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CMO

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**Interim report  
Second quarter  
2017**

# Agenda



Second quarter 2017


Business area information

The AAK Way

Responsible growth

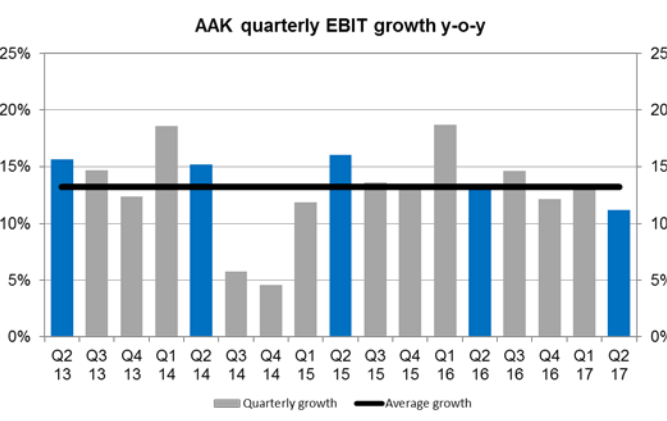
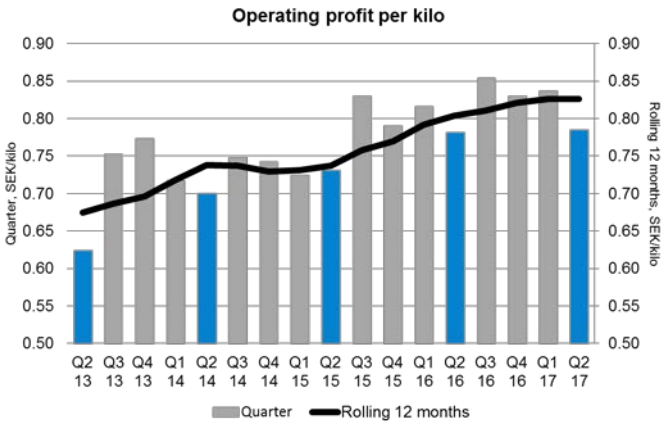
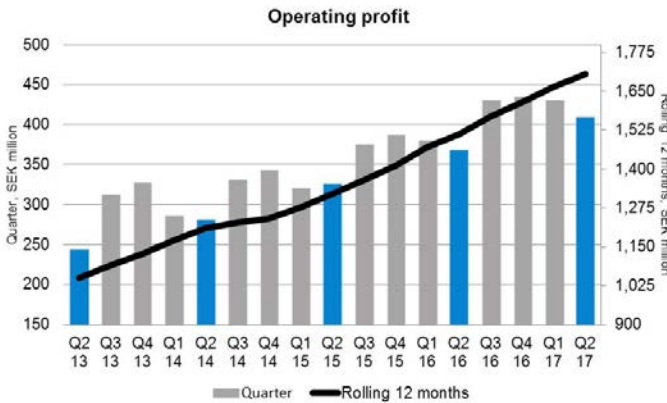
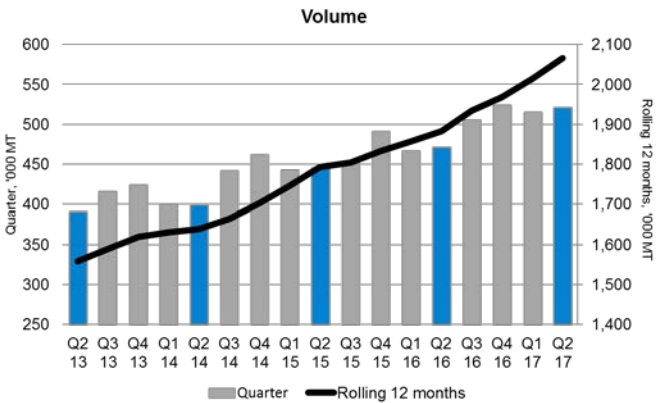
Q & A

## Second quarter 2017 – all-time high operating profit for a second quarter

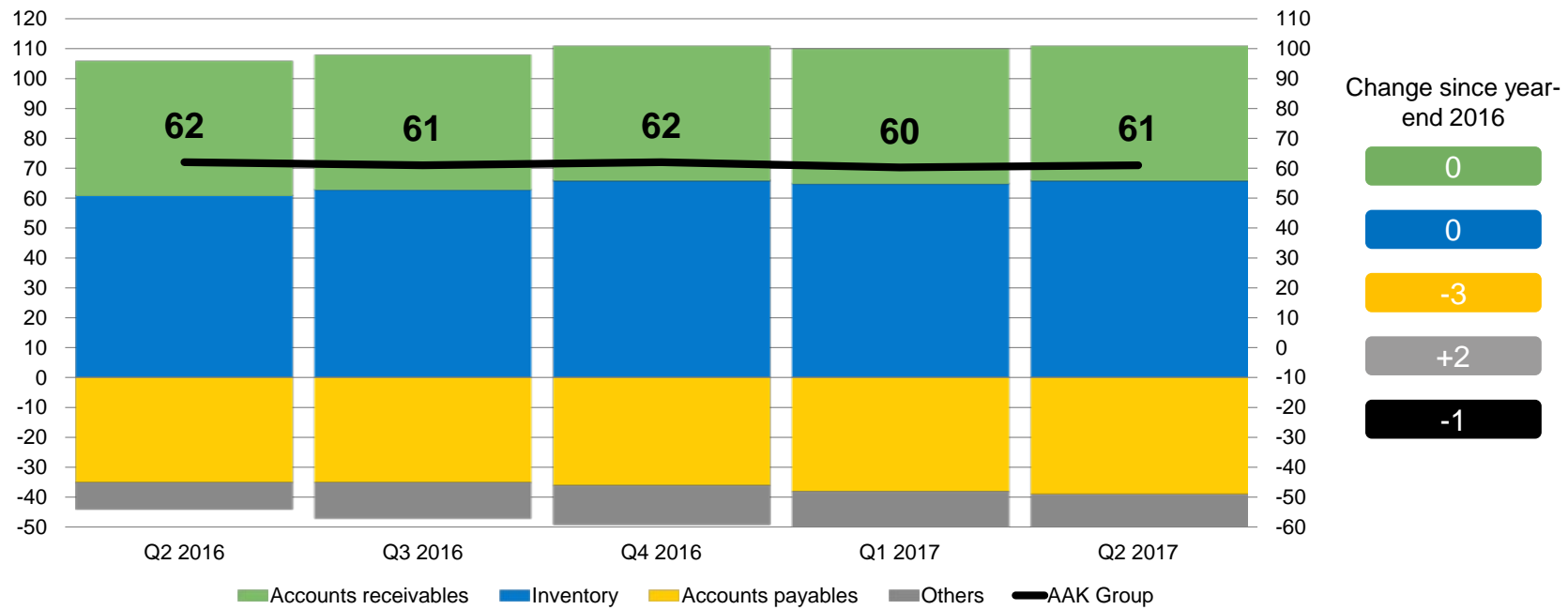


Volume '000 MT	521 (471)	+11% Organic +5%
Sales SEK million	6,612 (5,090)	+30%
EBIT SEK million	409 (368)	+11%
EBIT per kilo SEK	0.79 (0.78)	+1%
EPS SEK	6.25 (5.47)	+14%
Net debt SEK million	3,539 (Dec 2016: 2,620)	+35%

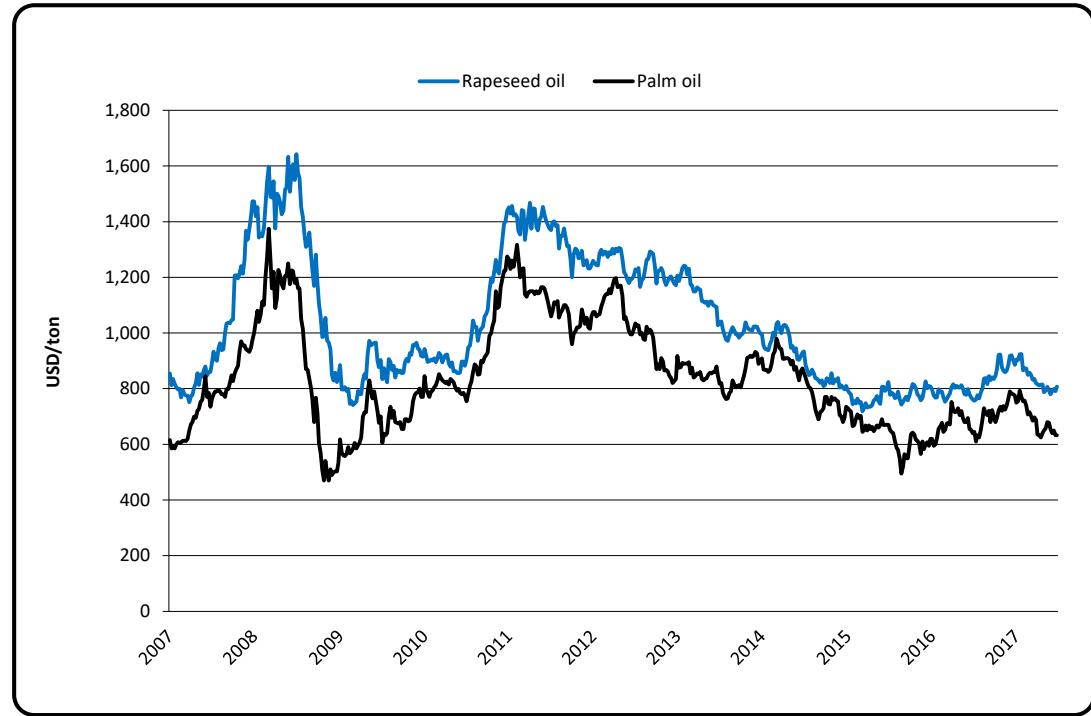
# Financial summary – AAK Group



# Working capital days – rolling 12 months

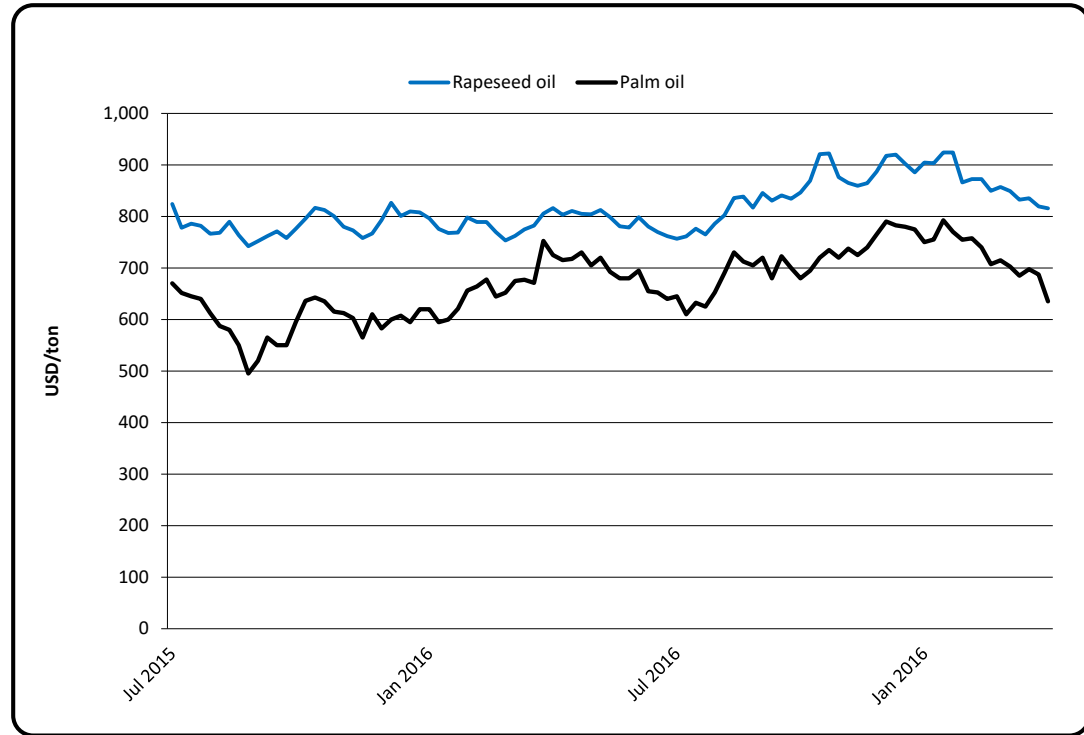


# Raw material prices





# Raw material prices



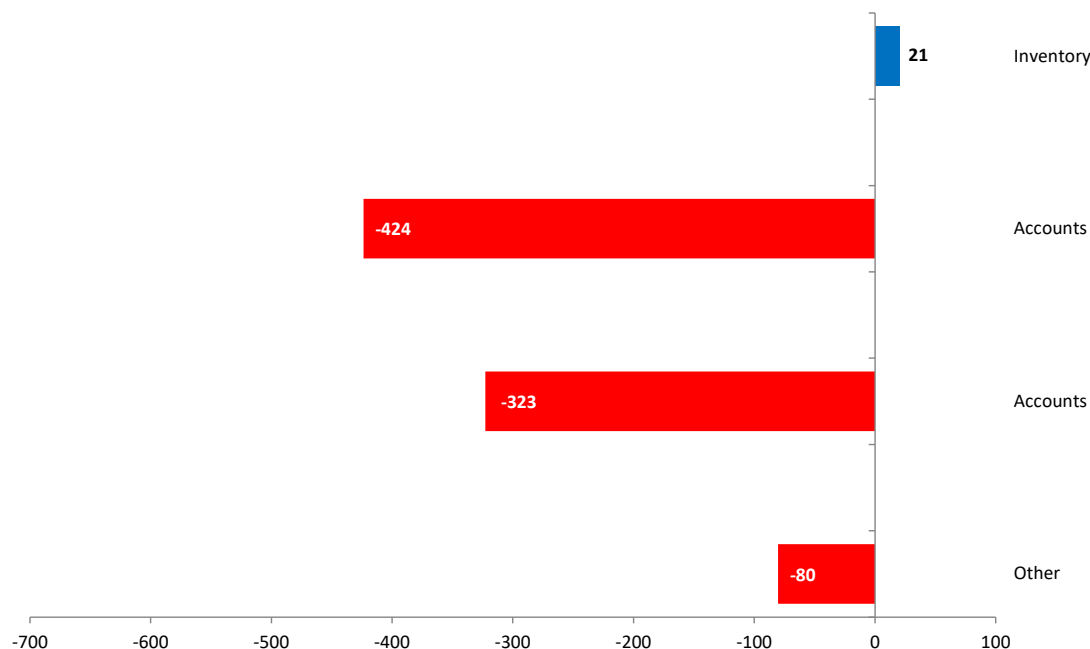
# Cash flow

SEK million	Q2 2017	YTD 2017	Q2 2016	YTD 2016
EBITDA	532	1,085	482	975
Paid interest	-18	-64	-34	-72
Paid tax	-146	-287	-108	-191
Non-cash items	-131	-165	22	14
Change in working capital (WC)	-66	-806	158	-222
<b>Cash flow from operating activities incl. changes in WC</b>	<b>171</b>	<b>-237</b>	<b>520</b>	<b>504</b>
Cash flow from investments	-192	-344	-194	-386
<b>Free cash flow</b>	<b>-21</b>	<b>-581</b>	<b>326</b>	<b>118</b>

- ◆ Cash flow from working capital was negative, amounting to negative SEK 66 million (positive 158)
  - ◆ Increased raw material prices, strong organic volume growth and working capital tied up for the two greenfield investments, continued to have a negative impact on working capital
  - ◆ Cash outflow from investing activities amounted to SEK 192 million (194)
  - ◆ There has been a slight decrease in raw material prices during the second quarter which will have a positive impact during the last quarter of the year and the first quarter of next year

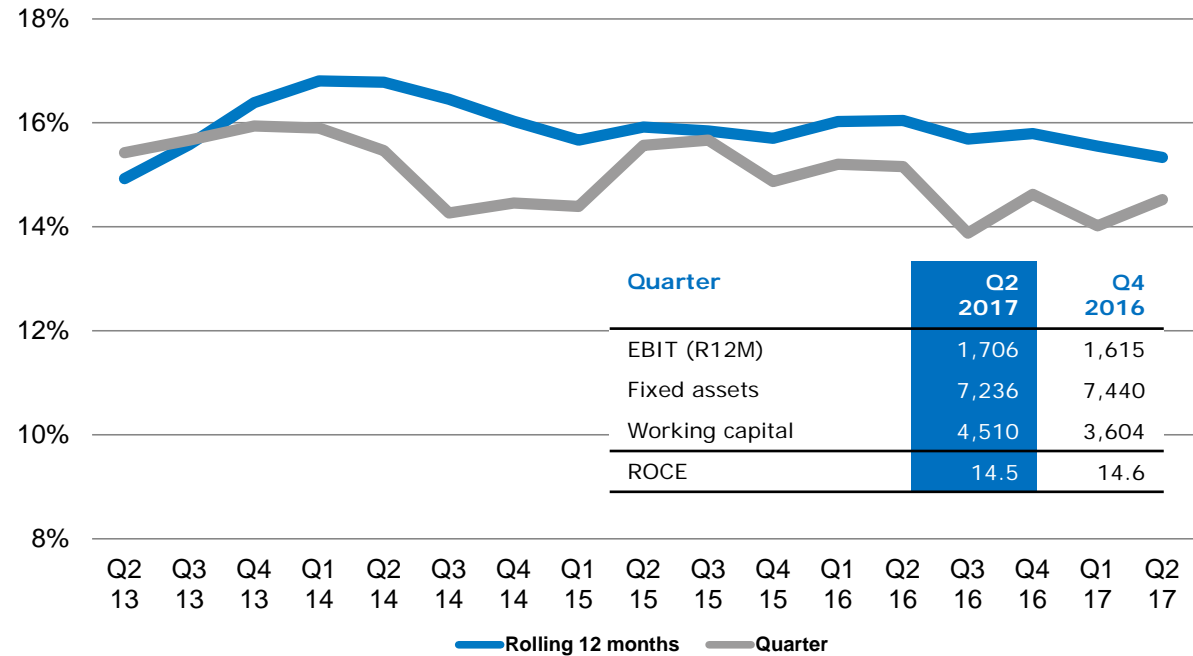


# WC cash flow – negative SEK 806 million



- Higher raw material prices – impact negatively
  - Inventory volumes down since year-end
  - DSO R12M is flat since year-end
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- Higher raw material prices – impact negatively
  - Organic volume growth 5%
  - DSO R12M is flat since year-end
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- Higher raw material prices – impact positively
  - DSO R12M has improved three days since year-end
  - Timing Q4 16 / Q2 17 impacts Q2 17 negatively
- 
- Normal pattern when raw material prices are increasing. Should reverse during the second half of this year
  - Lower accruals end of Q2 than year-end 16
-

# ROCE – second quarter 2017



# Business trends – second quarter 2017



	Share of volume	Nordics	WE	UK	USA	CEE	CIS	Asia	LA
Food Ingredients	69%	→	→	→	→	→	→	→	→
Chocolate & Confectionery Fats	18%	→	→		→	→	→	→	→
Technical Products & Feed	13%	→							
AAK Group	100%	→	→	→	→	→	→	→	→

# Food Ingredients Q2 2017

Organic volume growth

**+3%**

Operating profit

**+14%**

Operating profit per kilo

**+1%**


- ◆ **Operating profit increased to SEK 271 million (238)**

- ◆ The Bakery segment had a slightly challenging quarter. The European market remained a challenge and the development in North Latin America was slightly weaker in the second quarter. There was, however, good growth in Asia and South Latin America
- ◆ The Dairy segment continued the strong trend from 2016 and once again reported high double-digit organic volume growth
- ◆ Special Nutrition reported high double-digit volume growth with a significantly better product mix. This was driven by a double-digit volume growth for our Infant Nutrition product range Akonino®. Our other Infant Nutrition product range InFat®, sold through Advanced Lipids AB, a joint venture of AAK and Enzymotec, also showed double-digit volume growth in the quarter
- ◆ Foodservice reported declining volumes in the quarter. This was mainly due to more challenging market conditions in the Nordics

- ◆ **Operating profit per kilo was stable at SEK 0.75 (0.74)**

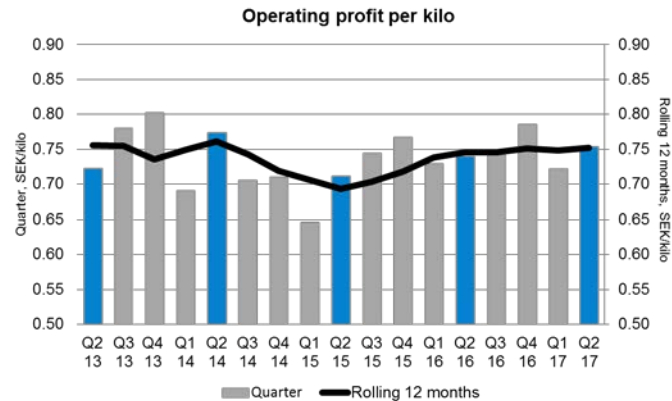
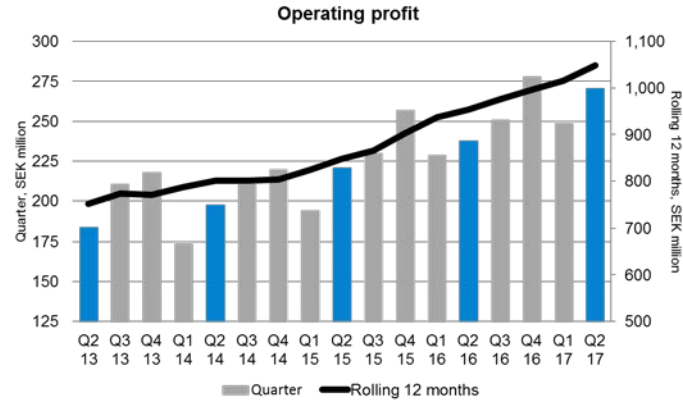
- ◆ Improved product mix, including a higher portion of customer co-developed solutions
- ◆ Ramp-up costs related to greenfield investments have had a negative impact on operating profit per kilo

## Food Ingredients – organic volume growth



	2017 YTD	2017 Q2	2017 Q1	2016 FY	2016 Q2	2016 Q1
FI – speciality and semi-speciality	+2%	+2%	+2%	+1%	+3%	0%
FI – commodity	+4%	+7%	+2%	-13%	-21%	-9%
FI – total	+3%	+3%	+2%	-2%	-3%	-3%

# Food Ingredients





# Chocolate & Confectionery Fats Q2 2017

Organic volume growth

**+14%**

Operating profit

**+13%**

Operating profit per kilo

**-1%**

- **Operating profit increased to SEK 165 million (146)**

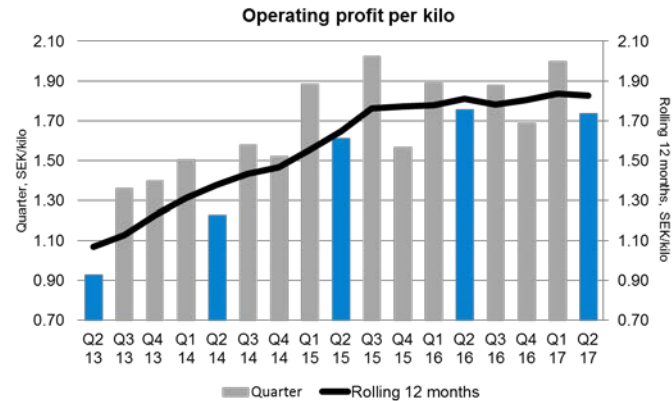
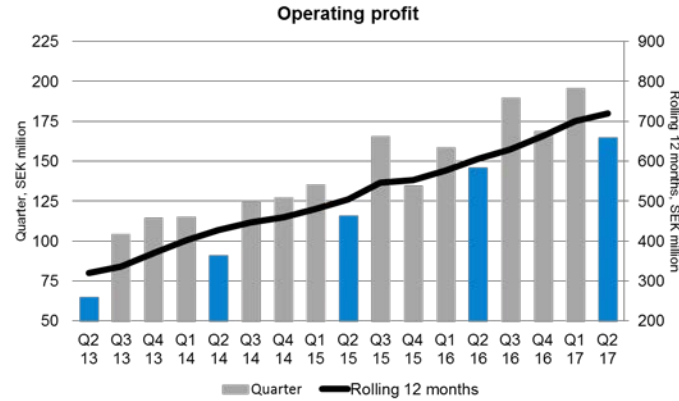
- There was continued strong organic volume growth for both speciality and semi-speciality products, with several showing exceptional volume growth – in mature as well as in emerging markets
- The currency translation impact was SEK 6 million

- **Operating profit per kilo decreased from SEK 1.76 to SEK 1.74**

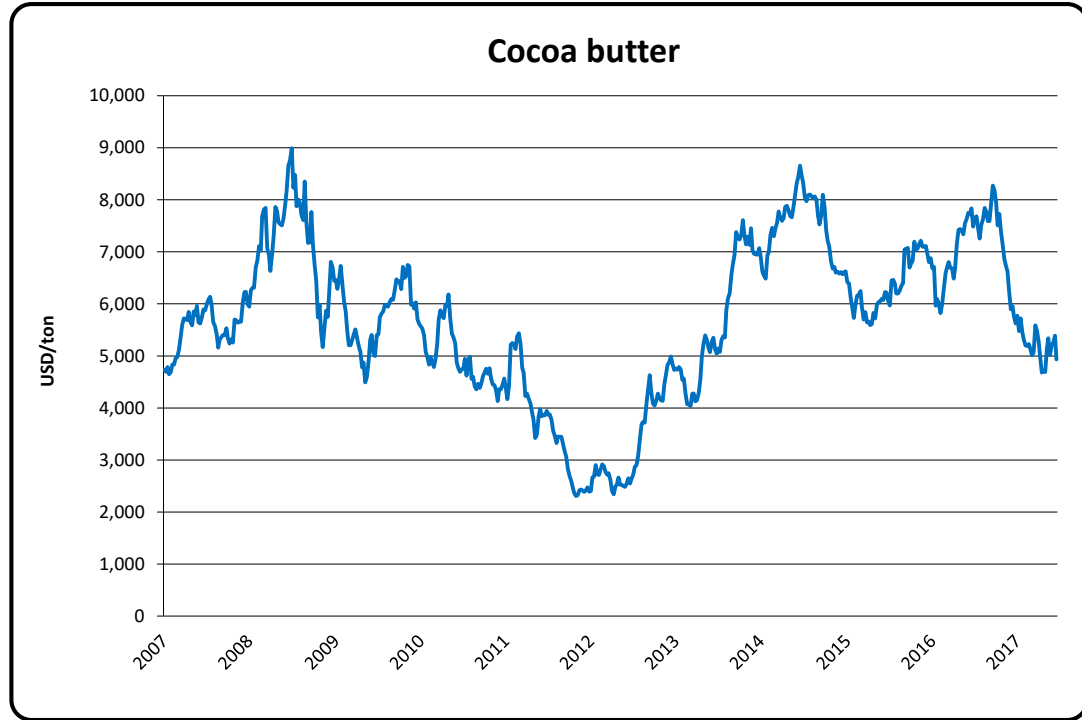
- Continued improved product mix
- Ramp-up costs related to greenfield investments have had a negative impact on operating profit per kilo
- Recent years' strong customer co-development, new innovative solutions, and further expansion of our geographical footprint are continuing to yield positive results



# Chocolate & Confectionery Fats



# Cocoa butter price



For information regarding cocoa and cocoa butter, please refer to information at [www.icco.org](http://www.icco.org)

# Technical Products & Feed Q2 2017

Organic volume growth

**+0%**

Operating profit

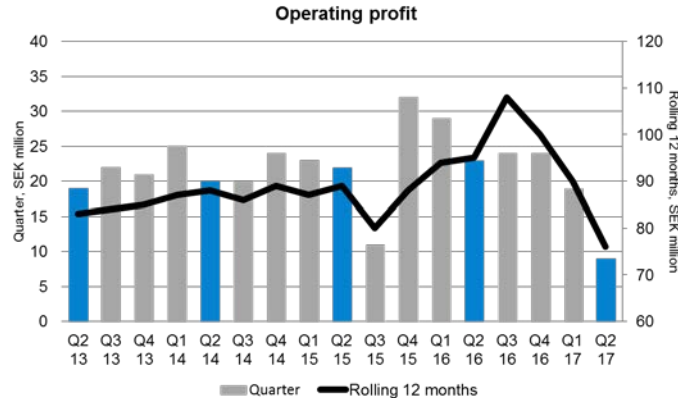
**-61%**




Operating profit per kilo

**-60%**

- ◆ **Operating profit in the quarter was SEK 9 million (23)**

- ◆ Volume development was flat in the quarter due to an extended, but planned, maintenance stop
- ◆ Operating profit reached SEK 9 million (23). The maintenance stop in our crushing operation had an unfavorable impact on operating profit. The pressure on our fatty acids business continued due to higher raw material prices. However, we expect this pressure to gradually decrease over the coming quarters



-  Ahead of plan
-  On plan
-  Behind plan



## Innovation



### Go To Market

- ◆ AAK Way of Selling
- ◆ Customer Co-Development



### Operational Excellence

- ◆ Sourcing Excellence
- ◆ Cost Effective & Flexible
- ◆ World Class Delivery



### Special Focus Areas

- ◆ Special Nutrition
- ◆ Dairy+
- ◆ INNOBO-Products



## People







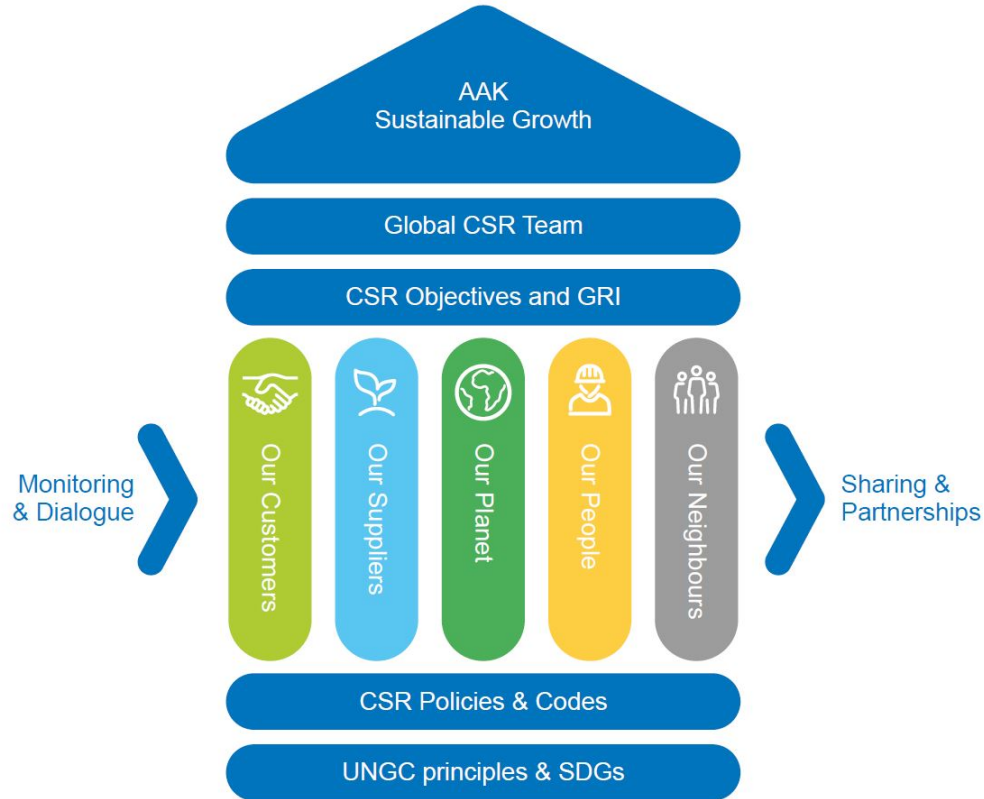
2016/2017

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# Sustainable Growth



# Sustainable Growth – House of Sustainability





## Our Suppliers – Responsible Sourcing



- ◆ **Supplier Code of Conduct** – Signed by AAK's direct raw material suppliers worldwide

The AAK Supplier Code of Conduct stipulates requirements with regard to the following:

◆ Human rights

◆ Child labour

◆ Working hours

◆ Working environment

◆ Environment

◆ Forced labour

◆ Discrimination

◆ Housing

◆ Young workers

◆ Remuneration

◆ Freedom of association

◆ Corruption

◆ Notification

◆ Workplace violence

- ◆ **Policies** – Signed by relevant suppliers

## Our Suppliers – Palm Oil

- Sustainability is a top priority



- ◆ AAK is a founding member of the **RSPO**, part of the Board and continues to be very engaged
- ◆ Strong **partnership** with Proforest in implementing this policy



# Our Suppliers – Palm Oil - Key Achievements 2016

## - Risk Management

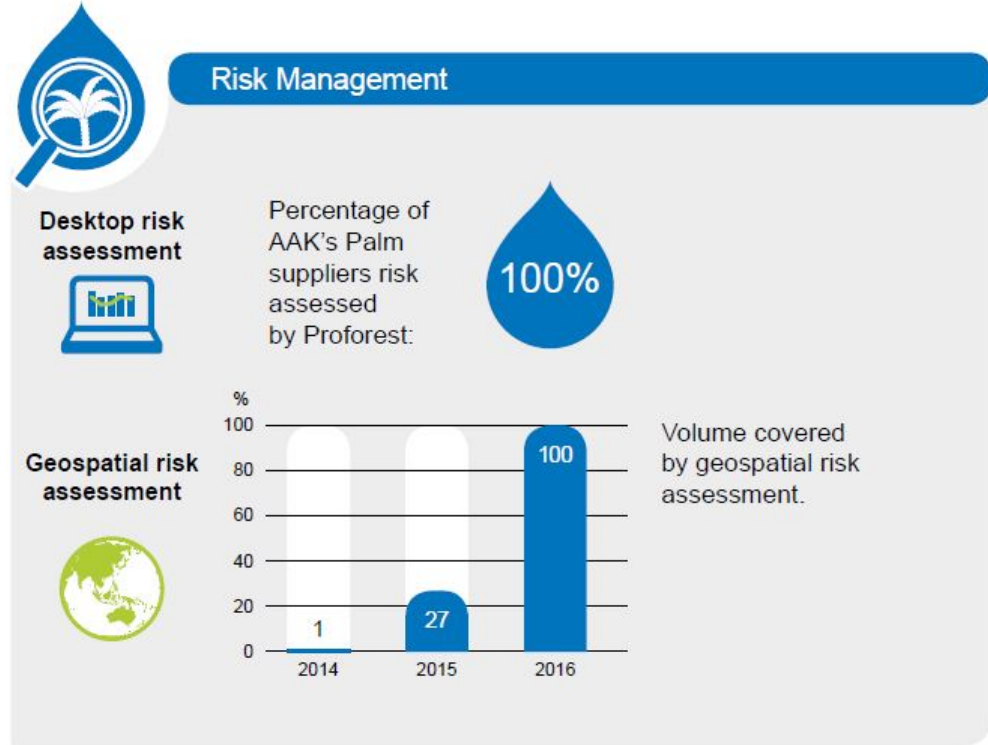


### Desktop risk assessment by Proforest

💧 100% of AAK's palm suppliers

### Geospatial risk assessment by Proforest

💧 100% of AAK's mills



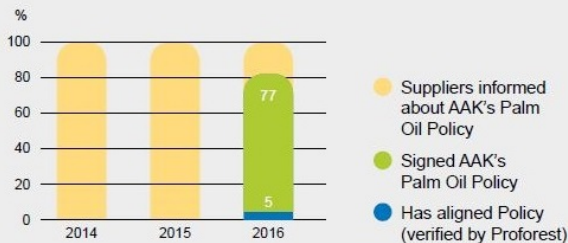
# Our Suppliers – Palm Oil - Key Achievements 2016

## -Supplier Engagement



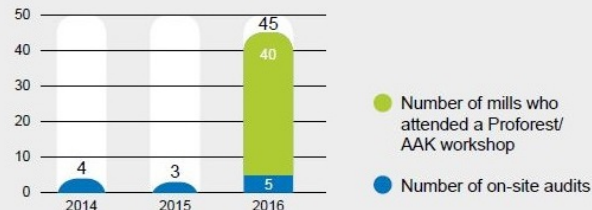
### Suppliers Engagement

#### Palm Oil Policy



Higher priority suppliers invited to workshops facilitated by Proforest.

#### Mill engagement



### AAK Group Policy: Sustainable Palm Oil

💧 **83%** of AAK's palm suppliers have signed the group policy, or have an aligned policy (verified by Proforest).

💧 AAK has invited **40** mills from priority suppliers to sustainability workshops

💧 **5** on-site audits have been carried out



## Our Suppliers – Shea

### - A sustainable raw material



- ◆ **Wild trees** requiring no use of fertilizers or pesticides.
- ◆ Trees do not grow in plantations – however allowed to grow in the crop fields in a farming system called **agroforestry**
- ◆ Farming system existed for centuries and has proven to be very sustainable.

#### **AAK is a strong partner for sustainable sourcing of shea:**

- ◆ Experience in sourcing Shea since the 1950's
- ◆ Founding member of Global Shea Alliance
- ◆ Strong set-up for Shea sourcing in West Africa
- ◆ Direct cooperation with women groups





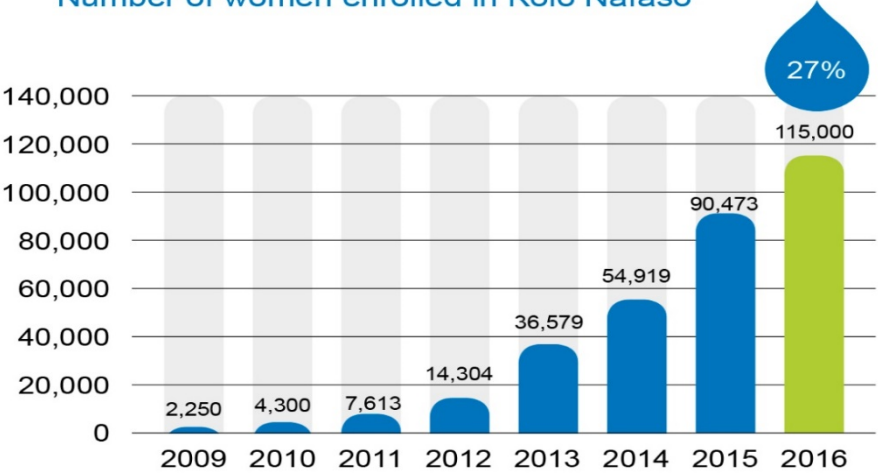
# Our Suppliers - Shea - Key Achievements 2016



## Kolo Nafaso – Empowering women through business

- ◆ Women group program in Burkina Faso & Ghana providing
  - ◆ Interest free micro credits
  - ◆ Training and Logistics
  - ◆ Quality bonuses

Number of women enrolled in Kolo Nafaso





# Our Planet



- ◆ Processing vegetable oils is both complex and energy-intensive.
- ◆ Focus on minimizing the footprint that production plants leave on the environment.
- ◆ Constantly **strive to reduce** consumption of energy and water, and to reduce waste and emissions.
  - ◆ Environmental projects are implemented,
  - ◆ consumption and emissions are monitored,
  - ◆ best practices are identified and shared.

## Concluding remarks

- ◆ Based on AAK's customer value propositions for
  - ◆ Health and reduced costs
  - ◆ Customer product co-development and solutions approach
- ◆ We continue to remain prudently optimistic about the future
- ◆ The main drivers;
  - ◆ We are expecting a continued positive underlying development for Food Ingredients
  - ◆ We are expecting continued improvement in Chocolate & Confectionery Fats



# Questions & Answers



# Financial calendar

## Financial calendar 2017/2018

October 26, 2017	Third quarter report 2017
November 28, 2017	Capital Market Day, Stockholm
February 5, 2018	Fourth quarter and year-end report 2017

# Investor Relations contact

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Further Investor Relations material  
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