

## Summarised Financial Statements 2004

- The Group's net sales amounted to SEK 3,629 million (3,317).
  - Earnings after net financial items totalled SEK 152 million (185).
  - Earnings were impacted by items affecting comparability of SEK 46 million.
  - Earnings after tax were SEK 111 million (141).
  - Earnings per share amounted to SEK 5.25 (6.73).
- Strong growth in the speciality fats segment - up 20 percent.
- Karlshamns' far-reaching efficiency improvement programme is now well underway, and will cut annual costs by SEK 100 million from 2006 onwards.
- For the year 2004 a dividend of SEK 5.00 is proposed, with the addition of SEK 4.50 in the form of a supplementary, one-off dividend.

## THE PRESIDENT'S COMMENTS

### Strong growth and focus on productivity lend stability in a tough business climate

The past few years' radical erosion of contribution margins in the European edible oil market has precipitated a restructuring of the vegetable oil industry. However, the general pressure on margins - which has cost Karlshamns some SEK 150 million per year - now seems to have stabilised.

After several years of strong progress, business area Technical Products was hit by a ruthless pressure on margins in the last three quarters of 2004. Disadvantageous raw material prices in combination with falling glycerine prices affected earnings negatively by SEK 25 million.

The comprehensive development programme adopted in 2001 has generated dynamic expansion in the area of high value-added speciality products. At the same time, priority has been given to new forms of radical productivity improvements.

To date, the new strategy has produced

- solid earnings and a strong cash flow in a very tough business situation
- a strong balance sheet with scope for further expansion
- a vigorous underlying growth of speciality products
- a far-reaching efficiency improvement programme that will cut annual costs by SEK 100 million from 2006 onwards

### Speciality products

Karlshamns' technological knowhow is the very cornerstone of the new strategy. The transition from standard oils to high value-added speciality fats is a challenge that impacts on the entire Group. R&D, marketing, production, logistics - all of these functions must gradually adjust to rapidly growing speciality fat volumes.

The past few years have been a period of fast progress. Today, Karlshamns excels in the following areas:

- the development of vegetable fats for the dairy industry
- the development of low-trans fats for the chocolate and confectionery industry
- vegetable ingredients for cosmetic products, all over the world
- vegetable oils for the metalworking and forest industries

In 2004, Oils & Fats boosted its sales of speciality fats by 20 percent. Today, these products now account for approximately 50 percent of this business area's gross contribution.

Despite its rapid progress, Karlshamns is only in the early stages of a much more comprehensive

development with considerable potentials. Our focus on speciality products is a niche strategy that requires global market presence to achieve its full effect. Karlshamns has a strong foothold in the Nordic countries, in Eastern Europe and in parts of Western Europe. In the future, strong platforms will be a prerequisite also in southern Europe, the United States, South America and Asia.

### Annual growth in our speciality segments, 2001-2004

Vegetable dairy fat alternatives	16%
Vegetable fats for cosmetic applications	17%
Vegetable fats for chocolate products	3%
Vegetable feed raw materials	10%
Vegetable technical oils	16%
Fatty acids	15%

Market growth in the above segments ranges from 0 to 4 percent.

### Productivity improvement programme

Continuous productivity improvements throughout the Group have made it possible to maintain strong profit and cash flow levels despite radical changes in Karlshamns' business conditions.

To further improve overall efficiency, a firmly outlined productivity improvement programme was launched in the autumn of 2004. This programme will generate full profit effects from 2006 onwards, to the amount of SEK 100 million p.a. Individual development projects are mainly targeting the areas of energy, processing and logistics, streamlining human resources and eliminating bottlenecks in the production of speciality products. One-off expenses arising from the Group's workforce rationalisation impacted the 2004 earnings by SEK 26 million.

Also, the vigorous volume growth in the speciality fat segment entailed conversion costs of approximately SEK 20 million in 2004.

### The future

In the past few years, Karlshamns has made important headway towards its goal of becoming one of the leading speciality fat companies worldwide - and this in a very tough business climate. In view of the fourth-quarter volume development and the Group's temporary, high transitional costs, the year 2005 will be characterised by continued strong growth in the speciality segments, in parallel with far-reaching streamlining efforts that will target on production operations in particular.

Top priority is given to investments with limited payback periods, which will thus provide maximum leverage in the SEK 100 million programme by 2006. Karlshamns will also continue to play an active role in the current restructuring of the vegetable oil industry.

## 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, Food Ingredients and Lipids for Care. To better reflect the focus of today's business operations, business sector Edible Oils becomes Food Ingredients from this report onwards.

### Oils & Fats

#### Chocolate & Confectionery Fats

Sales of chocolate and confectionery fats increased by 10 percent in the fourth quarter of 2004 compared to the same period last year. On a full-year level, volumes grew by 6 percent from 2003 to 2004. The major part of this increase was generated by the growing demand for low-trans fats, a segment in which several new products were launched in 2004. The largest volume growth was achieved in South America, Central and Eastern Europe. Prices are still under pressure, but Karlshamns has strengthened its competitiveness through higher cost efficiency. As a consequence, Karlshamns has also managed to expand its market shares.

#### Food Ingredients (Edible Oils)

Sales continued to grow in the fourth quarter, the result a 16 percent increase compared to the same period in 2003. In all, volumes increased by 13 percent in 2004. The major volume growth was achieved in Scandinavia and Western Europe. Speciality products keep up their positive development, in particular in the bakery, infant food and dairy industries. Vegetable cheese fats are making strong progress, with several full-scale tests underway.

An outspoken trend in the food industry is the development of trans-free\* products. In this segment, Karlshamns' product range, application knowhow and formulation expertise vastly contributed to the growing volumes.

In 2004, a number of vegetable oil refineries decided to close down operations as a consequence of several years of cutthroat competition on the European market.

#### \* What is "trans"?

By "trans" we mean unsaturated fats in a particular form: trans fatty acids. Trans fatty acids are naturally present in milk and meat from ruminants, but may also be produced when vegetable fats are hardened. Several scientific studies have demonstrated a clear connection between trans fatty acids and the risk of cardiovascular diseases. This is also one of the main reasons why the National Food Administration in Sweden as well as in other Scandinavian countries is striving for a limitation of the intake of trans fatty acids.

### Lipids for Care

The cosmetic industry's interest in vegetable ingredients remains on the up, with sales increasing by almost 20 percent in 2004. This business sector continues to expand its proportion of high value-added products, the result a satisfactory profit development throughout the year. Several new products were launched, most of which with functional properties coveted by the cosmetic industry.

A strong volume growth was achieved, particularly in the US where earnings doubled in 2004. Crucial headway has been made with a number of customers. This business sector's distribution network now covers 70 percent of the global cosmetic market.

Karlshamns and Danisco have initiated a formal cooperation to the effect that Lipids for Care will handle sales of Danisco's emulsifiers to the cosmetic industry from 1 February 2005 onwards. Danisco's products will be globally marketed under Karlshamns' own Akoline brand. The cooperation will have positive effects on earnings in 2005 already.

### Technical Products

#### Tefac

Tefac strengthened its position on the European fatty acids market, with volumes growing by some 6 percent in 2004. Fourth-quarter volumes increased by 15 percent compared to the same period in 2003. On an aggregate level, the European market is estimated to have achieved only a very limited growth. Tefac's major progress was made in the chemical industry, in which detergents and textile softeners constitute the most important market segment.

Unfavourable raw material prices had a strong, negative impact on contribution margins, as this could not be offset by a corresponding increase of sales prices. Glycerine prices continued downwards, a consequence of a growing supply from the subsidised biodiesel industry.

#### Binol

Binol's Scandinavian market position strengthened considerably in 2004 through the acquisition of BioSafe from the Finnish Raisio Group and the alliance with Quaker Chemical. Binol's organic growth was 12 percent; with acquisitions and alliances taken into account sales increased by 75 percent compared to 2003 – and this on a market that grew only marginally.

Strong progress has been made in the metalworking industry, where Binol is now clearly number two on the Nordic market. A positive development is also seen in the Forestry/Construction segment, in particular so in product sector band saw oils and chain oils.

## Feed Materials

Throughout 2004, Feed Materials continued to profit from customer focus on cost efficiency, feed safety in general and hygiene issues in particular. ExPro® (bypass protein) and Gigant (bypass fat) both expanded their market shares. Demand for ExPro® meal remained strong on the Nordic market. As a result of intensified marketing activities and improved production capacity, total feed material volumes increased by some 18 percent in 2004.

## OPERATIONS

### Operating profit

The Group's operating profit decreased by SEK 49 million from 2003, to SEK 148 million. One-off costs had a negative profit effect of SEK 37 million; SEK 26 million of which related to the already mentioned streamlining of the Group's human resources, SEK 11 million to financial, legal and other advisory fees in connection with ongoing acquisition projects as well as to software adaptations to new accounting principles (IFRS).

Profits in business area Oils & Fats decreased by SEK 44 million to SEK 90 million, of which SEK 20 million refers to one-off costs caused by the rapidly growing proportion of speciality products.

Profit in business area Technical Products decreased by SEK 17 million, to SEK 24 million. Unfavourable raw material prices in combination with falling glycerine prices had an aggregate negative effect on earnings of SEK 25 million.

In business area Feed Materials, operating profit improved by SEK 12 million to SEK 34 million. The Group's net sales increased by 9.4 percent to SEK 3,629 million.

### Business Area Oils & Fats

(SEK million)	3 months Oct-Dec 2004	3 months Oct-Dec 2003	Full year Jan-Dec 2004	Full year Jan-Dec 2003
Net sales	721	630	2,616	2,397
Gross contribution	184	172	683	666
Operating profit	-6	28	90	134
Net operating assets			1,040	997
Return on net operating assets, %			9	13

Operating profit in business area Oils & Fats was SEK 127 million (134) exclusive of items affecting comparability, which totalled SEK 37 million. Sales of speciality products are developing well, but do not fully compensate for the decreasing margins and additional costs entailed by the growing volumes of speciality products. In the fourth quarter, sales progressed in most of the Group's markets. In all, volumes increased by 10 percent compared to 2003.

### Business Area Technical Products

(SEK million)	3 months Oct-Dec 2004	3 months Oct-Dec 2003	Full year Jan-Dec 2004	Full year Jan-Dec 2003
Net sales	134	112	523	501
Gross contribution	37	37	156	160
Operating profit	4	8	24	41
Net operating assets			212	195
Return on net operating assets, %			11	24

Business area Technical Products achieved an operating profit of SEK 24 million (41). Rising raw material prices could not be offset by price increases for fatty acids, the result a SEK 15 million impact on contribution margins. Tefac's fourth-quarter earnings also suffered the consequences of depressed glycerine prices, the effect amounting to some SEK 10 million. In our estimation, glycerine prices will remain under pressure in the next few years as a result of the growing biodiesel production.

Through organic growth and strategic acquisitions, Binol has further consolidated its market position. In combination with a streamlining of costs and operations, this contributed to a rising profit level throughout 2004.

### Business Area Feed Materials

(SEK million)	3 months Oct-Dec 2004	3 months Oct-Dec 2003	Full year Jan-Dec 2004	Full year Jan-Dec 2003
Net sales	111	106	490	419
Gross contribution	34	28	134	118
Operating profit	8	4	34	22
Net operating assets			105	112
Return on net operating assets, %			28	24

In business area Feed Materials operating profit improved to SEK 34 million (22), the main reasons being growing sales volumes, high contribution margins on rapeseed extraction, efficiency improvements and higher capacity utilisation. Sales of feed raw materials continued to grow, with Karlshamns consolidating its position on the Nordic market.

Investments in capacity-expanding production facilities strongly contributed to the growing sales volumes, particularly in the second half of the year.

## **THE KARLSHAMNS GROUP**

### **Profit after net financial items**

The Group's profit after net financial items totalled SEK 152 million (185), with net financial items amounting to SEK 4 million (-12).

### **One-off costs**

One-off costs affected earnings after net financial items negatively, their net effect amounting to SEK 46 million. This aggregate impact consists of a SEK 57 million (37+ 20) deficit in operating profits (read more under "Operating profit" on page 4) and a SEK 11 million positive effect of the sale of Karlshamns' entire shareholding (20 percent) in the Swiss company AKOLEO.

### **Capital expenditure**

The Group's direct investments in fixed assets amounted to SEK 97 million (108).

### **Working capital**

The Karlshamns Group's working capital amounted to SEK 590 million on 31 December 2004 (543), 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 184 million (116).

### **Financial position**

The Group's shareholders' equity as of 31 December 2004 was SEK 1,013 million (972). Total assets amounted to SEK 1,933 million (1,899), the equity/assets ratio to 52 percent (51).

The Group's net borrowings amounted to SEK 182 million (211) on 31 December 2004.

### **Personnel**

The Group's average number of employees in the period was 787 (757).

### **Key ratios**

Return on equity during the preceding twelve-month period was 11 percent (15).

Return on net operating assets in the preceding twelve-month period was 11 percent (16).

Equity per share increased to SEK 48.01 (46.30).

### **New dividend policy**

Karlshamns' Board of Directors has decided to change the company's dividend policy, whereby the Board's ambition is to propose an annual dividend equivalent to at least 50 percent of consolidated net profit, with due consideration given to the Group's profit development, financial position and growth potentials. The former policy stated the intention to distribute 35 – 50 percent of the Group's net profit as dividend.

### **Proposed dividend**

The Board of Directors and the President propose that a dividend of SEK 5.00 (3.50) per share be paid for the year 2004, i.e. a total dividend payment of SEK 105 million (74). Such dividend will be equivalent to 95 percent (52) of the Group's net profit and 57 percent (64) of cash flow from operating activities.

To further optimise the capital structure of the Group, the Board of Directors also propose a supplementary, one-off dividend of SEK 4.50 per share.

### **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.

**Implementation of international accounting standards, IAS/IFRS**

The Karlshamns Group will report according to the new accounting standards applicable from 2005 (IAS/IFRS). In our estimation, the Group's reported profit will henceforth fluctuate according to changes in currency rates and raw material prices as a consequence of the implementation of IAS 39. However, the implementation of IAS 39 will not affect Karlshamns' strategy of hedging margins by means of raw material and currency futures as of the sale date, and cash flow will thus not be affected. Other IFRS standards will have only limited effects on the Group. More detailed information is provided on pages 9 – 10.

Karlshamn, 17 February 2005



Jerker Hartwall  
President and CEO

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

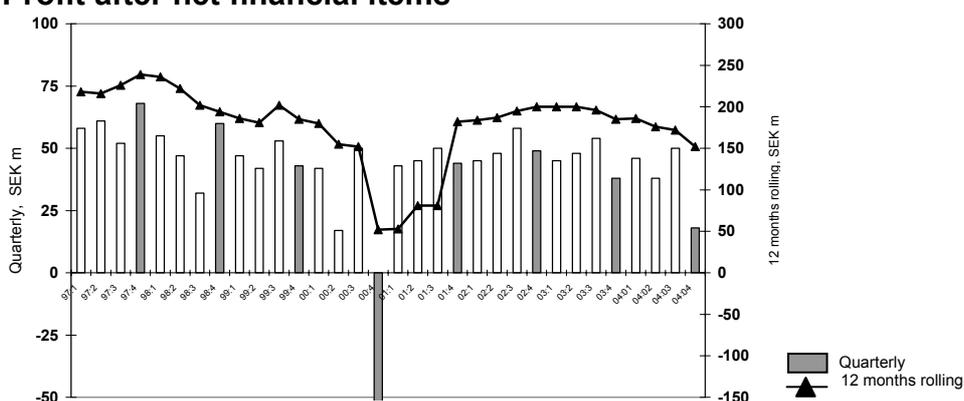
## SUMMARY INCOME STATEMENT FOR THE GROUP

(SEK million)	3 months Oct-Dec 2004	3 months Oct-Dec 2003	Full year Jan-Dec 2004	Full year Jan-Dec 2003
Net sales	966	848	3,629	3,317
Raw material costs	-711	-611	-2,656	-2,373
Gross contribution	255	237	973	944
Personnel and other external costs	-224	-172	-726	-652
Depreciation	-25	-25	-99	-95
Operating profit	6	40	148	197
Net financial items	11	-2	4	-12
Profit after net financial items	17	38	152	185
Tax	-4	-3	-41	-44
Net profit	13	35	111	141

## SHARE DATA

Number of shares (000)	21,092	21,033
Outstanding warrants and convertible debt instruments (000)	746	881
Earnings per share before conversion and utilisation of warrants, SEK	5.25	6.73
Earnings per share after conversion and utilisation of warrants, SEK	5.15	6.58
Equity per share before conversion and utilisation of warrants, SEK	48.01	46.30
Equity per share after conversion and utilisation of warrants, SEK	46.45	44.79

## 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	Q4
Net sales	786	790	800	873	853	803	813	848	869	888	906	966
Gross contribution	232	241	228	261	236	242	229	237	242	238	238	255
Operating profit	49	53	61	48	47	52	58	40	49	40	53	6
Net financial items	-4	-5	-3	1	-2	-4	-4	-2	-3	-2	-2	11
Profit after net financial items	45	48	58	49	45	48	54	38	46	38	51	17

## SUMMARY BALANCE SHEET FOR THE GROUP

(SEK million)	31.12.2004	31.12.2003	31.12.2002
<b>ASSETS</b>			
Intangible fixed assets	23	14	7
Tangible fixed assets	728	740	741
Financial fixed assets	19	11	12
<b>Total fixed assets</b>	<b>770</b>	<b>765</b>	<b>760</b>
Inventories	439	455	439
Current receivables	593	535	466
Cash and cash equivalents	131	144	106
<b>Total current assets</b>	<b>1,163</b>	<b>1,134</b>	<b>1,011</b>
<b>TOTAL ASSETS</b>	<b>1,933</b>	<b>1,899</b>	<b>1,771</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>	<b>1,013</b>	<b>972</b>	<b>915</b>
<b>Provisions</b>	<b>163</b>	<b>121</b>	<b>111</b>
<b>Long-term liabilities</b>	<b>320</b>	<b>352</b>	<b>260</b>
Accounts payable - trade	241	236	268
Other current liabilities	51	63	45
Accrued expenses and prepaid income	145	155	172
<b>Total current liabilities</b>	<b>437</b>	<b>454</b>	<b>485</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>1,933</b>	<b>1,899</b>	<b>1,771</b>

## CHANGE IN SHAREHOLDERS' EQUITY

(SEK million)	31.12.2004	31.12.2003	31.12.2002
Shareholders' equity, opening balance	972	915	850
Adjustment to new accounting principles (RR 29)	0		
Redemption of warrants	5	3	-
Dividend	-74	-74	-74
Translation differences	-1	-13	-13
Net profit	111	141	152
<b>Shareholders' equity, closing balance</b>	<b>1,013</b>	<b>972</b>	<b>915</b>

## SUMMARY CASH FLOW STATEMENT FOR THE GROUP

(SEK million)	Full year Jan-Dec 2004	Full year Jan-Dec 2003	Full year Jan-Dec 2002
<b>Operating activities</b>			
Cash flow from operating activities before changes in net operating assets	231	212	267
Changes in net operating assets	-47	-96	43
<b>Cash flow from operating activities</b>	<b>184</b>	<b>116</b>	<b>310</b>
<b>Investment activities</b>			
Cash flow from investment activities	-87	-101	-106
<b>Financing activities</b>			
Cash flow from financing activities	-110	26	-167
Cash flow for the year	-13	42	37
Liquid funds, opening balance	144	106	70
Translation difference	0	-4	-1
<b>Liquid funds, closing balance</b>	<b>131</b>	<b>144</b>	<b>106</b>

## KEY FIGURES

(SEK million unless otherwise stated)	Full year Jan-Dec 2004	Full year Jan-Dec 2003	Full year Jan-Dec 2002
<b>Income statement</b>			
Net sales	3,629	3,317	3,249
Gross contribution	973	944	962
Operating profit	148	197	211
Profit after net financial items	152	185	200
Net profit	111	141	152
<b>Balance sheet</b>			
Fixed assets	770	765	760
Current assets	1,163	1,134	1,011
Shareholders' equity	1,013	972	915
Provisions	163	121	111
Liabilities	757	806	745
Net operating assets	1,357	1,304	1,180
Net borrowings	182	211	154
<b>Key ratios</b>			
Return on net operating assets, %	11	16	17
Return on shareholders' equity, %	11	15	17
Equity/assets ratio, %	52	51	52
Debt/equity ratio, multiple	0.18	0.22	0.17
Proportion of risk-bearing capital, %	60	57	57
Capital turnover rate, multiple	2.7	2.6	2.6
Direct investments in fixed assets	97	108	103
Average number of employees	787	757	754
of whom in Sweden	640	623	611

### 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 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.**

## FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS 2005 (IAS/IFRS)

### Summary

As of 1 January 2005, Karlshamns prepares its consolidated financial statements in accordance with IFRS. The adoption of IFRS is reported in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards", whereby the transition takes effect as of 1 January 2004. IFRS 1 stipulates that also the comparative year of 2004 should be reported in accordance with IFRS. In the following, we account for the changes in accounting principles entailed by the adoption of IFRS, along with the transitional effects on Karlshamns' consolidated financial statements. These effects are preliminary, and may be subject to changes as a number of IAS/IFRS are still under review and additional IFRIC pronouncements are to be expected in the course of 2005. There will also be a possibility to prematurely implement new standards otherwise applicable from 1 January 2006.

### A summary of the effects on Karlshamns of the implementation of IAS/IFRS:

IAS/IFRS that are not applicable	IAS/IFRS with limited effect				IAS/IFRS with effect
Construction contracts (IAS 11)	Presentation of Financial Statements (IAS 1)	Inventories (IAS 2)	Cash flow statements (IAS 7)	Changes in Accounting Policies (IAS 8)	First-time Adoption of IFRS (IFRS 1)
Accounting and Reporting by Retirement Benefit Plans (IAS 26)	Events after the Balance Sheet Date (IAS 10)	Income Taxes (IAS 12)	Segment Reporting (IAS 14)	Property, Plant and Equipment (IAS 16)	Financial Instruments (IAS 32 & IAS 39)
Interests in Joint Ventures (IAS 31)	Leases (IAS 17)	Revenue (IAS 18)	Employee Benefits (IAS 19)	Government Grants and Assistance (IAS 20)	
Interim Financial Reporting (IAS 34)	The Effects of Changes In Foreign Exchange Rates (IAS 21)	Borrowing Costs (IAS 23)	Related Party Disclosures (IAS 24)	Consolidated Financial Statements (IAS 27)	
Investment Property (IAS 40)	Investments in Associates (IAS 28)	Earnings per share (IAS 33)	Impairment of Assets (IAS 36)	Intangible Assets (IAS 38)	
Insurance Contracts (IFRS 4)	Business Combinations (IFRS 3)	Share-based payments (IFRS 2)			
Discontinued Operations (IFRS 5)					

### Introduction

Karlshamns will prepare its financial statements in accordance with International Financial Reporting Standards (former IAS) as of 2005. Even though the Swedish Financial Accounting Standards Council has gradually adjusted its recommendations to IFRS, there still remain some differences. These refer mainly to the time of first-time adoption and transitional rules, but also to some of the adjustments made to IAS/IFRS within the framework of the ongoing development project run by the International Accounting Standards Board (IASB). Principally, those of the Swedish rules and regulations that affect Karlshamns have been more or less adapted to the changes now implemented in the European Union.

### Karlshamns' IFRS project

In 2003, a project was launched to evaluate the effects of the adoption of IAS/IFRS. Headed by the company's CFO, a hand-picked project organisation has been working on the project, supported by Karlshamns' auditors. The conclusions reached in the course of the project have been continuously communicated to the Group Management, the Audit Committee and the Board of Directors. For Karlshamns, the major effects of an IFRS adoption relate to the reporting of currency and raw material derivatives.

### The transition in general

The Karlshamns Group will reverse its translation difference in equity, which is an option according to IFRS 1. In line with IFRS 1, the Group has also chosen not to revalue acquisitions made before 2004.

### **Depreciation of goodwill**

According to IAS 38 (Intangible Assets), depreciation of goodwill is abolished as of 1 January 2005. Depreciation of goodwill that was recognised in profit or loss in 2004 will be reversed as the year 2004 is reported as a comparative year in accordance with IFRS. Goodwill depreciations on acquisition-related intangible assets will be reversed via goodwill depreciation, and then recognised in profit or loss as depreciation on acquisition-related intangible assets. The reversal effect on the 2004 accounts amounts to SEK 2.5 million.

### **Financial Instruments**

Karlshamns is adopting IAS 39 "Financial Instruments: Recognition and Measurement" as of 1 January 2005, but without adjusting comparative figures in accordance with the special provisions of IFRS 1. All accumulated effects attributable to the revaluation of financial instruments according to IAS 39 will be reported as an equity adjustment as of 1 January 2005.

Karlshamns has not altered its approach to raw material and currency exposure, and we remain firm in our strategy to hedge all operations exposed to such risks. From 2005 onwards, however, some of the derivative instruments used in line with this strategy no longer qualify for hedge accounting under IAS 39. The result will be a larger volatility in the income statement as well as in the balance sheet, the change thus also impacting on the Group's key ratios.

Hedge accounting has been applied to raw material and currency futures up to and including 2004. The profit/loss from closed positions have been recognised in profit or loss on a current basis. This approach is no longer consistent with IAS 39.

The adoption of IAS 39 will have the following effects:

- From 2005 onwards, raw material derivatives will be recognised at fair value in the balance sheet, the fair value movements on the hedging instrument recognised in profit and loss. Raw material futures that result in actual raw material deliveries are handled as purchasing contracts, i.e. are recognised as the physical delivery is made.
- To a certain extent, currency derivatives will qualify for hedge accounting. Such derivatives will be recognised at fair value in the balance sheet, the unrealised movements in fair value recognised in equity.
- Currency derivatives that do not qualify for hedge accounting are recognised at fair value in the balance sheet, the fair value movements recognised in profit and loss.
- According to IAS 39, sales contracts in 3rd-party currencies contain embedded derivatives. IAS 39 requires such embedded derivatives to be accounted for separately at fair value in the balance sheet, their fair value movements through profit or loss.

### **Impact on external financial key ratios in addition to IAS 39**

The effects on external financial key ratios accounted for in the following are based on the preliminary effects on Karlshamns' consolidated income statement and on the preliminary reconciliation between closing balance according to Swedish accounting standards and IAS/IFRS on 1 January 2004.

**Total sales** will not be affected by the adoption of IAS/IFRS.

**Gross contribution** will not be affected by the adoption of IAS/IFRS.

**Profit before tax** will be marginally affected by IFRS 3 and other effects. Net profit will be affected only by the reversal of goodwill depreciation, the effect amounting to SEK 2.5 million.

**Return on net operating assets** will be marginally affected by the adoption of IAS/IFRS, the result an increase from 10.88 to 11.05 percent.

**The equity/assets ratio** will not be affected by the adoption of IAS/IFRS.

**The debt/equity ratio** will not be affected by the adoption of IAS/IFRS.

**Earnings per share** will be marginally affected as goodwill is no longer depreciated. Based on the effect on the consolidated income statement, earnings per share as reported in 2004 will increase from SEK 5.25 to SEK 5.33.



---

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](http://www.karlshamns.com)**