Karlshamns

Interim Statement

Interim Statement
January – March 2005

- **The Group's net sales amounted to SEK 955 million (869).**
  - **Earnings after net financial items totalled SEK 74 million (47).**
  - **New accounting principles (IFRS) had a positive profit effect of SEK 17 million, generated by the valuation of raw material and currency derivatives.**
  - **Adjusted for the profit effect of raw material and currency derivatives referred to above, consolidated profits increased by 21 percent, to SEK 57 million (47).**
  - **Earnings after tax were SEK 54 million (34).**
  - **Earnings per share were SEK 2.57 (1.60).**
- **Volumes in the business area Oils & Fats increased by 16 percent. The speciality fat segment achieved a growth of 25 percent.**

THE PRESIDENT'S COMMENTS

Strong growth, and continued focus on productivity

The edible oils and fats market has been characterised by cutthroat competition ever since 2001; the result a heavy pressure on contribution margins. For Karlshamns, the cost effect of this competitive situation amounts to SEK 150 million per year. From the autumn of 2004 onwards, however, margins seem to have stabilised.

Strategy

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

Speciality products

Sales of high value-added speciality fats continue to increase, the growth rate 25 percent in the first quarter of 2005. Particularly satisfactory was the progress of the low-trans filling fats developed for the chocolate industry, and the speciality fats for infant food.

In line with the ambition to add further value to our products, the business sector Edible Oils became Food Ingredients at the turn of the year, to better reflect the focus of today's business operations and our future ambitions.

Productivity

To upgrade productivity even further, a firm productivity improvement programme was initiated in the autumn of 2004, designed to 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, logistics and measures to eliminate bottlenecks in the production of high value-added speciality products. Project work is proceeding according to plan.

New accounting principles (IFRS)

A consequence of the adoption of new accounting standards is that raw material and currency derivatives are now assessed at market value at the end of each reporting period. The result is a profit effect in the accounts only, i.e. with no impact on either cash flow or margins.

We continue to hedge margins as before, but the effect of these hedging operations may be considerable accounting differences in the income statement from one quarter to another.

In the first quarter of 2005, this effect amounts to SEK 17 million – i.e. our net profit is SEK 17 million higher than our internal operating profit.
Our internal operating profit serves as an important control instrument in our business management, and this is also the figure we use to compare today's performance with previous achievements. Adjusted for the effects of the IFRS adoption, our internal operating profit totalled SEK 57 million (47), i.e. an improvement of 21 percent compared to the first quarter of 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.
The year 2005 will be characterised by continued strong growth in the speciality segments, in parallel with additional streamlining that will target on production operations in particular. Top priority is given to investments with limited pay-back periods, which will thus provide maximum leverage in the SEK 100 million programme by 2006.
The vegetable oil industry is currently going through a period of far-reaching transformation. Karlshamns is taking a proactive approach to this restructuring, one example being the strengthening of our Norwegian market position after the close-down of Norway's largest refinery. Considerable sales, service and development resources have now been allocated to this market.

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. The business area Oils & Fats has three business sectors: Chocolate & Confectionery Fats, Food Ingredients and Lipids for Care.

Oils & Fats

Chocolate & Confectionery Fats

Sales of high value-added speciality products increased in the first quarter of 2005, with volumes growing by approximately 20 percent compared to the first quarter of 2004. The major volume growth was achieved in Central Europe and Latin America.

This progress is largely due to the growing demand for Cocoa Butter Alternatives (CBA) and low-trans fats, a segment in which Karlshamns launched several new products last year.

Food Ingredients (former Edible Oils)

The trend in the business sector Food Ingredients remains on the up, with sales volumes growing by 14 percent in the first quarter of the year. Progress is made in most geographical segments, although the highest growth rate (up 38 percent) was achieved in Western Europe. Important headway is also made in Norway, where new business was generated in connection with the close-down of the Denofa plant. Margins have stabilised after several years of downturn, and in several markets they are now up on the previous year. An better product mix contributes to this improvement. The DFA (Dairy Fat Alternatives) segment continues to make progress, as do the segments Nutrition/Infant Food where the growth surpassed 50 percent. Sales outside Europe are gaining ground as well, although volumes are still limited. DFA and trans-free systems* are what attract interest also in these markets.

* **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

Interest in vegetable ingredients continues to grow in the cosmetic as well as in the pharmaceutical industry. Sales volumes in the first quarter of 2005 were up 18 percent on the previous year. This business sector continues to expand its proportion of high value-added products, the result a satisfactory profit development throughout the first three months of this year.

Technical Products

Tefac

On an aggregate level, the European market is estimated to have decreased somewhat in the first quarter of the year. Nevertheless, Tefac managed a marginal expansion of its market shares from last year. Detergents and fabric softeners constitute the largest product segment in the European chemico-technical industry, and this is also Tefac’s most important market segment. Glycerine prices plummeted in 2004, a trend that has continued in 2005 although at a somewhat slower pace.

Binol

In this first quarter of 2005, Binol consolidated its Scandinavian market position even further. Sales of Binol-branded products were up 6 percent on the corresponding period previous year. Sales of acquired products are making strong progress as well.

The metalworking segment displays a healthy development, as do the product segments band saw oils and chain oils.

Feed Materials

On the Nordic market, demand for vegetable and efficient feed raw materials with a high degree of feed safety continues to grow. Demand for ExPro™ meal has thus remained strong, and Feed Materials has defended its market shares for the bypass protein ExPro™ as well as for the bypass fat Gigant. A consequence of the growing demand for RME (rapeseed methyl ester) from biodiesel producers is an increasing production of rapeseed. As a result, supply of other rapeseed products is growing as well, which has impacted negatively on prices of rapeseed meal.

OPERATIONS

Operating profit

The Group's operating profit on 31 March 2005 was SEK 76 million (49), of which SEK 17 million attributable to charge in market value in raw material and currency derivatives reported at market value in accordance with IFRS. Profit in the business area Oils & Fats increased by SEK 27 million to SEK 58 million, of which SEK 17 million generated by fair value movements in raw material and currency derivatives. Profit in the business area Technical Products decreased by SEK 1 million, to SEK 9 million. Glycerine prices below last year's level affected earnings negatively by around SEK 2 million. In the business area Feed Materials, operating profit improved by SEK 1 million, to SEK 9 million. The Group's net sales were up 10 percent on the previous year, to SEK 955 million.

Business Area Oils & Fats

(SEK m)	3 months Jan-Mar 2005	3 months Jan-Mar 2004[1)]	Full year Jan-Dec 2004[1)]
Net sales	708	616	2.616
Gross contribution	207	166	683
Operating profit	58	31	92
of which fair value movements in raw material and currency derivatives	17	-	-

Operating profit in the business area Oils & Fats was SEK 58 million (31). Of this profit, fair value movements in raw material and currency derivatives accounted for SEK 17 million. The profit improvement generated by operating activities was thus SEK 10 million, mainly the effect of growing volumes of high value-added speciality fats.
In all, volumes in the business area Oils & Fats increased by approximately 16 percent, with sales making good progress on all markets.
Thanks to the productivity improvement programme, volumes increased without one-off costs, such as for additional raw material sourcing.

Business Area Technical Products

(SEK m)	3 months Jan-Mar 2005	3 months Jan-Mar 2004[1)]	Full year Jan-Dec 2004[1)]
Net sales	143	128	523
Gross contribution	42	42	156
Operating profit	9	10	24

Operating profit in the business area Technical Products amounted to SEK 9 million (10).

Profits in the technical oils segment continued to rise, whereas the earnings generated by fatty acids and glycerine continued to decrease. Glycerine prices began their downtrend in the first quarter of 2004, and have impacted on earnings ever since.
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 consolidated its market position even further. As a result, earnings continued to improve through the first quarter of 2005.

Business Area Feed Materials

(SEK m)	3 months Jan-Mar 2005	3 months Jan-Mar 2004[1)]	Full year Jan-Dec 2004[1)]
Net sales	104	125	490
Gross contribution	36	34	134
Operating profit	9	8	34

In the business area Feed Materials, operating profit improved to SEK 9 million (8), the main reason being a strong gross contribution on rapeseed.
The rising gross contribution was, in turn, caused by the growing biodiesel production throughout Europe, which boosted demand for rapeseed oil.
On the other hand, pressure on feed raw material prices increased as a consequence of the rising production of rapeseed oil and rapeseed meal in Europe.

1) Translated in accordance with IFRS exclusive of IAS 39. Further information on page 9.

THE KARLSHAMNS GROUP

Profit after net financial items
The Group's profit after net financial items totalled SEK 74 million (47), to which fair value movements in currency and raw material derivatives contributed a profit of SEK 17 million. Net financial items amounted to SEK -2 million (-2).

Capital expenditure
The Group's direct investments in fixed assets amounted to SEK 19 million (24) in the first quarter of the year. In the financial year 2004, direct investments totalled SEK 97 million.

Working capital
The Karlshamns Group's working capital amounted to SEK 615 million (634) on 31 March 2005.

Cash flow
Cash flow generated by operating activities amounted to SEK 6 million (-29).

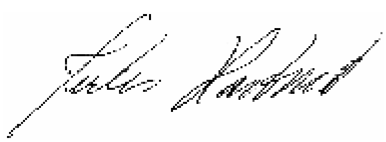
Financial position
The Group's shareholders equity as of 31 March 2005 was SEK 1,037 million (1,021). Total assets amounted to SEK 1,794 million (1,902), the equity/assets ratio to 58 percent (54).
The Group's net borrowings amounted to SEK 195 million (257) on 31 March 2005.

Personnel
The Group's average number of employees in the period was 793 (767).

Key ratios
Return on equity during the preceding twelve-month period was 13 percent (15). In the financial year 2004, return on equity was 11 percent. Return on net operating assets in the preceding twelve-month period was 13 percent (15). Equity per share increased to SEK 49.19 (48.51).

Accounting and valuation principles
As of 1 January 2005, Karlshamns prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). The interim statement for the period to 31 March 2005 is Karlshamns' first report under IFRS, and is prepared in accordance with IAS 34. More detailed information about the transition from the Annual Accounts Act and the recommendations of the Swedish Financial Accounting Standards Council to IFRS is provided on page 9.

Karlshamn, 11 May 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 Jan-Mar 2005	3 months Jan-Mar 2004[1)]	Full year Jan-Dec 2004[1)]
Net sales	955	869	3,629
Raw material costs	-670	-627	-2,656
Gross contribution	285	242	973
Personnel and other external costs	-184	-169	-727
Depreciation	-25	-24	-96
Operating profit	76	49	150
Net financial items	-2	-2	4
Profit after net financial items	74	47	154
Tax	-20	-13	-42
Net profit	54	34	112

SHARE DATA

Number of shares (000)	21,092	21,061	21,092
Outstanding warrants and convertible debt instruments (000)	746	853	746
Earnings per share before conversion and utilisation of warrants, SEK	2.57	1.60	5.33
Earnings per share after conversion and utilisation of warrants, SEK	2.49	1.56	5.21
Equity per share before conversion and utilisation of warrants, SEK	49.19	48.51	48.09
Equity per share after conversion and utilisation of warrants, SEK	47.52	46.85	46.51

PROFIT AFTER NET FINANCIAL ITEMS, QUARTERLY

	2003[2)]				2004[1)]				2005
(SEK million)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Net sales	853	803	813	848	869	888	906	966	955
Gross contribution	236	242	229	237	242	238	238	255	285
Operating profit	47	52	58	40	49	41	53	7	76
Net financial items	-2	-4	-4	-2	-2	-2	-2	10	-2
Profit after net financial items	45	48	54	35	47	39	51	17	74
-of which fair value movements in raw material and currency derivatives	-	-	-	-	-	-	-	-	17

1) Translated in accordance with IFRS exclusive of IAS 39. Further information on page 9.
2) In accordance with the Annual Accounts Act and the recommendations issued by the Swedish Financial Accounting Standards Council.

SUMMARY BALANCE SHEET FOR THE GROUP

(SEK million)	31.3.2005	31.3.2004[1)]	31.12.2004[1)]
ASSETS			
Intangible fixed assets	25	14	26
Tangible fixed assets	726	746	728
Financial fixed assets	18	11	18
Total fixed assets	**769**	**771**	**772**
Inventories	412	463	439
Current receivables	585	548	593
Cash and cash equivalents	28	120	131
Total current assets	**1,025**	**1,131**	**1,163**
TOTAL ASSETS	**1,794**	**1,902**	**1,935**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	**1,037**	**1,021**	**1,014**
Long-term liabilities	**377**	**507**	**483**
Accounts payable - trade	184	172	242
Other current liabilities	37	42	51
Accrued expenses and prepaid income	159	160	145
Total current liabilities	**380**	**374**	**438**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**1,794**	**1,902**	**1,935**

CHANGE IN SHAREHOLDERS' EQUITY

(SEK million)	31.3.2005	31.3.2004[1)]	31.12.2004[1)]
Shareholders' equity, opening balance	1,014	972	972
Adoption of new accounting standard (IAS 39)	-37	-	-
Redemption of warrants	-	3	5
Dividend	-	-	-74
Translation differences	6	12	-1
Net profit	54	34	112
Shareholders' equity, closing balance	**1,037**	**1,021**	**1,014**

SUMMARY CASH-FLOW STATEMENT FOR THE GROUP

(SEK million)	Jan-Mar 2005	Jan-Mar 2004[1)]	Full year 2004[1)]
Operating activities			
Cash flow from operating activities before changes in net operating assets	90	61	234
Changes in net operating assets	-84	-90	-47
Cash flow from operating activities	**6**	**-29**	**187**
Investment activities			
Cash flow from investment activities	-16	-25	-90
Financing activities			
Cash flow from financing activities	-94	28	-110
Cash flow for the year	-104	-26	-13
Liquid funds, opening balance	131	144	144
Translation difference	1	2	0
Liquid funds, closing balance	**28**	**120**	**131**

[1)] Translated in accordance with IFRS exclusive of IAS 39. Further information on page 9.

KEY FIGURES

(SEK million unless otherwise stated)	Jan-Mar 2005	Jan-Mar 2004[1)]	Full year 2004[1)]
Income statement			
Net sales	955	869	3,629
Gross contribution	285	242	973
Operating profit	76	49	150
Profit after net financial items	74	47	154
Net profit	54	34	112
Balance sheet			
Fixed assets	769	771	772
Current assets	1,025	1,131	1,163
Shareholders' equity	1,037	1,021	1,014
Long-term liabilities	377	507	483
Current liabilities	380	374	438
Net operating assets	1,382	1,403	1,359
Net borrowings	195	257	182
Key ratios			
Return on net operating assets, %	13	15	11
Return on shareholders' equity, %	13	15	11
Equity/assets ratio, %	58	54	52
Debt/equity ratio, multiple	0.19	0.25	0.18
Proportion of risk-bearing capital, %	65	60	60
Capital turnover rate, multiple	2.7	2.5	2.7
Direct investments in fixed assets	19	24	97
Average number of employees	793	767	787
of whom in Sweden	643	629	640

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 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.**

[1)] Translated in accordance with IFRS but exclusive of IAS 39. Further information on page 9.

New accounting principles adopted on 1 January 2005

As of 1 January 2005, Karlshamns prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). Up to 31 December 2004, Karlshamns applied the Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendations and statements.

The Swedish Financial Accounting Standards Council has gradually adjusted its recommendations to the IFRS/IAS standards. As a consequence, many of the standards published prior to 2004 have already been adopted in Sweden – partly or in their entirety. There are certain standards, however, along with a number of additions to, and upgradings of, current standards that are to be adopted for the first time in 2005. The effects of the first-time adoption of IFRS are preliminary, and based on interpretations of the standards currently in force. IFRS may be subject to changes in the course of 2005 due to additional IFRIC (International Financial Reporting Interpretations Committee) pronouncements. There will also be a possibility to implement new standards prior to the scheduled effective date of 1 January 2006. These developments have thus not been taken into account in the following.

For Karlshamns, the first-time adoption of IFRS mainly affected the Group's reporting of financial instruments (IAS 32 and IAS 39). The effects on consolidated profits and shareholders' equity are accounted for below. We also describe the preliminary impact of IFRS on Karlshamns' financial reporting.

The adoption of IFRS is reported in accordance with IFRS 1 – "First-Time Adoption of International Financial Reporting Standards" – and transitional effects, if any, are reported as a translation of retained profits as of 1 January 2004, which is the date set for Karlshamns first-time adoption of IFRS. This interim report, for the period to 31 March 2005, is the first report prepared in accordance with IFRS. Comparative figures for 2004 have been translated accordingly. IFRS 1 provides the option of a number of exceptions from IFRS standards, of which Karlshamns has opted for the following:

- IFRS 3 has not been applied retroactively on acquisitions of shares and participations, neither have these figures been translated.
- Tangible fixed assets have not been reported at fair value in connection with the first-time adoption of IFRS, i.e. the carrying amounts according to Swedish accounting principles are still reported.
- All actuarial gains and losses were reported when IFRS were first adopted. IAS 19 (on Employee benefits) was adopted on 1 Janaury 2004 by means of RR 29, and is thus not affected by the first-time adoption of IFRS. Its effects are nevertheless accounted for here, for the sake of completeness.
- Cumulative translation differences for all foreign operations were reversed when IFRS were adopted.
- Comparative figures in view of IAS 39, "Financial instruments: Recognition and Measurement" have not been adjusted. As a consequence, cumulative adjustments due to the adoption of IAS 39 are reported as an adjustment of shareholders' equity, opening balance 2005. This adjustment amounts to SEK 37 million.

Reclassification
Provisions were previously reported as a separate balance sheet disclosure, in accordance with the Swedish Annual Accounts Act. These items are now reported under "Long-term liabilities" according to IFRS, and the comparative figures for 2004 have been adjusted accordingly.

Intangible assets
According to IFRS 3, goodwill shall not be amortized, but instead be valued at cost less amortizations. Amortization requirements are to be assessed at least once a year. Amortization of goodwill is thus no longer reported, and the comparative figures for 2004 have been translated accordingly. The tables below show Karlshamns' financial reporting for the period to 31 March 2004 according to Swedish accounting principles, according to IFRS and the bridge between the two accounting standards.

Preliminary effects of the first-time adoption of IFRS, on Karlshamns' income statement for the period to 31 March 2004
SEK million

	Reported on 31 March 2004	IFRS 3 Goodwill	IFRS 31 March 2004
Net sales	869		869
Raw material costs	-627		-627
Gross contribution	**242**		**242**
Personnel and other external costs	-169		-169
Depreciation	-24	0.6	-24
Operating profit	**49**	**0.6**	**49**
Net financial items	-3		-2
Profit after net financial items	**46**	**0.6**	**47**
Tax	-13	-0.2	-13
Net profit	**33**	**0.4**	**34**
Basic earnings per share, SEK m	**1.58**	**0.02**	**1.60**
Diluted earnings per share, SEK m	**1.54**	**0.02**	**1.56**

Preliminary effects of the first-time adoption of IFRS on Karlshamns' balance sheet, closing balance 31.12.2004
SEK million

	Reported on 31.12.2004	IFRS 3 Goodwill	IFRS 31.12.2004
Intangible fixed assets	23	2.5	26
Tangible fixed assets	728		728
Financial assets	19	-0.3	18
Inventories	439		439
Current receivables	593		593
Cash, cash equivalents and short-term investments	131		131
Total assets	**1,933**	**2.2**	**1,935**
Shareholders' equity	1,013	1.8	1,014
Long-term liabilities	483	0.4	483
Accounts payable - trade	241		242
Other current liabilities	51		51
Accrued expenses and prepaid income	145		145
Total shareholders' equity and liabilities	**1,933**	**2.2**	**1,935**

Financial instruments

On 1 January 2005, Karlshamns implemented the first-time adoption of the new international accounting standard IAS 39 "Financial Instruments: Recognition and Measurement". IAS 39 was adopted in accordance with IFRS 1, i.e. without adjusting historical comparative figures. As a consequence, cumulated adjustments ensuing from the adoption of IAS 39 are reported as an adjustment of shareholders' equity, opening balance 2005. This adjustment amounts to SEK 37 million.

The reporting standards applicable to financial instruments, IAS 39, stipulate that financial assets and liabilities, inclusive of derivative instruments, are to be reported at fair value or amortised cost, depending on the classification of assets and liabilities. Profits or losses on fair value movements in financial assets or liabilities are to be recognised in profit or loss on a current basis, or in equity directly. According to IAS 39, hedge accounting may be applied under certain conditions. When hedge accounting is applied, a certain hedging instrument must to be attributable to a specified balance sheet item. Karlshamns has chosen not to apply the hedge accounting method.

Karlshamns' derivative instruments are reported at their fair value. Profits or losses on fair value movements are recognised in profit or loss, under gross contribution. The entire fair value movement has been assigned to the business area Oils & Fats.

The adoption of IAS 39 has entailed the following effects from 1 January 2005:

- All raw material derivatives are recognised at fair value in the balance sheet, the fair value movements on the hedging instrument recognised in profit or loss on a current basis. 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.

- Currency derivatives are recognised at fair value in the balance sheet, the fair value movements recognised in profit and loss on a current basis.

- 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.

Preliminary effects of the first-time adoption of IFRS on Karlshamns' balance sheet, opening balance 1.1.2005
SEK million

	Closing balance 31.12.2004 IFRS	IAS 39	Opening balance 1.1.2005 IFRS
Intangible fixed assets	26		26
Tangible fixed assets	728		728
Financial assets	18		18
Inventories	439		439
Current receivables	593	-25.7	567
Cash, cash equivalents and short-term investments	131		131
Total assets	**1,935**	**-25.7**	**1,909**
Shareholders' equity	1,014	-37.0	977
Long-term liabilities	483	-15.1	467
Accounts payable - trade	242		242
Other current liabilities	51	26.4	78
Accrued expenses and prepaid income	145		145
Total shareholders' equity and liabilities	**1,935**	**-25.7**	**1,909**

Karlshamns and IFRS

Karlshamns has not altered its approach to raw material and currency exposure, but we remain firm in our strategy to hedge all such operational risks – i.e. all sales and purchase contracts are hedged on a current basis.

A normal sales contract usually covers the next 12-month period, with physical deliveries implemented on a current basis throughout this period.
To hedge the Group's contribution margin on such a sales contract, both the currency rate and the raw material cost are hedged when sales occur. The currency risk is hedged by means of a currency future with a bank, and the exposure related to raw material prices is hedged by means of raw material purchases or raw material derivatives. In brief, the new reporting standards mean that external raw material and currency derivatives are recognised at fair value at the end of each reporting period, whereas fair value movements are recognised as profit or loss. In our operating reports, the corresponding fair value movements in the underlying sales and purchase contracts are taken into account as well.

In our estimation, the consolidated profit/loss reported after the adoption of IAS 39 will display a larger volatility due to changes in currency rates and raw material prices. Neither cash flow nor the underlying operating profitability will be affected, however. Other IFRS have only a limited impact on the Karlshamns Group.

The following example illustrates how Karlshamns hedges its contribution margins.

Sales – an example

Karlshamns sells 100 tonnes of rapeseed oil for delivery to a customer in June 2005. The sales price is EUR 3,000/tonne = EUR 300,000 at a currency exchange rate of 9.20 SEK/EUR. This corresponds to a sales value of SEK 2,760,000.

The sales contract is hedged immediately, as Karlshamns sells EUR 300,000 to a bank at the exchange rate 9.20 SEK/EUR, by means of a forward exchange agreement. Karlshamns thereby guarantees an inflow of SEK 2,760,000 in June 2005, from the sales contract in question.

The valuation in the month-end accounts, at a month-end rate of 9.10 SEK/EUR, has the following effects:

Fair value movement EUR 300,000 x (9.20 – 9.10) = 30,000 SEK.

- The market value of the currency hedge with a bank results in a fair value movement of + SEK 30,000.
- The value of the sales contract has decreased by SEK 30,000 from the moment it was signed.

Impact on the accounts
The profit/loss reported in accordance with IFRS comprises the fair value movement in the forward exchange agreement made with a bank, which is thus + SEK 30,000, the forward exchange agreement being classified as a financial instrument and the fair value movement thus to be recognised in profit or loss.

Operating accounts
In our internal, operating reports we take the fair value movements in the sales contract into account as well. In this case, there is thus no effect on operating profits.

Karlshamns
Karlshamns AB (publ)

Adress	Telefon	Fax	Org.nr.	E-mail
374 82 Karlshamn	0454-820 00	0454-828 20	556478-1796	info@karlshamns.se

www.karlshamns.com