





## AarhusKarlshamn in 60 seconds

- AAK is the world's leading manufacturer of high value-added specialty vegetable fats. The products can be used for substitutes for butterfat and cocoa butter, trans-free solutions for fillings in chocolate and confectionery 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 and confectionery industries and in the cosmetics industry, and as vegetable lubricants for machinery and ingredients in animal feeds.
- AAK is organised in three business areas, Chocolate & Confectionery Fats, Food Ingredients and Technical Products & Feed.
- Group Functions comprise the head office and the operations of Ceylon Trading.
- Lipids for Care is responsible for operations involving the cosmetics industry and is a rapidly growing business sector of Chocolate & Confectionery Fats.
- Production facilities are located in Denmark, Mexico, the Netherlands, Great Britain, Sweden, Uruguay and the USA.
- AAK's head office is in Malmö, Sweden. It acts as a central meeting place for the entire Group.
- AAK is represented with 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 OMX Nordic Exchange, Stockholm, in the Mid Cap segment, Consumer Commodities sector.

# 2007 in Summary

- Net sales amounted to SEK 13,005 million (10,929).
- Operating profit excluding the effect of IAS 39 and excluding items of non-recurring character amounted to SEK 653 million (455).
- Profit after tax amounted to SEK 319 million (177).
- Earnings per share were SEK 7.67 (4.18).
- Proposed dividend of SEK 4.00 (4.00) per share.
- Operating profit improved within all business areas.
- AAK has acquired Croda Food Service from Croda plc. With the aim of increasing forward integration and strengthening its market position in the bakery sector. Croda Food Service has annual sales of SEK 230 million and provides the bakery sector with a number of products and services.
- Within the specialty fats area for baby food, AAK entered into cooperation with Enzymotec, an Israeli development company specialising in advanced lipids.
- Business area Technical Products & Feed signed an agreement on the acquisition of business unit Deinking Chemicals from Ciba Specialty Chemicals Oy in Finland. The products for Deinking (de-inking of waste paper) are based on specialty fatty acids.
- On 4 December, a fire caused by an explosion occurred in AAK's factory in Aarhus (Denmark), in which one employee was killed.

Key figures (SEK million, unless otherwise stated)	2007	2006
Net sales	13,005	10,929
Gross contribution excluding IAS 39	3,134	2,723
Gross contribution, %	24	25
Operating profit excl. non-recurring items and IAS 39	653	455
Operating margin, %, excl. non-recurring items and IAS 39	5	4
Operating profit incl. non-recurring items excl. IAS 39	503	298
Operating margin, %, incl. non-recurring items excl. IAS 39	4	3
Operating profit incl. non-recurring items and IAS 39	646	342
Operating margin, %, incl. non-recurring items and IAS 39	5	3
Net profit for the year	319	177
Attributable to the Parent Company's shareholders	314	171
Attributable to minority	5	6
Operating profit before depreciation/amortisation (EBITDA)	1,031	648
Operating cash flow after investments	-1,083	-325
Investments	712	501
Shareholders' equity	2,409	2,287
Minority interest	34	32
Net liability	4,273	3,036
Equity/assets ratio, %	28	33
Net debt/equity ratio, multiple	1.75	1.31
Operating capital	7,199	5,830
Earnings per share, SEK*	7.67	4.18
Number of shares at end of period, (thousands)	41,384	41,384
Of which, the Company's own shares, (thousands)	516	539

\* Calculation of earnings per share has been based on a weighted average of the number of outstanding shares during 2007. For definitions, please see page 89. Annual General Meeting, please see page 94.



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## 16 Food Ingredients

Food Ingredients is the most extensive business area in AAK. It is divided into two areas, Continental Europe and UK & Americas. Americas is in turn divided into the USA and Mexico. Important key questions in health and environment-related areas are traceability and sustainable manufacturing methods. In both, AAK complies fully with market requirements.



## 21 Chocolate & Confectionery Fats

Business area Chocolate & Confectionery Fats manufactures vegetable speciality fats, which are used to replace cocoa butter in chocolate products. The market is growing strongly. AAK has a global, leading position.

The business area includes Lipids for Care, which develops and markets products based on vegetable fats under the brand Lipex® for use in skin and hair care products, make-up and various hygiene articles for washing, showering and bath.



## 26 Technical Products & Feed

Business area Technical Products & Feed is a good example of the role of vegetable oils in society for environment and health. Both as lubricants in machinery for timber cutting, where the vegetable oil minimises problems with emissions to the natural environment, and as ingredients in animal feeds. The business area is organised into three sectors: Tefac, Binol and Feed.



## 30 Production facilities

AAK manufactures specialty vegetable fats for demanding customers throughout the world. With nine production facilities in seven countries – Sweden, Denmark, Great Britain, Mexico, the Netherlands, the USA and Uruguay – AAK is world leader in the area.



## 34 Employees

In the summer of 2007, the first global attitude study was carried out of all employees in the AAK Group. One reason was to obtain a good basis prior to planning of the global leadership development programme "Global Leadership Academy".



## 36 A responsible company

In general, the Company's social responsibilities are to do with cooperation between the Company and society. The ways in which a company handles central components of this are decisive for its long-term development and profitability. This is something that AAK's management is very aware of, and a new organisation for taking social responsibility has therefore been created.



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# Comments by the CEO

***It is now over two years since the merger, when Aarhus United A/S and Karlshamn AB became AarhusKarlshamn AB (AAK). You have two full operating years behind you. How do you see the work of the last two years in the Group?***

"In a short time, loyal, goal-oriented employees have created the strong company that we wanted to achieve. I am extremely pleased with the way things have gone up until now. No merger problems have disturbed the important development of the business, and operating profit has increased in all business areas."

***Both companies worked with the same basic strategy during the period before the merger – a strategy which you made into a joint strategy. With it, the advancement upwards in the value chain accelerated even more efficiently.***

"Yes, we see a strong earnings effect with the help of our products which substitute cocoa butter, so-called Cocoa Butter Equivalents (CBE). The synergies have strongly affected the result in tandem with the development of our strategy for specialisation."

***Is there any business area which has developed in a way you didn't expect?***

"No, I can't say there is. Earnings for 2007 are the AAK Group's best since the merger in 2005. The improvement in earnings is primarily attributable to increased sales of CBE and completed synergies. Operating profit increased by 43 percent. During 2007, the Group had a negative cash flow of about a billion. The greater part of this can be attributed to strategic purchases in order to guarantee access to the raw material shea and for investment in the new CBE factory in Aarhus (Denmark). Also, cash flow has been negatively affected by more capital being tied up, primarily in our inventories, on account of a strong increase in raw material prices."

***In December, a tragic accident occurred in the Aarhus factory. How does this affect operations?***

"The information we received on the morning of 4 December came as a great shock. One of our employees had been killed, and the factory was on fire. The management group was at that time in the vicinity of Malmö at a two-day confer-

ence. But we got our crisis management working quickly, and did what we could to clarify the effects of the accident as fast as possible. We speeded up activities to replace lost production capacity."

"The Company has started the process of repairing damaged buildings and infrastructure in order to get the old factory working, the process equipment of which is mainly undamaged. The start-up is now expected to be in the second half of 2008. At the time of the accident, our new factory for CBE was ready for test operation. The new factory was not damaged in the accident, and is quite separate from the old production facilities. The new unit has now started production."

***What effects do you see on earnings?***

"The accident has had a strong effect on us, primarily through loss of an employee. It also affects many other people around us, not least our shareholders, who can see loss of production with the effects of this on earnings. But the fourth quarter of 2007 was the best ever for the Group, despite the accident. Of course, earnings are affected by the accident, which has primarily affected business area Chocolate & Confectionery Fats, but we also note some effect on earnings in business areas Food Ingredients and Technical Products & Feed. This business area still enjoys improved underlying profitability, and gross contribution have increased. But the fourth quarter was affected by higher cost of raw materials, caused by substitute deliveries on account of the accident in Aarhus (Denmark). As yet, no indemnity from the insurance company has been taken up as income."

***Can you elaborate on the effects of the specialisation strategy?***

"Market growth of CBE continues to be strong. Capacity utilisation for our chocolate fats was high during the past year up until the accident. Today, AAK is world leader in the CBE area, and therefore the key raw material of shea is an especially important factor. In order to increase the quantity of shea, a number of projects are being conducted to strengthen logistics from West Africa to our factory in Aarhus (Denmark). We are now seeing positive results of these initiatives, and for 2008 we have good access to the shea raw material."

"The specialisation strategy for Food Ingredients and Technical Products & Feed has continued to give positive effects in the form of increased gross contribution per kilo."

***What do you see as the most important events in 2007?***

"The acquisition of Croda Food Service in the UK means integration ahead and strengthens our market position within the bakery sector with a number of products and services. Croda Food Service contributed to the Group's earnings right from 2007."

"The agreement with the Israeli development company, Enzymotec, regarding cooperation (50/50) which strengthens our leading position within the specialty fats area for baby food. Together, we will develop advanced lipids (specialty fats), which will, among other things, lead to improved uptake of nutrients."

"The acquisition of Deinking Chemicals from Ciba Specialty Chemicals Oy in Finland also means integration forward for Technical Products & Feed. The products are based on specialty fatty acids and are used for de-inking waste paper, an environmental measure which uses our products."

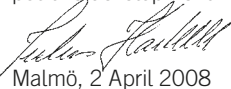
"Discussion with Lantmännen concerning increased crushing capacity (oil extraction from rapeseed). We will use our share from the crushing plant for food oils, while Lantmännen will use its share for producing raw material for bio-diesel."

***Is any targeted rationalisation programme ongoing?***

"Yes, apart from the continual work of increasing our efficiency, we have an ongoing programme which is estimated to produce about SEK 100 million in savings on a whole-year basis as from 2010."

***How would you summarise 2007?***

"A year which, despite the accident, was characterised by positive developments for our Group. We are working in accordance with a set strategy and with a strong vision ahead of us. AAK has stable operations and no factors in our surroundings indicate anything other than continued positive development."

  
Malmö, 2 April 2008









# 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 right fat is good for health

Fats are important ingredients of our foods. They not only provide energy and essential nutrients, but also contribute to eating pleasure. However, too much fat of the wrong type may have the opposite effect on our health. The advantage of vegetable oils is that most have a low proportion of saturated fat, and at the same time they contribute to supplying the body's needs for essential fatty acids and other fat-soluble, nutritious substances.

Fats can be divided into four groups; saturated, monounsaturated, polyunsaturated and trans fat. Expressed simply, one can say that saturated fat and trans fat raise the cholesterol level in the blood. Unsaturated fat instead lowers the cholesterol level, which is considered to be good for the heart and blood vessels.

## Important sources of nutrition

AAK's range of oils and fats with specific nutritional content comprises Omega 3 fatty acids, phytosterols, which contribute to maintaining the cholesterol level of the blood at a healthy level, while they have a good effect on the heart and blood vessel system in general. Omega 3 fatty acids belong to the body's most important building blocks on account of their function in the formation of cell membranes and hormones. Phytosterols are a sub-group of steroids, which are collected from the plant kingdom, and which help the body to reduce the level of cholesterol in the blood.

Vegetable oils contain Omega 3 and Omega 6, which are essential – vital – fatty acids for the body's function. People must obtain essential fatty acids via food, because they are not produced in the body. Vegetable fats are also important sources of several vitamins, including vitamins E and K. The body needs fat in order to form hormones, and to construct and repair cells. Some stored fat is also needed to protect internal organs and protect the body against cold.

A considerable advantage of vegetable oils is that for the most part they consist of unsaturated fatty acids. The lowest proportion of saturated fats is found in rapeseed oil, 6 percent, closely followed by sunflower oil with 10 percent and olive oil with 16 percent. At the other end of the spectrum, there are tropical oils such as palm oil and coconut oil which have 50 percent and 90 percent proportion of saturated fat respectively.

## Reduced proportion of trans fats

With the exception of palm oil, plant oils must be hardened in order to make them sufficiently firm, and in connection with this process, trans fats are formed. The hardening involves the useful unsaturated fat being converted into saturated fat. When the oil hardens completely, all unsaturated fatty acids are converted into saturated ones. But often, the hardening is discontinued half way through, and then trans fats are formed.

Researchers are in agreement that we should reduce our consumption of both saturated fat and trans fatty acids because both have a negative effect on the heart and blood vessels. At the same time, saturated fats are important for creating a good consistency and structure of the product. AAK has therefore worked for a long time to develop fats which give maximum structure with a minimum of saturated fatty acids.

## We need fat

- Fat is found in all the cells of 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 fat is necessary for the body to be able to absorb the vitamins. Fat gives us energy, and energy in food is measured in calories. Every gram of fat contains nine kilocalories (kcal). We also get energy from carbohydrates and proteins where each gram gives four kcal.
- According to the Swedish dietary recommendations, we need roughly one third of our calories each day from fat. This means around 60 to 90 grams per day for most adults.

## Different types of fats

Fat is usually divided into four groups – saturated, monounsaturated, polyunsaturated and trans fat. 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 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, oily fish (salmon, mackerel, herring, sardines) and vegetable oil (rapeseed oil, sunflower oil, soyabean oil and maize oil). The most important polyunsaturated fatty acids are Omega 3 and Omega 6.

### 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.

Opinions are divided on whether natural trans fat is as dangerous as industrially manufactured trans fat, but several scientific studies have shown that trans fatty acids, as with saturated fat, increase the risk of heart disease and disease of blood vessels. Therefore, authorities in most industrial countries are working to limit the intake both of saturated fat and trans fat.





# Product development

Development of new products is driven by demand from AAK's customers within the food, chocolate and cosmetics industries, which in turn is affected by market demand. The most important trend today is, above everything else, health. Consumers also demand "convenient" food, i.e., products which are easy to handle and prepare. In recent years, the entire chain from raw material to finished product has also become of great interest. Consumers want to know where raw materials come from and how they have been manufactured.

AAK's unique competence as regards the fat molecule constitutes the core of operations. Future competitiveness of competition is built on these competencies being utilised in further refining the raw material and creating new products for which there is a demand. AAK invests in producing more advantageous fat compositions, an area in which the Company is market leader. It is a matter of removing trans fat and reducing the proportion of saturated fat in the end product.

## Chocolate and confectionery

Work in creating a better health profile is an important prioritisation when AAK develops new products. Demand from consumers for trans-free fats has led to most product areas today offering products in which trans fats are completely absent. During 2007, AAK took a step forwards with the launch of the new product, Akopol LT 03, which only contains three percent trans fatty acids. This can be compared with traditional CBR, which is around 50 percent.

The next step is to reduce the saturated fatty acids without limiting the functional properties of the product. Many products require a certain proportion of solid fat, which in its natural form is only found in animal fat, palm oil or coconut oil. It is the crystallisation properties of the saturated fat which contributes to the structure of pastry, ice-cream and similar products. AAK's new product family, Chocofill LS, is an example of a series of new products in which the Company has managed to minimise trans fats and the proportion of saturated fat, but nevertheless retain the functional properties.

## Increased demand for vegetable fats

Today's high milk prices are driving demand for finding substitutes for butter fat. AAK has produced a number of alternative products for use in cheese, cream and spreadable products, so-called "butterblends". The main advantages of butter

fat substitutes are that they are cheaper and have a more healthy fatty acid profile than butter fat.

AAK delivers vegetable fat to leading cheese producers, which manufacture products containing combination of skimmed milk and vegetable fat. After that, the traditional manufacturing process occurs. There are also cheeses which are completely vegetable, which have been produced using AAK's products, and where milk has been replaced with soyabean milk.

## New ice-cream fat with more beneficial composition

A new product in 2007 was a special ice-cream fat, which only contains 30 percent saturated fatty acids – compared with the fat traditionally used by the sector, which contains 50 percent saturated fatty acids or more. Coconut oil, which is often used in ice-cream, has a 90 percent proportion of saturated fatty acids. The purpose of using saturated fats is that they contribute to the crystallisation, which in turn is necessary in order to obtain a good structure of the ice-cream.

It is not difficult to get ice-cream to taste good with vegetable alternatives. The difficulty is in achieving good stability and structure so that the ice-cream does not melt too quickly. AAK has now succeeded with this by producing a unique composition, patent pending for. The ice-cream fat which AAK produced during 2007 functions just as well as the traditional ice-cream fats, despite a radically reduced proportion of saturated fat.

## The same properties as in mother's milk

In June, AAK formed the new joint-venture company, Advanced Lipids, with a partner of many years standing, the Israeli company, Enzymotec, which specialises in advanced lipids with health-promoting effects. Cooperation with Enzymotec resulted in a new range of specialty fats for mother's milk substitutes, InFat™. During



the second quarter of 2008, a completely new factory for the manufacture of InFat™ will be ready in Karlshamn (Sweden).

These specialty fats are a product area which is experiencing strong growth, and which offers specific nutritional advantages. Babies can absorb energy and calcium more efficiently from mother's milk substitutes which contain AAK's new fat composition, InFat™, the fat composition of which is much more similar to mother's milk than ordinary vegetable oils. A positive added value is also the fact that InFat™ reduces the risk of constipation. The advantages outlined above are due to the fact that InFat™ has succeeded in emulating the specific fat compositions of mother's milk.

### Cosmetics

The cosmetics sector also requires natural products with specific functions. AAK's range of shea-based products constitutes the core of offerings to the cosmetics industry.

During 2007, new products have been based on other functional vegetable oils. Lipex® Bassol is a new, highly stable oil, which is intended for use as a base oil in skin-care products.

Essential fatty acids of Omega 3 and Omega 6 type are not only necessary in foodstuffs. They have also specific positive qualities when they are applied to the skin, and are therefore in demand from the cosmetics industry. However, these essential fatty acids are relatively sensitive to oxidation, which limits their durability. AAK's newly developed Lipex® Omega solves this problem. Lipex® Omega is a new series of oils in which a unique technology has been used to create oils which have both a high content of essential fatty acids and good durability.

### New rapeseed oil

Rapeseed oil is a good, beneficial oil if it is used in the right way. On the other hand, rapeseed oil functions less well if it is used for deep frying, because the oil does not tolerate high temperatures for very long. Therefore, new rapeseed types have been produced using plant breeding. These have as low a proportion of saturated fat as does traditional rapeseed oil, but a lower content of the sensitive polyunsaturated fatty acids. During 2007, AAK commenced contract cultivation of the new types in Sweden. By controlling the entire chain from seed to finished oil, quality and cost advantages are achieved.

# Palm oil

## – a good alternative to hardened fat

AAK is a major importer of palm oil, a product which has a broad area of use, from foodstuffs and cosmetics to biofuel. Here, AAK carries out a great deal of international work to contribute to sustainable development through its involvement in the Roundtable for Sustainable Palm Oil (RSPO) and GreenPalm Ltd.

Palm oil is used in a number of different foodstuffs, for example, chocolates, cakes, muesli and gruel. The oil is semi-solid at room temperature, which also makes it an attractive alternative in the manufacture of margarine. Other plant oils need to be hardened in order to be sufficiently firm, and in connection with this process, the trans fats arise, which have been so debated on during recent years.

In step with local demand for trans-free fats for foodstuffs, the use of palm oil has increased in Europe because it constitutes an effective substitute for semi-hardened rapeseed oil. Thanks to palm oil, it is possible to eliminate trans fats in many foodstuffs. Another reason for the increased demand is the increasing need for energy from renewable raw materials.

### World production doubled

Malaysia has been the world's leading producer of palm oil for many years, but two years' ago, Indonesia took over the number one spot. Together, both countries are responsible for 90 percent of world production. Of a total production of almost 36 million tonnes, 28 million tonnes are exported.

World production has more than doubled over the last decade. China alone now imports almost 6 million tonnes compared with 1.5 million tonnes ten years' ago. The second largest importer is Europe followed by India and Pakistan.

The price level of palm oil has also risen sharply in recent years. One reason is that there are plans in Asia and Europe

to increase use of palm oil in the bio-diesel industry. In Europe, production capacity for the manufacture of bio-diesel must increase in order to satisfy the EU Directive for 5.75 percent renewable fuel by 2010.

Parallel with the increased use of palm oil, European producers have shown a growing interest in how their products are produced.

### Sustainable production of palm oil

The considerable growth in the production rate of palm oil has brought with it a growing disquiet as regards the consequences for the environment, people and animals in the tropical rainforests, primarily in South-East Asia and South America. Although palm oil is completely GMO-free and gives a better yield per hectare than any other oil plant, production can constitute a serious load on the environment. Especially as the oil can only be produced in tropical countries such as Malaysia, Indonesia and Colombia, in areas which were originally covered with tropical rainforest.

### Round Table

AAK was one of the founders, and still is one of the driving forces behind the Roundtable for Sustainable Palm Oil (RSPO), which originated in 2002 on the initiative of WWF (World Wild Fund for Nature). RSPO began as a form of cooperation between industrial and environmental organisations. Today, there are over 200 member organisations

throughout the world, of which several represent known brands. The aim is to promote sustainable production of palm oil. The big question for the future is how one can combine retention of biological diversity in species-rich rainforests, social aspects and consideration for the original inhabitants with economically sustainable and competitive production systems.

One idea which has been developed by AAK is "book & claim", which is based on certificate trade. The big advantage of this system is that it can function in harmony with normal bulk trade. With it, there are good prospects of trade with RSPO-certified oil being able to increase without being encumbered by expensive systems.

### Certified palm oil will soon be on the market

A special working group in RSPO has produced guidelines for certification and requirements concerning certification bodies. The first three certification bodies have now been approved, and a further two will probably be approved within the near future. Despite this, the supply of certification bodies risks becoming a bottleneck, which at least to start off with may limit the supply of certified, sustainably produced palm oil.

Everything indicates that official audits of plantations will commence in April 2008. It is reasonable to expect that the first certificated oil will be available in Europe in mid 2008.



The oil palm is originally from West Africa, but was introduced to Malaysia as an ornamental tree in the 1870s. Production of palm oil did not begin in earnest until after the Second World War. Each improved oil palm tree produces compact bunches of up to 3,000 fruitlets. Palm oil is extracted from the pulp of the fruitlets, and palm kernel oil is extracted from the kernels. Palm oil has been used by people for about 500 years, and is nowadays the world's major vegetable oil.





## Shea – this is how we ensure quality and supply

In West Africa, oil from shea has been used to protect and care for the skin since time immemorial. Shea butter is also used in the preparation of food, so it is not so strange that “the holy tree” is greatly appreciated by the population. Only during the 20th century did we in the West discover shea butter. AAK quickly took the initiative and has become a world-leading producer of shea fats for the chocolate and cosmetics industries, mainly thanks to a strong local presence in West Africa.

### We are present where shea is picked

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

Shea is roughly the size of a chestnut. As soon as it has been gathered, it is dried and processed in order to extract the shea butter. Shea are gathered by women out in the villages, and are then bought directly by AAK's personnel in the area, a proximity which ensures both supply and quality. AAK also has local laboratories which check the quality again before the shea kernels are shipped to AAK's processing facilities in Aarhus (Denmark).

### Positive cooperation with the UN's development programme

As world-leading producer of shea fats, it is important for AAK to take social and ethical responsibility, both for the raw material and for the entire production chain. AAK's own personnel regularly travel in the area in order to ensure that no child labor is involved.

In connection with AAK's mapping of the supply chain some years back, the low standard of living of the local population was noted. In order to contribute with something positive, a cooperation project was therefore commenced with the UN's development programme, UNDP, with the aim of raising the living standards in the long-term of the women who pick shea.

### Secured delivery flows

The project has two advantages: ensur-

ing an even supply of shea, and at the same time helping the women to achieve a better life situation. Historically, the work of handling shea has been heavy and time demanding. But thanks to the project in which AAK cooperates with the UN, the working situation of the women has been considerably improved. The aim is to contribute with assistance for self-help. Therefore, women in about a hundred villages have been given access to simple machines which can be used for a number of varied daily tasks, such as husking rice, grinding maize, pressing shea or pumping water. In pace with an easing of the household tasks of the women, they have also found more time to pick shea. This in turn has generated higher income, so that the children can go to school. Today, many villagers also have their own small companies.



## AAK's team in West Africa

Patience, flexibility, imagination and diplomacy. AAK's personnel in West Africa have the qualities required to succeed in the challenges in the field. Thanks to a strong local presence in countries such as Benin, Burkina Faso, the Ivory Coast, Togo, Nigeria, Ghana and Mali, the company has become world leader in trade in shea in just a few years.

West Africa delivers the raw material, which is the absolute best – shea grows here with its oil-rich kernels and natural fats that the local population have used since time immemorial. After a couple of decades with a limited presence, since 2000 AAK has built up a strong local organisation, which controls the raw material from harvest to shipping by sea to AAK's processing facility in Aarhus (Denmark).

The demand for shea is considerable, and AAK purchases very large volumes of shea annually; in Benin alone there are some fifty suppliers. Shea is collected by lorry from various collection points, after which the raw material is inspected for quality in AAK's own laboratory.

### Managing Director and jack-of-all-trades

One of AAK's first pioneers in Africa was Pär, who arrived in Benin on a one-year contract.

Today, five years later, he is still there, but he now manages AAK's purchasing business from the town of Tamale in central Ghana. The job is primarily about controlling the flow, both in terms of quality and quantity, so that AAK can keep abreast of the increasing international demand for shea.

"At first, things were of course very different here, it was a bit of a shock. I notice that this is the case with all visitors who come here for the first time. Nevertheless you don't get the whole picture until you have made several visits. But today I commute easily between my African life and life in Sweden."

At present, about ten Swedish and Danish AAK representatives work in Ghana, Benin, the Ivory Coast, Togo, Nigeria, Mali and Burkina Faso.

"The job doesn't suit everyone," explains Pär. "Sometimes things are chaotic, with arguments going on and the phone

ringing incessantly. Every day offers problem solutions and many prioritisations.

The work involves quite a lot of adventurous travel in the region. To get anywhere at all, you have to bump along on unmade roads or on roads which were formerly asphalt but which now look like a Swiss cheese, for 5-8 hours – sometimes longer – through unending, often uninhabited terrain."

### AAK takes responsibility for the entire production chain

In Burkina Faso, AAK has run a project in cooperation with the UN Development Programme, UNDP, since 2003. Since the project commenced, shea production in the villages has steadily increased, more girls go to school, and the population runs its own small companies and businesses. Read more about the project on page 37.



#### Early Warning System

For several years, AAK has worked with the so-called Early Warning System, in which the company follows developments of the shea tree. The personnel visit selected trees several times a year and compare flowering and fruit-setting with previous statistics and weather conditions.



#### Increased demand – rising prices

The price of shea has increased considerably in recent years on account of increased demand. AAK's vision is to get closer to the local population, and during the course of years many links of the chain have been eliminated. Dealing direct with each picker is, however, a challenge, because each picker accumu-

lates a relatively small quantity of shea. "It is a matter of sacks", says Pär.

"This year, men have also begun to pick shea, and if you are familiar with African conditions you will know that that's quite extraordinary. Shea has quite simply become so valuable that more family members have become active," says Pär.

He talks about a village in Burkina Faso in which trade is actually conducted with the local population, and where there is also access to a mill through the UN project. To show their appreciation, the village invited AAK's employees to a village feast to celebrate a very good shea year.

"The thing that is nice about this job is that we really do reach out to the village inhabitants. We do real business with something of value that the population has, a product which they can trade with and influence themselves. Aid often gets into the wrong hands, unfortunately. It



**Ibrahima Mama Gao, an important link in AAK's logistics chain.**

vanishes on the way, and gets stuck in the towns. Thanks to the business with shea, we reach out to the local population instead for mutual benefit!"



**Pär, one of AAK's employees in Ghana.**

Sacks of shea are freighted over the river for transport onwards.





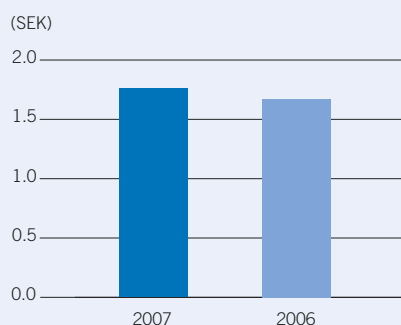
## Food Ingredients

(SEK million)	2007	2006
Net sales	7,500	6,177
Gross contribution	1,585	1,461
Gross contribution SEK per kilo	1.76	1.65
Operating profit excl. non-recurring items	279	268
Operating profit incl. non-recurring items	230	235
Volumes, thousand tonnes	898	884

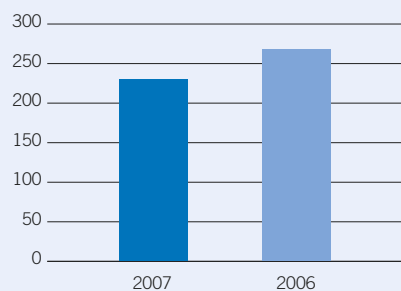
Sales in 2007 increased by SEK 652 million primarily on account of higher raw material prices.

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

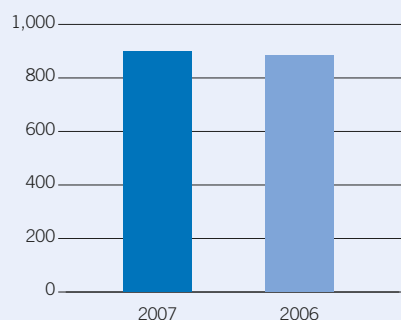
Gross contribution per kilo



Operating profit excl. non-recurring items (SEK million)



Volume (Thousand tonnes)



## Food Ingredients

Food Ingredients is the most extensive business area in AAK. It is divided into two areas, Continental Europe and UK & Americas.

The products can be divided into three main categories. The simplest consists of bulk oils, and most competitors are here.

The next category consists of the more customer-adapted solutions, which meet specific customer requirements regarding function, production adaptations, health and marketing aspects.

The category of speciality products is in turn divided into four different product groups: Dairy, Bakery, FoodService and Nutrition. AAK strives to climb the value chain and increase the proportion of special products. Today, the division between standard products and speciality products is relatively even.

The biggest competitors are ADM and Cargills for bulk products, IOI Loders and Fuji Oil for special and niche products. In Europe, there are also 120 local refineries, which in total contribute to severe competition in the market.

Health issues continue to dominate developments in the food industry. Smaller

quantities of trans fats and saturated fats drive developments towards products with greater value content, which benefits AAK. Customers are meeting demand from consumers with trans fat-free alternatives and products with less content of saturated fat respectively. AAK has an important advantage in being able to offer a more healthy alternative based entirely on vegetable raw materials.

Important key questions in health and environment-related areas are traceability and sustainable manufacturing methods. In both, AAK complies fully with market requirements. In order to contribute to sustainable production of palm oil, AAK is a founder, and an active member of RSPO (Roundtable Sustainable Palm Oil), a non profit-making initiative which engages a number of global industry companies in cooperation with the World Wide Fund for Nature.

# Food Ingredients – Continental Europe

Business Sector, Food Ingredients Continental Europe, is market leader in the Nordic Area. About 55 percent of sales go to the Nordic Area, while the remainder goes to Central and Eastern Europe. Vegetable oil is a significant and necessary ingredient in large areas of the food production segment. The market comprises over 15 million tonnes, with an annual growth rate of 1-2 percent. Production is at the facilities in Karlshamn (Sweden), Zaandijk (the Netherlands) and Aarhus (Denmark).

One of the Business Sector's primary strengths is its ability to rapidly take account of and adapt to changes and new demands in the food industry. The Group's extensive knowledge and continual development work enables trends to be caught up and quickly leads to new products.

Because transport is responsible for a relatively large part of total costs, Food Ingredients is, to a considerable extent, a regional operation, even though speciality products with higher value added have a more global range than purely standard products.

The complex infrastructure has been formulated with focus both on efficiency and flexibility, which characterises the entire value chain, from delivery of raw materials and storage, through the entire refining process up to packing and transport to the customer.

## Trends in the food industry

The most rapidly growing market segment in the food industry is the fast food

market, a product group which comprises such things as convenience food and snacks. So-called functional foods are a segment that comprises foods which offer various kinds of additional functions. 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®.

As with all business areas in AAK, Food Ingredients is also experiencing an increase in raw material prices due to the increased demand for biofuel.

## Problem solvers

A major contributory reason for the successes of Food Ingredients Continental Europe is the fact that the products are always developed with the aim of them giving value in the customer's end product. 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. As a result of a genuine under-

standing 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 balanced products with added functionality.

In recent years, AAK has developed several new products. More on these on page 10. Akocrisp is a pumpable fat for the bakery segment. It replaces traditional solid margarine and makes handling significantly easier since it can be pumped straight into the production process. The concept offers customers several benefits. 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.

Akocheese is a vegetable oil for the production of cheese. During the year, a breakthrough was made in the market, and cheese based on Akocheese is now being marketed for the first time in Europe.





### A tough market

Food Ingredients Continental Europe has a large number of competitors. The main ones are ADM and Cargill as regards standard products, and IOI Loders and Fuji Oils within speciality products and niche products. The market as a whole is characterised by severe competition. In certain segments, however, AAK has an advantage in its leading position in product development, especially as regards butter fat substitutes (DFA) and mother's milk substitute.

### The future

Prospects for 2008 are believed to be good. The strategy for the coming year is to retain market share in standard products in the Nordic market, while increasing growth for more refined products throughout Europe. In order to achieve these goals, Food Ingredients Continental Europe will continue the expansion

of its special range, which will be partly achieved by increasing the degree 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, and strong, long-term customer relations. An important part of the future strategy is about ensuring that all creative effects of the merger between Aarhus United and Karlshamn will benefit the market, and that the Company will continue to grow in its new, joint organisation.

## Food Ingredients – UK & Americas

AAK's three business sectors in Food Ingredients UK & Americas (Great Britain, the USA and Mexico), operated as a coordinated sector for the first time during 2007 after the structural changes at the end of 2006. In the mature markets of the Great Britain and the USA, where growth is around two percent, the market situations differ one from the other. In the USA, AAK has a small but rapidly growing market share in one of the industry's special areas. In Great Britain, with a much larger market share in the general oil and fats market, the local management group has instead focused on successfully defending a position which is already strong. In the Mexican market, with a growth rate of 4.6 percent, AAK does have a relatively small market share. Because there are many participants in the Mexican market, AAK is nevertheless one of the leading companies in vegetable oils and fats.

Despite differences, the three business sectors also have much in common and work to find opportunities for "best practice". A joint effort is the high degree of flexibility which is necessary in order for operations to be adapted to the expectations and trends of the market. The prime goal of Food Ingredients – UK & Americas is to react to customers' demands and wishes. On the product development side, the Company strives to keep a step ahead of market trends, to conduct research within specific requirement areas, and develop products which meets these requirements. It is important to be quickly receptive to customers' enquiries, either through tailored solutions or through ready-packaged products.

### Food Ingredients UK

During 2007, the market was characterised by tough competition from AAK's prime competitors, ADM and Cargill. Thanks to strong business relations which have pertained over many years, Food Ingredients UK has, however, strengthened its position as the natural choice for a broad customer base.

Close relationship to the customers was of extra importance during 2007 on account of the strong increases in raw material prices. As prices rose, it was a matter of keeping customers informed about the situation. The rising cost of raw materials has unavoidably led to noticeable increases in food prices in the sector. Consequently, a close dialogue was needed with customers on their expectations regarding the price levels, and careful monitoring of

the very complex variables which control the raw materials market.

It is worth noting that sales to the Great Britain bakery sector increased more than expected during 2007. The reason was a combination of product development and lower costs thanks to earlier investment in automation.

### Strong brands

Food Ingredients UK has a very strong position in the Company as regards brands in Europe. Some examples are:

- ◆ Again & Again – a deep-frying oil with improved properties.
- ◆ Prep – a complete product range of deep-frying oils for FoodService in Great Britain and the rest of Europe.
- ◆ Chalice – flavoured oils – for the Great Britain restaurant business.





Sales of AAK's product range has continued to develop well, and especially within the restaurant sector. Food Ingredients UK delivers to this market segment – restaurants, catering companies and similar – and marks the products with the brand Prep, which has continued to take more market shares. Apart from deep-frying oils, the range also covers a number of specialty fats such as olive oil, flavoured dip oils and tapenade.

An advantage of the Prep range is its ability to satisfy customers' requirements. The combination of improved properties and longer durability means that the customer reduces total costs by choosing a product from AAK. The greater part of the range is based on palm oil. Other important raw materials are rapeseed oil and sunflower oil.

A campaign called PrepPoints was introduced in the British market in 2005. The campaign was so successful that Prep has allied itself with other leading brands that sell products such as coffee, sugar, chips, soft drinks and similar. The customers collect points by buying a large offering of products, and because Prep

is the only deep-frying oil in the offering, this has resulted in considerable sales successes. During 2007, Prep doubled its total of campaign customers. Read more on [www.foodserviceawards.co.uk](http://www.foodserviceawards.co.uk).

#### Acquisitions

After the acquisition of Lion Food Ltd in April 2006, the company changed its name to AAK Foods, and 2007 was the first full financial year for AAK. The acquisition was a natural step in AAK's efforts to strengthen its offerings on the Great Britain market. Especially as regards the restaurant sector. With the acquisition, AAK also developed its range of sauces, dressings and marinades with estimated annual sales of SEK 200 million. The biggest weaknesses in the integration work have now been surmounted, but much work remains. Sale volumes remain high, and customers have reacted very positively to the change of ownership. Rising prices of raw materials have affected the industry severely, but with improved production efficiency, strong product development and good customer relations, improvements have been achieved.

During 2007, Food Ingredients UK became established in a new market sector through the acquisition of Croda FoodServices in Runcorn, providing the bakery sector with oil-based special products. The acquisition complemented that part of AAK's offerings which were directed to the bakery business, where Food Ingredients UK is market leader as regards margarine and bakery fats for industry. The two divisions, bakery fats and Croda FoodServices, have been merged into a new sector called AAK Bakery Services.

AAK has a strong position in Great Britain in this new division, and the products have also been successfully exported to a number of countries, including Japan, Germany and Spain, and will be launched within AAK's entire global organisation. AAK Bakery Services does not only offer complex oil products for these special areas of use, it also delivers equipment and necessary technical support for customers' installations.

#### Food Ingredients Americas, USA

AAK retains its strong position in the USA market as regards trans fat-free palm

oil-based products. Continued investment during 2007 made it possible for AAK to grow in pace with market demand in this niche area.

AAK's base in Port Newark, New Jersey, constitutes an important geographic competitive advantage, because the majority of competitors are located in the Mid West. The North American market for vegetable oils is strongly health-oriented. Demand for vegetable oils without trans fats and hydrogenated fats, and with lower levels of saturated fats is therefore constantly increasing. The offering of consumer products is monitored carefully, and AAK's product portfolio is well adapted to trends in the market.

The most important product segments are bakery fats, frying oils and alternative Dairy Fat Alternatives (DFA) – all show a high growth rate. Food Ingredients Americas, USA is market leading in trans-free, non-hydrogenated and functional mixtures with low levels of saturated fatty acids.

AAK's strength is the ability to keep a step ahead of industry trends and cus-

tomers expectations all the time. Excellent customer relations, skilful technicians and flexible production personnel guarantee that AAK can deliver products and solutions designed to satisfy consumer requirements. Development of new products and solutions is a highly prioritised area for Food Ingredients Americas, USA. The current trend towards more healthy food is expected to continue and have a positive effect on sales of non-hydrogenated fats that are trans-free and have lower levels of saturated fats. Growth is expected within the entire food industry during 2008, and this applies especially to the bakery sector.

Food Ingredients Americas, USA, is also a market leading supplier of coconut oil and palm kernel oil in the North American market.

#### Food Ingredients Americas, Mexico

AAK has had a successful year with considerable sales successes in Food Ingredients Americas, Mexico. The country's GNP is growing steadily at about 4.5 percent and AAK is still one of

the leading players in the country. The production facility is in Morelia, centrally located among the country's foodstuffs producers. The customers belong to the country's leading food producers. Many are American companies, and some of their production is exported to the USA as well. The health trend is also growing in Mexico, so it is primarily the multinational food producers who are pushing developments towards using more healthy oils and fats.

Food Ingredients Americas, Mexico, offers consumers a broad product range, and just as in Great Britain, AAK is active in most areas within the food industry. The most important product segments are bakery fats, snacks, alternative Dairy Fat Alternatives (DFA), frying oils and margarine. Competition is intense, and AAK's successes in Mexico are based on the same qualities as in the rest of the world: Knowledge of the consumers' requirements, rapid reaction, creativity and considerable flexibility.







# Chocolate & Confectionery Fats

Business area Chocolate & Confectionery Fats manufactures vegetable specialty fats, which are used to replace cocoa butter in chocolate products. The market is growing strongly, and this growth has further accelerated during 2007. AAK has a global, leading position.

The world market comprises a total consumption of confectionery products, based on chocolate, of about 7 million tonnes. Growth on a global basis is about 2.6 percent, or 185,000 tonnes per year.

## Lipids for Care

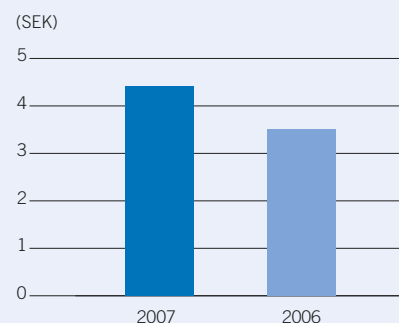
AAK's business sector, Lipids for Care, develops and markets products based on vegetable fats (lipids) for use in the cosmetics industry. The trend towards natural raw materials within the cosmetics industry, together with AAK's unique products, has given strong growth over the last few years. The products have a high added value, and AAK has a market-leading position within this segment, which to a great extent is of niche character. Lipids for Care is, in this respect, a relatively unique business sector.

### Chocolate & Confectionery Fats

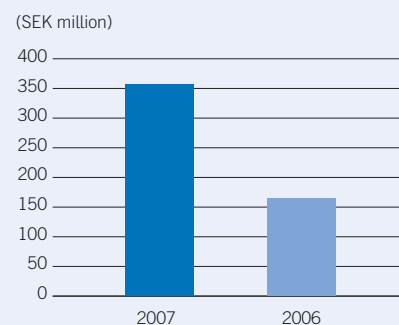
(SEK million)	2007	2006
Net sales	3,914	3,351
Gross contribution	1,270	1,019
Gross contribution SEK per kilo	4.42	3.51
Operating profit excl. non-recurring items	356	164
Operating profit incl. non-recurring items	260	89
Volumes, thousand tonnes	288	290

Sales by the Business area increased as a result of higher CBE volumes.

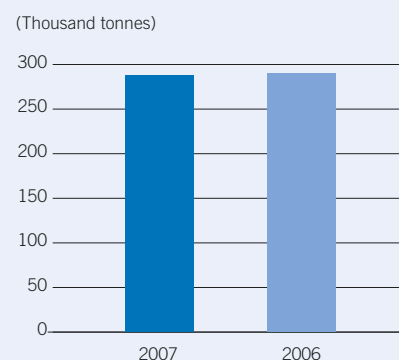
#### Gross contribution per kilo



#### Operating profit excl. non-recurring items



#### Volume





# Chocolate & Confectionery Fats

The fastest growth within the area of Chocolate & Confectionery Fats is in CBE (Cocoa Butter Equivalent), with about 12 percent growth per year. The possibility of replacing some cocoa butter with comparable alternatives from other vegetable fats opened a market in which AAK has been successful.

Apart from growth within CBE (Cocoa Butter Equivalents), AAK has had successful introduction of new products as regards CBR (Cocoa Butter Replacer), CBS (Cocoa Butter Substitute) and filling alternatives. AAK has a broad product

range of specialised, tailored cocoa butter alternatives, making this a multi-faceted business area. Each step of the value chain requires specialist competence from purchasing of raw materials to marketing and sales. AAK has unique expertise, and

the ambition is to develop competence within the area in close cooperation with customers.

The chocolate and confectionery market is characterised to a great extent by the fact that the manufacturers are global. Six manufacturers, Mars, Nestlé, Cadbury, Kraft, Ferrero and Hershey together dominate 60 percent of the market.

AAK provides the market with products mainly from facilities in Aarhus (Denmark), Karlshamn (Sweden), Hull (Great Britain), Morelia (Mexico) and New Jersey (USA), but some production is also located in Zaandijk (the Netherlands), Malaysia and Montevideo (Uruguay).

Cocoa butter is an ingredient in all types of chocolate products. One of the strongest driving forces in replacing cocoa butter with AAK's cocoa butter substitute is the price.

## Shea is the main raw material

In order to be able to manufacture a broad, special range of substitute fats for cocoa butter, a great many exotic raw materials are needed of which shea is the most important. Most of AAK's products are based, or contain, fat extracted from shea. Other important raw materials are palm oil and palm kernel oil, which mainly come from Malaysia.

The shea tree grows wild in West Africa. Shea is harvested by the local population, who gather the fallen fruits. These are bought locally and then traded on the market, where the industry's buyer meets the local seller.

It is estimated that the total annual quantity of shea in West Africa amounts to 1,800,000 tonnes. That part of the harvest which is not gathered up rots on the ground, while the remainder is harvested by the local population. About 400,000 tonnes are consumed locally, and about 200,000 tonnes reach the export markets. As a result of AAK's shortage of shea, considerable efforts were made in 2006 to secure deliveries of shea.



AAK's measures have resulted in a stable situation, in which AAK can satisfy the strongly increasing demand for CBE.

AAK's products can replace cocoa butter. They also add qualities to the end products. Several of AAK's products guarantee higher fat bloom and temperature stability, while others give better consistency and optimised crystallisation properties.

AAK's customer offerings embrace such things as filling fats, fats for chocolate coatings, moulded chocolate products, and speciality fats for spreadable products.

### Our own development resources

The broad product range is a result of goal-oriented development work, which has been conducted in our own laboratories for many years, in combination with close cooperation 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 deliver innovative solutions which reflect market trends and, consequently, predict customer requirements.

In its new form, AAK achieves the critical mass that gives space for development in all respects, from creating a new generation of speciality fats to making optimal investments in new process technologies.

One of the most important milestones in 2007 was the construction of the world's largest facility for the production of CBE in Aarhus (Denmark). The facility will guarantee the possibility of fulfilling the strategy of developing a leading position in Chocolate & Confectionery Fats.

A fire occurred at the beginning of December. Production has gradually started up again, and full production capacity will be achieved during the second half of 2008.

The position in the rapidly growing market in Latin America has been further strengthened through being able to provide the market with products from the local facility in Uruguay.

Also, the growing market for substitute products for cocoa butter in the USA has been supplied from the production facility in Newark (USA). In total, the global production strategy has made it possible for AAK to meet the substantial increase in demand. Because global price increases of raw materials are considerable, this is important for AAK's customers by substituting expensive raw materials

with cheaper but equivalent substitute products.

### Closer to the customer

During the year, AAK's worldwide sales and product organisation was further enlarged with greater representation close to the customers, supported by a strong vision of developing 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 is also a guarantee for the Company having control over global trends and changes.

One of the strongest of these trends is the increasingly important health aspect.

Consumers are becoming more aware and knowledgeable, and this is reflected

in the increasing demand for new fats.

AAK, with its flexible, focused product development process, is ideally positioned in this respect and can meet the new consumer requirements.

The Chocolate & Confectionery Fats range comprises the ingredients in products of more-or-less luxury character. Throughout the world this is a growing market, especially in the so-called developing countries with rapidly growing economies. To develop with this trend, AAK always attempts to become ever more global in its activity in the market, at the same time as added value is constantly increasing in the product portfolio.

AAK is the largest supplier in the chocolate and confectionery market. Competitors include companies such as the Japanese, Fuji Oil, and the Netherlands', IOI Lodders.





## Lipids for Care

Lipids for Care develops and sells products based on vegetable fats under the brand Lipex® for use in skin and hair-care products, make-up and various hygiene articles for washing, showering and bathing. The Lipex® family contains products with everything from softening properties to products with biological effects, for example, anti-age. Also, the business sector has products for parenteral nutrition.

The Lipids for Care niche character runs through all its activities, along the entire value chain. Products and markets are both so unique that they require special knowledge as regards purchase of raw materials, production, development, distribution, marketing and sales. Lipids for Care has successfully built up both its own expertise and the experience which is needed. Work is carried out close to customers throughout the world, in order to guarantee efficient, value-creating

product development, at the same time as continual exchange of knowledge and experience is conducted.

AAK has worked with lipids in cosmetics for many years, and has experience which makes the Company one of the world's foremost specialists in the area.

The absolute most important property of the products in the Lipex® family is to be able to offer good function with products of natural origin. All products from AAK are based exclusively on vegetable

oils, as opposed to synthetic, animal or mineral oil-based products which are common in cosmetic and hair care products.

### A more efficient organisation

During 2007, the process of expanding the organisation and making it more efficient continued through concentrating management, sales, marketing and product development to one operational location, Sweden. During 2007, Lipids for



Care in the USA has built up its own organisation for direct sales and distribution.

The long-term delivery agreement which was entered into in 2006 with BSP Pharma (markets anti-inflammatory products with high demands on documentation, safety and efficiency) led to deliveries during 2007. The products are highly processed, specialty vegetable fats, based on the unique expertise that AAK has as regards the properties of the fat molecule.

### Global market

Lipids for Care's products are manufactured at AAK's production facilities in Karlshamn (Sweden), Aarhus (Denmark) and Hull (Great Britain). The products are strongly global, as they are sold and used throughout the world. In the global market, Lipids for Care competes with large, worldwide chemical groups, such as Cognis and Croda/Uniqema.

Half of the market for cosmetic products is represented by ten global players, with brands such as L'Oreal, Procter & Gamble, Unilever, Beiersdorf (Nivea) and Estée Lauder.

### Market trends

The market trends which have emerged in the past few years remain strong. The number of consumers is increasing in pace with the widening of the customer base in the market for skin and hair-care products, with both young and old purchasers. At the same time, interest is also growing among male customers. New geographic markets are opening one after the other, as consumers in growing economies get higher disposable incomes, with a consequent progressive increase in the potential customer base.

In parallel, there can be seen a strong trend of health awareness, with more customers increasingly demanding healthier, safe 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 natural, renewable raw materials.

The beneficial properties of shea fat have made it into one of the most sought after raw materials in the cosmetics industry. Among other things, shea fat offers a sought-after skin sensation while providing valuable bio-activity with its anti-inflammatory functions, thanks

to its softening and moisture-binding properties. Other exotic raw materials include mango, illipe, almond, sesame, grape, apricot and coconut. Rapeseed oil (Canola) grown in Sweden also has anti-inflammatory properties which is of interest as regards cosmetics.

Against the background of this, AAK sees a growing demand for products developed from the fat in raw materials, such as shea. Lipids for Care is an ideal complement to AAK's business area, Chocolate & Confectionery Fats. They both have products which are high in the processing chain and complement one another well, because the area of each utilises just those parts of the raw materials for which the other has no use.

Parallel with the integration closer to the customer, described above, there is also an integration backwards in the value chain for joint development in the areas of Lipids for Care and Chocolate & Confectionery Fats, both of which utilise the natural properties of shea. An important part of the product profile is the connection to AAK's ethical values. In practice, this means, for example, participation, together with the UN, in projects aimed at improving the conditions of women in West Africa. This also strengthens AAK's position with a number of leading cosmetic companies, which find an increased consumer interest in these issues.

The key to success as regards lipids lies in a careful manufacturing process based on expert knowledge. In order to create products with the functions and quality that customers ask for, a number of different production processes are used, which are found within AAK's

own facilities. 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 the oils and substances in them are preserved, and this has a positive impact on the performance of the end product. Such natural substances include antioxidants and vitamins. As a result of the milder form of cleaning which is used, these positive small components can be retained, while all unwanted substances such as environmental toxins and taste and smell substances are efficiently removed.

### Product development and the future

Lipids for Care is characterised to a high degree by application-direct product development. Further development and improvement of existing products is always a priority, alongside the innovative development of new products. A large part of the development work is conducted in close and continual dialogue with the Company's customers. This dialogue covers both technical and commercial aspects, which makes AAK very familiar with each customer's individual needs and wishes.

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 aim is to create products which offer certain basic functions, for example, moisture producing or cleaning, while a number of advanced functions are included. The product can, for example, function as anti-inflammatory or protect against UV radiation from the sun and environmentally-related pollutants.

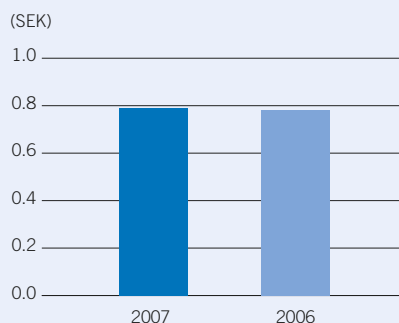


## Technical Products & Feed

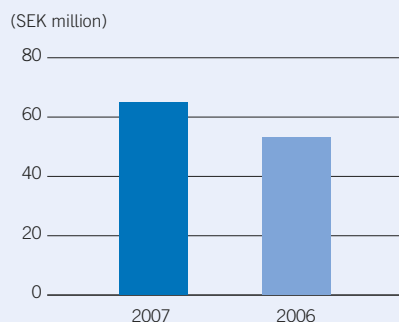
(SEK million)	2007	2006
Net sales	1,307	1,057
Gross contribution	233	202
Gross contribution SEK per kilo	0.79	0.78
Operating profit excl. non-recurring items	65	53
Operating profit incl. non-recurring items	60	45
Volumes, thousand tonnes	295	261

**Sales increased by SEK 96 million in 2007. Processing substitutes were improved on account of increased volumes and high capacity utilisation.**

### Gross contribution per kilo

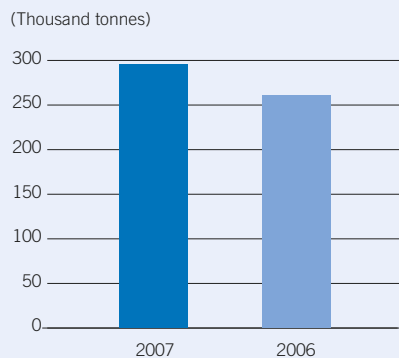


### Operating profit excl. non-recurring items



**Operating profit excluding one-off items of SEK 65 million was 25 percent better than the previous year.**

### Volume



**Volumes increased by 34 thousand tonnes compared with the previous year.**

# Technical Products & Feed

Business area Technical Products & Feed is a good example of the role of vegetable oils in society for environment and health. Both as lubricants in machinery for timber cutting, where the vegetable oil minimises problems with emissions to the natural environment, and as ingredients in animal feeds. The usefulness of the vegetable oils is an example of how the business idea within AAK results in a product range. Candles made from vegetable fatty acid do not produce soot; the vegetable lubricant oil which is spilt from a chain saw goes back into nature. Dairy cattle can be fed with guaranteed salmonella-free, vegetable feedstuffs.

The business area is organised into three sectors: Tefac, which is directed towards the chemical and technical industry, Binol, which markets environmentally-adapted lubricants, and Feed, which markets ingredients for animal feeds.

Among other things, the business area utilises some of the residual products that arise from the production of food oils in AAK's other operations. These are products with relatively high transport costs, and the market is therefore regional, primarily Northern Europe.

The pressure on raw material prices through competition with the bio-energy sector, which started during 2006, has become more intense. It has pushed up costs within all sectors in the business area throughout the year, and strengthened further towards the end of 2007. Margins have therefore been put under pressure, and Technical Products & Feed is following the same strategy as other business areas in AAK, by going towards products with greater specialisation, higher up in the value chain, and thus with higher margins.

### Business sector Tefac

AAK manufactures fatty acids, which are marketed under the brand, Tefacid, and glycerol. Both types of product are extracted through cracking fat molecules, and are used in a large number of application areas.

Fatty acids are primarily used as raw material within the chemical and technical industry, where they are processed further into such things as amines and esters. These are then used as input goods in several application areas, for example, paper chemicals, soap, detergent, rubber and plastic. High quality candles, for example, are made exclusively from fatty acids.

Glycerol is used for products as diverse as cosmetics, explosives, paint and food.

The majority of AAK's customers are in the chemical and technical industries.

Fatty acids and glycerol are manufactured from raw materials which are renewable; a property which will be increasingly valued in the future.

### The market

The market for fatty acids and glycerol is of relatively regional character, on account of high transport costs. The total market in Europe is 1,300,000 tonnes. The markets on which AAK competes are the equivalent of about 500,000 tonnes in Europe. Tefac is the clear market leader in the Nordic Area, where the majority of the products are sold. Tefac has continued to secure its strong logistical position in the Nordic Area. Other important markets are Germany, Poland and Russia. About 85 percent of sales consist of fatty acids, while glycerol is responsible for the remaining roughly 15 percent.

The market for fatty acids is characterised to a very great extent by strongly rising raw material prices through competition for raw materials with the bio-energy sector. 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 prices of fuel oil, in combination with EU subsidies for bio-energy production, have had a noticeable effect on Tefac's profit margins, although it has been possible to pass on some of the raw material price increases to the customers.

Bio-diesel production, which is also subsidised within the EU, affects the supply of glycerol, which is a by-product from bio-diesel production. For a long time, this has pushed glycerol prices downwards, and consequently also profit margins. On account of falling profitability, however, many bio-diesel factories have been





Valmet 901, Harvester

non-operational during the latter part of 2007, and a shortage of raw glycerol has therefore arisen. For the first time in several years, this led to price increases of glycerol. It is probable, however, that the increase will not be sustainable, but is wholly dependent on when the production of bio-diesel starts again.

Both fatty acids and glycerol have, in general, a relatively low degree of processing. Tefac has decided to invest in increasing capacity for more specialised fatty acids and, at the same time, develop other products with higher value added. Tefac's strategy is thus following the strategy in other business areas within AAK, and offers the customers more specialised products in a market which

is otherwise characterised by products which are very similar to one another.

During 2007, a new facility for delivering fatty acids in the form of flakes, packed in sacks, was inaugurated, which opened up the market for new customer segments. During 2007, a step has also been taken for integration forwards through the acquisition of the business segment, Deinking Chemicals from Ciba Specialty Chemicals.

Among Tefac's other competitive advantages can be mentioned efficient logistics, flexible deliveries, reliable quality and strong customer relations, all of which contribute to fortifying Tefac's strong position in a changing market.

### Competitors

On the European market for fatty acid and glycerol, the main roles are held by Uniqema, Cognis and Oleon. Structural change in the market continues, resulting in fewer but larger participants.

### The future

It is expected that the EU will continue to subsidise the manufacture of biofuel and bio-diesel 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

Under the brands of Binol and BioSafe, AAK develops, manufactures and markets environmentally-friendly technical oils, such as metalworking fluids and lubricants for manufacturing industry, and hydraulic and chainsaw oils for the forestry and construction industries.

The largest proportion of Binol's products is sold on the Nordic market, which means that the operation is relatively regional.

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

The total market for metalworking fluids to manufacturing industry in the Nordic Area continued to contract during 2007, despite the high level of economic activity in the manufacturing industry. Nevertheless, Binol has succeeded in increasing its volumes by 25 percent, enabling it to reinforce its position as clear market leader in the bio segment, and number

two on the total Nordic market.

Hydraulic oils are also encountering continued strong growth for AAK of 15 percent in a market which is otherwise stagnant. The same applies to products for the sawmill industry, which, after a period of unchanged volumes, increased during 2007.

About 10 percent of volumes are sold outside the Nordic Area, mainly in the USA, Canada and Germany.

### Healthy and safe

Increased environmental awareness in society and in the market has a strong positive effect on the sale of Binol's products. When mineral oils are replaced with Binol products in manufacturing industry, several advantages are achieved, in the form of improved performance in the form of lubricant properties, lower total costs and, not least, a considerably better working environment. The long life of the oils, in combination with consumption volumes which can often be reduced by up to 50 percent, offset the higher litre price of the Binol product.

The fact that Binol products are based on renewable raw materials has further improved their environmental profile. While the total market for lubricants is contracting, the bio alternatives are achieving increasing market share. This trend favours sales of Binol products. However, the bio-energy sector also affects Binol through dramatic price increases of vegetable oils, which can have a counteracting effect on the increase in environmentally-adapted lubricants.

### 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 sales volumes on markets outside the Nordic Area as well.

### Business sector Feed

Raw materials for animal feed marketed by AAK comprise vegetable protein and fat raw materials for the animal feed industry.



Volvo Cars Body Components, Olofström, Sweden

Feed's customer offers mainly involve various protein and feed fat product groups. When rapeseed is pressed, rapeseed oil is extracted, as is rapeseed meal. Rapeseed meal is processed further at the facility in Karlshamn and marketed under the brand, ExPro™, a product which increases the efficiency of animal feed protein, and increases milk yield from cattle. This product is sold primarily to the Nordic animal feed industry, where business sector Feed has a leading position in the market for by-pass proteins.

Feed's range also comprises solid by pass fats and liquid animal-feed fats. Most of the feed fats are used as ingredients in cattle, pig and poultry feeds. The composition of the feed greatly affects such things as yield from dairy cows and growth rate of pigs and poultry.

98 percent of AAK's sales go to the Nordic Area, where AAK is market leader. The total market for protein supplements for animal feeds comprises about 600,000 tonnes, while the market for fat supplements comprises about 200,000 tonnes. This is a static market without growth. AAK can, however, note a stable increase in new markets outside the Nordic Area for both ExPro™ and animal-feed fats.

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

### 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.

### The future

Business sector Feed is also affected by the bio-energy sector, both through direct competition for certain fat raw materials, and also through price increases of grain. The high price level of grain for animal feeds has caused an increased demand both for rapeseed flour and animal feed fats.

Structural rationalisation in milk production continues both in Sweden and in our neighbouring countries. Structural change in the Baltic states is going faster than expected and with increased intensity of milk production, demand for by-pass products is increasing, which favours business sector Feed.







## Production facilities

AAK manufactures specialty vegetable fats for demanding customers throughout the world. With nine production facilities in seven countries – Sweden, Denmark, Great Britain, Mexico, the Netherlands, the USA and Uruguay – AAK is world leader in the area. During 2007, a series of new initiatives was undertaken to increase capacity within the advanced processes which support AAK's strategy of delivering highly refined specialty fats. Some examples are investment for further improving the fractionation and refining capacity of the facilities.

During the year, AAK's engineers and technicians designed and started up new production facilities in all factories. The factory in Uruguay is now fully completed, and during 2007 was able to deliver the Company's products to the whole of South America. The facility is also in an ideal geographic location for being able to cover the entire South American market, thanks to its position midway between the most important goal areas of Brazil and Argentina.

In the factories in Sweden, Denmark and the Netherlands, AAK has also

undertaken important investments. In Karlshamn, AAK is constructing a new facility for the production of specialty fats within the baby food area, and in the Netherlands, powder fat production has been expanded. Powder fat is used for such things as production of advanced convenience meals and stock cubes.

### Process development

During 2007, AAK's technicians worked intensively with developing new production processes, which shall secure the Company's position as world-leading

innovator of specialty fats for global customers. The development work is being conducted primarily in our laboratories in Sweden and Denmark, where transnational teams cooperate to create new technical solutions of the future in the area of specialty fats.

Some examples are investment in improving production methods in the manufacture of specialty fats, and efforts to improve yield in certain critical processes. AAK is also working with improvements in methods in the area of crystallisation.





### Energy/environment

As a result of heightened demands for cleaner technology in combination with rising energy prices, AAK has reviewed the ways in which energy to the Company's production facilities is generated. In recent years, this has led to considerable investment within the Company's energy generation. During 2007, several of these new technical investments have been taken into use, including a biofuel facility in Karlshamn. AAK is working with continual improvements in the energy processes in order to create cleaner combustion. Additionally, the market for alternative fuels is regularly reviewed. The Company works continually to minimise the risk of release of odours from the facilities, especially those which are located in populated areas.

### The customers

The customers are the most important link in AAK's value chain. Therefore, the

Company's level of service is regularly measured with the goal of continually improving support and delivery to the customers. Among other things, AAK has striven to optimise transport from factory to customer. One example is delivering unique, adapted packaging solutions, which gives the customers competitive advantages. Here, it is important to work together with the customers in order to optimise the flow of goods.

A large proportion of AAK's customers are out in the local markets, but a consequence of the global strategy is that an increasing number of products are distributed globally. While the facilities in the USA and Uruguay primarily supply the markets in North America and South America respectively, the European production facilities are also responsible for considerable distribution to regions such as Asia. Considerable focus is still on the Scandinavian food industry, with efforts to become suppliers of first choice to more customers.

### Strategy

AAK works continually with comprehensive improvements in all parts of its operations. Within the production area, increased efficiency is necessary to ensure long-term competitiveness of operations. The advanced products which the Company manufactures require advanced process equipment, and AAK's ambition is to continually automate both new and existing equipment. During 2007, the decision was made to carry out extensive automation of all AAK's factories, with the aim of reducing costs further.

# One company – nine factories

## Great Britain

*Locations:* Hull, Runcorn and Oldham

*Average number of employees:* 493

*Most important processes:* Refining, bulk loading, box filling.

*Products:* Oils and fats for restaurants and institutions, bulk oils, speciality products for bakery, cosmetics and pharmaceuticals.

## USA

*Location:* Port Newark, New Jersey

*Average number of employees:* 88

*Most important processes:* Refining, bulk loading, box filling.

*Products:* Speciality fats for bakery and other food industry, and speciality fats for the chocolate and confectionery industries.

## Mexico

*Location:* Morelia

*Average number of employees:* 328

*Most important processes:* All major processes within Oils & Fats, from oil extraction and refining to bulk loading and drum/box filling.

*Products:* Chocolate and confectionery fats, covering a complete trans-free range and a number of DFA products (Dairy Fat Alternatives).

## Uruguay

*Location:* Montevideo

*Most important processes:* All important processes in Oils & Fats.

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



## Denmark

*Location:* Aarhus

*Average number of employees:* 424

*Most important processes:* All major processes within Oils & Fats (based on vegetable oil), oil extraction, fractionation, refining, bulk loading and box filling.

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

## Sweden

*Location:* Karlshamn

*Average number of employees:* 637

*Most important processes:* All major processes in Oils & Fats (based on vegetable oil), oil extraction, fractionation, refining, bulk loading and box filling.

*Products:* 400 products, from simple oils to speciality fats for chocolate and confectionery, cosmetics and pharmaceuticals, and for a number of food applications which cover a complete trans-free range, and a number of DFA products (Dairy Fat Alternatives).

## The Netherlands

*Location:* Zaandijk

*Average number of employees:* 63

*Most important processes:* Refining, bulk loading, box filling.

*Products:* A number of different speciality products, from trans-free powder fats to mother's milk substitutes and bakery products.



# Employees

## Christoffer Andersson

Area Sales Manager, Chocolate & Confectionery Fats, Aarhus, Denmark.

### *How long have you worked for AAK?*

Since September 2003. I worked at Karlshamn first of all, but moved to Aarhus last year.

### *What are your work assignments?*

To be the Company's face outwards to our customers and agents. I also coordinate work between myself, my technical support and my sales assistant. I shall inform and provide service to agents and customers about prices and events in the market, and sell our products.

### *Is there any difference between working in Denmark and in Sweden?*

If we talk about work assignments, my work is the same as in Sweden, it's just in a different place. But if we are talking about changing country and colleagues, there are, of course, differences which are both positive and negative, although they are overwhelmingly positive.

### *Was it difficult to get acclimatised in Denmark?*

Of course, there are differences between our countries and offices as such. Things that you don't know about before you move here come up one after the other when you live here, and some can be irritating, while other things are positive, but all-in-all, it has been a good experi-



ence, as the city of Aarhus is very pleasant. Before I moved, the Company gave full help, even though there were some things which could have been done more advantageously, for example, more information about tax regulations and working regulations.

My work assignments did not change to any great extent, so there was no problem there. The methods of working and the

working structure in Denmark are somewhat different compared with Sweden, but I like the way we work here in Denmark.

The reception from my Danish colleagues was incredibly positive, and both myself and my wife felt very welcome. They helped us with suggestions about housing and advising us where to look. They gave suggestions and advice about where we could get information, knowledge about Denmark and so on. All-in-all, they were very helpful.

### *What is the most enjoyable thing about your job?*

To be able to travel to those countries I work with, and experience their differing cultures. Working with companies that operate in a dynamic, somewhat uncertain environment. Being able to work with very competent colleagues in my CAT team (Customer Approach Team), and also having very good colleagues around me in the office.

### *What are you most pleased with when you look back on 2007?*

As regards me personally, the fact that I moved to Denmark and dared to try something new! As regards work, it is that I have maintained a satisfactory result in a changeable, uncertain market area, which is subject to very severe competition.

## Global Leadership Academy

During the autumn, the first phase started of an extensive development programme for about one hundred managers from the entire AAK Group. The long-term goal is to create an integrated AAK, and individual parts of the training are aimed at creating joint basic values and giving the participants deeper understanding of the process of change.

The Group Management participated

in an initial phase, in which working out strategies and values for AAK constituted central components. Over and above this, leadership tools were dealt with in order to create a foundation for a joint leadership vocabulary within the group.

The next phase was the implementation of pilot training in which selected managers went through the training module, and at the same time, took on the role of

fundamentally evaluating parts of it, in order to ensure the creation of an optimal, high quality programme for participants of subsequent training sessions.

A joint view of the leadership creates prerequisites for more efficient cooperation over national borders and between different units.



## Job satisfaction survey

In the summer of 2007, the first global job satisfaction survey was carried out of all employees in the AAK Group. The survey was intended to obtain improvement areas for the Group in total, for individual companies and, of course, for individual departments. Through the merger, for example, many employees have their manager situated somewhere else or in another country, which makes special demands on communication.

Another reason was to obtain a good basis prior to planning of the global leadership development programme "Global Leadership Academy", which started later in 2007.

The attitude study was divided into several areas, for example, daily work, cooperation, management, personal development and innovation.

The result of the survey shows that there are many strong sides, but also that there are areas that need to be improved. The improvement areas are mainly to do with management and internal communication. Within the various operations, the results have now been discussed, and personnel and management are working with concrete proposals for improvements. The attitude study is of annual recurring character, and will also be implemented in 2008.

### Number of employees per country

Country	Average number of employees
Sweden	637
Denmark	424
The Netherlands	63
Great Britain	493
USA	88
Mexico	328
Other	536

# A responsible company

In general, the Company's social responsibilities are to do with cooperation between the Company and society. The ways in which a company handles central components of this are decisive for its long-term development and profitability. This is something that AAK's management is very aware of, and a new organisation for taking social responsibility has therefore been created.

During 2008, a new policy will be produced for the Company's social responsibilities, containing important issues to be dealt with, and measurable goals.

Since Karlshamns and Aarhus United were merged in 2005, work in developing the Company's social responsibility has been conducted in the form of many local initiatives. We will continue to develop these local initiatives in the future within the framework of a joint Group policy for AAK on social responsibility.

## The UN's Global Compact initiative

In mid 2007, AAK decided to support the 10 principles for human rights and labour conditions, environment and anti-corruption, which the UN proposed within the framework of the Global Compact.

At the UN's Global Compact top meeting in Geneva, AAK, together with 200 other companies, signed the "Caring for Climate" statement, and with this undertook to take measures to make the use of energy more efficient and to provide regular information on this.

## Responsible acquisition of raw materials

Shea oil and palm oil are important raw

materials for AAK. Both are extracted from trees from developing countries in the tropics. The shea tree grows in West Africa's savannah, and the local population gather the shea. The oil palm is cultivated in plantations in tropical areas with heavy rainfall, regions where the palms compete for land space with tropical rainforests. In order to guarantee that these raw materials are acquired in a responsible way, AAK actively participates in the UNDP's (United Nations Development Programme) project in the areas where shea is produced, and in the organisation Roundtable for Sustainable Palm Oil (RSPO).

In order to further secure supplies of raw materials, the Company has also engaged in a new initiative to develop allanblackia as a raw material for the food and confectionery industry.

## UNDP partnership

One of AAK's most important raw materials is shea. Women from the local villages gather shea and extract oil, which is used in cooking in the home. Surplus shea is sold on the local market, and constitutes one of the few sources of income for the

very poor population in these areas.

Because we are convinced that by providing equipment which makes the daily work of the women less heavy and time consuming, AAK has invested in a UNDP partnership, which also promotes our own business.

## Novella Africa

In 2007, AAK accepted an invitation to join the Novella Africa initiative. The long-term aim is for people in Africa's tropical rainforest regions to enjoy economic growth and biological diversity. Edible oils from the seeds of the allanblackia tree are to be extracted, with the object of producing commercial products which can be sold throughout the world. The initiative is a public-private partnership, in which the local community, voluntary organisations, donor organs and two private companies are included. Some partners are Unilever, ICRAF, IUCN, ICCO and ICA.

The project is at present being implemented in Cameroon, Ghana, Nigeria and Tanzania. AAK's prime objective is to produce value-creating applications to secure market demand for oil from allanblackia kernels.

## Examples of environmental improvement measures, 2007

### Sweden

- Improved energy utilisation in the generation of steam gives 10 percent lower energy consumption per tonne of oil produced.
- The transition to biofuel and electricity gives 85 percent renewable energy.

### Mexico

- Installation of solar cells for the heating of the tank terminal at Las Cardenas replaces 80 tonnes of heating oil per year.

### The Netherlands

- Improved energy utilisation in the generation of steam gives 8 percent lower energy consumption per tonne of oil produced.

### Great Britain

- The factory in Hull has been inspected and approved by the Environment Agency in Great Britain. The inspection refers to all emissions to water, air and land.
- A system for recycling office materials has been introduced.

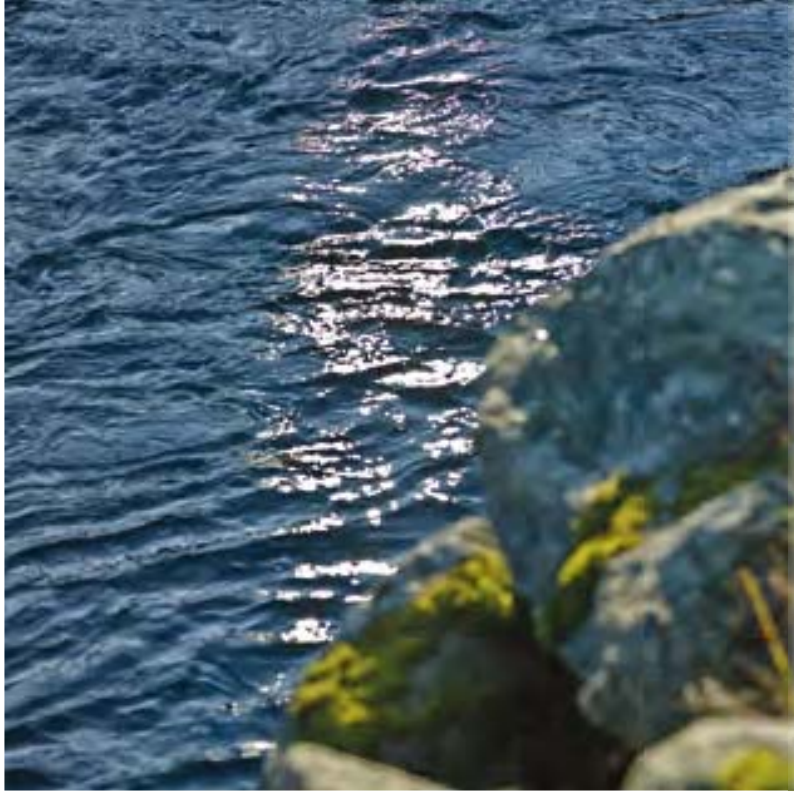
### Denmark

- Installation of new cleaning in the central steam generating unit reduces emissions of NO<sub>x</sub> (nitric oxides) by 50 percent.
- New control equipment in the central steam generating unit reduces emission of particles by half.

### Uruguay

- Conversion of boiler from fuel oil to natural gas reduces emissions.





## Cooperation between AAK and the UN Development Programme

The shea tree grows wild in the savannahs of West Africa. Women from the villages collect the shea and extract the oil.

These women have a very heavy daily workload. They have to fetch water, grind grain, husk rice, press oil from the shea, prepare food, look after the children and many other things. Their occupations leave them very little time for working for income; for example, they have little time to collect shea. In order to make it easier for the women to work for income, it is important to reduce their everyday workload.

So-called multi-functional platforms (MFP) have been shown to be effective in helping them. These consist of a simple diesel engine which can provide various tools and assistance with power, making grinding, husking and pressing more efficient. Furthermore, the engine can run water pumps and generators to generate electricity. The time gained by the women using these platforms can be used for such purposes as collecting more shea, and through this, also improving their economic and social conditions. Studies have shown that mechanical processing of grain saves eight hours work per week. Normally, it takes 48 hours to husk a "paddy" (28 kg of rice) by hand. With MFP, the same process takes less than an hour. In 2003, AAK entered into a cooperation agreement with the UN Development Programme (UNDP). The objective is to install 400 multi-functional platforms in Burkina Faso – partly to counteract poverty and partly to support AAK's strategy of obtaining more shea raw material.

Halfway into the project in 2007, a study was completed which was carried out by an independent third party, in order to assess the effect of the project run by AAK and the UNDP in Burkina Faso.

19 randomly selected villages were studied, and the result confirmed that the project had contributed to improving the living situation of the women in several ways, exactly as expected:

- 60 percent of the women in the group surveyed had savings of more than 300 Euros.
- 3,000 Euros had been paid in the form of wages to the women in the survey groups.
- From the 19 groups of women surveyed, 1,030 Euros had been donated to the local community (2006).
- Literacy among the women had increased by 25 percent.

Knowledge of the positive effects, both for the local population and for AAK's provision of raw materials, has led to AAK and the UNDP making preparations for new cooperation with the objective of installing a further 100 multi-functional platforms in the area around Bobo-Dioulasso in Burkina Faso.



### Roundtable for Sustainable Palm Oil (RSPO)

Palm oil is a raw material which has become increasingly important for AAK. Global production of palm oil has increased rapidly over the past 15 years, and palm oil is now the major vegetable oil, closely followed by soyabean oil. Ever larger areas are being taken over for oil palm plantations in tropical countries, such as Indonesia and Malaysia, and there is unease about the environmental consequences of this expansion.

An important component of AAK's work for sustainable development is the RSPO. In cooperation with the World Wide Fund for Nature and other NGO's, together with a number of companies which cultivate palms, extract and sell palm oil, AAK actively supports sustainable production methods for palm oil. It is expected that palm oil that has been certified in accordance with the RSPO's criteria for sustainable production, will be available on the market in mid-2008. In 2007, AAK established a web-based trading platform, GreenPalm Ltd, in order to facilitate trade with certificates for sustainable palm oil. GreenPalm has been given sole rights by the RSPO to conduct the certificate trade; more information is given on [www.greenpalm.org](http://www.greenpalm.org).

### Responsibility in relation to customers and consumers

Programmes for food safety are high on AAK's agenda. AarhusKarlshamn Sweden was one of the first companies to be certified in accordance with the new ISO standard for food safety, ISO 2200. AAK has a programme for implementing this at other facilities as well, initially in Denmark and the Netherlands during the first half of 2008.

### Responsibility in relation to the environment

There are programmes for controlling and reducing environmental loads from production units at each facility. In line with the intentions in "Caring for Climate", a main theme during 2007 has been to reduce energy consumption, and thus emissions of greenhouse gases. Reduction of greenhouse gases has also been achieved through increased use of renewable types of energy.

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SEK million unless otherwise stated

# Directors' Report

For the financial year 1 January - 31 December 2007

The Board of Directors and President of AarhusKarlshamn AB (publ), corporate identity number 556669-2850, with registered office in Malmö, herewith present the Annual Report for the financial year January - December 2007 and Consolidated Financial Statement for the financial year January - December 2007.

## Profit and financial position

- Net sales, +19%, SEK 13,005 million (10,929).
- Operating profit excluding one-off items and IAS 39, +44%, SEK 653 million (455).
- AAK has requested compensation from the insurance company of SEK 47 million with respect to December, attributable to the Danish incident. As yet, no insurance compensation has been taken up as revenue.
- One-off items in the 2nd quarter SEK -150 million (-102).
- Profit after tax, SEK 319 million (177).
- Earnings per share SEK 7.67 (4.18).
- Proposed dividend of SEK 4.00 (4.00) per share.

Turnover was SEK 13,005 million (10,929), an increase of SEK 2,076 million, 19 percent, primarily on account of substantial increases in raw material prices and volume increases in the Cocoa Butter Equivalent (CBE) segment. Processing substitution increased by SEK 411 million, 15 percent, to SEK 3,134 million. 51 percent of the improvement is from business area Chocolate & Confectionery Fats, primarily due to increased CBE volumes. Processing substitution per kilo increased by 12 percent from SEK 1.90 per kg to SEK 2.12 per kg, primarily on account of the impact of increased CBE volumes.

Operating profit for the full year excluding one-off items and IAS 39 amounted to SEK 653 million (455), which was an increase of SEK 198 million, 44 percent. Changes in exchange rates affected the result negatively from the beginning of the

year by SEK 18 million. Operating profit for the full year including one-off items and IAS 39 amounted to SEK 646 million (342).

Profit for the year was charged with SEK 150 million in one-off costs, of which SEK 100 million in personnel costs and SEK 50 million in write-downs of tangible fixed assets.

Operating profit includes an IAS 39 effect of SEK 143 million (44). Operationally, raw material prices were hedged through forward contracts or through purchase contracts at fixed prices. Also, the Group hedges all transaction risks as regards currencies. This means that processing substitution for each sales contract is hedged. Hedging reporting in accordance with IAS 39 was not applied. In the internal follow up all sales contracts and purchases of raw material (including stock) are market valued with respect to both raw material prices and exchange rates. In accordance with IAS 39, only contracts which are not intended for physical delivery are market valued, which means that a difference arises between the internal and external accounting. It is this effect that AAK reports as an IAS 39 effect.

The IAS 39 effect can have a considerable effect on earnings, both positive and negative, in individual quarters, depending on the mix of contracts, raw material prices and currency developments. The IAS 39 effect has no effect on cash flow but is only a theoretical accounting effect.

Net financial income was SEK -198 million (-74) and earnings after net financial income amounted to SEK 448 million (268), an increase of 67 percent. The tax rate was 29 percent (34). The lower tax rate is explained by one-off effects (deferred tax) in connection with a tax reduction in Denmark. The tax rate, excluding one-off effects, would have amounted to about 31 percent. Profit for the year amounted to SEK 319 million (177). Earnings per share amounted to SEK 7.67 (4.18).

Cash flow from the operating activities was SEK -383 million (177). Working capital increased by SEK 1,164 million, primarily as a result of strategic stockpiling of shea, and the effect of strongly increased raw material prices. The Group's net investments amounted to SEK 700 million (501), which includes the new CBE factory in Aarhus (Denmark). After investments, acquisitions and disposals, cash flow was SEK -1,083 million (-324).

The Group's net borrowings on 31.12.2007 amounted to SEK 4,279 million. Unutilised credit facilities granted totalled SEK 1,111 million. The equity/assets ratio amounted to 28 (33) percent.

## Operations and significant events

### Growth and productivity in focus for AarhusKarlshamn AB (publ)

AarhusKarlshamn AB (publ) (AAK) was formed on 29 September 2005 through a merger of Aarhus United and Karlshamns. Our goal was to create a global leader in the production of specialty vegetable fats, using the large size of the Company to facilitate faster growth and create a highly competitive cost structure, and using its capital resources more effectively.

The Group has realised synergy savings of SEK 175 million with full effect from 2008.

### Businesses

The Company has separate businesses in: Chocolate & Confectionery Fats (including Lipids for Care), Food Ingredients, and Technical Products & Feed. The Group's joint functions are in Group Functions. Group growth is generated through a combination of organic growth and acquisitions.

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 has strong regional positions, primarily in Europe and America.



Technical Products & Feed has a strong position in northern Europe and will continue to focus its efforts for growth on that geographic area through close links to the Karlshamn unit in Sweden, giving significant merger benefits.

### Acquisitions

#### *Croda Food Service*

In order to increase integration ahead and strengthen market position within the bakery sector, AAK acquired Croda Food Service from Croda plc. The acquired business, which has annual sales of over SEK 230 million, is based in Oldham in the UK, and provides the bakery sector with a number of products and services, and specially adapted delivery systems. Croda Food Service contributed positively to the Group's earnings during 2007.

#### *Baby food*

Within the specialty fat area of baby food, AAK entered into an agreement concerning cooperation with Enzymotec, an Israeli development company which specialises in advanced lipids (special fats) with specific health-promoting effects. This will strengthen AAK's world-leading position in this area.

#### *Deinking*

Business area Technical Products & Feed acquired the business unit Deinking Chemicals from Ciba Specialty Chemicals Oy in Finland. Deinking's products (deinking waste paper) are based on special fatty acids. The acquisition is an integration upwards in the value chain. Annual sales are about SEK 25 million and are expected to contribute positively to earnings as from 2008.

#### *Synergies*

AAK's Board of Directors decided during the first quarter of 2007 on a new rationalisation programme, which will mainly affect the Nordic production units. The programme will give an annual rationalisation effect of an estimated SEK 100

million on a full year basis from 2010.

The programme generates one-off costs of SEK 150 million, of which SEK 50 million does not affect cash flow. Personnel reduction is estimated at 150 persons.

### The accident in Aarhus, Denmark

On 4 December 2007, a fire caused by an explosion occurred in AAK's factory in Aarhus, Denmark, in which one employee was killed.

The accident occurred in that part of the factory where vegetable oils are produced for use as components in special fats for chocolate and confectionery products.

At the time of the accident, AAK's new factory for CBE was ready for test operation. The new factory was not damaged in the accident, and is completely separate from the old facility. The new unit is now ready for production start. Official approval for commencement has been delayed on account of the accident. The raw material stock of shea was not damaged in the incident.

AAK has started the process of restoring damaged buildings and infrastructure in order to start the old factory operating, the process equipment of which was in the main not damaged. Start-up is expected to be in the second half of 2008. In the situation which has arisen, AAK is prioritising work with getting production started, and with that, being able to resume deliveries to its customers, and otherwise to be able to limit the negative effects of the accident.

AAK has claimed compensation from the insurance company of SEK 47 million in respect of December 2007. This claim is the object of verification and approval by the insurance company. During 2008, AAK will progressively put forward claims for compensation involving considerable sums. These claims on the insurance company will be reported as income only when the insurance company has verified and approved the claims.

### Compulsory redemption

The compulsory redemption procedure regarding outstanding minority shares of AarhusKarlshamn Sweden AB (previously called Karlshamns AB) was concluded during the fourth quarter of 2007. This procedure commenced during the autumn of 2005, immediately after the merger, against the background of the fact that minority owners equivalent to 1.8 percent of the share capital of AarhusKarlshamn Sweden AB had not accepted the bid that AAK made for the company. Subsequently, through a so-called advance access to the minority shareholders' shares in June 2006, AAK consolidated all shares as regards AarhusKarlshamn Sweden AB in the Company's accounts and the Consolidated Accounts.

Through a judgment of the arbitration board, which has gained legal force, the minority shareholders have now received compensation of a sum of SEK 141.73 per share together with interest of an equivalent of SEK 13.42 per share, i.e., a total of SEK 155.15 per share. The judgment and disbursement thus mean that the compulsory purchase procedure has been concluded.

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

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

## The future

### Prospects

In 2008, the Group expects further development of the specialisation strategy. Cocoa Butter Equivalents (CBE) will continue to be an engine of growth after the new factory starts up, and after restoration of the old factory. Acquisitions and organic growth will progressively improve margins within Food Ingredients.

Synergies of about SEK 175 million will be fully realised during 2008. The main

part of these savings was realised during 2007. The rationalisation programme in the Nordic Area of about SEK 100 million is being developed and will show through fully in 2010.

### Financial Goals

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

### Dividend policy

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

## Nomination Committee

AAK's Nomination Committee proposes, prior to the Annual General Meeting of 21 May 2008, that the number of Board Members shall be ten, and that all present Board of Members shall be subject to re-election. The Nomination Committee also proposes re-election of Melker Schörfling as Chairman of the Board and Carl Bek-Nielsen as Vice Chairman of the Board.

AAK's Nomination Committee prior to the 2008 Annual General Meeting consists of:

- Mikael Ek Dahl (Chairman)
- Carl Bek-Nielsen
- Henrik Didner  
(Didner & Gerge Mutual Fund)
- Jan-Erik Erenius (AMF Pension).

Together, the Nomination Committee represents 46.23 percent of the shares and votes of AAK as on 31 December 2007.

## Share Capital and the Ownership Relationship

The total number of shares of AAK as on 31 December 2007 amounted to

41,383,803. In AAK there is one class of share, and each share gives entitlement to one vote. There are no limits as regards how many votes each shareholder can use in an Annual General Meeting. Nor are there any limitations regarding transfer of the shares as regards provisions in law or in the Articles of Association.

Of the Company's shareholders, only BNS Holding AB has a shareholding which represents at least one-tenth of the number of votes of all shares of AAK. BNS Holding AB's shareholding as on 31 December 2007, amounted to 39.26 percent of the total number of shares.

AAK is not aware of any agreement between direct shareholders of AAK which would mean limitations in the right to transfer shares. On the other hand, there is a shareholder agreement between the owners of BNS Holding AB – Melker Schörfling AB and United International Enterprises Ltd – which can mean a limitation of the right to transfer shares of AAK. The shareholder relationships are described in more detail in the section on AAK shares on page 80.

## Articles of Association

The Articles of Association stipulate that appointment of Board of Members shall be made by the Annual General Meeting of AAK.

The Articles of Association do not contain any provisions regarding dismissal of Board Members or regarding amendment of the Articles of Association.

## Important Agreements affected by Change in Control resulting from Official Take-over Bid

The Group's long-term financing agreement contains stipulations which, in certain cases, give the lender the right to request advanced payment if control of AAK changes substantially. Such a

substantial change in control can occur as a result of an official take-over bid. AAK's assessment is that it has been necessary to accept these stipulations in order to obtain financing on terms which are otherwise acceptable.

## Agreement with Board Members or Other Employees regarding Compensation

Between AAK and its employees there are agreements which stipulate compensation if the employee is given notice of dismissal (without reasonable grounds). Such compensation can be the equivalent of 12 months' basic salary.

## Guidelines for Compensation to Senior Management

Guidelines for compensation to the President and the benefits of other senior management were established by the 2007 Annual General Meeting. No deviations from the guidelines have been made. The Board of Directors of AAK proposes that the 2008 Annual General Meeting shall decide on guidelines for compensation to senior management as follows.

The principles for compensation to AAK's senior management are designed with the objective of ensuring that AAK can offer compensation on market terms, and which is competitive from an international perspective, in order to attract and retain qualified employees. Total compensation to senior management shall consist of a fixed basic salary, annual variable salary, pension, car benefit and severance pay. The fixed salary shall be individually differentiated according to responsibility and performance, and shall be set on the basis of market principles, and shall be reviewed annually.

Over and above the fixed annual salary, the senior management shall also be

able to receive a variable salary, which shall have a pre-determined ceiling, and be based on outcome in relation to annual set goals. The goals shall be related to the Company's profit, and it shall also be possible to connect them to the individual area of responsibility. The annual variable component shall be maximised at 50 percent of the fixed salary. Over and above variable compensation, there can additionally be, from time to time, share or share price-related incentive programmes decided upon. At present, there is no outstanding share or share price-related incentive programme. Pension rights for senior management shall apply from not earlier than 60 years of age. Pension plans for the senior management shall be either defined benefit or defined contribution, or a combination of the two.

In the case of notice given by the Company, the term of notice for the President and other senior management shall be twelve months, with which there shall be the right to severance pay with a predetermined ceiling equivalent to twelve monthly salaries. If the employee gives notice, there shall normally be a term of notice of six months, and no severance pay shall apply.

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

## Product Development

See page 10 above, for further information about the Group's product development.

## Environmental Impact

Environmental impact from our plants includes emissions of odorous substances, solvents, smoke and gases into the atmosphere, also the discharge of fats, oxygen-consuming material, and salts into water. And also organic waste and noise. Continual improvements in AAK's environmental performance are in progress on all levels. We operate all our plants on the basis of appropriate official permits in all relevant countries.

## Personnel

The recruitment of skilled, competent personnel is an important part of maintaining competitiveness for the AAK Group. Therefore, the Company has continuous active personnel development programmes.

## Risk Management and Sensitivity Analysis

All business operations involve risk – a controlled approach to risk-taking is necessary for attaining good profitability. Risk may be dependent on events in the outside world and may affect a specific sector or market; a risk may also be purely company-specific.

At AAK, effective risk management is a continuous process, carried out within the framework of operational management, and it forms a natural part of day-to-day monitoring of operations.

### External risks

The AAK Group is exposed to fierce competition which is characteristic of the industry, and fluctuations in raw material prices which affect tied-up capital.

### Operational risks

Raw material used in operations is agricultural produce, and supply can therefore vary depending on climate and other external factors.

### Financial risks

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

## Corporate Governance

See page 82, Corporate Governance for information on the composition and work of the Board of Directors.

## Parent Company

The Company is the holding company of the AAK Group, and activities consist mainly of joint Group functions connected to the development and management of the Group. The Parent company employs personnel with skills and competence for the execution of group-wide financing, accounting, information and Human Resources. The Parent company is also responsible for Group Strategy and Risk Management, and provides legal and tax-related services to the Group subsidiaries.

The Parent Company's invoicing was SEK 23 million (17) and earnings after financial items amounted to SEK -42 million (75). Interest-bearing liabilities and provisions minus liquid assets were SEK 221 million (83) as of 31.12.2007. The Parent Company's balance sheet total was SEK 5,908 million (5,933) and shareholders' equity totalled SEK 4,348 million (4,512).

There was a total of 11 (11) employees as of 31.12.2007.

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

## Background and Explanation of the Proposed Dividend

The Board of Directors proposes that the 2008 Annual General Meeting should resolve on allocation of profit to the effect



that a dividend be paid to the shareholders of SEK 4.00 per share. The proposed dividend totals SEK 166 million for the Company and 164 million for the Group. The aim is that dividend in the long term should equal 30 – 50 percent of the Group's profit after tax, however always taking into account AAK's long-term financing requirements.

The Parent Company owns no financial instruments valued in accordance with Chapter 4 §14a of the Swedish Annual Accounts Act. The Board of Directors hereby makes the following statement regarding the proposed dividend, in accordance with Chapter 18 §4 (2005:551) of the Swedish Companies Act.

Retained profits from the previous year total SEK 3,964 million and profit for the 2007 financial year totals SEK -30 million (319 million for the Group). Assuming the 2008 AGM approves the Board's proposed distribution of profits, a total of SEK 3,768 million will be carried forward. The Company's restricted reserves will be fully covered after distribution of the dividend.

In the opinion of the Board of Directors, the shareholders' equity of the Company and the Group after the proposed dividend will be sufficiently large in relation to the nature and extent and risks of the business. In this context, the Board of Directors has taken into account the historical development, budgeted development and situation in the business cycle of the Company and the Group.

In our assessment, the Company is in a position and has the capacity, both short and long-term, to meet all its obligations. The proposed dividend constitutes a total of 3.8 percent of the shareholders equity of the Company, and 6.9 percent of the shareholders equity of the Group attributable to the Parent Company's shareholders.

After execution of the distribution of dividend, the equity/assets ratio of the Company and Group will amount to 63.8 percent and 25.7 percent respectively. These figures are good in relation to other

businesses in our industry. The Board of Directors considers that the Company is in a good position to meet future business risks and 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 consider that we have sufficient access to short and long-term credit available at short notice.

The Board of Directors therefore considers that the Company is prepared for likely changes in liquidity and any unforeseen events.

In addition to the above, the Board of Directors has taken into account other known circumstances that might materially affect the financial position of the Company. We consider that there are no current circumstances to make the proposed dividend distribution appear indefensible.

It is proposed that the record date for the dividend shall be 26 May, and it is estimated that the dividend will be with the shareholders on 29 May.

## Proposed Distribution of Earnings

The Board of Directors and the President propose that

the disposable profit brought forward	3,964,195,072 SEK
and the loss for the year	-30,268,175 SEK
<b>Total</b>	<b>3,933,926,897 SEK</b>

Shall be appropriated as follows;

a dividend shall be distributed to the shareholders of SEK 4.00 per share	165,535,212 SEK
<u>to be carried forward</u>	<u>3,768,391,685 SEK</u>
<b>Total</b>	<b>3,933,926,897 SEK</b>

The Consolidated and Parent Company's annual accounts will be presented for adoption by the Annual General Meeting of the Shareholders on 21.05.2008.

# Consolidated Income Statement

SEK million	Note	Jan-Dec 2007	Jan-Dec 2006
Net sales	28	13,005	10,929
Other operating income		23	53
<b>Total operating income</b>		<b>13,028</b>	<b>10,982</b>
Raw materials and consumables, and changes in stock of finished products and products in progress		-9,272	-7,772
Goods for resale		-357	-298
Other external expenses	5, 29	-1,177	-1,186
Cost of remuneration to employees	6, 7, 8, 9	-1,164	-1,063
Depreciation/amortisation and impairment loss	15, 16	-385	-306
Other operating expenses		-27	-15
<b>Total operating expenses</b>	10	<b>-12,382</b>	<b>-10,640</b>
<b>Operating profit/loss</b>		<b>646</b>	<b>342</b>
<b>Income from financial items</b>	11		
Income from financial items		20	33
Financial expenses		-218	-107
<b>Net financial items</b>		<b>-198</b>	<b>-74</b>
<b>Profit/loss before tax</b>		<b>448</b>	<b>268</b>
Income tax	12	-129	-91
<b>Net profit/loss for the year</b>		<b>319</b>	<b>177</b>
<b>Attributable to:</b>			
Minority interest		5	6
Parent company shareholders		314	171
		<b>319</b>	<b>177</b>
<b>Earnings per share attributable to Parent company shareholders during the year</b>			
(SEK per share) – before and after dilution	13	7.67	4.18

# Consolidated Cash Flow Statement

SEK million	Note	Jan-Dec 2007	Jan-Dec 2006
<b>OPERATING ACTIVITIES</b>	30		
Profit/loss after financial items		448	268
Recoveries on amortisation and impairment losses		385	306
Adjustment for items not included in cash flow	30	81	-1
Income tax paid		-133	-71
<b>Cash flow from operating activities before changes to operating assets and liabilities</b>		<b>781</b>	<b>502</b>
<b>Changes in operating assets and liabilities</b>			
Net change in inventories		-953	-160
Net change in other current receivables		-666	-123
Net change in other current operating liabilities		455	-42
<b>Cash flow from operating activities</b>		<b>-383</b>	<b>177</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of intangible assets		-46	-2
Acquisition of tangible fixed assets		-549	-462
Acquisition of operations and shares, net of cash acquired	27	-118	-37
Proceeds from sale of tangible fixed assets		13	-
<b>Cash flow from investing activities</b>		<b>-700</b>	<b>-501</b>
<b>FINANCING ACTIVITIES</b>			
Repayment of borrowed funds and debt securities		1,283	1,426
Sale of treasury shares		5	8
Dividends paid		-163	-1,180
<b>Cash flow from financing activities</b>		<b>1,125</b>	<b>254</b>
<b>Cash flow for the year</b>		<b>42</b>	<b>-70</b>
Cash and Cash equivalents at beginning of year		129	211
Exchange rate difference for cash equivalents		-4	-12
<b>Cash and Cash equivalents at end of year</b>	20	<b>167</b>	<b>129</b>



# Consolidated Balance Sheet

SEK million	Note	31 Dec 2007	31 Dec 2006
<b>ASSETS</b>			
<b>Fixed Assets</b>			
Intangible assets	16		
Goodwill		614	579
Patents and other intangible assets		115	59
		<b>729</b>	<b>638</b>
Tangible assets	15		
Land & buildings		669	620
Plant and machinery		1,811	1,866
Equipment, tools and fixtures & fittings		76	69
Fixed assets under construction		408	196
		<b>2,964</b>	<b>2,751</b>
Financial assets			
Shares in associated companies		4	3
Financial investments		2	0
Deferred income tax assets	12	116	137
Derivative financial instruments	3	8	6
Other non-current receivables		11	19
		<b>141</b>	<b>165</b>
<b>Total fixed assets</b>		<b>3,834</b>	<b>3,554</b>
<b>Current assets</b>			
Inventories	18	2,451	1,512
Accounts receivable	19	1,803	1,401
Prepaid income tax	12	33	36
Other receivables		268	196
Derivative financial instruments	3	201	65
Prepaid expenses and accrued income		100	40
Cash equivalents	20	167	129
<b>Total current assets</b>		<b>5,023</b>	<b>3,379</b>
<b>TOTAL ASSETS</b>		<b>8,857</b>	<b>6,933</b>

# Consolidated Balance Sheet (cont.)

SEK million	Note	31 Dec 2007	31 Dec 2006
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>	31		
Share Capital		414	414
Reserves		-159	-125
Retained earnings, including profit for the year		2,154	1,998
<b>Equity attributable to the Company's shareholders</b>		<b>2,409</b>	<b>2,287</b>
Minority interest		34	32
<b>Total equity</b>		<b>2,443</b>	<b>2,319</b>
<b>Non-current liabilities</b>			
Financial liabilities			
Liabilities to banks and credit institutions	21	4,004	2,293
Pension commitments	9	13	5
		<b>4,017</b>	<b>2,298</b>
Non-financial liabilities			
Deferred tax liabilities	12	321	346
Other provisions	22	140	48
Other non-current liabilities		11	24
		<b>472</b>	<b>418</b>
<b>Total non-current liabilities</b>		<b>4,489</b>	<b>2,716</b>
<b>Current liabilities</b>			
Financial liabilities			
Liabilities to banks and credit institutions	21	427	798
Other current liabilities		13	60
		<b>440</b>	<b>858</b>
Non-financial liabilities			
Accounts payable – trade		723	502
Income tax liability	12	54	60
Other current liabilities		145	137
Derivative instruments	3	107	41
Accrued expenses and deferred income	23	456	300
		<b>1,485</b>	<b>1,040</b>
<b>Total Current Liabilities</b>		<b>1,925</b>	<b>1,898</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>8,857</b>	<b>6,933</b>

# Consolidated Changes in Shareholders' Equity

SEK million	Attributable to the Parent Company's shareholders				Minority interests	Total equity
	Share Capital	Capital contribution	Reserves <sup>1)</sup>	Retained Earnings		
<b>Balance at 1 January 2006</b>	<b>414</b>	<b>3,089</b>	<b>52</b>	<b>-51</b>	<b>50</b>	<b>3,554</b>
Acquisition of shares in						
- AarhusKarlshamn Sweden AB	-	-	-	-39	-19	-58
Sale of treasury shares	-	-	-	8	-	8
Transfer from statutory reserve	-	-3,089	-	3,089	-	0
Dividends	-	-	-	-1,180	-	-1,180
Exchange rate differences	-	-	-177	-	-5	-182
<b>Total transactions recognised in equity</b>	<b>414</b>	<b>-</b>	<b>-125</b>	<b>1,827</b>	<b>26</b>	<b>2,142</b>
Profit/loss for the year	-	-	-	171	6	177
<b>Recognised balance 31 December 2006</b>	<b>414</b>	<b>-</b>	<b>-125</b>	<b>1,998</b>	<b>32</b>	<b>2,319</b>
<b>Opening balance on 1 January 2007</b>	<b>414</b>	<b>-</b>	<b>-125</b>	<b>1,998</b>	<b>32</b>	<b>2,319</b>
Sale of treasury shares	-	-	-	5	-	5
Dividends	-	-	-	-163	-1	-164
Exchange rate differences	-	-	-34	-	-2	-36
<b>Total transactions reported direct in shareholders' equity</b>	<b>414</b>	<b>-</b>	<b>-159</b>	<b>1,840</b>	<b>29</b>	<b>2,124</b>
Profit/loss for the year	-	-	-	314	5	319
<b>Closing balance 31 December 2007</b>	<b>414</b>	<b>-</b>	<b>-159</b>	<b>2,154</b>	<b>34</b>	<b>2,443</b>

1) Reserves only include exchange rate differences in translations from subsidiaries.



# Income Statement – Parent Company

SEK million	Note	Jan - Dec 2007	Jan - Dec 2006
Net sales		23	17
Other operating income		1	0
<b>Total operating income</b>		<b>24</b>	<b>17</b>
Other external expenses	5	-26	-40
Personnel expenses	6, 7, 8, 9	-29	-21
Depreciation/amortisation and impairment loss		0	0
Other operating expenses		0	0
<b>Total operating expenses</b>		<b>-55</b>	<b>-61</b>
<b>Operating profit/loss</b>		<b>-31</b>	<b>-44</b>
<b>Income from financial items</b>	11		
Interest income and similar items		0	127
Interest expense and similar items		-11	-8
<b>Net financial items</b>		<b>-11</b>	<b>119</b>
<b>Profit/loss before tax</b>		<b>-42</b>	<b>75</b>
Income tax	12	12	14
<b>Net profit/loss for the year</b>		<b>-30</b>	<b>89</b>

# Balance Sheet – Parent Company

SEK million	Note	31 Dec 2007	31 Dec 2006
<b>ASSETS</b>			
<b>Fixed assets</b>			
Intangible assets			
Patents, trademarks and similar rights		0	0
		<b>0</b>	<b>0</b>
Tangible assets			
Equipment tools and fixtures and fittings		2	2
		<b>2</b>	<b>2</b>
Financial assets			
Shares in associated companies	17	5,838	5,838
Prepaid income tax	12	-	-
		<b>5,838</b>	<b>5,838</b>
<b>Total fixed assets</b>		<b>5,840</b>	<b>5,840</b>
<b>Current assets</b>			
Receivables from group companies		54	81
Other receivables		4	1
Prepaid expenses and accrued income		10	11
Cash equivalents		-	-
<b>Total current assets</b>		<b>68</b>	<b>93</b>
<b>TOTAL ASSETS</b>		<b>5,908</b>	<b>5,933</b>

# Balance Sheet – Parent Company (cont.)

SEK million	Note	31 Dec 2007	31 Dec 2006
<b>EQUITY</b>	31		
<b>Restricted equity</b>			
Share Capital		414	414
		<b>414</b>	<b>414</b>
<b>Non-restricted equity</b>			
Retained earnings		3,964	4,009
Profit/loss for the year		-30	89
		<b>3,934</b>	<b>4,098</b>
<b>Total equity</b>		<b>4,348</b>	<b>4,512</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Financial liabilities			
Liabilities to banks and credit institutions	21	221	-
Other non-current liabilities		0	-
		<b>221</b>	<b>-</b>
<b>Current liabilities</b>			
Financial liabilities			
Liabilities to banks and credit institutions	21	-	31
Other current liabilities		-	52
		<b>-</b>	<b>83</b>
Non-financial liabilities			
Accounts payable – trade		5	4
Income tax liability	12	0	2
Liabilities to group companies		1,319	1,321
Other current liabilities		2	4
Accrued expenses and deferred income	23	13	7
		<b>1,339</b>	<b>1,338</b>
<b>Total Current Liabilities</b>		<b>1,560</b>	<b>1,421</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>5,908</b>	<b>5,933</b>
Pledged assets	24	-	-
Contingent liabilities	25	-	-



# Changes in Shareholders' Equity – Parent Company

SEK million	Restricted equity		Non-restricted equity	
	Share Capital	Statutory reserve	Retained earnings	Total equity
<b>Balance at 1 January 2006</b>	<b>414</b>	<b>5,170</b>	<b>-11</b>	<b>5,573</b>
Transfer to statutory reserve	-	-5,170	5,170	-
Dividends	-	-	-1,200	-1,200
Group contribution	-	-	70	70
Tax effect on Group contribution	-	-	-20	-20
Net profit/loss for the year	-	-	89	89
<b>Recognised balance 31 December 2006</b>	<b>414</b>	<b>-</b>	<b>4,098</b>	<b>4,512</b>
Dividends	-	-	-165	-165
Group contribution	-	-	43	43
Tax effect on Group contribution	-	-	-12	-12
Net profit/loss for the year	-	-	-30	-30
<b>Closing balance 31 December 2007</b>	<b>414</b>	<b>-</b>	<b>3,934</b>	<b>4,348</b>

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

# Cash Flow Statement – Parent Company

SEK million	Note	Jan-Dec 2007	Jan-Dec 2006
<b>OPERATING ACTIVITIES</b>	30		
Profit/loss after financial items		-42	75
Reversal of amortisation and impairment losses		0	0
Adjustment for items not included in cash flow	30	43	70
Income tax paid		0	0
<b>Cash flow from operations before changes to operating assets and liabilities</b>		<b>1</b>	<b>145</b>
<b>Changes in operating assets and liabilities</b>			
Net change in other current receivables		25	-89
Net change in other current operating liabilities		1	1,332
<b>Cash flow from operating activities</b>		<b>27</b>	<b>1,388</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of intangible assets		0	0
Acquisition of tangible fixed assets		0	-2
Acquisition of operations and shares, net of cash acquired	17	0	-45
<b>Cash flow from investing activities</b>		<b>0</b>	<b>-47</b>
<b>FINANCING ACTIVITIES</b>			
Changes in borrowings		138	-141
Dividends		-165	-1,200
<b>Cash flow from financing activities</b>		<b>-27</b>	<b>-1,341</b>
<b>Cash flow for the year</b>		<b>0</b>	<b>0</b>
Cash and Cash equivalents at beginning of year		-	-
<b>Cash and Cash equivalents at end of year</b>		<b>0</b>	<b>0</b>

# Notes

Amounts stated in SEK million unless specified otherwise

## 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 2007 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 April 2, 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 32:06 '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.

### Standards and Pronouncements not in effect

The following new standards, and the revisions and interpretations of current standards have been published and are mandatory for the Group reports of the financial year starting 1 January 2008 or later but have not been applied in advance by the Group.

#### **IAS 1 Supplemental – Presentation of financial statements:**

Presentation of financial statements (as of January 1, 2009). This change to the standards is still under approval by the EU. The changes involve the form and designations in the financial statements. Future financial statements for the Group will therefore be affected when this standard is fully adopted.

#### **IAS 23 Borrowing costs**

Borrowing costs (as of January 1, 2009) This change to the standards is still under approval by the EU. This change requires that companies recognise as part of the cost of the asset any borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that takes a substantial period to complete for its intended use or sale. The alternative of immediately recognising borrowing costs will no longer be available. The Group will apply IAS 23 (Changes) beginning on January 1, 2009 but this is not currently relevant for the Group since there are no such assets for which borrowing costs can be recognised.

#### **IAS 27 Consolidated and separate financial statements**

This change to the standards is still under approval by the EU. The changes require, among other things, that accounts attributable to minority interests shall always be presented including when the minority share is negative, that transactions with minority interests are recognised as equity, and that where the parent no longer retains control any remaining interest is recognised at fair value. This change to the standard will affect presentation of future transactions.

#### **IFRS 2 Share-based payment**

Vesting conditions and cancellations (as of January 1, 2009). This change to the standards is still under approval by the EU. The changes affect the definition of payment terms for services, and adds a new concept, "non-vesting conditions" (conditions that are defined as not vesting). The standard specifies that "non-vesting conditions" shall be recognised at the estimated fair value of the equity instrument. Goods or services that are obtained from another party that fulfil the vesting requirements shall be recognised as an expense regardless whether the "non-vesting conditions" are met. This change has no effect on the Groups' consolidated financial statements.

**IFRS 3 Business Combinations**

This change to the standards is still under approval by the EU. Changes apply for future dates for business combinations concluded after the standard is adopted. Applying this standard will involve changes to how future business combinations are reported, including reporting of transactions costs, conditional consideration and successive purchases. The group will apply this standard as of the financial year beginning January 1, 2010. Changes to the standard will not have any effect on previous business combinations but will have an effect on the reporting of future transactions.

**IFRS 8 Operative segments**

IFRS 8 replaces IAS 14 and adapts segment reporting to the requirements of USA Standard SFAS 131, Disclosures about segments of an enterprise and related information. The new standard requires that segment information is reported from the perspective the management, so that it is presented the same as for internal reporting. The Group will apply IFRS 8 as of January 1, 2009. Management will continue to analyze any effect the standard will have, however, our current assessment is that the standard will not have any effect on Group financial reports.

**IFRIC 14, 'IAS 19' – The limit on a defined benefit asset, minimum funding requirements and their interaction\***

This interpretation is still undergoing approval by the EU. IFRIC 14 provides guidance in assessing the limitations set out in IAS 19 for the amount of excess that can be reported as an asset. This also describes how retirement assets or liabilities can be affected by statutory or contractual requirements for minimum financing. The Group will apply IFRIC 14 as of 1 January 2008 but this is not expected to change the financial reporting.

\* There is currently no official translation to Swedish.

**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. Inter-company 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.

**Associated Companies**

Associated companies are those businesses in which the Group has significant, but not decisive, influence in determining financial and operation strategies, usually through ownership of between 20 and 50 % of voting rights. Shares in associated companies are reported using the equity method as of the date the Group acquires the significant influence. In using the equity method of accounting, the Group recognizes the fair value of shares in associates corresponding to the Group's ownership share in the associate's equity, including goodwill and other excess values. The Group's share of its associates' post-acquisition profits or losses adjusted for any amortizations, impairment loss is recognized in the consolidated income statements. The cumulative movements are adjusted against the carrying amount of the investment.

Differences at the time of acquisition between acquisition value for the shares and the Groups share of the fair value net of identifiable assets, liabilities and contingent liabilities are reported according to IFRS 3 Business combinations.

The equity method is applied up to the time when the significant influence terminates.

**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 foreign subsidiaries are measured using the currency of the primary economic environment in which they operate (functional currency). The consolidated financial statements are presented in Swedish 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 foreign 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	9.25	9.42
DKK	1.24	1.26
GBP	13.48	12.85
LKR	0.06	0.06
MXN	0.62	0.59
USD	6.74	6.40

**Segment reporting**

The Group's operations are organically divided into business segments based on product. The Group's marketing operations 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 reported allocated over the maturity of the security using the effective interest method.

**Employee benefits***a) Pensions 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 percent of the value of the plan assets and 10 percent 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**

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. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment reflects the excess of the asset's carrying cost over its recoverable amount. The recoverable amount is the higher of the asset's fair value less any selling costs and value in use. For the purpose of evaluation of impairment, assets are grouped on the basis of the lowest level on which there are separately 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 and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill that is 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.

*Other intangible assets*

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

**Tangible 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 loses control of them. This also applies to parts of financial assets. A financial liability is removed from the balance sheet when the duty in the contract is performed or otherwise extinguished. 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 measured at fair value through profit and loss. The Group also has financial assets categorized as financial assets at fair value through profit or loss, and Loans and receivables. 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 in the balance sheets.

#### **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.

#### **Debts to banks and credit institutions**

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 – trade**

Accounts payable-trade 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. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and, if appropriate, the risks specific to the obligation.

#### **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.

#### **Income tax**

Income tax reported 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 only to the extent 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 be reversed in the foreseeable future.

#### **Cash equivalents**

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



**Cash flow analysis**

Cash flows are categorised as follows: Operations, investments, and financing- The Group uses the indirect method for the presentation of cash flows from operating activities.

Changes to operating assets and liabilities for the year have adjusted for effects of exchange rate differences. Acquisitions and disposals are presented in investing activities. The assets and liabilities of the acquisitions and disposals as of the record date are not included in the analysis of net cash used in investing activities nor in net changes of balance sheet items reported as investing or financing activities.

**Earnings per share**

Earnings per share are calculated based on Group net profit/loss for the year attributable to equity holders in the Parent and on a weighted average number of ordinary shares in issue.

**Transfer pricing**

Pricing between Group companies is done at market.

**Dividends**

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 its 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 32:06 '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 market risks (currency, interest rate and price risks) and liquidity risk and credit risk. 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 such significant financial risks make managing these risks a significant prerequisite to our successful operation. We feel that we succeed in this risk management to a large degree using the policies and procedures established for the Group.

The Group's managing of price risk and other risks related to buying raw materials is regulated in the AAK policy 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 and for managing this exposure. Raw material procurement is managed by the Group procurement organization, which continuously monitors and controls raw material market exposure for the Group. However, to maintain an effective organisation, the Group's procurement organization is permitted to take limited price risks within the framework of our trading policy established by the Board of Directors. Since these positions are managed appropriately, AAK results are affected only marginally by any price changes; the affect on total sales and requirements for working capital is, however, significantly larger.

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).

Hedge accounting according to IAS 39 is not applied. Therefore the group's operating profit includes an IAS 39 effect of SEK 143 millions (44).

In the group's internal reporting the hedge contracts as well as the underlying commercial contracts/stocks are valued at actual marked value – making zero the net effect of the marked price valuation. However, IAS 39 allows market price valuation of the hedge contracts only. This difference between the internal market price valuation and IAS 39 market price valuation is the "IAS 39 effect" reported.

This IAS 39 effect can result in changes (both positive and negative) to operational profit/loss for specific quarters depending on the mix of contracts outstanding, and developments in prices for raw material and exchange rates. The IAS 39 effect does not change cash flows, since it is entirely a theoretical accounting effect.

#### Raw materials futures to manage raw material price risk December 31, 2007

(thousand tonnes)	Raw materials inventory	Raw material procurement contract	Raw material sales contract	Raw material futures contract		Net exposure
				Bought	Sold	
Oils and fats	146	339	-554	513	-413	31

#### Raw materials futures to manage raw material price risk December 31, 2006

(thousand tonnes)	Raw materials inventory	Raw material procurement contract	Raw material sales contract	Raw material futures contract		Net exposure
				Bought	Sold	
Oils and fats	217	428	-721	525	-476	-27

#### Sensitivity analysis – raw material

A change of 10% in all raw material prices will have a negligible effect on Group processing reimbursement but would change net sales  $\pm$  SEK 1 000 million and working capital by  $\pm$  SEK 250 million annually.

There is no well functioning futures trading for exotic products (of which shea is clearly the most important). Exotic products must be procured when they are available (in the harvesting season), which leads to excess inventories for the Company until a corresponding contract for sale can be entered. The Company tries to limit this exposure for exotic raw materials by entering appropriate sales contracts when the product is procured. The company normally maintains inventories of these raw materials.

#### Gross contribution for rapeseed

As explained above, our policies and procedures for risk management in general result in gross contribution not being significantly affected by changes in raw material prices. However, we cannot eliminate our exposure for market price fluctuations in relation to extracting rapeseed oil and meal and thereby cannot manage risks for effects on our margins for this processing. Therefore, gross margins for extracting rapeseed oil and meal that we hedge using sales of rapeseed oil and meal when we purchase rapeseed can vary significantly over time and can thereby directly affect profitability for our Food Ingredients Continental Europe segment.

#### Managing energy price risk

The Company's operations are significant consumers of energy. Group energy expenses for 2007 totalled approximately 3.5% of the cost of goods sold. Company policy is to purchase blocks of energy, most often per quarter. However, whenever we assess current energy prices as optimal when setting our budget or at any other time during the year, we do enter fixed price contracts for energy for several quarters forward. This is done using either contracts for physical delivery or financial hedges.

At the end of 2007, the Company had contracts in effect for 25% of our expected energy expenses for 2008.

#### Exposure to foreign currency

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

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

AAK hedges all its transaction risks for exchange rates. Gross contribution on all sales contracts is thereby hedged in the functional currency used where the subsidiary has entered such contracts.

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

Hedge accounting according to IAS 39 is not used.

**Exposure to transaction risk December 31 2007**

Million	Assets	Liabilities	Sales Contracts	Purchase Contracts	Exchange rate future contracts		Net exposure
					Sold	Bought	
USD	130	-97	234	-213	-321	281	14
EUR	64	-17	182	-63	-240	64	-10
GBP	3	-3	3	-1	-3	1	0
NOK	46	-2	208	-	-377	103	-22
Others	45	-16	68	-80	-139	113	-9
<b>Total SEK</b>	<b>1,569</b>	<b>-848</b>	<b>3,587</b>	<b>-2,052</b>	<b>-4,969</b>	<b>2,655</b>	<b>-58</b>

**Exposure to transaction risk December 31 2006**

Million	Assets	Liabilities	Sales Contracts	Purchase Contracts	Exchange rate future contracts		Net exposure
					Sold	Bought	
USD	64	-52	149	-155	-172	154	-12
EUR	32	-8	112	-24	-150	30	-8
GBP	1	-1	4	0	-4	1	1
NOK	46	-1	112	-	-176	17	-2
Others	30	-3	62	-	-119	35	5
<b>Total SEK</b>	<b>817</b>	<b>-446</b>	<b>2,277</b>	<b>-1,269</b>	<b>-2,889</b>	<b>1,384</b>	<b>-126</b>

**Sensitivity analysis – Currency**

A change in 10% in the exchange rate for all foreign currencies as against SEK will affect total sales by SEK 1,000 million and net profit/loss by SEK 25 million when the net sales and profit/loss of the foreign subsidiary is translated to SEK.

**Interest rate risk**

Group policy is to strive to minimise the variation in cash flows and profitability caused by fluctuations in interest rates. This is done by;

1. Financing net capital requirements using variable interest rates,
2. 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.

At year-end 2007, the Group net borrowing from banks and credit institutions was SEK 4,273 million. This total includes a DKK 200 million loan which has been hedged using interest swap contracts against fixed rate loans with 3 to 8 years maturity. The Group has established a hedging strategy designed to attain fixed 5-year interest rates of no greater than 4.50 percent for borrowings of up to DKK 800 million (SEK 1,000 million). Net working capital for the Group was SEK 3,405 million.

Hedge accounting according to IAS 39 is not used.

**Effective interest rate on borrowing from credit institutes on closing day**

	SEK	DKK	EUR	GBP	LKR	MXN	USD
<b>2007</b>	5.42	5.14	5.40	6.60	20.00	8.22	5.67
<b>2006</b>	3.67	4.43	4.07	5.66	16.00	5.23	5.78

**Sensitivity analysis – Interest rate risk**

A change to interest rates of 1% would affect the Groups financial costs by ± SEK 40 to 45 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 maintaining high-grade credit rating (investment grade).

AAK's key business ratios are as follows:

1. Net interest bearing debt / profit/loss before impairment loss (EBITDA) < 3.50.
2. EBITDA / interest cost > 5.00.
3. Equity / Net assets > 25 percent.

Commodity prices and thereby the Groups net working capital have increased significantly in 2007. This explains why the ratio between net interest-bearing debt and EBITDA was 4.2 at year end 2007. The Group currently considers reducing net working capital high important, and we anticipate that the ratio will be less than 3.5 for the next 2 to 3 years.

The total Group borrowing is allocated between subsidiaries based on anticipated cash flows. Tax considerations are also included in determining allocation of borrowings among Group subsidiaries.

The goals set for key business ratios are deemed to be relatively conservative and this helps ensure that AAK will be able to maintain its high-grade credit rating. In allocating borrowings between the operating subsidiaries, all borrowings are translated to the functional currency for each operation. In this way, the Group's total borrowings are expressed in the same currencies 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.

**Total borrowing reported in the Balance sheets, per currency on balance sheet date (SEK million)**

	2007	2006
SEK	862	537
DKK	2,334	1,482
EUR	20	50
GBP	379	336
LKR	40	51
MXN	383	18
USD	413	617
<b>Total</b>	<b>4,431</b>	<b>3,091</b>

**Liquidity Risk**

Liquidity risk involves concerns that the Group experiences difficulties in meeting all its financial commitments.

**Disclosure of financial liabilities by maturity date, December 31 2007**

The table below presents an analysis of all financial instruments held by the Group's categorised by their earliest contractual maturity date at the balance sheet date.

	Total amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>Non-current liabilities</b>					
<i>Financial liabilities</i>					
Liabilities to banks and credit institutions	4,004	-	125	3,234	645
Pension obligations	13	-	-	-	13
<i>Non-financial liabilities</i>					
Other provisions	140	-	105	-	35
Other non-current liabilities	11	-	10	-	1
Deferred tax liabilities	321	-	-	-	321
<b>Total non-current liabilities</b>	<b>4,489</b>	<b>-</b>	<b>240</b>	<b>3,234</b>	<b>1,015</b>
<b>Current liabilities</b>					
<i>Financial liabilities</i>					
Liabilities to banks and credit institutions	427	427	-	-	-
Other current liabilities	13	13	-	-	-
<i>Non-financial liabilities</i>					
Accounts payable – trade	723	723	-	-	-
Current tax liabilities	54	54	-	-	-
Derivative instrument	107	107	-	-	-
Accrued expenses and deferred income	456	456	-	-	-
Other current liabilities	145	145	-	-	-
<b>Total Current Liabilities</b>	<b>1,925</b>	<b>1,925</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>Total amount</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
<b>Standby line of credit</b>	<b>1,111</b>	<b>196</b>	<b>-</b>	<b>915</b>	<b>-</b>

The stand-by line of credit available to the Group at year-end 2007 and the liquid assets generated by operations are considered sufficient for the Group to fully meet all its financial commitments.



## Disclosure of financial liabilities by maturity date, December 31 2006

	Total amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>Non-current liabilities</b>					
<i>Financial liabilities</i>					
Liabilities to banks and credit institutions	2,293	-	18	1,896	379
Pension obligations	5	-	-	-	5
<i>Non-financial liabilities</i>					
Other provisions	48	-	48	-	-
Other non-current liabilities	24	-	24	-	-
Deferred tax liabilities	346	-	-	-	346
<b>Total non-current liabilities</b>	<b>2,716</b>	<b>-</b>	<b>90</b>	<b>1,896</b>	<b>730</b>
<b>Current liabilities</b>					
<i>Financial liabilities</i>					
Liabilities to banks and credit institutions	798	798	-	-	-
Other current liabilities	60	60	-	-	-
<i>Non-financial liabilities</i>					
Accounts payable – trade	502	502	-	-	-
Current tax liabilities	60	60	-	-	-
Derivative instrument	41	41	-	-	-
Accrued expenses and deferred income	300	300	-	-	-
Other current liabilities	137	137	-	-	-
<b>Total Current Liabilities</b>	<b>1,898</b>	<b>1,898</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>Total amount</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
<b>Standby line of credit</b>	<b>786</b>	<b>309</b>	<b>-</b>	<b>477</b>	<b>-</b>

## Credit risk

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

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

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

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

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

## Provisions for doubtful receivables

SEK million	2007	2006
On January 1	15	18
Creation of provisions for impairments	8	2
Unused amounts of provisions reversed	-1	0
Defaults	-6	-5
Exchange rate differences	0	1
<b>On December 31</b>	<b>16</b>	<b>16</b>

Provisions for impairments are entirely related to receivables trade. Total receivables-trade excluding provisions were SEK 1,819 million (1,416 million).

## Past due assets but not considered as impaired

	Payment past due Receivables 2007	Payment past due Receivables 2006
1-30 days	332	302
31-120 days	91	91
121-360 days	5	21
Over 360 days	16	18
	<b>444</b>	<b>432</b>

## Financial instruments

The Group classifies its financial instruments in the following categories: Raw materials futures, Forward foreign exchange contracts and interest rate swaps. Notional principle amounts of outstanding financial instruments reported in the balance sheets.

SEK million Financial instruments	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Raw materials futures	168	78	61	22
Forward foreign exchange contracts	27	28	4	19
Interest rate swaps	14	1	6	-
<b>Total</b>	<b>209</b>	<b>107</b>	<b>71</b>	<b>41</b>

## 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.

### Estimating impairment of goodwill and other assets

The Group tests if any goodwill impairment is suffered on an annual basis or whenever events occur or objective circumstances indicate the fair value of assets that can be due to changes to the business climate or decisions to dispose of or discontinue certain operations. Goodwill is allocated to cash-generating units for the purpose of impairment testing, and is determined when the event or circumstances have an impact on the estimated future cash flow of the unit. In applying this method, the Company relies on several factors, such as profit/loss, business plans, financial forecasts and market data.

### Income tax

The Group is liable to pay taxes in many countries. Extensive reviews and testing are necessary to establish world-wide provisions for income tax liabilities. There are many transactions and calculations involved leading to uncertainties at the time these transactions and calculations are made.

### Other critical estimates and judgements

- 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	
	2007	2006	2007	2006
Audit				
PricewaterhouseCoopers	4,535	3,111	1,253	1,779
KPMG	522	2,727	-	-
Other	132	876	-	-
Subtotal, audit	5,189	6,714	1,253	1,779
Other assignments than auditing				
PricewaterhouseCoopers	1,480	3,313	1,030	3,134
KPMG	278	1,055	-	-
Other	34	135	-	-
<b>Total</b>	<b>6,981</b>	<b>11,217</b>	<b>2,283</b>	<b>4,913</b>

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

**NOTE 6 – STAFF COSTS (SEK THOUSAND)**

	Group		Parent Company	
	2007	2006	2007	2006
Wages and Salaries	806,731	813,904	15,525	12,554
Social security costs (incl. pension costs)	216,421 (73,715)	242,550 (98,593)	9,902 (3,799)	9,246 (4,093)

SEK 3 million (3) 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:

	2007 Board, CEO and other Senior managers		2007 Other Staff	2006 Board, CEO and other Senior managers		2006 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	9,717	1,494	5,808	7,962	-	4,592
Subsidiaries in Sweden	2,477	333	239,116	3,452	151	228,900
	<b>12,194</b>	<b>1,827</b>	<b>244,924</b>	<b>11,414</b>	<b>151</b>	<b>233,492</b>
Foreign Subsidiaries:						
Benin	-	-	25	-	-	-
Brazil	-	-	1,760	-	-	128
Sri Lanka	772	-	10,074	582	144	9,777
Denmark	4,715	302	219,146	21,940	120	217,360
Ivory Coast	-	-	-	-	-	547
Finland	553	-	2,327	760	-	1,798
Ghana	-	-	189	-	-	-
Lithuania	-	-	597	-	-	488
Malaysia	1,059	-	1,772	1,472	143	1,816
Mexico	2,019	678	32,331	744	-	30,564
The Netherlands	1,486	72	28,128	1,279	-	28,419
Norway	-	-	675	-	-	741
Poland	-	-	2,513	-	-	3,644
Russia	-	-	3,850	-	-	3,291
UK	11,003	2,602	170,971	13,537	6,490	174,895
Czech Rep.	599	-	492	526	-	458
Uruguay	-	-	1,354	-	-	1,225
USA	4,635	950	46,568	5,674	1,468	47,733
	<b>26,841</b>	<b>4,604</b>	<b>522,772</b>	<b>46,514</b>	<b>8,365</b>	<b>522,884</b>
<b>Group total</b>	<b>39,035</b>	<b>6,431</b>	<b>767,696</b>	<b>57,928</b>	<b>8,516</b>	<b>756,376</b>

**NOTE 7 – AVERAGE NUMBER OF EMPLOYEES**

	2007 Number of employees	2007 Male	2007 Female	2006 Number of employees	2006 Male	2006 Female
Parent Company in Sweden	11	5	6	5	2	3
Subsidiaries in Sweden	626	486	140	613	474	139
	<b>637</b>	<b>491</b>	<b>146</b>	<b>618</b>	<b>476</b>	<b>142</b>
Foreign Subsidiaries:						
Benin	2	2	-	-	-	-
Brazil	10	7	3	-	-	-
Sri Lanka	464	436	28	489	458	31
Denmark	424	321	103	433	325	108
Ivory Coast	-	-	-	5	5	-
Finland	7	3	4	5	2	3
Ghana	0	0	0	-	-	-
Lithuania	3	2	1	3	2	1
Malaysia	18	7	11	17	9	8
Mexico	328	270	58	319	260	59
The Netherlands	63	52	11	64	52	12
Norway	1	1	-	1	1	-
Poland	10	5	5	11	5	6
Russia	10	3	7	14	5	9
UK	493	389	104	465	361	104
Czech Rep.	4	2	2	4	2	2
Uruguay	7	4	3	4	3	1
USA	88	75	13	77	66	11
	<b>1,932</b>	<b>1,579</b>	<b>353</b>	<b>1,911</b>	<b>1,556</b>	<b>355</b>
<b>Group total</b>	<b>2,569</b>	<b>2,070</b>	<b>499</b>	<b>2,529</b>	<b>2,032</b>	<b>497</b>

Board members and senior managers	2007 Total on reporting date	2007 Male, %	2006 Total on reporting date	2006 Male, %
Group (incl. subsidiaries)				
Board members	138	96	148	92
CEO and other senior managers	66	94	70	94
Parent Company				
Board members <sup>1)</sup>	10	90	8	87
CEO and other senior managers	2	100	2	100

1) And 2 staff representatives, of which 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. This is done January 1.

### 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 senior 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 2,100,000. Of which the Chairman receives SEK 400,000, the vice-chairman SEK 300,000 and external members SEK 200,000.

No separate compensation is paid for committee participation.



Salaries and benefits for the year<sup>1)</sup>

SEK	Salary Board of Directors	Annual variable salary	Other benefits <sup>2)</sup>	Pension costs	Total
<i>Board of Directors</i>					
Melker Schörling (Chairman)	400,000	-	-	-	400,000
Carl Bek-Nielsen, Vice chair	300,000	-	-	-	300,000
Martin Bek-Nielsen	200,000	-	-	-	200,000
John Goodwin	200,000	-	-	-	200,000
Mikael Ekdahl	200,000	-	-	-	200,000
Anders Davidsson	200,000	-	-	-	200,000
Ulrik Svensson	200,000	-	-	-	200,000
Ebbe Simonsen	200,000	-	-	-	200,000
Mårit Beckeman	200,000	-	-	-	200,000
<b>Subtotal for Board</b>	<b>2,100,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,100,000</b>
<i>Senior Managers</i>					
Jerker Hartwall, CEO	4,409,575 <sup>3)</sup>	1,067,500 <sup>4)</sup>	94,002	1,500,000	7,071,077
Other Senior Managers <sup>5)</sup>	9,287,293	2,613,716 <sup>4)</sup>	398,389	1,793,869	14,093,267
<b>Total for Senior managers</b>	<b>13,696,868</b>	<b>3,681,216</b>	<b>492,391</b>	<b>3,293,869</b>	<b>21,164,344</b>
<b>Total</b>	<b>15,796,868</b>	<b>3,681,216</b>	<b>492,391</b>	<b>3,293,869</b>	<b>23,264,344</b>

1) Carried as expense 2007.

2) Other benefits primarily involve company car.

3) In addition to salary, a total of SEK 209,575 was paid, primarily from holiday pay due or reduced working hours.

4) Carried in 2007 and estimated to be paid in 2008. The total SEK 835,930 variable salary carried in 2006 was paid, of which the CEO was paid 0.

5) Refers to the following for 2007: Anders Byström, Jörgen Balle, Magnus Jörsmo, Håkan Christensson and Ian McIntosh.

Jerker Hartwall, the CEO, is currently paid an annual fixed salary of SEK 4,200,000 million plus the value of a company car as of 1 January 2007. In addition, a maximum 50% of the fixed salary can be paid in variable salary. A total of SEK 1,067,500 has been recognised as variable salary. 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 1,500,000 million. Retirement age for other senior managers is either 62 years or 65 years.

Salary and benefits for senior managers is in accordance with resolution of the AGM 2007.

## 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 2007 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 17 million (21).

	Defined benefit plans	
	2007	2006
<b>The amounts recognised in the Group balance sheet are determined as follows:</b>		
Present value of funded obligations	387	433
Fair value plan assets	-397	-388
	<b>-10</b>	<b>45</b>
Present value of funded obligations	-	-
Unrecognised actuarial gains (-) and losses (+)	23	-40
<b>Liability in balance sheet</b>	<b>13</b>	<b>5</b>
<b>Net amounts recognised in the following items in the Consolidated Balance Sheet:</b>		
Pension obligations	13	5
<b>Liability in balance sheet</b>	<b>13</b>	<b>5</b>

	Defined benefit plans	
	2007	2006
<b>The amounts recognised in the consolidated income statement are as follows:</b>		
Current service cost	14	10
Interest cost	21	17
Expected return on plan assets	-17	-15
Past service cost	1	1
Contributions paid	-	-1
<b>Total, included in staff costs (note 6)</b>	<b>19</b>	<b>12</b>

	Pension costs	
	2007	2006
<b>The amounts recognised in the consolidated income statement are as follows:</b>		
Total costs for defined benefit plans including employer's contribution	6	12
Total costs for defined contribution plans including employer's contribution	66	87
<b>Total</b>	<b>72</b>	<b>99</b>

	Defined benefit plans	
	2007	2006
<b>Movement in the liability recognised in the balance sheet:</b>		
Liability at the end of year	5	7
Liabilities recognised in the income statement	19	12
Benefits paid	-12	-14
Contributions by employer to funded obligations	0	0
Exchange rate differences on foreign plans	1	0
<b>Liability at the end of year</b>	<b>13</b>	<b>5</b>

	Defined benefit plans			
	The Netherlands		Sweden	
	2007	2006	2007	2006
<b>The principal actuarial assumptions used on the reporting date (%):</b>				
Discount rate	5.5	4.5	4.6	3.8
Expected return on plan assets	5.5	4.5	4.5	4.3
Future salary increases	2.0	2.0	3.3	2.0
Future pension increases	2.0	2.0	2.3	2.0
Employee turnover	5.0	5.0	5.0	5.0

#### NOTE 10 – PRODUCT DEVELOPMENT

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

#### NOTE 11 – INCOME FROM FINANCIAL ITEMS

	Group		Parent Company	
	2007	2006	2007	2006
Interest income	7	16	0	1
Changes to fair value –derivative instruments	8	6	-	-
Other financial income	5	11	-	-
Intra-group dividends	-	-	-	126
<b>Income from financial items</b>	<b>20</b>	<b>33</b>	<b>0</b>	<b>127</b>
Interest expense	-204	-102	-9	-4
Interest expense Group companies	-	-	-	-1
Exchange rate fluctuation	-8	-3	-	-
Changes to fair value –derivative instruments	-1	-	-	-
Other financial expenses	-5	-2	-2	-3
<b>Financial expenses</b>	<b>-218</b>	<b>-107</b>	<b>-11</b>	<b>-8</b>
<b>Net financial income/expense</b>	<b>-198</b>	<b>-74</b>	<b>-11</b>	<b>119</b>

**NOTE 12 – INCOME TAX EXPENSES**

Income tax expenses for the year	Group		Parent Company	
	2007	2006	2007	2006
Current tax	-135	-69	12	18
Adjustment of tax attributable to previous years	-4	-3	-	-
Deferred tax	10	-19	-	-4
<b>Total</b>	<b>-129</b>	<b>-91</b>	<b>12</b>	<b>14</b>

Group income tax expenses for the year were SEK 129 million (91) or 29.0% (34.0) 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 30.1% (28.7). Tax rates in Sweden are 28.0% (28.0). The actual tax rate for the parent in 2006 is nominally less than the tax rates in Sweden, which primarily consist of effects from tax-exempt dividend distributions from subsidiaries.

	Group		Parent Company	
	2007	2006	2007	2006
Net profit/loss before taxes	448	268	-42	75
Weighted average tax rate, based on the tax rates in each country	-135	-77	12	-21
Tax effect from non-deductible expenses	-11	-25	0	0
Tax effect from taxable income	1	14	0	35
Effect from deficit deduction	9	-	-	-
Effect from changes to tax rates	11	-	-	-
Adjustment for current taxes previous years	-4	-3	-	-
<b>Tax expense</b>	<b>-129</b>	<b>-91</b>	<b>12</b>	<b>14</b>

**Tax items recognised in equity**

	Group		Parent Company	
	2007	2006	2007	2006
Current tax of Group contribution received	-	-	12	20
<b>Total</b>	<b>-</b>	<b>-</b>	<b>12</b>	<b>20</b>

**Deferred tax asset /provisions for deferred tax**

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

Prepaid income tax	Group		Parent Company	
	2007	2006	2007	2006
Loss carry forward	1	4	-	-
Tangible fixed assets	77	91	-	-
Stock	5	-	-	-
Provisions	40	18	-	-
Non-current liabilities	-24	-	-	-
Current liabilities	15	10	-	-
Other temporary differences	2	14	-	-
<b>At year end</b>	<b>116</b>	<b>137</b>	<b>-</b>	<b>-</b>

Deferred tax liabilities	Group		Parent Company	
	2007	2006	2007	2006
Intangible assets	14	15	-	-
Tangible fixed assets	240	237	-	-
Current assets	66	52	-	-
Tax allocation reserve	16	25	-	-
Current liabilities	-15	-	-	-
Other temporary differences	-	17	-	-
<b>At year end</b>	<b>321</b>	<b>346</b>	<b>-</b>	<b>-</b>

**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	
	2007	2006	2007	2006
Income tax liability	-54	-60	0	-2
Tax assets	33	36	-	-
<b>Net income tax liability/Tax assets</b>	<b>-21</b>	<b>-24</b>	<b>0</b>	<b>-2</b>

**NOTE 13 – EARNINGS PER SHARE**

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
Earnings attributable to equity holders of the Parent Company, SEK million	314	171
Weighted average number of ordinary shares in issue	40,858,549	40,805,089
Earnings per share, SEK	7.67	4.18

Earnings per share are calculated for 2007 based on net profit/loss for the year attributable to equity holders in the Parent Company – SEK 314 million (171) and on a weighted average number of ordinary shares in issue of 40,858,549 (40,805,089).

**NOTE 14 – DIVIDENDS PER SHARE**

For 2007, 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 on May 21, 2008 will vote on this proposal. Record date of May 26, 2008 is proposed and the dividend should then be distributed to shareholders by May 29.

**NOTE 15 – PROPERTY, PLANT, AND EQUIPMENT**

	<b>Land &amp; buildings</b>	<b>Plant &amp; machinery</b>	<b>Equipment, tools and fixtures &amp; fittings</b>	<b>Fixed assets under construction</b>	<b>Total</b>
<b>Group</b>					
Beginning of the year January 1, 2006	936	2,567	163	333	3,999
Investments	32	281	30	156	499
Sales and disposals	-15	-7	-4	-	-26
Re-classifications	13	146	115	-274	0
Exchange rate differences	-55	-122	-28	-19	-224
<b>Accumulated cost at December 31, 2006</b>	<b>911</b>	<b>2,865</b>	<b>276</b>	<b>196</b>	<b>4,248</b>
Beginning of the year January 1, 2007	911	2,865	276	196	4,248
Investments	95	191	28	286	600
Sales and disposals	-6	-36	-6	0	-48
Re-classifications	-10	76	2	-68	0
Exchange rate differences	6	-3	1	-6	-2
<b>Accumulated cost at December 31, 2007</b>	<b>996</b>	<b>3,093</b>	<b>301</b>	<b>408</b>	<b>4,798</b>
Depreciation at 1 January 2006	281	944	104	-	1,329
Sales and disposals	-1	0	-2	-	-3
Re-classifications	-1	-98	99	-	0
Depreciation charge	37	228	22	-	287
Exchange rate differences	-25	-75	-16	-	-116
<b>Accumulated depreciation at December 31, 2006</b>	<b>291</b>	<b>999</b>	<b>207</b>	<b>-</b>	<b>1,497</b>
Depreciation at 1 January 2007	291	999	207	-	1,497
Sales and disposals	-3	-8	-6	-	-17
Depreciation charge	35	261	23	-	319
Exchange rate differences	4	-20	1	-	-15
<b>Accumulated depreciation at December 31, 2007</b>	<b>327</b>	<b>1,232</b>	<b>225</b>	<b>-</b>	<b>1,784</b>
Impairment loss at 1 January 2007	-	-	-	-	-
Impairment loss charge	-	50	-	-	50
Exchange rate differences	-	-	-	-	-
<b>Accumulated impairment loss at December 31, 2007</b>	<b>-</b>	<b>50</b>	<b>-</b>	<b>-</b>	<b>50</b>



	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Fixed assets under construction	Total
<b>Residual value according to plan at December 31, 2006</b>	<b>620</b>	<b>1,866</b>	<b>69</b>	<b>196</b>	<b>2,751</b>
of which Land	68				
Assessed value 2006					
Swedish companies					
Land & buildings	138				
Net book value for corresponding assets	109				
<b>Residual value according to plan at December 31, 2007</b>	<b>669</b>	<b>1,811</b>	<b>76</b>	<b>408</b>	<b>2,964</b>
of which Land	68				
Assessed value 2007					
Swedish companies					
Land & buildings	145				
Net book value for corresponding assets	103				

#### NOTE 16 – INTANGIBLE ASSETS

Group	Goodwill	Patents and other intangible assets	Total
Cost at 1 January 2006	595	101	696
Investments	-	2	2
Sales and disposals	-6	27	21
Re-classifications	17	-26	-9
Exchange rate differences	-25	-3	-28
<b>Accumulated cost at 31 December 2006</b>	<b>581</b>	<b>101</b>	<b>682</b>
Cost at 1 January 2007	581	101	682
Investments	28	57	85
Exchange rate differences	5	14	19
<b>Accumulated cost at 31 December 2007</b>	<b>614</b>	<b>172</b>	<b>786</b>
Amortisation and impairment loss at 1 January 2006	2	9	11
Sales and disposals	-	4	4
Re-classifications	-	10	10
Amortisation charge	-	19	19
<b>Accumulated amortisation and impairment loss at December 31, 2006</b>	<b>2</b>	<b>42</b>	<b>44</b>
Amortisation and impairment loss at 1 January 2007	2	42	44
Sales and disposals	-2	-	-2
Amortisation charge	-	16	16
Exchange rate differences	0	-1	-1
<b>Accumulated amortisation and impairment loss at December 31, 2007</b>	<b>0</b>	<b>57</b>	<b>57</b>
<b>Residual value at December 31, 2006</b>	<b>579</b>	<b>59</b>	<b>638</b>
<b>Residual value at December 31, 2007</b>	<b>614</b>	<b>115</b>	<b>729</b>

## Reviewing impairment of goodwill

In preparing the annual accounts for 2007, 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 9% 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 increases one percent or if long-term growth is one percent less.

## NOTE 17 – INVESTMENTS IN ASSOCIATED COMPANIES

	Parent Company	
	2007	2006
Beginning of the year	5,838	5,793
Share of result	-	1,319
Dividends	-	-1,332
Acquisitions of subsidiaries	0	58
<b>Accumulated cost</b>	<b>5,838</b>	<b>5,838</b>

## List of shareholdings and book value, December 31, 2007

	Corp. Id number	Domicile	2007			2006		
			No. of shares	Capital %	Book Value	No. of shares	Capital %	Book value
<b>AarhusKarlshamn Sweden AB, Sweden</b>	556478-1796	Karlshamn	21,864,928	100	3,052	21,864,928	100	3,052
Advanced Lipids	556728-5837	Karlshamn	100	50	-	-	-	-
Tefac AB, Sweden	556283-5214	Karlshamn	1,000	100	-	1,000	100	-
Binol AB, Sweden	556111-3472	Karlshamn	20,000	100	-	20,000	100	-
BioSafe Oy, Finland	1877093-5	Raisio	100	100	-	100	100	-
Belico Holding AB, Sweden	556537-0904	Karlshamn	9,000	100	-	9,000	100	-
AarhusKarlshamn Baltic Holding AB, Sweden	556381-8664	Karlshamn	1,000	100	-	1,000	100	-
AarhusKarlshamn Baltic Ltd, Lithuania	110478793	Vilnius	254	100	-	254	100	-
AarhusKarlshamn Czech Republic Spot.s.r.o., Czech Rep.	15268853	Prag	-	100	-	-	100	-
AarhusKarlshamn Poland Sp.z o.o., Poland	0000124135	Warszawa	100	100	-	100	100	-
AarhusKarlshamn Netherlands BV, Holland	35012547	Zaandijk	500	100	-	500	100	-
AarhusKarlshamn Norway AS, Norway	988369403	Oslo	1,000	100	-	1,000	100	-
Karlshamns UK Holdings Plc., UK	83553	Hull	4,848,499	100	-	4,848,499	100	-
Karlshamns International Plc., UK	2366565	Hull	50,000	100	-	50,000	100	-
Chambus & Fargus Ltd, UK	2352279	Hull	1,642,461	100	-	1,642,461	100	-
AarhusKarlshamn Hull Ltd, UK	2193829	Hull	1,500,000	100	-	1,500,000	100	-
AarhusKarlshamn (Malaysia) Sdn. Bhd., Malaysia	185577-P	Kuala Lumpur	1,500,000	100	-	1,500,000	100	-
<b>Aarhus United A/S, Denmark</b>	45954919	Aarhus	400,000,000	100	2,786	400,000,000	100	2,786
AarhusKarlshamn Denmark A/S, Denmark	15672099	Aarhus	100,000,000	100	-	100,000,000	100	-
AarhusKarlshamn Cote d'Ivoire Sarl, Ivory Coast	226577	Adidjan	-	-	-	-	-	-
AarhusKarlshamn Benin Sarl, Benin	2626-B	Cotonou	500	100	-	500	100	-
AarhusKarlshamn Ghana Ltd, Ghana	80539/0671	Accra	500,000	100	-	500,000	100	-
KNAR Benin Sarl, Benin	19 269B	Cotonou	200	100	-	-	-	-
Kassardjan Industries, Ghana	C-933	Tamale	10,000,000	100	-	-	-	-
AarhusKarlshamn Asia Pacific Sdn.Bhd, Malaysia	516423-P	Kuala Lumpur	500,000	100	-	500,000	100	-
AarhusKarlshamn Australia Pty Ltd, Australia	094486361	South Wales	167,858	100	-	167,858	100	-
AarhusKarlshamn Sp.z.o.o, Poland	0000057626	Gdansk	100,000	100	-	100,000	100	-
Aarhus United ZAO, Russia	1037789094265	Moskva	3,000,000	100	-	3,000,000	100	-
AarhusKarlshamn Havnen A/S, Denmark	13919232	Aarhus	1	100	-	1	100	-
Aarhus 1 A/S, Denmark	10112265	Aarhus	5,000	100	-	5,000	100	-
Aarhus 2 A/S, Denmark	13919275	Aarhus	5	100	-	5	100	-
Aarhus 3 A/S, Denmark	16335770	Aarhus	5,000	100	-	5,000	100	-
Hydrogen I/S, Denmark	21839639	Aarhus	-	65.5	-	-	65.5	-
AarhusKarlshamn Latin America S.A., Uruguay	214947990014	Cousa	150,000,000	100	-	150,000,000	100	-
AarhusKarlshamn do Brasil desenvolvimento de Negocios Ltda, Brazil	07.830.192/0001-02	Sao Paulo	24,000	100	-	24,000	100	-
AarhusKarlshamn UK Ltd, UK	1585686	Hull	23,600,000	100	-	23,600,000	100	-
Green Palm Ltd	5997462	Hull	100,000	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.	AUM8302244G2	Morelia	201,006,799	94.34	-	201,006,799	94.34	-
Aarhus I.B ApS, Denmark	14580298	Aarhus	-	-	-	200,000	100	-
AarhusKarlshamn Byjendomme A/S, Denmark	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	-	955,000	100	-
Frank Fontannaz Holdings Ltd, UK	798 353	London	1,778,932	100	-	-	-	-
<b>Total</b>					<b>5,838</b>			<b>5,838</b>

**NOTE 18 – INVENTORIES**

	Group	
	2007	2006
Raw materials and consumables	1,335	797
Goods in transit	445	274
Products in process	327	192
Finished products and goods for resale	344	249
<b>Total</b>	<b>2,451</b>	<b>1,512</b>

Raw materials and consumables for the Group include impairment loss stock of SEK 17 million (5).

**NOTE 19 – ACCOUNTS RECEIVABLE**

	Group	
	2007	2006
Accounts receivable	1,819	1,417
Provisions for impairment loss to receivables	-16	-16
<b>Net accounts receivable</b>	<b>1,803</b>	<b>1,401</b>
Non-current	-	-
<b>Current</b>	<b>1,803</b>	<b>1,401</b>

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	
	2007	2006
Cash equivalents	158	109
Current investments	9	20
<b>Total</b>	<b>167</b>	<b>129</b>

**NOTE 21 – BORROWINGS**

	Group		Parent Company	
	2007	2006	2007	2006
<b>Long-term</b>				
Debts to banks and credit institutions	4,004	2,293	221	-
<b>Total</b>	<b>4,004</b>	<b>2,293</b>	<b>221</b>	<b>-</b>
	Group		Parent Company	
	2007	2006	2007	2006
<b>Short-term</b>				
Debts to banks and credit institutions	427	798	-	31
<b>Total</b>	<b>427</b>	<b>798</b>	<b>-</b>	<b>31</b>

Maturity for long-term borrowing is as follows:

	Group		Parent Company	
	2007	2006	2007	2006
Between 1 - 5 years	3,359	1,667	221	-
More than 5 years	645	626	-	-
<b>Total</b>	<b>4,004</b>	<b>2,293</b>	<b>221</b>	<b>-</b>

**NOTE 22 – OTHER PROVISIONS**

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
<b>At 31 December 2006</b>	<b>15</b>	<b>25</b>	<b>8</b>	<b>48</b>

Group	Restructuring	Environmental Restoration	Other	Total
Balance at 1 January 2007	15	25	8	48
Provisions for the year	100	-	1	101
Provisions claimed for the year	-9	-	-	-9
<b>At 31 December 2007</b>	<b>106</b>	<b>25</b>	<b>9</b>	<b>140</b>

Provisions include

	2007	2006
Non-current	140	48
Current	-	-
<b>Total</b>	<b>140</b>	<b>48</b>

**Restructuring**

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

**Environmental Restoration**

These provisions are primarily related to restoring contaminated land.

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

	Group		Parent Company	
	2007	2006	2007	2006
Staff related expenses	132	118	7	4
Interest	10	11	2	3
Other	314	171	4	-
<b>Total</b>	<b>456</b>	<b>300</b>	<b>13</b>	<b>7</b>

**NOTE 24 – ASSETS PLEDGED**

	Group		Parent Company	
	2007	2006	2007	2006
<b>Collateral for provisions and liabilities</b>				
Property mortgage	857	515	-	-
Floating charge*	50	53	-	-
<b>Total</b>	<b>907</b>	<b>568</b>	<b>-</b>	<b>-</b>

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

**NOTE 25 – CONTINGENT LIABILITIES**

	Group		Parent Company	
	2007	2006	2007	2006
Other contingent liabilities	-	20	-	-
<b>Total</b>	<b>-</b>	<b>20</b>	<b>-</b>	<b>-</b>



**NOTE 26 – RELATED PARTY TRANSACTIONS**

The Group has no sales to and has not purchased from related parties. For the Parent Company, SEK 23 million (17) of total sales was to related parties, equalling 100 % (100) of sales to Group companies. The Parent Company's purchasing from Group companies is related to administrative services of limited scope. All transactions were carried out at market value.

**Transactions with key management personnel**

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 65.

**NOTE 27 – ACQUISITIONS****Acquisitions 2007**

AarhusKarlshamn UK Ltd acquired Croda Food Service from Croda plc as of April 29, 2007. Total sales for the acquired operations were over SEK 230 million and included 68 employees. The business is based in Oldham, Great Britain and supplies the bakery industry with various products and services, as well as customized delivery systems. Croda Food Service made a positive contribution to Group results for 2007.

Goodwill from synergies involving improved production and sales processes through added product programs has been recorded.

Total fair value for assets and liabilities for the acquired operations.

Amount in SEK million	Carrying amount in the acquired company	Adjustment to fair value	Carrying amount in the Group
Tangible assets	34	18	52
Inventory	14	-	14
Other receivables	36	-	36
Accounts payable – trade	-19	-	-19
Other liabilities	-5	-	-5
<b>Identifiable assets</b>	<b>60</b>	<b>18</b>	<b>78</b>
Goodwill	-	-	25
<b>Purchase consideration discharged by cash</b>	<b>-</b>	<b>-</b>	<b>103</b>
Cash and cash equivalents in the acquired operation	-	-	-
<b>Net payment made</b>	<b>-</b>	<b>-</b>	<b>103</b>

AarhusKarlshamn Sweden AB acquired the business unit Deinking Chemicals from Ciba Specialty Chemicals Oy in Finland on October 31, 2007. These operations had total sales of SEK 25 million. Operations were transferred to our facility in Karlshamn to obtain transportation and cost benefits. The chemicals from Deinking (de-inking returnable paper) is based on special fatty acids and the acquisition is seen as an important strategic step upstream in the value chain for our Tefac business segment. The acquisition is expected to have a positive effect on profits as of 2008.

Total fair value for assets and liabilities for the acquired operations.

Amount in SEK million	Carrying amount in the acquired company	Adjustment to fair value	Carrying amount in the Group
Intangible assets	-	14	14
Tangible assets	1	0	1
<b>Identifiable assets</b>	<b>1</b>	<b>14</b>	<b>15</b>
Goodwill	-	-	-
<b>Purchase consideration discharged by cash</b>	<b>-</b>	<b>-</b>	<b>15</b>
Cash and cash equivalents in the acquired operation	-	-	-
<b>Net payment made</b>	<b>-</b>	<b>-</b>	<b>15</b>

**NOTE 28 – SEGMENT REPORTING**

Reporting per primary segments – Business areas.

<b>2007</b>	<b>Chocolate &amp; Confectionery Fats</b>	<b>Food Ingredients</b>	<b>Technical Products &amp; Feed</b>	<b>Group Functions</b>	<b>Eliminations</b>	<b>Group 2007</b>
<b>Net sales</b>						
External sales	3,914	7,499	1,306	286	-	13,005
Internal sales	579	158	29	44	-810	-
<b>Group total</b>	<b>4,493</b>	<b>7,657</b>	<b>1,335</b>	<b>330</b>	<b>-810</b>	<b>13,005</b>
<b>Operating profit/loss per business areas</b>						
Excluding extraordinary items and IAS 39	356	278	65	-46	-	653
Excluding IAS 39	260	229	60	-45	-	504
<b>Other</b>						
Assets	3,702	3,732	569	538	-	8,541
Unallocated assets	-	-	-	-	-	316
<b>Group total</b>						<b>8,857</b>
Liabilities	755	714	61	79	-	1,609
Unallocated liabilities	-	-	-	-	-	4,805
<b>Group total</b>						<b>6,414</b>
Investments	305	358	46	4	-	713
Amortizations and Impairment loss	-171	-186	-20	-9	-	-386

All transactions between business areas are recorded at market value.

**Reporting per Market**

	<b>Sweden</b>	<b>Denmark</b>	<b>Central and Scandi- navia</b>	<b>Eastern Europe</b>	<b>West Europe</b>	<b>America</b>	<b>Other Countries</b>	<b>Total</b>
External sales	1,663	405	883	1,695	4,550	3,003	806	13,005
Total assets	1,845	3,923	62	71	1,480	1,165	311	8,857
Investments	126	217	-	-	248	82	40	713

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.

<b>2006</b>	<b>Chocolate &amp; Confectionery Fats</b>	<b>Food Ingredients</b>	<b>Technical Products &amp; Feed</b>	<b>Group Functions</b>	<b>Eliminations</b>	<b>Group 2006</b>
<b>Net sales</b>						
External sales	3,351	6,177	1,057	344	-	10,929
Internal sales	203	150	19	30	-402	-
<b>Group total</b>	<b>3,554</b>	<b>6,327</b>	<b>1,076</b>	<b>374</b>	<b>-402</b>	<b>10,929</b>
<b>Operating profit/loss per business areas</b>						
Excluding extraordinary items and IAS 39	164	268	53	-30	-	455
Excluding IAS 39	89	235	45	-27	-	342
<b>Other</b>						
Assets	2,676	3,233	413	307	-	6,629
Unallocated assets	-	-	-	-	-	304
<b>Group total</b>						<b>6,933</b>
Liabilities	260	704	85	69	-	1,118
Unallocated liabilities	-	-	-	-	-	3,496
<b>Group total</b>						<b>4,614</b>
Investments	175	261	42	23	-	501
Amortizations and Impairment loss	-118	-147	-17	-24	-	-306

All transactions between business areas 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
Investments	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	
	2007	2006
Less than 1 year	12	15
1 to 5 years	28	37
Greater than 5 years	4	11
<b>Total</b>	<b>44</b>	<b>63</b>

Operational leasing expenses of SEK 17 million (14) are reported in the profit/loss for the period.

## NOTE 30 – SUPPLEMENTAL CASH FLOW STATEMENT

	Group		Parent Company	
	2007	2006	2007	2006
Interest paid and dividends received				
Interest received	11	17	0	1
Interest paid	-212	-97	-12	-4
Dividends received	4	4	-	-
Dividends received from group companies	-	-	-	126
<b>Total</b>	<b>-197</b>	<b>-76</b>	<b>-12</b>	<b>123</b>

	Group		Parent Company	
	2007	2006	2007	2006
Adjustment for items not included in cash flow				
Provisions	94	-	-	-
Group contribution	-	-	43	70
Sales of fixed assets	-5	-	-	-
Other	-8	-1	-	-
<b>Total</b>	<b>81</b>	<b>-1</b>	<b>43</b>	<b>70</b>

## NOTE 31 – SHAREHOLDERS EQUITY

### Group

#### Share Capital

Registered share capital as of 31 December 2007 totalled SEK 413,838,803 allocated to 41,383,803 shares.

#### 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 515,993 (539,146) treasury shares as of 31 December 2007.

### Parent Company

#### Share Capital

In accordance with the articles of association for AarhusKarlshamn AB (publ) share capital shall be no less than SEK 300 million and no greater than 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, added to profit/loss for the year and any funded fair value non-restricted equity. This 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 2007 is SEK 166 million (SEK 4.00 per share) and has not been considered by the AGM. This amount is not reported as a liability.



Annual accounts, and consolidated accounts to be submitted for resolution to the Annual General Meeting of the shareholders to be held 21 May 2008.

The Board of Directors and the President confirm that to the best of our knowledge, the annual accounts have been prepared in accordance with the IFRS international standards as adopted by the EU, and that this report provides a fair and complete representation of the Group's position and results. This annual report has been prepared in accordance with generally accepted accounting standards and provides a fair and complete representation of the Parent's position and results.

The Directors' report for the Group and Parent provides a fair review of developments for the operations of the Group and Parent, their circumstances and results and that the report describes the known risks and risk factors faced by the Parent and Group companies.

Malmö, 2 April, 2008

Melker Schörling  
Chairman

Carl Bek-Nielsen  
Vice Chairman

John Goodwin  
Board member

Martin Bek-Nielsen  
Board member

Mikael Ekdahl  
Board member

Märit Beckeman  
Board member

Ebbe Simonsen  
Board member

Annika Westerlund  
Employee Representative

Anders Davidsson  
Board member

Ulrik Svensson  
Board member

Jerker Hartwall  
President and CEO

Leif Håkansson  
Employee Representative

Audited and submitted 2 April 2008  
PricewaterhouseCoopers AB

Anders Lundin  
Authorized  
Public Accountant  
Lead Auditor

Eric Salander  
Authorized  
Public Accountant

# Auditors' Report

## To the Annual General Meeting 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 2007. The Company's annual accounts and consolidated accounts are included in the printed version of this document on pages 38-78. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. The Board of Directors and the President are responsible for the application of the Annual Accounts Act in preparing the annual accounts, and the application of the IFS international accounting standards as adopted by the EU and the Annual Accounts Act in 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, 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, thereby, 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 the IFRS international accounting standards, as adopted by the EU and the Annual Accounts Act and, thereby, give a true and fair view of the Group's financial position and results of operations. The administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the 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, 2 April 2008

PricewaterhouseCoopers AB

Anders Lundin  
Authorized Public Accountant  
Lead Auditor

Eric Salander  
Authorized Public Accountant

# The AAK Share

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

## Turnover and price trend

During 2007, 21.2 million shares (17.5) were sold for a total value of SEK 3,587 million (3,210) which is the equivalent of a turnover rate of 51.3 percent (42). Average trade per trading day was 84,909 shares (69,530) or SEK 14,347 thousand (12,790). At the year-end, the share price was SEK 117 (201) and AAK's market value was SEK 4,842 million (8,318). The highest price paid during the year was SEK 237.50 (16-01-2007) and the lowest price paid was SEK 117 (28-12-2007).

## Share capital

On 31 December 2007, AAK's share capital amounted to SEK 413,838,030 (413,838,030). The number of shares was 41,383,803 (41,383,803). The quota value per share is SEK 10. Each share gives entitlement to one vote. All shares

have equal rights to participate in the profits and assets of the Company.

## Ownership situation

At 31 December 2007, the number of shareholders was 6,857 (7,100).

## Compulsory purchase

During the fourth quarter of 2007, compulsory purchase was completed for all the remaining 358,000 shares of the subsidiary company, AarhusKarlshamn Sweden AB (previously called Karlshamns AB). After the compulsory purchase, all participations in respect of AarhusKarlshamn Sweden AB are consolidated in the Company's Accounts and Consolidated Accounts.

## Planned dividend policy

The Board of Directors has made a deci-

sion on a dividend policy. According to the new policy, the objective of the Board is, taking into account the earnings trend, financial position and future development possibilities of the Group, is to propose annual dividends equivalent to at least 30-50 percent of the year's earnings after tax for the Group.

## Dividend

The Board of Directors of AAK proposes a dividend for the financial year 2007 of SEK 4.00 per share (4.00), a total of SEK 166 million (166).

## AAK's IR work

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

In connection with the publication of financial reports, AAK held a Press and

Analysts conference. Interested persons can also download presentation material and listen to sound recordings of the conference via [www.aak.com](http://www.aak.com), which makes the conference accessible for all shareholders. Over and above this, the Company Management has met analysts and other professional participants in Stockholm and London.

During 2007, the Company participated in a large number of share investment and customer meetings with banks, and at Stora Aktiedagen in Malmö, which was arranged by the Swedish Shareholders' Association.

Financial information concerning AAK is available on [www.aak.com](http://www.aak.com). This includes financial reports, press releases and presentations. The Company's press releases are distributed via Cision.

#### The following analysts follow AAK on a continual basis:

Carnegie Investment Bank AB,  
Adam Nyström  
Swedbank, Mats Larsson  
SEB, Daniel Schmidt, Stefan Mattsson  
A-Brokers Securities, Karl-Johan Bonnevier

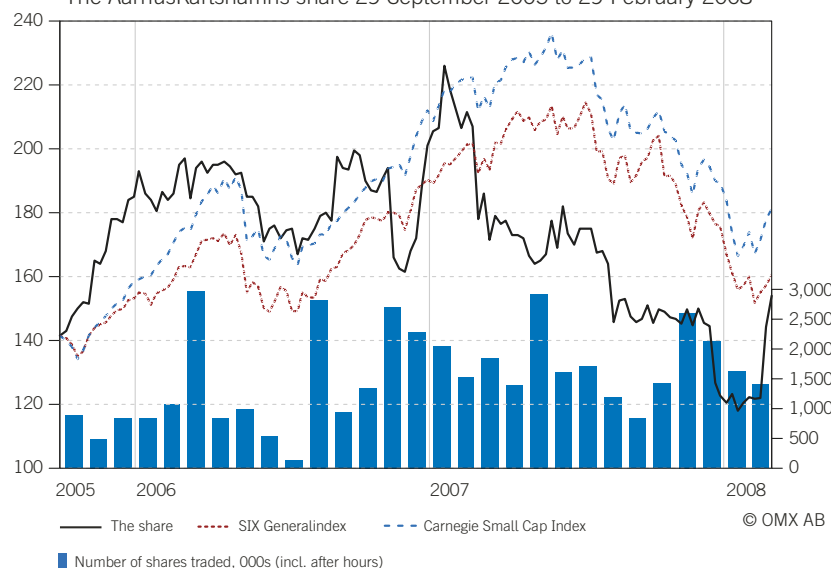
#### Shareholder contact

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e-mail [jerker.hartwall@aak.com](mailto:jerker.hartwall@aak.com)

Anders Byström, Finance Director and CFO,  
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e-mail [anders.bystrom@aak.com](mailto:anders.bystrom@aak.com)

Bo Svensson, Information Director and CIO,  
telephone: +46 40 627 83 31,  
e-mail [bo.svensson@aak.com](mailto:bo.svensson@aak.com)

The AarhusKarlshamns share 29 September 2005 to 29 February 2008



#### The largest shareholders 31-12-2007

	Number of shares	Percentage of share capital and votes, %
BNS Holding	16,247,206	39.26
Arbejdsmarkedets Tillægspension	3,441,411	8.32
Didner & Gerge Aktiefond	2,040,000	4.93
BT Pension Scheme	706,900	1.71
Fjärde AP-Fonden	567,200	1.37
Nordea Bank Finland ABP	543,693	1.31
Caceis Bank/18129	512,855	1.24
SSB CL Omnibus AC OM07	487,443	1.18
Other shareholders	16,837,095	40.68
Total	41,383,803	100.00

#### Data per share

	2007	2006
Share price year end, SEK	117	201
Dividend, SEK	4.00	4.00
Direct yield, %	3.4	2.0
Pay-out ratio after tax, %	52.2	95.7
Earnings per share, SEK	7.67	4.18
Shareholders' equity per share, SEK	58.94	56.01
P/E ratio after tax, SEK	15	48
Share price / Shareholders' equity	2.0	3.6

Definitions, see page 89.

#### Distribution of shareholdings as of 31-12-2007

Number of shares	Number of shareholders	Percentage of all shareholders, %	Percentage of share capital and votes, %
1-500	4,758	69.40	2.26
501-1,000	1,004	14.64	2.06
1,001-5,000	790	11.52	4.25
5,001-10,000	127	1.85	2.30
10,001-15,000	33	0.48	1.02
15,001-20,000	24	0.35	1.02
20,001-	121	1.76	87.09
Total	6,857	100.00	100.00





# Corporate Governance Report

## Corporate Governance Report 2007, AarhusKarlshamn AB (publ) (AAK)

Efficient, clear corporate governance contributes to ensuring that AAK's interest groups have confidence in the Company, and also intensifies focus on business utility and shareholder value in the Company. AAK's Board and management strive to make it easy for the individual shareholder to follow the decision routes of the Company, and clarify where responsibility and authority are in the organisation, through considerable openness.

Corporate governance within AAK is based on applicable legislation, rules and regulations of the OMX Nordic Exchange Stockholm, and various internal guidelines. In December 2004, the Swedish Code Group presented the Swedish Code for Corporate Governance (the Code). The OMX Nordic Exchange Stockholm has incorporated the Code as part of the listing agreement entered into with those companies whose shares are listed on the Exchange.

AarhusKarlshamn applies the Code, and in those cases in which it has been

decided to deviate from the regulations of the Code, justification is presented under the respective section of the corporate governance report.

### General information

AAK is a Swedish joint stock company, the shares of which are traded on the OMX Nordic Exchange Stockholm in the Mid Cap segment, Consumer Commodities sector. AAK has about 7,000 shareholders. Operations are global with a presence in almost 100 countries. The number of employees is about 2,500. Responsibility for management and control of AAK is shared between the shareholders at the Annual General Meeting, the Board of Directors, its appointed committees and the President, in accordance with the Swedish Companies Act, other laws and regulations, current rules for stock exchange-listed companies, the Articles of Association and the Board of Directors' internal control instruments.

AAK's aim is to be the obvious first choice for customers and create the best possible value for the Company's various

interest groups – primarily customers, suppliers, shareholders and employees. At the same time, AAK shall be a good social citizen, which takes long-term responsibility. The aim of corporate governance is to define a clear division of the roles of responsibility between owners, Board of Directors, executive management and various supervisory bodies. In line with this, corporate governance also covers the Group's control and management system.

### Ownership structure

Information on shareholders and shareholdings is given on pages 80-81.

### Articles of Association

AAK's present Articles of Association were adopted by the Annual General Meeting of 23 May 2006. The Articles of Association state that the objects of the Company are to conduct manufacturing and trading, primarily within the food industry, to own and manage shares and securities, and other associated activities. In the Articles of Association, the rights of the shareholder-

## CORPORATE GOVERNANCE



ers are set out, and also the number of members of the Board and auditors, that the Annual General Meeting shall be held annually within six months from the end of the financial year, the way in which notification of the Annual General Meeting shall be made, and that the Board of Directors of the Company shall have their registered office in Malmö, Sweden. The Company's financial year is a calendar year. The Annual General Meeting shall be held in Karlshamn or Malmö.

For the current Articles of Association, see [www.aak.com](http://www.aak.com).

### Annual General Meeting

The Annual General Meeting of AAK is the highest decision-making organ, and the forum through which the shareholders exercise their influence over the Company. The tasks of the Annual General Meeting are regulated in the Swedish Companies Act and in the Articles of Association. The Annual General Meeting decides on a number of central issues, such as adoption of the Income Statement and Balance Sheet, discharge from liability of the Board of Directors and President, dividends to the shareholders, and on composition of the Board of Directors. Further information about the Annual General Meeting, together with full minutes of previous meetings is published on [www.aak.com](http://www.aak.com).

### Annual General Meeting 2007

At the Annual General Meeting on 21 May 2007, shareholders participated, representing 59 percent of the share capital and votes in the Company. The Chairman of the Board, Melker Schörling, was elected Chairman of the Meeting. At the Meeting, the Income Statement and Balance Sheet were adopted, together with the Consolidated Income Statement and Consolidated Balance Sheet. In connection with this, the Meeting approved the Board of Directors' proposal for profit distribution for the 2006 financial year of a dividend of SEK 4.00 per share. Jerker Hartwall, President and Group CEO, commented in his statement on the 2006 financial year and developments in the first quarter of 2007. He also gave an account of developments within the growth area of substitute fats for the chocolate industry, and AAK's strategy and goals for future development. The following Board members were re-elected, Melker Schörling, Carl Bek-Nielsen, Martin Bek-Nielsen, John Goodwin, Mikael Ekdahl, Ebbe Simonsen, Märta Beckeman and Jerker Hartwall. Also, Ulrik Svensson and Anders Davidsson were voted new members of the Board. Melker Schörling was elected Chairman of the Board and Carl Bek-Nielsen Vice Chairman of the Board. The personnel organisations had appointed Annika Westerlund (PTK-L) and

Leif Håkansson (IF Metall) as employee representatives, and Christer Svanteson (IF Metall), and Roland Mårtensson (PTK-L) as deputies.

### Nomination Committee

Decisions to be taken at the Annual General Meeting include election of the Board of Directors. The task of the Nomination Committee is to put forward proposals to the Annual General Meeting regarding election of Chairman and other members of the Board, and of Chairman of the Annual General Meeting, together with issues concerning fees and associated issues. The Nomination Committee does not make proposals regarding election and fees of auditors as these matters are included in the Audit Committee's assignments.

### The Nomination Committee prior to the Annual General Meeting of 2008

The 2007 Annual General Meeting resolved that the Nomination Committee shall have four members, for which the following were re-elected; Carl Bek-Nielsen (BNS Holding AB), Henrik Didner (Didner & Gerge Mutual Fund) and Jan-Erik Erenius (AMF Pension), and Mikael Ekdahl (BNS Holding AB) was elected as a new member of the Nomination Committee prior to the Annual General Meeting of 2008. Mikael Ekdahl was also

## Corporate Governance Report

appointed Chairman of the Nomination Committee. The members of the Nomination Committee represent 45.6 percent of the votes of AAK. The decision also included the possibility of changing the composition of the Nomination Committee if there should be a change of ownership.

The major shareholders which at present are represented in the Nomination Committee consider that it is important in order to achieve efficient nomination work that the number of members of the Nomination Committee should be limited. At the same time, the main owners must be represented, which is the reason for the number of non Board members not exceeding the number of main owners/ Board members.

The named shareholders also consider it natural that a representative of the largest shareholder as regards votes shall be Chairman of the Nomination Committee.

During the year, the Nomination Committee has held one minuted meeting. At this, the Chairman gave an account of the evaluation work with which the Nomination Committee discussed possible changes and new recruitments. It has been possible to contact the Nomination Committee by letter, with proposals from shareholders. The members of the Nomination Committee have not received any compensation from AarhusKarlshamn AB for their work.

Shareholders who wish to contact the Nomination Committee can send a letter addressed to AarhusKarlshamn AB (publ), Nomination Committee, Skeppsgatan 19, SE-211 19 Malmö, Sweden.

### The Board of Directors and its work

The tasks of the Board of Directors are regulated in the Companies Act and in the Articles of Association. Board work is also controlled by the rules of procedure that the Board must adopt each year. The Board of Directors' rules of procedure also regulate an allocation of work and responsibility between the Board of Directors, its Chairman and the President, and contain routines for the President's financial reporting to the Board of Directors. According to the present rules of procedure, the Board of Directors shall meet at least six times a year, including a Board meeting following election immediately after the Annual General Meeting.

The tasks of the Board of Directors include establishing strategies, business

plans, budgets, interim reports and year-end reports for AAK. Also, the Board of Directors shall monitor the President's work, appoint and replace the President, and decide on any substantial changes in the organisation and operations of AAK.

The Board of Directors' most important tasks are to:

- establish the general goals of the Company's operations and decide on the Company's strategy to achieve the goals,
- ensure that the Company has an executive management which functions well, with suitable compensation terms,
- ensure that the Company's external reporting is characterised by openness and objectivity, and gives a correct picture of the development, profitability and financial position of the Company and its risk exposure,
- monitor financial reporting with instructions for the President and establish requirements concerning the content of the financial reports which are provided to the Board on a continuous basis,
- ensure that the Company's insider issues and logbook procedures are conducted in accordance with law and the guidelines issued by the Swedish Financial Supervisory Authority,
- ensure that there are efficient systems for follow-up and control of the Company's operations and financial position in relation to set goals,
- follow up and evaluate the Company's development and to pay attention to the President and support him in his work in setting required measures,
- ensure that there is satisfactory control of the Company's observance of laws and other regulations that apply as regards the Company's operations,
- ensure that the required ethical guidelines are set for the behaviour of the Company, and,
- propose any dividend, repurchase of shares or redemption of shares to the Annual General Meeting.

### Composition of the Board of Directors

According to the Articles of Association, AAK's Board shall consist of a minimum of three and a maximum of ten members, with not more than ten deputies. The present Board of Directors consists of ten

members elected by the Annual General Meeting. The Union organisations have, in accordance with Swedish law, the right to representation on the Board of Directors, and have appointed two members and two deputies.

In accordance with the proposal from the Nomination Committee, eight members were re-elected and two members were newly elected at the Annual General Meeting of 2007. Melker Schörling, who was appointed Chairman of the Board, was previously Chairman of the Board of Karlshamns AB. Melker Schörling is also Chairman of the Board of BNS Holding AB, which holds about 40 percent of the votes of AAK. Carl Bek-Nielsen, Martin Bek-Nielsen, John Goodwin and Mikael Ekdahl are also members of the Board of Directors of BNS Holding AB. These members and the Chairman of the Board can therefore not be considered to be independent in relation to the Company's major shareholders according to the Code. The largest shareholder of BNS Holding AB is Melker Schörling AB, which holds 58.5 percent of the shares and votes of BNS Holding AB. Ulrik Svensson, who is President of Melker Schörling AB, can thus not be considered independent in relation to the Company's major shareholders either, according to the Code. The President and Group CEO, Jerker Hartwall, in his capacity as President and employee of the Company, is not independent according to the Code either. The other three members, elected by the Annual General Meeting, Märit Beckerman, Ebbe Simonsen and Anders Davidsson, are independent, both in relation to AAK, the Company management and the Company's major shareholders, according to the Code's regulations. The Board of Directors therefore fulfils the requirement that at least two of the Board members that are independent of the Company and of the Company management shall also be independent of the Company's major shareholders.

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

Union representatives: Annika Westerland (PTK-L) and Leif Håkansson (IF Metall) are members of the Board, and Christer Svantesson (IF Metall), and



Roland Mårtensson (PTK-L) are deputies.

AAK's Information Director and CIO (Chief Information Officer), Bo Svensson, also functions as secretary to the Board of Directors. AAK's Finance Director and CFO (Chief Financial Officer), Anders Byström, also functions as secretary to the Remuneration and Audit Committees.

Present at Board and Committee Meetings during 2007.

Member	Member of the Board	Audit Committee	Remuneration Committee
No. of meetings	6	4	2
Mårit Beckeman	6		
Anders Davidsson	5*		
Carl Bek-Nielsen	6		
Martin Bek-Nielsen	6	4	
Mikael Ekdahl	6	4	2
John Goodwin	6		2
Jerker Hartwall	6		
Melker Schörling	6		
Ebbe Simonsen	5		
Ulrik Svensson	5*		
Leif Håkansson	6		
Bo Ohlsson	-		
Roland Mårtensson	-		
Christer Svantesson	-		
Annika Westerlund	6		

\* Anders Davidsson and Ulrik Svensson were newly elected by the Annual General Meeting on 21 May 2007.

For other information on the members of the Board of Directors, please see pages 90-91.

### Rules of procedure

The Board of Directors' rules of procedure with instructions regarding allocation of work between the Board and President, and as regards financial reporting, are updated and set annually. At the Board of Directors' meetings, apart from financial reporting and follow-up of ongoing business operations and profitability developments, subjects also dealt with are goals, strategies of business operations, acquisitions, important investments, and matters concerning the capital structure.

The heads of business areas and other senior management give continuous accounts regarding business plans and strategic matters. Compensation and audit matters are dealt with within each respective committee.

The newly elected Board of Directors meets immediately after the Annual General Meeting. At this meeting, the Board of Directors' rules of procedure are also set, together with instructions for the President, and any instructions for committees and other internal control instruments. The present Board of Directors met on 21 May 2007 after the Annual General Meeting, all Board members were present.

### Chairman of the Board

At the Annual General Meeting of 21 May 2007, Melker Schörling was elected Chairman of the Board. The role of the Chairman of the Board is to manage the work of the Board and to ensure that the Board fulfils its assignments. The Chairman follows development of operations

in dialogue with the President, and is responsible for other members continuously receiving the information required for Board work to be carried out, with maintenance of quality and in accordance with the Companies Act and other applicable laws and regulations, the Articles of Association, and the Board of Directors' rules of procedure. The Chairman is responsible for the Board continually gaining knowledge in depth of the Company, that there is an evaluation of the Board's work, and that the Nomination Committee participates in this assessment. Also, the Chairman participates in evaluation and development matters as regards the Group's senior management.

### The work of the Board of Directors 2007

During the year, the Board met six times. All business area managers have reported on the goals and business strategies of their business areas in a special budget and strategy meeting. The Board has also dealt with matters relating to personnel and organisation, such as investigation and decision regarding a joint operating location organisation as regards operations in Denmark, Sweden and The Netherlands. Decisions have been taken regarding acquisitions, disposals and investments. Other areas which have been dealt with are the work of the Group as regards acquisition of raw materials, risk management, and the Company's strategy for capital structure and borrowing.





### Fees of the members of the Board of Directors

In accordance with the resolution of the Annual General Meeting, total fees for the Board amounted to SEK 2,100,000 to be allocated between the members as follows: SEK 400,000 to the Chairman, SEK 300,000 to the Vice Chairman and SEK 200,000 to each of the other members elected by the Annual General Meeting who are not employed by the Company. No separate remuneration was paid for committee work. The Company's President, the Board's secretary and employee representatives do not receive any fee over and above compensation for expenses in connection with the Board's work. For other information regarding compensation to the Board's members, please see pages 65-66.

### Evaluation of the President

The Board continually evaluates the work and competence of the President and Company management. This is dealt with at least once a year, without representatives of the Company management being present.

### The Board of Directors' committees

Within the Board of Directors, audit and compensation matters are dealt with in committee, as regards preparation of future matters and putting forward the Board's proposals for decision. The work assignments of the committees and their rules of procedure are set by the Board in the form of written instructions.

### Remuneration Committee

In accordance with the Board of Directors' rules of procedure, the Remuneration Committee shall deal with issues of compensation to the President and senior management. The Remuneration Committee prepares and presents proposals to the Board of Directors regarding compensation to the Group CEO and other senior management. The members of the Remuneration Committee during 2007 were Mikael Ekdahl (Chairman) and John Goodwin. The Remuneration Committee's recommendations to the Board of Directors comprise principles for compensation, relationship between fixed and flexible salary, pension and severance payment terms, and other benefits for the management. Compensation to the Group's President has been decided upon by the Board of Directors, based on the Remuneration Committee's recommendations. Compensation to other senior management has been decided upon by the President after consultation with the Remuneration Committee. For further information, see page 65-66. During 2007, the Remuneration Committee met twice, at which meetings both members were present. The Board's proposals for guidelines for compensation to the senior management are given on page 41, and will be put to the 2008 Annual General Meeting for resolution.

### The Audit Committee

Members of the Audit Committee during 2007 were Mikael Ekdahl (Chairman),

Martin Bek-Nielsen and Ulrik Svensson. The Committee had four meetings during the year, at which the Company's external auditors and representatives of the Company Management participated. The areas that the Audit Committee has dealt with have primarily involved the planning, extent and follow-up of the year's audit. Other matters which have been dealt with have been risk management, integration and systemising the Group's processes, coordination of insurance matters, corporate governance, internal control, audit regulations, development of the global finance function, finance operations, and other matters that the Board of Directors has assigned the Committee to prepare. According to the Code, at least one member of the Audit Committee shall be independent in relation to the Company's major owners. At present, none of the members is independent in this respect. The Board of Directors has, however, considered that the present composition of the Audit Committee is the best to take into account the experience and competence of the Board concerning the matters which it is intended will be dealt with by it.

### External auditors

AAK's auditors are appointed by the Annual General Meeting. AAK's auditors are the accounting firm, PricewaterhouseCoopers AB, with Anders Lundin as auditor in charge, and Eric Salander also signing as auditor. Anders Lundin has been auditor in charge for AAK since

## Corporate Governance Report

7 June 2005. Anders Lundin also has audit assignments in Axis AB, Melker Schör-ling AB, Bong Ljungdahl AB, Husqvarna AB, AB Industrivärden and S&A AB.

All services which are ordered over and above the audit which is required by law, are separately scrutinised in order to ensure that there is no conflict as regards independence or disqualification circumstances. There are no agreements with related parties.

### Operational management

The task of the President is to manage operations in accordance with the guidelines and instructions of the Board of Directors. In connection with this, the President shall ensure, through necessary control systems, that the Company conforms to applicable laws and regulations. The President reports at Board meetings and shall ensure that the Board receives factual, complete and relevant information which is required for the Board to be able to make decisions which are soundly based. Additionally, the President has a continual dialogue with the Chairman of the Board and keeps the Chairman of the Board informed about the development and financial position of the Company and the Group.

AAK's Group Management consists of six persons from three countries; the Group CEO, the Finance Director, and four Business Area Heads. The Group Management meets monthly, dealing with the Group's financial developments, investments, synergy and productivity projects, acquisitions, joint Group development projects, management and competence provision and other strategic matters. The Board meetings are headed by the President, who makes decisions in consultation with the other members of the Group Management. The Group has a small number of employees in the Group staff, who are responsible for general Group activities, such as economy, finance, taxes, IT, internal control, strategy, investor relations, information and law.

The President and the Group Management are presented on pages 90-93. For principals, compensation 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 (Food Ingredients Continental Europe, Food Ingredients UK

& Americas) and Technical Products & Feed. The heads of the business areas are responsible for goals, strategies, product development, and earnings, cash flow and balance sheet of their respective units. The business areas are in turn organised in various sectors responsible for ongoing business matters. Control is exercised through internal boards, which meet four times a year. AAK's President and Group CEO then functions as Chairman of the Board and also the Group's CFO participates. Other holders of positions, such as the Group's Controller and Strategy Manager are co-opted as required.

In all countries where AAK has subsidiaries, there is a legal Country Manager. The task of the Country Manager includes representing AAK in respect of authorities in the country, coordination of the operational location and joint Group processes/projects, and ensuring that joint Group guidelines are conformed to.

For each such country, a member of the Group Management has been appointed with general responsibility for operations (Group Management Representative). These are superior country managers, and in most cases they function as board members of the local legal boards.

### Internal control

The Company's Board is responsible for AAK's internal control, the main objective of which is to protect the owners' investments and the Company's assets.

According to the Code, the Board shall deliver a report regarding how the internal controls – as far as they concern financial reporting – are organised and how well they have functioned during the year. The report shall be examined by the Company's auditors.

AAK's Board has chosen to conform to the statement that the College for Swedish Corporate Governance delivered on 5 September 2006, that it is adequate if the Board, in its Corporate Governance Report, restricts the report on internal controls to a description of how the internal controls are organised as regards financial reporting, without the report needing to include any statements as to how well the internal controls have functioned, and without being examined by the auditors.

Internal controls concerning financial reporting are a process that involves the Board, the Company management

and personnel. The process has been formulated in order to constitute an insurance regarding reliability in the external reporting. According to generally accepted frameworks (COSO) established for this purpose, the internal control is normally described on the basis of five different aspects, which are described below. The control environment is the basis of the internal guidance and control. Risk assessment and risk management involve the management being aware of, and having assessed and analysed, risks and threats in the business. Control activities are those measures and routines that the management has formulated in order to prevent the occurrence of faults and to discover faults and take measures regarding any faults respectively. In order that individual work assignments can be carried out in a satisfactory manner, it is necessary for the personnel in an organisation to have access to current, relevant information. The last module of the model refers to follow-up of the internal guidance and the formulation and efficiency of the controls.

### Control environment

AAK's organisation has been designed to make possible rapid decision-making. Operational decisions are therefore made at a business area level or subsidiary company level, while decisions regarding strategies, acquisitions and general financial matters are made by the Company's Board of Directors and Group Management. The organisation is characterised by clear division of responsibility, and guidance and control systems which function well and which have been well worked in, and this applies to all units of AAK.

The basis of the internal controls regarding financial reporting consists of a general control environment in which organisation, decision routes, authorisation and responsibility have been documented and communicated in steering documents, for example, AAK's finance policy, policy for purchasing raw materials, and manual for financial reporting in the authorisation system established by the President.

AAK's finance functions are integrated through a joint consolidation system and joint accounting instructions. The Group's finance unit has close, well-functioning cooperation with the subsidiary companies' controllers as regards annual ac-

## Corporate Governance Report

counts and reporting. AAK has no internal audit function, as the above-mentioned functions fulfil this task adequately.

All AAK's subsidiary companies report monthly. Reporting constitutes the basis of the Group's consolidated financial reporting. Within each legal unit there is a Controller responsible, who has the responsibility for each respective business area's economic position and for the financial reports being correct, complete and delivered in time prior to Group reporting.

### Risk assessment and risk management

Through its international presence, the AAK Group is subject to a number of risks. Risk management within the Group is controlled by established policies and routines, which are revised by AAK's Board of Directors annually. Risks related to raw materials are guided by the Group's policy concerning the purchasing of raw materials. Risks related to currencies, interest and liquidity are primarily controlled through AAK's finance policy. Management of credit and contract risks is established in the Group's credit policy.

Efficient risk management combines operational business development with requirements from the owner and other interested parties regarding control and long-term good development of value. Risk management is aimed at minimising risks and also ensuring that possibilities are utilised to the maximum. Risk management covers the following risk areas:

- strategic risks as regards market and sector,
- commercial, operational and financial risks,
- observance of external and internal rules and regulations,
- financial reporting.

The main components of risk work are identifying, valuing, managing, reporting, follow-up and control. For further information concerning AAK's risk management, see pages 58-63, Note 3.

### Control activities

Those risks which are identified regarding financial reporting are handled via the Company's control activities. The control activities are aimed at preventing, discovering and correcting faults and deviations. Management is conducted both through manual controls in the form of, for exam-

ple, checking and making inventories, automatic controls through the IT system, and general controls in the underlying IT environment. Detailed financial analyses of earnings and follow-up against the budget and forecasts, supplement the operation-specific controls and give a general confirmation of the quality of the reporting.

### Information and communication

In order to ensure completeness and correctness in financial reporting, the Group has guidelines for information and communication, the intention of which is that relevant and important information shall be exchanged within the business, both within each respective unit and to and from management and Board. Policies, handbooks and work descriptions regarding the financial process are communicated between management and personnel, and can be accessed electronically and/or in printed form. Via the Audit Committee, the Board of Directors regularly receives feedback regarding internal control.

In order to ensure that external provision of information is correct and complete, AAK has an information policy set by the Board of Directors, which stipulates what shall be communicated, by whom and in what way.

### Follow-up

Efficiency in the process of risk assessment and implementation of the control activities are followed up continually. The follow-up covers both formal and informal routines, and is used by those responsible at each level. The routines comprise follow-up of results against budget and plans, analyses and key ratios.

The Board of Directors receives monthly reports on the Group's financial position and development. At each Board meeting, the Company's financial situation is dealt with, and the management analyses financial reporting at detailed level monthly. The Audit Committee, in its meetings, follows up the financial reporting, and receives reports from the auditors regarding their observations.

### Policy document

AAK has a number of policies for the Group's operations and its employees. Among these are noted, for example, the following:

### Ethical policy

The Group's ethical guidelines have been worked out with the aim of mapping out the Group's basic position on ethical matters, and within the Group and externally in relation to customers and suppliers.

### Finance policy

The Group's finance function works in accordance with instructions adopted by the Board of Directors, which give frameworks for how the Group's operations shall be financed, and how such things as currency risks and interest risks shall be managed.

### Information policy

The Group's information policy is a document that describes the Group's general principles for the provision of information.

### Environment policy

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

### Review

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

# Definitions

## Key ratios

### Proportion of risk-bearing capital

Shareholders' equity, minority share of shareholders' equity and deferred tax liability divided by balance sheet total.

### Yield on shareholders' equity

The year's earnings as a percentage of average shareholders' equity.

### Yield on operating capital

Operating profit/loss divided by average operating capital.

### Processing substitution

Operating income minus cost of goods.

### Share price/Shareholders' equity

Share price divided by shareholders' equity per share.

### Direct 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 balance sheet date.

### Capital turnover rate

Net sales divided by average operating capital.

### Liquid funds

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

### Earnings per share

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

### Net borrowings

The total of interest-bearing liabilities minus interest-bearing assets.

### P/E ratio

Share price divided by earnings per share.

### Interest coverage ratio

Operating profit/loss plus financial income divided by financial expenses.

### Working capital

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

### Net debt/equity ratio

Net borrowings divided by shareholders' equity including minority interests.

### Equity/assets ratio

Shareholders' equity including minority interests as a percentage of balance sheet total.

### Operating capital

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

### Dividend pay-out ratio

Dividend per share as a percentage of earnings per share.



# The Board of Directors

## – AarhusKarlshamn AB (publ)

### Melker Schörling

Chairman of the Board.

*Year elected:* 2005.

*Born:* 1947.

*Citizenship:* Swedish.

*Main occupation:* Founder and owner of Melker Schörling AB (MSAB).

*Qualifications:* Master of Business Administration.

*Professional background:* CEO of a number of companies, of which Securitas AB 1987-1992 and Skanska 1993-1997.

*Other Board positions:* Chairman of the Board of MSAB, Hexagon AB, Securitas AB and Securitas Systems AB. Vice Chairman of the Board of Assa Abloy and Board Member of Hennes & Mauritz AB.

*Shareholding:* Through MSAB, Melker Schörling holds 58.5% of the shares of BNS Holding AB. BNS Holding AB in turn holds 16,247,206 shares (39.26%) of AAK.

### Carl Bek-Nielsen

Vice Chairman of the Board.

*Year elected:* 2005.

*Born:* 1973.

*Citizenship:* Danish.

*Main occupation:* Executive Director (Corporate Affairs), United Plantations Berhad.

*Qualifications:* Bachelor of Science.

*Professional background:* Executive Director, Director in Charge.

*Other Board positions:* Chairman of the Board of United International Enterprises Ltd., Vice Chairman of the Board of United Plantations Berhad.

*Shareholding:* Through UIE Ltd, Carl Bek-Nielsen holds 41.5% of the shares of BNS Holding AB. BNS Holding AB in turn holds 16,247,206 shares (39.26%) of AAK.

*E-mail:* cbn@plantations.biz

### John Goodwin

*Year elected:* 2005.

*Born:* 1944.

*Citizenship:* British.

*Main occupation:* Managing Director, United International Enterprises Ltd.

*Qualifications:* Chartered Accountant; Bachelor of Commerce.

*Professional background:* Chief Executive, Managing Director, Administrative Director and President.

*Other Board positions:* Chairman of the Board of United Plantations Africa Ltd., Managing Director of 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.

*Main occupation:* Executive Director (Finance & Marketing), United Plantations (Malaysia).

*Qualifications:* Agricultural Economics.

*Professional background:* Executive Director (Finance and Marketing).

*Other Board positions:* Board Member of United Plantations Berhad, Vice Chairman of the Board of United International Enterprises Ltd.

*Shareholding:* Through UIE Ltd, Martin Bek-Nielsen holds 41.5% of the shares of BNS Holding AB. BNS Holding AB in turn holds 16,247,206 shares (39.26%) of AAK.

*E-mail:* mbn@plantations.biz

### Mikael Ekdahl

*Year elected:* 2005.

*Born:* 1951.

*Citizenship:* Swedish.

*Main occupation:* Attorney and partner of Mannheimer Swartling Advokatbyrå.

*Qualifications:* School of Economics and Master of Laws.

*Professional background:* Attorney and partner.

*Other Board positions:* Chairman of the Board of Bong Ljungdahl AB, Marco AB and KonstruktionsBakelit AB. Vice Chairman of the Board of Melker Schörling AB, Board Member of Absolent 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.

*Main occupation:* PhD student.

*Qualifications:* Master of Science and Licentiate in Engineering.

*Professional background:* Project Manager, Consultant and R&D.

*Other Board positions:* Board Member, Beckeman Consulting AB.

*Number of shares:* 0.

*E-mail:* marit.beckeman@plog.lth.se

### Ebbe Simonsen

*Year elected:* 2006.

*Born:* 1940.

*Citizenship:* Danish.

*Main occupation:* Director.

*Qualifications:* Bachelor of Commerce.

*Professional background:* Director, Advisor and Administrative Director.

*Other Board positions:* Board Member Bodilsen Holding A/S (BM), Bjørn Wiinblads Værksteder A/S (BF), Managing Director & Board Member of Ole Haslunds Hus A/S, Vice Chairman Glas-museet Ebeltoft.

*Number of shares:* 0.

*E-mail:* ebbes@mail.tele.dk

### Jerker Hartwall

*Year elected:* 2006.

*Born:* 1952.

*Citizenship:* Swedish.

*Main occupation:* President and CEO.

*Qualifications:* Graduate Engineer.

*Professional background:* Over 25 years' experience of international management in the chemicals industry.

*Other Board positions:* Board Member of Novozymes A/S.

*Shareholding:* 96,653.

*E-mail:* jerker.hartwall@aak.com

### Ulrik Svensson

*Year elected:* 2007.

*Born:* 1961.

*Citizenship:* Swedish.

*Main occupation:* President of Melker Schörling AB.

*Professional background:* CFO of several stock exchange-listed companies, including Swiss International Airlines and Esselte.

*Other Board positions:* Board Member of Securitas Systems AB, Securitas Direct AB and Loomis AB.

*Number of shares:* 0.

*E-mail:* ulrik.svensson@melkerschorlingab.se

### Anders Davidsson

*Year elected:* 2007.

*Born:* 1970.

*Citizenship:* Swedish.

*Main occupation:* President and CEO, Bong Ljungdahl AB

*Professional background:* Previously Management Consultant with McKinsey & Co.

*Other Board positions:* Board Member of Bong Ljungdahl AB.

*Number of shares:* 1,200.

*E-mail:* anders.davidsson@bongljungdahl.se



Melker Schörling, Carl Bek-Nielsen, Annika Westerlund, John Goodwin, Ulrik Svensson, Leif Håkansson, Ebbe Simonsen, Mikael Ekdahl, Märit Beckeman, Anders Davidsson, Martin Bek-Nielsen and Jerker Hartwall.

## Board Members Appointed by the Employees

### Annika Westerlund

AarhusKarlshamn Sweden AB.  
Appointed by PTK-L.  
Year elected: 2005.  
Born: 1956.  
Citizenship: Swedish.  
Main occupation: Laboratory Assistant.  
Qualifications: Technical College.  
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.  
Main occupation: Union Representative.  
Qualifications: Electrical power technology.  
Number of shares: 679.  
E-mail: leif.hakansson@aak.com

## Deputy Members

### Christer Svantesson

AarhusKarlshamn Sweden AB.  
Appointed by IF Metall.  
Year elected: 2006.  
Born: 1951.  
Citizenship: Swedish.  
Main occupation: Technician.  
Qualifications: Engineering.  
Number of shares: 679.  
E-mail: christer.svantesson@aak.com

### Roland Mårtensson

AarhusKarlshamn Sweden AB.  
Appointed by PTK-L.  
Year elected: 2007.  
Born: 1966.  
Citizenship: Swedish.  
Main occupation: Process Engineer.  
Qualifications: Graduate Engineer, Chemical Engineering.  
Number of shares: 317.  
E-mail: roland.martensson@aak.com

## Auditor

PricewaterhouseCoopers AB

### Anders Lundin

Born: 1956.  
Authorised Public Accountant.  
The Company's Auditor since 2005.



# AarhusKarlshamn AB

## – Group Management



**Håkan Christensson**



**Magnus Jörsmo**



**Ian McIntosh**



**Jerker Hartwall**



**Jörgen Balle**



**Anders Byström**



### **Håkan Christensson**

*Employed:* 1986.  
*Born:* 1962.  
*Citizenship:* Swedish.  
*Main occupation:* 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**

*Employed:* 1986.  
*Born:* 1965.  
*Citizenship:* Swedish.  
*Main occupation:* Vice President, AarhusKarlshamn AB, President Business Area Technical Products & Feed, President Binol AB and President AarhusKarlshamn Sweden AB.  
*Qualifications:* Chemical Engineer.  
*Professional background:* Development Engineer, Technician, Sales Person and Purchaser.  
*Number of shares:* 15,070.  
*E-mail:* magnus.jorsmo@aak.com

### **Ian McIntosh**

*Employed:* 1998.  
*Born:* 1956.  
*Citizenship:* British.  
*Main occupation:* Vice President, AarhusKarlshamn AB and President, AarhusKarlshamn UK & Americas.  
*Qualifications:* Graduate Engineer, MBA in Company Administration.  
*Professional background:* 25 years' experience within the Food Industry.  
*Number of shares:* 0.  
*E-mail:* ian.mcintosh@aak.com

### **Jerker Hartwall**

*Employed:* 2000.  
*Born:* 1952.  
*Citizenship:* Swedish.  
*Main occupation:* President and CEO.  
*Qualifications:* Graduate Engineer.  
*Professional background:* Over 25 years' experience of international management in the chemicals industry.  
*Other Board positions:* Board Member, Novozymes A/S.  
*Number of shares:* 96,653.  
*E-mail:* jerker.hartwall@aak.com

### **Jörgen Balle**

*Employed:* 1990.  
*Born:* 1964.  
*Citizenship:* Danish.  
*Main occupation:* Vice President, AarhusKarlshamn AB, President, Business Area Chocolate & Confectionery Fats, On-Site Manager 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**

*Employed:* 2006.  
*Born:* 1951.  
*Citizenship:* Swedish.  
*Main occupation:* Vice President, AarhusKarlshamn AB, and CFO.  
*Qualifications:* Master of Business Administration, Executive Seminar Harvard Business School.  
*Professional background:* CFO, Auditor, VP Controller, Certified Public Accountant.  
*Number of shares:* 0.  
*E-mail:* anders.bystrom@aak.com







# Financial Calendar, Annual General Meeting

## Financial Calendar

AarhusKarlshamn AB (publ) will publish financial information for the 2008 financial year on the following dates:

- The Interim Report for the first quarter will be released at the Annual General Meeting on 21 May.
- The Half-yearly Report will be released on 12 August.
- The Interim Report for the third quarter will be released on 31 October.
- The Financial Statement for the 2008 financial year will be released in February 2009.

Reports and press releases are also available in English, and can be ordered from AarhusKarlshamn AB (publ)  
Corporate Communications  
SE-374 82 Karlshamn  
Sweden  
Telephone: +46 454 820 00.  
Fax: +46 454 828 20.  
E-mail: [info@aak.com](mailto:info@aak.com)

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

## Annual General Meeting

The Annual General Meeting of AarhusKarlshamn AB (publ) will take place on Wednesday, 21 May 2008 at 2 p.m. at Europaporten in Malmö, Sweden. The meeting venue will open at 1 p.m. and registration must be completed by 2 p.m. when the voting list will be verified.

### Participation

Shareholders who wish to participate at the Annual General Meeting must be registered in the share register by Thursday, 15 May 2008, and have notified the Company that they will attend the Meeting not later than 4 p.m. on Thursday, 15 May.

### Registration in the share register

The Company is a so-called VPC-registered company. This means that in order to participate in the Annual General Meeting, shareholders must be registered in the share register maintained by VPC AB (the Swedish Securities Register Centre) no later than 15 May 2008. To be eligible

to participate in the Annual General Meeting, shareholders with nominee-registered holdings must therefore temporarily re-register their shares in their own names through the agency of their nominees. This should be completed in good time before the date given.

### Notification

Notification of attendance at the Annual General Meeting should be made to the Company as follows: either by post to the address AarhusKarlshamn AB (publ), Kerstin Wemby, SE-374 82 Karlshamn or by telephone +46 454 823 12, by fax +46 454 828 20, via e-mail: [kerstin.wemby@aak.com](mailto:kerstin.wemby@aak.com) or via the website: [www.aak.com](http://www.aak.com) as soon as possible, or not later than 4 p.m. on Thursday, 15 May 2008, when the period for notification will expire.

When making notification, state name, address, telephone number, civic registration number or corporate ID, and number of shares held.

### Invitation to attend the Annual General Meeting

Notice of the Annual General Meeting will be announced in Post- och Inrikes Tidningar, Svenska Dagbladet and Sydsvenska Dagbladet, in which all matters to be dealt with by the Annual General Meeting will be listed.

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

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

**CBE (Cocoa Butter Equivalents)** – A type of CBA which is identical to cocoa butter, and which may be used in chocolate up to 5 percent according to EU legislation. Manufactured from exotic raw materials, including shea oil.

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

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

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

**Cocoa butter** – Another name for cocoa fat.

**Dairy Fat Alternatives (DFA)** – Fats intended for use in dairy products such as cheese, cream, cooking and table margarine, ice-cream, etc. Replace butter fat and add beneficial properties to the end product.

**DHA** – Omega 3 fats.

**EPA** – Omega 3 fats.

**Essential fatty acids** – Two different types of polyunsaturated fatty acids, Omega 3 and Omega 6, which are necessary for good health. Cannot be produced by the human body, but must be acquired in food. Rapeseed oil is one of the few vegetable oils that contain both types of essential fatty acids.

**Esters** – Chemical components of fatty acids and alcohols. Triglycerides, which are the main constituent of fat, consist of alcohol, glycerol and fatty acids, and are thus a type of ester.

**Fatty acids** – Consist of carbon and hydrogen in long chains. At one end of the carbon chain is a so-called carboxylic group. The commonest fatty acids in vegetable oils contain between 12 and 18 carbon atoms.

**Fatty sterols** – Sterols from the plant kingdom. They lower blood cholesterol levels.

**Flaked fats** – Fats with a high melting point supplied in the form of little solid "flakes", which simplifies handling for certain customer groups.

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

**Glycerol** – An alcohol that is one of the constituents of the fat molecule.

**IPPC** – An EU Directive on environmental audits of industrial plants. The Directive comprises the aggregate environmental impact of the plant, such as emissions into the air, effluents into water, waste production, raw material consumption and energy efficiency.

**Lanolin** – A fat which is extracted from sheep's wool, and used in skin-care products.

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

**Mould releasers** – Fat-based products which are applied to the inside of casting moulds. Make it easier to remove the mould when the concrete has set without damaging the surface.

**Nutrition** – Nutrition, food.

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

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

**PCR** – A method used to identify genetically modified seeds (GMO). The abbreviation stands for Polymerase Chain Reaction.

**Polyunsaturated fatty acids** – The carbon chain contains two or more double bonds, which are of considerable importance for the biological function of the fats in question.

**Pumpable fats** – Products consisting of fat crystals disbursed in liquid oil delivered by tanker lorry. Mainly used by bakeries where they replace solid fats in 10-kg packages.

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

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

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

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

# Addresses

## AarhusKarlshamn AB

Skeppsgatan 19  
SE-211 19 Malmö  
Sweden  
Tel.: +46 40 627 83 00  
Fax: +46 40 627 83 11  
E-mail: info@aak.com  
www.aak.com  
Corp. ID No. 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 Netherlands BV

P.O. Box 17  
NL-1540 AA Zaandijk  
Visiting address: Kreeftstraat 1  
The Netherlands  
Tel.: +31 75 627 84 00  
Fax: +31 75 627 84 78

## AarhusKarlshamn Mexico S.A. de C.V. Food Ingredients Americas, Mexico

Av. Héroes de Nocupétaro 1022  
Col. Industrial, C.P. 58130  
Morelia, Michoacán  
Mexico  
Tel.: +52 443 312 0175  
Fax: +52 443 312 5822

## AarhusKarlshamn Sweden AB Food Ingredients Continental Europe Lipids for Care Technical Products & Feed

Västra Kajen  
SE-374 82 Karlshamn  
Sweden  
Tel.: +46 454 820 00  
Fax: +46 454 828 20

## AarhusKarlshamn USA Inc. Food Ingredients Americas, USA

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

# The first choice for value added vegetable oil solutions

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

- the first choice
- value added solutions
- vegetable oils



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