



# Annual Report 2002





## Karlshamns in 60 seconds

Karlshamns is one of the world's leading manufacturers of high value-added speciality vegetable oils and fats. Karlshamns delivers speciality fats all over the world and is the market leader in the Nordic countries as well as in Central and Eastern Europe.

The Karlshamns Group is organised in three business areas: Oils & Fats, Technical Products and Feed Materials. The head office and the largest production site are based in Karlshamn (Sweden), the remaining two production sites being located in Hull (the United Kingdom) and Zaandijk (the Netherlands). The Group's total annual sales amount to approximately SEK 3,300 million. The average number of employees in 2002 was 754, of whom 611 in Sweden. The Karlshamns share has been listed on the Stockholm Stock Exchange since 1997.

The company's operations are based on its unique and extensive knowledge of the lipids and their commercial applications.

The business bases its operating concept on the eco-cycle, with waste and side products being carefully utilised, processed and then marketed as end products.

Karlshamns high value-added speciality vegetable oils and fats are sold all over the world, to customers in a wide range of industries. The compa-

ny's main markets are the food, chocolate, confectionery and cosmetic industries.

Within the framework of the Oils & Fats Academy, a training scheme exclusively for customers and employees, Karlshamns technologists regularly lecture on general fat chemistry and teach advanced knowledge about the fat molecule and its unique properties.

The Group's business concept is to achieve leading global positions within carefully selected niche areas, with operations based on a strong technology base in the area of vegetable oils and fats.

In 2001, Karlshamns launched a far-reaching development process aiming at a more distinct strategic focus along with a dynamic organisation with every single employee committed to continuous improvements in all areas.

In the years ahead, it is Karlshamns ambition to:

- achieve a growth rate surpassing that of the market, in selected niche areas
- gradually raise the Group's return on net operating assets and to generate a strong cash flow.



# The year 2002 in brief

## Results

The Group's operating profit increased by SEK 15 million to SEK 211 million (196). Business areas Oils & Fats and Feed Materials both raised their profits by SEK 3 and 12 million respectively, whereas Technical Products maintained its 2001 profit level.

## Net sales

The Group's net sales strengthened by 10 percent to SEK 3,249 million (2,942), due mainly to rising raw material prices but also to a certain volume growth.

## Investments

Direct investments in fixed assets amounted to SEK 103 million (109). The major part of these investments aimed to increase overall capacity in the Swedish units.

## Financial position

Karlshamns financial position is strong. The Group's equity at year-end was SEK 915 million (850), with total assets amounting to SEK 1,771 million (1,815). The equity/assets ratio was 52 percent (47).

## The development process goes on

The development process launched in 2001 has now progressed to become a continuous operation focusing on improvements of productivity and efficiency throughout the Group.

## Acquisitions and cooperation agreement

- To further fortify the Group's platform for future growth, a wholly-owned sales and distribution company was established in Warsaw, Poland.
- Raisio's sales of industrial margarine in Sweden were acquired.

- Binol signed a non-exclusive cooperation agreement with Shell.

## New products

Several new products were launched in 2002, such as:

- Akocheese – a vegetable fat for cheese production.
- Spacidol OF – an oil blend containing omega 3 fatty acids from fish oil.
- Several novelties in the Lipex Shea family, all of them based on shea oil for cosmetic and skin care applications.
- AkoFeed Gigant – speciality feed fat for dairy cows.

	2002	2001	2000
Net sales, SEK m	3,249	2,942	2,728
Gross contribution, SEK m	962	892	759
Profit before depreciation, SEK m	303	282	151
Profit after net financial items, SEK m	200	182	52
Profit for the year, SEK m	152	133	28
Cash flow from operating activities, SEK m	310	137	131
Direct investments, SEK m	103	109	117
Net borrowings, SEK m	154	282	223
Shareholders' equity, SEK m	915	850	781
Equity/assets ratio, %	52	47	47
Earnings per share before conversion and utilisation of warrants, SEK	7.23	6.32	1.35
Earnings per share after conversion and utilisation of warrants, SEK	6.93	6.27	1.34
Equity per share before conversion and utilisation of warrants, SEK	43.59	40.46	37.20
Dividend per share, SEK	3.50 <sup>(1)</sup>	3.50	3.50
Return on shareholders' equity, %	17	16	3
Return on net operating assets, %	17	16	6
Average no. of employees	754	751	761

<sup>1)</sup> Proposed dividend

Definitions, see page 61. Annual General Shareholders Meeting, see page 66.



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## To Karlshamns shareholders – 6

Thanks to the productivity improvements and purposeful developments achieved in the past few years, Karlshamns stood well equipped to face the continued recession characterised by shrinking margins and growing competitiveness. Our operating profit increased by SEK 15 million, to SEK 211 million. We have now established a solid base for our continued progress towards a rapid, profitable growth, Jerker Hartwall says in his comments.

## Business concept and development process – 8

It is Karlshamns ambition to achieve leading, global positions in identified niche areas, based on the Group's know-how of vegetable oils and fats. In the past two years Karlshamns has gone through a development process committing all of the company's employees to create a forceful organisation.

## The importance of fats – 10

In our everyday lives fats are used in many different ways – as a nutrient source in edible oils and feed fats, or as fillings in chocolate pralines. Fats also have a decisive effect on the flavour and texture of the end product.

## Oils & Fats – 12

Oils & Fats is Karlshamns largest business area, accounting for 74 percent of net sales in 2002. On the basis of the Group's specialist know-how, Karlshamns processes and markets products with varying degrees of sophistication to the food industry, to chocolate and confectionery manufacturers and to the cosmetic and pharmaceutical industries.

## Technical Products – 20

Business area Technical Products comprises the two subsidiaries Tefac AB and Binol AB, both of which process and market products mainly destined for technical applications. Technical Products is Karlshamns second largest business area, accounting for 14 percent of total sales in 2002.

## Feed Materials – 23

This business area's customers are mainly found in the Swedish animal feed industry. In 2002, Feed Materials profited from the market's stronger focus on feed safety and the feed industry's growing consumption of vegetable feed fats, which contributed to increasing sales volumes.



#### The staff – 24

In 2002, all of Karlshamns employees attended tailored study programmes in business administration and project work. In the area of human resources, Karlshamns bases its philosophy on participation and commitment to create a successful corporate culture.

#### Research and development – 26

Karlshamns R&D organisation has its focus on the development of new and upgraded applications, always based on the fat molecule and its unique properties. Research is also conducted in cooperation with Swedish and international universities and organisations.

#### Karlshamns and the environment – 28

Karlshamns strives for continuous improvements in the environmental area. For a number of years now, the Group has counted among the highest-rated companies on the list published annually by the Swedish Environmental Fund. By means of constant improvements, Karlshamns is gradually reducing its resource consumption and environmental impact. Several new eco-projects were initiated in 2002.

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\* The Annual Accounts comprise pages 32 – 55

This document is a translation of the Swedish language version. In the event of any discrepancies between the translation and the original Swedish annual report, the latter shall prevail.



## To Karlshamns shareholders

2002 was a tough year, but also one of consolidation. Thanks to productivity improvements and purposeful development work we stood well equipped to face the continued recession, with its shrinking margins and growing competitiveness. As a consequence, operating profits increased by SEK 15 million to SEK 211 million.

The combination of rising raw material prices and hardening competition had negative effects on margins on the Nordic and Western European markets. The growing competitiveness was particularly notable in the market for less advanced oils and fats. Our volume development in Central and Eastern Europe remained strong.

The Group's operating profit increased by SEK 15 million to SEK 211 million, giving a return on net operating assets of 17 percent.

### **The development process is paying off**

Karlshamns launched its development process in 2001, the aim being to create a solid foundation for an increasingly rapid and profitable future growth. A focused strategy, clear-cut profit responsibilities, productivity improvements and a more efficient capital utilisation have been pri-

oritised areas. The process pervades the entire Group, with every single employee getting involved. It is thus highly satisfactory to note that last year's endeavours are now paying off in the form of a stronger cash flow and a higher return on operating assets, despite the tough market conditions.

### **Focus on value-added products**

We want all our business areas to achieve leading market positions – regionally and globally – in well-defined niche areas characterised by high value-added products. In 2002 we saw evidence of our progress in the form of consolidated market positions, in particular in the global segments for cosmetic and chocolate fats and within vegetable feed fats in the Nordic market. The market's growing interest for vegetable raw materials acts as a positive driving force in the segments for feed materials, cosmetics and chocolate. In the near future, higher value-added vegetable fats may also replace milk fat in products like cream and cheese. Our high ambitions for the more advanced product segments require continuous reinforcements of Karlshamns technology base. Strongly market-oriented R&D resources are thus a critical success factor.

### **Strategic investments**

In line with our ambition to strengthen our global market presence, a wholly-owned sales and distribution company has been established in Warsaw, Poland. There is a considerable growth potential in Poland as well as on the

Central/Eastern European markets, and local presence is thus a matter of priority.

To expand the market penetration of Binol's vegetable oils for technical applications, a global cooperation agreement was signed with Shell.

Raisio's sales of industrial margarine in Sweden were acquired to increase the Group's proportion of higher value-added products.

Furthermore, investments to increase production capacity in Karlshamn were made to position our company for the future growth potentials within vegetable feed materials, fatty acids and chocolate fats.

### The future

We spent the year 2002 improving our financial stability and establishing the foundation for a higher future growth rate. We are continuously adding to the attractions of our product range, and we have a clear strategy for how to grow in all business units.

Our ambition for the next few years is to consolidate Karlshamns position as one of the world's leading suppliers of high value-added vegetable speciality fats, while at the same time making more dynamic marketing efforts for our technical products and feed fats than ever before. Our aim is to achieve a growth rate surpassing that of the market's own, in carefully selected niche segments. At the same time, we must make continuous efforts to improve cash flow and raise our return on net operating assets.

Focused R&D, rapid globalisation and a never-ending internal development process remain our vital success factors.

### Conclusion

The past year was one of learning and consolidation for the new organisation, what with the challenging market conditions. Our business environment is changing constantly, and the increasingly competitive situation on the European market is requiring rapid adjustments throughout.

At the same time, the growing interest for vegetable raw materials is providing new and promising potentials for all business units.

The next few years will now show the results of our ambition to develop more and more advanced products for regional as well as for global customers.

I am convinced that our prospects are good indeed.

Karlshamn, March 2003



Jerker Hartwall  
President and C.E.O.



# Business concept and development process

Karlshamns is one of the world's leading manufacturers of high value-added speciality vegetable fats. Karlshamns supplies customers all over the world, and is the market leader in the Nordic countries as well as in Central and Eastern Europe.

The Karlshamns Group bases its operating concept on the eco-cycle, with waste and side products being carefully utilised, processed and then marketed as end products. The oils and fats market is extremely large, with considerable variety among the customers' needs and demands. Therefore Karlshamns product range comprises not only tailor-made and specialised products, but also more standardised base products and services.

## Business concept

It is Karlshamns ambition to achieve leading global positions in defined niche areas based on our specialist know-how of vegetable oils and fats.

We also aim for a development of new business areas related to this unique expertise. Innovation, customer-orientation and high overall efficiency are our critical success factors.

## Goals

Karlshamns shall achieve a growth rate that is higher than the market average in selected niche areas,

while at the same time striving for a gradual increase of our return on net operating assets and a strong cash flow.

## Organisation

Karlshamns organisation shall be a horizontal one, with clearly defined areas of responsibility. All tasks should be profit-oriented, have clear-cut goals and be possible to evaluate. All business areas and business segments have their own, separate goals along with their own budget and profit responsibility. Karlshamns prospects for profitable growth rest entirely on the capacity of each single employee to identify not only profit-generating activities, but also cost-saving measures. Staff development and extended individual responsibility are thus fundamental parts of Karlshamns strategy.

## Product development

Each year, Karlshamns invests considerable amounts in the development of new products based on vegetable oils and fats. We are now concentrating our efforts even harder to this area, with a view to increasing the proportion of high value-added products in Karlshamns product portfolio.

## Continued globalisation

On the market for vegetable speciality fats, Karlshamns is today number one in the Nordic countries as well as in Central and Eastern Europe. One of our goals is to expand on our present markets, another is to establish ourselves in new growth markets, globally as well as on a regional basis.

### Focus on key customers and selected markets

We give high priority to global and regional key customers. In combination with strategically selected geographic markets, these customers provide our platform for future growth.

### Full control throughout the processing chain

Karlshamns strives for maximum control of the entire processing chain, from crude raw materials to finished products. This control has several aims: to guarantee the quality of the end product, and to develop and identify application areas for the side products resulting from the production process. Full control also makes Karlshamns better equipped to fulfil its environmental ambitions.

### Continuous environmental improvements

Karlshamns makes continuous and considerable efforts to minimise the company's environmental impact. Besides environmental considerations, there are also financial reasons to improve in this area as considerable savings may be achieved through a more efficient utilisation of our resources.

### Strategic follow-up

No major reorganisations were undertaken in 2002. The changes made in 2001, such as the division of Oils & Fats into three profit-oriented business sectors, proved highly successful and contributed strongly to Karlshamns positive development in 2002.

Our focus on a number of selected key customers is beginning to pay off, and will be further developed.

We have also been successful in our ambition to increase the proportion of global sales, and thus to reduce our dependence on the Swedish market.

Our R&D operations concentrate on the development of new products, and on productivity improvements.

The high percentage of employees (44 percent) who subscribed for convertible debt instruments is a strong indication of the staff's commitment to, and belief in, our company.

Our environmental work made notable progress through improved application of our environmental control system, substantial energy savings and the completion of a project aiming at a phase-out of Freon consumption.

### The development process

In the past two years, Karlshamns has gone through a far-reaching development process. The main purpose of this process has been to establish the foundation for a rapid, profitable growth. The development process has been truly successful, mainly because it managed to involve and gain the commitment of all levels of staff and all units within the organisation. The development work gave us a new business concept and identified a number of regional and global growth areas. Our organisation was restructured to become more goal-oriented, with each business sector being assigned clear responsibilities for budget and profitability. This is described in the pyramid below:



### Continuous improvements

Karlshamns pyramid is the base for continuous improvements, but also a way of illustrating and summarising the ongoing development process. The pyramid and its message have been solidly established throughout the organisation.

- **Karlshamns six fundamentals** illustrate the main principles to apply in the daily work. The fundamentals pervade the team work which constitutes the pyramid's base, and which is also a prerequisite for the continuous improvements necessary to achieve growth and profitability improvements.
- **Business concept and strategy** point our operations in the right direction, and describe how to reach our targeted growth.
- **Leadership** is about creating the best possible working conditions for all employees. Our new leadership concept stimulates Karlshamns management to inspire their staff, to communicate and explain goals and strategies, to encourage team spirit and to speed up the development process.
- **Project culture** is about a structured way of working. The new project culture encourages efficiency and flexibility, and helps us focus on the right tasks.
- **Key figures and consistent follow-ups** contribute to efficiency and profitability improvements. Key figures constitute one of the main threads of Karlshamns operations. In addition to key figures related to financial performance and productivity, we also undertake regular opinion polls among customers and staff.

## Four questions about fats

### 1. What is fat, really?

Most of the naturally occurring fats consist of a combination of triglycerides. A triglyceride is composed of glycerine and fatty acids. The properties of a triglyceride depend on the chemical and physical properties of its fatty acids, such as their chain length, number of double bonds and their location on the hydrocarbon chain.

### 2. How large is our daily intake of fat?

Fat should account for no more than 30 percent of our daily energy intake, which corresponds to some 70 g per day for a female adult, 90 g for a male adult.

### 3. What differences are there between different kinds of fat?

We usually speak of three main types of fat: saturated, monounsaturated and polyunsaturated. Saturated fat is common in animal products like butter, cheese and milk. Saturated fats raise the “bad” cholesterol that constitutes a risk factor for cardiovascular diseases. You find monounsaturated fat in rapeseed oil, olive oil and in nuts. Polyunsaturates are divided into two groups: omega 3 and omega 6 fatty acids. Omega 3 is found in oils from rapeseed, soybeans and linseed, and in certain kinds of fish. Omega 6 is present in oils from maize, sunflower and soybeans.

### 4. What do you mean by “essential fatty acids”?

Essential fatty acids are fatty acids that the human body cannot produce by itself, but are only available from what you eat. Such fatty acids are based on linoleic and  $\alpha$ -linolenic acid. Vegetable oils like maize, sunflower and soybean oil are rich in linoleic acid, as is rapeseed oil albeit at somewhat lower levels.  $\alpha$ -linolenic acid occurs naturally in linseed oil (high contents) and in rapeseed and soybean oil (moderate contents).



# The importance of fats

Every day we consume fats in several different ways: as a nutrient in foods, as an emollient in skin care products, as a lubricant in machinery, as a filling in chocolate pralines. Karlshamns exploits its expertise in fats and their properties to tailor fats for a wide range of applications and products.

Fat in food products is not only a vital source of energy and nutrition, but also has a decisive influence on the end product's texture and flavour. The fat's importance for structure and texture is most evident in products with a high fat content, such as chocolate and margarine. Maybe less evident, but just as important, is the role of fat in bakery products and ice cream. In both of these cases, the function of the fat depends on its physical properties.

## Quality as a function of crystallisation rate

Through a number of years, Karlshamns has been studying different kinds of fats with respect to their crystallisation behaviour. The crystallisation rate of a food product rich in fat is of decisive importance for the product's profitability and quality. Products with a high fat content will have a shorter shelf life and a less attractive texture and appearance if the fat composition is not the optimum one. Slow crystallisation requires prolonged cooling, with negative effects on production capacity. Knowledge of the composition and properties of fats is thus decisive for optimised production processes and end product quality.

It is the size and form of the fat crystals that give ice cream its desired, creamy texture and make chocolate live up to the demands for mouth-feel and shelf life.

## Structure in cosmetics and pharmaceuticals

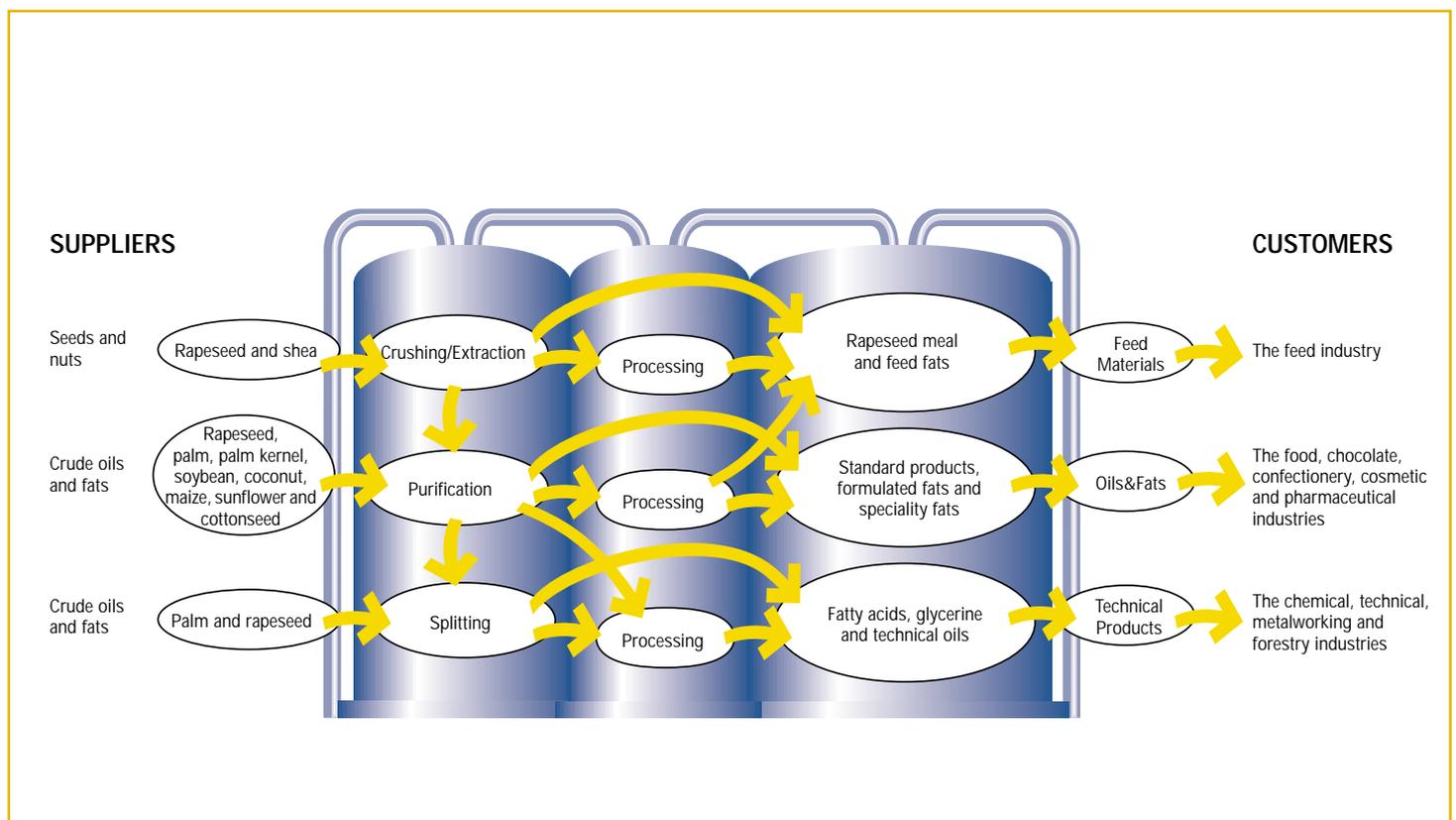
As to the importance of fat in cosmetics and pharmaceuticals, its main task is to provide structure. The fat's properties in combination with components that occur naturally in certain oils act to achieve a desired functionality, such as lipsticks with prolonged gloss. In skin care, functionality may be the caring properties or the comforting feeling created by a good skin cream.



# Karlshamns processing chain

Karlshamns operations are based on the eco-cycle, a concept that pervades the entire company. From a wide range of raw materials, products are extracted and processed in many different ways. All along the processing chain Karlshamns takes good care of the side products yielded by oil extraction, purification and splitting. When you extract rapeseed oil and shea oil, for example, you also get rapeseed meal

and feed fats. From rapeseed oil, palm oil, soybean oil and coconut oil, Karlshamns manufactures not only standard fats for use in base products, but also high value-added speciality fats which are tailored to individual customer demands. But whatever the end product, the process is always based on Karlshamns unique know-how of oils and fats.





## Oils & Fats

Oils & Fats is Karlshamns largest business area, accounting for 74 percent of the Group's net sales and 69 percent of operating profit in 2002.

Oils & Fats is divided in three business sectors: Chocolate & Confectionery Fats, Edible Oils and Lipids for Care. Each of these sectors has a specified profit responsibility, their goal being to develop, manufacture and market their respective products to customers all over the world.

All products marketed by Lipids for Care are speciality products for the cosmetic and pharmaceutical industries, whereas Chocolate & Confectionery Fats concentrates its efforts on high value-added speciality fats. Business sector Edible Oils has its main focus on Edge Products (speciality products for the food industry), Dairy Fat Alternatives (DFA, or vegetable fats for dairy applications) and Volume Products that are sold in large volumes for applications such as cooking oil, margarine and snacks.

### Oils and fats experts

Karlshamns is one of the world's leading manufacturers of high value-added vegetable speciality fats. These fats are mainly used in chocolate praline fillings and chocolate coatings, but also in infant foods, skin care products and pharmaceuticals.

A sufficiently wide range of speciality fats requires access to a large base of about 50 differ-

ent raw materials and grades. These include exotic raw materials not available on commodity exchanges or similar market places.

Throughout the various processing stages, Karlshamns extensive know-how and considerable experience are used to tailor products according to specific customer demands. Continuous requirements for upgraded products also necessitate considerable resources allocated to research and development. Due to the entrance barriers in the form of expertise and resources, there are considerably fewer competitors in the speciality fats market than in Karlshamns other product segments. However, satisfactory profitability in this segment also requires higher processing margins due to the higher costs of utilising a wider raw material base, more advanced production processes and considerable R&D resources. The unique properties of speciality products make them less exposed to price competition than standard products, the latter market being characterised by extremely competitive pricing.

### Market and sales volumes

The world market for vegetable edible fats is growing by some 3 – 4 percent each year and was estimated at some 90 million tonnes in 2002. The Western European market has an annual growth rate of about 2 percent.

Business sector Chocolate & Confectionery Fats achieved a sales volume of 77,000 tonnes in 2002 (75,000), an increase of 3 percent.

Sales in the Edible Oils sector amounted to 205,000 tonnes in 2002 (208,000), the decrease



from 2001 mainly due to hardening competition on the Western European market.

Sales in business sector Lipids for Care increased by more than 15 percent.

More detailed information about market situation and competition is presented on the following pages, by business sector.

### Production

The Group's production within business area Oils & Fats takes place at three different plants, located in Karlshamn (Sweden), Hull (the United Kingdom) and Zaandijk (the Netherlands). The largest production unit is in Karlshamn, with a nominal capacity of 300,000 tonnes annually. The production units in the Netherlands and the United Kingdom each have an annual capacity of 70,000 tonnes. All of the Group's production plants are quality certified according to ISO 9001.

### Profit development in 2002

The Oils & Fats business area's operating profit increased from SEK 143 million to SEK 146 million. Speciality fats volumes increased in 2002, although decreasing volumes of less advanced products kept total volumes on an unchanged level. The growing price competition has been countered by improved cost efficiency and stronger focus on higher value-added products.

### Oils & Fats and the development process

A large number of the products supplied by Oils & Fats are exposed to severe price competition, and improved cost efficiency in the production process is thus of considerable importance. Within the framework of Karlshamns development process a far-reaching improvement programme is implemented, and projects of all sizes have already resulted in notable cost savings. In the speciality fats segment alone, expanded production capacity, improved capacity utilisation and higher yields have been achieved.

Energy supply, maintenance and quality control are other areas of priority. The number of fuel alternatives for steam production has increased. Our maintenance department is focusing on process availability and production costs, whereas our Analysis Control is developing more efficient techniques for computerised evaluation of large amounts of control data.

Our current production capacity has been carefully evaluated with a view to optimising our consumption of various resources, and to ascertain that we are well prepared for future volume growth. Future investments in new production equipment mainly consist of supplements to existing processes, or expansions to make room for future volume increases.

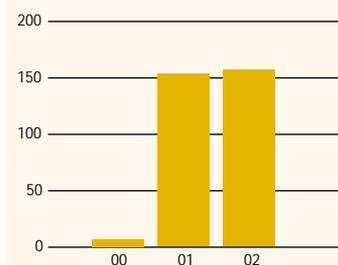
The development process will continue to motivate investments and prioritisations on the basis of good profitability prospects.

### Oils & Fats

	2002	2001	2000
Net sales, SEK m	2,394	2,179	2,121
Gross contribution, SEK m	694	651	525
Operating profit, SEK m	146	143	6
Net operating assets, SEK m	958	994	893
Return on net operating assets, %	14	16	1
Average no. of employees	617	615	630
Volumes, 000 tonnes			
Edible Oils	205	208	197
Chocolate & Confectionery Fats	77	75	75
Lipids for Care	3	2	2
Total	285	285	274

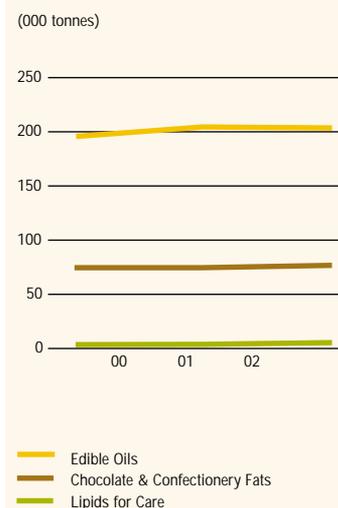
Oils & Fats is a full-range supplier to the food industry. The business area is divided into business sectors Chocolate & Confectionery Fats, Edible Oils and Lipids for Care.

### Operating profit (SEK m)



Operating profit increased to SEK 146 million in 2002, an improvement of SEK 3 million over 2001.

### Volume development





“In 2002 our long-term product development gathered momentum and strengthened its focus on high value-added products. This is work that will pay off in the next few years. Even though our market is becoming increasingly competitive, we maintained our market leading position in the Nordic countries as well as in Central and Eastern Europe. We also noted a growing demand on markets like Central/Eastern Europe and Asia.”

Björn Samuelsson  
President Chocolate & Confectionery Fats

## Chocolate & Confectionery Fats

With the products marketed by business sector Chocolate & Confectionery Fats, Karlshamns is market leader in the Nordic countries as well as in Central and Eastern Europe. The product range is designed for the global chocolate and confectionery industry and comprises advanced oils and fats which add a specific value to the end product; a value added consisting of technical advantage and superior quality all through production, distribution, storage and consumption.

With its considerable know-how in the area of oils and fats, Karlshamns has developed an extensive product range for business sector Chocolate & Confectionery Fats. The traditional source of fat for chocolate is cocoa butter. Milk chocolate also contains varying amounts of milk fat. Cocoa butter is, however, a relatively expensive raw material with heavily fluctuating prices.

### High quality and attractive price

Karlshamns has developed several vegetable alternatives to cocoa butter, so-called CBA (Cocoa Butter Alternatives). These fats include CBE (Cocoa Butter Equivalents), CBR (Cocoa Butter Replacers) and CBS (Cocoa Butter Substitutes). When replacing cocoa butter with these alternatives - partly or completely - chocolate producers achieve cost savings as well as a simplified production process, often in combination with a higher-quality end product.

There are several technical advantages to be reached by replacing part or all of the cocoa butter, mainly in the areas of shelf life, heat resistance, bloom and oxidation stability. Unlike cocoa butter neither CBS nor CBR fats require tempering in chocolate production, which makes the production process both simpler and safer for the chocolate manufacturer.

In addition to their non-tempering properties, CBS and CBR fats offer the considerable advantage of being based on notably cheaper raw materials than cocoa butter. The size of the potential cost saving depends on the current price difference between cocoa butter and the raw materials on which the alternative is based.

### Long-term product development

Karlshamns has given business sector Chocolate & Confectionery Fats a very ambitious strategy for the years ahead. In 2002 Karlshamns long-term product development gathered momentum, a work that will pay off in the next few years. Product development and marketing focus on high-quality chocolate fats, fractioned CBA and premium filling fats, i.e. first-rate filling fats with a built-in, technical added value. In this segment Karlshamns is market leader in the Nordic countries as well as in Central and Eastern Europe. This market leading position is to be further consolidated. At the same time, global growth is to be achieved.

Karlshamns will concentrate on selected geographic markets, with focus on the large multinational chocolate and confectionery manufacturers. There is an outspoken focus on key account customers, and a separate organisation has been built for this purpose alone.

Another of Karlshamns priorities is its very own training centre, the Oils & Fats Academy. In 2002, several tailored training sessions were arranged within the framework of Chocolate & Confectionery Fats. In October, for example, Karlshamns presented a study on the effects of food-grade emulsifiers on the crystallisation properties of fat. This education was arranged in Germany, at the specialist institute of the German chocolate industry. The lectures were much appreciated by participants from some ten different countries.

### Rising cocoa prices

All through 2002 cocoa prices increased on the world market, which stimulated demand for alternative fats. As in the same period the oils and fats market grew increasingly competitive, however, there were no positive effects on Karlshamns profit margins.

As of August 2003, the chocolate industry may use up to 5 percent of vegetable fats in products

marketed as chocolate within the European Union according to a new directive. This rule is good news for Karlshamns, as it expands the market for cocoa butter alternatives by some 25 – 50 thousand tonnes.

The 5 percent rule is expected to gradually increase Karlshamns CBA volumes in 2004 – 2005. The rate of substitution will be affected by future cocoa butter prices.

#### Filling fats with technical value-added

Vegetable fats are important ingredients in many kinds of chocolate and confectionery fillings. The properties of a filling fat are of decisive importance for the end product's taste, flavour release and shelf life. Karlshamns has gathered its premium filling fats under the product name Akomic 2000. All of these products are characterised by excellent melt-off, a vital quality when you strive for a filling that melts completely in the mouth without any "fatty" sensation whatsoever.

The Akocent family is characterised by rapid and total melt-off, a quality that ensures the desired cooling mouth-feel. Akocent contains no hydrogenated fats, and thus no trans fatty acids.

Akofill is a group of fats characterised by rapid and easy crystallisation, in combination with an attractive mouth-feel and a melt-off almost on a level with that of Akocent.

In softer fillings rich in liquid oil from nuts and other ingredients, fat bloom (being when the chocolate turns grey and dull on the surface) may constitute a problem. The Akomic products have particularly high bloom stability, the result being an end product with notably prolonged shelf life.

#### Market and competitors

The global market for chocolate and confectionery products is estimated at 5.6 million tonnes, with an annual expected growth of 3 – 4 percent. The largest customer group consists of six multinational chocolate and confectionery manufacturers that account for some 60 percent of the world's total production of chocolate and confectionery products.

In business sector Chocolate & Confectionery Fats Karlshamns competes on the global market and thus supplies its customers from all three production units. The main competitors are Aarhus Olie, Fuji Oils and Loders Croklaan. The latter company, formerly a subsidiary of Unilever, was sold to the Malaysian enterprise IOI Corporation in 2002.

Karlshamns is experiencing a growing demand in markets like Central/Eastern Europe and in Asia. The Group has consolidated its position on the Eastern European market, and established a wholly-owned sales and distribution company in Warsaw, Poland.





"In 2002, speciality fats and high value-added products accounted for a larger proportion of our sales volumes than ever before. The trend points towards products focusing on health and safety, such as organic oils or low-trans products. This is a favourable development for Karlshamns, what with our specialist know-how, comprehensive product portfolio and tailor-made customer solutions".

Håkan Christensson  
President Edible Oils

## Edible Oils

Business sector Edible Oils is responsible for Karlshamns customers in the food industry, with the exception of chocolate and confectionery manufacturers. The business sector handles a wide range of products in three market segments, with Dairy Fat Alternatives (DFA) and Edge Products being the cornerstones of future growth.

### A growing proportion of speciality products

Edible Oils handles a comprehensive range of products, from cooking oils and margarine oils to advanced, functional ingredients. Karlshamns offers a wide enough product range to satisfy every conceivable demand in this product segment, thereby making the Group one of the market's most well-equipped suppliers of oils and fats.

In 2002 Karlshamns expanded its proportion of high value-added products, thereby helping Edible Oils reach a satisfactory profit level despite a very competitive market situation. Far-reaching productivity improvements were achieved throughout the Group.

Edible Oils is divided into three product segments, each with a different focus to match their respective business conditions:

**Volume Products**, i.e. products sold in large volumes for applications like cooking oil, margarine and snacks. Volume Products are supplied mainly to local and regional markets.

**Edge Products**, which are speciality products for the food industry. Edge Products are delivered within Europe and on certain selected geographic markets.

**Dairy Fat Alternatives (DFA)**, or vegetable fats for dairy applications. DFA products are sold on regional markets.

Karlshamns main competitors in the Edible Oils segment are Aarhus Olie, Cargill and ADM, together with local producers.

### Goals

With its Edible Oils products Karlshamns enjoys a strong position in Sweden, in the other Nordic countries as well as in parts of Central and Eastern Europe. The goal set for Edible Oils is to consolidate its strong position while increasing its sales volumes in the next three years. The goal is to be reached by maintaining and developing the present high service and quality levels, and by growing on targeted European markets. Thanks to our unique knowledge of fats and their applications, Karlshamns is well positioned to develop and tailor fat solutions for any requirement the food industry may have. Product segments Edge Products and DFA are the cornerstones of this growth strategy.

## VOLUME PRODUCTS

Product segment Volume Products handles ingredients used in the production of margarine, mayonnaise and dressings. Volume-wise, fats for the margarine industry constitute Karlshamns largest segment. The consumer market for margarine is steadily decreasing, and consequently so is demand for this kind of fats. The growing interest for more advanced products, in particular non-trans, offers ample possibilities to compensate for the decreasing sales of traditional margarine fats.

### Market

For Volume Products the main competitive weapons are price, on-time deliveries and a consistent high product quality. The market was characterised by continued pressure on prices throughout 2002, mainly due to surplus capacity and price competition in the food industry.

## EDGE PRODUCTS

New consumer trends are boosting demand for convenience foods as well as for products with particular characteristics as to health, environment and safety. In combination with the food industry's unceasing requirement for more efficient production methods, this means new, specified demands on vegetable fats. Karlshamns has devel-

oped a number of products to meet these new specifications, and organised the new applications in product segment Edge Products.

### Market

Karlshamns Edge Products keep abreast of technological development in vegetable speciality fats, and in certain product segments the Group is also market leader. Europe is the natural market for this product segment, although certain products have customers all over the world.

Consumers are becoming more and more aware of the positive effects of healthy and nutritious food products. This development is promoting interest in the nutritional profile of many food products, and Karlshamns has noted a growing demand for food products with positive effects on the body and its various functions.

To address this demand, Karlshamns spent last year developing a number of speciality products which satisfy the increasing demands for quality and nutrition.

### Fats with specific health effects

One of these new speciality products developed for Edge Products is Specidol OF. Specidol OF contains long-chain omega 3 fatty acids from fish oil. As they contribute to the formation of cell membranes and hormones, omega 3 fatty acids play an important role in a number of physiological functions.

### Organic oils in infant food

Fats are of utmost importance for the healthy development of infants. The infant food industry is known for its stringent demands on raw materials and their suppliers. Karlshamns has been well established in this market segment for many years now. In 2002, Karlshamns cooperated with customers to develop organic infant formulas. Our access to the right raw materials in combination with the capacity to tailor specific fatty acid compositions makes Karlshamns a strong partner in this segment. The aim is to develop an infant formula as identical as possible to natural mother's milk.

### DAIRY FAT ALTERNATIVES

Dairy Fat Alternatives are vegetable fats developed to replace milk fats. These products are mainly used by the dairy industry. The main sales argument is lower costs, but vegetable fats may

also deliver positive health effects and new functions. Most of Karlshamns DFA products are based on fats developed to produce a specific functionality in the end products.

To allow for the different specifications demanded by customers, a successful DFA range requires an extensive raw material base. Karlshamns aim is to offer its customers the most cost-efficient solutions in this area, to be achieved by a combination of high-performing products, excellent taste and, last but definitely not least, a superior knowledge of all customer applications.

### Development work paving the way for vegetable fats in mature cheese

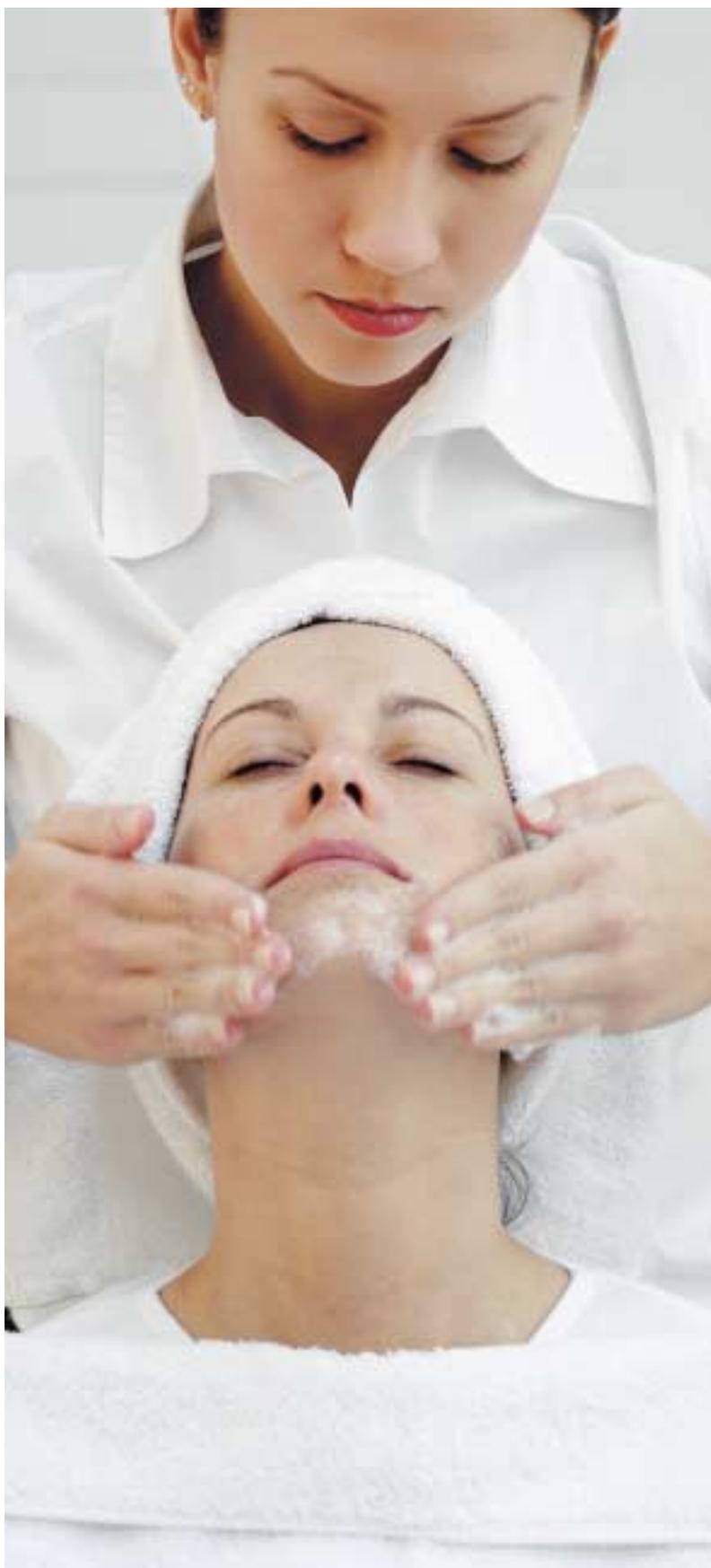
By tradition, cheeses based on vegetable fats have been characterised by a somewhat tasteless taste. To address this problem Karlshamns has now developed a new product for cheese applications – Akocheese. In cooperation with a renowned European research institute in the food industry, Karlshamns products have been thoroughly tested and evaluated. The results have been published, and Akocheese was given very high ratings by the research institute. Karlshamns ambition is for Akocheese to produce a mature cheese, based on vegetable fat but still with a quality and flavour on a level with cheeses based on milk fat.

The driving forces behind the use of vegetable fats in mature cheese are several: costs, and health aspects. With a cheese based on vegetable fat instead of milk fat, the cheese manufacturer achieves cost savings in his production process while also benefitting from an improved nutritional composition. Among the main health aspects of vegetable fats are the advantageous fatty acid composition and no cholesterol.

### Market

The market for Dairy Fat Alternatives is mainly regional, as transportation costs are an important competitive factor. The Nordic and Eastern European markets are serviced by the production unit in Karlshamn. The product group is also important on the Central European market, which are efficiently served by the Group's units in the Netherlands and the United Kingdom. Individual market potentials depend on price, current supply of milk and milk fats and national legislation as to ingredients allowed in dairy products.





## Lipids for Care

Business sector Lipids for Care cooperates with cosmetic and pharmaceutical industries all over the world, offering products mainly based on high value-added speciality fats. This sector displayed a very strong development all through 2002.

Lipids for Care, one of the Oils & Fats business sectors, was established in the autumn of 2000 with the objective of strengthening Karlshamns focus on the future growth areas identified within the cosmetic and pharmaceutical industries.

Lipids for Care achieved a very strong development throughout 2002, with the market displaying keen interest in cosmetic and skin care products based on natural raw materials. Lipids for Care is responsible for the development, production and marketing of cosmetic components based on vegetable fats. The Group concentrates its efforts in the pharmaceutical area to value-added oils and fats developed for use as ingredients in the production of nutrient solutions for clinical applications.

### Goal and strategy

As vegetable oils and fats are neutral, natural, non-toxic, non-irritant, inert and biodegradable, they are safe and reliable ingredients for cosmetic and pharmaceutical products.

The goal set for Lipids for Care is to surpass the growth rate of its main markets. This is to be achieved by means of focus on key customers and selected geographic markets, closer cooperation with distributors in prioritised countries, and strategic product development to expand the current product range.

A close cooperation with key customers and distributors is part of Karlshamns strategy for rapid growth and continuous product development. Today Karlshamns works in direct partnership with several leading cosmetic manufacturers, and is thus well positioned to tailor product solu-

tions according to customer requirements and market demands.

Important characteristics of the products developed by Lipids for Care are their advantage of being

- natural
- vegetable
- functional

### Biologically active

Karlshamns vegetable products for skin-care, hair-care, make-up as well as for various toiletries, applications possess quite unique functionalities in that they not only soften the skin but also restore its natural moisture balance. Karlshamns lipid systems for cosmetic applications have direct effects on skin structure as well as a balancing influence on the skin cells. To maintain the natural freshness of the skin, certain oils and fats systems have been developed to contribute with several biologically active substances. These systems are used in highly advanced cosmetic and skin-care products, for example products that provide a barrier to pollution, act as a sun-screen, sooth irritated skin or supply the skin with essential fatty acids.

### Growing demand for natural raw materials

Karlshamns has developed a number of systems based on high value-added vegetable oils and fats that are used as ingredients in market-leading cosmetic products for skin and hair care as well as in branded make-up and hygiene products.

Products derived from shea butter count among Karlshamns flagships, and the Group has established an entire family of products based on shea butter: The Lipex Shea Family. Products based on shea butter are not only blessed with softening and caring properties, but also have anti-inflammatory effects. The "Shea Family" products contain everything from pure shea nut oil to a super-concentrate (Lipex Shea-U) manufactured in a patented process. There are also water-dispersible products developed specially for use in hair-care and shower products.

Akorex L and Lipex Canola-U (the latter one patent-protected) are two unique oils based on rapeseed oil and tailor-made for cosmetic applications. Both products have documented healing and anti-inflammatory effects on irritated skin. A product developed in response to current market trends is Akogel, a vegetable alternative to

mineral-oil based ingredients in skin care products. The cosmetic product range is marketed under the brand Lipex.

### Market and competitors

The cosmetic market, in particular the segment for body care products, grows by some 4 – 5 percent each year. An even higher growth rate has the segment for cosmetic articles based on vegetable ingredients, in comparison to their synthetic, animal and mineral-oil based alternatives. Interest in health aspects is growing, and consequently so is the demand for cosmetic and skin care products with documented functionality. People born in the 1940's, who now demand skin care products with anti-ageing effects, form a rapidly growing consumer group all over the world. Men of all ages constitute another potential target group. There is also a growing demand for safe and natural skin care products for infants and children.

Karlshamns competitors on the cosmetic and pharmaceutical markets differ quite considerably from those supplying customers in the food industry. The main competitors of Lipids for Care are large global chemical groups like Cognis, Croda and Uniqema. Karlshamns has a competitive advantage, however, in its specialist know-how about fat technology. In the cosmetic market, Karlshamns is gradually establishing itself as the leading lipid specialist among raw material suppliers.



"The cosmetic industry has a constant demand for new products. In 2002 we thus intensified our R&D activities in this area, to launch a growing number of new products. Direct communication with our customers helps us catch new trends and identify market developments. As a result, we often tailor products according to specific customer demands."

Jan Gunnerdal  
President Lipids for Care



“Continued growth on a stagnant market is a clear proof of our strength, a performance distinguishing us as one of the leading European suppliers of fatty acids and glycerine. The ongoing development process has made us even more focused. We have a clear goal for the next few years: we shall continue to grow and to increase our market shares. We see continued growth potentials in our present markets”.

Tommie Holmberg  
President Tefac AB

## Technical Products

Operations in the Technical Products business area are conducted by two subsidiaries, Tefac AB and Binol AB. This is Karlshamns second largest business area, accounting for 14 percent of the Group’s net sales and 17 percent of operating profits in 2002.

The two wholly-owned subsidiaries Tefac and Binol concentrate their production and marketing mainly on technical applications. Tefac supplies fatty acids and glycerine, whereas Binol develops, manufactures and markets environmentally acceptable technical oils.

### Profit development 2002

The Technical Product business area’s operating profit amounted to SEK 36 million (36), with Tefac achieving a profit improvement over 2001 despite shrinking glycerine margins. Capacity-expanding investments were completed and put on stream in the latter part of the year. The general recession, mainly in the motor industry, had negative effects on Binol’s sales and profits throughout the year.

### Tefac

Fatty acids and glycerine are obtained from the splitting of the fat molecule. Fatty acids are mainly used as a raw material in the chemical industry. After processing into products like fatty alcohols,

amines and esters, fatty acids are used in many market segments. The main application areas are paper chemicals, plastic and rubber additives, soaps and detergents. A well-known consumer product consisting entirely of fatty acid is the stearin candle. Customers in the paper, soap, detergent and candle industries account for more than half of Tefac’s sales volumes.

Also glycerine has a wide range of application areas. After various kinds of processing, glycerine is used in cosmetic and food products, explosives and paints. Tefac’s main glycerine customers are in the technical industry.

The Swedish market accounts for approximately one quarter of Tefac’s sales. In the fatty acids segment, Karlshamns is market leader in Sweden and in Finland. Other important markets are Germany, Great Britain, Russia and the Baltic states.

### Market development 2002

The application areas for fatty acids are often largely affected by general business fluctuations. The total market for fatty acids is estimated to have remained on a level with 2001, even with a weak development in the first half of the year.

Regardless of its stagnant market Tefac increased its sales volumes by some 8 percent in 2002. The increase was mainly due to continued progress among customers within detergents, fabric conditioners and candles. These markets are largely unaffected by general business fluctuations and thus have a stabilising effect on Tefac’s earnings. The proportion of export sales remained high, around 75 percent. Prices rose somewhat, mainly due to higher raw material prices, whereas margins remained unchanged.



Most of Tefac's products are supplied in their liquid form, as bulk deliveries.

Despite the European recession, demand for glycerine has remained strong and market growth is estimated to some 5 percent in 2002. At the same time, supply of crude glycerine is expected to continue to grow as a consequence of the EU's decision to subsidise biodiesel. The biodiesel industry's high production put pressure on glycerine prices in the first half of 2002, whereas high rapeseed oil prices reduced supply in the second half of the year and thus made prices rise again.

### Competitors

The main players in Europe are Uniqema, Cognis and Oleon. Structural changes have been underway for some years now on the European fatty acids market, the most obvious result being an increasing concentration among both producers and consumers. There are some 15 major actors in Europe, of which three clearly dominate the market. Consolidation has been taken one step further in the US, where there are only six major suppliers today.

### The future

Tefac's goal is to expand its shares of the present market segments, while maintaining its competitive profitability. Tefac's focus shall remain on northern Europe, but growth shall be achieved in Eastern Europe and the Baltic region as well. As the company's products are rather similar to the ones supplied by its competitors, competitive advantages are based on other success factors: cost efficiency, customer-orientation and efficient logistics.

## Tefac and the development process

High capacity utilisation is a prerequisite for cost efficiency and profitability. In the context of Karlshamns global development process a number of projects were initiated in 2002, several of which have already produced measurable improvements. These projects have been of varying importance and have addressed many different areas: from production and energy consumption to staff issues. The projects have helped identify and eliminate a number of bottlenecks, which has optimised utilisation of the company's current resources. Tefac has a total annual production capacity of some 50,000 tonnes of fatty acid and some 6,000 tonnes of glycerine. As a result of high capacity utilisation, productivity as well as cost efficiency improved in 2002. Future investments will focus on capacity expansions within the bounds of Tefac's present production structure.

## Binol

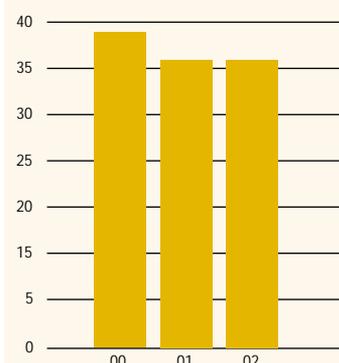
Binol has business responsibility for the development, production and marketing of the Group's environmentally responsible technical oils. Technical oils are used as metalworking fluids and lubricants in the metalworking industry, as hydraulic oils and chainsaw oils in the forestry and construction industries, as thermal fluids in radiators and as speciality products in agricultural applications. The Nordic region is Binol's main market, whereas the propor-

### Technical Products

	2002	2001	2000
Net sales, SEK m	455	397	355
Gross contribution, SEK m	148	142	138
Operating profit, SEK m	36	36	39
Net operating assets, SEK m	164	133	117
Return on net operating assets, SEK m	25	29	33
Average no. of employees	90	89	84
Volumes, 000 tonnes			
Fatty acids	52	48	45
Glycerine	6	6	6

The Technical Products business area's operations are conducted by two profit units: Tefac and Binol.

### Operating profit (SEK m)



The Technical Products business area's operating profit amounted to SEK 36 million (36) in 2002.



"In 2002, the single most important development for Binol was the signing of a global cooperation agreement with Shell. The agreement confirms the strength of our products, and it also represents a significant advance towards the strategic globalisation of our product range. Within the EU alone, demand for environmentally responsible technical oils is expected to increase by an annual 10-15 percent in the next few years. Our goal is to be one of the leading actors on this growing market."

Magnus Jörsmo  
President Binol AB

tion of export sales was some 20 percent in 2002.

The largest export markets are the US, Canada and Germany.

All of Binol's products and functional solutions are based on renewable raw materials, always developed with the eco-cycle in mind. Products developed for the metalworking industry focus in particular on the working environment, whereas products for the forestry and construction industries are developed to minimise effects on the external environment. On the Nordic market the company sells Binol-branded products directly to the end user. On all other markets the products are usually sold under private brands. Thanks to society's continuously growing environmental awareness, the EU market for environmentally responsible technical oils is expected to grow by 10 - 15 percent in the next few years. At the same time, the market for traditional mineral oils is decreasing. The rate of substitution depends to a certain degree on the price relation between vegetable oils and mineral oil, however.

Binol strengthens the environmental profile of its customers whenever traditional petroleum-based oils are replaced by Karlshamns environmentally responsible alternatives. The use of biodegradable oils is also a requirement for several environmental certificates, such as ISO 14001. Environmental considerations are becoming an increasingly frequent requirement in purchasing negotiations, in Sweden as well as in other EU countries.

### Market development 2002

The total market for technical oils continued to decrease all through 2002. Even so, Binol maintained its market share in the metalworking industry. In the forestry and construction segments, sales of chainsaw oils increased whereas sales of hydraulic oils decreased somewhat, partly due to hardening competition from mineral oils.

The continued recession, mainly in the metalworking and automotive industries, had negative effects on Binol's profitability. With this in view, Binol's focus has been on cost and capital rationalisations as well as on cash flow all through 2002.

### A more outspoken focus

In 2002 Binol continued to focus on products for the metalworking, forestry and construction industries. The goal is to give the product range a more global character to facilitate international growth. The targeted growth is to be achieved partly by consolidating and developing Binol's strong position in the Nordic region, partly by offering a larger part of the company's

product range to large, international and renowned companies for private branding.

An important part of this strategy was the signing of a global cooperation agreement with Shell, giving Shell the right to market Binol's hydraulic oils, chainsaw oils, cutting fluids, mould releasers and sawmill products under its own brand. The agreement is a global one, albeit with focus on Europe outside the Nordic region.

### Competitors

Binol competes with those larger oil companies such as Castrol and Quaker Chemicals that specialise in lubricants, but also with other vegetable oil manufacturers such as Raisio.

The competitive situation differs between the metalworking industry and the forestry and construction industries. Binol's strongest competitive weapon in the metalworking industry is the offer of full-range technical support in combination with an attractive total cost level. To customers in the forestry and construction segment, Binol provides customised distribution solutions instead. Binol has a unique competitive advantage: the possibility to offer large international companies - the large oil companies, for example - advanced products that have already been thoroughly tested on Binol's domestic market.

### The future

The globalisation process based on strategic alliances outside the Nordic region will continue. Having completed the establishment of a national distributor network for its forestry and construction products, Binol will now increase its focus on the metalworking industry. The key success factors will be Environment, Performance and Total cost. Binol's goal is to be one of the two largest market actors in the Nordic region within three years.

## Binol and the development process

All in all, twenty-seven projects of various sizes and importance were launched in 2002. Thanks to these projects, Binol maintained its profitability despite the ongoing recession. Some of the projects aimed at reducing capital tied-up, for example by reducing inventories, limiting the use of external consultants and lowering the costs for raw material purchases. Also the strategy to focus on metalworking and construction products is a direct result of the development process. This strategic decision also involves a stronger focus on key customers in the metalworking industry.

# Feed Materials

The Feed Materials business area is responsible for the Group's processing and marketing of vegetable protein and fat raw materials to the animal feed industry. Feed Materials also handles the extraction of vegetable oils from rapeseed and shea nuts.

In 2002 Feed Materials profited from the feed industry's continued focus on feed safety and a growing consumption of vegetable feed fats. Gross contribution for rapeseed remained on a high level all through 2002. Karlshamns sales volumes increased over 2001, and Feed Materials expanded its share of the Nordic market. In 2002 business area Feed Materials accounted for 12 percent of the Group's net sales and 14 percent of operating profits.

## Market and competitors

The main segments of the animal feed market are feed for cattle, swine and poultry. Cattle feed is the largest segment, accounting for approximately 50 percent of the total market.

The Feed Materials business area's customers are mostly found in the Swedish feed industry, where Karlshamns feed raw materials are vital components in several market-leading products.

Karlshamns feed products compete with soya and rapeseed meal from the production units of ADM and Cargill in the Netherlands and Germany.

## Products and sales

Karlshamns animal feed products comprise ExPro meal, ExPro biscuits and formulated liquid and solid AkoFeed products. These products are used as protein and fat components in the feed industry's feed mixes.

In line with the business area's focus on the development of new niche products, the speciality fat AkoFeed Gigant was introduced in 2002. This fat is a more advanced version of AkoFeed Calcium

and has been specially developed to normalise the milk fat content of low milk fat herds. Should the fat and protein levels of the milk fall short of certain levels the farmer normally suffers price reductions, and AkoFeed Gigant thus contributes directly to profitability improvements for the dairy farmer. The fat was introduced in August 2002. Sales volumes developed satisfactorily throughout 2002 and are expected to do so in 2003 as well.

The main reason behind the business area's growing volumes and profits, however, was the continued very strong demand for the by-pass fat AkoFeed Calcium and the salmonella-free, rumen-protected ExPro meal. Sales of the vegetable feed fat AkoFeed VFC (vegetable feed fat for calves), introduced in 2001, maintained their positive development as well.

Business area Feed Materials is at the forefront of feed safety, and the company's products are well ahead of the directives and requirements of the European Union.

## Production

The business area's raw materials are rapeseed, vegetable fats and fatty acids. Crude vegetable oil and protein-rich rapeseed meal are extracted from rapeseed. The rapeseed oil is processed by Karlshamns, the external sales handled by business area Oils & Fats. The meal is sold to the animal feed industry. Most of the extracted meal goes through a special heat treatment process (ExPro) before it is sold. This business area also extracts shea oil from shea nuts.

When Karlshamns aggregate production capacity is used to produce ExPro meal and rapeseed oil, the maximum annual production capacity amounts to 270,000 tonnes of rapeseed. The year 2002 was, like previous years, characterised by high capacity utilisation. Karlshamns ongoing development process has identified a number of production-related bottlenecks that are now being addressed. For example, the decision to invest in a new dryer/cooler facility will expand production capacity by some 15 percent in 2003.

## Profit development 2002

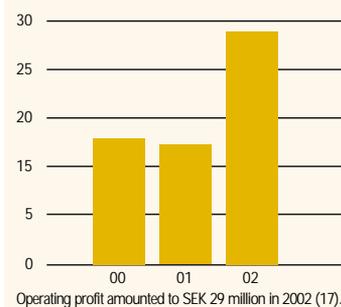
Operating profit in business area Feed Materials amounted to SEK 29 million (17) in 2003. Gross contribution remained on a high level throughout the year, which, in combination with growing volumes, contributed to the profit improvement. Capacity-expanding investments contributed, in their turn, to the volume growth achieved in the second half of 2002.



Feed materials

	2002	2001	2000
Net sales, SEK m	400	366	252
Gross contribution, SEK m	120	99	96
Operating profit, SEK m	29	17	18
Net operating assets, SEK m	58	137	91
Return on net operating assets, SEK m	28	15	26
Average no. of employees	47	47	47

## Operating profit (SEK m)



"2002 was a good year for Feed Materials. An operating profit improving by some 71 percent shows that our strategy is on target. We have a healthy gross contribution for rapeseed, a popular protein feed and vegetable feed fats that excel in product safety. Our goal for 2003 is to consolidate our market position even further, mainly by means of larger sales volumes and growing market shares for ExPro meal and AkoFeed Gigant. Capacity-increasing investments are underway, but will not have positive effects on profits until the last quarter of 2003."

Hans Nilsson  
President Feed Materials



## Karlshamns staff

The development process launched in 2001 continued all through 2002. A large number of measures have been taken to develop Karlshamns human resources and to create a dynamic organisation.

Continued strong commitment by all of Karlshamns employees is a prerequisite for the targeted accelerated profitable growth and improved profitability. Participation, customer-focus and learning are key concepts for Karlshamns continued development. The unremitting ambition to identify new areas in which to improve, and ways to achieve this, has become something of a hallmark for Karlshamns and its staff.

### Focus on competence development

In 2002, the primary goal was to educate all employees in the areas of leadership, project methodology and business administration, all of this based on the strategy adopted in 2001. Karlshamns fundamentals are based on participation, responsibility, goal-orientation, customer focus, learning and competence development. In combination with business concept/strategy, leadership, project culture and key ratios, these fundamentals provide the basis for the Group's continued progress.

A characteristic of Karlshamns operations is that a growing amount of work is performed within the framework of projects. The ultimate goal is for all employees to have the same competence in areas that are critical to the Group's continued development.



Malin Pedersen was one of Karlshamns own "teachers" in the project workshops attended by all of the Group's employees in 2002. When not volunteering as a teacher, Malin's role is to provide technical support to key customers in business sector Chocolate & Confectionery Fats. She provides

technical service and backup, and manages product development projects in cooperation with Karlshamns customers.

### How were the project workshops organised?

All in all, we were eleven employees from various departments who were trained to act as teachers. A very important subject on our own curriculum was pedagogy, of course. We then arranged workshops in basic project methodology for all employees – on a global level as well – each time for groups of 20 "students".

### What is your experience of the concept of "in-service teachers"?

I think it was a positive experience for everyone. As Karlshamns is going through a lot of changes right now, it was an excellent occasion to give people a chance to put their new knowledge into practice right away. For us "teachers" the workshops were a good way to make plenty of useful contacts, while they also provided us with lots of valuable experiences.

### Was there any response from your "students"?

Yes, both orally and in writing, in connection with the evaluation. Most of them found this to be a successful concept. We had very rewarding discussions, as everybody knew and was committed to our company. But it goes without saying that it's something of a challenge to teach your own colleagues!



### Business financial and project methodology

To create a better understanding for Karlshamns financial goals, all employees were given a basic training in business financial in the spring of 2002. The workshops drew creative parallels between private and corporate finance to illustrate the fundamental concepts.

For a project culture to be successful, all employees must have the same approach to project work. Karlshamns therefore arranged global workshops covering the fundamentals of project methodology. More extensive knowledge in combination with guidelines for efficient project work provided the main theme of the workshops. Eleven employees were trained to act as in-service teachers and then arranged training courses for all their colleagues.

### Leadership training

Karlshamns continued positive development requires not only competent and committed employees, but also a far-sighted and proactive leadership. Two conferences have been arranged for the company's executive staff, with focus on leadership issues. A specialised study programme for the Group's foremen was initiated later in the year, based on the leadership concepts produced internally in the course of the development process. The programme will be completed in 2003. Karlshamns leadership philosophy focuses on tasks like: create ambitions, communicate direction, initiate changes and stimulate teamwork.

### Opinion poll

At the beginning of the year Karlshamns undertook a comprehensive opinion poll to learn more about how its employees look upon the company's strategy, goals, leadership and growth potentials. The poll proved the majority of employees to be highly motivated and strongly committed to their work. On the basis of the poll results, action plans for various activ-

ities were drawn up. This work will be followed up on a continuous basis, and to evaluate its efficiency a new opinion poll will be undertaken in 2003.

### Recruitment

To safeguard Karlshamns competence and expertise in critical segments, new employees have been recruited. Some twenty new employees joined Karlshamns in 2002, many of whom graduates from universities of technology. These recruitments will provide tangible support when we proceed towards the development goals defined by Karlshamns strategic plans.



**Henrik Gustafsson** attended Karlshamns training workshop in business administration. Henrik is a process engineer and works with the purification and distillation of glycerine at Tefac AB.

**How did you like the workshop?**

It was well organised, and the parallel with your private finances was an original approach. The teacher was real good.

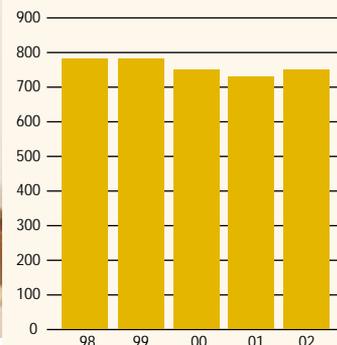
**What did you appreciate most?**

As I have very little to do with financial matters in my day-to-day work, it was stimulating to learn something in an entirely new area. The workshop was meant to serve as an introduction to business administration, and I'd really like to learn more.

**Will you be able to put your new knowledge to good use?**

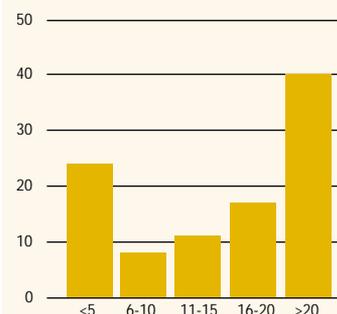
Karlshamns always has a number of projects up and running, aiming to improve our overall efficiency. Fundamental knowledge of the Group's finances makes it easier to understand and support the tasks entailed by these projects.

Average number of employees



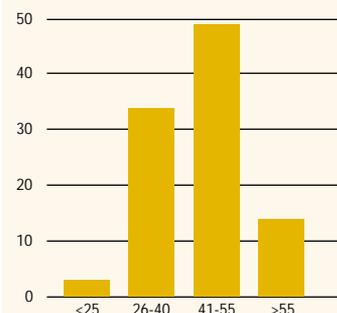
The average number of employees in 2002 was 754.

Length of service



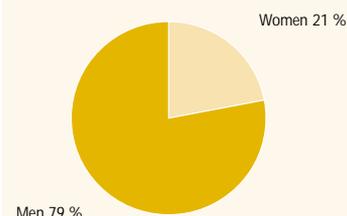
40 percent have more than 20 years' service with the company.

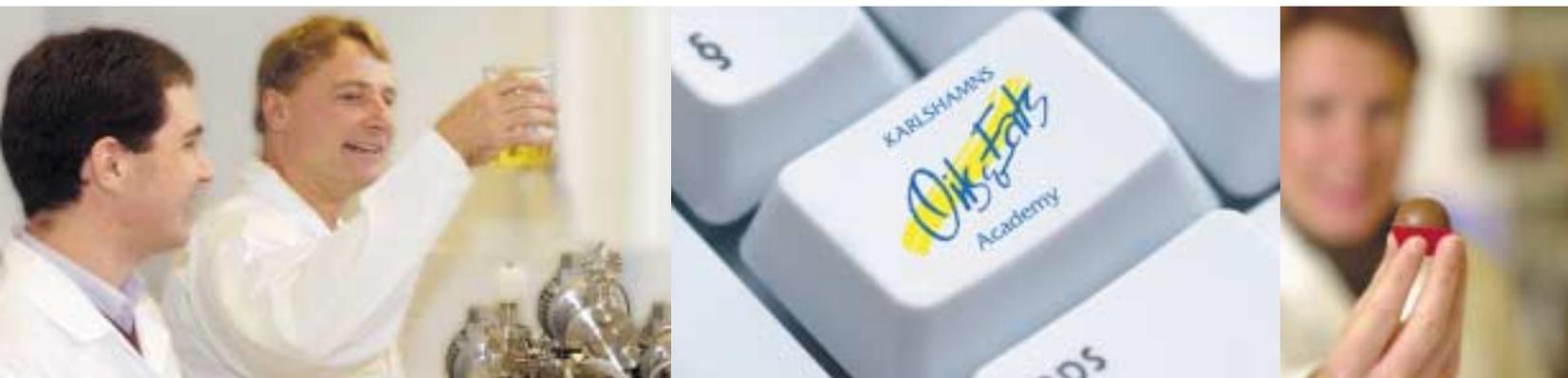
Age distribution



34 percent of the staff are between 26 and 40 years old.

Distribution men/women





## Research and development

In line with the Group's strategy to increase the proportion of high value-added products, Karlshamns continuously develops new and improved applications based on the fat molecule. A comprehensive network has been established through close cooperation with renowned researchers, in Sweden and abroad.

Karlshamns current R&D activities have their origin in many years of hard and intensive work.

Karlshamns future competitiveness is first and foremost dependent on the company's capacity to exploit and develop its aggregate knowledge of the fat molecule and its functionality in various customer applications.

Most product development projects are carried out in close cooperation with customers, with a view to strengthening their market position and competitiveness.

Over the years Karlshamns has developed considerable know-how in sensory analysis for application on most product segments - a valuable tool in all customer dialogues.

In line with the company's strategy to increase its share of high value-added products, R&D operations now concentrate on the development of new and upgraded applications within the three business sectors Chocolate & Confectionery Fats, Edible Oils

and Lipids for Care. In 2002 R&D began to cooperate more closely with all three business sectors, as these sectors now require considerably more specialised research into certain products or applications. There is also a more clear-cut distinction between long-term and short-term research projects.

The aim of all R&D efforts is to optimise the properties and functionalities of oils and speciality fats; not only in view of the end product for which the oil or fat is destined, but also to optimise the production process of the end product in question. Generally speaking, the Group concentrates all research and development work on the optimisation of three different technological functions in the products, regardless of the industry to which they are delivered.

**Physical properties**, or the fat's ability to create the desired structure and texture in the end product.

**Biological function**, i.e. the fat's ability to influence various physiological processes.

**Processing aid**, by which we mean the fat's ability to contribute to a more efficient production process.

### Physical properties

One of the many functions of Karlshamns speciality fats is to give food, chocolate and cosmetic products their specific texture and structure. The same goes for pharmaceutical products, where fat often contributes to the desired structure. Giving the fats their tailor-made physical properties is the key to the desired texture in the end product. Most of the Group's revenues from Chocolate & Confectionery Fats and Lipids for Care are generated by products carrying vital physical properties. A fundamental understanding and knowledge of the physical chemistry and properties of fats, whether in the solid or liquid form, is a prerequisite to



the continued, successful development of Karlshamns speciality fats on the international market.

### Biological function

Apart from developing entirely new products, Karlshamns also conducts research to find new application areas for its speciality fats in the food industry. So far only a minor part of sales is generated by products in which the biological properties or functionality of fats are the dominating factors.

Vegetable oils consist of a large number of different components with properties that might affect various physiological processes - and which may thus have a significant value in matters of health and well-being. These aspects are not only interesting for functional foods, but may also be utilised in ingredients for salves and ointments, for example. It is still too early to say, however, if and when these research findings will be ready for commercialisation. Current R&D projects are indicating a number of interesting possibilities for fats containing biologically or physiologically active components.

The Group's development in this area does not focus on the manufacture of such substances, but rather on the development of processing methods whereby oils are given substantially raised contents of naturally present combinations of tocopherols, sterols and certain other active components.

### International cooperation

In addition to their close relations with customers, Karlshamns researchers are in regular contact with national and international authorities, research institutes, universities and colleges.

Scientific and technical cooperation projects conducted in cooperation with universities and research institutes are an integral part of Karlshamns long-term development.

One good example of such an international project is the one conducted in cooperation with the Universities of Uppsala (Sweden) and Leeds (the UK). Nutritional science is the project's main theme, and studies are made into the effects of food products on satiety and mental performance. The project is thus approaching the functional food segment and has a wider focus than just oils and fats - something on which Karlshamns may capitalise in future product development projects.

It is the Group's assessment that Karlshamns research and development is at the forefront of its industry. The Group is also well prepared to meet any new requirements from national or international authorities with respect to health, safety and environmental issues both for products and for production plants. As a result of the more clear-cut distinction between short-term and long-term R&D projects introduced in 2002, a structured R&D portfolio with direct links to the various business areas has been established. Most of the Group's researchers are based in Karlshamn, which is also the location of the well-equipped, state-of-the-art laboratories. All in all, 35 of Karlshamns employees take part in research and development activities.

The Group's total R&D operations annually amount to 4 - 5 percent of gross contribution. In 2002 the Group's costs for research and development amounted to SEK 38 million, or slightly more than 4 percent of the gross contribution of SEK 962 million.



# Karlshamns and the environment

Environmental consideration in combination with efficient utilisation of resources and sound business operations form the basis of Karlshamns environmental policy.

In 2002 Karlshamns environmental efforts focused on the renewal of the environmental concession for the Swedish production unit, a concession for dredging operations in the harbour of Karlshamn, and a fine-tuning of Karlshamns environmental control systems.

As in previous years, Karlshamns is on the “top list” of the Swedish Environmental Fund, and is mentioned by Folksam’s Environmental Index as a company providing high-quality environmental information while also achieving considerable improvements in the area of carbon dioxide emissions.

## The production process

The Group’s production units are located in Sweden, the UK and the Netherlands.

At the Karlshamn plant, oils are extracted from rapeseed and shea nuts by mechanical pressing and extraction. Other raw materials are bought as crude oils. After neutralisation and bleaching, the ensuing refining process includes hardening, interesterification, dewaxing, dry fractionation and/or solvent fractionation. Each step of the process results in different intermediate products which are blended into end products before the final step: steam distillation. During steam distillation any remaining sub-

stances that might cause an unwanted smell or taste in the end product are removed.

The plant in Karlshamn processes some 250,000 tonnes of oilseeds and nuts each year. The meal resulting from the extraction process is then processed into feed raw materials and supplemented with vegetable feed fats with various degrees of value-added. To supplement its volumes of extracted oils, Karlshamns also purchases crude vegetable oils of various kinds. All in all, 200,000 tonnes of vegetable oil are processed each year, along with 50,000 tonnes of technical products such as fatty acid, glycerine and lubricants.

The UK plant handles an annual volume of around 40,000 tonnes of vegetable oils. The production processes include neutralisation, bleaching, hardening, interesterification, blending and steam distillation.

The main raw material handled by the Dutch plant is palm oil. The refining process consists of pre-treatment, bleaching, hardening, interesterification, steam distillation and blending. The Zaandijk plant handles some 50,000 tonnes of vegetable oils per year.

## Environmental management

All of Karlshamns production units have been using established and thoroughly tested environmental control systems for several years. The plants in Sweden and the Netherlands follow ISO 14 001, whereas the UK plant follows the format of BS 7750.

These systems ensure continuous, gradual and systematic improvements of Karlshamns environmental performance. The environmental control



systems applied in Zaandijk and Karlshamn have been certified, whereas the UK plant is in-house certified.

#### Environmental impacts

**Consumption of resources:** Operations are based on renewable raw materials. Production processes consume fresh water, electricity, fossil fuels, chemicals and additives. The process of replacing most fossil fuels by bio-fuels in the form of waste products generated by the company's own operations is proceeding.

Transports of raw materials and finished products to and from production units are evenly distributed between land and sea.

**Waste and by-products:** Karlshamns has a long tradition of taking care of and husbanding the materials used in production. Nutrients separated in the treatment plant in Karlshamn have, for example, been converted into a phosphorised lime used by farmers. Pitch from the fatty acid production is used as fuel in an external boiler plant, while other production waste is burnt in the Group's own boilers. The Swedish system for handling packaging waste is implemented in Karlshamn. The company also generates normal waste products, process waste and hazardous waste. Hazardous waste consists mainly of laboratory waste and lubricating oils. These are dealt with to meet legal requirements in each country. In 2002, the volumes sent to the municipal disposal unit were reduced by 20 percent.

**Air emissions:** Karlshamns production units generate emissions from incineration and extraction hexane, as well as a certain amount of odours. Emissions of extraction hexane are largest in Karlshamn, where crude oil production takes place. Air containing hexane is collected and led to steam boilers where the hexane is burnt. A comprehensive survey of odorous emissions has been undertaken, and meas-

ures to reduce unpleasant odours from operations will be implemented in 2003.

Considerably less odour is generated by operations in the UK and the Netherlands, where there is no oil extraction from seeds and nuts.

**Water emissions:** All of the Group's plants generate emissions of sanitary waste water, industrial waste water, surface water and cooling water. Waste water is sent into the municipal treatment system. Surface and cooling water in Sweden and the Netherlands is treated in special systems to ensure that no waste fat pollutes the surrounding area. In the UK, surface and cooling water is channelled into the waste water system.

In Sweden, industrial waste water is treated in the company's own treatment plant and then released into the adjacent sea. In the United Kingdom and the Netherlands, industrial waste water goes through an internal treatment process and is then channelled into the municipal waste water system.

The impact from oil refineries mainly concerns phosphors, a nutrient fertilizer that also contributes to increased eutrophication.

**Noise:** Installation of noise muffling equipment has reduced noise from production machinery. Noise disturbances from Karlshamns operations are therefore minimal and are at an acceptable level at all the company's plants.

**Soil pollution:** A certain amount of soil pollution has been identified within a restricted distance of the Group's plant in the Netherlands. This is now being dealt with. A survey of the possibility of soil pollution at the UK plant has not yet been completed. Meanwhile, it is the assessment of the Group that there is no significant pollution that would require expensive measures.

A survey undertaken of the Swedish operations has identified a number of areas in need of closer evaluation.

## Karlshamns environmental performance compared with the Scandinavian industry index (SII) <sup>1)</sup>

Hexane from extraction<sup>2)</sup> (kg/tonnes seed)  
 SII 1.7  
 Karlshamns in Sweden 0.23

COD<sup>3)</sup> (kg/tonnes oil)  
 SII 1.9  
 Karlshamns in Sweden 0.56  
 in the UK 0.72  
 in the Netherlands 0.57

Phosphors<sup>2)</sup> (g/tonnes oil)  
 SII 13  
 Karlshamns in Sweden 9.9

Fresh water consumption (m<sup>3</sup>/tonnes oil)  
 SII 2.8  
 Karlshamns in Sweden 2.6  
 in the UK 2.2  
 in the Netherlands 0.7

Waste (kg/tonnes oil)  
 SII 34  
 Karlshamns in Sweden 4.4  
 in the Netherlands 0.7

Carbon dioxide (kg/tonnes oil)  
 SII 560  
 Karlshamns in Sweden 83  
 in the UK 227  
 in the Netherlands 105

1) The index is based on data published in 1996 – 2001 by Karlshamns in Sweden, Aarhus Olie in Denmark and Denofa in Norway.

2) Emissions of hexane and phosphors are not measured in the UK or the Netherlands as operations there produce no emissions or only very small amounts.

3) COD, Chemical Oxygen Demand, or oxygen-consuming substance.

Nitric oxides, Nox (mg/MJ supplied fuel)  
 Average in Sweden, 2001 59  
 Karlshamns in Sweden 52



The purpose of the survey is to verify the status in view of future expansions. No immediate measures need to be taken.

### Karlshamns environmental projects

Karlshamns endeavours in the environmental area are based on the Group's relentless pursuit of improvements. As a result of these ambitions, a number of development projects have been launched to minimise the consumption of resources as well as the overall environmental load. Karlshamns global development process has effects in this area as well, as the numerous rapid changes are increasing the number of environmental issues to be dealt with. Many projects of varying sizes were launched in 2002, some of which have been implemented and evaluated while others are of a more long-term character.

In 2002, considerable efforts were devoted to the renewal of the concession needed for the operations in Karlshamn. To further increase the efficiency of Karlshamns logistics, an application for dredging operations in the harbour of Karlshamn was filed in cooperation with the local authorities. This will make it possible for larger vessels to call at Karlshamn, which in turn would

reduce the total number of sea transports.

In the area of waste, much progress has been achieved but certain measures remain to be taken before Karlshamns reaches all of its environmental goals. In Sweden, the project aiming at the phase-out of Freon has been successfully concluded.

Measures to limit odorous emissions have been evaluated, and will be implemented in 2003.

Karlshamns plans for a continued growth of bio-fuels and the goals set for the company's own environmental work comprise investments in energy saving measures. The incineration process has been optimised through adjustments of the boiler plant. From now on focus will be on optimised energy consumption, a process based on a number of larger projects as well as on several smaller ones of the "continuous improvements" character.

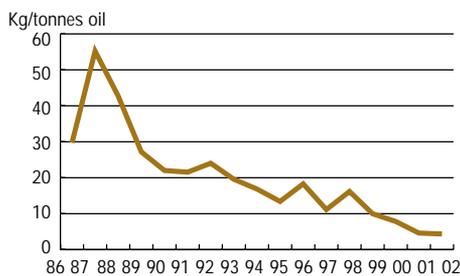
The work to optimise technical products with respect to LCA continues as planned.

The UK plant has achieved energy savings, while the Dutch plant has dealt with the identified soil pollution according to plan.

### Environmental concessions

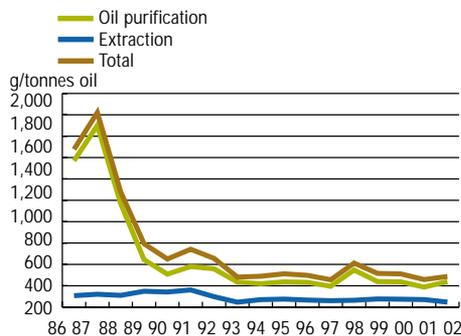
Official permits are required for operations in their entirety in Sweden, the Netherlands and the UK.

Dumped waste



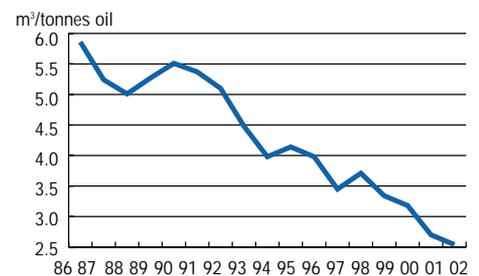
Karlshamns in Sweden

Hexane



Karlshamns in Sweden

Flow to treatment plant



Karlshamns in Sweden



Permits in accordance with environmental legislation must be obtained in Sweden. The Swedish operations had their permit renewed in early 2003, a process that will have to be repeated in 2005. The concession for operations in the UK was awarded in 1992 and is currently the subject of an application for renewal. No comprehensive or expensive measures are expected in this respect.

In the Netherlands a number of environmental measures have been implemented, and the previously mentioned soil pollution has been dealt with. Thus, environmental performance is now on a satisfactory level in Zaandijk and the environmental concession is up for renewal.

### Costs for environmental work

Karlshamns costs for environmental work have developed as follows:

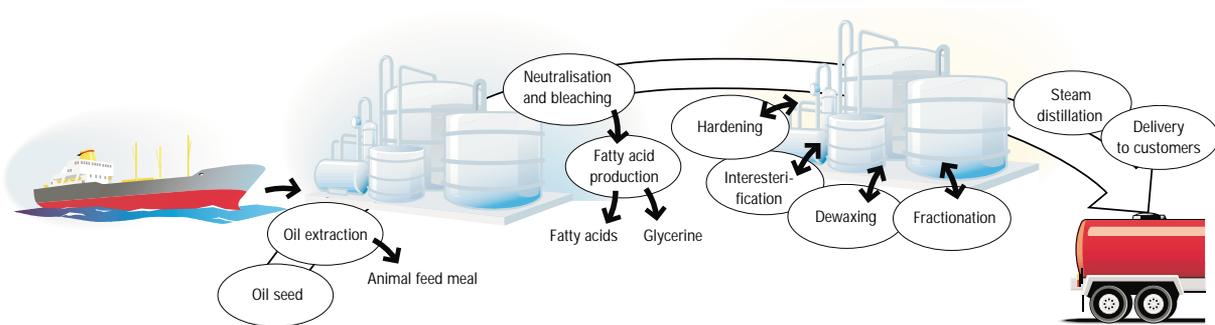
(SEK m)	2002	2001	2000
Administration	1	1	1
Operations	19	16	16
Taxes	5	7	7
<b>Total</b>	<b>25</b>	<b>24</b>	<b>24</b>

Rising operating costs are balanced by the ensuing lower production costs in other areas. In addition to these expenses, investments related to environmental measures amounted to SEK 4 million in 2002.

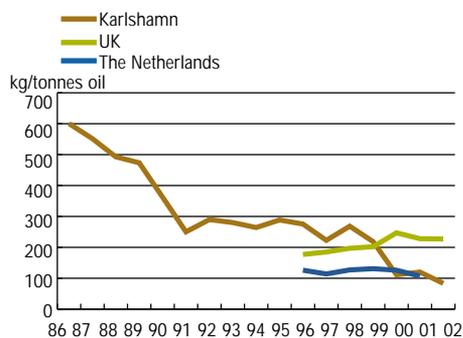
To meet future plans for environmental measures, investments over the next three years are estimated to total some SEK 17 million.

### Environmental measures planned for 2003

- Sweden:**
- Continue to reduce waste sent for dumping.
  - Reduce odour emissions.
  - Reduce energy consumption by 5 percent before 2005.
  - Reduce overall operating risks to targeted levels.
  - Reduce the amounts of energy consumed by transportation.
- The United Kingdom:**
- Renew the company's environmental concession.
  - Reduce energy consumption by 10 percent before 2011.
- The Netherlands:**
- Clean polluted soil.
  - Apply for a new environmental concession.
  - Upgrade the environmental evaluation programme.
  - Implement a better energy control system.
  - Reduce the amounts of energy consumed by production operations.

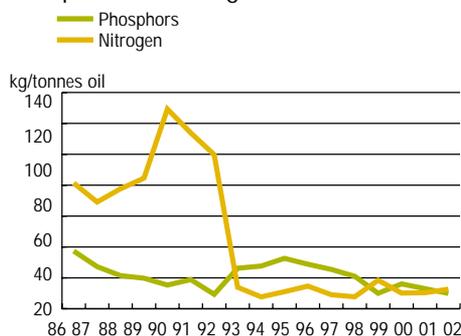


### Carbon dioxide



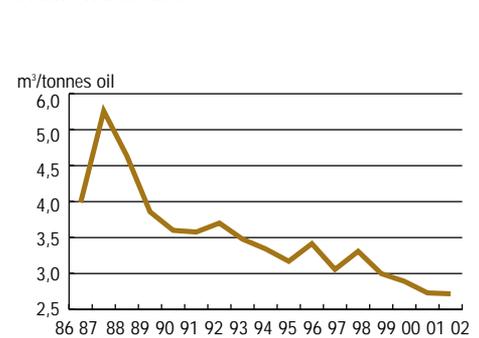
All three production units

### Phosphors and nitrogen to water



Karlshamns in Sweden

### Fresh water use



Karlshamns in Sweden

# Directors Report

## Operations

The development process launched in 2001 produced evident results in 2002. The overall aim of the process has been to strengthen the Group in several areas, thereby contributing to the goals set for Karlshamns. To date, the process has resulted in a new strategy for the years ahead; it has helped identify a number of regional and global growth areas; and the organisation has been restructured and given clear-cut goals and explicit budget and profit responsibilities. The Group operates in three different business areas: Oils & Fats, Technical Products and Feed Materials. Of these three Oils & Fats and Feed Materials are part of the parent company, the latter also carrying the main responsibility for all global functions.

**Oils & Fats**, which is Karlshamns largest business area, is further divided into three business sectors; **Chocolate & Confectionery Fats**, **Edible Oils and Lipids for Care**. Each of these three sectors has a clearly defined profit responsibility, and they all have the purpose of developing, producing and marketing their respective products to targeted customer groups all over the world.

*Chocolate & Confectionery Fats* has its focus on advanced chocolate fats, fractioned so called **Cocoa Butter Alternatives (CBA)** and premium filling fats, which are filling fats generating technical value-added properties.

*Edible Oils* has three product segments addressing the entire food industry: **Edge Products**, which are speciality products in the food segment; **Dairy Fat Alternatives (DFA)** which are vegetable fats for dairy applications; and **Volume Products** sold in larger volumes for applications like cooking oil, margarine and snacks.

*Lipids for Care* specialises in advanced products, mainly for cosmetic applications and for clinical nutrient solutions.

The business sectors, supported by the global functions for raw material sourcing, production, administration and R&D, are responsible for the business area's operating profit.

The Group's production within the Oils & Fats segment is handled by three different production plants, located in Karlshamn (Sweden), Hull (the United Kingdom) and in Zaandijk (the Netherlands).

**Technical Products**, the second largest of Karlshamns business areas, operates through two wholly-owned subsidiaries: **Tefac AB** and **Binol AB**. Tefac develops, manufactures and markets fatty acids and glycerine, products which are mainly used as raw materials by the chemical industry. In Sweden as well as in Finland, Karlshamns is market leader in the fatty acids segment. Binol develops, manufactures and markets environmentally responsible technical oils for the metalworking, construction and forestry industries. In Sweden, Binol is the leading manufacturer of technical oils based on renewable, biodegradable vegetable oils. The products are used as alternatives to petroleum-based oils in certain

technical applications.

The Group has one production plant for fatty acids and glycerine, one for the blending of environmentally responsible technical oils. Both plants are located in Karlshamn.

**Feed Materials** is responsible for the processing and marketing of vegetable proteins and fats to the animal feed industry. This business area also handles Karlshamns extraction of vegetable oil from rapeseed and shea nuts. Crude rapeseed oil and rapeseed meal are extracted from rapeseed. The rapeseed meal, rich in protein, is processed within the business area whereas the crude rapeseed oil is processed within Oils & Fats and then sold to the food industry. The Feed Materials production plant is located in Karlshamn.

## Developments in 2002

Raw material prices rose in 2002, with the Swedish krona gaining strength against the US dollar. The stronger Swedish currency had only marginal effects on profits, however. World prices for cocoa butter climbed in 2002, thereby strengthening demand for alternative fats in the CBA segment.

The hardening competition in the vegetable oil industry mainly affected margins on the Western European market. Karlshamns volume development in Eastern Europe remains strong.

Demand for vegetable feed raw materials continues to grow, with crushing margins for the extraction of rapeseed oil remaining on last autumn's high level all through 2002.

The recession in the metalworking industry continues to hamper the development of technical oils.

The fatty acids and glycerine markets are strongly influenced by economic fluctuations. For the full year 2002, the total market for both product segments is estimated to have maintained its 2001 level despite the negative trend of the first six months of the year.

To further fortify the Group's platform for future growth, Karlshamns established a wholly-owned sales and distribution company in Warsaw, Poland. Raisio's sales of industrial margarine in Sweden, with an approximate turnover of SEK 60 million, were acquired on 1 November 2002. Binol signed a non-exclusive distribution agreement with Shell.

## The Environment

Concessions must be obtained for the Group's operations in Sweden as well as abroad. Group operations affect the environment through the emission to the air of odorous substances, organic solvents and smoke gases; emission to water of fat, oxygen-consuming substances and nutritive salts; and the production of organic waste and noise pollution. Since a number of years now, each of Karlshamns production sites applies well-known and established environmental management systems: in Sweden and

the Netherlands the Group has implemented ISO 14001, in the UK the BS 7750. Thanks to the environmental control system, systematic, gradual and continuous environmental improvements are achieved throughout Karlshamns operations. Operations in Sweden as well as in the United Kingdom and the Netherlands require official concessions; in Sweden in accordance with the Environmental Code. A renewed concession was granted in early 2003. The UK facilities were given their permit in 1992, and the plant is currently having this permit renewed. In the Netherlands, a number of measures have been taken to improve the plant's environmental standard. A limited amount of soil pollution is currently being cleaned up. In the Netherlands as well, the permit is up for renewal. Neither of these permit renewals are expected to entail any considerable or costly corrective actions. In all, the Group's planned environmental investments are estimated at some SEK 17 million for the next three years.

### Research and Development

Karlshamns present R&D operations are based on many years of committed, purposeful work. All research work aims to optimise the properties and functionalities of oils and fats - partly to add value to the destined end product, partly to enhance processing efficiency in the manufacture of the product in question. Product development is usually carried out in close cooperation with Karlshamns customers, with a view to strengthening their market positions and competitiveness.

In line with the Group's strategy to increase the proportion of high value-added products, R&D operations are now focusing on the identification and development of new and upgraded applications within Chocolate & Confectionery Fats, Edible Oils and Lipids for Care.

Research is mainly concentrated to the Group's largest business area, Oils & Fats, but also to Technical Products.

In addition to their close relations with customers, Karlshamns researchers are in regular and close contact with national and international authorities, research institutes, universities and colleges.

It is the Group's assessment that Karlshamns R&D operations are at the forefront of the oils and fats industry.

Karlshamns is also well prepared to meet any new requirements from national or international authorities with respect to health, safety and environmental issues; for products as well as for production plants.

All in all, 35 of the Group's employees take part in research and development activities. In 2002, the Group's costs for R&D amounted to SEK 38 million, or slightly more than 4 percent of the gross contribution of SEK 962 million.

### Staff warrants 1999

On 18 May 1999, the Annual General Meeting decided that the company would raise a loan of a nominal maximum total of SEK 2,825,000 through the issue of promissory notes containing a

maximum of 565,000 warrants to buy new shares. A total of 167,800 warrants were subscribed for out of the total of 546,400 offered. The price of one warrant was fixed at SEK 7.20. The subscription rate for the period 1 September 1999 to 31 August 2001 was set at SEK 101 per share, and for the period 1 September 2001 to 1 July 2004 at SEK 79 per share. Dilution on full conversion will be 0.8 percent. The loan notes bore an annual interest rate of three percent and became due for payment on 1 July 2000.

### Staff warrants 2002

In April 2002, the Annual General Meeting decided to offer all permanent employees in Sweden, the United Kingdom and the Netherlands the possibility to subscribe for convertible debt instruments for a maximum SEK 93,700,000. Of this total offer, SEK 74,625,000, or some 80 percent, were subscribed for. Dilution on full conversion will be 3.5 percent of share capital and voting rights. The convertible loan matures on 20 June 2007, should conversion not have taken place by then. Conversion rate was fixed at SEK 100, the conversion period runs from 10 May 2005 to 10 May 2007. The loan carries an annual rate of interest corresponding to STIBOR less 0.50 percentages.

### Risk management

The Group's management of various kinds of risk exposure is described under "Risk management and sensitivity analysis" on page 56.

### Board of Directors

The members of Karlshamns Board of Directors and their work is described under "Corporate Governance" on page 62.

### Proposed appropriation of profits

#### The Group

In accordance with the prepared balance sheet, the Group's unrestricted equity on 31 December 2002 amounted to TSEK 298,970. No allocations to restricted reserves are proposed.

#### Parent company

#### Available to the Annual General Meeting

Balance brought forward	SEK 87,066,057
Net profit for the year	<u>SEK 162,357,510</u>
	SEK 249,423,567

The Board of Directors propose that the profits be disposed of as follows: a dividend of SEK 3.50 per share to be distributed to shareholders.

Dividend	SEK 73,507,000
Balance to be carried forward	<u>SEK 175,916,567</u>
	SEK 249,423,567

# Consolidated income statement

Amounts in SEK 000's		2002	2001
Net sales	Notes 1,2	3,248,563	2,941,642
Changes in inventories		18,965	-551
Own work capitalised		6,939	8,843
Other operating income		10,631	14,949
<b>Total operating income</b>		<b>3,285,098</b>	<b>2,964,883</b>
Raw materials and supplies		-2,175,087	-1,891,658
Goods for resale		-98,087	-115,279
Other external expenses		-317,052	-320,405
Personnel costs	Note 3	-391,365	-355,423
Depreciation	Notes 8,9	-91,660	-86,387
Other operating expenses		-456	-170
<b>Total operating expenses</b>		<b>-3,073,707</b>	<b>-2,769,322</b>
<b>Operating profit</b>	Note 1	<b>211,391</b>	<b>195,561</b>
Financial income and expenses	Note 5	-11,361	-14,191
<b>Profit after financial items</b>		<b>200,030</b>	<b>181,370</b>
Tax	Note 7	-48,133	-48,730
<b>Profit for the year</b>		<b>151,897</b>	<b>132,640</b>

## Earnings per share

	2002	2001
Number of shares (000)	21,002	21,000
Outstanding warrants and convertible debt instruments (000)	912	168
Earnings per share before conversion and utilisation of warrants, SEK	7.23	6.32
Earnings per share after conversion and utilisation of warrants, SEK	6.93	6.27
Equity per share before conversion and utilisation of warrants, SEK	43.59	40.46
Proposed dividend per share, SEK	3.50	3.50

## Karlshamns profit development, broken down quarterly

(SEK million)	2002					2001				
	1	2	3	4	Full year	1	2	3	4	Full year
Net sales	786	790	800	873	3,249	726	699	700	817	2,942
Gross contribution	232	241	228	261	962	222	219	218	233	892
Operating profit	49	53	61	48	211	47	49	54	46	196
Financial items	-4	-5	-3	1	-11	-4	-4	-4	-2	-14
Profit after financial items	45	48	58	49	200	43	45	50	44	182

## Comments to the income statement

### Net sales

The Group's net sales increased by 10 percent to SEK 3,249 million (2,942), mainly due to higher raw material prices but also to a certain volume growth.

### Gross contribution

Gross contribution improved by 8 percent to SEK 962 million (892). Business area Oils & Fats accounts for SEK 43 million of this increase, business area Feed Materials for SEK 21 million.

### Operating profit

The Group's operating profit increased by SEK 15 million to SEK 211 million over last year. The increasingly competitive situation on the oils and fats market in Western Europe has necessitated immediate cost structure adjustments at our plants in Sweden, the UK and the Netherlands. Thanks to a more limited risk exposure, the Group has been in a position to handle all necessary restructuring costs on a current basis. Depreciation increased by SEK 6 million over last year, thus totalling SEK 92 million.

### Business Area Oils & Fats

(SEK million)	2002	2001	2000
Net sales	2,394	2,179	2,121
Gross contribution	694	651	525
Operating profit	146	143	6
Net operating assets	958	994	893
Return on net operating assets, %	14	16	1

The Oils & Fats business area's operating profit rose from SEK 143 million to SEK 146 million over 2001. Speciality fats volumes increased in 2002, although lower volumes of less advanced products kept total volumes on an unchanged level. A keener price competition has been countered by increasing cost efficiency and stronger focus on higher value-added products.

### Business Area Technical Products

(SEK million)	2002	2001	2000
Net sales	455	397	355
Gross contribution	148	142	138
Operating profit	36	36	39
Net operating assets	164	133	117
Return on net operating assets, %	25	29	33

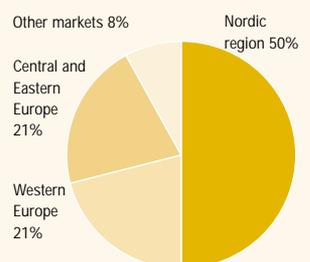
The Technical Products business area's operating profit is on a level with last year. Tefac achieved a profit improvement over 2001 despite shrinking glycerine margins. Capacity-increasing investments were completed in the latter part of the year. The general recession, mainly in the motor industry, had negative effects on Binol's sales and profits throughout the year.

### Business Area Feed Materials

(SEK million)	2002	2001	2000
Net sales	400	366	252
Gross contribution	120	99	96
Operating profit	29	17	18
Net operating assets	58	137	91
Return on net operating assets, %	28	15	26

Operating profit in business area Feed Materials totalled SEK 29 million (17). Throughout 2002, Feed Materials benefited from the market's pronounced focus on feed safety along with the feed industry's growing consumption of vegetable feed fats. Gross contribution for rapeseed extraction remained high all through 2002, which, in combination with growing volumes, contributed to the profit improvement. Capacity-expanding investments contributed, in their turn, to the volume growth achieved in the second half of 2002.

Karlshamns sales by geographic markets, 2002



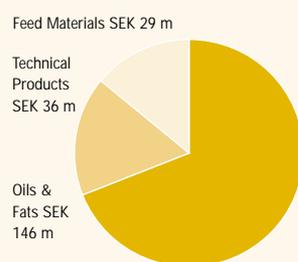
50% of Karlshamns sales are to countries outside the Nordic region.

Net sales by business area, 2002



Oils & Fats accounts for 74% of Karlshamns net sales.

Operating profit by business area, 2002



Karlshamns total operating profit amounted to SEK 211 m.

Net operating assets by business area, 2002



Total net operating assets amounted to SEK 1,180 m.

# Consolidated cash flow statement

Amounts in SEK 000s	2002	2001
<b>OPERATING ACTIVITIES</b>		
Operating profit	211,391	195,561
Depreciation	91,660	86,387
Changes in provisions	-533	568
Other items not affecting liquidity	<u>-1,930</u>	<u>-5,052</u>
	300,588	277,464
Interest received	5,617	5,999
Dividend received	602	254
Interest paid	-17,054	-23,259
Tax paid	<u>-22,835</u>	<u>-23,340</u>
	<b>266,918</b>	<b>237,118</b>
<b>Changes in working capital</b>		
Increase in inventories	-9,132	-65,547
Increase in accounts receivable - trade	-12,047	-53,253
Decrease in other current receivables	47,326	26,701
Increase in accounts payable - trade	28,673	20,833
Decrease in other current operating liabilities	-11,937	-28,580
<b>Cash flow from operating activities</b>	<b>309,801</b>	<b>137,272</b>
<b>INVESTMENT ACTIVITIES</b>		
Investments in tangible/intangible fixed assets	-110,621	-119,043
Tangible fixed assets sold	1,328	771
Sale of shares and participations	2,835	-
Investments in other financial fixed assets	-	718
<b>Cash flow from investment activities</b>	<b>-106,458</b>	<b>-117,554</b>
<b>FINANCING ACTIVITIES</b>		
New share issue	158	-
Loans raised	74,625	62,851
Liabilities repaid	-169,652	-
Increase/decrease in current financial liabilities	1,806	-4,787
Dividend paid	-73,507	-73,500
<b>Cash flow from financing activities</b>	<b>-166,570</b>	<b>-15,436</b>
<b>Cash flow for the year</b>	<b>36,773</b>	<b>4,282</b>
<b>Liquid funds, opening balance</b>	<b>70,440</b>	<b>63,549</b>
<b>Translation difference in liquid funds</b>	<b>-1,219</b>	<b>2,609</b>
<b>Liquid funds, closing balance</b>	<b>105,994</b>	<b>70,440</b>

## Comments to the cash flow statement

### Operating activities

Cash flow from operating activities improved in 2002, totalling SEK 310 million (137) or 14.75 SEK per share (6.54). Rising profits had positive effects on cash flow generated by operating activities. A decrease in working capital – mainly due to more efficient capital utilisation – further contributed to the year's cash flow improvement.

### Investment activities

Cash flow generated by investment activities over the year amounted to SEK -106 million (-118). The Group's direct investments in fixed assets totalled SEK 103 million (109), of which business area Oils & Fats accounted for SEK 61 million (73), Technical Products for SEK 32 million (9) and Feed Materials for SEK 10 million (27).

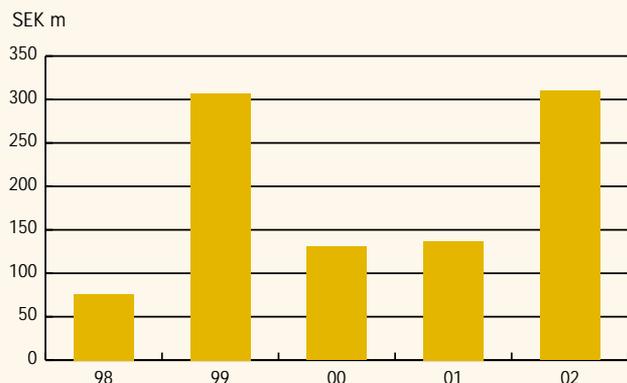
### Liquid funds

The Group's liquid funds at closing date amounted to SEK 106 million (70), of which SEK 96 million (68) held in cash and cash equivalents and SEK 10 million (2) in short-term deposits.

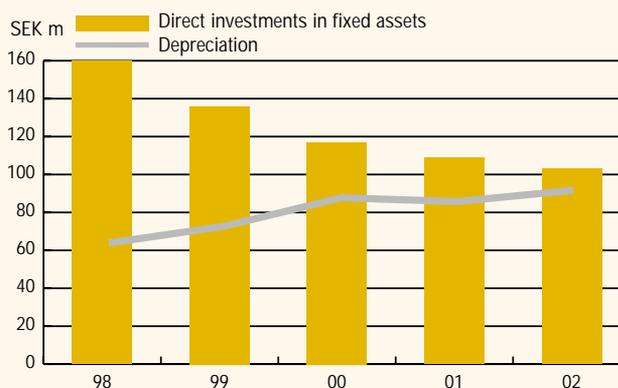
### Net borrowings

Net borrowings decreased by SEK 128 million in 2002, totalling SEK 154 million at year end. The Group's liabilities to credit institutions decreased by SEK 174 million, closing balance thus amounting to SEK 185 million. A convertible loan of SEK 75 million was issued in 2002, which contributed to the decrease in liabilities to credit institutions.

### Cash flow from operating activities



### Direct investments – Depreciation



### Changes in interest-bearing net liabilities

Amounts in SEK 000s	31.12.2001	Cash flow	Change in loans	Other changes	31.12.2002
Long-term receivables	5,562	-	-	-5,562	-
Current receivables	6,652	-	-	-6,138	514
Liquid funds	70,440	36,773	-	-1,219	105,994
Liabilities to credit institutions	-358,893	-	174,319	-	-184,574
Convertible loans	-	-	-74,625	-	-74,625
Other liabilities	-5,416	-	-	4,332	-1,084
<b>Interest-bearing net liabilities</b>	<b>-281,655</b>	<b>36,773</b>	<b>99,694</b>	<b>-8,587</b>	<b>-153,775</b>

# Consolidated balance sheet

Amounts in SEK 000s		31.12.2002	31.12.2001
<b>ASSETS</b>			
<b>Fixed assets</b>			
Intangible fixed assets			
Goodwill	Note 8	7,377	-
		7,377	-
Tangible fixed assets			
	Note 9		
Land and buildings		151,285	153,315
Plant and machinery		567,878	542,231
Equipment, tools, fixtures and fittings		12,638	15,751
Construction in progress		8,790	40,713
		740,591	752,010
Financial fixed assets			
Shares and participations	Notes 10, 21	432	861
Long-term receivables	Note 11	11,659	17,507
		12,091	18,368
<b>Total fixed assets</b>		<b>760,059</b>	<b>770,378</b>
<b>Current assets</b>			
Inventories	Note 12	439,534	433,143
Current receivables			
Accounts receivable – trade		430,135	421,886
Other receivables	Note 13	24,635	103,303
Prepaid expenses and accrued income		11,066	16,061
		465,836	541,250
Current investments			
Bonds and securities		9,521	1,866
Cash and bank balances		96,473	68,574
<b>Total current assets</b>		<b>1,011,364</b>	<b>1,044,833</b>
<b>TOTAL ASSETS</b>		<b>1,771,423</b>	<b>1,815,211</b>

## Comments to the balance sheet

### Assets and working capital

The Group's total assets at year end totalled SEK 1,771 million, a decrease of SEK 44 million from last year.

The Group's working capital at 31 December 2002 amounted to SEK 420 million (499). Working capital includes inventories totalling SEK 440 million at year end, an increase of SEK 7 million over 2001. Operating receivables decreased by SEK 69 million in 2002 – trade accounts receivable increased by SEK 8 million whereas other receivables decreased by SEK 77 million.

### Shareholders' equity

The Group's shareholders' equity increased by SEK 65 million in 2002, totalling SEK 915 at closing date.

The increase was due to the following factors:

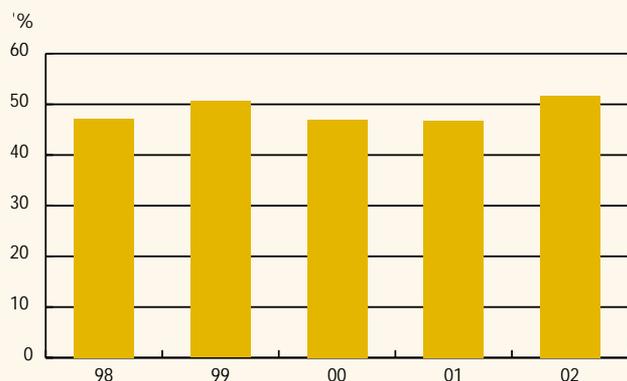
	SEK m
Profit for the year	152
Dividend	-74
Translation effects of foreign subsidiaries	-13
<b>Total</b>	<b>65</b>

### Key figures

The Group's equity/assets ratio at year end was 52 percent (47). Return on shareholders' equity as well as on net operating assets improved by 1 percent to 17 percent in 2002. Earnings per share (EPS) increased from SEK 6.32 to SEK 7.23. Shareholders' equity per share increased by SEK 3.13, thus totalling SEK 43.59 at closing date.

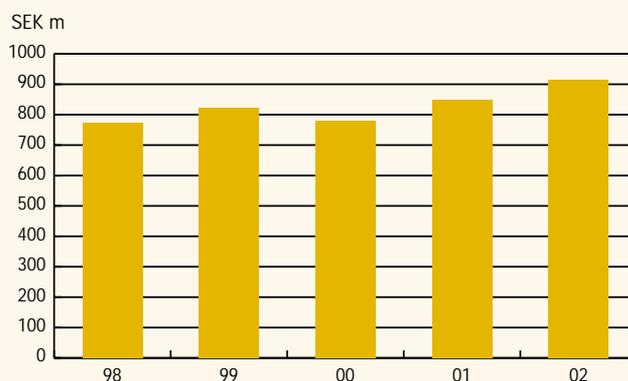
Amounts in SEK 000s		31.12.2002	31.12.2001
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>	Note 14		
Restricted equity			
Share capital		210,020	210,000
Restricted reserves		406,492	381,884
		616,512	591,884
Unrestricted equity			
Distributable reserves		147,074	125,051
Profit for the year		151,897	132,640
		298,970	257,691
<b>Total shareholders' equity</b>		<b>915,482</b>	<b>849,575</b>
<b>Provisions</b>			
Pensions and similar commitments		3,028	4,029
Deferred tax	Note 16	107,735	128,338
<b>Total provisions</b>		<b>110,763</b>	<b>132,367</b>
<b>Long-term liabilities</b>			
Liabilities to credit institutions	Note 17	184,574	358,893
Other long-term liabilities	Note 18	75,473	848
<b>Total long-term liabilities</b>		<b>260,047</b>	<b>359,741</b>
<b>Current liabilities</b>			
Accounts payable – trade		268,457	255,482
Other current liabilities	Note 19	44,826	28,118
Accrued expenses and prepaid income	Note 20	171,848	189,928
<b>Total current liabilities</b>		<b>485,131</b>	<b>473,528</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>1,771,423</b>	<b>1,815,211</b>
<b>Assets pledged</b>		None	None
<b>Contingent liabilities</b>	Note 22	34,378	25,501

### Equity/Assets ratio



The equity/assets ratio on closing date was 52%.

### Shareholders' equity



Shareholders' equity amounted to SEK 915 million on 31.12.2002.

# Parent Company income statement

Amounts in SEK 000s		2002	2001
Net sales	Notes 1,2	2,256,194	1,982,494
Changes in inventories		9,050	-882
Own work capitalised		6,939	8,843
Other operating income		9,028	16,396
<b>Total operating income</b>		<b>2,281,211</b>	<b>2,006,851</b>
Raw materials and supplies		-1,497,947	-1,302,785
Goods for resale		-81,172	-68,921
Other external expenses		-220,734	-210,112
Personnel costs	Note 3	-247,426	-236,610
Depreciation	Notes 8, 9	-58,820	-55,012
<b>Total operating expenses</b>		<b>-2,106,099</b>	<b>-1,873,440</b>
<b>Operating profit</b>	Note 1	<b>175,112</b>	<b>133,411</b>
Financial income and expenses	Note 5	22,130	35,063
<b>Profit after net financial items</b>		<b>197,242</b>	<b>168,474</b>
Appropriations	Note 6	26,101	-110,737
Tax	Note 7	-60,985	-10,978
<b>Profit for the year</b>		<b>162,358</b>	<b>46,759</b>

# Parent Company cash flow statement

Amounts in SEK 000s	2002	2001
<b>OPERATING ACTIVITIES</b>		
Operating profit	175,112	133,411
Depreciation	<u>58,820</u>	<u>55,012</u>
	233,932	188,423
Interest received	13,003	15,258
Dividend received	9,602	13,762
Interest paid	-22,222	-26,270
Tax paid	<u>-15,830</u>	<u>-18,078</u>
	<b>218,485</b>	<b>173,095</b>
<b>Changes in working capital</b>		
Increase in inventories	-2,117	-43,647
Increase in accounts receivable - trade	-25,840	-29,895
Decrease/increase in current receivables	19,670	-31,555
Decrease/increase in accounts payable - trade	-1,838	14,088
Decrease/increase in other current operating liabilities	<u>-3,243</u>	<u>34,322</u>
<b>Cash flow from operating activities</b>	<b>205,117</b>	<b>116,408</b>
<b>INVESTMENT ACTIVITIES</b>		
Investments in intangible and tangible fixed assets	-71,306	-88,107
Tangible fixed assets sold	1,328	771
Shares and participations sold	2,835	-
Decrease/increase in other financial fixed assets	4,873	-12,772
<b>Cash flow from investment activities</b>	<b>-62,270</b>	<b>-100,108</b>
<b>FINANCING ACTIVITIES</b>		
New share issue	158	-
Loans raised	74,858	52,397
Liabilities repaid	-154,031	-
Group contributions received	31,000	32,800
Dividend paid	<u>-73,507</u>	<u>-73,500</u>
<b>Cash flow from financing activities</b>	<b>-121,522</b>	<b>11,697</b>
<b>Cash flow for the year</b>	<b>21,325</b>	<b>27,997</b>
<b>Liquid funds, opening balance</b>	<b>46,886</b>	<b>18,889</b>
<b>Liquid funds, closing balance</b>	<b>68,211</b>	<b>46,886</b>

# Parent Company balance sheet

Amounts in SEK 000s		31.12.2002	31.12.2001
<b>ASSETS</b>			
<b>Fixed assets</b>			
Intangible fixed assets			
Goodwill	Note 8	7,377	-
		7,377	-
Tangible fixed assets			
	Note 9		
Land and buildings		127,707	126,908
Plant and machinery		320,938	296,875
Equipment, tools, fixtures and fittings		5,931	7,633
Construction in progress		8,789	40,713
		463,365	472,129
Financial fixed assets			
Shares and participations	Note 10, 21	285,111	277,490
Long-term receivables	Note 11	104,368	120,500
		389,479	397,990
<b>Total fixed assets</b>		<b>860,221</b>	<b>870,119</b>
<b>Current assets</b>			
Inventories	Note 12	306,040	303,923
Current receivables			
Accounts receivable – trade		297,143	271,303
Other receivables	Note 13	124,927	158,928
Prepaid expenses and accrued income		8,558	10,736
		430,628	440,967
Cash and bank balances		68,211	46,886
<b>Total current assets</b>		<b>804,879</b>	<b>791,776</b>
<b>TOTAL ASSETS</b>		<b>1,665,100</b>	<b>1,661,895</b>

Amounts in SEK 000s		31.12.2002	31.12.2001
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>	Note 14		
Restricted equity			
Share capital		210,020	210,000
Share premium reserve		138	–
Revaluation reserve		34,848	34,848
Restricted reserves		42,000	42,000
		287,006	286,848
Unrestricted equity			
Retained profits		87,066	113,814
Profit for the year		162,358	46,759
		249,424	160,573
<b>Total shareholders' equity</b>		536,430	447,421
<b>Untaxed reserves</b>	Note 15	239,488	265,589
<b>Long-term liabilities</b>			
Liabilities to credit institutions	Note 17	183,832	345,690
Other long-term liabilities	Note 18	83,287	8,770
<b>Total long-term liabilities</b>		267,119	354,460
<b>Current liabilities</b>			
Accounts payable - trade		158,097	172,480
Other current liabilities	Note 19	330,498	262,631
Accrued expenses and prepaid income	Note 20	133,468	159,314
<b>Total current liabilities</b>		622,063	594,425
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		1,665,100	1,661,895
<b>Assets pledged</b>		None	None
<b>Contingent liabilities</b>	Note 22	43,069	33,242

# Notes (amounts in SEK 000s unless otherwise stated)

## Accounting principles

The Annual Report and Consolidated Accounts have been prepared in line with the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendations and opinions. The accounting and valuation principles applied are in accordance with previous years. Adjustments have been made to recommendations issued by the Council and coming into force in 2002. This did not, however, necessitate any change of accounting principles.

## Consolidated accounts

### Subsidiaries

The consolidated accounts include Karlshamns AB and all companies in which the Parent Company holds, directly or indirectly, more than 50 percent of the voting rights.

### Acquisition accounting method

The consolidated accounts are prepared in line with the acquisition accounting method. In cases where the acquisition value of shares in acquired subsidiaries exceeds the subsidiary's shareholders' equity at the time of acquisition, the difference is assigned to the subsidiary's assets or goodwill. Subsidiaries are consolidated from the acquisition day to disposal day. All of the Group's internal transactions, intra-Group receivables and liabilities as well as internal profits are eliminated.

### Translation of the accounts of foreign subsidiaries

All foreign subsidiaries have been classified as independent business units. Hence, foreign subsidiaries' accounts have been translated to Swedish kronor using the current method whereby balance sheets are converted at the closing day rate, income statements at the average rate. Translation differences arising have been assigned directly to shareholders' equity. Whenever a foreign subsidiary is sold, the accumulated exchange rate differences are reported as part of the capital gain/loss.

Translation has been effected at the following rates of exchange:

Currency	Average rate		Closing day rate	
	2002	2001	31.12.2002	31.12.2001
USD	9.71	10.33	8.78	10.60
EUR	9.14	9.24	9.15	9.35
GBP	14.57	14.92	14.07	15.34

### Deferred tax

The Group reports deferred tax that is related to untaxed reserves and consolidation adjustments. Untaxed reserves and appropriations in individual companies are reversed in the consolidated accounts, by applying the actual tax rate for the country concerned. The calculated deferred tax is reported in the consolidated income statement as deferred tax. The accumulated deferred tax liability is reported in the consolidated balance sheet as deferred tax under "Provisions".

### Associated companies

Companies in which Karlshamns AB has a long-term shareholding corresponding to between 20 and 50 percent of the voting rights are accounted for as associated companies. The aggregate effect on profits of these associated companies is immaterial, and they are therefore accounted for in line with the acquisition cost method in the consolidated accounts.

## Valuation

### Revenue recognition

Sales are recorded upon shipment of products to customers in accordance with agreed terms of sale. Sales are reported net, exclusive of VAT, discounts and intra-Group sales.

### Financial leasing

There is only one single leasing object in the Group classified as financial leasing. This asset is accounted for as a tangible fixed asset, all future lease payments as a liability. All other lease agreements are classified as operating leases and are of only limited value.

**Research and development**

Research and development costs are expensed as incurred.

**Pension costs**

Pension costs are reported in accordance with applicable regulations in each respective country.

**Interest expenses**

Interest expenses are reported in the period to which they refer.

**Tangible and intangible fixed assets**

Tangible and intangible fixed assets are reported at their acquisition value, less accumulated depreciation according to plan. Depreciation is based on the estimated useful life. For goodwill, a depreciation period of 5 years is applied. For plant and machinery as well as for equipment, tools, fixtures and fittings, depreciation periods of between 3 and 15 years apply. For industrial buildings and research laboratories depreciation periods of 20 or 25 years apply; for office buildings 50 years. Where the carrying amount of an asset is greater than its estimated recoverable amount, such asset is written down immediately to its recoverable amount.

**Inventories**

Inventories are valued at the lower of acquisition cost and net realisable value, the acquisition value being determined by the FIFO (first in, first out) principle. The cost of finished goods and work in progress comprises raw material costs, direct labour, other direct costs and a reasonable part of overhead costs, based on normal production capacity but exclusive of interest expenses. The net realisable value is based on the estimated sales price under normal conditions, less production and marketing costs.

**Receivables**

Trade receivables are reported at individual, anticipated realisable value.

**Receivables and liabilities in foreign currencies**

Receivables and liabilities in foreign currencies are valued at the closing day rate. In cases where cur-

rencies have been hedged, the valid futures rate applies. Profits and losses on operating receivables and liabilities are reported net under operating profit/loss, whereas profits and losses on financial receivables and liabilities are reported as financial items.

**Futures contracts for raw materials and currencies**

Most futures contracts for raw materials and foreign currencies are signed in view of hedging the purchase prices on which actual sales contracts are based. Profits from closed positions are reported as gain/loss on an ongoing basis.

**Tax**

All taxes on net profits are reported in the income statement. Such taxes have been calculated on the basis of each individual country's tax rules, and consist of actual tax and deferred tax. Deferred tax is accounted for using the liability method to reflect the net tax effects of all temporary differences between the financial reporting and tax bases of assets and liabilities. The main part of such temporary differences arises from depreciation on tangible fixed assets, pension provisions and the carry-forward of unused tax losses. Deferred taxes have been calculated on the basis of each individual country's tax rates. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary tax differences may be utilised. In the parent company, deferred taxes on untaxed reserves are reported as part of untaxed reserves by reason of the connections between accounting regulations and fiscal legislation.

**Cash and cash equivalents**

In the cash flow statements, liquid funds comprise cash in hand, bank balances, current accounts and deposits held at call with banks.

### Note 1 – Net sales and operating profit, by business area

Business area	Group				Parent Company			
	2002	Net sales 2001	Operating profit 2002	Operating profit 2001	2002	Net sales 2001	Operating profit 2002	Operating profit 2001
Oils & Fats	2,394,322	2,178,662	145,911	142,352	1,856,528	1,616,431	145,711	116,605
Technical Products	454,575	397,075	36,079	36,403	-	-	-	-
Feed Materials	399,666	365,905	29,401	16,806	399,666	366,063	29,401	16,806
<b>Total</b>	<b>3,248,563</b>	<b>2,941,642</b>	<b>211,391</b>	<b>195,561</b>	<b>2,256,194</b>	<b>1,982,494</b>	<b>175,112</b>	<b>133,411</b>

### Note 2 – Net sales by geographic market

Geographic market	Group		Parent Company	
	2002	Net sales 2001	2002	Net sales 2001
The Nordic region	1,630,147	1,432,700	1,437,486	1,267,595
Western Europe	684,896	674,134	107,791	98,689
Central and Eastern Europe	681,934	597,683	556,836	486,416
Other markets	251,586	237,125	154,081	129,794
<b>Total</b>	<b>3,248,563</b>	<b>2,941,642</b>	<b>2,256,194</b>	<b>1,982,494</b>

### Note 3 – Salaries, remuneration and payroll overheads

	Group		Parent Company	
	2002	2001	2002	2001
Salaries and remuneration	258,513	239,163	158,040	148,582
Payroll overheads	118,012	111,217	80,474	80,963
(of which pension costs)	(43,718)	(41,425)	(28,114)	(32,253)

Of the Group's pension costs, SEK 7,433,000 (7,632,000) refers to Board, President and other senior executives.

#### Salaries and remuneration broken down by country and between Board members etc. and other employees:

	2002			2001		
	Board, President, other senior executives		Other employees	Board, President, other senior executives		Other employees
	Salaries and remuneration	Of which bonuses	Salaries and remuneration	Salaries and remuneration	Of which bonuses	Salaries and remuneration
Parent company in Sweden	13,895	553	144,145	12,703	984	135,879
Subsidiaries in Sweden	2,151	166	38,793	2,114	110	37,915
	16,046	719	182,938	14,817	1,094	173,794
Subsidiaries abroad						
The Netherlands	3,027	-	33,400	842	-	31,259
The UK	1,049	-	18,815	970	-	15,335
Lithuania	-	-	619	-	-	618
Malaysia	728	-	447	723	-	444
Poland	-	-	837	-	-	-
The Czech Republic	459	-	148	250	-	111
<b>Group total</b>	<b>21,309</b>	<b>719</b>	<b>237,204</b>	<b>17,602</b>	<b>1,094</b>	<b>221,561</b>

In line with the decision taken at the AGM, fees to Board members who are not employed by the Group amounted to SEK 900,000 (900,000), of which SEK 370,000 (300,000) to the Chairman. No other fees were paid.

The President, Jerker Hartwall, was paid a salary for the year 2002 of SEK 2,745,000 (2,527,000) as well as the free use of accommodation. Jerker Hartwall was also paid a bonus of SEK 350,000 (720,000). There are a total of 14 other senior executives, to whom were paid salaries and benefits amounting to SEK 11,747,000 (10,040,000) in 2002.

The President is entitled to retire, with a pension, from the age of 58, maintaining 54 percent of gross salary excluding benefits until 65, when normal pension rights apply. Of other senior executives, four are entitled to retire from the age of 60, maintaining 70 percent of gross salary excluding benefits until 65. Other senior executives have pension rights in accordance with applicable union agreements. Pension provisions have been made in the form of premium payments to insurance companies.

Termination of employment by the company for the President is 12 months, and 6 months if at his request. In the event that the company terminates his employment, the President is entitled to severance pay corresponding to one year's salary. Corresponding termination provisions apply for seven of the other senior executives, whereas termination conditions in accordance with applicable union agreements apply to all other senior executives.

Salary and other benefits to the President are decided by the parent company's Board of Directors. Salaries and benefits to other senior executives are handled and decided by the President together with the Chairman of the Board.

## Note 4 – Average number of employees

	2002			2001		
	No. of employees	Of whom men	Of whom women	No. of employees	Of whom men	Of whom women
Parent company in Sweden	475	372	103	477	376	101
Subsidiaries in Sweden	136	112	24	134	107	27
	611	484	127	611	483	128
Subsidiaries abroad						
The Netherlands	86	71	15	83	69	14
The United Kingdom	40	34	6	44	37	7
Lithuania	5	3	2	5	3	2
Malaysia	5	2	3	5	2	3
Poland	4	2	2	-	-	-
The Czech Republic	3	1	2	3	1	2
Total abroad	143	113	30	140	112	28
<b>Group total</b>	<b>754</b>	<b>597</b>	<b>157</b>	<b>751</b>	<b>595</b>	<b>156</b>

The average number of employees for 2001 has been adjusted to better reflect the actual number of employees.

## Note 5 – Financial items

	2002		Parent company	
	2002	Group 2001	2002	2001
Profit from shares in subsidiaries				
Dividend			9,000	13,500
Group contribution			22,700	31,000
Gain/loss on other shares and participations				
Gain on divestment of shares	2,407	-	2,407	-
Dividend	602	262	602	262
Gain/loss on receivables				
Interest income, subsidiaries (long-term)			9,174	11,598
Interest income, other	5,712	7,141	2,718	3,062
Gain/loss on liabilities				
Interest expense, subsidiaries			-7,603	-5,970
Interest expense, convertible loan	-1,580	-	-1,580	-
Interest expense, other	-18,502	-21,594	-15,288	-18,389
<b>Net financial items</b>	<b>-11,361</b>	<b>-14,191</b>	<b>22,130</b>	<b>35,063</b>

## Note 6 – Appropriations

	Parent Company	
	2002	2001
Change in depreciation in excess of plan,		
- buildings	3,724	3,446
- machinery and equipment, tools, fixtures and fittings	49,477	-103,700
Change in tax allocation reserve	-27,100	-10,483
<b>Total</b>	<b>26,101</b>	<b>-110,737</b>

## Note 7 – Tax

	Group		Parent company	
	2002	2001	2002	2001
Current tax	-66,173	-13,521	-60,304	-10,094
Current tax on previous years' profit	-	-5,152	-	-5,087
Deferred tax expense on temporary differences	20,603	-35,035	-	-
Translation differences	-708	-	-	-
Deferred tax income on temporary differences	-1,855	4,978	-681	4,203
<b>Total</b>	<b>-48,133</b>	<b>-48,730</b>	<b>- 60,985</b>	<b>-10,978</b>
<b>Difference between nominal and actual tax charge</b>				
Profit before tax	200,030	181,370	223,342	57,737
Nominal tax 28 percent	56,008	50,784	62,536	16,166
Tax effect of non tax expenses	2,050	3,813	1,088	3,528
Tax effect of tax-exempt income	-2,792	-4,741	-2,738	-8,521
Adjustment for previous years' tax	-	5,152	-	5,087
Adjustment for previous years' deferred tax	-6,805	-	-	-
Deferred tax asset on pensions	-43	-4,203	681	-4,203
Effect of foreign tax rates	383	-1,231	-	-
Tax on Group adjustments	1,298	-	-	-
Utilised but not reported losses carried forward	-1,542	-	-	-
Other	-424	-844	-582	-1,079
<b>Total</b>	<b>48,133</b>	<b>48,730</b>	<b>60,985</b>	<b>10,978</b>

## Note 8 – Goodwill

	Group		Parent company	
	2002	2001	2002	2001
Acquisition value, opening balance	-	-	-	-
Additions	7,700	-	7,700	-
<b>Accumulated acquisition value, closing balance</b>	<b>7,700</b>	<b>-</b>	<b>7,700</b>	<b>-</b>
Depreciation, opening balance	-	-	-	-
Depreciation charge of the year	323	-	323	-
<b>Accumulated depreciation, closing balance</b>	<b>323</b>	<b>-</b>	<b>323</b>	<b>-</b>
<b>Planned residual value, closing balance</b>	<b>7,377</b>	<b>-</b>	<b>7,377</b>	<b>-</b>

## Note 9 – Tangible fixed assets

Group	Land and buildings		2002	Plant and machinery		Equipment, tools, fixtures and fittings		Construction in progress	
	2002	2001		2001	2001	2002	2001	2002	2001
Acquisition value, opening balance	349,266	333,862	1,112,128	1,020,539	93,639	79,622	40,713	27,344	
Additions	4,356	7,092	77,380	55,005	5,075	10,608	8,726	36,306	
Disposals	-	-454	-11,854	-898	-1,528	-1,378	-1,328	-	
Reclassifications	3,558	5,094	35,119	13,886	644	3,957	-39,321	-22,937	
Translation differences	-2,378	3,672	-17,760	23,596	-1,207	830	-	-	
<b>Accumulated acquisition value, closing balance</b>	<b>354,802</b>	<b>349,266</b>	<b>1,195,013</b>	<b>1,112,128</b>	<b>96,623</b>	<b>93,639</b>	<b>8,790</b>	<b>40,713</b>	
Depreciation, opening balance	230,799	220,235	569,897	489,399	77,888	69,998	-	-	
Disposals	-	-	-6,710	-480	-1,434	-1,322	-	-	
Reclassifications	-	-	-803	-1,595	803	1,595	-	-	
Depreciation charge of the year	8,770	8,536	74,821	70,921	7,745	6,918	-	-	
Translation differences	-1,204	2,028	-10,070	11,652	-1,017	699	-	-	
<b>Accumulated acquisition value, closing balance</b>	<b>238,365</b>	<b>230,799</b>	<b>627,135</b>	<b>569,897</b>	<b>83,985</b>	<b>77,888</b>	<b>-</b>	<b>-</b>	
Write-ups, opening balance	34,848	34,848	-	-	-	-	-	-	
<b>Accumulated write-ups, closing balance</b>	<b>34,848</b>	<b>34,848</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Planned residual value, closing balance</b>	<b>151,285</b>	<b>153,315</b>	<b>567,878</b>	<b>542,231</b>	<b>12,638</b>	<b>15,751</b>	<b>8,790</b>	<b>40,713</b>	
<b>Tax assessment values</b>									
Swedish companies									
Buildings	100,282	99,144							
Land	44,146	43,853							
<b>Total</b>	<b>144,428</b>	<b>142,997</b>							
Book value of corresponding assets	130,129	129,468							
<b>Parent Company</b>									
	Land and buildings		2002	Plant and machinery		Equipment, tools, fixtures and fittings		Construction in progress	
	2002	2001		2001	2001	2002	2001	2002	2001
Acquisition value, opening balance	278,498	267,207	424,406	372,217	26,586	18,616	40,713	27,344	
Additions	4,255	6,651	35,669	36,424	2,412	6,512	8,725	36,306	
Disposals	-	-454	-	-621	-	-	-1,328	-	
Reclassifications	3,558	5,094	35,763	16,386	-	1,458	-39,321	-22,937	
<b>Accumulated acquisition value, closing balance</b>	<b>286,311</b>	<b>278,498</b>	<b>495,838</b>	<b>424,406</b>	<b>28,998</b>	<b>26,586</b>	<b>8,789</b>	<b>40,713</b>	
Depreciation, opening balance	186,438	179,696	127,531	83,373	18,953	15,145	-	-	
Disposals	-	-	-	-304	-	-	-	-	
Depreciation charge of the year	7,014	6,742	47,369	44,462	4,114	3,808	-	-	
<b>Accumulated depreciation, closing value</b>	<b>193,452</b>	<b>186,438</b>	<b>174,900</b>	<b>127,531</b>	<b>23,067</b>	<b>18,953</b>	<b>-</b>	<b>-</b>	
Write-ups, opening balance	34,848	34,848	-	-	-	-	-	-	
<b>Accumulated write-ups, closing value</b>	<b>34,848</b>	<b>34,848</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Planned residual value, closing balance</b>	<b>127,707</b>	<b>126,908</b>	<b>320,938</b>	<b>296,875</b>	<b>5,931</b>	<b>7,633</b>	<b>8,789</b>	<b>40,713</b>	
<b>Tax assessment values</b>									
Buildings									
	97,228	96,381							
Land	43,061	43,046							
<b>Total</b>	<b>140,289</b>	<b>139,427</b>							
Book value of corresponding assets	127,707	126,908							

## Note 10 – Shares and participations

	2002	Group 2001	Parent company 2002	Parent company 2001
<b>Shares in subsidiaries</b>				
Acquisition value, opening balance			230,545	230,545
Additions			8,050	-
<b>Accumulated acquisition value, closing balance</b>			<b>238,595</b>	230,545
Write-ups, opening balance			94,878	94,878
<b>Accumulated write-ups, closing balance</b>			<b>94,878</b>	94,878
Depreciation, opening balance			48,793	48,793
<b>Accumulated depreciation, closing balance</b>			<b>48,793</b>	48,793
<b>Planned residual value, closing balance</b>			<b>284,680</b>	276,630
<b>Shares in associated companies</b>				
Acquisition value, opening balance	711	711	711	711
Disposals	-429	-	-429	-
<b>Accumulated acquisition value, closing balance</b>	<b>282</b>	711	<b>282</b>	711
<b>Planned residual value, closing balance</b>	<b>282</b>	711	<b>282</b>	711
<b>Shares in other companies</b>				
Acquisition value, opening balance	150	150	149	149
Additions	-	-	-	-
<b>Accumulated acquisition value, closing balance</b>	<b>150</b>	150	<b>149</b>	149
<b>Planned residual value, closing balance</b>	<b>150</b>	150	<b>149</b>	149
<b>Total</b>	<b>432</b>	861	<b>285,111</b>	277,490

See Note 21 for shareholding specifications.

## Note 11 – Long-term receivables

	2002	Group 2001	Parent company 2002	Parent company 2001
<b>Receivables from subsidiaries</b>				
Acquisition value, opening balance			176,260	156,896
Loans			432	9,866
Repayment			-9,101	-
Reclassification			-	-
Translation difference			-4,253	9,498
<b>Accumulated acquisition value, closing balance</b>			<b>163,338</b>	176,260
Write-downs, opening balance			65,935	65,935
<b>Accumulated write-downs, closing balance</b>			<b>65,935</b>	65,935
<b>Book value, receivables from subsidiaries</b>			<b>97,403</b>	110,325
<b>Other receivables</b>				
<b>Interest-bearing</b>				
Acquisition value, opening balance	5,562	11,117	2,529	9,120
Refund from KP and Alecta	-5,562	-5,555	-2,529	-6,591
	0	5,562	0	2,529
<b>Non interest-bearing</b>				
Acquisition value, opening balance	11,945	7,577	7,646	3,443
Deferred tax asset	-1,855	4,978	-681	4,203
Repayment	-	-610	-	-
Loans	1,569	-	-	-
	11,659	11,945	6,965	7,646
<b>Book value, other receivables</b>	<b>11,659</b>	17,507	<b>6,965</b>	10,175
<b>Total long-term receivables</b>	<b>11,659</b>	17,507	<b>104,368</b>	120,500

## Note 12 – Inventories

	2002	Group 2001	Parent company	
			2002	2001
Raw materials and supplies	308,323	322,891	227,783	234,716
Work in progress	53,298	40,483	46,052	33,036
Finished goods and goods for resale	77,913	69,769	32,205	36,171
<b>Total</b>	<b>439,534</b>	<b>433,143</b>	<b>306,040</b>	<b>303,923</b>

## Note 13 – Other receivables

	2002	Group 2001	Parent company	
			2002	2001
<b>Interest-bearing</b>				
Refund from KP and Alecta	514	6,652	-	5,639
<b>Non interest-bearing</b>				
Receivable from subsidiaries			103,890	82,598
Current tax assets	-	29,865	-	32,162
Other receivables	24,121	66,786	21,037	38,529
	24,121	96,651	124,927	153,289
<b>Total</b>	<b>24,635</b>	<b>103,303</b>	<b>124,927</b>	<b>158,928</b>

## Note 14 – Shareholders' equity

Group	Share capital	Restricted reserves	Non-restricted equity	Total
<b>Balance sheet 31.12.2001</b>	<b>210,000</b>	<b>381,884</b>	<b>257,691</b>	<b>849,575</b>
New share issue	20	138		158
Dividend			-73,507	-73,507
Transfer between restricted and non-restricted equity		24,470	-24,470	0
Translation differences			-12,641	-12,641
Profit for the year			151,897	151,897
<b>Balance sheet 31.12.2002</b>	<b>210,020</b>	<b>406,492</b>	<b>298,970</b>	<b>915,482</b>

Parent company	Share capital	Share premium reserve	Revaluation reserve	Statutory reserve	Non- restricted equity	Total
<b>Balance sheet 31.12.2001</b>	<b>210,000</b>	<b>-</b>	<b>34,848</b>	<b>42,000</b>	<b>160,573</b>	<b>447,421</b>
New share issue	20	138				158
Dividend					-73,507	-73,507
Profit for the year					162,358	162,358
<b>Balance sheet 31.12.2002</b>	<b>210,020</b>	<b>138</b>	<b>34,848</b>	<b>42,000</b>	<b>249,424</b>	<b>536,430</b>

The share capital consists of 21,002,000 shares at a nominal value of SEK 10 each. All shares are fully paid up.

<b>Total issued shares at 31.12.2001</b>	<b>21,000,000</b>
Utilised option rights	2,000
<b>Total issued shares at 31.12.2002</b>	<b>21,002,000</b>

## Note 15 – Untaxed reserves

	Parent company	
	2002	2001
Depreciation in excess of plan		
- buildings	25,339	29,063
- machinery and equipment; tools, fixtures and fittings	54,223	103,700
Tax allocation reserve	159,926	132,826
<b>Total</b>	<b>239,488</b>	<b>265,589</b>

## Note 16 – Deferred tax

	Group		Parent company	
	2002	2001	2002	2001
Temporary differences				
Deferred tax asset				
Tax losses carried forward	975	2,872	-	-
Pensions	7,096	7,004	6,373	7,004
Other	592	642	592	642
<b>Total</b>	<b>8,663</b>	<b>10,518</b>	<b>6,965</b>	<b>7,646</b>
Deferred tax liability				
Untaxed reserves	87,633	91,762	-	-
Consolidation adjustments	-1,732	5,706	-	-
Machinery and equipment	21,834	30,870	-	-
<b>Total</b>	<b>107,735</b>	<b>128,338</b>	<b>-</b>	<b>-</b>

The deferred tax asset is recorded as a Long-term receivable, see Note 11.

## Note 17 – Liabilities to credit institutions

	Group		Parent company	
	2002	2001	2002	2001
Interest-bearing				
Borrowings in foreign currency	128,086	135,174	128,086	135,174
Credit market loans	56,488	223,719	55,746	210,516
<b>Total</b>	<b>184,574</b>	<b>358,893</b>	<b>183,832</b>	<b>345,690</b>
Of which falling due after five years	0	0	0	0

## Note 18 – Other long-term liabilities

	Group		Parent company	
	2002	2001	2002	2001
Interest-bearing				
Liabilities to subsidiaries			3,928	4,036
Convertible loans	74,625	-	74,625	-
Other long-term liabilities	848	848	-	-
	<b>75,473</b>	<b>848</b>	<b>78,553</b>	<b>4,036</b>
Non interest-bearing				
Liabilities to subsidiaries			3,886	3,886
Other long-term liabilities	-	-	848	848
	<b>-</b>	<b>-</b>	<b>4,734</b>	<b>4,734</b>
<b>Total</b>	<b>75,473</b>	<b>848</b>	<b>83,287</b>	<b>8,770</b>
Of which falling due after five years	0	0	0	0

More detailed information about the convertible loans provided in the Directors Report, page 33.

## Note 19 – Other current liabilities

	Group		Parent company	
	2002	2001	2002	2001
Interest-bearing				
Liabilities to subsidiaries			43,600	-
Other liabilities	236	4,568	-	-
	<b>236</b>	<b>4,568</b>	<b>43,600</b>	<b>-</b>
Non interest-bearing				
Tax liabilities	13,536	-	18,048	5,736
Liabilities to subsidiaries			243,060	242,247
Other liabilities	31,054	23,550	25,790	14,648
	<b>44,590</b>	<b>23,550</b>	<b>286,898</b>	<b>262,631</b>
<b>Total</b>	<b>44,826</b>	<b>28,118</b>	<b>330,498</b>	<b>262,631</b>

## Note 20 – Accrued expenses and prepaid income

	Group		Parent company	
	2002	2001	2002	2001
<b>Non interest-bearing</b>				
Accrued salary costs	44,336	36,140	27,922	26,113
Accrued payroll overheads	19,930	19,748	14,677	13,624
Accrued pension costs	21,572	17,956	13,451	17,956
Customs duties	50,882	85,718	50,202	85,536
Others	35,128	30,366	27,216	16,085
<b>Total</b>	<b>171,848</b>	<b>189,928</b>	<b>133,468</b>	<b>159,314</b>

## Note 21 – Specification of shares and participations

### PARENT COMPANY'S SHARES IN SUBSIDIARIES

	Corp. reg. no.	Registered office	No. of shares	Share of equity, %	Book value
Karlshamns Sweden AB	556377-1574	Karlshamn	1,000	100	144,778
Tefac AB	556283-5214	Karlshamn	1,000	100	40,050
Binol AB	556111-3472	Karlshamn	20,000	100	3,000
Karlshamns Crushing & Feed AB	556026-0811	Karlshamn	81,000	100	9,238
Belico Holding AB	556537-0904	Karlshamn	9,000	100	750
Karlshamns Lipid Specialities AB	556283-5156	Karlshamn	20,000	100	3,040
Gnikiv East Holding AB	556379-1598	Karlshamn	1,000	100	100
Karlshamns Baltic Holding AB	556381-8664	Karlshamn	1,000	100	100
UAB Karlshamns Baltic, Lithuania		Vilnius	254	100	-
Karlshamns spol. s.r.o., Czech Republic		Prague	-	100	-
Karlshamns Polska Sp.z o.o., Poland		Warsaw	100	100	-
Lipex AB	556345-4585	Karlshamn	1,000	100	100
Filium AB	556305-9426	Karlshamn	20,000	100	230
Binol Vegetabiliska Oljor AB	556345-4577	Karlshamn	2,000	100	200
Karlshamns Re AG, Switzerland		Zug	1,090	100	8,050
Karlshamns BV, the Netherlands		Zaandijk	500	100	2,145
Karlshamns UK Holdings Plc., United Kingdom		Hull	4,848,499	100	69,960
Karlshamns International Plc., United Kingdom		Hull	50,000	100	-
Chambers & Fergus Ltd, United Kingdom		Hull	900,000	100	-
Karlshamns Ltd, United Kingdom		Hull	1,500,000	100	-
Karlshamns (M) Sdn. Bhd., Malaysia		Kuala Lumpur	1,500,000	100	2,806
Karlshamns Far East Sdn. Bhd., Malaysia		Kuala Lumpur	500,000	100	133
Karlshamns Specialty Fats Sdn. Bhd., Malaysia		Kuala Lumpur	2	100	0
<b>Total</b>					<b>284,680</b>

### GROUP'S AND PARENT COMPANY'S SHARES AND PARTICIPATIONS IN ASSOCIATED COMPANIES

	Corp. reg. no.	Registered office	No. of shares	Share of equity, %	Book value	Group's share of operating profit/loss 2002	Group's share of equity 2002
<b>Foreign</b>							
Akoleo S.A., Switzerland		Geneva	60	20	282	511	2,609
<b>Total</b>					<b>282</b>	<b>511</b>	<b>2,609</b>

### GROUP'S AND PARENT COMPANY'S SHARES AND PARTICIPATIONS IN OTHER COMPANIES

	Corp. reg. no.	Registered office	No. of shares	Share of equity, %	Book value
Svensk Raps AB	556220-7406	Malmö	300	10.0	59
Elektronikcentrum i Svängsta AB	556254-0905	Svängsta	1,609	8.7	90
Shares in associations and minor holdings			5	0	1
<b>Total</b>					<b>150</b>

## Note 22 – Contingent liabilities

	Group		Parent company	
	2002	2001	2002	2001
Guarantees				
On behalf of subsidiaries	-	-	35,179	25,055
Other	34,378	25,501	7,890	8,187
<b>Total</b>	<b>34,378</b>	<b>25,501</b>	<b>43,069</b>	<b>33,242</b>

## Note 23 – Auditors' fees

	Group		Parent company	
	2002	2001	2002	2001
<b>Öhrlings PricewaterhouseCoopers</b>				
Audit assignments	1,492	1,221	600	445
Other assignments	944	8,447	644	8,362
<b>Other auditors</b>				
Audit assignments	0	103		
Other assignments	0	50		

Audit assignments refer to the audit of the annual report, the accounting records and the administration by the Board of Directors and the President. Audit assignments also include any other responsibility of the company's auditor, along with advisory or other professional services brought about by observations made in the framework of such audit or responsibilities. All other activities are classified as "Other assignments".

## Note 24 – Inter-company transactions

Inter-company transactions are priced in accordance with current market conditions. The parent company's sales to other Group companies amount to 9 percent of net sales, whereas purchases from Group companies amount to 10 percent of operating costs.

Karlshamn, 12 March 2003

Melker Schörling  
Chairman of the Board

Clas Eriksson

Håkan Hellmo

Mikael Ek Dahl

Gösta Wiking

Irene Friberg-Johansson

Leif Håkansson

Jerker Hartwall  
President

Our audit report was submitted on 12 March 2003  
Öhrlings PricewaterhouseCoopers AB

Åke Christiansson  
Auktoriserad revisor  
(Authorized public accountant)

# Audit report

To the general meeting of the shareholders of  
Karlshamns AB (publ)  
Corporate identity number 556478-1796

We have audited the annual accounts, the consolidated financial statements, the accounts and the administration of the Board of Directors and the President of Karlshamns AB for the year 2002. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual accounts, the consolidated financial statements and the administration, based on our audit.

The audit was conducted in accordance with Generally Accepted Auditing Standards in Sweden. This means that the audit was planned and executed to obtain reasonable assurance that the annual accounts and consolidated financial statements are free of material misstatement. An audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the annual accounts and

consolidated financial statements. As a basis for our opinion concerning discharge of liability, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any Board Member or the President. We also examined if any Board Member or the President has, in any other way, acted in contravention of the Swedish Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act, and thereby give a true and fair view of the Company's and the Group's results and financial position in accordance with generally accepted accounting principles in Sweden.

We recommend to the Annual General Meeting that the income statements and balance sheets for the parent company and Group be adopted, and that the profit for the parent company be dealt with in accordance with the proposal in the Directors report and that the Board of Directors and the President be discharged from liability for the financial year.

Karlshamn, 12 March 2003  
Öhrlings PricewaterhouseCoopers AB

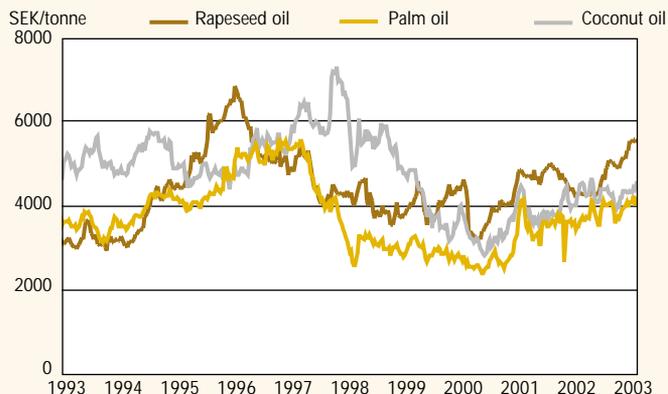
Åke Christiansson  
Auktoriserad revisor  
(Authorized public accountant)

Price development cocoa butter 1990-2002



Cocoa butter prices rose considerably in early 2002, to level off in May – September. A new price rally followed towards the end of the year.

Price development rapeseed, palm and coconut oil 1993-2002



Raw material prices increased in the second half of 2002.

# Risk management and sensitivity analysis

Due to its international character Karlshamns is exposed to a number of different operational risks. Business contracts involve counterparty risks and credit risks, while other risks are closely linked to the development of raw material prices. There are also a number of financial risks, such as currency and interest rate risks.

All risk management is governed by established policies and routines.

Karlshamns Credit Policy contains guidelines for how to handle credit and contract risks. The Raw Material Sourcing Policy contains risk limits for the Group's raw material trading, whereas the Financial Policy specifies how risks ensuing from currency exposure, interest rates and cash management are to be managed.

Karlshamns risk management is coordinated and handled centrally for the whole Group, the total risk then hedged on the international insurance market.

Karlshamns own Risk Manager has a global responsibility for the identification, follow-up and management of all risks arising from the Group's operations.

## Price risks for raw materials

Raw material sourcing is handled by a global purchasing function that monitors and controls the Group's raw material exposure around the clock. Karlshamns raw material costs are around three-quarters of sales. Since customer prices for most of Karlshamns products are set according to the prevailing world market price for the raw materials plus a gross contribution that is exposed to competition, results are only marginally affected by changes in raw material prices. The effects are considerably larger on total sales and working capital.

Raw material prices fluctuate considerably, and it is Karlshamns policy not to speculate in such price movements. Another top priority for raw material sourcing is therefore also to continuously monitor and manage the Group's raw material exposure, to limit the effects of fluctuating raw material prices on Karlshamns profit.

To simplify raw material sourcing the staff may, however, take limited risks in raw material prices within the framework of the trading policy issued by the Board.

A considerable part of the Group's raw materials are purchased in South East Asia, where there are extended lead-times between purchase and sale. Purchases of raw materials and sales of processed materials are hedged by means of standardised raw material contracts, on commodity exchanges or via brokers. When raw materials are purchased, the same quantity is sold on the futures market to minimise the impact of price fluctuations on results. These futures are then gradually closed (i.e., bought back) as sales continue on the basis of the current world market price. The more exotic raw materials, such as shea nuts, are not traded on commodity exchanges and are therefore considerably more difficult to hedge.

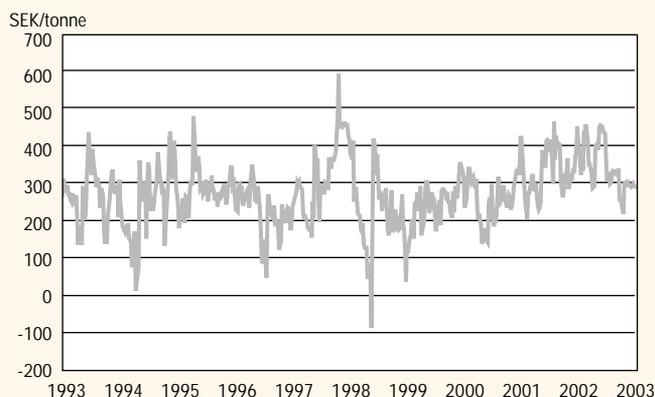
## Cocoa butter prices

When cocoa beans are crushed, cocoa powder and cocoa butter are obtained. Cocoa butter is an important ingredient in chocolate production. The price of cocoa butter is mainly affected by the price of cocoa beans, but also by the balance in demand for cocoa powder and cocoa butter. Karlshamns CBE fats constitute an alternative to cocoa butter, but even so their current pricing is based on the competitive situation on the chocolate and confectionery market. Historically, contribution margins for CBE fats were largely affected by cocoa butter prices as these had only marginal effects on prices of the raw material used in CBE (palm and shea). High cocoa butter prices do, however, provide a strong incentive for chocolate producers to replace cocoa butter by the cheaper CBE alternative.

## Gross contribution, rapeseed

Gross contribution is a way of measuring the difference between the sales price Karlshamns may charge for a processed oil, and the

## Gross contribution, rapeseed



Gross contribution decreased in the first half of 2002, to increase again in the second half of the year.

purchase price paid for the raw materials used in the product. Gross contribution from the extraction of rapeseed oil and rapeseed meal varies considerably over time, with direct effects on profitability in business area Feed Materials.

By selling crude rapeseed oil and rapeseed meal on the futures market when rapeseed is purchased, price risks are eliminated at the same time as gross contribution is hedged. Business area Feed Materials hedges all purchases of rapeseed as well as all sales of feed meal and rapeseed oil via the Group's global function for raw material sourcing.

## Currency and interest rate risks

Changes in exchange rates affect Karlshamns in different ways.

- Commercial flows that generate transactions in different currencies are exposed to transaction risks.
- The results of foreign subsidiaries are affected by exchange rate fluctuations when converted to SEK.
- The Group's equity is affected when the equity of foreign subsidiaries is converted to SEK.

A significant part of the Group's sales and purchases are in foreign currencies. It is Karlshamns policy to hedge all sales and raw material contracts in the company's base currency. Gross contribution for each sales contract is thus hedged in the selling company's domestic currency.

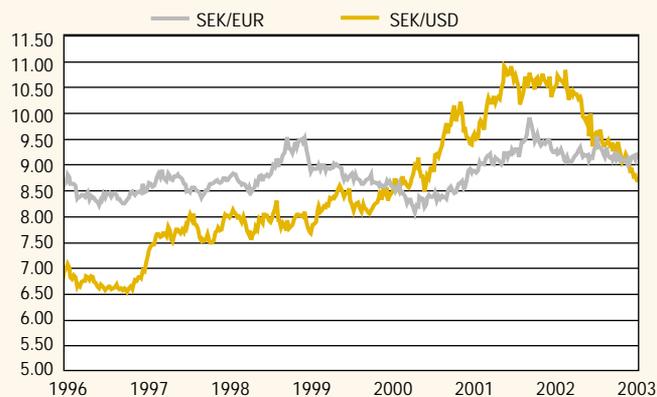
The global treasury function handles the Group's total currency exposure - commercial as well as financial flows. The scope of the Group's currency hedging is established by the Board. Foreign subsidiaries' equity is relatively low and therefore not hedged.

Karlshamns Swedish production unit competes mainly with companies having Euro as their base currency. Consequently, Karlshamns profitability is to a large extent dependent on the exchange rate SEK/EUR.

The development of exchange rates in 2002 was mainly characterised by a considerably stronger Swedish currency against the US dollar.

When the Swedish currency weakens against the Euro, or when the Euro falls in relation to the US dollar, this has positive effects on earnings. Changes in exchange rates have a delayed

## Exchange rate trends, 1996-2002



When the SEK weakens against the Euro and the US dollar, this has positive effects on earnings.

effect on profits, however, and it usually takes some six months for results to materialise. Should Sweden join the EMU this would have only marginal effects on earnings, as prices are already transparent for the majority of customers.

The Group's net borrowings amount to SEK 154 million, with an average fixed interest term of approximately 6 months.

Currency risk management, cash management and borrowing are handled centrally, by the parent company's treasury operations.

## Counterparty and credit risks

By counterparty and credit risks we mean the risk of the Group suffering financial losses due to a counterparty failing to fulfil his contractual obligations.

Slightly more than one quarter of the Group's sales are to countries where commercial and political risks are higher than on the Nordic and Western European markets.

Customer relations are handled by each respective business unit. As a consequence, counterparty and credit risks are handled on business unit level, but are continuously followed up by the global treasury function.

## Other risks

Karlshamns risk management for damage is handled centrally for the whole Group, to achieve synergies in the form of lower insurance premiums and a uniform insurance cover for all of the Group's production units.

Risk factors	Change	Impact on Group's		
		Profit	Sales	Working capital
Raw material prices (hedged)	+/- 10%	0	+/-7%	+/-8%
Exchange rates				
SEK/EUR	+/- 10%	+/- SEK 30 m	-	-
SEK/USD	+/- 10%	+/- SEK 5 m	-	-
Gross contribution				
Rapeseed	+/- 25 SEK/tonne	+/- SEK 5 m	-	-

# The Karlshamns Share

Karlshamns shares have been listed on the Stockholm Stock Exchange since 1997. In 2002 a total of 4,119,479 Karlshamns shares were traded (5,018,493), representing a total value of SEK 323,950,816 (338,799,296). The turnover rate was 19.6 percent, with an average 16,478 shares a day being traded (20,000). At year end the share price was SEK 89.00 (80.50), which gave Karlshamns a market value of SEK 1,870 million (1,690) - an increase of 11 percent over last year. The lowest price paid in 2002 was SEK 68, the highest price paid was SEK 99.

## Share capital

Karlshamns nominal share capital amounts to SEK 210,020,000 and consists of 21,002,000 shares, each with a nominal value of SEK 10. Each share carries equal rights to participate in the company's assets

and profits. Each share also entitles the holder to one vote and, at the Annual General Meeting, each person entitled to vote may vote his/her entire shareholding, and shares held by proxy, without limitation to the number of votes.

## Investors' relations

It is the ambition of Karlshamns management to continuously increase the market's knowledge of, and understanding for, Karlshamns operations. All of Karlshamns press releases are distributed via Waymaker, and are also available on [www.karlshamns.com](http://www.karlshamns.com). Members of Group Management may be contacted via phone +46 454 820 00, fax +46 454 828 20 or e-mail [info@karlshamns.se](mailto:info@karlshamns.se).

## Dividend proposal

The Karlshamns Board proposes that a dividend of

## Division of shareholding 31 December 2002

Number of shares	Number of share-holders	Share of all share-holders, %	Share of share capital and voting rights, %
1 - 500	4,335	71.79	4.21
501 - 1,000	934	15.48	3.90
1,001 - 2,000	389	6.45	3.18
2,001 - 5,000	218	3.61	3.58
5,001 - 10,000	73	1.21	2.71
10,001 - 20,000	30	0.50	2.02
20,001 - 50,000	32	0.53	4.99
50,001 - 100,000	7	0.17	2.40
100,001 -	16	0.26	73.01
<b>Total</b>	<b>6,034</b>	<b>100.00</b>	<b>100.00</b>

## Major shareholders 31 December 2002

	Number of shares	Share of share capital and voting rights, %
Melker Schörling AB	6,512,823	31.0%
Lantmännen Invest AB	4,454,245	21.2%
AMF Pension Fondförvalt AB	1,035,000	4.9%
AMF Pensionsförsäkring AB	738,600	3.5%
KF Pension & Försäkring	666,600	3.2%
Livförsäkringsbolaget Skandia	489,011	2.3%
Andra AP-fonden	328,835	1.6%
CF Odey European Trust	328,600	1.6%
Småbolagsfonden Sverige, Robur	221,400	1.1%
Försäkringsbolagets pensionsgaranti	183,400	0.8%
Alecta	167,742	0.8%
Others	5,875,744	28.0%
	<b>21,002,000</b>	<b>100.0%</b>

## Data per share

	1996	1997	1998	1999	2000	2001	2002
Number of shares (000s)	14,000	21,000	21,000	21,000	21,000	21,000	<b>21,002</b>
Outstanding warrants (000s)	-	-	-	168	168	168	<b>912</b>
Number of shareholders	-	4,686	4,971	5,203	4,964	5,510	<b>6,034</b>
Share price at year end, SEK	-	124.00	60.00	70.50	67.00	80.50	<b>89.00</b>
Dividend, SEK	10.50	3.50	3.50	3.50	3.50	3.50	<b>3.50<sup>1)</sup></b>
Yield, %	-	2.8	5.8	5.0	5.2	4.3	<b>3.9</b>
Dividend as % of year's profit after tax, %	88.6	40.3	51.5	59.9	258.8	55.4	<b>55.4<sup>1)</sup></b>
EPS before conversion and utilisation of warrants, SEK	11.84	8.68	6.80	5.84	1.35	6.32	<b>7.23</b>
EPS after conversion and utilisation of warrants, SEK	11.84	8.68	6.80	5.80	1.34	6.27	<b>6.93</b>
Shareholders' equity per share before conversion and utilisation of warrants, SEK	45.96	33.10	36.77	39.14	37.20	40.46	<b>43.59</b>
P/E ratio after tax, SEK	-	14.3	8.8	12.1	49.6	12.7	<b>12.3</b>
Share price/Equity	-	3.7	1.6	1.8	1.8	2.0	<b>2.0</b>

1) Proposed dividend.  
For definitions, see page 61.

SEK 3.50 per share be paid for the 2002 financial year. Based on the market price for the share at year end, the proposed dividend is the yield equivalent of 4.0 percent.

### Staff warrants 1999

Following the AGM's decision on 18 May 1999 the company raised a subordinated loan of a nominal maximum SEK 2,825,000 through the issue of promissory notes of no more than 565,000 warrants for the subscription of new shares. Employees subscribed to 167,800 of the total 546,400 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 will be 0.8 percent. The subordinated loan carried an annual interest rate of 3 percent and matured on 1 July 2000.

### Staff warrants 2002

In April 2002, the Annual General Meeting decided to offer all permanent employees in Sweden, the United Kingdom and the Netherlands the possibility to subscribe for convertible debt instruments for a maximum SEK 93,700,000. Of this total offer, SEK 74,625,000, or some 80 percent, were subscribed for. Dilution on full conversion will be around 3.5 percent of share capital and voting rights. The convertible loan matures on 20 June 2007, should conversion not have taken place by then. Conversion rate was fixed at SEK 100, the conversion period runs from 10 May 2005 to 10 May 2007. The loan carries an annual rate of interest corresponding to STIBOR less 0.5 percentages.

### Dividend policy

The aim of the Board of Directors for Karlshamns is to develop and maintain a financial balance with respect to financial position, net income, cash flow and anticipated future profitability. Based on these objectives, it is the Board's intention that 35 – 50 percent of the Group's profit after tax for the year be distributed as dividends.

### Changes in ownership

Karlshamns total number of shareholders on 31 December 2002 was 6,034 (5,510), an increase by some 10 percent over 31 December 2001. The most recent major changes in ownership took place in 1999, as KF Invest transferred its holding in

Karlshamns to Kooperativa Förbundet Ekonomisk Förening (KF Finans), and in 2000 when Melker Schörling AB acquired 1,960,257 shares, equivalent to 9.3 percent of the share capital and voting rights. Melker Schörling AB is thereby the largest shareholder of Karlshamns AB, today holding a total of 31 percent of share capital and votes.

In 2002 the largest change was recorded among owners holding 1 – 500 shares, where the number of shareholders increased by 383 up to 4,335.

At the end of 2002, institutions held 26.3 percent (26.2) of the shares. The number of Swedish institutions fell somewhat to 23.3 percent (23.7), whereas foreign institutions increased to 3.0 percent (2.5).

Private ownership in Sweden remained more or less on a level with 2001: 20.9 percent (20.7), the corresponding share of foreign private owners increasing to 0.6 percent (0.3).

Total foreign ownership at year end was 3.6 percent (2.8) or 749,948 shares (578,461).

Of the total number of shares, 66.4 percent were directly registered (68.6). All in all, 13,947,651 shares were directly registered (14,403,627), divided among 2,816 owners (2,632).

The number of nominee-registered shares at year end was 33.6 percent (31.4), corresponding to 7,054,349 shares (6,596,373) divided among 3,218 owners (2,878). Karlshamns major shareholders at year end are specified in the table on page 58.

### Stock market analysts monitoring Karlshamns:

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thojoh@carnegie.se  
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Enskilda Securities

**Anders Knudsen**  
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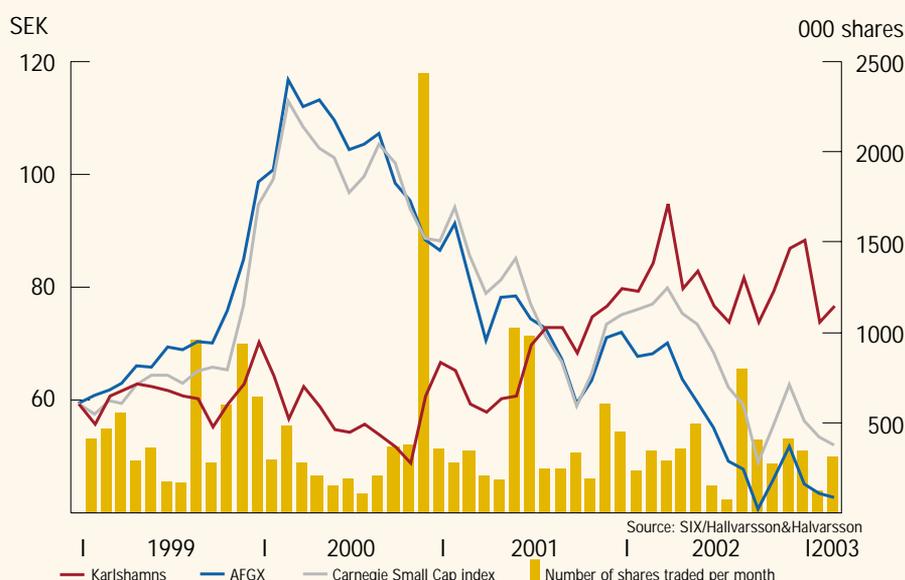
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### The Karlshamns share



# Six-year summary

SEK m unless otherwise stated	1997	1998	1999	2000	2001	2002
<b>Income statement</b>						
Net sales	3,188	3,163	3,000	2,728	2,942	3,249
Proportion of net sales from abroad, %	57.9	60.6	62.9	61.5	62.0	62.2
Gross contribution	862	833	817	759	892	962
Operating profit	252	210	199	63	196	211
Profit after net financial items	239	194	185	52	182	200
Profit for the year	182	143	123	28	133	152
<b>Operating profit per business area</b>						
Oils & Fats	210	162	155	6	143	146
Technical Products	23	31	29	39	36	36
Feed Materials	19	17	15	18	17	29
<b>Balance sheet</b>						
Fixed assets	537	632	687	736	770	760
Current assets	899	1,006	939	926	1,045	1,011
Shareholders' equity	695	772	822	781	850	915
Provisions	106	113	103	97	132	111
Liabilities	635	753	701	784	833	745
Capital employed	930	1,185	1,108	1,101	1,264	1,180
Net borrowings	159	318	183	223	282	154
<b>Key figures</b>						
Return on capital employed, %	30.3	19.8	16.0	5.6	16.4	16.7
Return on shareholders' equity, %	27.2	19.5	15.5	3.4	16.4	17.5
Equity/assets ratio, %	48.4	47.2	50.6	47.0	46.8	51.7
Debt/equity ratio, multiple	0.23	0.41	0.22	0.29	0.33	0.17
Proportion of risk-bearing capital, %	53.7	53.3	56.2	52.3	53.6	57.3
Interest cover ratio, multiple	16.0	11.2	11.2	4.0	9.4	11.0
Capital turnover rate, multiple	3.9	3.0	2.4	2.4	2.5	2.6
Cash flow from operating activities	139	76	307	131	137	310
Direct investments in fixed assets	124	160	136	117	109	103
Research and development costs	33	34	34	35	36	38
Average number of employees	806	787	782	761	751	754
of whom in Sweden	629	617	619	620	611	611
of whom abroad	177	170	163	141	140	143
Salaries and remuneration	225	223	226	229	239	259
<b>Share data</b>						
Number of shares (000)	21,000	21,000	21,000	21,000	21,000	21,002
Outstanding warrants (000)	–	–	168	168	168	912
EPS before conversion and utilisation of warrants, SEK	8.68	6.80	5.84	1.35	6.32	7.23
EPS after conversion and utilisation of warrants, SEK	8.68	6.80	5.80	1.34	6.27	6.93
Shareholders' equity per share before conversion and utilisation of warrants <sup>1)</sup> , SEK	33.10	36.77	39.14	37.20	40.46	43.59
Dividend per share, SEK <sup>2)</sup>	3.50	3.50	3.50	3.50	3.50	3.50 <sup>3)</sup>

1) Before proposed dividend. The dividend for 2001, paid out in May 2002, was SEK 73.5 million or SEK 3.50 per share

2) Decided dividend

3) Proposed dividend

# Definitions

## Key figures

### Capital employed

Total assets less liquid funds, interest-bearing receivables and non interest-bearing operating liabilities, but excluding deferred tax.

### Capital turnover rate

Net sales divided by average capital employed.

### Dividend ratio

Dividend per share as a percentage of earnings per share.

### Earnings per share (EPS)

Profit for the year divided by the number of shares on closing date.

### Equity/assets ratio

Shareholders' equity including minority shares as a percentage of the balance sheet total.

### Gross contribution

Operating income less cost of raw materials.

### Interest cover ratio

Operating profit/loss, plus financial income divided by financial expenses.

### Liquid funds

Cash and bank balances plus short-term investments.

### Market value/Shareholders' equity

Market value divided by shareholders' equity per share.

### Net borrowings

Total interest-bearing liabilities less interest-bearing assets.

### Net debt/equity ratio

Net borrowings divided by shareholders' equity including minority shares.

### Operating capital

Total assets less liquid funds, interest-bearing assets and non interest-bearing liabilities, excluding deferred tax liabilities.

### P/E ratio

Market value divided by earnings per share.

### Proportion of risk-bearing capital

Shareholders' equity, minority share of equity and deferred tax, divided by the balance sheet total.

### Return on capital employed

Operating profit/loss divided by average capital employed.

### Return on shareholders' equity

Profit/loss for the year as a percentage of average shareholders' equity.

### Shareholders' equity per share

Shareholders' equity divided by the number of shares on closing date.

### Yield

Dividend per share as a percentage of market price per share.



# Corporate Governance

Karlshamns Annual General Meeting was held on 24 April 2002, in the Karlshamn Town Hall. The AGM re-elected Directors Håkan Hellmo, Clas Eriksson, Jerker Hartwall, Gösta Wiking, Mikael Ekdahl and Melker Schörling; former Director Lars Lindegren having declined re-election.

Fees to Board members will remain on the level of SEK 900,000, to be distributed among Board members who are not employed by the Group.

The AGM confirmed the Board's dividend proposal of SEK 3.50 per share. The record day for dividend payments was set to Monday 29 April 2002, the dividend being forwarded by VPC on Friday 3 May 2002.

## Board of Directors

The Board Meeting following the election on 24 April 2002 confirmed the Rules of Procedure for the Board of Directors, regulating the distribution of responsibilities between the Board, its Chairman and the President. The Meeting also established down the President's financial reporting schedule.

It is the Board's responsibility to lay down strategies, business plans and budgets; to issue

interim reports and summarised financial statements and to ascertain continuous evaluation and follow-ups. The Board shall also supervise the President's performance, appoint and dismiss the President and decide on material changes in Karlshamns organisation and operations. The Board is also responsible for the Group's external financial reporting.

Karlshamns Board of Directors met five times in the period between the AGM of 2002 and the adoption of these annual accounts. In the course of these meetings, which are coordinated with the Group's financial reporting schedule, the Board has dealt with recurring agenda items such as financial performance, market situation, cash position and investments. Some of these Board meetings have focused on more specific issues such as annual accounts, interim statements, budget, sales forecasts and global matters like strategy and market analyses.

In the course of 2002, the company also established internal delegation instructions with a view to clarifying individual areas of responsibility and authority throughout the organisation.

The Board meeting dealing with the annual accounts is attended by the company's auditors who are then reporting the observations made during their audit.

Stefan Sjölin, CFO, acted as Secretary of the Board in 2002.

## Chairman of the Board

The Board meeting following the election on 24 April 2002 re-elected Melker Schörling as its Chairman. The Chairman actively supervises the



development of business operations, and ascertains that all other Board members are supplied with the information needed to carry out their responsibilities in the very best way and in accordance with the Companies Act. The Chairman also represents the company in all ownership matters.

#### The President

The President is in charge of the day-to-day management of the company in accordance with instructions and orders issued by the Board of Directors. The President shall supply all necessary information to the Board of Directors, and shall report to the Board at each of its meetings. The President shall provide the Board and its Chairman with continuous information about the company's and the Group's financial position and development.

#### Management Group

The Management Group is chaired by the President, who then decides in accordance with the recommendations of the Management Group. The Management Group consists of Business Area Presidents and other chief executives, 15 persons all in all. In 2002 this group convened for 28 formal and a considerable number of informal meetings.

#### Committees

As of February 2003, all matters connected with audit and remuneration are handled by separate committees, whose proposals are then submitted to the Board of Directors.

The formation of a nominating committee will be proposed to the next Annual General Meeting.

#### Major policies

Karlshamns operations are guided by a number of policies aiming at operational efficiency along with correct external and internal conduct. All of Karlshamns policies have a common goal: to contribute to higher professionalism, larger openness and far-reaching achievements in the areas of quality and environment. It is Karlshamns ambition to be perceived as a professional actor - vis-à-vis the individual employee, the customers and all other business contacts. Karlshamns position as the largest employer in a town which is also its namesake obliges to strong social commitment, as a result of which the Group is taking very active part in local development plans.

#### Among Karlshamns most central policies are its

- Financial Policy
- Environmental Policy
- Staff Policies
- Purchasing Policy
- Raw Material Sourcing Policy
- Credit Policy
- Insider Policy



Melker Schörling Clas Eriksson Håkan Hellmo Mikael Ekdahl Gösta Wiking Jerker Hartwall Irene Friberg-Johansson Leif Håkansson Bo Ohlsson Christer Svantesson

## Board of Directors

### Board members appointed by the Annual General Meeting

#### Melker Schörling

Chairman of the Board.  
Born 1947.  
Board member since 2001.  
Other Board positions:  
Chairman of Securitas, Hexagon, Attendo Senior Care.  
Deputy Chairman of Assa Abloy.  
Board member of H&M and Skandia.  
Shareholding: 6,512,823 shares (via own company)  
Warrants: 0  
melker.schorling@securitasgroup.com

#### Clas Eriksson

President of Lantmännen Invest AB.  
Born 1949.  
Board member since 1994.  
Other Board positions:  
Board member of AnalyCen Nordic AB, Lantmännen Invest AB, Svalöf Weibull AB, Melacure Therapeutics AB, Swecon Anläggningmaskiner HB, SweLog Skogsmaskiner HB.  
Shareholding: 0 shares.  
Warrants: 0  
clas.eriksson@lantmannen.se

#### Håkan Hellmo

President of Svenska Lantmännen.  
Born 1941.  
Board member since 1997.  
Other Board positions:  
Chairman of Lantmännen Invest AB, Lantmännens Maskinimport AB, Lactamin AB, AnalyCen AB, Doggy AB.  
Board member of Svenska Lantmännen, Cerealia AB, Svalöf Weibull AB, Spintab, Solanum AB.  
Shareholding: 2,000 shares.  
Warrants: 0  
hakan.hellmo@lantmannen.se

#### Mikael Ekdahl

Attorney and partner of Mannheimer Swartling Advokatbyrå AB.  
Born 1951.  
Board member since 2001.  
Other Board positions:  
Chairman of Marco AB.  
Board member of Konstruktionsbakelit AB and Bong Ljungdahl AB.  
Shareholding: 8,000 shares.  
Warrants: 0  
mek@msa.se

#### Gösta Wiking

Born 1937.  
Board member since 1997.  
Other Board positions:  
Chairman of Möhlycke Health Care AB, Tribon Solutions AB and Angiogenetics AB.  
Deputy Chairman of S E B.  
Board member of Bong Ljungdahl AB.  
Shareholding: 300 shares.  
Warrants: 0  
g.wiking@telia.com

#### Jerker Hartwall

President and C.E.O.  
Born 1952.  
Board member since 2001.  
Shareholding: 30,300 shares.  
Convertible debt instruments corresponding to 63,500 shares.  
Warrants: 0  
jerker.hartwall@karlshamns.se

### Board members appointed by the employees

#### Irene Friberg-Johansson

Karlshamns AB  
Appointed by PTK.  
Born 1945. Board member since 1993.  
Shareholding: 0 shares.  
Convertible debt instruments corresponding to 650 shares.  
Warrants: 200  
irene.friberg@karlshamns.se

#### Leif Håkansson

Karlshamns AB  
Appointed by Industrifacket.  
Born 1957. Board member since 2001.  
Shareholding: 0 shares.  
Convertible debt instruments corresponding to 650 shares.  
Warrants: 300  
leif.hakansson@karlshamns.se

### Deputies

#### Bo Ohlsson

Karlshamns AB  
Appointed by PTK.  
Born 1948.  
Deputy since 2000.  
Shareholding: 200 shares.  
Convertible debt instruments corresponding to 1,500 shares.  
Warrants: 2,000  
bo.ohlsson@karlshamns.se

#### Christer Svantesson

Karlshamns AB  
Appointed by Industrifacket.  
Born 1951.  
Deputy since 2002.  
Shareholding: 0 shares.  
Convertible debt instruments corresponding to 650 shares.  
Warrants: 0  
christer.svantesson@karlshamns.se

## Auditor

### Öhrlings PricewaterhouseCoopers AB

#### Åke Christiansson

Auktoriserad revisor  
(Authorized public accountant)  
Born 1954.  
Company auditor since 1999  
(not in picture)

Tommy Holmberg

Jan-Olof Lidelfelt

Bo Svensson

Stefan Sjölin

Björn Samuelsson

Magnus Jörsmo

Johan Sandberg



Håkan Christensson

Hans Nilsson

Jerker Hartwall

Thomas Carlsson

Ulf Hansson

Helen Olsson

Jan-Ove Aspeblad

Jan Gunnerdal

## Senior executives

### Jerker Hartwall

President and C.E.O.

Born 1952. Employed since 2000.

Shareholding: 30,300 shares.

Convertible debt instruments corresponding to 63,500 shares.

Warrants: 0.

jerker.hartwall@karlshamns.se

### Jan-Ove Aspeblad

Economic and Administration Manager

Born 1952. Employed since 1986.

Shareholding: 33,000 shares.

Convertible debt instruments corresponding to 4,250 shares.

Warrants: 2,000.

jan-ove.aspeblad@karlshamns.se

### Thomas Carlsson

Global Production Manager

Born 1949. Employed since 1974.

Shareholding: 33,000 shares.

Convertible debt instruments corresponding to 5,250 shares.

Warrants: 2,000.

thomas.carlsson@karlshamns.se

### Håkan Christensson

President Business Sector Edible Oils

Born 1962. Employed since 1986.

Shareholding: 0 shares.

Convertible debt instruments corresponding to 26,500 shares.

Warrants: 2,000.

hakan.christensson@karlshamns.se

### Jan Gunnerdal

President Business Sector Lipids for Care

Born 1946. Employed since 1970.

Shareholding: 35,700 shares.

Convertible debt instruments corresponding to 4,250 shares.

Warrants: 0.

jan.gunnerdal@karlshamns.se

### Ulf Hansson

Global R&D and Quality Manager

Born 1963. Employed since 1988.

Shareholding: 200 shares.

Convertible debt instruments corresponding to 26,500 shares.

Warrants: 2,000.

ulf.hansson@karlshamns.se

### Tommy Holmberg

President Tefac AB

Born 1945. Employed since 1970.

Shareholding: 72,000 shares.

Convertible debt instruments corresponding to 5,750 shares.

Warrants: 0.

tommie.holmberg@karlshamns.se

### Magnus Jörsmo

President Binol AB

Born 1965. Employed since 1986.

Shareholding: 0 shares.

Convertible debt instruments corresponding to 26,500 shares.

Warrants: 2,000.

magnus.jorsmo@karlshamns.se

### Jan-Olof Lidelfelt

Strategic Marketing Manager

Born 1948. Employed since 1980.

Shareholding: 0 shares.

Convertible debt instruments corresponding to 4,250 shares.

Warrants: 0.

jan-olof.lidelfelt@karlshamns.se

### Hans Nilsson

Vice President, Strategic Raw Material Sourcing

President Feed Materials

Born 1950. Employed since 1986.

Shareholding: 34,400 shares.

Convertible debt instruments corresponding to 4,250 shares.

Warrants: 2,000.

hans.nilsson@karlshamns.se

### Helen Olsson

Vice President, Human Resources & Organisation Development

Born 1965. Employed since 1989.

Shareholding: 300 shares.

Convertible debt instruments corresponding to 26,500 shares.

Warrants: 0.

helen.olsson@karlshamns.se

### Björn Samuelsson

President Business Sector Chocolate & Confectionery Fats

Born 1956. Employed since 1977.

Shareholding: 1,200 shares.

Convertible debt instruments corresponding to 26,500 shares.

Warrants: 2,000.

bjorn.samuelsson@karlshamns.se

### Johan Sandberg

Vice President, Strategic Business Development

Born 1945. Employed since 1971.

Shareholding: 31,600 shares.

Convertible debt instruments corresponding to 4,250 shares.

Warrants: 2,000.

johan.sandberg@karlshamns.se

### Stefan Sjölin

Vice President and CFO

Born 1955. Employed since 2001.

Shareholding: 200 shares.

Convertible debt instruments corresponding to 26,500 shares.

Warrants: 0.

stefan.sjolin@karlshamns.se

### Bo Svensson

Vice President and CIO

Born 1951. Employed since 1974.

Shareholding: 300 shares.

Convertible debt instruments corresponding to 26,500 shares.

Warrants: 2,000.

bo.svensson@karlshamns.se

# Financial information

Karlshamns will be publishing the following financial information in 2003:

The interim report for the period to 31 March will be released at the Annual General Meeting on 24 April 2003.

The interim report for the first six months of 2003 will be released on 19 August.

The interim report for the period to 30 September 2003 will be released on 21 October.

The summarised financial statements for 2003 will be released in February 2004.

All financial reports and press releases are also published in English, and may be ordered from Karlshamns AB, Corporate Communication, SE-374 82 Karlshamn, Sweden.

Phone +46 454 820 00, fax +46 454 828 00.

E-mail: [info@karlshamns.se](mailto:info@karlshamns.se)

Additional information about Karlshamns is available on the company's website: [www.karlshamns.com](http://www.karlshamns.com)

# The Annual General Meeting

The AGM of Karlshamns AB will be held on Thursday 24 April 2003 at 2.00 p.m. in Rådhusalen, the Karlshamn Town Hall in Karlshamn. The premises will open for registration at 1 p.m. Registration must be made by 2 p.m., at which time the list of voters will be approved.

## Right of participation

Any shareholder who is registered in the shareholders register kept by VPC AB (the Swedish Securities Center) on Monday 14 April 2003 and has given notice of his/her intention to attend the meeting no later than 4 p.m., Wednesday 16 April 2003, has the right to participate.

## Registration

The company is a VPC registered company, which means that shareholders wishing to attend the AGM must be registered in the shareholders register kept by VPC AB no later than Monday, 14 April 2003. Shareholders whose shares are held in trust by a bank or private broker must temporarily register their shares in their own names in the shareholders register to be able to attend the AGM.

Such registration should be completed well in advance of 14 April.

## Notification

Shareholders intending to attend the AGM must notify the company as soon as possible but no later than 4.00 p.m. on Wednesday 16 April 2003, in any of the following ways:

By ordinary mail to Karlshamns AB, Kerstin Wemby, SE-374 82 Karlshamn, Sweden, or by telephone to +46 454 823 12/825 38, by fax to +46 454 828 20, by e-mail to [kem@karlshamns.se](mailto:kem@karlshamns.se) or on the website [www.karlshamns.com](http://www.karlshamns.com). The notification shall contain information of name, address, day-time telephone number, social security number or company registration number and the number of shares held.

## Invitation to attend the AGM

Notice of the AGM will be published in the Swedish Official Gazette, Svenska Dagbladet, Blekinge Läns Tidning and Sydöstran together with the Meeting's agenda.

# Addresses

## Karlshamns AB

Head office  
Karlshamns AB (publ)  
SE-374 82 Karlshamn  
SWEDEN  
Visiting address: Västra Kajen  
Telephone: +46 454 820 00  
Fax: +46 454 75 20 19  
info@karlshamns.se  
www.karlshamns.com

## Oils & Fats

Karlshamns AB  
Oils & Fats  
SE-374 82 Karlshamn  
SWEDEN  
Visiting address: Västra Kajen  
Telephone +46 454 820 00  
Fax +46 454 828 88  
info@karlshamns.se

## Karlshamns BV

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THE NETHERLANDS  
Visiting address: Kreeftstraat 1  
Telephone +31 75 627 84 00  
Fax +31 75 627 84 78  
oilsfats@karlshamns.nl

## Karlshamns Ltd

220 Wincolmlee  
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GB-HU2 OPX  
East Yorkshire  
UNITED KINGDOM  
Telephone +44 1482 58 67 47  
Fax +44 1482 58 70 04  
edibleoils@karlshamns.co.uk

## Karlshamns SPOL. S.R.O

P.O.Box 263  
CS-11121 Prague 1  
CZECH REPUBLIC  
Visiting address: Vaclávké nám. 64  
Telephone +420 222 21 04 06  
Fax +420 222 21 20 87  
karlshamns@iol.cz

## Karlshamns (Malaysia) SDN.BHD

4th floor, Menara Boustead  
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alex@karlshamns.com.my

## Karlshamns Polska Sp.Z.O.o.

ul. Walecznych 44/3  
PL-03-916 Warsaw  
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Fax +48 226 160 255  
jbogusz@karlshamns.pl

## Feed Materials

Karlshamns AB  
Feed Materials  
SE-374 82 Karlshamn  
SWEDEN  
Visiting address: Västra Kajen  
Telephone +46 454 829 00  
Fax +46 454 829 66  
crushing@karlshamns.se

## Technical Products

Tefac AB  
SE-374 82 Karlshamn  
SWEDEN  
Visiting address: Västra Kajen  
Telephone +46 454 823 00  
Fax +46 454 75 20 05  
tefac@karlshamns.se

## Binol AB

SE-374 82 Karlshamn  
SWEDEN  
Visiting address: Västra Kajen  
Telephone +46 454 828 00  
Fax +46 454 75 20 70  
binol@karlshamns.se

## Karlshamns Baltic

Kalvariju 125  
LT-02648 Vilnius  
LITHUANIA  
Telephone +370 2 70 06 06  
Fax +370 2 70 04 40  
karlshamns.baltic@takas.lt

## Karlshamns business concept

It is Karlshamns ambition to achieve leading global positions in defined niche areas based on our specialist know-how of vegetable oils and fats.

We also aim for a development of new business areas related to this unique expertise. Innovation, customer-orientation and high overall efficiency are our critical success factors.



**Karlshamns AB (publ)**

SE-374 82 Karlshamn

SWEDEN

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

[info@karlshamns.se](mailto:info@karlshamns.se)

Corp.reg.no. 556478-1796

