Butter Substitutes

Chocolate & Confectionery Fats

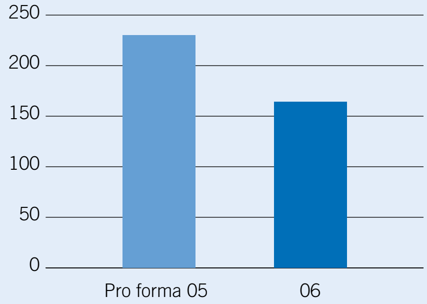
(SEK million)	2006	Pro forma 2005
Net sales	**3,351**	3,377
Gross contribution	**1,019**	1,102
Operating profit excl. non-recurring items	**164**	230
Operating profit incl. non-recurring items	**89**	230
Volumes, thousand tonnes	**290**	306

Sales in 2006 for the whole business area were rather lower than in the previous year, due to reduced sales of CBE caused by a shortage of raw materials. Volumes of other speciality fats increased, especially of CBS in the USA and high-end filling fats, while volumes of simpler products have fallen.

With effect from Q4, Lipids for Care reports under Chocolate & Confectionery Fats. Previously, Lipids for Care reported under Other Business.

Operating profit excl. non-recurring items

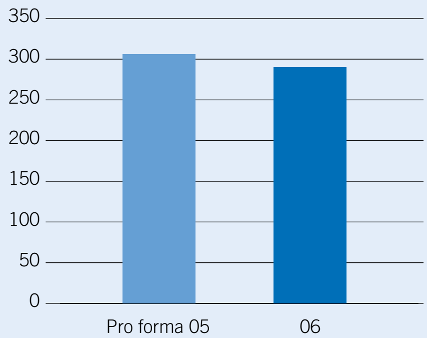
(SEK million)



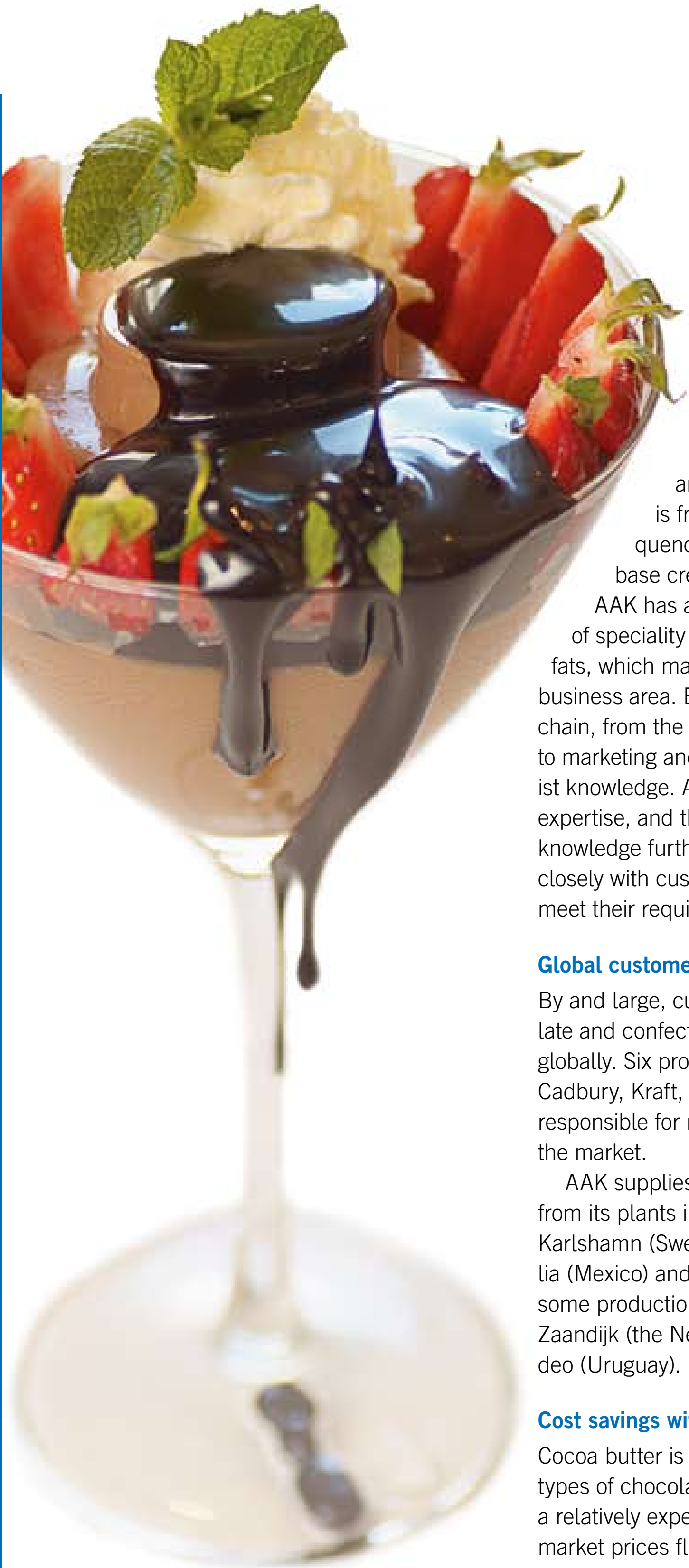
Operating profit excl. non-recurring items for 2006 fell by SEK 66 million, largely due to a shortage of raw materials. In addition, the 2005 figures included sub-contracted processing of around SEK 60 million of a non-recurring nature.

Volume trend

(Thousand tonnes)



Volumes fell by 5 percent largely due to a shortage of raw materials.



The successful introduction of new CBR, CBS and filling fats products is frequently a direct consequence of the broad knowledge base created through the merger. AAK has a broad product range of speciality and tailored chocolate fats, which makes this a multi-facetted business area. Every link in the value chain, from the purchase of raw materials to marketing and sales, requires specialist knowledge. AAK possesses unique expertise, and the aim is to develop our knowledge further in this area by working closely with customers to find ways to meet their requirements.

Global customers

By and large, customers in the chocolate and confectionery market operate globally. Six producers, Mars, Nestlé, Cadbury, Kraft, Ferrero and Hershey, are responsible for more than 60 percent of the market.

AAK supplies the market with products from its plants in Aarhus (Denmark), Karlshamn (Sweden), Hull (UK), Morelia (Mexico) and New Jersey (USA), but some production is also carried out in Zaandijk (the Netherlands) and Montevideo (Uruguay).

Cost savings with vegetable fats

Cocoa butter is a key ingredient in all types of chocolate products. Cocoa is a relatively expensive raw material, and market prices fluctuate wildly from one year to another. This means that the chocolate manufacturers can make considerable savings by replacing cocoa butter with AAK's alternative vegetable fats.

Alternatives to cocoa butter

CBE, with a 10 percent annual market increase, is responsible for the largest growth in this specialist area. The opportunity to replace cocoa butter with a comparable alternative made from other vegetable fats has created a market in which AAK has achieved great success.

Exotic raw materials

The production of a broad range of speciality fats which can replace cocoa butter requires a large number of exotic raw materials. CBE contains fat extracted from, for example, the important shea nut. Other significant raw materials include palm and palm nut oil, which is primarily imported from Malaysia.

The shea tree grows wild in West Africa. The nuts are harvested by the local population, who pick the fallen nuts. These are bought up locally and then traded on a market involving industry purchasers and local agents.

We estimate that, in total, 1.2 – 1.8 million tonnes of shea nuts grow in West Africa every year. Two-thirds of these rot on the ground, while the rest is harvested by the local population. Around one-third of the harvested nuts reach the export market.

AAK is a world-leader in the CBE area, which makes the key ingredient, shea, particularly important to us. Despite the excellent availability of nuts in West Africa, the management of the whole logistics chain, from tree to factory, must be improved to meet AAK's demand for raw materials. Over the next few years, the supply of shea nuts may restrict AAK's expansion in the CBE segment.

Improved properties

AAK's products can replace cocoa butter in many different ways. Many of AAK's products guarantee higher fat bloom and temperature stability, while others improve consistency and optimise crystallisation. In addition, a product from AAK frequently offers a healthier alternative since the composition of fatty acids can be improved by using trans-free fats or low-trans alternatives.

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

The broad product range is the result of a focused product development process which, for many years, has been carried on in AAK's own laboratories, in combination with close collaboration with customers. The development work is, therefore, also closely focused on the market, with the objective of always staying one step ahead. AAK's aim is to

Chocolate & Confectionery Fats

Jørgen Balle
President Business Area Chocolate & Confectionery Fats

What were the most important advances and development trends in 2006, and how has the merger progressed?

In business area Chocolate & Confectionery Fats, the demand for Cocoa Butter Alternatives (CBA), in which AAK has a leading global position, increased in 2006. New products in the Cocoa Butter Replacers (CBR), Cocoa Butter Substitutes (CBS) and filling fats product ranges have been successfully launched. This may be viewed as a direct result of the merger.

During the year, we have restructured our global agency network and improved the efficiency of distribution routes, with the aim of moving closer to our customers in the chocolate and confectionery sector. The first major investment-related decision after the merger resulted in the world's largest fractionation plant, which will increase growth, primarily in CBE products.

Lipids for Care opened an office in the USA in August 2006. The added sales support on the American continent has resulted in continued integration of the sales organisation.

In 2006, new distribution network for the European cosmetics industry was established, while the exclusive distribution via Univar Europe was wound up. We have also improved the offer to the cosmetics industry by broadening our product range.

As regards sales, it has been a successful year. This is the result of the cosmetics industry's increased focus on vegetable and functional ingredients, which has generated significant interest among global and regional customer alike.

deliver innovative solutions which reflect market trends and, consequently, predict customer requirements.

Unique opportunities following the merger

For business area Chocolate & Confectionery Fats, the merger between Aarhus United and Karlshamns has generated unique opportunities. As a result of the amalgamation, effective benchmarking has been carried out between the two market leaders.

In its new form, AAK achieves the critical mass for development in all respects, from the creation of a new generation of speciality fats, to the opportunity to make optimal investments in unique process technologies.

One of the most important decisions during the year was the creation of the world's largest fractionation plant, which has given AAK the opportunity to continue to grow in the area of cocoa butter replacements. AAK has a specific ambition to become the market leader in the speciality fat area.

Another important step was the coordination of the operation at the production plant in Uruguay with the rest of the CCF production, which has allowed AAK to offer its customers in the Latin American market a complete product range.

The merger between the two former competitors has created massive potential for the coordination of marketing, sales and distribution of products to new markets and new customer groups. In 2006, this has allowed AAK's world-wide sales and product organisation to reform against the background of a strong vision to develop AAK's world-leading position in vegetable fats for the chocolate and confectionery industry.

Throughout this process, AAK's comprehensive, global network is decisive for the company's contact with the market. It is not only a link to various geographical markets – it also ensures that the company is up-to-date with global trends and changes.

New consumer demands

One of the strongest trends is the increasing importance of health issues. Consumers are becoming more aware and knowledgeable, and this is reflected in the increasing demand for new fats. AAK, with its flexible and focused product development process, is ideally positioned in this respect and can meet the new consumer requirements.

Another side of the health issue is the question of food safety. Business area Chocolate & Confectionery Fats prioritises food and product safety issues at all times. One example is the company's acceptance of its social responsibility to adopt more sustainable production methods in Burkina Faso, where AAK is involved in a UN project aimed at improving the living standards for the women involved in collecting the shea nuts which are such an important raw material for AAK.

Competition

The merger has turned AAK into the largest player in the area of speciality fats for the chocolate and confectionery market. Competitors include the Japanese company, Fuji Oil, and the Dutch IOI/Loders Croklaan.

Growing market

Chocolate & Confectionery Fats operates in a growing global market. Chocolate products are more or less regarded as luxury products and, the growing economies of the "developing countries" represent an exciting growth potential. To grow in line with this trend, AAK is constantly working on improving its global market performance. At the same time, it is also increasing its value-added as a result of a growing proportion of speciality fats with better margins.

Lipids for Care develops and sells products based on vegetable fats under the Lipex® brand. The products are used in skin- and hair-care products, make-up and various hygiene products for washing, shower and bath. The various products in the Lipex® family are also used as carriers of biologically-active substances for clinical applications.

The niche character of Lipids for Cares impacts on its operation along the whole value chain. The products as well as the market are so unique that the purchase of raw materials, production, product development, marketing and sales all require specialist knowledge.

Lipids for Care has successfully built up the expertise and experience required, and is also working very closely with its customers to ensure effective and value-added product development and, at the same time, an ongoing exchange of knowledge and experiences.

AAK has worked with lipids for many years, and has a level of experience which makes the company one of the foremost experts in the world in this area.

The absolute most important property of the products in the Lipex® family is their natural origin. All products from AAK are based exclusively on vegetable oils, unlike the synthetic, animal or mineral oil-based products used in cosmetics and hair-care products.

Own sales team

In 2006, AAK increased its focus on the US market by setting up its own sales and distribution organisation for the North American market.

Lipids for Care has its own sales team, to which partners all over the world have been added. It is an example of forward integration, and also a clear sign of the increased efficiency of marketing work as an effect of the merger. This has also contributed to a stronger customer offer with a broader product profile.

Disposals

At the same time, AAK sold its 70 percent stake in the shares in BSP Pharma. The company develops and markets anti-inflammatory products with a high requirement for documentation, safety and effectiveness. Instead, a long-term delivery agreement for highly-refined specialty vegetable fats, based on AAK's unique understanding of the properties of the fat molecule, was signed with BSP Pharma.

Market trends

Lipids for Care's products are currently produced at AAK's production plants in Karlshamn (Sweden), Hull (UK) and Aarhus (Denmark). The products are regarded as global, since they are sold and consumed throughout the world. In the global market, AAK competes with large, world-wide chemicals conglomerates such as Cognis, Croda and Uniqema. Among the world's vegetable oil and fat producers, AAK is the only company which regards this segment as a core operation.

Half of the market for cosmetics products is made up of ten global players with brands such as L'Oreal, Proctor & Gamble, Unilever and Estée Lauder.

2006 was another year of strong growth for Lipids for Care, with a 13 percent increase in volume.

Europe and the US experienced the strongest growth.

The market trends which have emerged in the past few years remain strong. The number of consumers is

Lipids for Care

increasing as the customer base in the market for skin- and hair-care products is widening to include younger as well as older buyers. Interest among men is also growing. New geographical markets are opening up as the disposable income of consumers increases and, as a result, the potential customer base is expanding.

In parallel with this, there is continuing strong health-awareness trend, with more and more customers increasingly demanding healthier and safer products. In consequence, customers are looking for products free from synthetic, animal and mineral oil-based ingredients.

Natural raw materials

The products in the Lipex® range are based on various natural and renewable raw materials.

The beneficial properties of shea oil have made it one of the most popular raw materials in the cosmetics industry. As a result of its softening and moisture-retaining properties, shea oil offers an attractive effect on the skin while, at the same time, its anti-inflammatory properties adds valuable bio-activity. Other exotic raw materials include mango, illipe, almonds, sesame, avocado, apricots and coconut.

But rapeseed oil is also used since it contains valuable bio-active substances.

Given these properties, AAK anticipates a growing demand for shea-based products. Chocolate & Confectionery Fats, which also includes Lipids for Care, complement each other well, since they utilise different parts of the raw material. One example of this is that, technically and in consistency, suppleness and durability, the content of a lipstick has largely the same properties as those of a chocolate praline.

In parallel with forward integration for greater proximity to the customer, as described above, there is a natural backwards integration for common development in business area Chocolate & Confectionery Fats.

Gentle manufacturing process

The key to success in lipids is the gentle manufacturing process based on expert knowledge. To create products with the function and quality demanded by customers, a large number of different production processes are utilised, all of which are available at AAK's own plants. These include specially-developed fractionation methods which play a key role in the development of new shea-based products.

By using gentle processes, the natural function of and substances in the oils are preserved, and this has a positive impact on the performance of the end product.

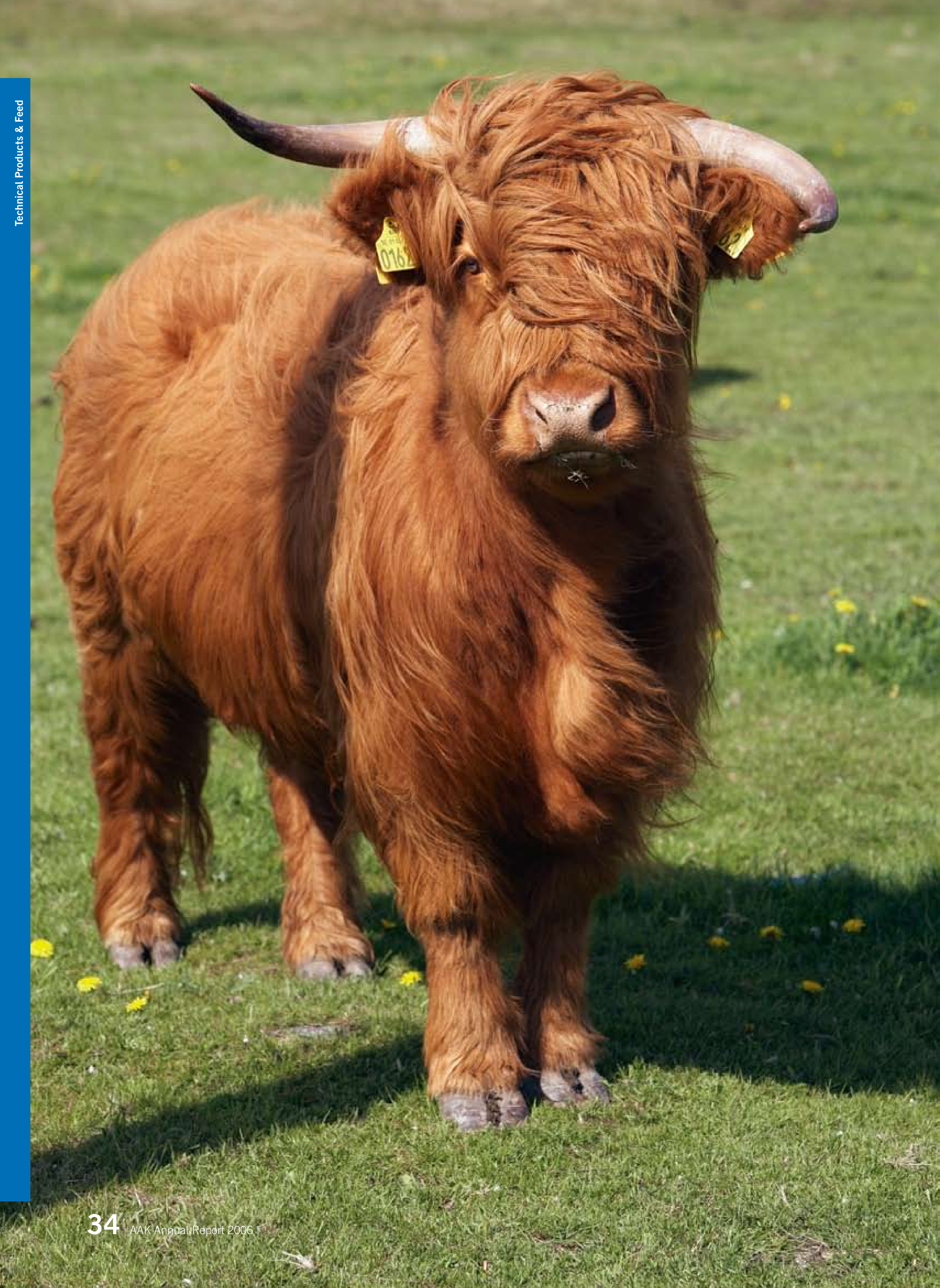
Such natural substances include antioxidants and vitamins.

By using a milder purifying process, these positive minor components can be preserved, while all undesirable substances, such as environmental toxins, flavourings and scents, are removed effectively.

Product development and the future

Lipids for Care is characterised by an extremely high level of application-focused product development. Further development and improvement of existing products is always a priority, alongside the innovative development of new products. A significant proportion of development is carried out in close and continuous dialogue with the company's customers. This dialogue covers technical and commercial issues, and improves Lipids for Care's understanding of the needs and wishes of every individual customer.

At present, a significant part of the product development work is focusing on the creation of products with certain specific functions and active substances. The objective is to create products which offer certain basic functions, including moisturising or cleansing properties, as well as a number of more advanced functions. A product may, for example, be anti-inflammatory, protect against the sun's UV-rays, against exhaust fumes or other environmentally-related contaminants.



Technical Products & Feed

The candle, chainsaw and cow illustrate the breadth of business area Technical Products & Feed. They demonstrate the versatility of vegetable oil as a raw material and are examples of how AAK's mission has resulted in a broad range of products. The business area is organised into three sectors: Tefac, which focuses on the chemical industry, Binol, which markets vegetable lubrication oils, and Feed, which markets vegetable products for use in animal feed.

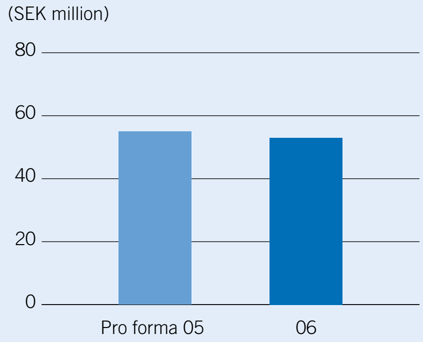
The business area also utilises and refines some of the waste products generated during the production of food oils by AAK's other operations. These are products with a relatively high transport cost in comparison to the product price, and the market is, therefore, regional and concentrated primarily in northern Europe.

Technical Products & Feed

(SEK million)	2006	Pro forma 2005
Net sales	**1,057**	963
Gross contribution	**202**	195
Operating profit excl. non-recurring items	**53**	55
Operating profit incl. non-recurring items	**45**	55
Volumes, thousand tonnes	**261**	266

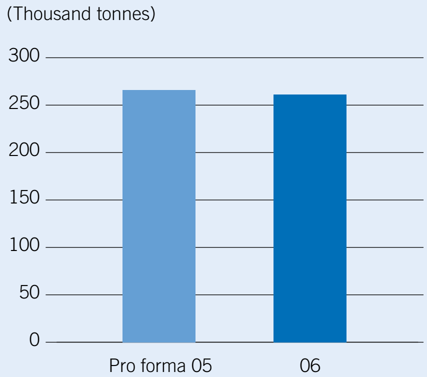
Sales in 2006 rose by SEK 94 million. Sales increased on an annual basis for Tefac. Gross contribution is unchanged, while operating profit was somewhat lower than in the preceding year. Binol continues to strengthen its position in the Nordic region. Feed sales rose during the year.

Operating profit excl. non-recurring items



Operating profit excl. non-recurring items of SEK 53 million was almost in line with the previous year.

Volume trend



Volumes were largely unchanged on the preceding year.

Another common factor in the business area is that the products in all sectors are gentle on the environment. The use of fatty acids from Tefac means, for example, that cleaning products can be based on renewable, environmentally-compatible raw materials rather than on mineral oil. Spills of vegetable lubricating oil from a chainsaw break down quickly in the countryside, while cows can be reared on a guaranteed salmonella-free vegetable meal.

The competition for raw materials has become harder due to the increasing production of biofuel, both as a vehicle fuel and for energy production. Margins are being squeezed and Technical Products & Feed has adopted the same strategy as other AAK business areas, i.e. to increase its share of higher-margin speciality products.

Business sector Tefac – Chemical products

AAK produces fatty acids and glycerol, which is sold under the Tefacid brand. Both types of products are extracted through splitting of fat molecules, and are used in a large number of application areas.

Fatty acids are primarily used as a raw material in the chemical engineering industry, where they for example are synthesited into amines and esters. These are then used in many applications areas, e.g. paper chemicals, soap, detergents, rubber and plastic. High quality candles, for example, are made exclusively from fatty acids.

Glycerol is used in a wide range of products, including cosmetics, explosives, paints and food. The majority of Tefac's clients operate in the technical industries.

Fatty acids and glycerol are made from renewable raw materials. This is a property which will become more of a priority in the future.

Technical Products & Feed

Magnus Jörsmo
President Business Area
Technical Products & Feed

What were the most important advances and development trends in 2006, and how has the merger progressed?

The production areas were integrated in early 2006. Apart from a prolonged maintenance stop at Feed, our production has been running well and without interruptions so far this year. We have developed long-term measures and plans to safeguard the quality of the production process.

As far as the integration with other AAK units is concerned, we are facing an exciting challenge in 2007 when we will attempt to develop Binol's North American operation by working through the Group's American companies.

Tefac – the investment in speciality fatty acids has paid off, and enabled Tefac to increase its market share for this segment in Europe from 10 to just over 35 percent. Growing demand for raw materials for bio fuel has caused a considerable increase in raw materials prices during the year, but towards the end of the year our customers have realised that this makes an increase in Tefac's prices inevitable.

Feed – the year saw an increasing demand for salmonella-free feed, which is very positive for us. During the latter part of 2006, we also invested in increased capacity for feed fats, and as a result, we can now enter both new markets and new areas of application.

Binol – Binol has continued to grow well during the year, particularly within the Nordic metalworking industry where the total market experienced a fall of around 3 percent, while Binol increased by a full 15 percent. In the development area, many resources have been dedicated to producing a new cutting fluid specifically for aluminium processing. The product was developed in a short space of time, only 12 months, and is now being field tested.

In all three business sectors, there is a general demand for renewable and safe raw materials, and there are clear indicators that this will become increasingly important in the future.

The market

The market for fatty acids and glycerol is regional, as a result of relatively high transport costs in relation to product prices. The total European market is around 1,300,000 tonnes. The markets in which AAK competes represent just under 500,000 tonnes. About half of Tefac's volumes goes to the Nordic region, where Tefac is a clear market leader. Other important markets are Germany, Poland, Russia and the Baltic states. Fatty acids make up around 85 percent of sales, while glycerol and other products are responsible for the remaining 15 percent.

The market for fatty acids is very much affected by rising raw material prices. This is due largely to the fact that the raw materials used in the production of fatty acids are also those in demand among energy producers throughout Europe, since the same raw materials form the basis of biofuels. Rising heating oil prices in combination with EU subsidies for biodiesel production has had noticeable effects on Tefac's profit margins.

The subsidised production of biodiesel has also had an effect on the availability of glycerol. As a by-product of this production, the availability of glycerol currently exceeds demand by a broad margin. This has had a depressing effect on glycerol prices and, consequently, on profit margins.

Generally speaking, both fatty acids and glycerol are relatively low on the value-added scale. Tefac has decided to invest in increasing capacity for more specialised fatty acids and, at the same time, develop other value-added products. This capacity was added to the market in 2006. This approach means that Tefac's strategy is in line with that of other business areas in AAK, and offers customers more specialised products in a market which is, in general, characterised by very similar products.

Tefac's competitive advantages include competitive prices, efficient logistics, flexible deliveries, reliable quality and strong customer relations, all of which help to confirm Tefac's strong position in a changing market.

Competitors

In the European market for fatty acids and glycerol, the main competitors are Cognis, Oleon and Uniqema (which was acquired by Croda in 2006). The structural transformation of the market is expected to continue, and this will result in fewer but larger players. Size, logistics and specialisation will be decisive factors in how the market changes.

The future

The EU is expected to continue to subsidise the production of biofuel and biodiesel for the foreseeable future. For this reason, AAK has elected to tackle the negative effects of this trend by gradually increasing the value-added of Tefac's product range and adopting a more pro-active approach throughout the value chain. At the same time, sales activities in the Nordic market will be intensified.

Business sector Binol – technical oils

Under the Binol and BioSafe brands, AAK produces and markets environmentally-compatible lubricants, including metalworking fluids for the metalworking industry and hydraulic and chainsaw oils for the forestry and contracting sectors.

In the Nordic region, the products are sold directly to the end-users. In other markets, AAK collaborates with a number of partners, with the products being sold under the partners' own brands.

The largest proportion of Binol's products are sold on the Nordic market, which means that the operation is relatively regional. Binol dominates the Nordic bio-oil market and is also the market leader in the European bio-oil market of around 140,000 tonnes.

Technical Products & Feed

The products Binol competes with represent approximately half these volumes.

The total market for lubricating oils is static. The bio segment is growing by 5-7 percent per year, a trend which is expected to continue and even increase over the next few years.

Healthy and safe

Increasing environmental awareness in the community and on the market has had a strong, positive effect on the sale of Binol products. The benefits experienced by the metalworking industry from replacing mineral oils with Binol products include improved lubricating performance, lower overall costs and, last but not least, a much better working environment. The longer service life of the oil, in combination with a drop in consumption of up to 50 percent, clearly offsets the higher litre price of the Binol product. This is reflected in Binol's growth over the past few years, when Binol has been virtually the only player to increase its market share. Binol now enjoys a leading position in the Nordic market for metalworking fluids. In the environmental segment, Binol is the clear leader.

The fact that Binol products are based on renewable raw materials has further improved their environmental profile. While the total lubricants market is shrinking, the bio-alternatives are gaining increasing market share. This trend, which is further underpinned by rising mineral oil prices, is clearly benefiting the sale of Binol products.

The future

Establishing and improving the leading position of Binol products on the Nordic market will continue to be a top priority. In parallel with this, efforts to improve international sales will be stepped up, and this is expected to increase the sales volumes on markets outside the Nordic region as well. As a result of the merger between Aarhus United and Karlshamns, the Group now has access to a larger number of platforms from which it can provide better services to new markets, and this offers improved opportunities to expand sales of Binol products outside the domestic market.

Business sector Feed

The feed raw materials marketed by AAK include vegetable protein and fat raw materials for the feed industry.

Feed's customer offer mainly involves various protein and feed fats product groups. When rapeseeds are pressed, the resulting products are rapeseed oil and rape meal. The meal is processed further at the Karlshamn plant and marketed under the ExPro™ brand, a product which both improves the effectiveness of the feed protein and provides a guaranteed salmonella-free product. The effectiveness of the protein increases the milk yield in cattle, and so helps to improve the overall finances of farmers. This product is sold primarily to the Nordic feed industry, where the business sector has a leading position in the market for bypass proteins.

Feed's range also includes solid vegetable bypass fats and liquid feed fats. Most of the feed fats are used as ingredients in cattle, pig and poultry feeds. The composition of the feed has a significant impact on, for example, the yield of dairy cows and the growth rate of pigs and poultry.

98 percent of sales go to the Nordic market, where AAK is the market leader for products to ruminants such as cattle. The Nordic market for protein feed additives is around 600,000 tonnes, while the market for fat additives is approximately 200,000 tonnes. It is basically a static market without significant growth.

The main competitors are ADM, Bunge, Cargill, Berg & Schmidt, as well as small, regional producers.

An important part of the business sector's sales service consists of helping customers to create the optimum feed blends which are best suited to their individual needs and, through this, optimise their overall finances.

A clear market trend in this business sector is feed blends which are mixed at the farms themselves. As farms are growing ever bigger, more and more farmers prefer to create their own feed blends at home on the farm rather than buying ready-mixed products.

Product safety

In the feed industry, traceability and feed safety is becoming increasingly important, and this makes AAK's ability to provide guaranteed salmonella-free products particularly valuable – a guarantee which makes the company unique to the industry.

Employees at Morelia, Mexico.

Sweden/Denmark/the Netherlands OneSite

2006 was a year of intensive collaboration between Sweden, Denmark and the Netherlands. This has been further underpinned by OneSite, the organisational integration of the various operations.

Training in collaboration

The most intensive collaboration and the greatest integration has, naturally, been between units in Denmark and Sweden. To create a good base for effective collaboration, the staff in both countries must have a clear understanding not only of the operations in the two countries, but of the cultural differences which exist despite the shared Nordic heritage.

For this reason, the company assigned an external organisation the task

Employees

of providing courses for the various departments which will be working in close association with each other. The courses provided the participants with an understanding of the national similarities and differences, and of how the future partnership can be developed with the aim of avoiding conflicts.

Work exchange

Safeguarding and correctly utilising the existing expertise are important factors in achieving successful integration. This means that the units which form part of OneSite are expected to share knowledge. In 2007, this work will be intensified and deepened, but the exchange has already increased in 2006.

Swedish and Danish maintenance employees have spent 14 days on work experience at each others' place of work. This has improved relations, not least because they were dealing with each others' everyday problems.

As part of the fractionation project, employees from Karlshamn, Sweden, were relocated to Aarhus, Denmark, to take part in the work.

Employees from Denmark and Sweden, OneSite.

The new role of Human Resources (HR)

The HR functions in Sweden, Denmark and the Netherlands changed in December 2006, when the three countries became integrated into one organisational unit. HR's natural priority is synergies and cost savings. This radical change meant that the focus fell on the staff, and this had to be handled as smoothly and effectively as possible. HR forms a natural part of the Change Management Team, which is tasked to ensure that all changes are implemented as quickly and efficiently as possible, with great concern for the employees affected.

HR's area of responsibility is, of course, largely governed by national laws and regulations. In many areas, however, we have managed to harmonise the operation and create common policies, and this has proved a major benefit. In some cases, we have aimed for tasks to be handled centrally for all three countries.

Globally

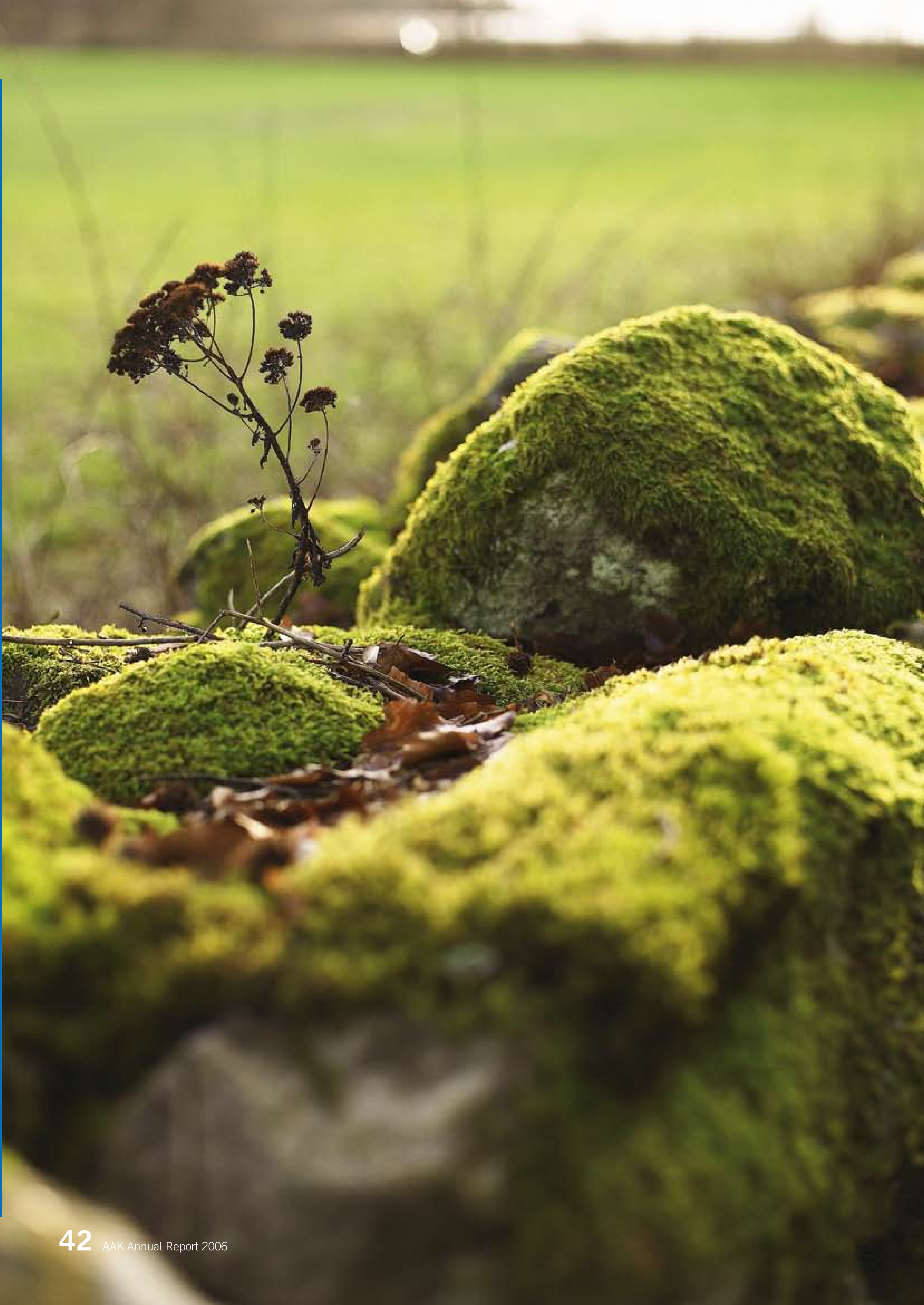
Management conference

In 2006, a management conference attended by 100 managers was held within the Group. It signalled the start of radical efforts to develop common values for the Group.

The management conference is a recurring activity, which provides an excellent opportunity for the Group management team to discuss central issues and obtain input for future decisions.

Leadership Academy

A decisive factor for continued success is skilled management based on the Group's vision and values. In 2006, a proposal was made for a comprehensive management training programme, the Leadership Academy. The programme will be launched in 2007, and will involve around 80 managers from all units within the Group.



Long-term environmental commitment

Today, a company's social responsibility includes accepting responsibility for the environment and observing ethical ground rules. For AAK the environment is a long-term commitment. In practice, each plant impacts on the environment in a different way, as a result of their individual operations.

In the UK, the USA, Mexico and the Netherlands, oils are purified before being delivered in bulk or other packaging. In this case, the environmental impact consists of limited amounts of discharge, with low pollutant levels, little waste and low energy consumption. The plants in Denmark and Sweden are different. Here, oil is extracted from oil plants, and the operations also include fractionation and the production of technical products. In these cases, the environmental impact includes smell, discharge of solvents, particles and more extensive outflow management. Benefits can be reaped from carrying out the work at a local level. The AAK Group actively anticipates legal changes in each country and is at the cutting edge in both global and local environmental issues.

Corporate Social Responsibility

We are, at present, living in a world of change with constantly growing customer awareness and demands. This trend is placing greater requirements on companies, and the issue of Corporate Social Responsibility (CSR) is becoming ever more important. This involves the business sector's attitude to pollution, climate change, unfair working conditions and product quality. AAK has adopted a successive approach to CSR in its strategic action plan, with the aim of achieving sustainable development.

If a company does not respect these conditions, it may lose the trust of customers and suppliers or suffer negative exposure in the media. At present, the media is very keen to report on the level of responsibility shown by businesses as regards environmental issues and sustainable development, and the demand for transparency in business operations with respect to the outside world has increased. Investors also take a greater interest in the above factors before deciding on investments, while analysts assess the strength and weaknesses of companies with reference to sustainable development. One example of the social responsibility shown by AAK is its contribution to sustainable production methods in Burkina Faso, where the company was involved in a UN project aimed at improving the living standard of the women collecting the shea nuts which, to AAK, are a raw material of considerable importance.

Focusing on change

AAK aims to achieve the highest possible standard in quality, food safety and environmental issues. AAK believes that it is vital to take account of the demands and views expressed from the outside world, stakeholders and Global Rating companies on issues such as exploitation of natural resources, child labour and working conditions. Through active involvement in counteracting these situations, AAK can improve its shareholder value and maintain the company's excellent reputation while, at the same time, developing and strengthening its brand. It is, consequently, important that AAK analyses the risks associated with its business operations and draws up a Code of Conduct (ethical ground rules), and implements this Code to create transparency in measuring how well the company complies with these ethical rules.

The food industry continues to focus on well-being and health. These trends create expectations on companies whose work involves both financial and social targets, and which aim to achieve sustainable development. For AAK, it has meant that decisions taken within the company must be financially justifiable, environmentally sound and socially responsible. At the same time, the work must build on previous results.

It is also essential that day-to-day work must stay within the framework of the company's ethical ground rules (Code of Conduct) and that reporting on sustainable development must be measurable and practicable in day-to-day management work. Consideration for the environment is now a competitive advantage, and it is, therefore, vital for AAK to continue to develop and strive towards sustainable development.

Pro forma Financial year 2005

AarhusKarlshamn AB (publ)

Pro forma Accounts

January to December

The pro forma accounts illustrate consolidated merger data for Karlshamns och Aarhus United as of 1 January 2005. Consolidated pro forma accounts for the years 2004 and 2005 are contained in the 2005 Annual Report, on pages 40 to 46.

These pro forma accounts are used solely for the purposes of illustration and therefore do not show the actual financial position or earnings the company could have achieved had the merger taken place on the dates specified. These also do not show the financial position or earnings of the company for any future period or time.

The pro forma accounts for January to September 2005 report unaudited figures produced by Karlshamn in accordance with IFRS, and for Aarhus United according to current Danish accounting practices (GAAP). The Income statement is therefore not fully comparable to the same period in 2005. Reports for the October to December period are for the merged Karlshamns and Aarhus United group in accordance with IFRS. These pro forma accounts exclude non-recurring items.

Consolidation

The acquisition analysis was done following IFRS 3, with Karlshamns as the acquiring entity.

The pro forma accounts show figures in SEK millions. The income statement for Aarhus United has been translated using the average exchange rate for the period from 1 January to 31 December 2005. The average rate used was SEK/DKK 1.245. The pro froma accounts were not adjusted to highlight any gains related to the merger of Karlshamns and Aarhus United. Interest expense for the acquisition loan is reported for the period in accordance with the terms of the loan. Since the acquisition analysis was done in accordance with IFRS 3, goodwill was not depreciated, but rather this will be restated annually.

The share of United Plantations Berhad owned by Aarhus United (23.4% of outstanding shares) were disposed of as of 30 September 2005, for payment of DK 465 million (SEK 580 m.). The pro forma accounts state the payment as being used for debt reduction, whereby a corresponding reduction in interest expense has been recorded.

Income Statement, pro forma (unaudited)

(SEK m)	Financial Year Jan.-Dec, 2006*	Pro forma Financial Year Jan.-Dec, 2005
Net Sales	10,929	10,515
Other operating income	53	13
Total operating income	**10,982**	**10,528**
Changes in inventories – finished goods and work in progress	-9	-
Raw materials and supplies	-8,061	-7,640
Other external expenses	-1,186	-1,048
Costs of remuneration to employees	-1,063	-992
Amortisation and impairment loss	-306	-307
Other operating expenses	-15	-11
Total operating expenses	**-10,640**	**-9,998**
Operating profit/loss	**342**	**530**
Net financial items	-74	-69
Profit/loss before tax	**268**	**461**
Income tax	-91	-121
Net profit for the year	**177**	**340**
Attributable to minority interests	6	16
Attributable to shareholder in the Parent Company	171	324

* As stated in the Income Statement on page 48.

Contents

SEK million unless otherwise stated

Directors' Report

For the financial year 1 January to 31 December 2006

The Board of Directors and CEO of AarhusKarlshamn AB (publ), corporate identity number 556669-2850, domiciled in Malmö, Sweden hereby present their annual report for the financial year from 1 January to 31 December 2006 and the consolidated accounts for the same period.

Operations and significant events

Growth and productivity – the focus of our new Company

Our new Company, AarhusKarlshamn (AAK), came into existence on 29 September 2005 through the merger of Aarhus United and Karlshamns AB. Our goal was to create a global leader in producing specialty vegetable fats that could use the larger size to enable faster growth, create a highly competitive cost structure and use our capital resources more effectively.

Businesses

The Company has separate businesses in: Chocolate & Confectionery Fats (including Lipids for Care), Food Ingredients Continental Europe, Food Ingredients UK & Americas, and Technical Products & Feed. Group-wide functions are included in the Group Functions business. Growth for the new company will be generated through both internal growth and acquisition.

Chocolate & Confectionery Fats and Lipids for Care have global leading positions in their respective fields and we plan to further develop their potential in the world arena. Food Ingredients maintains its strong regional positions in both Europe and North America. The Company has global ambitions for this business as well. Technical Products & Feed has a strong local position in northern Europe and will continue to focus its growth efforts in these geographical segments through its close links to the Karlshamn unit in Sweden, bringing significant merger benefits.

Synergies

We have carried out merger activities the entire past year, leading to wide-spread changes within the entire company.

These activities will at first bring annual cost reductions of SEK 175 million which will be fully realised in 2008. Further merger benefits will arise from specialising and optimising our Swedish and Danish production units. These improvements are planned for the next two years, though their financial effects cannot be assessed at this time. We anticipate, though, that these effects will be dampened due to higher energy costs and inflation.

Listing on the Stockholm Stock Exchange

The Listing Committee of the Stockholm Stock Exchange approved AarhusKarlshamn for listing in the Nordic Mid Cap list in the Consumer Staples category. The listing on the Nordic Exchange brought AarhusKarlshamn shares over from trading at the First North Exchange. Shares have been traded on the Mid Cap Exchange since 11 September 2006 under the symbol AAK. The listing as described fulfils the Board of Directors' plan as announced in 2005 along with the merger for Aarhus United and Karlshamns.

Significant events after the financial year

There have been no significant events since the end of the financial year.

Outlook Ahead

Prospects

The group anticipates clear improvements to profit in 2007 due to the cost reductions resulting from the merger.

Financial Goals

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

Dividend policy

The Board of Directors has concluded a new dividend policy. This reflects the Board's goal to propose annual dividends in the amount of 30 to 50% of Group annual profits after tax and after fully considering earnings trends for the Group, its financial position and future growth potential.

Dividends

The Board of Directors and CEO propose payment of a dividend for the 2006 financial year in the amount of SEK 4.00 (4.00) per share, totaling SEK 164 million (164). A bonus dividend of SEK 25.00 per share was paid in 2006 in addition to the ordinary dividend of SEK 4.00 per share in order to attain a better capital structure.

24 May 2007 is the proposed record date for payment of dividend which should then be paid as of 29 May 2007.

Nomination Committee

The Nomination Committee for AarhusKarlshamn proposes to the Annual General Shareholders Meeting to be held 21 May 2007 that the number of Directors on the Board of Directors is increased from 8 to 10, that all current Directors be re-elected, and that Ulrik Svensson and Anders Davidsson are elected as Directors. Ulrik Svensson, born 1961, is CEO of Melker Schörling AB. Anders Davidsson, born 1970, is President and CEO of Bong Ljungdahl AB. The Nomination Committee further proposes that Melker Schörling be re-elected at the Chairman of the Board of Directors Committee and that Carl Bek-Nielsen be re-elected as Vice Chairman.

AarhusKarlshamns Nomination Committee for the 2007 AGM includes:
- Melker Schörling (Chairman)
- Carl Bek-Nielsen
- Henrik Didner, Didner & Gerge Mutual Fond
- Jan-Erik Erenius, AMF Pension

The Nomination Committee represents 58.92 % of the shares and voting rights in the Company as of 31 December 2006. In anticipation of the 2008 Annual Shareholders' Meeting, the Nominating Committee proposes that Mikael Ekdahl replace Melker Schörling as member and Chairman of the Nominating Committee.

Product Development

Refer to page 14 above, for further information concerning the Group's product development,.

Ownership

Refer to page 83 below for detailed information concerning ownership in the Company and AAK shares.

Environmental Impact

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

Personnel

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

Risk Management and Sensitivity Analysis

Refer to note 3 Financial Risk Management for detailed information regarding Group management of risks

Corporate Governance

Refer to page 84 Corporate Governance for information regarding the composition and functioning of the Board of Directors.

Parent Company

The Company is a holding company for the AAK Group whose operations primarily consist of group-wide functions related to the administration and development of the AAK. The Parent employs personnel with skills and competencies to execute group-wide financing, accounting, information and Human Resources. The Parent is also responsible for group Strategy and Risk Management as well as providing legal and tax related services to the subsidiaries of the Groups. The Parent shall own all trademarks.

Invoiced sales for the Parent was SEK 17 million (0) and profit after financial items was SEK 75 million (-15). Interest-bearing liabilities and provisions minus liquid assets were SEK 83 million (224) as of 31 December 2006. The balance sheet total for the Parent Company totalled SEK 5,933 (5,803) and shareholder equity was SEK 4,512 million (5,573). There were a total of 11 (0) employees as of 31 December 2006.

Background and Explanation to the proposed dividend

The Board of Directors has proposed to the 2007 Annual General Shareholders' Meeting treatment of the unappropriated earnings to vote for payment of dividend in the amount of SEK 4.00 per share. The proposed dividend therefore totals SEK 166 million for the Company and SEK 164 million for the Group. This meets the Board's goal to propose annual dividends amounting to 30 to 50 % of Group annual profits after tax and after fully considering long-term financial requirements of the Company. The Parent Company owns no financial instruments valued in accordance with Chap. 4 §14a of the Swedish Annual Accounts Act. The Board of Directors hereby make the following statement regarding the proposed dividend, in accordance with Chap. 18 §4 (2005:551) of the Swedish Companies Acts.

Retained profits from the previous year total SEK -11 million and the profit for the 2006 financial year totals SEK 89 million (SEK 177 million for the Group). A total of SEK 5,170 million was transferred from the statutory reserves for the Company to retained profits during the year. Presuming the 2007 AGM approves the Board's proposed distribution of profits, a total of SEK 3,933 million will be carried forward. The Company's restricted reserves will by fully covered after distribution of the dividend.

In our assessment, the Company and group will retain sufficient equity after distribution of the proposed dividend in relation to the nature, scope and risks associated with operations. The Board has hereby considered the historical development, forecasted development and the current business cycle for the Company.

In our assessment, the Company is in a position and have the capacity, both short and long-term, to meet all its obligations. The proposed dividend represents a total of 3.6% of Company equity and 7.2% of Group equity.

After distribution of the dividend, Company and Group equity/assets ratio will be 73.3% and 31.1%, respectively. These figures are good in relation to other businesses in our industry. The Board of Director's assess that the Company is in a good position to meet future business risk as well as withstand possible losses. Distribution of the dividend will not negatively affect the ability of the Company to make further investment as planned by the Board of Directors.

The proposed dividend distribution will have a temporary negative effect on the Company's ability to meet certain current liabilities. However, we deem that we have sufficient access to both short and long-term credit that can be obtained on short notice. The Board of Directors therefore deems that the Company is prepared for likely changes to liquidity as well as unforeseen events.

In addition to the above, the Board of Directors has considered other known circumstances that can materially affect the financial position of the Company. We deem there are no circumstances current to make the proposed dividend distribution seem indefensible.

Proposed distribution of earnings

The Board of Directors and President propose that

Retained profits	SEK 4,009,527,267
Net profit for the year	SEK 89,243,017
Total	SEK 4,098,770,284

Is appropriated as follows;

To be distributed to shareholders, a dividend of SEK 4.00 per share	SEK 165,535,212
To be carried forward	SEK 3,933,235,072
Total	SEK 4,098,770,284

The Consolidated and Parent Companies' annual accounts will be presented for adoption to the Annual General Meeting of the shareholders 21 May 2007.

The Board of Directors confirm that to the best of our knowledge these annual accounts have been prepared in accordance with generally accepted accounting standards for listed companies, the information provided is consistent with the actual circumstances, and no material information has been omitted that would otherwise change the impression of the Company presented herein.

Consolidated Income Statement

SEK million	Note	Jan.-Dec. 2006	Oct.-Dec. 2005
Net Sales	28	10,929	2,990
Other operating income		53	11
Total operating income		**10,982**	**3,001**
Changes in inventories – finished goods and work in progress		-9	-8
Raw material and supplies		-7,763	-2,258
Goods for resale		-298	-77
Other external costs	5	-1,186	-298
Costs for remuneration to employees	6, 7, 8, 9	-1,063	-264
Depreciation/amortisation	15, 16	-306	-141
Other operating expenses		-15	-11
Total operating expenses	10, 29	**-10,640**	**-3,057**
Operating profit/loss		**342**	**-56**
Income from financial items	11		
Interest income and similar items		33	14
Interest expense and similar items		-107	-22
Net financial items		**-74**	**-8**
Profit/loss before tax		**268**	**-64**
Income tax	12	-91	18
Net profit for the year		**177**	**-46**
Attributable to:			
Minority interests		6	1
Parent company shareholders		171	-47
		177	**-46**
Earnings per share attributable to Parent company shareholders during the year			
(SEK per share) – before and after dilution	13	4.18	-1.12

Consolidated Cash Flow Statement

SEK million	Note	Jan.-Dec. 2006	Oct.-Dec. 2005
OPERATING ACTIVITIES	30		
Profit/loss after financial income and expenses		268	-64
Recoveries on amortisation and impairment losses		306	141
Adjustment for items not included in cash flow		-1	-
Income tax paid		-71	8
Cash flow from operating activities before changes to operating assets and liabilities		**502**	**85**
Changes in operating assets and liabilities			
Net increase in inventories		-160	5
Net increase in other current receivables		-123	195
Net increase in other current operating liabilities		-42	105
Cash flow from operating activities		**177**	**390**
INVESTING ACTIVITIES			
Acquisition of intangible assets		-2	-1
Acquisition of tangible fixed assets		-462	-220
Acquisition of operations and shares, net of cash acquired	27	-37	429
Proceeds from sale of tangible fixed assets		-	9
Cash flow from investing activities		**-501**	**217**
FINANCING ACTIVITIES			
Issue of share in AarhusKarlshamn Sweden AB[1)]		-	-29
Repayments of borrowed funds and debt securities		1,426	-431
Sale of treasury shares		8	-
Dividends paid		-1,180	-
Cash flow from financing activities		**254**	**-460**
Cash flow for the year		**-70**	**147**
Cash and Cash equivalents at beginning of year		211	-
Cash equivalents in Karlshamns[1)] on acquisition date		-	61
Exchange rate difference for cash equivalents		-12	3
Cash and Cash equivalents at end of year	20	**129**	**211**

1) Name changed from Karlshamns AB

Consolidated Balance Sheet

SEK million	Note	31 Dec. 2006	31 Dec. 2005
ASSETS			
Fixed assets			
Intangible assets	16		
Goodwill		579	593
Patents, trademarks and similar rights		59	92
		638	**685**
Tangible assets	15		
Land and buildings		620	655
Plant and machinery		1,866	1,623
Equipment, tools and fixtures & fittings		69	59
Construction in progress		196	333
		2,751	**2,670**
Financial assets			
Shares in associated companies		3	-
Financial investments		0	0
Deferred Income tax assets	12	137	108
Derivative financial instruments	32, 33	6	-
Other non-current receivables		19	26
		165	**134**
Total fixed assets		**3,554**	**3,489**
Current assets			
Inventories	18	1,512	1,429
Accounts receivable	19	1,401	1,395
Prepaid income tax	12	36	45
Other receivables		196	217
Derivative instrument	32, 33	65	26
Prepaid expenses and accrued income		40	23
Cash equivalents	20	129	211
Total current assets		**3,379**	**3,346**
TOTAL ASSETS		**6,933**	**6,835**

Consolidated Balance Sheet (cont.)

SEK million	Note	31 Dec. 2006	31 Dec. 2005
EQUITY AND LIABILITIES			
Equity	31		
Share capital		414	414
Other capital contributions		-	3,089
Reserves		-125	52
Retained earnings, including profit/loss for the year		1,998	-51
Equity attributable to the Company's shareholders		**2,287**	**3,504**
Minority interest		32	50
Total equity		**2,319**	**3,554**
Non-current liabilities			
Financial liabilities			
Liabilities to banks and credit institutions	21	2,293	1,030
Pension commitments	9	5	7
		2,298	**1,037**
Non-financial liabilities			
Deferred tax liabilities	12	346	318
Other provisions	22	48	46
Other non-current liabilities		24	10
		418	**374**
Total non-current liabilities		**2,716**	**1,411**
Current liabilities			
Financial liabilities			
Liabilities to banks and credit institutions	21	798	808
Other current liabilities		60	-
		858	**808**
Non-financial liabilities			
Accounts payable		502	550
Income tax liability	12	60	52
Other current liabilities		137	171
Derivative instruments	32, 33	41	17
Accrued expenses and deferred income	23	300	272
		1,040	**1,062**
Total Current Liabilities		**1,898**	**1,870**
TOTAL EQUITY AND LIABILITIES		**6,933**	**6,835**

Consolidated changes in shareholders' equity

	Attributable to shareholders in the Parent Company					
SEK million	Share capital	Capital contributions	Reserves[2)]	Retained earnings	Minority interest	Total equity
Previously recorded balance 29 September 2005	**-**	**-**	**-**	**-**	**-**	**-**
Non-cash issue						
- AarhusKarlshamn Sweden AB[1)]	215	772	-	-	19	1,006
- Aarhus United	199	2,342	-	-	156	2,697
Acquisition of shares in						
- AarhusKarlshamn Sweden AB[1)]	-	-	-	-4	-	-4
- Aarhus United	-	-	-	-	-121	-121
Issue expenses	-	-25	-	-	-	-25
Exchange rate differences	-	-	52	-	-5	47
Total transactions recognised in equity	**-**	**-25**	**52**	**-**	**-5**	**22**
Profit/loss for the year	-	-	-	-47	1	-46
Recognised balance 31 December 2005	**414**	**3,089**	**52**	**-51**	**50**	**3,554**
Previously recognised balance 1 January 2006	**414**	**3,089**	**52**	**-51**	**50**	**3,554**
Acquisition of shares in						
- AarhusKarlshamn Sweden AB[1)]	-	-	-	-39	-19	-58
Sale of treasury shares	-	-	-	8	-	8
Transfer from statutory reserve	-	-3,089	-	3,089	-	0
Dividend	-	-	-	-1,180	-	-1,180
Exchange rate differences	-	-	-177	-	-5	-182
Total transactions recognised in equity	**414**	**-**	**-125**	**1,827**	**26**	**2,142**
Profit/loss for the year	-	-	-	171	6	177
Previously recognised balance 31 December 31 2006	**414**	**-**	**-125**	**1,998**	**32**	**2,319**

1) Name changed from Karlshamns AB.
2) Reserves solely include exchange rate differences in translations from subsidiaries.

See note 27 for further information about the acquisitions of the year.

Shares subscribed by Aarhus United in non-cash issue were charged to Capital contributions for the group in the amount of SEK 77 million, in relation to how the issue was recorded in equity of the Parent Company.

Income Statement – Parent Company

SEK Million	Note	1 Jan. – 31 Dec. 2006	1 May – 31 Dec. 2005
Net sales		17	-
Other operating income		0	-
Total operating income		**17**	**-**
Other external expenses	5	-40	-12
Personnel expenses	6, 7, 8, 9	-21	-
Depreciation/amortisation and impairment loss		0	0
Other operating expenses		0	0
Total operating expenses		**-61**	**-12**
Operating profit/loss		**-44**	**-12**
Income from financial items	11		
Interest income and similar items		127	0
Interest expense and similar items		-8	-3
Net financial items		**119**	**-3**
Profit/loss before tax		**75**	**-15**
Income tax	12	14	4
Net profit for the year		**89**	**-11**

Balance sheet – Parent Company

SEK million	Note	31 Dec. 2006	31 Dec. 2005
ASSETS			
Fixed Assets			
Intangible assets			
Patents, trademarks, and similar rights		0	-
		0	**-**
Tangible assets			
Equipment tools and fixtures and fittings		2	-
		2	**-**
Financial assets			
Shares in associated companies	17	5,838	5,793
Prepaid income tax	12	-	4
		5,838	5,797
Total fixed assets		**5,840**	**5,797**
Current assets			
Receivables from group companies		81	1
Other receivables		1	5
Prepaid expenses and accrued income		11	-
Cash equivalents		-	-
Total current assets		**93**	**6**
TOTAL ASSETS		**5,933**	**5,803**

Balance sheet – Parent Company (cont.)

SEK million	Note	31 Dec. 2006	31 Dec. 2005
EQUITY	31		
Restricted equity			
Share capital		414	414
Statutory reserves		-	5,170
		414	**5,584**
Non-restricted equity			
Retained earnings		4,009	-
Profit/loss for the year		89	-11
		4,098	**-11**
Total equity		**4,512**	**5,573**
LIABILITIES			
Non-current liabilities		**-**	**-**
Current liabilities			
Financial liabilities			
Liabilities to banks and credit institutions	21	31	224
Other current liabilities		52	-
		83	**224**
Non-financial liabilities			
Accounts payable – trade		4	2
Income tax liability	12	2	-
Liabilities to group companies		1,321	-
Other current liabilities		4	-
Accrued expenses and deferred income	23	7	4
		1,338	**6**
Total Current Liabilities		**1,421**	**230**
TOTAL EQUITY AND LIABILITIES		**5,933**	**5,803**
Pledged assets	24	-	-
Contingent liabilities	25	-	-

Changes in shareholders' equity – Parent Company

	Restricted equity				
SEK Million	**Share capital**	**Share premium reserve**	**Statutory reserve**	**Retained profits**	**Total equity**
Previous recorded balance 1 May 2005	**1**	**-**	**-**	**-**	**1**
Non-cash issue	413	5,170	-	-	5,583
Transfer to statutory reserve	-	-5,170	5,170	-	-
Net profit/loss for the year	-	-	-	-11	-11
Recognised balance 31 December 2005	**414**	**-**	**5,170**	**-11**	**5,573**
Net profit/loss for the year	-	-	-	89	89
Transfer from statutory reserve	-	-	-5,170	5,170	-
Dividend to shareholders	-	-	-	-1,200	-1,200
Group contribution	-	-	-	70	70
Tax effect on Group contribution	-	-	-	-20	-20
Recognised balance 31 December 2006	**414**	**-**	**-**	**4,098**	**4,512**

Total shares outstanding is 41,383,803 at par value SEK 10 per share.

Cash flow statement – Parent Company

SEK Million	Note	Jan. –Dec. 2006	May – Dec. 2005
OPERATING ACTIVITIES	30		
Profit/loss after financial items		75	-14
Reversal of amortisation and impairment loss		0	-
Adjustment for items not in cash flow		70	-
Tax		0	-
Cash flow from operations before changes to operating assets and liabilities		**145**	**-14**
Changes in operating assets and liabilities			
Net decrease in other current receivables		-89	-6
Net increase in other current operating liabilities		1,332	6
Cash flow from operating activities		**1,388**	**-14**
INVESTING ACTIVITIES			
Acquisition of intangible assets		0	-
Acquisition of tangible fixed assets		-2	-
Acquisition of operations and shares, net of cash acquired	17	-45	-210
Cash flow from investing activities		**-47**	**-210**
FINANCING ACTIVITIES			
Changes in borrowings		-141	224
Dividend		-1,200	-
Cash flow from financing activities		**-1,341**	**224**
Cash flow for the year		**0**	**0**
Cash and Cash equivalents at beginning of year		-	-
Cash and Cash equivalents at end of year		**0**	**0**

Notes

SEK million unless otherwise stated

NOTE 1 – GENERAL INFORMATION

AarhusKarlshamn AB (publ), corporate identity number 556669-2850, is a Swedish registered limited liability company domiciled in Malmö, Sweden. The shares of the parent company are listed on the Nordic Stock Exchange, Mid Cap list. Headquarters are located at Skeppsgatan 19, 211 19 Malmö, Sweden.

These consolidated financial statements for 2006 are for the Group consisting of the Parent Company and all subsidiaries. The Group includes shares of associated companies. The Board of Directors has approved these consolidated financial states for publication as of 2 April 2007.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The most significant accounting principles applied in the preparation of these consolidated financial accounts are set out below.

Basis of presentation for consolidated financial accounts

The Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standard Boards (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted within the EU, the Swedish Annual Accounts Act, the Swedish Financial Accounting Standards Council recommendation RR 30 'Supplementary Accounting Rules'. The Parent Company's financial statements have been prepared in accordance with the Swedish Annual Accounts Acts and the Standards Council recommendation RR 32:05 'Reporting by Legal Entities'.

The annual report and financial statements have been prepared in accordance with the cost method for valuation except for currency, interest, and commodity derivative instruments that are measured at fair value and reported in the income statements. Preparing these financial statements requires that the Board of Directors and the Company management use certain critical accounting estimates and assumptions. These estimates and assumptions can materially affect the income statement, balance sheet and other information contained herein including contingent liabilities, see further disclosure Note 4. Actual outcome can vary from these estimates and assumptions under different circumstances.

Comparatives

Comparisons to 2005 cover October to December only as this was the first financial year for the Group.

Standards and Pronouncements not in effect

IAS 1 Supplemental – Presentation of financial statements: information regarding capital

The Supplement is in effect as of 1 January 2007. This supplement is expected to require additional information in regard to the definition of capital, capital structures and policies for managing capital.

IFRS 7 Financial instruments: Information

This standard came into effect 1 January 2007. We expect this standard to require AarhusKarlshamn AB to report additional information regarding categorising balance sheet items, earnings effects caused by market valuations and financial revenues and costs.

IFRS 8 Operative segments

This standard comes into effect as of 1 January 2009 and applies to the financial year beginning after that date.

The standard treats separating businesses in various segments. The standard requires companies to start from their internal reporting structure and determine reportable segments following this structure. The Company's preliminary judgment is that this standard will not have any effect on Group financial reporting.

IFRIC 8 Scope for IFRS 2

The interpretation came into effect on 1 May 2006 and applies to any financial year beginning after that date. According to IFRIC 8 the scope of rules in IFRS 2 includes goods and services obtained in exchange for capital instruments even when these goods and services cannot be specifically identified. This interpretation does not apply to the Group since this kind of transaction does not occur.

IFRIC 9 Remeasurement of embedded derivatives

This interpretation came into effect 1 June 2006 and applies to any financial year beginning after that date. It clarifies IAS 39 in regard to embedded derivatives, and specifically remeasurement of embedded derivatives due to market changes. This interpretation does not apply to the Group since this kind of transaction does not occur.

IFRIC 10 Interim reporting and impairment loss*

This interpretation came into effect 1 November 2006 and applies to any financial year beginning after that date.
It affirms that impairment loss recognised in previous interim reports cannot be reversed in subsequent interim or annual reporting. The Group will apply IFRIC 10 as of 1 January 2007 but this is not expected to change the financial reporting.

IFRIC 11 IFRS 2 Buy-back of treasury shares and transactions between associated companies *

This interpretation came into effect 1 March 2007 and applies to any financial year beginning after that date. It clarifies treatment regarding classification of share based compensation when the Company buys back shares to meet such obligations and the reporting of share option programs in subsidiaries that apply IFRS. The Group will apply IFRIC 11 as of 1 January 2008 but this is not expected to change the financial reporting.

* These standards and interpretations are not currently adopted by the EU.

IFRIC 12 Service Concessions*

This interpretation comes into effect 1 January 2008 and applies to any financial year beginning after that date. It treats arrangements where private companies establish infrastructure to provide public services for a specific period of time. The company is paid for this service under the duration of the contract. This interpretation does not apply to the Group since this kind of transaction does not occur.

Consolidation

Subsidiaries

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

Purchase method

Acquisition of subsidiaries is reported using the purchase method. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially as the fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of cost of acquisition over the fair value of the Group's share of the subsidiary and the fair value of the identifiable net assets of the subsidiary as of the acquisition date is recorded as goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated, unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests

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

Foreign currency translation

Functional and presentation currency

Items included in the financial statement of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which they operate (functional currency). The consolidated financial statements are presented in Swedish kronor, which is the Parent Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised as of the reporting date in the income statement. The Group does not use hedge accounting.

Group companies

The results and financial position of all group entities (none having the currency of a hyperinflationary economy) having a functional currency other than the presentation currency are translated to the presentation currency as follows:

- Assets and liabilities are translated at the closing day rate.
- Income and expenses are translated at average exchange rates.
- All exchange rate differences are recognised in equity. When a foreign subsidiary is sold, any exchange rate differences are recognised in the income statement as part of the gain or loss on the sale.

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

Exchange rates

The following rates were used to translate currency:

Currency	Average rate	Closing rate
EUR	9.27	9.04
DKK	1.24	1.21
GBP	13.58	13.45
LKR	0.07	0.06
MXN	0.68	0.63
USD	7.38	6.86

Segment reporting

The Board of Directors for AarhusKarlshamn determined at their meeting of 28 February 2006 the allocation of business within the group into primary and secondary segments. The Group's operations are organically divided into business segments based on product. Marketing activities also reflect this structure. The business segments therefore make up the Group's primary segments and the geographical markets are the secondary segments. For each segment, the results, assets and liabilities directly attributable to or items that can reliably be attributed to the segment are included in that segment. Items not attributable in this way include interest and dividend revenues, gains or losses from the sale of financial investments, interest expenses, and tax expenses. Assets and liabilities not attributed to a segment include income tax liabilities, financial investments and financial liabilities.

Revenue recognition

Income reflects the fair value of goods sold excluding VAT and discounts after eliminating intra-group sales. Sales are reported on delivery of the goods, after customer acceptance and the receivable can reasonably be deemed as safe. Interest income is recorded allocated over the maturity of the security using the effective interest method.

Employee benefits

a) Pension obligations

Group companies operate various pension schemes. These schemes are generally funded through payments to insurance companies or trustee administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability recognised in the balance sheet in respect to defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. This calculation is not done annually since the obligations are negligible. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the same currency in which the benefits will be paid, and that have terms of maturity approximating the terms in the related pension liability.

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

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

b) Compensation on termination

Employees receive compensation on termination before normal retirement age or when they voluntarily accept termination in exchange for such compensation. The Group recognises severance payments where it is under a manifest obligation either to give notice to employees following a detailed, formal plan without right to 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 is classified as operating leasing when the risks and benefits of ownership are retained by the lessor. All leasing agreements within the Group are so classified. Total payments made for operating leases are charged to the income statement on a straight-line basis over the period of the lease (after deduction for any incentives.)

Product Development

Product development expenses are recognised as expenses when they arise. Research and development expenses are those related to work whose purpose is primarily to optimise the attributes and function of oils and special fats, either for the finished product in which these oils and fats are ingredients or to add value to the finished product through greater efficiency in the production process. All such activities in the Group do not meet the requirements for activating IAS 38 and therefore all product development expenses are recognised as they arise.

Impairment of non-financial assets

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

Borrowing

All borrowing costs are recognised in the period to which they can be attributed.

Intangible assets

Goodwill

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

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

Tangible fixed assets

Land and buildings comprise mainly factory buildings and offices. All tangible fixed assets are carried at cost less accumulated amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

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

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

Assets' residual value and useful life are reviewed every reporting date and is adjusted as required.

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

Inventory

Inventories are stated at the lower of cost or net selling price. Cost is calculated using the first-in-first-out principle (FIFO). Cost of finished goods and products in progress include direct material costs, direct labour and other direct manufacturing costs and a reasonable allocation of indirect manufacturing expenses based on normal productions capacity, excluding borrowing costs. Net selling price is the estimated sales price in normal circumstances less costs to completion and variable selling expenses

Financial instruments

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

A financial asset removed from the balance sheet when the rights in the contract are realised, matures or the Company looses control of them. This also applies to parts of financial assets. A financial liability is removed from the balance sheet when the duty in the contract is performed or otherwise extinguished. This also applies to parts of financial liabilities.

The Group classifies its financial instruments in the following categories:

Financial assets at fair value through profit or loss, and loans and receivables. The former category is primarily commodity and currency derivatives. All such hedges are measures at fair value through profit and loss. The Group does not use hedge accounting.

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

Accounts receivable

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

Share capital

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

Borrowings

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

Accounts payable

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

Provisions

Provisions are stated in the balance sheet when the Group has a present legal or constructive obligation as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligations and the amount can be reasonably estimated. No provisions are made for future operating losses.

Income tax

Income tax stated in the income statement includes taxes due on net profit. Income tax is determined using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Tax expenses stated include both current tax due and deferred income tax.

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

Deferred income tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets are reduced where it is no longer probable that future taxable profit will be available against which they can be utilised.

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

Other items

Cash equivalents

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

Transfer pricing

Pricing between Group companies is done at market.

Dividend

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

Accounting principles for the Parent Company

The Parent Company has prepared its financial reports according to the Swedish Annual Accounts Acts (Årsredovisningslagen) and the Swedish Financial Accounting Standards Council (Redovisningsrådets rekommendation) RR 32:05 'Accounting for legal entities'.

No differences against the Groups accounting principles have been identified.

NOTE 3 – FINANCIAL RISK MANAGEMENT

The AAK Group's operations expose it to various financial risks, including currency risks and market risks for its raw materials. The Group's products are sold throughout the world, so its sales revenues are exposed to market fluctuations in the exchange rates of the currencies involved. Further, the Group buys its raw materials on international markets, so its cost of materials is exposed to market fluctuations in both the price of the raw materials and the exchange rates of the currencies involved.

Exposure to these significant financial risks make managing these risks a significant prerequisite to successful operations. We feel that we succeed in this risk management to a large degree using the policies and procedures established for the Group.

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

Raw material price risks

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

Raw material prices fluctuate, so the Company has set a high priority in raw material procurement for continuously monitoring and managing this exposure. Raw material procurement is managed by procurement organisations in each subsidiary, which continuously monitor and control raw material market exposure for the Group. However, to maintain an effective organisation, the raw material buyers are permitted to take limited price risks within the framework of our trading policy established by the Board of Directors. Since these positions are managed appropriately, AAK results are affected only marginally by any price changes; the affect on total sales and requirements for working capital is, however, significantly larger.

A significant portion of raw material for the Group is procured in Southeast Asia, where there are extended lead-times from purchase to sale. Future contracts or fixed price contracts are used to hedge price risk. We hedge purchases of raw materials and sales of processed products using standard commodity futures traded on commodity exchanges or using brokers. Purchasing is done and administered using various portfolios of equivalent oil and seed products: liquids (rapeseed and Soya), palm (palm oil), laurics (coconut and palm seed oil) seed/meal (rapeseed) and exotic materials (shea and illipe). There is no well functioning futures trading for these exotic products, limiting our use of such contracts for these products.

Hedge accounting according to IAS 39 is not used. A change of 10% in all raw material prices will have a negligible affect on the profit for the company but would change net sales ± SEK 800 million and working capital by ± SEK 250 million annually.

Gross contribution for rapeseed

Gross contribution refers to the difference between the price AAK can charge for a processed product and the purchase price the Company pays for the raw materials used in that product. Gross contribution for extracting rapeseed oil and meal varies significantly over time and can thereby directly affect profitability for the Food Ingredients Continental Europe segment. However, by trading in rapeseed oil and meal on the futures market when we purchase rapeseed, we both reduce our price risk and hedge our gross contribution.

Managing energy price risk

AAK's operations are significant consumers of energy, so changes in energy prices have an immediate effect on the Group's results. We hedge future energy costs through entering long-term delivery agreements.

Exposure to foreign currency

A significant portion of the Groups buying of raw materials and selling is denominated in foreign currency. Changes in exchange rates can affect AAK in several ways:

- Commercial flows of invoiced sales and receipts and payments in various currencies gives rise to transaction risk.
- Profit/loss for our foreign subsidiaries is affected by changes to exchange rates when they are translated to SEK.
- The Group's equity is affected when equity in these foreign subsidiaries is translated to SEK.

AAK hedges all its sales and commodity contracts following guidelines set by the Board of Directors. Gross contribution on all sales contracts is thereby hedged in the currency used in the country where each Group company operates its business. Equity and profit/loss is not hedged in our foreign subsidiaries. Hedge accounting according to IAS 39 is not used.

Sensitivity analysis – Raw material price risk
A change of 10 % in the exchange rate for all foreign currencies in use by AAK will have a negligible affect on the profit of each subsidiary, but would change net sales by ± SEK 750 million, Net profit by ± SEK 15 million and equity by ± 150 million annually when the values for our foreign subsidiaries is translated to SEK in preparing AAK's consolidated financial statements.

Sensitivity analysis – Currency

Foreign currency	± 10 %
Sales	± SEK 750 million
Net profit/loss for the year	± SEK 15 million
Equity	± SEK 150 million

Interest rate risk

AAK strives to minimise the variation in cash flow and profitability caused by fluctuations in interest rates. This is done by;

- Financing net capital requirements using variable interest rates,
- Any borrowing in excess of net capital is based on fixed interest rates.

Loans with variable interest rates must have an average duration of 6 months, while fixed rate loans must have an average duration of 2.5 years. To attain this goal, the Company uses financial derivatives. Hedge accounting according to IAS 39 is not used.

Sensitivity analysis – interest rate risk
A change to interest rates of 1% would affect the Groups financial costs by ± SEK 25 million annually.

Capital structure

AAK's policy in relation to its capital structure is to maximise debt-financing, though not to the extent that would threaten the Company's position of having high-grade credit rating (investment grade). AAK's key business ratios are as follows:

- Net interest bearing debt / profit/loss before impairment loss (EBITDA) < 3,00.
- EBITDA / interest cost> 5,00.
- Equity / net sales > 30 %.

The total borrowings for the Group are allocated to each operation based on its ability to carry interest payments and amortise the loan, as well as considerations in optimising tax expenses. The goals set for key business ratios are deemed to be relatively conservative and help ensure that AAK will be able to maintain its high-grade credit rating. In allocating borrowings between the various operations in the Group, all its borrowings are translated to the functional currency for each operation. In this way the Group's total borrowings will be expressed in the same currencies as its cash flow is generated in. This will minimise the exchange rate risk in relation to our ability to carry interest and amortise these loans. This, in turn will strengthen the Group's debt capacity.

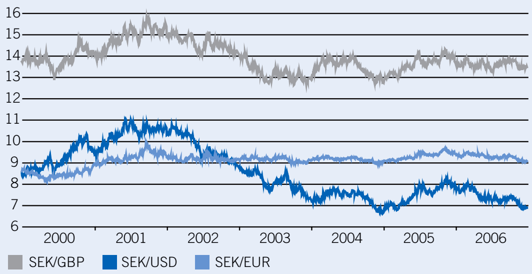
Credit related commitments

To ensure financing for the Group's capital requirements, the Company has entered credit-related commitments for a total of SEK 3,400 million. Terms for these commitments include that AAK meets specified financial terms, in regard to financing costs as well as net debt in relation to operating profits before amortisation and impairment loss (EBITDA), as well as relating to the Group's overall solidity.

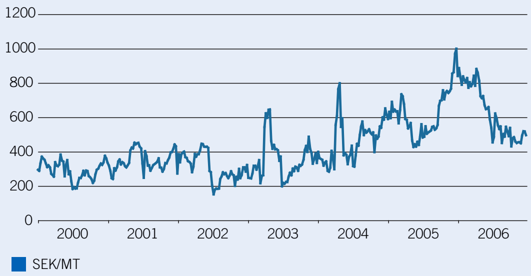
Contract and customer credit risk

The Company is exposed to risk of financial losses due to the inability of a supplier or customer to perform on contractual liabilities. Relations with our customers are managed directly by each business unit. Contract and customer credit risk are therefore managed on the level of each unit. AAK's business takes place in a wide geographic range of markets and our customers operate in a variety of categories. AAK's customer structure shows that the largest single customer in responsible for less than 5% of revenues and the average customer for less than 1%. We therefore feel that the related risks are relatively low and the possible income effects caused by customer credit risk are relatively small. Nearly one-fourth of the Group's sales occur in countries where the political and commercial risks are deemed to be higher than in Western economies.

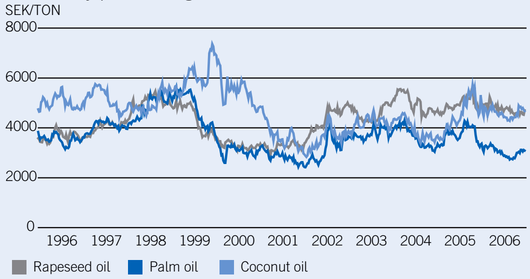
Exchange rate changes from 2000 to 2006



Return on processing for rapeseed 2000-2006



Commodity price changes from 1996 to 2006



NOTE 4 – CRITICAL ACCOUNTING ESTIMATES, AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

Reviewing impairment of goodwill and other assets

Reviewing impairment of goodwill and other assets Goodwill is tested for impairment annually or whenever events occur or circumstances change that objectively indicate the fair value of goodwill on acquired assets has been impaired, as with significant changes to the business climate or a decision to dispose of or discontinue certain operations. Goodwill is allocated to cash-generating units for the purpose of impairment testing, and is determined when the event or circumstances have an impact on the estimated future cash flow of the unit. In applying this method, the Company relies on several factors, such as profit/loss, business plans, financial forecasts and market data.

Other critical estimates and judgments

- Determination of legal disputes and contingent liabilities.
- Determining fair value of identifiable assets and liabilities in the acquisition of businesses and other operations.
- Determining provisions for restructuring measures, other provisions and accrued expenses.

NOTE 5 – PAYMENTS TO THE AUDITORS (SEK THOUSAND)

	Group		Parent Company	
	2006	**2005**	**2006**	**2005**
Audit				
PricewaterhouseCoopers	3,111	1,773	1,779	1,000
KPMG	2,727	1,594	-	-
Other	876	529	-	-
Subtotal, audit	6,714	3,896	1,779	1,000
Other assignments than auditing				
PricewaterhouseCoopers	3,313	3,488	3,134	842
KPMG	1,055	462	-	-
Other	135	8	-	-
Total	**11,217**	**7,854**	**4,913**	**1,842**

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

NOTE 6 – STAFF COSTS (SEK THOUSAND)

	Group		Parent Company	
	2006	2005	2006	2005
Wages and salaries	813,904	197,892	6,490	-
Social security costs	242,550	62,545	9,246	-
(incl. pension costs)	(98,593)	(22,297)	(4,093)	(-)

SEK 3 million of the group pension costs relates to the Board of Directors, CEO and other senior managers.

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

	2006 Board, CEO and other senior managers		2006 Other staff	2005 Board, CEO and other senior managers		2005 Other staff
	Wages and salaries	Of which variable wages	Wages and salaries	Wages and salaries	Of which variable wages	Wages and salaries
Parent Company in Sweden	6,490	-	6,064	-	-	-
Subsidiaries in Sweden	3,452	151	228,900	3,023	1,680	57,125
	9,942	**151**	**234,964**	**3,023**	**1,680**	**57,125**
Subsidiaries:						
Brazil	-	-	128	-	-	-
Sri Lanka	582	144	9,777	125	-	3,419
Denmark	21,940	120	217,360	7,423	2,268	67,341
Ivory Coast	-	-	547	-	-	-
Finland	760	-	1,798	-	-	589
Lithuania	-	-	488	-	-	153
Malaysia	1,472	143	1,816	136	-	112
Mexico	744	-	30,564	151	-	4,867
Holland	1,279	-	28,419	265	-	7,845
Norway	-	-	741	-	-	491
Poland	-	-	3,644	-	-	524
Russia	-	-	3,291	-	-	-
UK	13,537	6,490	174,895	3,679	1,867	30,868
Czech Rep.	526	-	458	141	-	240
Uruguay	-	-	1,225	-	-	-
USA	5,674	1,468	47,733	1,144	-	8,231
	46,514	**8,365**	**522,484**	**13,064**	**4,135**	**124,680**
Group total	**56,456**	**8,516**	**757,448**	**16,087**	**5,815**	**181,805**

NOTE 7 – AVERAGE NUMBER OF EMPLOYEES

Average number of employees	2006 Number of employees	2006 Male	2006 Female	2005 Number of employees	2005 Male	2005 Female
Parent Company in Sweden	5	2	3	-	-	-
Subsidiaries in Sweden	613	474	139	686	530	156
	618	**476**	**142**	**686**	**530**	**156**
Subsidiaries:						
Sri Lanka	489	458	31	429	257	172
Denmark	433	325	108	495	358	137
Ivory Cost	5	5	-	-	-	-
Finland	5	2	3	5	2	3
Lithuania	3	2	1	3	2	1
Malaysia	17	9	8	6	3	3
Mexico	319	260	59	324	267	57
Holland	64	52	12	73	59	14
Norway	1	1	-	1	1	1
Polend	11	5	6	10	4	6
Russia	14	5	9	-	-	-
UK	465	361	104	375	312	61
Czech Rep.	4	2	2	4	2	1
Uruguay	4	3	1	-	-	-
USA	77	66	11	68	60	8
	1,911	**1,556**	**355**	**1,793**	**1,327**	**464**
Koncernen totalt	**2,529**	**2,032**	**497**	**2,479**	**1,857**	**620**

Board members and senior managers	2006 Total on reporting date	2006 Male (%)	2005 Total on reporting date	2005 Male (%)
Group (incl. subsidiaries)				
Board members	148	92	159	90
CEO and other senior managers	70	94	81	91
Parent Company				
Board members[1)]	8	87	8	88
CEO and other senior managers	4	100	1	100

1) And 2 staff representatives, of whom 1 male.

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

Principles

The principles for remuneration of senior managers at AarhusKarlshamn are designed to ensure that AAK can offer internationally competitive compensation that can attract and keep qualified managers.

Consideration and Determination

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

Components of compensation

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

Salary

Fixed salary individually determined and differentiated according to responsibility and performance, is determined according to competitive principles and reviewed annually, as of 1 January.

Variable compensation

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

Pension

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

Termination payment

The Company has separate agreements with the CEO and senior managers for termination payment of one year's salary (fixed cash amount per month x 12 months) on termination by the Company. Neither the CEO nor any senor manager can assert the right to termination payment when they terminate employment themselves.

Termination notice by the CEO and senior managers is agreed as 6 months. Termination notice by the Company is agreed as 12 months.

Remuneration of Board Members

Fees are paid to the elected members of the Board in accordance with the determination of the Shareholder's Annual General Meeting.

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

The AGM has resolved that remuneration of elected external members of the Board is SEK 1,700,000. Of which the Chairman receives 400,000, the vice-chairman 300,000 and external members 200,000.

No separate compensation is paid for committee participation.

Salaries and benefits for the year[1)]

SEK	Salary/ Board	Annual variable salary	Other benefits2)	Pension costs	Total
Board Chairman,					
Melker Schörling	400,000	-	-	-	400,000
Other members	1,300,000	-	-	-	1,300,000
CEO, Jerker Hartwall	4,199,563 [3)]	-	76,700	1,500,000	5,776,263
Other senior managers[5)]	8,589,531	865,625 [4)]	347,344	1,386,008	11,188,508
Total	**14,489,094**	**865,625**	**424,044**	**2,886,008**	**18,664,771**

1) Carried as expense 2006.
2) Other benefits primarily involve company car.
3) In addition to salary, a total of SEK 199,563 was paid, primarily from holiday pay due or reduced working hours.
4) Carried in 2006 and estimated to be paid in 2007. The total SEK 4,051,624 variable salary carried in 2005 was paid, of which the CEO was paid SEK 600,000.
5) Refers to the following for 2006: Anders Byström, Jörgen Balle, Magnus Jörsmo, Håkan Christensson and Ian McIntosh.

Jerker Hartwall, the CEO is currently paid an annual fixed salary of SEK 4 million plus the value of a company car as of 1 January 2006. In addition, a maximum 50 % of the fixed salary can be paid in variable salary. Currently no variable salary is expected to be paid for 2006. Jerker Hartwall's retirement age is 65 years. The Company pays annual premiums to an insurance company for his retirement pay and benefits. This premium is set in the Company's agreement with Jerker Hartwall at SEK 1.5 million.

Retirement age for other senior managers is either 62 years or 65 years.

NOTE 9 – RETIREMENT BENEFIT OBLIGATIONS

Defined benefit plans

The Group maintains defined benefit retirement plans in which employees earn the right to payment of benefits after completing their employment, based on their ending salary and time of service. These defined benefit plans exist primarily in Sweden and Holland. There are further commitments for retirement and survivors pensions for managers and officers in Sweden that are ensured through the KP Pensionskassa.

The obligations for retirement and survivors' pension for professional employees in Sweden are insured through policies with Alecta or correspondingly in KP Pensionskassa. According to a statement of the Redovisningsrådets Akutgrupp (The Financial Accounting Standards Council's Emerging Issues Task Force, URA 42, are considered defined-benefit plans that involve several different employers. For the period from 1 January to 31 December 2006 AarhusKarlshamn AB (publ) and AarhusKarlshamn Sweden AB has not had access to sufficient information to enable the Company to recognise this plan as such. The pension plan according to ITP that is insured through KP Pensionskassa is therefore recognised as a defined contribution plan. Alecta's excess can be allocated to the insured individual or their beneficiaries. Corresponding prerequisites also apply to insurance policies with KP Pensionskassa. Charges for pensions insured through KP Pensionskassa during the current year are SEK 21 million.

	Defined benefit plans	
	2006	**2005**
The amounts recognised in the Group balance sheet are determined as follows:		
Present value of funded obligations	433	399
Fair value of plan assets	-388	-369
	45	**30**
Present value of funded obligations	-	-
Unrecognised actuarial gains (-) and losses (+)	-40	-23
Liability in the balance sheet	**5**	**7**
Net amounts recognised in the following items in the Group balance sheet:		
Pension obligations	5	7
Liability in the balance sheet	**5**	**7**

	Defined benefit plans 2006	2005
The amounts recognised in the income statement are as follows:		
Current service cost	10	3
Interest cost	17	4
Expected return on plan assets	-15	-4
Past service cost	1	-
Contributions paid	-1	-
Total, included in staff costs (note 6)	**12**	**3**

	Pension costs 2006	2005
The amounts recognised in the consolidated income statement are as follows:		
Total costs for defined benefit plans including employer's contribution	12	3
Total costs for defined contribution plans including employer's contribution	87	19
Total	**99**	**22**

	Defined benefit plans 2006	2005
Movement in the liability recognised in the balance sheet:		
Liability at the start of the year, for 2005 refers to 30 September	7	7
Liability recognised in the income statement	12	3
Benefits paid	-14	-3
Contributions by employer to funded obligations	0	0
Exchange rate differences on foreign plans	0	0
Liability at the end of year	**5**	**7**

	Defined benefit plans 2006 The Netherlands	2006 Sweden
The principal actuarial assumptions used on the reporting date (%):		
Discount rate	4.5	3.8
Expected return on plan assets	4.5	4.3
Future salary increases	2.0	2.0
Future pension increases	2.0	2.0
Employee turnover	5.0	5.0

NOTE 10 – PRODUCT DEVELOPMENT

Product development in collaboration with our customers is integrated in our process improvement measures and is recognised in the income statement.

NOTE 11 – INCOME FROM FINANCIAL ITEMS

	Group 2006	2005	Parent Company 2006	2005
Interest income	16	14	1	0
Other financial income	17	-	-	-
Intra-group dividends	-	-	126	-
Income from financial items	**33**	**14**	**127**	**0**
Interest expense	-102	-22	-4	-2
Interest expense Group companies	-	-	-1	-
Exchange rate fluctuation	-3	-	-	-
Other financial expenses	-2	-	-3	-1
Financial expenses	**-107**	**-22**	**-8**	**-3**
Net financial income/expense	**-74**	**-8**	**119**	**-3**

NOTE 12 – INCOME TAX EXPENSES

Income tax expenses for the year

	Group		Parent Company	
	2006	2005	2006	2005
Current tax	-69	38	18	-
Adjustment of tax attributable to previous years	-3	-	-	-
Deferred tax	-19	-20	-4	4
Total	**-91**	**18**	**14**	**4**

Group income tax expenses for the year were SEK 91 million (-18) or 34.0% (28.1) of profit/loss after financial items.

Settling actual tax expenses

The Group weighted average tax rate, based on the tax rates in each country, is 28.7% (28.1). Tax rates in Sweden are 28.0% (28.0). The actual tax rate for the Parent Company is nominally less than the tax rates in Sweden, which primarily consist of effects from tax-exempt dividend distributions from subsidiaries.

	Group		Parent Company	
	2006	2005	2006	2005
Net profit/loss before taxes	268	-64	75	-15
Weighted average tax rate, based on the tax rates in each country	-77	18	-21	-4
Tax effect from non-deductible expenses	-25	-3	0	0
Tax effect from taxable income	14	0	35	-
Adjustment for current taxes previous years	-3	3	-	-
Tax expense	**-91**	**18**	**14**	**-4**

Tax items recognised in equity

	Group		Parent Company	
	2006	2005	2006	2005
Current tax of group contribution received	-	-	20	-
Total	**-**	**-**	**20**	**-**

Deferred tax asset /provisions for deferred tax

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

	Group		Parent Company	
Deferred tax asset	2006	2005	2006	2005
Loss carry-forward	4	9	-	4
Tangible fixed assets	91	83	-	-
Provisions	18	-	-	-
Current liabilities	10	-	-	-
Other temporary differences	14	16	-	-
At year end	**137**	**108**	**-**	**4**

	Group		Parent Company	
Deferred tax liabilities	2006	2005	2006	2005
Intangible assets	15	19	-	-
Tangible assets	237	268	-	-
Current assets	52	-	-	-
Tax allocation reserve	25	30	-	-
Other temporary differences	17	1	-	-
At year end	**346**	**318**	**-**	**-**

Deferred tax asset not recognised

The Company has no loss carry forward not valued as deferred tax assets.

Income tax liability and tax assets

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

	Group		Parent Company	
	2006	2005	2006	2005
Income tax liability	-60	-52	-2	-
Tax assets	36	45	-	-
Net income tax liability/Tax assets	**-24**	**-7**	**-2**	**-**

NOTE 13 – EARNINGS PER SHARE

	Group 2006	2005
Earnings attributable to equity holders of the Parent Company, SEK million	171	-47
Weighted average number of ordinary shares in issue	40,805,089	40,795,197
Earnings per share, SEK	4.18	-1.12

Earnings per share are calculated for 2006 based on net profit/loss for the year attributable to equity holders in the Parent Company – SEK 171 million (-47) and on a weighted average number of ordinary shares in issue of 40,805,089 (40,795,197).

NOTE 14 – DIVIDENDS PER SHARE

A extraordinary dividend of SEK 25.00 per share was distributed in 2006 in addition to the ordinary dividend of SEK 4.00 per share, in order to achieve a better capital structure. For 2006, the Board of Directors and CEO propose distribution of a dividend in the amount of SEK 4.00 per share. The AGM to be held in May 2007 will vote on this proposal. Record date of 24 May 2007 is proposed and the dividend should then be distributed to shareholders by 29 May.

NOTE 15 – PROPERTY, PLANT, AND EQUIPMENT

	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Fixed assets under construction
Group				
Cost at 1 October 2005	-	-	-	-
Aquisitions of subsidiaries				
AarhusKarlshamn Sweden AB[1)]	409	1,339	105	112
Aarhus United	502	1,014	43	257
Sales and disposals	-3	-20	-3	-172
Re-classifications	-1	38	2	-39
Exchange rate differences	29	196	16	175
Accumulated cost at 31 December 2005	**936**	**2,567**	**163**	**333**
Cost 1 January 2006	936	2,567	163	333
Capital expenditure	32	281	30	156
Sales and disposals	-15	-7	-4	-
Re-classifications	13	146	115	-274
Exchange rate differences	-55	-122	-28	-19
Accumulated cost at 31 December 2006	**911**	**2,865**	**276**	**196**
Depreciation 1 October 2005	-	-	-	-
Acquisition of subsidiary				
AarhusKarlshamn Sweden AB[1)]	264	829	91	-
Sales and disposals	-	-11	-2	-
Re-classifications	-	-4	-	-
Depreciation charge	11	111	14	-
Exchange rate differences	6	19	1	-
Accumulated depreciation at 31 December 2005	**281**	**944**	**104**	**-**
Depreciation and impairment loss at 1 January 2006	281	944	104	-
Sales and disposals	-1	0	-2	-
Re-classifications	-1	-98	99	-
Depreciation charge	37	228	22	-
Exchange rate differences	-25	-75	-16	-
Accumulated depreciation at 31 December 2006	**291**	**999**	**207**	**-**

	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Fixed assets under construction
Residual value according to plan 31 December 2005	**655**	**1,623**	**59**	**333**
of which Land	91			
Assessed value				
Swedish companies				
Land & buildings	138			
Net book value for corresponding assets	111			
Residual value according to plan 31 December 2006	**620**	**1,866**	**69**	**196**
of which Land	68			
Assessed value				
Swedish companies				
Land & buildings	138			
Net book value for corresponding assets	109			

1) Name changed from Karlshamns AB.

NOTE 16 – INTANGIBLE ASSETS

Group	**Goodwill**	**Patents and other intangible assets**
Cost at 1 October 2005	-	-
Acquisitions of subsidiaries		
AarhusKarlshamn Sweden AB[1]	16	14
Aarhus United	573	86
Capital expenditure	-	1
Sales and disposals	-	0
Exchange rate differences	6	-
Accumulated cost at 31 December 2005	**595**	**101**
Cost at 1 January 2006	595	101
Capital expenditure	-	2
Sales and disposals	-6	27
Re-classifications	17	-26
Exchange rate differences	-25	-3
Accumulated cost at 31 December 2006	**581**	**101**
Amortisation and impairment loss at 1 October 2005	-	-
Acquisition of subsidiary		
AarhusKarlshamn Sweden AB[1]	2	5
Aarhus United	-	-
Sales and disposals	-	-
Amortisation charge	-	4
Accumulate amortisation and impairment loss at 31 December 2005	**2**	**9**
Amortisation and impairment loss at 1 January 2006	2	9
Sales and disposals	-	4
Re-classifications	-	10
Amortisation charge	-	19
Exchange rate differences	0	0
Accumulate amortisation and impairment loss at 31 December 2006	**2**	**42**
Carrying amount at 31 December 2005	**593**	**92**
Carrying amount at 31 December 2006	**579**	**59**

1) Name changed from Karlshamns AB.

Reviewing impairment of goodwill

In preparing the annual accounts for 2006, the Group has reviewed impairment of goodwill.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The recoverable amount for a cash-generating unit is determined by calculating value in use. These calculations are based on estimated future cash flow as stated in budgets and forecasts covering a five-year period. Cash flow beyond this period has been extrapolated but in no case in excess of 3%. Working capital beyond the five-year period is estimated at the same level of year five. Discount rates are assumed to be 8% after tax. Since production, sales and such in acquired operations are most often integrated into existing operations to the fullest extent possible; it is no longer possible to separate cash flows for the originally acquired operation. Thus, goodwill testing is done to a greater degree at a higher level in the Company structure. Goodwill testing of the Swedish, Danish, and Dutch units was therefore done at an aggregate level, where the three production units were considered a single cash flow generating unit. Other goodwill testing considered cash flow generating units on the country level.

The sensitivity in these calculations indicates that recognised goodwill can continue to be valid even if the discount rate increase one percent or if long-term growth is one percent less.

NOTE 17 – INVESTMENTS IN ASSOCIATED COMPANIES

	Parent Company	
	2006	**2005**
Beginning of the year	5,793	-
Share of result	1,319	-
Dividend paid	-1,332	-
Acquisitions of subsidiaries		
AarhusKarlshamn Sweden AB[1]	58	2,994
Aarhus United	-	2,799
Accumulated cost	**5,838**	**5,793**

The annual accounts reported 31 December 2005 recognise the total consideration as follows:

	AarhusKarlshamn Sweden AB	**Aarhus United**
Paid in cash	3	157
Non-cash issue	2,966	2,617
Acquisition expenses	25	25
Total consideration	**2,994**	**2,799**

1) Name change from Karlshamns AB.

List of shareholdings and book value

	Corp. Id. Number	Domicile	2006 Number of shares	2006 Capital %	2006 Book value	2005 Number of shares	2005 Capital %	2005 Book value
AarhusKarlshamn Sweden AB, Sverige[1]	556478-1796	Karlshamn	21,864,928[2]	100	3,052	21,684,928	100	2,994
Tefac AB, Sverige[3]	556283-5214	Karlshamn	1,000	100		1,000	100	
Binol AB, Sverige	556111-3472	Karlshamn	20,000	100		20,000	100	
BioSafe Oy, Finland	1877093-5	Reso	100	100		100	100	
Belico Holding AB, Sverige	556537-0904	Karlshamn	9,000	100		9,000	100	
AarhusKarlshamn Baltic Holding AB, Sverige	556381-8664	Karlshamn	1,000	100		1,000	100	
AarhusKarlshamn Baltic Ltd, Litauen	110478793	Vilnius	254	100		254	100	
AarhusKarlshamn Czech Republic Spol.s.r.o, Tjeckien	15268853	Prag	-	100		-	100	
AarhusKarlshamn Poland Sp.z o.o., Polen	0000124135	Warszawa	100	100		100	100	
AarhusKarlshamn Netherlands BV, Holland	35012547	Zaandijk	500	100		500	100	
AarhusKarlshamn Norway AS, Norge	988369403	Oslo	1,000	100		1,000	100	
Karlshamns UK Holdings Plc., Storbritannien	83553	Hull	4.848,499	100		4,848,499	100	
Karlshamns International Plc., Storbritannien	2366565	Hull	50,000	100		50,000	100	
Chambus & Fargus Ltd, Storbritannien	2352279	Hull	1.642,461	100		1,642,461	100	
AarhusKarlshamn Hull Ltd, Storbritannien	2193829	Hull	1.500,000	100		1,500,000	100	
AarhusKarlshamn (Malaysia) Sdn. Bhd., Malaysia	185577P	Kuala Lumpur	1.500,000	100		1,500,000	100	
Aarhus United A/S, Danmark	45954919	Aarhus	400.000,000	100	2,786	400,000,000	100	2,799
AarhusKarlshamn Denmark A/S, Danmark	15672099	Aarhus	100.000,000	100		100,000,000	100	
AarhusKarlshamn Cote d'Ivoire Sarl, Elfenbenskusten[4]	226577	Adidjan	-	-		10,000,000	100	
Aarhus United Benin Sarl	2626-B	Cotonou	500	100		5,000,000	100	
Aarhus United Ghana Ltd	80539/0671	Accra	500,000	100		117,000	100	
AarhusKarlshamn Asia, Pacific Sdn. Bhd, Malaysia	516423-P	Kuala Lumpur	500,000	100		500,000	100	
Aarhus United Australia Pty Ltd, Australien	094486361	South Wales	167,858	100		167,858	100	
AarhusKarlshamn Sp.zo.o, Polen	0000057626	Gdansk	100,000	100		100,000	100	
Aarhus United ZAO, Ryssland	1037789094265	Moskva	3,000,000	100		3,000,000	100	
AarhusKarlshamn Havnen A/S, Danmark	13919232	Aarhus	1	100		500,000	100	
Aarhus 1 A/S, Danmark	10112265	Aarhus	5,000	100		5,000	100	
Aarhus 2 A/S, Danmark	13919275	Aarhus	5	100		500,000	100	
Aarhus 3 A/S, Danmark	16335770	Aarhus	5,000	100		5,000	100	
Hydrogen I/S, Danmark	21839639	Aarhus	-	65,5		-	65.5	
BSP Pharma A/S, Danmark[4]	26254345	Aarhus	-	-		1,164,406	70.7	
AarhusKarlshamn Latin America S.A. Uruguay	214947990014	Cousa	150,000,000	100		150,000,000	100	
AarhusKarlshamn do Brasil desenvolvimento de Negosios Ltda, Brasilen	07.830.192/0001-02	Sao Paulo	24,000	100		-	100	
AarhusKarlshamn UK Ltd, Storbritannien	1585686	Hull	23,600,000	100		23,600,000	100	
AarhusKarlshamn USA Inc., USA	13-3445572	New Jersey	20,300,000	100		20,300,000	100	
AarhusKarlshamn Canada Ltd, Canada	2040468	Toronto	100	100		100	100	
AarhusKarlshamn Mexico, S.A. de C.V., Mexiko	AUM8302244G2	Morelia	201,006,799	94,34		209,260,152	92.76	
Aarhus LB ApS, Danmark	14580298	Aarhus	200,000	100		200,000	100	
AarhusKarlshamn Byejendomme A/S, Danmark	14750576	Aarhus	1,000,000	100		1,000,000	100	
Aarhus Malaysia Sdn. Bhd., Malaysia	203033-P	Teluk Intan	1,072,860	100		1,072,860	100	
Ceylon Trading Co. Ltd., Sri Lanka	J 333	Colombo	955,000	100		176,582,000	100	
Frank Fontannaz Holdings Ltd, Storbritannien[4]	798 353	London	-	-		176,582,000	100	
Total					**5.838**			**5.793**

The list includes certain shares and participations owned by the Parent Company, either directly or indirectly, as of 31 December 2006. A complete listing of all holdings of shares and participations prepared in accordance with the rules of the Swedish Annual Accounts Act and which is included in the annual accounts files with the Swedish Companies Registration Office can be requested from AarhusKarlshamn AB (publ), Corporate Communication, SE-374 82 Karlshamn.

1) Name changed from Karlshamns AB.

2) AarhusKarlshamn AB currently owns 98.4 % of the share capital in its subsidiary AarhusKarlshamn Sweden AB (previously Karlshamns). Outstanding shares in that company are 357,903 out of a total 21,864,928 shares and these are now undergoing compulsory redemption. The compulsory redemption process, started in October 2005, has progressed to where the courts have appointed LLM Lars Milberg as trustee for the minority owners to protect their rights in the matter and to appoint an arbitrator in their name. The compulsory redemption is estimated to be concluded by Q2 2007.

3) Merged with AarhusKarlshamn Sweden AB in 2006.

4) Disposed in 2006.

NOTE 18 – INVENTORIES

	Group	
	2006	**2005**
Raw materials and consumables	797	1,097
Goods in transit	274	-
Products in process	192	139
Finished products and goods for resale	249	193
Total	**1,512**	**1,429**

Raw materials and consumables for the Group include impairment loss stock of SEK 5 million (0).

NOTE 19 – ACCOUNTS RECEIVABLE

	Group 2006	Group 2005
Accounts receivable	1,417	1,425
Provisions for impairment loss to receivables	-16	-30
Net accounts receivable	**1,401**	**1,395**
Non-current	-	-
Current	**1,401**	**1,395**

There are no concentrations of credit risk in regard to accounts receivable since the Group has a large number of customers widely spread internationally.

NOTE 20 – CASH AND CASH EQUIVALENTS

	Group 2006	Group 2005
Cash and bank	109	207
Investments	20	4
Total	**129**	**211**

NOTE 21 – BORROWINGS

	Group		Parent Company	
Long-term	**2006**	**2005**	**2006**	**2005**
Debts to banks and credit institutions	2,293	1,030	-	-
Total	**2,293**	**1,030**	**-**	**-**

	Group		Parent Company	
Short-term	**2006**	**2005**	**2006**	**2005**
Debts to banks and credit institutions	674	801	25	224
Overdraft facility	124	7	6	-
Total	**798**	**808**	**31**	**224**

Maturity for long-term borrowing is as follows:

	Group		Parent Company	
	2006	**2005**	**2006**	**2005**
1 to 5 years	1,667	708	-	-
Greater than 5 years	626	322	-	-
Total	**2,293**	**1,030**	**-**	**-**

Effective interest on debt to credit institutions on the reporting date was as follows:

	Group						
	SEK	**DKK**	**EUR**	**GBP**	**LKR**	**MXN**	**USD**
Overdraft facility	3.55	-	-	-	-	-	-
Bank loans	3.67	4.43	4.07	5.66	16.00	5.23	5.78

The recognised total for long-term borrowing materially agrees with fair value.

Recognised amounts for borrowings in each currency are as follows:

	Group		Parent Company	
	2006	**2005**	**2006**	**2005**
SEK	537	518	31	224
DKK	1,482	613	-	-
EUR	50	52	-	-
GBP	336	187	-	-
LKR	51	31	-	-
MXN	18	90	-	-
USD	617	347	-	-
Total	**3,091**	**1,838**	**31**	**224**

NOTE 22 – OTHER PROVISIONS

Group	Restructuring	Environmental restoration	Other	Total
Balance at 29 September 2005	-	-	-	-
Acquisitions of subsidiaries				
AarhusKarlshamn Sweden AB	-	-	-	-
Aarhus United	5	23	17	45
Exchange rate differences	0	1	-	1
At 31 December 2005	**5**	**24**	**17**	**46**

Group	Restructuring	Environmental restoration	Other	Total
Balance at 1 January 2006	5	24	17	46
Provisions for the year	10	1	8	19
Provisions claimed for the year	-	-	-17	-17
At 31 December 2006	**15**	**25**	**8**	**48**

Provisions include

	2006	2005
Non-current	48	46
Current	-	-
Total	**48**	**46**

Restructuring

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

Environmental Restoration

These provisions are primarily related to restoring contaminated land.

NOTE 23 – ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
	2006	2005	2006	2005
Staff related expenses	118	114	4	-
Interest	11	7	3	-
Other	171	151	-	4
Total	**300**	**272**	**7**	**4**

NOTE 24 – ASSETS PLEDGED

	Group		Parent Company	
	2006	2005	2006	2005
Collateral for provisions and liabilities				
Property mortgage	515	209	-	-
Floating charge *	53	-	-	-
Total	**568**	**209**	**-**	**-**

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

NOTE 25 – CONTINGENT LIABILITIES

	Group		Parent Company	
	2006	2005	2006	2005
Other contingent liabilities	20	20	-	-
Total	**20**	**20**	**-**	**-**

NOTE 26 – RELATED PARTY TRANSACTIONS

The Group has no sales to and has not purchased from related parties. For the Parent Company, SEK 17 million (0) of total sales was to related parties, equalling 100 % (0) of sales to Group companies. The Parent Company's purchasing from Group companies is related to administrative services of limited scope. All transactions were carried out at market value.

Transactions with key management personnel

No transactions have taken place with key management personnel other than is stated in note 8 Remuneration of Board Members and senior managers and in the description of the Board of Directors on page 92.

NOTE 27 – ACQUISITIONS

AAKs UK business acquired the 'Wet Foods' operations from Lion Food Ltd on 13 April 2006. Total sales for these operations were GBP 14 million (approx. SEK 200 million) and this will increase the presence of AAKs UK business in the sauces, dressings, and marinades sector. The acquisition includes rights to long established trademarks of Lion's "Wet Foods". The new business is operated under the name of AAK Food, from facilities in Runcorn UK, with some 130 employees. Negative goodwill in the amount of SEK 10 million was dissolved in Q2, while the acquisition of Lion was carried with a corresponding negative affect on profit for 2006.

Total purchase consideration is detailed as follows, SEK million:	
Cash and cash equivalents	35
Direct expenses related to the acquisition	2
Total purchase consideration paid	37
Fair value of net acquired assets	47
Negative goodwill	10

Assets and liabilities in the acquisition of the 'Wet Foods' operations from Lion Food are as follows:

SEK Million	Carying amount acquired (according to IFRS)	Fair value acquired
Tangible assets	21	33
Inventory	14	14
Net assets acquired	**35**	**47**
Purchase consideration discharged by cash		-37
Cash outflow on acquisition for the Group		-37

NOTE 28 – SEGMENT REPORTING

Reporting per primary segments – Business segment.

	Chocolate & Confectionery Fats	Food Ingredients	Technical Products & Feed	Group Functions	Eliminations	Group 2006
Net sales						
External sales	3,351	6,177	1,057	344	-	10,929
Internal sales	203	150	19	30	-402	-
Group total	**3,554**	**6,327**	**1,076**	**374**	**-402**	**10,929**
Operating profit/loss per business segment	**89**	**235**	**45**	**-27**	**-**	**342**
Other						
Assets	2,676	3,233	413	307	-	6,629
Unallocated assets	-	-	-	-	-	304
Group total						**6,933**
Liabilities	260	704	85	69	-	1,118
Unallocated liabilities	-	-	-	-	-	3,496
Group total						**4,614**
Investments	175	261	42	23	-	501
Amortisation and impairment loss	-118	-147	-17	-24	-	-306

All transactions between business segments are recorded at market value.

Reporting per Market

	Sweden	Denmark	Scandi-navia	Central and Eastern Europe	West Europe	America	Other countries	Total
External sales	1,383	346	699	1,319	3,978	2,398	806	10,929
Total assets	1,715	2,283	55	60	1,392	1,153	275	6,933
Investment	109	161	-	-	118	71	42	501

External sales are determined by the location of the customer. The reported values of assets and the direct investment in plant for the period are determined by the location of the assets.

NOTE 29 – OPERATING LEASES

Future minimum leasing fees under non-cancellable operational lease agreements are:

	Group	
	2006	**2005**
Within 1 year	15	14
From 1 to 5 years	37	33
Greater than 5 years	11	11
Total	**63**	**58**

Operational leasing expenses of SEK 14 m (11) are reported in the profit/loss for the period.

NOTE 30 – SUPPLEMENTAL CASH FLOW STATEMENT

	Group		Parent Company	
	2006	**2005**	**2006**	**2005**
Interest paid and dividends received				
Interest received	17	1	1	-
Interest paid	-97	-12	-4	-2
Dividends received	4	-	-	-
Dividends received from group companies	-	-	126	-
Total	**-76**	**-11**	**123**	**-2**

NOTE 31 – SHAREHOLDERS EQUITY

Group

Share Capital
As of 31 December 2006 the Group's registered share capital was 41,383,803 shares (SEK 413,838,030).

Other contributions
Reflects share capital contributed by shareholders in excess of share capital.

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

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

Treasury shares
The group owned a total of 539,146 (588,606) treasury shares as of 31 December 2006.

Parent Company

Share Capital
In accordance with the articles off association for AarhusKarlshamn AB (publ) share capital shall be at least SEK 300 million and at most SEK 1.2 billion. All shares are fully paid and entitle the holder to equal voting rights and shares to Company assets. Share capital has not changes the last two years. Share capital includes 41,383,803 shares at par value of SEK 10 per share, and shareholder equity of SEK 413,838,030.

Retained profits
Includes non-restricted equity from the previous year and after any dividend distribution. Together with the profit/loss for the year and any funded fair value non-restricted equity. That is, the total amount available for dividend distribution to shareholders.

Dividends
In accordance with the Swedish Companies Act, the Board of Directors proposes payment of a dividend, for the consideration and approval of the Annual General Meeting of the Shareholders. The proposed dividend for payment in 2006 is SEK 166 million (SEK 4.00 per share) and has not been considered by the GM. This amount is not reported as a liability.

NOTE 32 – RAW MATERIALS FUTURES

	Actual requirements			Futures		
Type of Raw material	**Stock**	**Pur-chasing**	**Contract for sale**	**Call**	**Put**	**Carrying amount commodity futures**
Liquids	40	85	110	65	61	-5
Lauric acid	43	54	86	49	56	2
Palm	71	177	313	386	337	53
Other	63	112	212	25	22	-5
Total						**45**

NOTE 33 – FINANCIAL INSTRUMENTS

Currency hedges (Financial instruments)

	Call	**Put**	**Carrying amount currency hedges**
USD	744	462	-19
EUR	185	320	3
NOK	32	306	1
Total			**-15**

Annual accounts, and consolidated accounts to be submitted for resolution to the Annual General Meeting of the shareholders to be held 21 May 2007.

Malmö, 2 April 2007

Melker Schörling
Chairman

Carl Bek-Nielsen
Vice Chairman

John Goodwin

Martin Bek-Nielsen

Mikael Ekdahl

Märit Beckeman

Ebbe Simonsen

Annika Westerlund

Leif Håkansson

Jerker Hartwall
President and CEO

Audited and submitted 2 April 2007
PricewaterhouseCoopers AB

Anders Lundin
Authorised Public Accountant

Auditors’ 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 (publ) for the financial year 2006. The Company’s annual report and consolidated accounts are included in this document on pages 45 to 78. 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 the application of international financial reporting standards, IFRS, 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 IFRS, 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 profit 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, 2 April 2007

PricewaterhouseCoopers AB

Anders Lundin
Authorised Public Accountant

Capital Market Day 2006

The stock market's analysis of AarhusKarlshamn

The following analysts monitor AAK today:

ABG Sundahl Collier, Claes Almer, A-Brokers Securities, Karl-Johan Bonnevier, Carnegie, Adam Nyström, Enskilda Securities, Stefan Mattsson, SwedBank, Mats Larsson.

	What should I be watching out for in the quarterly reports?	*Select three key ratios that best describe the development of the company.*	*What is the biggest challenge, in your view, facing AAK's management in 2007?*	*What analytical model do you use to evaluate AAK?*	*How do you see the trend in the Stockholm Stock Exchange over the next year?*
Mats Larsson, Swedbank	The volume trend, the gross contribution margin, the trend in overheads and the free cash flow. Comments about future prospects (access to shea nuts, volume CBE and so on). Information on the second wave of synergy costs announced.	Volume growth, gross contribution margin and free cash flow.	Secure the access to shea nuts and rapidly bring on stream the expansion of CBE capacity currently in progress so that they can capitalise on the strong demand for CBE.	A combination of several, but focusing on the cash flow model.	I believe the trend will be positive in 2007.
Adam Nyström, Carnegie	By far the most important is operating profit, which is governed by volume, gross contribution per tonne and operating expenses. In the immediate future, the focus will also be on comments over the current restructuring programme and what progress has been made in securing supplies of shea nuts.	Gross contribution per tonne (which shows how the mix and price situation is developing), operating profit and cash flow.	During 2007, there will be considerable focus on the restructuring programme. All the costs have been absorbed and the measures implemented. The big challenge now is to show that the measures taken will actually lead to higher profits. Another challenge is to put in place a logistics system to secure future supplies of shea nuts. In the longer term, switching the product mix towards a higher share of specialist products is the greatest challenge.	Particularly multiples valuation; EV/EBIT, P/E but also cash flow statement.	Carnegie expects a rise of 15 percent in 2007.

The AarhusKarlshamn share was listed on the Stockholm Stock Exchange O list in mid-September 2006. The AarhusKarlshamn share has been traded since 2 October 2006 on the Stockholm Stock Exchange's Nordic list, in the Mid Cap segment in the Consumer non-durables sector.

Aarhus United and Karlshamns were previously listed individually on the Copenhagen and Stockholm stock exchanges. AarhusKarlshamn is now back on the Stock Exchange as the newly-merged company, after an interim period of being traded on First North. A trading lot is 100 shares. The short name is AAK and the ISIN code, SE0001493776.

Turnover and price trend

Share trading began on 11 September at a level of SEK 200. On 31 December, the price was SEK 201. The highest price during the year was SEK 207.50 (2006-12-29) and the lowest SEK 159.00 (2006-11-28, 2006-12-04).

Turnover since the relisting was SEK 1,263 million (2006-09-11 - 2006-12-29). In 2006, 17.5 million shares were traded at a total value of SEK 3,210 million, equivalent to a turnover rate of 42 percent. The average trade per market day was 69,530 shares, or SEK 12,790,000. At the year-end, the share price was SEK 201 and the market capitalisation SEK 8,318 million.

Share capital

On 31 December 2006, the share capital of AarhusKarlshamn amounted to SEK 413,838,030 million. The number of shares was 41,383,803. The quarter ratio per share is SEK 10. Every share is entitled to one vote. All shares have the same right to participate in the company's profits and assets.

Ownership

The number of shareholders on 31 December 2006 was 7,100 (5,584).

Compulsory redemption

AarhusKarlshamn currently owns 98.4 percent of the share capital in the subsidiary, AarhusKarlshamn Sweden AB (previous name Karlshamns). The minority shareholders in this company held a total of around 358,000 shares, which are now subject to compulsory redemption.

It is expected that the compulsory redemption procedure will be completed during the first half of 2007. Through pre advance acquisition of the minority shareholders' shares in June 2006, AarhusKarlshamn has consolidated all participations relating to AarhusKarlshamn Sweden AB in the Company's and the consolidated financial statements.

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 of AAK proposes a dividend for the financial year 2006 of SEK 4.00 per share (SEK 4.00), a total of SEK 164 million (164). An extraordinary general meeting was held on 10 November 2006, at which the Board proposed a profit distribution for financial year 2005 of SEK 29.00 per share, of which SEK 25.00 per

Data per share

	2006
Number of shares, thousand	41,384
Number of shareholders	7,100
Market value, closing day, SEK	201
Dividend [2], SEK	4
Dividend yield, %	2
Dividend ratio after tax, %	96
Earnings per share[1], SEK	4.18
Shareholders' equity per share[1], SEK	56.01
P/E ratio after tax, SEK	48
Market value/Shareholders' equity, %	28

[1] There are no options or convertibles.
[2] Proposed dividend, SEK 4.00 per share.

For definitions, see page 91

The AarhusKarlshamn share

share was a one-off dividend. The additional profit distribution was brought about by the over capitalisation of the Company as a result of the merger of Aarhus United and Karlshamns in September 2005.

AarhusKarlshamn's Investor Relations

The management of AarhusKarlshamn has the express aim of conducting a strong dialogue with the media and the capital market. In connection with the publication of financial reports, AarhusKarlshamn has held meetings with analysts and other professional players on site in Stockholm or London or via telephone conferences. On these occasions, AarhusKarlshamn has released web casts on the Company's website, to make the information available to all shareholders.

During 2006, the Company took part in a large number of meetings of private shareholders and of bank customers, as well as at the Stora Aktiedagen investment fair in Göteborg, arranged by the Swedish Shareholders' Association.

Financial information on AarhusKarlshamn is available on www.aak.com, from where financial reports, press releases and presentations may be downloaded.

The company's press releases are distributed via Observer and are also available on the Company's website.

The management can be contacted by telephone on +46 40 627 83 00, fax +46 40 627 83 11 and e-mail info@aak.com.

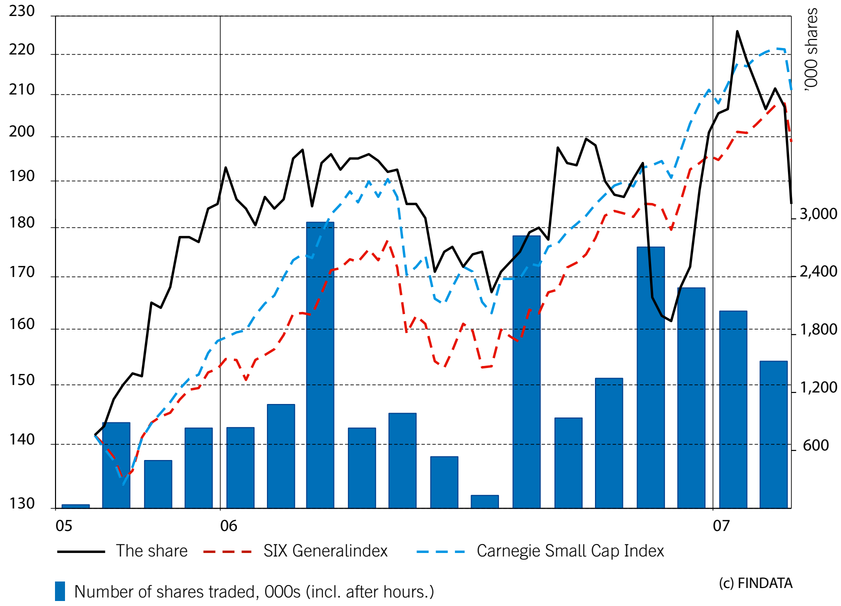
The following analysts monitor AarhusKarlshamn on a regular basis:

ABG Sundahl Collier, Claes Almer
A-Brokers Securities, Karl-Johan Bonnevier
Carnegie, Adam Nyström
Enskilda Securities, Stefan Mattsson
SwedBank, Mats Larsson

Shareholder contact

Jerker Hartwall, CEO
Anders Byström, CFO
Bo Svensson, CIO

The AarhusKarlshamn share 29 September 2005 to 28 February 2007



Major shareholders on 31 December 2006

	Number of shares	Proportion of share capital and voting rights, %
BNS Holding	16,247,206	39.26
ATP DK Client Acc.	3,176,011	7.67
Didner & Gerge Aktiefond	1,905,000	4.60
AMF Pensionsförsäkrings AB	1,744,600	4.22
AMF Pensionsaktiefond Sverige	987,000	2.38
French Res Treaty CL	666,175	1.61
JP Morgan Chase Bank	664,325	1.61
Fjärde AP-Fonden	540,200	1.31
AMF Pensions Aktiefond – Världen	458,800	1.11
Other shareholders	14,994,486	36.23
Total	41,383,803	100.00

Breakdown of shareholdings, 31 December 2006

Number of shares	Number of shareholders	Proportion of all shareholders, %	Proportion of share capital and voting rights, %
1-500	4,893	68.92	2.31
501-1,000	1,104	15.54	2.30
1,001-5,000	820	11.55	4.56
5,001-10,000	116	1.63	2.17
10,001-15,000	44	0.62	1.35
15,001-20,000	21	0.30	0.92
20,001-	102	1.44	86.39
Total	7,100	100.00	100.00

Corporate Governance Report AarhusKarlshamn AB (publ) 2006

Effective and clear corporate governance helps to ensure confidence among AarhusKarlshamn's stakeholders and also increases the focus on commercial benefit and shareholder value in the company. AarhusKarlshamn's Board and management aim, through a high level of transparency, to make it easy for individual shareholders to understand the Company's decision paths and to clarify where in the organisation responsibility and authority lie.

Corporate governance within AarhusKarlshamn AB is based on the applicable legislation, the rules of the Stockholm Stock Exchange and various internal guidelines. In December 2004, the Swedish Corporate Governance Board published the Swedish Code of Corporate Governance (the Code). The Stockholm Stock Exchange has introduced the Code as part of the listing agreement which is entered into by companies whose shares are traded on the Exchange. AarhusKarlshamn AB applies the Code, and where the company has decided to deviate from the rules in the Code, the reasons for this are given in the appropriate section of the Corporate Governance Report.

General

AarhusKarlshamn AB (publ) is a Swedish public company whose shares are traded on the Stockholm Stock Exchange, Nordic list, Mid Cap segment in the Consumer non-durables sector. AarhusKarlshamn AB has around 7,000 shareholders. The operation is global with a presence in almost 100 countries. There are around 2,500 members of staff.

Responsibility for the management and control of AarhusKarlshamn AB is divided between the shareholders at the AGM, the Board of Directors, its elected committees and the President in accordance with the Swedish Companies Act, other laws and ordinances as well as the Articles of Association and the Board's internal control instruments.

AarhusKarlshamn AB's goal is to be the obvious first choice for its customers and to create the best possible value for the Company's various stakeholders – particularly customers, suppliers, shareholders and staff. At the same time, AarhusKarlshamn AB will act as a good citizen who accepts long-term responsibility. The aim of corporate governance is to define a clear division of responsibility and role among shareholders, the Board, the operative management and the various control bodies. In line with this, corporate governance covers the Group's control and management systems.

Shareholding structure

Information on shareholders and shareholdings is on page 83 (the AarhusKarlshamn AB share section).

Articles of Association

AarhusKarlshamn AB's current Articles of Association were adopted on 23 May 2006. 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 registered office of the Company shall be in Malmö. The Company's financial year is the calendar year, and the AGM shall be held in Karlshamn or Malmö.

For the current Articles of Association, see www.aak.com.

Annual General Meeting

The Annual General Meeting (AGM) of AarhusKarlshamn AB (publ) is the supreme decision-making body and the forum through which the shareholders exercise their influence over the Company. The tasks of the AGM are regulated in the Swedish Companies Act and the Articles of Association. The AGM decides on a number of central issues, such as the adoption of the financial statements and balance sheets, the discharge from liability of the Board of Directors and the President, the dividends to shareholders and the composition of the Board.

Further information on the AGM and the full minutes from previous meetings are published on the Company's website, www.aak.com.

Annual General Meeting 2006

At the AGM on 23 May 2006, shareholders representing 45.6 percent of the share capital and voting rights in the Company participated. The Chairman of the Board, Melker Schörling, was elected Chairman for the meeting. At the AGM, the income

Corporate governance report

CORPORATE GOVERNANCE

statements and balance sheets were adopted, along with the consolidated income statement and consolidated balance sheet. In connection with this, the AGM approved the Board's proposal that a decision on a profit distribution for financial year 2005 of SEK 29.00 (of which SEK 25.00 represented an additional dividend) be taken at an extraordinary general meeting in autumn 2006, after the distributable funds had been made available through a reduction in the statutory reserve. In accordance with this, the AGM also approved the Board's proposal for a reduction in the statutory reserve.

Jerker Hartwall, President and CEO commented in his statement on financial year 2005 and the trend in the first quarter of 2006. He also reported on the synergy effects for the merged AarhusKarlshamn AB and the goals for future development.

Melker Schörling, Carl Bek-Nielsen, Martin Bek-Nielsen, John Goodwin and Mikael Ekdahl were re-elected as members of the Board, and Ebbe Simonsen, Märit Beckeman and Jerker Hartwall were elected to the Board for the first time. The previous Chairman of the Board, Erik Højsholt, declined re-election. Melker Schörling was elected Chairman of the Board, and Carl Bek-Nielsen was elected Vice-Chairman. The staff organisations appointed Annika Westerlund (PTK-L) and Leif Håkansson (IF Metall) as employee representatives and Christer Svantesson (IF Metall) and Bo Ohlsson (PTK-L) as deputies.

Extraordinary General Meeting 2006

At an Extraordinary General Meeting of AarhusKarlshamn AB on 10 November 2006 in Malmö, the shareholders approved the Board's proposal for a profit distribution totalling SEK 29.00 per share, of which SEK 25.00 per share represented an additional dividend. The reconciliation day for the dividends was set as Wednesday 15 November 2006. Shareholders representing 57.2 percent of the share capital and voting rights participated in the meeting.

Nomination Committee

At the AGM, the Board of Directors is elected. The task of the Nomination Committee is to set proposals before the AGM on the election of Chairman and other members of the Board, and of a Chairman for the AGM, questions of remuneration and related matters. The Nomination Committee does not submit proposals for the election and remuneration of auditors, since these matters are part of the remit of the Audit Committee.

Nomination Committee for the Annual General Meeting 2007

The 2006 AGM resolved that the Nomination Committee shall have four members. Melker Schörling, Carl Bek-Nielsen, Henrik Didner (Didner & Gerge Mutual Fond) were re-elected, and Jan-Erik Erenius (AMF Pension) was elected, as members of the Nomination Committee for the

Corporate governance report

AGM 2007. These members represent around 48.8 percent of the voting rights in AarhusKarlshamn AB. Melker Schörling was elected Chairman of the Nomination Committee. It was also resolved that in the event of a change in ownership, the composition of the Nomination Committee could be changed.

The major shareholders currently represented in the Nomination Committee regard it as essential in order to achieve effective nomination work that the number of members of the Nomination 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 shareholders/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 Nomination Committee.

During the year, the Nomination Committee held one minuted meeting. The Chairman gave a report on the nomination work, and, on the basis of this, the Nomination Committee discussed any changes and recruitment. Proposals from shareholders may be sent by letter to the Nomination Committee.

The members of the Nomination Committee have received no remuneration from AarhusKarlshamn AB for their work.

Shareholders who wish to contact the Nomination Committee may send letters addressed to AarhusKarlshamn AB, Valberedningen, Skeppsgatan 19, SE-211 19 Malmö, Sweden.

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 formal work plan to be adopted each year by the Board, which also specifies the division of responsibilities between the Board, its Chairman and the President as well as the President's financial reporting schedule. Under the current formal work plan, the Board must meet six times per year, including one inaugural meeting immediately after the AGM.

The responsibility of the Board includes laying down strategies, approving business plans and budgets, interim reports and the year-end (unaudited) report for AarhusKarlshamn AB. The Board shall also supervise the President's performance, appoint and dismiss the President and decide on material changes in AarhusKarlshamn AB's organisation and operations.

The Board's most important responsibilities are to:

- establish the overall goals for the Company and deciding the Company's strategy for achieving these goals,
- ensure that the Company has highly-effective operative management with well-tailored remuneration conditions,
- ensure that the Company's external reporting is open and objective and gives an accurate picture of the Company's performance, profitability and financial position, as well as its risk exposure,
- monitor the financial reporting with instructions for the President and setting out the requirements for the content of the financial reports regularly submitted to the Board,
- ensure that the Company's insider trading and logbook procedure is complied with in accordance with the law and the Swedish Financial Supervisory Authority's guidelines,
- ensure that there is an effective system for follow-up and control of the Company's operations and financial position vis-a-vis the established goals,
- follow-up and evaluate the Company's performance and take note of and support the President in taking the necessary action,
- ensure that there is a satisfactory process for monitoring the Company's compliance with laws and other regulations that apply to the Company's operations,
- ensure that the necessary guidelines governing the company's ethical conduct are established, and,
- propose any dividends, share buy-back or redemption to the AGM.

Composition of the Board

Under the Articles of Association, the Board of Directors of AarhusKarlshamn is to consist of a minimum of three and a maximum of ten members, with a maximum of ten deputies. The present Board consists of eight members elected by the AGM. Under Swedish law, the trade unions have the right to representation on the Board, and they have appointed two ordinary members and two deputies.

In accordance with the proposal from the Nomination Committee, five members were re-elected and three members newly elected at the AGM in 2006. Melker Schörling, who was elected Chairman of the Board, was previously Chairman of Karlshamns. Melker Schörling is also Chairman of the Board of BNS Holding AB, which has about 40 percent of the voting rights in AarhusKarlshamn AB. Carl Bek-Nielsen, Martin Bek-Nielsen, John Goodwin and Mikael Ekdahl are also members of the Board of BNS Holdings. These members, as well as the Chairman, can, consequently, not be regarded as independent of the Company's major shareholders in accordance with the Code. Nor is the President and CEO, Jerker Hartwall, in his capacity as President and an employee of the Company, independent of AarhusKarlshamn AB, the Company management and the Company's major shareholders. The other two members elected by the AGM, Märit Beckeman and Ebbe Simonsen, are independent of AarhusKarlshamn AB, the Company management and the Company's major shareholders. This means that the Board fulfils the requirement that at least two of the directors who are independent of the Company and the Company management, must also be independent of the Company's major shareholders.

Palm fruits

Members of the Board: Märit Beckeman, Carl Bek-Nielsen, Martin Bek-Nielsen, Mikael Ekdahl, John Goodwin, Jerker Hartwall, Melker Schörling and Ebbe Simonsen.

Trade union representatives: Annika Westerlund (PTK) and Leif Håkansson (IF Metall) are ordinary members, and Christer Svantesson (IF Metall) and Bo Ohlsson (Ledarna) are deputies.

AarhusKarlshamn AB's CIO (Chief Information Officer), Bo Svensson, acts as the Secretary to the Board.

AarhusKarlshamn AB's CFO (Chief Financial Officer), Anders Byström, is the Secretary to the Remuneration and Audit Committees.

Presence at Board and Committee meetings during 2006.

Member	Member of the Board	Audit Commit-tee	Remu-neration Commit-tee
Number of meetings	7	4	2
Märit Beckeman	6*		
Carl Bek-Nielsen	7		
Martin Bek-Nielsen	7	4	
Mikael Ekdahl	7	4	2
John Goodwin	7		2
Jerker Hartwall	6**		
Melker Schörling	7		
Ebbe Simonsen	6*		
Leif Håkansson	7		
Bo Ohlsson	-		
Christer Svantesson	-		
Annika Westerlund	7		

* Märit Beckeman and Ebbe Simonsen were elected at the AGM on 23 May 2006.

** CEO Jerker Hartwall was elected at the AGM on 23 May 2006, but he had already participated in Board meetings as rapporteur.

For other information on members of the Board, please refer to pages 92-93.

Formal work plan

The Board's formal work plan, with instructions for the division of responsibility between the Board and the President and for financial reporting, is updated and adopted annually. In addition to financial reporting and following up of current business operations and profitability trends, Board meetings also discuss goals, strategies for business operations, acquisitions and significant investments, as well as matters relating to the capital structure. Business area managers and other key management personnel report regularly on business plans and strategic questions. Remuneration and audit matters are dealt with by the appropriate committees.

The inaugural meeting of the Board is held immediately after the AGM. At this meeting, the Board's formal work plan is adopted along with instructions for the President and any instructions for committees and other internal control instruments. The present Board was constituted on 23 May 2006, at which meeting all members of the Board were present.

The Chairman of the Board

At the AGM on 23 May 2006, Melker Schörling was elected Chairman of the Board. The role of the Chairman is to lead the Board's work and to ensure that the Board discharges its duties. The Chairman follows the progress of the operation in dialogue with the President, and is responsible for ensuring that other members of the Board continuously receive the information required for the work of the Board to be performed with undiminished quality and in accordance with the Swedish Companies Act, other applicable laws and ordinances, the Articles of Association and the Board's formal work plan. The Chairman is responsible for ensuring that the Board regularly updates and improves its knowledge of the Company, that the work of the Board is evaluated and that the Nomination Committee is made aware of this evaluation. In addition, the Chairman also participates in the evaluation and in development matters relating to the Group's key management personnel.

The work of the Board 2006

During the year, the Board met seven times, of which one meeting was held by telephone before the listing on the Stockholm Stock Exchange O list. All business area managers reported on the business areas' goals and business strategies at a special budget and strategy meeting. The Board has discussed matters related to personnel and organisation, such as the assessment and adoption of a common operating site organisation in the operations in Denmark, Sweden and the Netherlands through the creation of the "OneSite-organisation". Decisions have been taken on acquisitions, disposals and investments. Other areas dealt with are the Group's work on raw material supplies, risk management and the Company's strategy on capital structure and borrowing.

Fees to members of the Board

In accordance with the decision of the AGM, the total fees amount to SEK 1,700,000, which is divided among the member is as follows: SEK 400,000 to the Chairman, SEK 300,000 to the Vice Chairman and SEK 200,000 to each of the other members of the Board elected by the AGM, who are not employees of the Company. No particular compensation for the committee work. The President of the Company, the Secretary of the Board and the employee representatives received no fees other than reimbursement of expenses in connection with Board work.

For other information on remuneration to the members of the Board, please refer to page 65.

Evaluation of the President

The Board evaluates the work and competence of the President and the manage-

Rape field

ment team on an ongoing basis. This is discussed at least once per year without the presence of representatives from the management team.

The Board's committees

Matters relating to audits and remuneration are dealt with by committees within the Board. These examine matters arising and present proposals to the Board for decision.

The duties and work plans of the committees are set by the Board in written instructions.

The Remuneration Committee

Under the Board's formal work plan, remuneration matters relating to the President and key management personnel are examined by the Remuneration Committee. The Remuneration Committee prepares and presents proposals to the Board in respect of the remuneration of the CEO and other key management personnel. The members of the Remuneration Committee in 2006 were Mikael Ekdahl (Chairman) and John Goodwin. The Remuneration Committee's recommendations to the Board include principles for remuneration, the relationship between fixed and variable salary, pensions and severance pay conditions and other management benefits. The remuneration of the President and CEO was determined by the Board based on the recommendations of the Remuneration Committee. Remuneration to other key management personnel was determined by the President and CEO in consultation with the Remuneration Committee. For further information, see page 65.

During 2006, the Remuneration Committee met on two occasions, at which both members were present.

Proposals for guidelines for remuneration of key management personnel will be presented to the AGM in 2007 for approval.

The Audit Committee

The members of the Audit Committee for 2006 were Mikael Ekdahl (Chairman) and Martin Bek-Nielsen. The committee held four meetings during the year, at which the Company's external auditors and representatives of the Company's management participated. The areas dealt with by the Audit Committee related primarily to the planning, scope and follow-up of the audit for the year. Other matters dealt with include risk management, the integration and systematics of the Group's processes, coordination of research, matters relating to the listing on the Stockholm Stock Exchange, corporate governance, internal controls, accounting rules, development of the global finance department, finance operations and other matters delegated to the committee by the Board.

The Code states that the Board is to establish an Audit Committee consisting of at least three members of the Board. At present, the Company's Audit Committee has only two members. However, the Board intends to increase the number of committee members to three as soon as one of the independent members of the Board has acquired the knowledge of the Company to enable meaningful work to be carried out in the committee.

External auditors

AarhusKarlshamn AB's auditors are elected by the AGM. AarhusKarlshamn AB's auditors are PricewaterhouseCoopers AB, with Anders Lundin as Senior Auditor. Anders Lundin has been Senior Auditor for AarhusKarlshamn AB since 7 June 2005. Anders Lundin also carries out audit assignments for Axis AB, Melker Schörling AB, Bong Ljungdahl AB, Husqvarna AB, AB Industrivärden and SäkI AB. AarhusKarlshamn Sweden AB's auditors are PricewaterhouseCoopers AB, with Eric Salander as Senior Auditor. PricewaterhouseCoopers AB have held the appointment as auditors for AarhusKarlshamn Sweden AB since 1992. Eric Salander has been Senior Auditor since the AGM in 2006.

The auditors for AarhusKarlshamn Denmark A/S and its subsidiaries are KPMG A/S, with Claus Hammer Pedersen as Senior Auditor. The auditors have held special meetings to report to the Group management and the Board. In addition to normal audit assignments, PricewaterhouseCoopers AB and KPMG A/S also assist AarhusKarlshamn AB with other audit-related advice. All services ordered in addition to statutory audits are separately examined to ensure that there are no problems with independence or a conflict of interest. There are no agreements with related parties.

Operative management

The task of the President and CEO is to direct operations in accordance with the Board's guidelines and instructions. In connection with this, the President is to ensure, through the necessary control systems, that the Company complies with current laws and ordinances. The President is rapporteur at Board meetings and is to ensure that the information received by the Board is as objective, full and relevant as it requires to make well-founded decisions. In addition, the President holds an ongoing dialogue with the Chairman of the Board and keeps the Chairman informed of the performance and financial position of the Company and the Group.

AarhusKarlshamn AB's Group management team consists of six people from three countries; the CEO, CFO and four business area managers. The Group management team meets on a monthly basis and discusses the Group's financial performance, investments, synergy and productivity projects, acquisitions, Groupwide development projects, the provision of leadership and skills and other strategic questions. The meetings are chaired by the CEO, who takes decisions in consultation with other members of the Group management team. The Group has a small number of staff in Group departments, who are responsible for Group-wide activities such as finance, taxes, IT, internal controls, strategy, investor relations, information, legal matters and human resources.

A presentation of the President and Group management team is given on pages 92-93. For principles, remuneration and other fees to the President and Group management, see page 65, note 8.

AAK's business areas are Chocolate & Confectionery Fats (incl. Lipids for Care), Food Ingredients Continental Europe, Food Ingredients UK & Americas and Technical Products & Feed. The managers of the business areas are responsible for goals, strategies and product development, as well as results, cash flow and balance sheets for their respective units. The business areas are in turn organised into sectors with responsibility for current business matters. Control is exercised through internal Boards which meet four times per year. AarhusKarlshamn AB's President and CEO acts as Chairman of the Board on these occasions and the Group's CFO also takes part. Other key management personnel, such as the Group's controller and strategist, are co-opted when required.

In all countries in which AarhusKarlshamn AB has subsidiaries, there is a legal Managing Directors. The duties of the Managing Directors include representing AarhusKarlshamn AB with the authorities in the country, coordinating operating site and Group-wide processes/ projects and ensuring that Group-wide guidelines are observed.

For each such country, a member of the Group management team has been designated to take overall responsibility for the operation (Group Management Representative). This representative is the superior of the Managing Directors and, in most cases, acts as Chairman of the Board in the local legal Board of Directors.

Internal control

The Board of Directors of the Company is responsible for AarhusKarlshamn AB's internal control, which is aimed at protecting the shareholders' investment and the Company's assets.

Under the Code, the Board is to submit a report on how that part of the internal control system dealing with financial reporting is organised, and how well it has functioned during the year. The report is to be examined by the Company's auditors. AarhusKarlshamn AB's Board has decided to comply with the statement issued by the Swedish Corporate Governance Board on 5 September 2006 whereby the reporting for 2006 is sufficient if a description is given in the Corporate Governance Report of how internal control, as far as it relates to financial reporting, is organised and without the report needing to include any statement on how well the internal control has functioned and without a review by the auditors.

Internal control in respect of financial reporting is a process that involves the Board, Company management and staff. The process has been designed to ensure the reliability of external reporting. Under the generally accepted framework (COSO) which has been established for this purpose, internal control is normally described through five aspects, which are explained below.

The control environment is the foundation for internal control. Risk assessment and risk management mean that management is aware of and has itself assessed and analysed risks and threats in the operation. Control activities are the processes and procedures instituted by the management to prevent problems arising and to discover and rectify problems that do arise. To ensure that individual tasks can be carried out satisfactorily, the personnel and organisation must have access to up-to-date and relevant information. The final module in the model relates to monitoring the internal control system and the design and the effectiveness of the controls.

Control environment

AarhusKarlshamn AB's organisation is designed to facilitate rapid decision-taking. Operational decisions are, therefore, taken at business area or subsidiary company level, while decisions on strategies, acquisitions and overall financial matters are decided by the Company's Board and Group management. There is a clear division of responsibility within the organisation, as well as a highly-effective and established control and checking system, which covers all units within AarhusKarlshamn AB.

The basis of internal control in relation to financial reporting is an overall control environment in which organisation, decision paths, authority and responsibility have been documented and communicated in controlling documents, e.g. AarhusKarlshamn AB's finance policy, raw material purchasing policy, the financial reporting handbook and the authorisation procedure as set out by the President.

AarhusKarlshamn AB's finance functions are integrated through a common consolidation system and through common accounting instructions. The Group's finance unit enjoys close and effective collaboration with the subsidiaries' controllers in relation to accounts and reporting. AarhusKarlshamn AB does not have a dedicated internal audit staff, since the above-mentioned staff carry out this task adequately.

All AarhusKarlshamn AB's subsidiaries report on a monthly basis. The reports form the basis for the Group's consolidated financial reporting. Within each legal unit, there is a legal controller who is responsible for the financial control of the respective business areas and for ensuring that financial reports are correct, complete and delivered on time in preparation for consolidated reporting.

Risk assessment and risk management

The AarhusKarlshamn AB Group, through its international presence, is

Corporate governance report

exposed to a number of different risks. Risk management within the Group is controlled by established policies and procedures, which are reviewed annually by AarhusKarlshamn AB's Board. Risks related to raw materials are controlled by the Group's raw materials purchasing policy. Currency, interest rate and liquidity related risks are controlled mainly by AarhusKarlshamn AB's finance policy. The Group's credit policy sets out the procedure for managing credit and contract risks.

Effective risk management unites the operational business development with the shareholders' and other stakeholders' requirement for controls and a long-term satisfactory growth in value. Risk management aims to minimise risks but also to ensure that opportunities are seized in the best way. Risk management covers the following risk areas:

- strategic risks in relation to the market and the sector,
- commercial, operative and financial risks,
- compliance with external and internal regulatory framework,
- financial reporting.

The principal components of risk mitigation are identification, evaluation, management, reporting, monitoring and control. For further information on AarhusKarlshamn AB's risk management, see pages 61-62, note 3.

Control activities

The risks identified in relation to financial reporting are managed through the Company's control activities. Control activities are intended to prevent, discover and correct errors and deviations. Management takes place both through manual controls such as reconciliations and stocktaking, automatic controls through IT systems as well as through general controls in the underlying IT environment. Detailed financial analyses of results as well as follow-ups of budgets and forecasts supplement the operation-specific controls and give overall confirmation of the quality of the reporting

During 2006, the Company carried out an overall self-test using the COSO method. The intention during 2007 is to carry out further work using the method.

Information and communication

To ensure completeness and accuracy in financial reporting, the Group has guidelines for information and communication, which are intended to ensure that relevant and important information shall be exchanged within the operation, both within each unit and to and from management and the Board. Policies, handbooks and task descriptions relating to the financial processes are communicated between management and personnel, and can be accessed electronically and/or in printed form. The Board receives regular feedback on internal controls through the Audit Committee.

To ensure that information to external parties is accurate and complete, AarhusKarlshamn AB has an information policy established by the Board, which specifies what shall be communicated, by whom and in what manner.

Monitoring

The effectiveness of the risk assessment process and the execution of control activities is monitored continually. The monitoring includes both formal and informal procedures which are used by those responsible at every level. The procedures include monitoring results against budget and plans, analyses and key ratios.

The Board receives monthly reports on the Group's performance and financial position. At every Board meeting, the Company's financial situation is on the agenda, and management carries out monthly analyses of financial reporting at detail level. At its meetings, the Audit Committee monitors the financial accounts, and received reports from the auditors on their observations.

Policy documents

AarhusKarlshamn AB has a number of policies for the Group's operation and its staff. Special mention may be made of the following:

Ethics policy

The Group's ethical guidelines have been drawn up with the aim of setting out the Group's fundamental position on ethical matters both within the Group and externally towards customers and suppliers.

Finance policy

The Group's finance employees work in accordance with an instruction adopted by the Board which sets out the framework for how the Group's operation is to be financed and how e.g. currency risks and interest-rate risks are to be managed.

Information policy

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

Environmental policy

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

Review

This corporate governance report has not been reviewed by AarhusKarlshamn AB's auditors.

Definitions

Key ratios

Proportion of risk-bearing capital
Shareholders' equity, minority share of equity and deferred tax liability, divided by the balance sheet total.

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

Return on operating capital
Operating profit/loss as a percentage of average operating capital.

Gross contribution
Operating income less cost of raw materials.

Market value/Shareholders' equity
Market value divided by equity per share.

Dividend yield
Dividend per share as a percentage of the share price.

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

Capital turnover rate
Sales divided by average operating capital.

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

Earnings per share
Net profit/loss for the year divided by the average number of shares on the closing date.

Net borrowings
Total interest-bearing liabilities less interest-bearing assets.

P/E ratio
Share price divided by earnings per share.

Interest cover ratio
Operating profit/loss plus financial income divided by financial expenses.

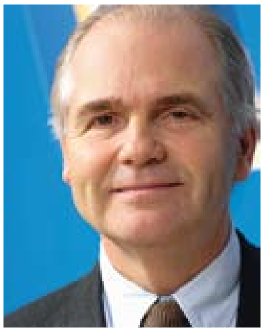
Working capital
Non interest-bearing current assets minus non-interest-bearing liabilities excluding deferred tax liabilities.

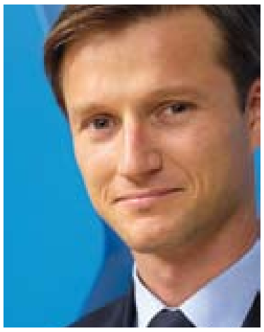
Net debt/equity ratio
Net borrowings divided by shareholders' equity including minority interests.

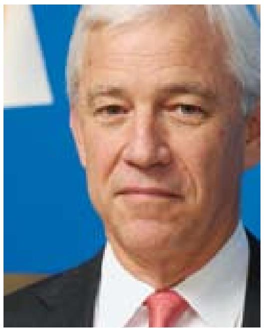
Equity/assets ratio
Shareholders' equity including minority interests as a percentage of the balance sheet total.

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

Dividend ratio
Dividend per share as a percentage of earnings per share.

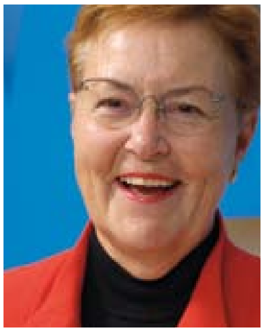

Melker Schörling

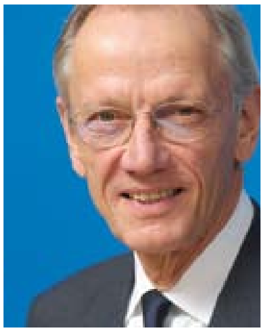

Carl Bek-Nielsen


John Goodwin


Martin Bek-Nielsen

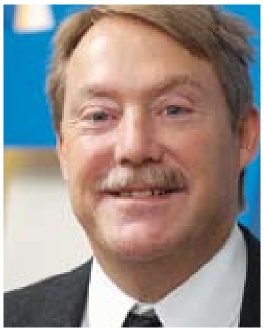

Mikael Ekdahl


Märit Beckeman


Ebbe Simonsen


Jerker Hartwall


Annika Westerlund


Leif Håkansson

Melker Schörling

Chairman of the Board.
Year elected: 2005.
Born: 1947.
Citizenship: Swedish.
Principal employment: Founder and owner of Melker Schörling AB (MSAB).
Qualifications: Master of Business Administration.
Professional background: CEO of a number of companies, including Securitas AB 1987-1992 and Skanska 1993-1997.
Other directorships: Chairman of the Board of MSAB, Securitas AB and Securitas Systems AB. Vice Chairman of the Board of Assa Abloy and Director of Hennes & Mauritz AB.
Shareholding: Melker Schörling, through Melker Schörling AB holds 58.5 % of the shares in BNS Holding AB. BNS Holding AB in turn holds 16,247,206 shares (39.26 %) in AarhusKarlshamn AB.

Carl Bek-Nielsen

Vice Chairman of the Board.
Year elected: 2005.
Born: 1973.
Citizenship: Danish.
Principal employment: Executive Director (Corporate Affairs) United Plantations Berhad.
Qualifications: Bachelor of Science.
Professional background: Executive director, director-in-charge.
Other directorships: Chairman of the Board of United International Enterprises Ltd. Vice Chairman of the Board of United Plantations Berhad.
Shareholding: Carl Bek-Nielsen, through UIE Ltd, holds 41.5 % of the shares in BNS Holding AB. BNS Holding AB in turn holds 16,247,206 shares (39.26 %) in AarhusKarlshamn AB.
E-mail: cbn@plantations.biz

John Goodwin

Year elected: 2005.
Born: 1944.
Citizenship: British.
Principal employment: Managing Director, United International Enterprises Ltd.
Qualifications: Bachelor of Commerce.
Professional background: Chief Executive, Managing Director, Administrative Director and President.
Other directorships: Chairman of the Board of United Plantations Africa Ltd., VD United International Enterprises Ltd. and Neptune Resources.
Number of shares: 0.
E-mail: jag@psuk.net

Martin Bek-Nielsen

Year elected: 2005.
Born: 1975.
Citizenship: Danish.
Principal employment: Executive Director (Finance & Marketing), United Plantations Malaysia.
Qualifications: Agricultural Economics.
Professional background: Executive Director (Finance and Marketing).
Other directorships: Director of United Plantations Berhad. Vice Chairman of the Board of United International Enterprises Ltd.
Number of shares: Martin Bek-Nielsen, through UIE Ltd, holds 41.5 % of the shares in BNS Holding AB. BNS Holding AB 16,247,206 shares (39.26 %) in AarhusKarlshamn AB.
E-mail: mbn@plantations.biz

Mikael Ekdahl

Year elected: 2005.
Born: 1951.
Citizenship: Swedish.
Principal employment: Lawyer and partner in Mannheimer Swartling Advokatbyrå.
Qualifications: School of Economics and Master of Laws.
Professional background: Lawyer and partner.
Other directorships: Chairman of the Board of Bong Ljungdahl AB and Marco AB. Vice Chairman of the Board of Melker Schörling AB, Director of Attendo Group AB, Konstruktions-bakelit AB and Börje Jönsson Åkeri AB.
Number of shares: 8,000.
E-mail: mek@msa.se

Märit Beckeman

Year elected: 2006
Born: 1943.
Citizenship: Swedish.
Principal employment: Licentiate in Engineering.
Qualifications: Master of Science.
Professional background: Project Manager, consultant and R&D.
Other directorships: Director of Beckeman Consulting AB.
Number of shares: 0
E-mail: maritbeckeman@yahoo.com

Board of Directors – AarhusKarlshamn AB (publ)

Ebbe Simonsen
Year elected: 2006.
Born: 1940
Citizenship: Danish.
Principal employment: Director.
Qualifications: Bachelor of Commerce.
Professional background: Director, advisor and administrative director.
Other directorships: Director of Bodilsen Holding A/S (BM), Bjørn Wiinblads Værksteder A/S (BF).
Number of shares: 0
E-mail: ebbes@mail.tele.dk

Jerker Hartwall
Year elected: 2006.
Born: 1952.
Citizenship: Swedish.
Principal employment: President and CEO.
Qualifications: Graduate engineer.
Professional background: Divisional Manager and President.
Other directorships: Director of Novozymes A/S.
Number of shares: 96,653.
E-mail: jerker.hartwall@aak.com

Members of the Board appointed by the employees

Annika Westerlund
AarhusKarlshamn Sweden AB.
Appointed by PTK.
Year elected: 2005.
Born: 1956.
Citizenship: Swedish.
Principal employment: Laboratory assistant.
Qualifications: Technical upper secondary school.
Number of shares: 0
E-mail: annika.westerlund@aak.com

Leif Håkansson
AarhusKarlshamn Sweden AB.
Appointed by IF Metall.
Year elected: 2005.
Born: 1957.
Citizenship: Swedish.
Principal employment: Industrial electrician.
Qualifications: Electrical power technology.
Number of shares: 679.
E-mail: leif.hakansson@aak.com

Deputies:

Christer Svantesson
AarhusKarlshamn Sweden AB.
Appointed by IF Metall.
Year elected: 2006.
Born: 1951.
Citizenship: Swedish.
Principal employment: Maintenance technician.
Qualifications: Engineering.
Number of shares: 679.
E-mail: christer.svantesson@aak.com

Bo Ohlsson
AarhusKarlshamn Sweden AB.
Appointed by PTK.
Year elected: 2006.
Born: 1948.
Citizenship: Swedish.
Principal employment: Engineer.
Qualifications: Electrical, telecoms, machine technology.
Number of shares: 200.
E-mail: bo.ohlsson@aak.com

Auditor:

PricewaterhouseCoopers AB

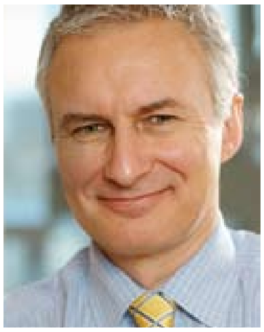
Anders Lundin
Born 1956.
Authorised Public Accountant.
Auditor of the Company since 2005.


AAK
AarhusKarlshamn

AarhusKarlshamn AB – Group Management team

Håkan Christensson

Magnus Jörsmo



Ian McIntosh

Jerker Hartwall

Jörgen Balle

Anders Byström

Håkan Christensen

Joined Group: 1986.
Born: 1962.
Citizenship: Swedish.
Principal employment: Vice President AarhusKarlshamn AB and President Business Area Food Ingredients Continental Europe.
Qualifications: Graduate engineer, M.Sc. Chemical Engineering.
Professional background: Research, product development, sales.
Number of shares: 17,690.
E-mail: hakan.christensson@aak.com

Magnus Jörsmo

Joined Group: 1986.
Born: 1965.
Citizenship: Swedish.
Principal employment: Vice President AarhusKarlshamn AB, President Business Area Technical Products & Feed, President Binol AB and President AarhusKarlshamn Sweden AB.
Qualifications: Chemical engineer.
Professional background: Technologist, salesman and buyer.
Number of shares: 23,690
E-mail: magnus.jorsmo@aak.com

Ian McIntosh

Joined Group: 1998.
Born: 1956.
Citizenship: British.
Principal employment: Vice President AarhusKarlshamn AB and President AarhusKarlshamn UK & Americas.
Qualifications: Graduate engineer, MBA.
Professional background: -
Number of shares: 0
E-mail: ian.mcintosh@aak.com

Jerker Hartwall

Joined Group: 2000.
Born: 1952.
Citizenship: Swedish.
Principal employment: CEO.
Qualifications: Graduate engineer.
Professional background: Divisional Manager and President.
Other directorships: Director of Novozymes A/S.
Number of shares: 96,653.
E-mail: jerker.hartwall@aak.com

Jörgen Balle

Joined Group: 1990.
Born: 1964.
Citizenship: Danish.
Principal employment: Vice President AarhusKarlshamn AB, President Business Area Chocolate & Confectionery Fats, incl. Lipids for Care and President AarhusKarlshamn Denmark A/S.
Qualifications: MBA, Diploma in Banking.
Professional background: Fund manager, trader.
Number of shares: 2,345.
E-mail: jorgen.balle@aak.com

Anders Byström

Joined Group: 2006.
Born: 1951.
Citizenship: Swedish.
Principal employment: Vice President AarhusKarlshamn AB and CFO.
Qualifications: Graduate economist.
Professional background: Formerly Authorised Public Accountant, CFO of a number of groups.
Number of shares: 0.
E-mail: anders.bystrom@aak.com

Financial Calendar, Annual General Meeting

Financial Calendar

AarhusKarlshamn AB (publ) will publish the following financial information for the financial year 2007 on the following dates:

- The interim report for the first quarter will be released at the Annual General Meeting on 21 May.
- The interim report for the first six months will be released on 15 August.
- The interim report for the third quarter will be released on 1 November.
- The year-end (unaudited) report for 2007 will be released in February 2008.

Reports and press releases are available 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.

Additional information about AarhusKarlshamn AB is available on the Company's website: www.aak.com

Annual General Meeting

The Annual General Meeting of AarhusKarlshamn AB (publ) will take place on Monday 21 May 2007 at 3 p.m. at Europaporten in Malmö. The AGM premises will open at 2 p.m. and registration must be completed by 2.55 p.m., at which time the voting list will be verified.

Right to participate at the meeting

Shareholders recorded in the copy of the shareholders' register printed out on Tuesday 15 May 2007 and 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

The Company is registered with VPC AB, which means that shareholders wishing to attend the AGM must be recorded in the shareholders register kept by VPC AB no later than 14 May 2007. 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 aforementioned date.

Notification

Shareholders wishing to attend the AGM must notify the Company as soon as possible and not later than 4 p.m. on Tuesday 15 May 2007 (the last date for notification) in one of the following ways: by post to AarhusKarlshamn AB (publ), Kerstin Wemby, SE-374 82 Karlshamn, Sweden, by telephone on +46 (0)454 823 12, by fax on +46 (0)454 828 20, via e-mail: kerstin.wemby@aak.com or on the website: www.aak.com

Notification should contain details of name, address, telephone number, Swedish civil registration number or a corporate ID number where appropriate, and the number of shares held.

Invitation to attend the AGM

Notice of the AGM, together with the AGM agenda, will be published in Svenska Dagbladet, Sydsvenskan and the Swedish Official Gazette.

AarhusKarlshamn's Glossary

Amines – Products made of fatty acids, with surface-active properties. Used as inputs in a wide range of industries..

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

Bypass meal – Rapeseed meal treated in a special process to make it bypass the rumen of ruminants. Nutritionally superior to standard rapeseed meal.

CBA (Cocoa Butter Alternatives) – Fats with properties similar to those of cocoa butter, i.e. 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. More user-friendly than CBE, as no tempering is required.

CBS (Cocoa Butter Substitutes) – CBA with properties and application areas similar to those of CBR. Made from palm-kernel oil.

Dairy Fat Alternatives (DFA) – 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.

DHA – Omega 3 fats.

EPA – Omega 3 fats.

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, glycerol 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.

Polyunsaturated fatty acids – Fats with two or more double bonds, which are of considerable importance for the biological function of the fats in question.

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.

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.

Fractionation – Multiple-stage crystallisation process used in the manufacture of CBA.

Glycerol – 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.

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

Cocoa butter – Another name for cocoa fat.

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.

Saturated fats – Fats with no double bonds along the carbon chain.

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.

Unsaturated fats – Fats with one or more double bonds along the carbon chain.

PCR – A method used to identify genetically modified seeds (GMO). The abbreviation stands for polymerase chain reaction.

Pumpable fats – Products consisting of fat crystals dispersed in liquid oil, delivered by tank lorry. Pumpable fats are mainly used by bakeries, to replace solid fats in 10-kg packages.

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

Trans-free fats – Fats that do not contain trans fatty acids.

Trans content – The proportion of trans fatty acids in a fat.

Addresses

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Fax: +46 40 627 83 11
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www.aak.com
Org. nr. 556669-2850

AarhusKarlshamn Denmark A/S
Chocolate & Confectionery Fats
M.P. Bruuns Gade 27
DK-8000 Aarhus C
Denmark
Tel.: +45 8730 6000
Fax: +45 8730 6012

AarhusKarlshamn Mexico S.A. de C.V.
Food Ingredients Americas, Mexico
Av. Héroes de Nucupétaro 1022
Col. Industrial, C.P. 58130
Morelia, Michoacán
Mexico
Tel.: +52 443 312 0175
Fax: +52 443 312 5822

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Food Ingredients Continental Europe
Lipids for Care
Technical Products & Feed
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Fax: +46 454 828 20

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Food Ingredients UK
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Great Britain
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Fax: +44 1482 709 447

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jorgen.balle@aak.com
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Tel.: +45 8730 6000

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Food Ingredients Americas, Mexico
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Tel.: +44 1482 701 271

Technical Products & Feed
magnus.jorsmo@aak.com
Tel.: +46 454 820 00

This document is a translation of the Swedish language version. In the event of any discrepancies between the translation and the original Swedish annual report, the latter shall prevail.

The first choice for value added vegetable oil solutions

– The vision has three crucial elements, which govern what we want to achieve:

- the first choice
- value-added solutions
- vegetable oils

Concept, text and project management: Sund Kommunikation and Corporate Communication AAK. Graphics design and original: www.johnjohns.se. Photos: www.benfoto.se. Matton. Luckylookimages