

# Corporate Governance Report

## Corporate Governance Report 2019

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

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

## General

AAK is a Swedish public limited liability company, the shares of which are traded on NASDAQ OMX Stockholm within the Large Cap segment, Consumer Commodities sector. AAK has around 17,200 shareholders. Its business operations are global, with a presence in more than 100 countries. As at December

31, 2019, the number of employees was 3,884. Responsibility for management and control of AAK is divided between the shareholders at the Annual General Meeting, the Board of Directors, its elected committees and the President and Chief Executive Officer (CEO) in accordance with the Swedish Companies Act, other legislation and ordinances, applicable rules for companies traded on a regulated market, the Articles of Association and the Board’s internal control instruments. AAK’s goal is to be the obvious first choice for its customers, and to create the best possible value for the company’s various stakeholder groups – in particular customers, suppliers, shareholders and employees. At the same time, AAK aims to be a good corporate citizen and take long-term responsibility. The aim of corporate governance is to define a clear allocation of responsibility and roles between the owners, the Board, the executive management team and various control bodies. In line with this, corporate governance covers the Group’s management and control systems.

## Ownership structure

Information about shareholders and shareholdings can be found on pages 52–53.

## Articles of Association

AAK’s current Articles of Association were adopted at the Annual General Meeting on May 30, 2018. The Articles of Association state that the company is to operate manufacturing and trading business, primarily

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

## Annual General Meeting

The Annual General Meeting of AAK is the highest decision-making body and the forum through which the shareholders exercise their influence over the company. The tasks of the Annual General Meeting are regulated by the Swedish Companies Act and the Articles of Association. The Annual General Meeting makes decisions on a number of central issues, such as adoption of the income statement and balance sheet, discharge from liability for the Board members and CEO, the dividend to shareholders and the composition of the Board.

Further information about the Annual General Meeting and complete minutes from previous Annual General Meetings and Extraordinary General Meetings are published at [www.aak.com](http://www.aak.com).

#### Annual General Meeting 2019

The Annual General Meeting held on May 15, 2019 was attended by shareholders representing around 60 percent of the share capital and votes in the company. Georg Brunstam was elected Chairman of the Meeting. The Annual General Meeting adopted the income statement and balance sheet, as well as the consolidated income statement and consolidated balance sheet. Following this, the Annual General Meeting approved the Board's proposal for a dividend for the 2018 financial year of SEK 1.85 per share. Georg Brunstam, Märta Schörling Andreen, Gun Nilsson, Bengt Baron, Lillie Li Valeur and Marianne Kirkegaard were re-elected as ordinary members of the Board of Directors. Patrik Andersson was elected as new member of the Board of Directors. Georg Brunstam was elected Chairman of the Board. The employee organizations had appointed Lena Nilsson (PTK-L) and Leif Håkansson (IF Metall) as employee representative members of the Board, and Mikael Myhre (IF Metall) and Fredrik Rydberg (PTK-L) as deputy members of the Board. The Annual General Meeting did not authorize the Board to resolve on the issue of new shares by the Company or the acquisition of the Company's own shares.

#### Nomination Committee

The Annual General Meeting decides on the election of the Board, among other items. The task of the Nomination Committee is to make proposals to the Annual General Meeting regarding the election of the Chairman and other members of the Board and of the Chairman of the Meeting, and regarding remuneration issues and related issues. The Nomination Committee considers the company's operations, phase of development and other relevant circumstances when assessing the appropriate composition of the Board.

#### Nomination Committee for the Annual General Meeting in 2020

At the Annual General Meeting 2019, Märta Schörling Andreen (Melker Schörling AB), Henrik Didner (Didner & Gerge Fonder), Leif Törnvall (Alecta) and Åsa Nisell (Swedbank Robur Fonder) were elected members of the Nomination Committee in respect of the Annual General Meeting 2020. Märta Schörling Andreen was elected Chairman of the Nomination Committee. The members of the Nomination Committee represent around 44 percent of the votes in AAK. The decision also included the opportunity to change the composition of the Nomination Committee in the event of a change in ownership. During the year, the Nomination Committee held two minuted meetings. At these meetings, the Chairman reported on the evaluation work, whereupon the Nomination Committee discussed any changes and new recruitments. The Nomination Committee has been

contactable by letter with proposals from shareholders. The members of the Nomination Committee have not received any remuneration from AAK for their work. Shareholders who wish to contact the Nomination Committee can send letters addressed to AAK AB (publ.), Valberedningen, Skrivaregatan 9, SE-215 32 Malmö, Sweden.

#### The Board of Directors and its activities

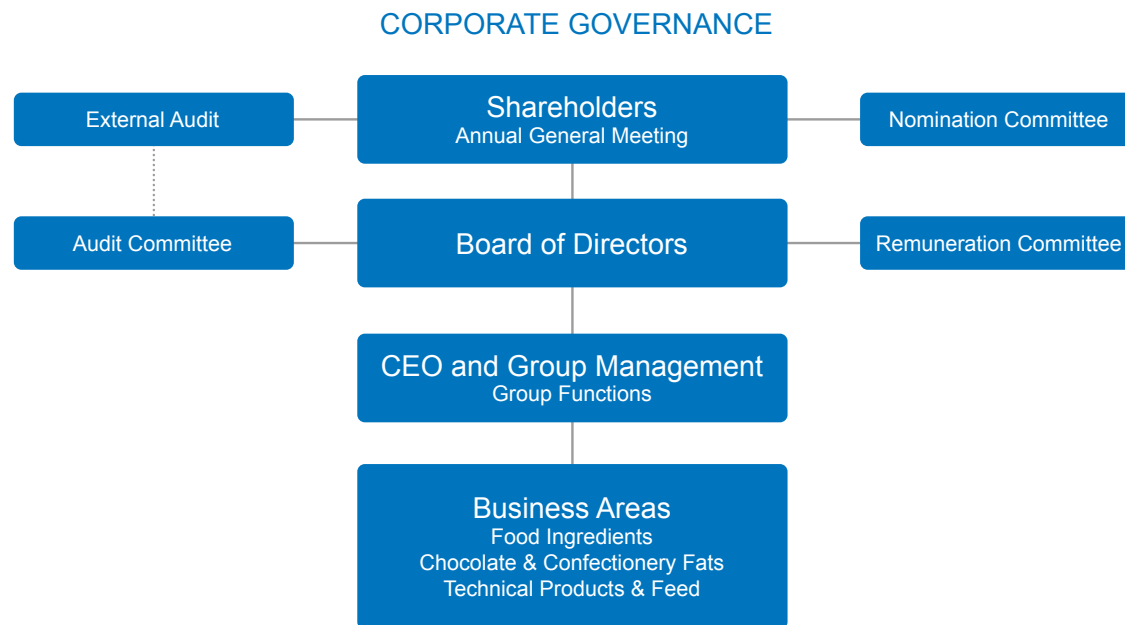
The tasks of the Board are regulated in the Swedish Companies Act and the Articles of Association. In addition to this, the work of the Board is regulated by the working practices adopted by the Board each year. The procedural rules of the Board also regulate the distribution of work and responsibilities between the Board, the Chairman of the Board and the CEO and also include procedures for financial reporting by the CEO to the Board. According to the current working practices, the Board shall meet at least six times each year, including a statutory meeting following election held immediately after the Annual General Meeting. The tasks of the Board shall include setting strategies, business plans, budgets, interim reports and year-end reports for AAK. The Board shall also monitor the work of the CEO, appoint and dismiss the CEO and decide on important changes to AAK's organization and operation. The most important tasks of the Board are to set the overall goals for the company's operation and to decide on the company's strategy for achieving the goals; to ensure the company has an effective executive management

team and appropriate remuneration terms; to ensure the transparency and accuracy of the company's external reporting; and that external reporting provides a fair presentation of the company's performance, profitability and financial position and exposure to risk; to monitor the financial reporting, including instructions to the CEO and the establishment of requirements for the content of the financial reporting to be submitted to the Board on a continuous basis; to ensure the company's insider policy and logging procedures are adhered to in accordance with legislation and the guidelines of the Swedish Financial Supervisory Authority; to ensure there are effective systems for follow-up and control of the company's operational and financial position against set goals; to follow up and evaluate the company's development and to recognize and support the work of the CEO in carrying out the required measures; to ensure there is sufficient control of the company's compliance with legislation and other rules applicable to the operation of the company, to ensure the required ethical guidelines are set for the company's behavior; and to propose to the Annual General Meeting any dividend, repurchase of shares, redemption or other proposals falling within the competence of the Annual General Meeting. The Chairman of the Board of Directors is responsible for evaluating the work of the Board. During 2019, he conducted a survey of the members and, based on this and interviews in the previous year, analyzed the results. The results of the survey were then presented and discussed on the Board and on the Nomination

Committee as the basis for assessing the size and composition of the Board. The evaluation focused on Board work in general and on the contributions of individual members, including the Chairman of the Board and the CEO. The Board evaluations clearly contributed to continued development of the work of the Board and the committees.

### Composition of the Board

Under the Articles of Association, AAK's Board shall consist of at least three and at most ten members. The current Board consists of six members elected by the Annual General Meeting. Under Swedish law, employee organizations have a right to be represented on the Board, and have appointed two ordinary members and two deputies. In accordance with the proposal by the



Nomination Committee, six members were re-elected and one new member, Patrik Andersson, were elected. Georg Brunstam was re-appointed Chairman of the Board of Directors. At the statutory Board meeting following the Annual General Meeting, the Board chose to appoint an Audit Committee and a Remuneration Committee. Gun Nilsson was appointed Chair of the Audit Committee and Lillie Li Valeur and Märta Schörling Andreen were appointed members. Georg Brunstam was appointed Chairman of the Remuneration Committee and Märta Schörling Andreen was appointed member. Georg Brunstam is also Director of the Board of Melker Schörling AB, which holds around 31.1 percent of the votes in AAK. Georg Brunstam cannot, therefore, be considered to be independent in relation to major shareholders in the Company in accordance with the Code. Märta Schörling Andreen, a member of the Board of Directors of Melker Schörling AB, and Gun Nilsson, CEO of Melker Schörling AB, also cannot be considered to be independent in relation to AAK's major shareholders. The other three members elected by the Annual General Meeting, Bengt Baron, Marianne Kirkegaard and Patrik Andersson, are independent in relation to AAK, the Company management and the Company's major shareholders in accordance with the Code. Lillie Li Valeur decided to leave the Board of Directors in December 2019 due to new external commitments. Bengt Baron was appointed new member of the Audit Committee.

The Board therefore fulfils the requirement of the Code that at least two Board members who are

independent of the Company and the Company management shall also be independent of the Company's major shareholders. Mikael Ekdaahl, lawyer, acts as secretary to the Board. The application and result of the diversity policy are described on the Company's website in the Nomination Committee's reasoned statement regarding proposals to the Board of AAK AB.

#### Working practices

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

Remuneration and audit issues are prepared within the respective committees. The Board holds a statutory meeting immediately after the Annual General Meeting. At this meeting, the Board's working practices are also adopted, as are the instructions to the CEO and the Committees and other internal management instruments. The current Board held its statutory meeting on May 15, 2019, at which all members were in attendance.

#### Chairman of the Board

At the Annual General Meeting held on May 15, 2019, Georg Brunstam was re-elected Chairman of the Board. The role of the Chairman of the Board is to lead the work of the Board and ensure the Board fulfils its tasks. The Chairman shall monitor the progress of the business in dialogue with the CEO, and is responsible for ensuring the other members continuously receive the information required to carry out the work on the Board, maintaining the required quality and in accordance with the Swedish Companies Act and other applicable laws and ordinances, the Articles of Association and the working practices of the Board. The Chairman is responsible for ensuring the Board constantly develops its knowledge about the Company, that an evaluation of the Board's work is carried out and that the Nomination Committee is provided with this evaluation. The Chairman shall also participate in evaluation and development issues relating to senior executives in the Group.

#### The work of the Board in 2019

The Board held 11 meetings during the year. Business area managers have reported on the goals and business strategies of the business areas. The Board has handled issues relating to strategy, staffing and organization. Decisions have been made relating to investments and acquisitions. Other areas handled are the Group's work on the supply of raw materials, risk management and the Company's strategy for capital structure and borrowing.

#### Attendance at Board and committee meetings in 2019

Member	Board of Directors	Audit Committee	Remuneration Committee
Number of meetings	11	4	2
Georg Brunstam	11		2
Marianne Kirkegaard	10		
Gun Nilsson	11	4	
Lillie Li Valeur	10	4	
Märta Schörling Andreen	11	4	2
Leif Håkansson	11		
Bengt Baron	11		
Lena Nilsson	11		
Patrik Andersson	6		

Patrik Andersson has attended all Board meetings since he was elected member of the Board at the Annual General Meeting on May 15, 2019.

Information about the members of the Board can be found on pages 48–49.

#### Fees to Board members

According to the decision of the Annual General Meeting, the total fees to the Board amounted to SEK 3,870,000, to be allocated between the members as follows: SEK 880,000 to the Chairman and SEK 390,000 to each of the other members elected at the Annual General Meeting who are not employed by the Company. The Chairman of the Audit Committee

received SEK 250,000 and the members SEK 125,000 each. The Chairman of the Remuneration Committee received SEK 100,000 and the member SEK 50,000. The secretary to the Board and employee representatives to the Board do not receive any compensation other than for costs in connection with their participation in Board activities. For further information about remuneration to members of the Board, please see page 87.

#### Evaluation of the CEO

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

#### Guidelines for remuneration of senior executives

The 2019 Annual General Meeting approved the principles for the remuneration of senior executives. The principles for the remuneration of AAK's senior executives are designed to ensure, from an international perspective, that AAK can offer compensation that is competitive and at the prevailing market level to attract and retain qualified people. The total remuneration package paid to senior executives shall consist of fixed basic salary, annual variable salary, pension, company car and severance payment. The fixed salary shall be individually differentiated on the basis of responsibility and performance, and shall be set on market principles and revised annually. In addition to annual salary,

senior executives shall also receive a variable salary, which shall have a pre-set ceiling and be based on the outcome in relation to goals set annually. The goals shall be related to the company's performance and shall also be able to be linked to individual areas of responsibility. The annual variable portion must not exceed 110 percent of the fixed salary. In addition to the variable salary mentioned, share or share-price related incentive programs may be added as determined from time to time by the Annual General Meeting. The right to a pension for senior executives shall apply from the age of 60 at the earliest. Pension plans for senior executives shall primarily be defined benefit plans. In the event of termination of employment by the Company, the notice period for the CEO and other senior executives shall be twelve months, and they shall be entitled to receive severance pay with a pre-determined ceiling corresponding to twelve months' salary. For termination of employment by the employee, a notice period of six months shall normally apply and no severance pay shall be payable. These guidelines will cover those persons who are in Group management positions during the period of time in which the guidelines apply. The guidelines apply to agreements entered into after a resolution by the Annual General Meeting, and in the event that changes are made to existing agreements after this point in time. The Board will be entitled to diverge from the guidelines if there are particular reasons to do so in an individual case.

### Board committees

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

### Remuneration Committee

In accordance with the Board's working practices, issues of remuneration to the CEO and senior executives shall be prepared by the Remuneration Committee. The Remuneration Committee prepares and presents proposals to the Board relating to remuneration to the CEO and other senior executives. The final task of the Remuneration Committee is to monitor and evaluate the ongoing programs for variable remuneration of the company management team, and programs terminated during the year, as well as the application of the guidelines for the remuneration of senior executives and the current remuneration structure and remuneration levels in the Company. During 2019, the members of the Remuneration Committee were Georg Brunstam (Chairman) and Märta Schörling Andreen. The recommendations of the Remuneration Committee to the Board include principles for remuneration, the relationship between fixed and variable salary, conditions for pensions and severance pay and other benefits payable to the management. Remuneration to the CEO of the

Group has been decided by the Board on the basis of the recommendations of the Remuneration Committee. Remuneration to other senior executives has been decided by the Chief Executive Officer in consultation with the Remuneration Committee. For further information, see page 87. During 2019, the Remuneration Committee met on two occasions, on which both members attended. Current guidelines for remuneration to senior executives can be found in Note 8. The Board's proposal for new guidelines will be put to the Annual General Meeting in 2020 for a decision.

### Audit Committee

During 2019, the members of the Audit Committee were Gun Nilsson (Chair), Märta Schörling Andreen and Lillie Li Valeur. The Audit Committee held four ordinary meetings during the year, which the Company's external auditors and representatives of the management team attended. Areas dealt with by the Audit Committee are primarily related to planning, scope and follow-up of the audit for the year. Other issues dealt with include risk management, integration and systematics of Group procedures, coordination of insurance issues, corporate governance, internal control, accounting rules, development of the global finance function, financing operations and other issues that the Board has requested the Audit Committee to prepare. Under the provisions of Chap. 8, Section 49 a, of the Swedish Companies Act (2005:551), at least one member of the Audit Committee

must be independent in relation to major shareholders in the Company, and have expertise in accounting or auditing, and the Company fulfils this requirement of the Code.

### External auditors

AAK's auditors are appointed by the Annual General Meeting. At the Annual General Meeting in 2019, the audit company PricewaterhouseCoopers AB was re-elected as auditors up to and including the Annual General Meeting in 2020. Sofia Götmar-Blomstedt, Authorized Public Accountant, was appointed auditor in charge. Sofia Götmar-Blomstedt also has auditing engagements in companies including Coop Sverige, Scandic Hotels Group AB, Genovis AB, Pågengruppen AB and Beijer Electronics Group AB. All services requested in addition to the statutory audit are tested separately to ensure there is no conflict arising involving independence or disqualification. No agreements with related parties exist.

### Operational management

It is the task of the CEO to lead operations in accordance with the guidelines and instructions of the Board. In conjunction with this, the CEO shall use the required control systems to ensure the company complies with applicable laws and regulations. The CEO reports to the Board meetings and shall ensure the Board receives as much factual, detailed and relevant information as is

required for the Board to reach well-informed decisions. The CEO also maintains continual dialogue with the Chairman of the Board and keeps him informed of the development and financial position of the Company and the Group.

AAK's Group management team consists of twelve persons from five countries: the CEO, Chief Financial Officer (CFO) who is also responsible for Mergers & Acquisitions, Corporate Communications, Global IT and Global Foodservice, Chief Strategy & Sustainability Officer, who is also responsible for People and Corporate Branding, Chief Technology Officer (CTO), President Global Operations and President Global Sourcing & Trading, as well as five persons in charge of business areas/regions/industries and one Senior advisor. The Group management team meets every other month and deals with the Group's financial development, investments, synergy and productivity projects, acquisitions, Group-wide development projects, leadership and competence supply and other strategic issues. The meetings are chaired by the CEO, who make decisions in consultation with the other members of the Group management team. The Group has a small number of Group employees, who are responsible for Group-wide activities, such as financial performance, tax, IT, internal control, strategy, investor relations, information and legal issues. The CEO and Group management team are presented on pages 50–51. For remuneration principles and salaries and other fees paid to the CEO and Group management team, please see Note 8.

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

#### [The Board's description of internal control and risk management relating to financial reporting](#)

The Board is responsible for AAK's internal control, the overall purpose of which is to protect the owners' investments and the Company's assets. The Board shall provide a description of how internal control and risk management relating to financial reporting

are organized in a separate section of this Corporate Governance Report. Internal control relating to financial reporting is a process involving the Board, the company management team and personnel.

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

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

#### [Control environment](#)

AAK's organization is designed to facilitate quick decision-making. Operational decisions are therefore made at business area or subsidiary level, while decisions about strategies, acquisitions and overriding financial issues are taken by the company's Board and Group management team. The organization is characterized



by clear division of responsibilities and effective and established management and control systems, covering all units within AAK.

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

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

#### Risk assessment and risk management

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

#### Control activities

The risks identified relating to financial reporting are handled via the company's control activities. These control activities aim to prevent, identify and correct

errors and discrepancies. Control activities take the form of manual controls, such as reconciliation and stocktaking, automatic controls via the IT systems and general controls of the underlying IT environment. Detailed financial analyses of the result and follow-up against budgets and forecasts supplement the operation-specific controls and provide overall confirmation of the quality of the reporting.

#### Information and communication

To ensure the completeness and accuracy of its financial reporting, the Group has adopted guidelines for information and communication aimed at ensuring relevant and significant exchange of information within business operations, both within each unit and to and from management and the Board. Policies, handbooks and working practices relating to the financial process are communicated between the management and employees, and are available in electronic format and/or printed format. The Board receives regular feedback on internal control from the Audit Committee. To ensure that external information is correct and complete, AAK has a communication policy adopted by the Board, which states what is to be communicated, by whom and in what way.

#### Follow-up

The effectiveness of the process for risk assessment and execution of control activities is followed up continuously. The follow-up covers both formal and informal



procedures, which are used by those responsible at each level. The procedures include follow-up of results against budgets and plans, analyses and key figures. The Board receives monthly reports about the Group's financial position and development. The Company's financial situation is discussed at each Board meeting, and the management team analyzes the financial reporting at detailed level on a monthly basis.

At Audit Committee meetings, the Committee follows up the financial reporting and receives reports from the auditors about their observations.

#### [Policy documents](#)

AAK has a number of policies for the operations of the Group and its employees. These include:

##### *Ethics policy*

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

##### *Finance policy*

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

##### *Communication policy*

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

##### *Environmental policy*

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