

Interim Report January – September 2004

- The Group's net sales amounted to SEK 2,663 million (2,469).
 - Earnings after net financial items totalled SEK 135 million (147).
 - Earnings after tax were SEK 98 million (106).
 - Earnings per share amounted to SEK 4.60 (5.05).
- Business area Oils & Fats keeps up its strong volume growth.
- Pressure on margins in business area Technical Products is adversely affecting profitability.
- Continued growth for high value-added speciality fats.
- Acquisition of British company in the speciality fats segment.
- Continued volume growth for feed materials.
- Efficiency improvement programme now launched, to cut annual costs by SEK 100 million from 2006 onwards.

THE PRESIDENT'S COMMENTS

Strong volume growth, but pressure on margins. Productivity improvements to cut operating costs by SEK 100 million per year from 2006.

The third quarter of 2004 was characterised by continued strong volume growth in combination with heavy pressure on margins. Our strategically important speciality fats continue to make progress. Contribution margins in business area Oils & Fats, which accounts for 75 percent of the Group's total sales, have been notably reduced as a result of the current considerable excess capacity throughout Europe.

Karlshamns maintains an unwavering focus on growth in its speciality product segments in combination with productivity improvements, to adapt to new market conditions.

Technical Products, a business area that made strong progress in the past few years, now sees its margins subjected to heavy pressure. Surging raw material prices in combination with falling fatty acid prices have impacted on operating profits quite considerably. Among the major causes is the high world market price of crude petroleum, a strong incentive for energy producers to resort to alternative fuels like the vegetable oils and fats that constitute Karlshamns' raw material base. Production costs are increasing, without any compensation in the form of higher sales prices.

The extensive development process launched in 2001 resulted in a dynamic and focused expansion of high value-added speciality products based on Karlshamns' technological excellence in the area of vegetable oils and fats. At the same time, priority was given to new and radical ways to achieve productivity improvements throughout the Group.

High value-added speciality products

Karlshamns maintains its focus on speciality products, one example being the recent acquisition of a UK company in the speciality fats segment. The purpose of this strategic acquisition is to secure a position on a market where the convenience food segment is growing at a high pace.

Karlshamns is today a leader in the following areas:

- the development of vegetable fats for the dairy industry. Major tests and evaluations of a vegetable cheese with positive health effects are currently under way
- development of low-trans fats for the chocolate and confectionery industries
- vegetable ingredients for the global cosmetics industry.

The lead-time from product development to market launch is extensive in the food, confectionery as well as in the cosmetics industry, however, and a more accurate estimate of business potentials is still a few years away.

Productivity improvement programme

Continuous productivity improvements have made it possible to maintain strong profit and cash flow levels despite radical changes in the Group's business conditions. In line with this, Karlshamns is now initiating a programme to streamline production operations even further.

This programme will generate full profit effects from 2006 onwards, to the amount of SEK 100 million. Development projects have been clearly identified, principally targeting the areas of energy, processing, logistics, continuous streamlining and eliminations of bottlenecks in the production of high value-added products. The non-recurrent expenses for these measures are estimated at some SEK 25 million, which will impact the 2004 profits.

Karlshamns is going through an extensive development process. The results of our strategic focus on speciality products in combination with forceful improvements of the Group's overall efficiency take quite some time to materialise, however. Karlshamns is on the right track, but needs a few more years before we will see the more sizeable effects on growth and profits.

MARKET

The Group

The Karlshamns Group is divided into three business areas: Oils & Fats, Technical Products and Feed Materials.

The Technical Products 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 and confectionery fats

Sales of chocolate and confectionery fats increased by 5 percent in comparison with the first nine months of 2003, the major growth achieved in markets outside Western Europe.

While pressure on CBA prices has grown, higher cost efficiency has strengthened the Group's competitiveness. This, in turn, has resulted in sales progress on new markets. Karlshamns' new low-trans products are being very well received.

Edible Oils

Sales continued to progress through the third quarter of the year – in all, a 10-percent increase from last year, with the strongest progress achieved in Scandinavia and Western Europe. Speciality products keep up their highly satisfactory development, in particular so in the segments for bakery, dairy and margarine products. Karlshamns' range of vegetable cheese fats is making strong progress, with several full-scale consumer tests in the pipeline.

The British speciality fats company Kelanco was recently acquired, to pave the way for further progress in the UK convenience foods segment. One of Europe's most advanced production plants for speciality fats – some of which for the bakery segment – came on stream in the third quarter of the year. Volume products continue to account for a substantial part of sales, however.

Lipids for Care

The cosmetic industry's interest in vegetable ingredients remains on the up, and third-quarter volumes also grew by 22 percent. Business sector Lipids for Care continues to develop new applications while expanding its proportion of high value-added products, the result a satisfactory profit development. A strong volume growth has been achieved, particularly so in Western Europe and the US. Marketing operations remain focused and dynamic all over the world. Significant breakthroughs in the form of new customers were achieved in the third quarter of 2004

Technical Products

Tefac

Tefac's sales volumes of fatty acids increased by some 3 percent compared to the first nine months of 2003, the major growth achieved in the European chemical industry. On an aggregate level, the European market is estimated to have achieved only a very limited growth.

The fatty acids segment is suffering notably from surging raw material prices, fuelled partly by the growing demand from the European energy market (in its turn prompted by high fuel oil prices), partly by the biodiesel industry's growing demand for the raw materials also used in the production of fatty acids. Glycerine prices continued downwards in the third quarter of 2004, a consequence of capacity expansions in the European biodiesel industry.

Binol

Binol continued to strengthen its Nordic market positions in the third quarter. Acquired business units and strategic alliances are developing well indeed, and thus consolidating Binol's leading position on the world market for vegetable technical oils. Sales grew by some 70 percent compared to the same period in 2003, with a healthy profit development despite escalating raw material prices.

Feed Materials

Growing sales of bypass protein ExPro™ and bypass fat Gigant helped Karlshamns increase its share of the Nordic market, with volumes growing by some 20 percent compared to the first nine months of 2003. Nordic demand for vegetable, effective and safe feed raw materials continues to strengthen. Certain market segments have experienced price competition, in particular from Danish and German producers.

OPERATIONS

Operating profit

The Group's operating profit decreased by SEK 15 million from last year, to SEK 142 million. Profits in business area Oils & Fats decreased by SEK 10 million to SEK 96 million; in business area Technical Products by SEK 13 million to SEK 20 million. Business area Feed Materials achieved a profit growth of SEK 8 million, up to SEK 26 million. Net sales increased by 8 percent, to SEK 2,663 million.

Business Area Oils & Fats

	3 months Jul-Sep 2004	3 months Jul-Sep 2003	9 months Jan-Sep 2004	9 months Jan-Sep 2003	12 months Jan-Dec 2003
(SEK m)					
Net sales	652	602	1,895	1,767	2,397
Gross contribution	167	162	499	494	666
Operating profit	40	43	96	106	134

Operating profit in business area Oils & Fats amounted to SEK 96 million (106). Sales of speciality products are developing well, but do not fully compensate for the pressure on contribution margins and the rising development costs entailed by the Group's growing focus on higher value-added products. Sales developed satisfactorily in most of the Group's markets, with volumes growing by some 9 percent compared to the first nine months of 2003.

Business Area Technical Products

	3 months Jul-Sep 2004	3 months Jul-Sep 2003	9 months Jan-Sep 2004	9 months Jan-Sep 2003	12 months Jan-Dec 2003
(SEK m)					
Net sales	135	118	389	389	501
Gross contribution	36	39	119	123	160
Operating profit	3	10	20	33	41

Operating profit in business area Technical Products amounted to SEK 20 million (33). Rising raw material prices could not be offset by price increases for fatty acids, which adversely affected contribution margins. Tefac's earnings also suffered the effect of depressed glycerine prices.

Through organic growth and strategic acquisitions, Binol has further consolidated its market position. In combination with an adjustment of operating expenditure, this contributed to a rising profit level throughout the first nine months of 2004.

Business Area Feed Materials

	3 months Jul-Sep 2004	3 months Jul-Sep 2003	9 months Jan-Sep 2004	9 months Jan-Sep 2003	12 months Jan-Dec 2003
(SEK m)					
Net sales	119	93	379	313	419
Gross contribution	35	28	100	90	118
Operating profit	10	5	26	18	22

Operating profit in business area Feed Materials improved to SEK 26 million (18).

Sales of feed raw materials continue to grow, with Karlshamns consolidating its position on the Nordic market.

THE KARLSHAMNS GROUP

Profit after net financial items

The Group's profit after net financial items totalled SEK 135 million (147), with net financial items amounting to SEK -7 million (-10).

Capital expenditure

The Group's direct investments in fixed assets amounted to SEK 74 million (69) in the first nine months of 2004, the corresponding figure for the full year 2003 being SEK 108 million.

Working capital

The Karlshamns Group's working capital amounted to SEK 594 million on 30 September 2004 (517), the rise mainly due to an increase in accounts receivable (a consequence of growing sales) and a decrease in current liabilities.

Cash flow

Cash flow generated by operating activities amounted to SEK 116 million (72).

Financial position

The Group's shareholders' equity as of 30 September 2004 was SEK 995 million (935). Total assets amounted to SEK 1,865 million (1,784), the equity/assets ratio to 53 percent (52).

The Group's net borrowings amounted to SEK 242 million (223) on 30 September 2004.

Personnel

The Group's average number of employees in the period was 780 (751).

Key ratios

Return on equity during the preceding twelve-month period was 14 percent (16), the corresponding figure for the full year 2003 being 15 percent.

Return on net operating assets in the preceding twelve-month period was 14 percent (16).

Equity per share increased to SEK 47.18 (44.52).

Accounting and valuation principles

In 2004, the Karlshamns Group implemented a new recommendation issued by the Swedish Financial Accounting Standards Council (RR 29 on Remuneration to employees). The ensuing revaluation of pension plans had only marginal effects on the Group's balance sheet and income statement. In all other respects, this interim report has been prepared in accordance with the accounting principles applied in the Annual Report 2003.

Karlshamn, 21 October 2004



Jerker Hartwall
President and CEO

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

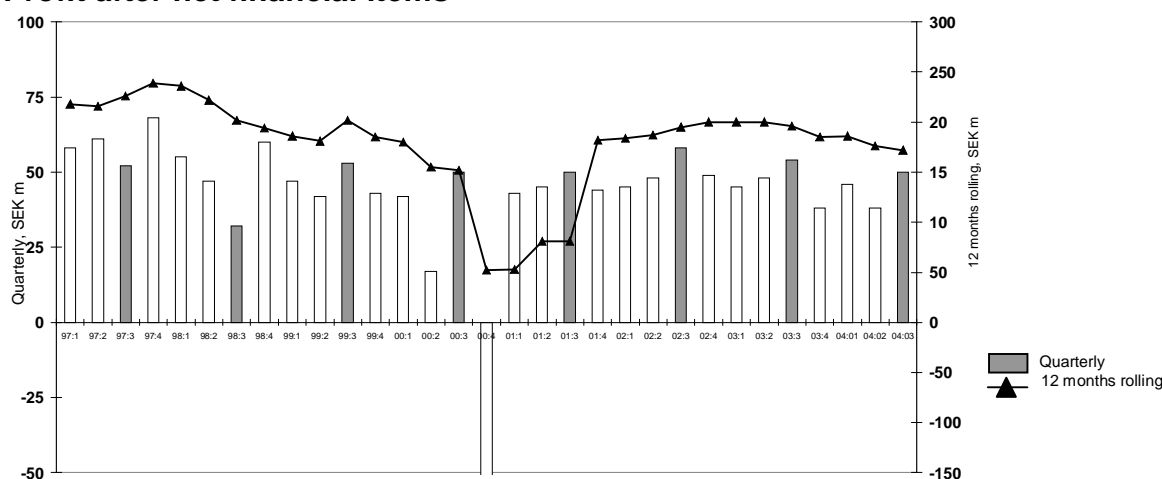
SUMMARY INCOME STATEMENT FOR THE GROUP

(SEK million)	3 months Jul-Sep 2004	3 months Jul-Sep 2003	9 months Jan-Sep 2004	9 months Jan-Sep 2003	Full year Jan-Dec 2003
Net sales	906	813	2,663	2,469	3,317
Raw material costs	-668	-584	-1,945	-1,762	-2,373
Gross contribution	238	229	718	707	944
Personnel and other external costs	-160	-147	-502	-480	-652
Depreciation	-25	-24	-74	-70	-95
Operating profit	53	58	142	157	197
Net financial items	-2	-4	-7	-10	-12
Profit after net financial items	51	54	135	147	185
Tax	-13	-15	-37	-41	-44
Net profit	38	39	98	106	141

SHARE DATA

Number of shares (000)	21,092	21,005	21,033
Outstanding warrants and convertible debt instruments (000)	746	909	881
Earnings per share before conversion and utilisation of warrants, SEK	4.60	5.05	6.73
Earnings per share after conversion and utilisation of warrants, SEK	4.49	4.94	6.58
Equity per share before conversion and utilisation of warrants, SEK	47.18	44.52	46.30
Equity per share after conversion and utilisation of warrants, SEK	45.61	43.05	44.70

Profit after net financial items



PROFIT AFTER NET FINANCIAL ITEMS, QUARTERLY

(SEK million)	2002				2003				2004		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Net sales	786	790	800	873	853	803	813	848	869	888	906
Gross contribution	232	241	228	261	236	242	229	237	242	238	238
Operating profit	49	53	61	48	47	52	58	40	49	40	53
Net financial items	-4	-5	-3	1	-2	-4	-4	-2	-3	-2	-2
Profit after net financial items	45	48	58	49	45	48	54	38	46	38	51

SUMMARY BALANCE SHEET FOR THE GROUP

(SEK million)	30.9.2004	30.9.2003	31.12.2003
ASSETS			
Intangible fixed assets	12	7	14
Tangible fixed assets	747	731	740
Financial fixed assets	11	11	11
Total fixed assets	770	749	765
Inventories	436	455	455
Current receivables	549	487	535
Cash and cash equivalents	110	93	144
Total current assets	1,095	1,035	1,134
TOTAL ASSETS	1,865	1,784	1,899

SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity	995	935	972
Provisions	124	108	121
Long-term liabilities	361	317	352
Accounts payable - trade	187	207	236
Other current liabilities	53	34	63
Accrued expenses and prepaid income	145	183	155
Total current liabilities	385	424	454
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,865	1,784	1,899

CHANGE IN SHAREHOLDERS' EQUITY

(SEK million)	30.9.2004	30.9.2003	31.12.2003
Shareholders' equity, opening balance	972	915	915
Adjustment to new accounting principles (RR29)	-9		
Redemption of warrants	6	-	3
Dividend	-74	-74	-74
Translation differences	3	-12	-13
Net profit	97	106	141
Shareholders' equity, closing balance	995	935	972

SUMMARY CASH FLOW STATEMENT FOR THE GROUP

(SEK million)	Jan-Sep 2004	Jan-Sep 2003	Full year 2003
Operating activities			
Cash flow from operating activities before changes in net operating assets	203	181	212
Changes in net operating assets	-87	-109	-89
Cash flow from operating activities	116	72	123
Investment activities			
Cash flow from investment activities	-81	-68	-101
Financing activities			
Cash flow from financing activities	-69	-14	20
Cash flow for the year	-34	-10	42
Liquid funds, opening balance	144	106	106
Translation difference	0	-3	-4
Liquid funds, closing balance	110	93	144

KEY FIGURES

(SEK million unless otherwise stated)	Jan-Sep 2004	Jan-Sep 2003	Jan-Sep 2002	Full year 2003
Income statement				
Net sales	2,663	2,469	2,376	3,317
Gross contribution	718	707	701	944
Operating profit	142	157	163	197
Profit after net financial items	135	147	151	185
Net profit	98	106	109	141
Balance sheet				
Fixed assets	770	749	754	765
Current assets	1,095	1,035	1,001	1,134
Shareholders' equity	995	935	876	972
Provisions	124	108	132	121
Liabilities	746	741	742	806
Net operating assets	1,361	1,265	1,234	1,304
Net borrowings	242	223	228	211
Key ratios				
Return on net operating assets, %	14	16	16	16
Return on shareholders' equity, %	14	16	17	15
Equity/assets ratio, %	53	52	50	51
Debt/equity ratio, multiple	0.24	0.24	0.26	0.22
Proportion of risk-bearing capital, %	59	58	57	57
Capital turnover rate, multiple	2.6	2.7	2.5	2.6
Direct investments in fixed assets	74	69	68	108
Average number of employees	780	751	754	757
of whom in Sweden	635	616	604	623

STAFF WARRANTS 1999

Following the AGM's decision in May 1999, the company raised a subordinated loan of a nominal maximum SEK 2,825,000 through the issue of promissory notes with a maximum 565,000 warrants for the subscription of new shares. Employees subscribed to 167,800 of the total offer of 546,000 warrants. The price per warrant was established 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 percent. The subordinated loan had an annual interest rate of 3 percent and matured on 1 July 2000.

The conversion term ended on 1 July 2004. Of the total 167,800 issued warrants, 92,300 were converted to new shares. The ensuing dilution was 0.4 percent.

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 percent of the total offer. Dilution at full conversion will be approximately 3.5 percent 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 percentage points.

REPORTING SCHEDULE

- The summarised financial statements for the year 2004 will be released on 17 February 2005.
- The interim report for the period to 31 March 2005 will be released on 11 May 2005.
- The interim report for the period to 30 June 2005 will be released on 31 August 2005.
- The interim report for the period to 30 September 2005 will be released on 2 November 2005.



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