

Interim report January – September 2003

- **The Group's net sales amounted to SEK 2,469 million (2,376).**
 - **Earnings after net financial items totalled SEK 147 million (151).**
 - **Earnings after tax were SEK 106 million (109).**
 - **Earnings per share amounted to SEK 5.05 (5.16).**
- **Tough business climate, a stronger Swedish krona and higher energy costs affected Group earnings.**
- **Keen competition had negative effects on business area Oils & Fats. Continued productivity improvements and growing volumes of high value-added products are offsetting this impact.**
- **Investment granted to expand production capacity for high value-added products in business area Oils & Fats.**
- **Profit improvement and volume growth in business area Technical Products.**
- **Continued volume growth for Feed Materials. Capacity-expanding investments are currently coming on stream.**

THE PRESIDENT'S COMMENTS

Focus on growth, productivity improvements and a higher degree of specialisation in a tough business climate.

The Group's profit development in the first nine months of 2003 was negatively affected by a tougher economic climate, a stronger Swedish krona and higher energy costs.

Competition remains keen in all of Oils & Fats markets. Karlshamn Mejeri, one of the Group's largest customers in terms of volumes, has now relocated most of its production operations to Finland.

All in all, the negative impact of these external factors totals some SEK 70 million to date.

Karlshamns approach to its new business situation is a committed focus on productivity improvements and growth, the latter to be generated by means of a stronger global presence in combination with higher value-added products.

The negative external developments have been offset by productivity improvements worth SEK 45 million and new business opportunities worth SEK 20 million; the second of the two achieved through consolidated market positions and high value-added products.

Karlshamns degree of specialisation is now growing steadily. The global market launch of three new, sought-after products (in the application areas chocolate, dairy and cosmetics) clearly shows that the development process launched in 2001 is now paying off. It has also been decided to invest in extended production capacity for high value-added products in business area Oils & Fats.

Karlshamns priority is to achieve sustainable value growth. The implementation of our strategic plans will generate considerable profit improvements, although on a longer term. The negative effects of our current business situation, however, are both sizeable and immediate.

MARKET

All of the Group's markets are currently characterised by a general business decline.

All in all, raw material prices have been following a descending trend throughout the first nine months of the year, whereas the Swedish krona has gained strength and thereby affected the Group's profits negatively by approximately SEK 8 million. Hardening competition in the vegetable oil industry had negative effects on the Oils & Fats contribution margins.

Demand for vegetable feed raw materials continues to grow. The fatty acid market remains stable, whereas glycerol prices have shown a marked decrease.

Demand for eco-friendly products for forestry and construction applications has increased.

The Group

The Karlshamns Group is divided into three business areas; Oils & Fats, Technical Products and Feed Materials. The Technical Products business area's operations are carried out by the subsidiaries Tefac and Binol. Business area Oils & Fats has three business sectors; Chocolate & Confectionery Fats, Edible Oils and Lipids for Care.

Oils & Fats

Chocolate & Confectionery Fats

Growing competition and decreasing margins continue to characterise the market for chocolate fats designed to replace cocoa butter, and it remains difficult to estimate the time frame for the implementation of the 5 percent rule* within the chocolate industry. Ever since its market launch in the second quarter of this year, our low-trans CBR Akopol LT 15** has attracted strong attention. As our customers need extensive evaluation for such an innovation, however, volume development will be more accurately assessed in one or two years.

Edible Oils

The proportion of high value-added products continues to grow, whereas volumes of standard products have declined. Total volumes decreased in the third quarter of the year compared to the same period in 2002.

The relocation of Karlshamn Mejeri had notable effects on volumes in the third quarter, whereas volumes to bakeries and large-scale catering as well as our DFA range (Dairy Fat Alternatives) continue to grow. Karlshamns new product Akocheese has been nominated for a FIE award in the category "Most innovative food ingredient 2003".***

Lipids for Care

The cosmetic industry's interest in high value-added products remains strong. In 2003, distribution agreements have been signed for the South Korean, Russian and Chinese markets. The product Lipex L'sens, a vegetable alternative to Lanolin (oil from sheep's wool) in cosmetic products was launched in the second quarter of the year. Karlshamns has also invested in a new cosmetics centre and strengthened its resources in this application area.

** In the spring of 2000 the European Union voted a directive allowing other vegetable fats to replace up to 5 percent of cocoa butter in products marketed as "chocolate" within the EU. The new regulation will come into full force in the autumn of 2003.*

*** Nutritional experts emphasise the importance of reducing our intake of trans fatty acids, chiefly because of their negative effect on blood cholesterol. The new LT15 products of the Akopol range all have a trans content reduced by 70 %, at the same time as their aggregate content of trans/saturated fatty acid is lower than in traditional CBR and CBS products.*

**** A jury will nominate the winner during the FIE (Food Ingredient Europe) fair in Frankfurt, Germany on 18 November 2003.*

Technical Products

Tefac

Development for fatty acids remains strong, with volumes growing at a rate surpassing the European market. The progress is mainly due to a continued increase of sales to customers in the chemico-technical industry. Glycerol prices continued to fall through the third quarter due to capacity expansions in the EU biodiesel industry.

Binol

Throughout 2003, Binol has strengthened its position on the Nordic market. The forestry and construction segments continue to progress. Also sales to markets outside the strong, Nordic domestic market continued to grow throughout the first nine months of this year.

Feed Materials

Karlshamns continues to profit from the feed industry's focus on food safety and growing consumption of vegetable feed raw materials. Demand for ExPro meal from the Nordic market has remained strong, with volumes surpassing those of the first three quarters of 2002. Contribution margins for rapeseed were lower in the first nine months of 2003 than in the same period last year.

OPERATIONS

Operating profit

The Group's operating profit decreased by SEK 6 million from last year, to SEK 157 million. Profits in business area Oils & Fats declined to SEK 106 million (114), in business area Feed Materials by SEK 2 million to SEK 18 million whereas business area Technical Products improved its profits by SEK 4 million to SEK 33 million.

The Group's net sales increased by roughly 4 percent, to SEK 2,469 million.

Business Area Oils & Fats

	3 months Jul-Sept 2003	3 months Jul-Sept 2002	9 months Jan-Sept 2003	9 months Jan-Sept 2002	Full year Jan-Dec 2002
(SEK million)					
Net sales	602	600	1,767	1,745	2,394
Gross contribution	162	166	494	505	694
Operating profit	43	46	106	114	146

The Oils & Fats business area's operating profit amounted to SEK 106 million (114). Productivity improvements have been achieved at all three of the business area's production plants, partly through continuous upgrades, partly by means of a specific programme initiated to offset the negative effects of the sizeable volume drop caused by Carlshamn Mejeri.

Keener competition on the European market in combination with rising energy costs nevertheless made profits fall short of last year's third-quarter level by SEK 8 million. Sales to the Central and Eastern European markets developed well all through the third quarter, whereas volumes to the Nordic market decreased due to diminishing sales to Carlshamn Mejeri. In the third quarter in particular, volumes to the catering, bakery and infant food segments progressed well, as did sales in the DFA segment (Dairy Fat Alternatives).

Sales of speciality fats continue to develop well, the growth rate in the third quarter surpassing that of the first six months of the year.

Business Area Technical Products

	3 months Jul-Sept 2003	3 months Jul-Sept 2002	9 months Jan-Sept 2003	9 months Jan-Sept 2002	Full year Jan-Dec 2002
(SEK million)					
Net sales	118	111	389	342	455
Gross contribution	39	36	123	110	148
Operating profit	10	10	33	29	36

The Technical Products business area's operating profit amounted to SEK 33 million (29).

Fatty acid volumes continue to grow, with margins intact. The capacity-expanding investments coming on stream in the first quarter of 2003 reached their full effect in the second and third quarters of the year.

Binol is consolidating its market position. In combination with an adjustment of operating expenditure this has contributed to a rising profit level throughout the year.

Business Area Feed Materials

	3 months Jul-Sept 2003	3 months Jul-Sept 2002	9 months Jan-Sept 2003	9 months Jan-Sept 2002	Full year Jan-Dec 2002
(SEK million)					
Net sales	93	89	313	289	400
Gross contribution	28	26	90	86	120
Operating profit	5	5	18	20	29

Operating profit in business area Feed Materials amounted to SEK 18 million (20). Higher energy costs and intensifying marketing activities had negative effects on profits.

Sales of feed raw materials continued to increase through the third quarter of the year, with Karlshamns strengthening its position on the Nordic market. Customer preference for product safety and vegetable raw materials is becoming more and more pronounced.

THE KARLSHAMNS GROUP

Profit after net financial items

The Group's profit after net financial items totalled SEK 147 million (151), with net financial items amounting to SEK -10 million (-12).

Capital expenditure

The Group's direct investments in fixed assets amounted to SEK 69 million (68) in the first nine months of 2003, the corresponding figure for the full year 2002 being SEK 103 million.

Working capital

The Group's working capital as at 30 September 2003 was SEK 517 million (483), the increase mainly due to higher inventory volumes of exotic raw materials.

Financial position

The Group's shareholders' equity as at 30 September 2003 was SEK 935 million (876). Total assets amounted to SEK 1,784 million (1,755), the equity/assets ratio to 52 percent (50).

The Group's net borrowings as at 30 September 2003 were SEK 223 million (228).

Cash flow

Cash flow generated by operating activities amounted to SEK 72 million (203) for the first nine months of 2003. The change, which is mainly related to the Group's working capital, was generated by the build-up of exotic raw material stocks and non-recurrent items.

Personnel

The Group's average number of employees in the period was 751 (754).

Key ratios

Return on equity during the preceding twelve-month period was 16 percent (17), the corresponding figure for the full year 2002 being 17 percent.

Return on net operating assets in the preceding twelve-month period was 16 percent (16).

Equity per share increased to SEK 44.52 (41.70).

Accounting and valuation principles

This interim report has been prepared in accordance with the accounting principles applied in the Annual Report 2002. The recommendations issued by the Swedish Financial Accounting Standards Council, effective from 1 January 2003, have been implemented without resulting in any change of accounting principles.

Karlshamn 22 October 2003



Jerker Hartwall
President

*For further information, phone +46 (0)454-826 03
These interim figures have not been audited*

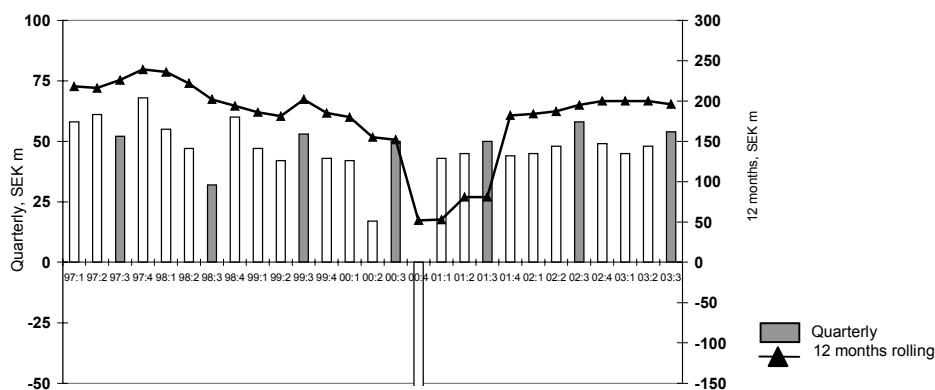
SUMMARY INCOME STATEMENT FOR THE GROUP

(SEK million)	3 months Jul-Sept 2003	3 months Jul-Sept 2002	9 months Jan-Sept 2003	9 months Jan-Sept 2002	Full year Jan-Dec 2002
Net sales	813	800	2,469	2,376	3,249
Raw material costs	-584	-572	-1,762	-1,675	-2,287
Gross contribution	229	228	707	701	962
Personnel and other external costs	-147	-145	-480	-467	-659
Depreciation	-24	-22	-70	-71	-92
Operating profit	58	61	157	163	211
Net financial items	-4	-3	-10	-12	-11
Profit after net financial items	54	58	147	151	200
Tax	-15	-16	-41	-42	-48
Net profit	39	42	106	109	152

SHARE DATA

Number of shares (000)	21,005	21,002	21,002
Outstanding warrants and convertible debt instruments (000)	909	912	912
Earnings per share before conversion and utilisation of warrants, SEK	5.05	5.16	7.23
Earnings per share after conversion and utilisation of warrants, SEK	4.84	4.95	6.93
Equity per share before conversion and utilisation of warrants, SEK	44.52	41.70	43.59

Profit after net financial items



PROFIT AFTER NET FINANCIAL ITEMS, QUARTERLY

(SEK million)	2001				2002				2003		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Net sales	726	699	700	817	786	790	800	873	853	803	813
Gross contribution	222	219	218	233	232	241	228	261	236	242	229
Operating profit	47	49	54	46	49	53	61	48	47	52	58
Net financial items	-4	-4	-4	-2	-4	-5	-3	1	-2	-4	-4
Profit after net financial items	43	45	50	44	45	48	58	49	45	48	54

SUMMARY BALANCE SHEET FOR THE GROUP

(SEK million)	30.9.2003	30.9.2002	31.12.2002
ASSETS			
Immaterial fixed assets	7	-	7
Tangible fixed assets	731	741	741
Financial fixed assets	11	13	12
Total fixed assets	749	754	760
Inventories	455	422	439
Current receivables	487	470	466
Cash and cash equivalents	93	109	106
Total current assets	1,035	1,001	1,011
TOTAL ASSETS	1,784	1,755	1,771

SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity	935	876	915
Provisions	108	132	111
Long-term liabilities	317	336	260
Accounts payable - trade	207	216	268
Other current liabilities	34	46	45
Accrued expenses and prepaid income	183	149	172
Total current liabilities	424	411	485
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,784	1,755	1,771

CHANGES IN SHAREHOLDERS' EQUITY

(SEK million)	30.9.2003	30.9.2002	31.12.2002
Shareholders' equity, opening balance	915	850	850
Dividend	-74	-74	-74
Translation differences	-12	-9	-13
Net profit	106	109	152
Shareholders' equity, closing balance	935	876	915

SUMMARY CASH FLOW STATEMENT FOR THE GROUP

(SEK million)	Jan-Sept 2003	Jan-Sept 2002	Full year 2002
Operating activities			
Cash flow from operating activities before changes in net operating assets	181	206	267
Changes in net operating assets	-109	-3	43
Cash flow from operating activities	72	203	310
Investment activities			
Cash flow from investment activities	-68	-79	-106
Financing activities			
Cash flow from financing activities	-14	-84	-167
Cash flow for the year	-10	40	37
Liquid funds, opening balance	106	70	70
Translation difference	-3	-1	-1
Liquid funds, closing balance	93	109	106

KEY FIGURES

(SEK million unless otherwise stated)	Jan-Sept 2003	Jan-Sept 2002	Jan-Sept 2001	Full year 2002
Income statement				
Net sales	2,469	2,376	2,125	3,249
Gross contribution	707	701	659	962
Operating profit	157	163	150	211
Profit after net financial items	147	151	138	200
Net profit	106	109	99	152
Balance sheet				
Fixed assets	749	754	776	760
Current assets	1,035	1,001	949	1,011
Shareholders' equity	935	876	820	915
Provisions	108	132	99	111
Liabilities	741	742	806	745
Net operating assets	1,265	1,234	1,241	1,180
Net borrowings	223	228	326	154
Key ratios				
Return on net operating assets, %	16	16	8	17
Return on shareholders' equity, %	16	17	6	17
Equity/assets ratio, %	52	50	47	52
Debt/equity ratio, multiple	0.24	0.26	0.40	0.17
Proportion of risk-bearing capital, %	58	57	53	57
Capital turnover rate, multiple	2.7	2.5	2.4	2.6
Direct investments in fixed assets	69	68	82	103
Average number of employees	751	754	746	754
of whom in Sweden	616	604	606	611

STAFF WARRANTS 1999

Following the AGM's decision in May 1999 the company raised a subordinated loan of a nominal maximum of SEK 2,825,000 through an issue of promissory notes of a maximum 565,000 warrants for the subscription of new shares. Employees subscribed to 167,800 of the total 546,000 warrants. The price per warrant was fixed at SEK 7.20, and the issue price per share was fixed at SEK 101 for the period 1 September 1999 to 31 August 2001, and at SEK 79 for the period 1 September 2001 to 1 July 2004. Dilution at full conversion is 0.8 per cent. The subordinated loan had an annual interest rate of 3 per cent and matured on 1 July 2000.

STAFF WARRANTS 2002

In April 2002 the AGM decided to invite all permanent employees in Sweden, the UK and the Netherlands to subscribe to convertible debt instruments, to be issued by Karlshamns AB to an aggregate amount of SEK 93 700 000. As a result, employees subscribed to debt instruments corresponding to SEK 74 625 000, or approximately 80 per cent of the total offer. Dilution at full conversion will be approximately 3.5 per cent of capital and voting rights. The loan matures on 20 July 2007, should conversion not have taken place before that. The conversion rate was fixed at SEK 100, the conversion period running from 10 May 2005 to 10 May 2007. The loan carries an annual interest rate of STIBOR less 0.5 percentages.

REPORTING SCHEDULE

- The summarised financial statements for the year 2003 will be released on 11 February 2004.
- The interim report for the period to 31 March 2004 will be released on 21 April 2004.
- The interim report for the period to 30 June 2004 will be released on 18 August 2004.
- The interim report for the period to 30 September 2004 will be released on 21 October 2004.



Address
SE-374 82 Karlshamn

Telephone
+46 (0)454-820 00

Fax
+46 (0)454-828 20

Corp.reg.no.
556478-1796

E-mail
info@karlshamns.se

www.karlshamns.com