



# Annual Report 2004



## Karlshamns in 60 seconds

- Karlshamns is one of the world's leading manufacturers of **high value-added speciality vegetable oils and fats**.
- **Karlshamns' products** have a large number of application areas and are sold to customers in a wide range of industries. The majority, however, operate in the food, chocolate, cosmetic, animal feed and technical industries.
- The Karlshamns Group is **organised in three business areas**: Oils & Fats, Technical Products and Feed Materials. All three business areas base their operations on the concept of the eco-cycle, with by-products being recycled, processed and marketed as end products in their own right.
- **Oils & Fats** manufactures and sells speciality fats to the food, chocolate and confectionery industries, as well as to customers in the cosmetics and pharmaceutical segments.
- **Technical Products** processes and markets products destined mainly for technical applications.
- **Feed Materials** processes and markets vegetable proteins and fat raw materials for the animal feed industry.
- Karlshamns is **on the forefront of research into the fat molecule**. R&D operations are carried out in close cooperation with customers, national and global authorities, research institutes, universities and colleges.
- **Karlshamns' headquarters** and largest production facility are located in Karlshamn, Sweden. The Group's other two production plants are in Hull (the United Kingdom) and in Zaandijk (the Netherlands). The Group's average number of employees in 2004 was 787, of whom 640 are in Sweden.
- The Karlshamns share has been **listed on the Stockholm Stock Exchange** since 1997. Among the major shareholders are Melker Schörling AB, Lantmännen Invest AB and AMF. In 2004, Karlshamns' total sales amounted to SEK 3,629 million.

# The year 2004 in brief

## Earnings

The Karlshamns Group's operating profit was SEK 148 million, a decrease of SEK 49 million compared to 2003. In business area Oils & Fats profits fell by SEK 44 million to SEK 90 million, in business area Technical Products by SEK 17 million to SEK 24 million. Business area Feed Materials, however, increased its operating profit by SEK 12 million to SEK 34 million.

## Sales

Net sales increased by SEK 312 million to SEK 3,629 million (3,317).

## Strong growth in speciality fats

Karlshamns continues to grow in the market for high value-added speciality fats. In 2004, the business area Oils & Fats boosted speciality fats volumes by 20 percent. This segment now accounts for around 50 percent of the business area's gross contribution.

## New plant for liquid margarine

Towards the end of 2004, a new production line for liquid margarine came on stream. The food industry's demand for liquid margarine and pumpable fats continues to grow, and the new facility considerably extends Karlshamns' production capacity. The new

plant also puts Karlshamns in a better position to tailor products to individual customer demands.

## Acquisition of UK speciality business

The assets of Kelanco Ltd were acquired, in line with Karlshamns' strategy to expand its share of high value-added products. Kelanco specialises in fats for the food industry, and the acquisition gives Karlshamns access to the UK convenience food market.

## Strategic cooperation with Danisco

As a result of its cooperation with Danisco, Karlshamns' business sector Lipids for Care is taking over sales of Danisco's emulsifiers to the cosmetic industry in 2005. Danisco's products will be marketed under Karlshamns' own brand, Akoline.

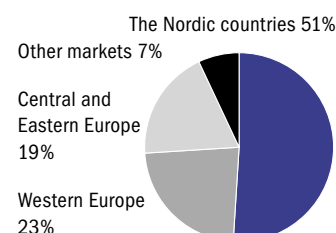
## Strategic alliance with Quaker Chemical

A cooperation agreement was signed with Quaker Chemical, to the effect that Binol's cutting fluids for the metalworking industry will now be marketed worldwide under the Quaker Chemical brand.

## Productivity programme to cut annual costs by SEK 100 million

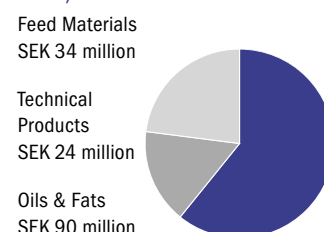
In 2004, a programme was launched to improve overall productivity. The purpose is to cut annual costs by SEK 100 million, with full effect from 2006 onwards.

## Karlshamns' sales by geographic markets, 2004



49% of Karlshamns' sales are to countries outside the Nordic region.

## Operating profit by business area, 2004



Karlshamns' total operating profit amounted to SEK 148 million.

	2004	2003	2002
Net sales, SEK million	3,629	3,317	3,249
Gross contribution, SEK million	973	944	962
Profit before depreciation, SEK million	246	292	303
Profit after net financial items, SEK million	152	185	200
Profit for the year, SEK million	111	141	152
Cash flow from operating activities, SEK million	184	116	310
Direct investments, SEK million	97	108	103
Net borrowings, SEK million	182	211	154
Shareholders' equity, SEK million	1,013	972	915
Equity/assets ratio, %	52	51	52
Earnings per share before conversion and utilisation of warrants, SEK	5.25	6.73	7.23
Earnings per share after conversion and utilisation of warrants, SEK	5.15	6.58	7.16
Equity per share before conversion and utilisation of warrants, SEK	48.01	46.30	43.59
Dividend per share, SEK	9.50 <sup>1)</sup>	3.50	3.50
Return on shareholders' equity, %	11	15	17
Return on net operating assets, %	11	16	17
Average number of employees	787	757	754

1) Proposed dividend, of which SEK 4.50 constitutes an extra, one-off payment per share.

Definitions, see page 71.

Annual General Meeting, see page 80.

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It is Karlshamns' ambition to achieve leading global positions in defined niche areas based on our specialist know-how of vegetable oils and fats. Innovations in a class of their own, focus on customers, high productivity and committed employees are among our critical success factors.



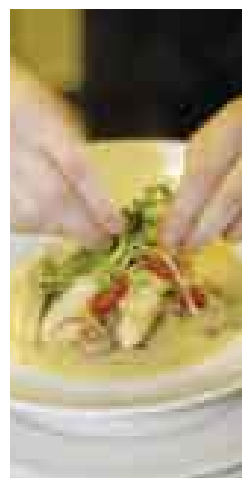
## **8 To Karlshamns shareholders**

Unfavourable trends in Karlshamns' business environment continued to impact on contribution margins throughout 2004. The development process launched in 2001 is now paying off, however, with results that include productivity improvements and strong progress in the speciality product segments.



## **10 Karlshamns – you meet us daily**

Karlshamns' expertise in the area of vegetable oils and fats and their composition makes it possible to customise solutions for many different applications and products. Vegetable fats are used in a wide range of products you see or use every day: from chocolate, food and cosmetics to animal feed and different kinds of technical oils.



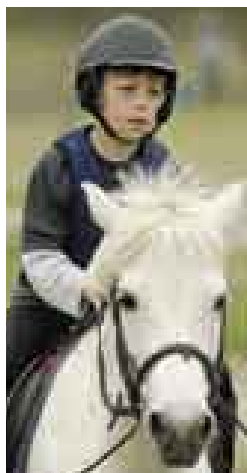
## **12 Oils & Fats**

The business area Oils & Fats develops, produces and markets oils and fats for the chocolate, food and cosmetic industries. This business area accounts for around 70 percent of Karlshamns' total sales. Operations are organised in three business sectors: Chocolate & Confectionery Fats, Food Ingredients (formerly Edible Oils) and Lipids for Care.



## **20 Technical Products**

Operations in the business area Technical Products are carried out by the subsidiaries Tefac AB and Binol AB. Tefac manufactures and markets fatty acids and glycerine, whereas Binol handles the development, production and marketing of the Group's environmentally friendly technical oils.



## 22 Feed Materials

The business area Feed Materials processes and markets vegetable proteins and feed raw materials for the animal feed industry, and is also responsible for Karlshamns' extraction of vegetable oils from rapeseed and shea nuts.



## 26 Committed employees

With Karlshamns' products growing more and more advanced and specialised, the Group's demand for well-educated, innovative, skilled and committed employees is growing accordingly. The combination of a successful marketing strategy, efficient production operations and committed employees is a prerequisite for Karlshamns' continued progress.



## 24 Research and Development

Karlshamns' R&D operations secure and develop the Group's comprehensive knowledge of the fat molecule and its properties. This work is carried out in close cooperation with national and international universities and organisations, and constitutes a principal part of Karlshamns' strategy to advance along the value chain and add further value to its products.



## 28 Continuous quality improvements

For Karlshamns to secure its competitive strength, continuous upgrading is required in the areas of products, services and processes. To assure steady progress in this area, Karlshamns maintains an unwavering focus on quality operations in all business areas and segments.



## 29 Karlshamns and the environment

Karlshamns' endeavours in the environmental area are as committed as they are focused. It is the Group's ambition to minimise its environmental impact and to optimise its utilisation of resources, while at the same time strengthening environmental awareness among its suppliers, staff and business partners.

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## Business concept, goals and strategy

### 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' growth rate shall surpass that of market in targeted segments. In parallel with this, the company is also striving to achieve a strong cash flow and a steadily increasing return on net operating assets.

### Strategy

Karlshamns' primary success factors are innovation excellence, close customer relations, high productivity and committed employees. The Group's global strategy may be summarised in the following way:

#### ■ A growing share of high value-added products

Extensive research into vegetable oils and fats will increase the proportion of high value-added products in Karlshamns' product range.

#### ■ Continued globalisation

Today, Karlshamns is the market leader in the Nordic and Central European markets for vegetable speciality fats. Our goal is not only to increase our share of the markets in which we currently operate, but also to identify new growth markets – global and regional.

#### ■ Focus on key accounts and selected markets

Karlshamns' sales and marketing operations focus on identified key customers who operate in selected markets.

#### ■ Greater individual responsibility

A prerequisite for continued, profitable growth is a committed staff who take active part in Karlshamns' development. Important cornerstones of our strategy are thus to develop our skills and to extend our individual areas of responsibility.

#### ■ Continuous environmental improvement

Karlshamns pursues continuous development to minimise the Group's environmental impact. In addition to environmental gains, these endeavours also offer financial benefits, as considerable savings may be achieved by more efficient utilisation of our resources.



# This is what makes Karlshamns so exciting!

## Our development process is paying off

The development process launched in 2001 has involved a strong and dedicated focus on high value-added speciality products, at the same time as major productivity improvements have been achieved. In a tough business climate, our strategy has generated healthy earnings and a strong cash flow – and thus a balance sheet that allows for continued expansion and vigorous growth in the speciality segment. In all, the development programme is expected to generate cost savings worth SEK 100 million from 2006 onwards.

## A market in transformation

In the past few years, keen competition and shrinking margins in the European vegetable oil industry have triggered the beginnings of industrial consolidation. Today, Karlshamns has the financial strength and market position required for an active role in this process.

## Fast pace in R&D

Research into the fat molecule and its properties and functions has always been a vital part of Karlshamns' core business. In recent years, R&D operations have been given additional leverage as a consequence of Karlshamns' strategy to add greater value to its products.

## Strong growth in high value-added speciality products

The strategy to expand the share of high value-added products with higher contribution margins has proven successful. In 2004, speciality fats volumes in Oils & Fats grew by 20 percent. This product segment now accounts for some 50 percent of the business area's gross contribution.

## Vegetable oils offer added value and several competitive advantages

Karlshamns' vegetable oils and fats offer a number of benefits:

- They are a safe and healthy choice. The food industry's focus on health issues and food safety has intensified considerably in recent years. When compared with animal fats, the vegetable alternatives offer a number of advantages: they are free from cholesterol, they are important sources of several vitamins, and they contain essential fatty acids (fatty acids the human body cannot produce itself).
- High cost efficiency. When it comes to prices, Karlshamns' vegetable fats compare favourably



with other alternatives. In many cases, they also offer longer shelf life, better heat resistance and storage stability than several other competing products.

- Flexible delivery solutions have advantageous effects on our customers' costs for production and handling. In combination with competitive prices, Karlshamns thus also offers individual delivery alternatives – one such example being pumpable fats.

## Close cooperation with customers and partners

Karlshamns cooperates closely with its customers and partners, as this is an efficient way of adding to our experience and know-how of customer applications and market demand. Such cooperation also enables us to tailor product solutions to individual customer requirements.

## The Karlshamns share offers limited risk

The development of the stock market as a whole affects individual, listed shares to a greater or lesser degree. Certain shares depend heavily on general stock market trends, whereas others are more or less independent of the overall development.

To establish to what extent a certain share follows the general stock market development, you may study its so-called beta value, which is a statistical measurement to describe the market risk of an individual share. "Beta value 1" means that the share in question correlates with the stock market index. A beta value higher than 1 indicates a share price that fluctuates beyond the index, whereas a beta value lower than 1 signifies an average share value more stable than index.

With its beta value of 0.4, the Karlshamns share is thus less vulnerable than the stock market as a whole. Should the Stockholm Stock Exchange fall by 10 percent, the Karlshamns share would only lose 4 percent of its value. The same relation applies to a rising trend. This makes Karlshamns fairly independent of the general stock market development.

# To Karlshamns shareholders

Throughout 2004, the markets in which Karlshamns operates have been characterised by continued pressure on margins. Competition remains keen, and the vegetable oil industry has begun its restructuring process. Standard products are suffering hardest from the pressure on contribution margins, which clearly proves that the strategy to focus on high value-added products is the right one.

Karlshamns' strategy is the result of a comprehensive development programme initiated in 2001. At that time, the Board of Directors agreed on comprehensive productivity improvements and a dynamic development towards speciality products – the margins of which are definitely more attractive than those of lower-value-added products.

## The strategy is paying off

The new strategy has generated strong growth in the speciality product segment. As a result, Karlshamns can now rely on healthy earnings and a strong cash flow despite a very tough business climate. The balance sheet has been reinforced, which provides strength in a market that will be characterised by structural changes in the years ahead. The pressure on margins, however, appears to have stabilised on a level that has an annual impact of around SEK 150 million on Karlshamns' earnings.

## Focus on higher value-added fats

Karlshamns' strong technical expertise is the cornerstone of the new strategy. At the same time, the combination of the Group's vegetable raw material base and the growing consumer interest in health aspects gives leverage to Karlshamns' ambitions to grow and develop. The switch from standard oils to speciality fats is a challenge that affects every part of the Group. Today we claim to be number one in the following areas: vegetable fats for the dairy industry, the development of low-trans fats for the chocolate and confectionery industry and vegetable ingredients for cosmetic products.

## Global presence a prerequisite

In 2004 alone, speciality fats grew by 20 percent in Oils & Fats and now account for 50 percent of this business area's gross contribution. Despite its rapid progress, Karlshamns is only at the early stages of a much more comprehensive development with considerable potential. The focus on speciality products is a niche strategy that requires global market presence to achieve its full effect.

Karlshamns has a strong foothold in the Nordic and Eastern European markets, as well as in parts of Western Europe. These markets do not suffice for the speciality fats volumes Karlshamns intends to produce and market in the future, however. Strong platforms will also be needed in Southern Europe,

the US, South America and Asia. To secure funds for further expansion, it has thus been decided to reduce annual costs by SEK 100 million from 2006 onwards.

This is a comprehensive programme that mainly targets the areas of energy, processing and logistics, streamlining human resources and eliminating bottlenecks in the production of speciality products. One-off expenses arising from the Group's workforce rationalisation impacted the 2004 earnings by SEK 26 million. Also, the vigorous growth in the speciality fats segment entailed conversion costs of approximately SEK 20 million in 2004.

## Technical Products suffers pressure on prices

In recent years, the business area Technical Products has been doing well indeed. In the last three quarters of 2004, however, margins were adversely impacted as raw material prices surged while sales prices came under pressure. The result was a negative effect on earnings of around SEK 25 million.

## Looking into 2005

In the past few years, Karlshamns has made important headway towards its goal of becoming one of the leading speciality fats companies worldwide – and doing so in a very tough business climate. In view of the strong volume growth and the temporary, high conversion costs, the year 2005 will be characterised by continued strong growth in the speciality segments, in parallel with far-reaching streamlining efforts that will target production operations in particular.

Karlshamns will also continue to play an active role in the current restructuring of the vegetable oil industry.

Karlshamn, March 2005



Jerker Hartwall  
President and CEO





# Karlshamns – you meet us daily

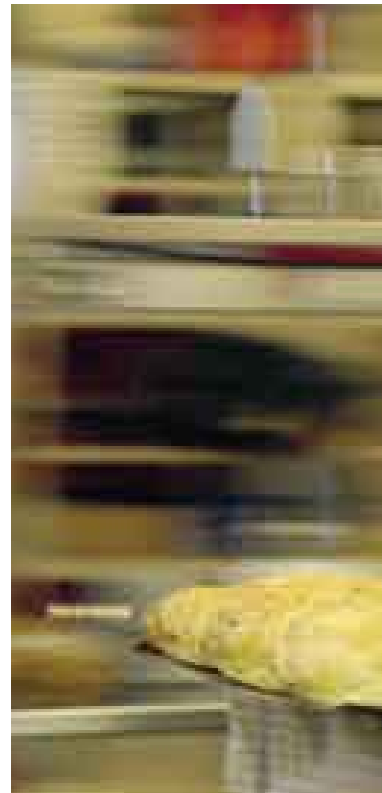
**Karlshamns utilises its knowledge of vegetable oils and fats and their composition to tailor solutions for a wide range of products and applications. Vegetable fats are used as ingredients in a vast number of products we meet or use every day: from foods and cosmetics to animal feed and different kinds of technical oils.**

In **food products**, fats are used to contribute form, structure and texture. In addition to their competitive prices, vegetable oils also offer a number of nutritional advantages: they are free from cholesterol, and contain only low contents of trans fatty acids – or none at all.

In **cosmetics and skin-care products**, fats are used to achieve the desired consistency and “softness”. Here as well, the natural origin of vegetable oils constitutes an important advantage.

In **animal feed**, the fat composition has vital effects on the yield of dairy cattle as well as on the growth rate of swine and poultry.

In the manufacturing industry, fats are used as a vital component in **technical oils**. Here again, vegetable fats offer important benefits: they are environmentally friendly, they are high performing and they ensure a competitive overall cost.







### Karlshamns' major raw materials

An attractive range of speciality products requires access to a large base of close to 50 different raw materials and grades. Among the most common ones are rapeseed, palm and shea nuts.

**Rapeseed.** Rapeseed is grown in Europe, India, China, Australia and Canada. In Europe, winter rapeseed is the dominant variety, whereas Canada's harsh winters make summer rapeseed the only alternative.

**Palm.** Oil from the oil palm is gaining more and more importance thanks to the growing demand for low-trans products. Palm oil is extracted by crushing the pulp of the nuts. Malaysia and Indonesia account for 80 percent of total world production.

**Shea nuts.** The shea nut is an exotic raw material that is becoming increasingly important for Karlshamns. The nuts are picked from the shea trees, which grow wild on the savannahs of West Africa. Once the pulp has been removed, the nuts are sun-dried before transport to Europe, where crushing takes place. The unique properties of shea nut oil make it an excellent choice for a wide range of applications - from chocolate to skin-care products.

## Oils & Fats

The Oils & Fats business area develops, manufactures and markets fats for the chocolate, food and cosmetic industries, accounting for 72 percent of Karlshamns' total sales. Operations comprise three separate business sectors: Chocolate & Confectionery Fats, Food Ingredients (formerly Edible Oils) and Lipids for Care.

In 2004, total sales amounted to SEK 2,616 million and operating profit to SEK 90 million. In all, volumes grew by 11 percent compared to the year 2003. Sales of high value-added speciality fats made strong progress, but did not fully compensate for decreasing margins and the additional development costs entailed by the growing volumes of speciality products.

The Group continued to prioritise R&D operations throughout the year, which resulted in the market launch of several new products in all business sectors. Among these were a number of trans-free and low-trans fats. Several scientific studies have demonstrated a correlation between high trans levels and the risk of cardiovascular diseases. Today, Karlshamns is one of the leading market players in this segment.

### Driving market forces

The world market for edible oils based on vegetable raw materials has been more or less stagnant in the past few years, with global growth at 3 – 4 percent and the Western European growth rate at some 2 percent per year. This market is driven by a number of different developments and trends, some of the primary ones being a stronger focus on food safety and hygiene, growing demand for natural, vegetable

raw materials with attractive functions and economic competitiveness.

### Wide range of edible oils

The business area Oils & Fats boasts one of the market's widest ranges of fats for chocolate, food and cosmetic applications. Operations are divided into three separate business sectors:

#### ■ Chocolate & Confectionery Fats

Throughout 2004, developments in the business sector Chocolate & Confectionery Fats were characterised by an unyielding pressure on prices due to the widespread excess capacity on the market. Volumes nevertheless increased by 6 percent, partly thanks to the strong demand for the recently launched high value-added speciality fats. Eastern Europe accounted for a considerable part of this growth. The EU directive allowing the use of 5 percent of vegetable fats other than cocoa butter failed to generate the expected growth in demand, however.

#### ■ Food Ingredients

Food Ingredients supplies a wide range of edible oils and fats for customers like bakeries, dairies and restaurants. In combination with high volume growth in the Nordic countries and Western



## Oils & Fats

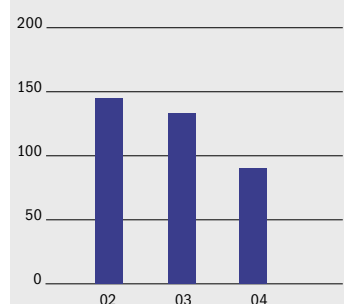
	2004	2003	2002
Net sales, SEK m	<b>2,616</b>	2,397	2,394
Gross contribution, SEK m	<b>683</b>	666	694
Operating profit, SEK m	<b>90</b>	134	146
Net operating assets, SEK m	<b>1,040</b>	997	958
Return on net operating assets, %	<b>9</b>	13	14
Average no. of employees	<b>635</b>	612	617

### Volumes, 000 tons

Food Ingredients	<b>227</b>	200	205
Chocolate & Confectionery Fats	<b>82</b>	77	77
Lipids for Care	<b>3</b>	3	3
<b>Total</b>	<b>312</b>	280	285

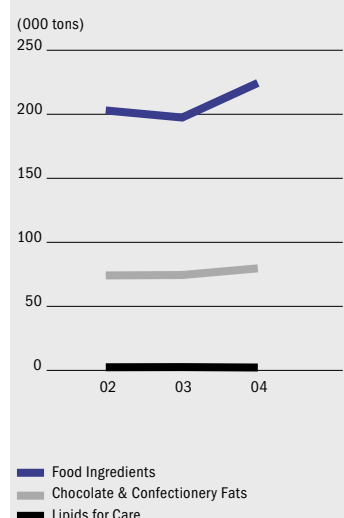
Oils & Fats is a full-range supplier to the food industry. The business area is divided into three business sectors: Chocolate & Confectionery Fats, Food Ingredients and Lipids for Care.

### Operating profit (SEK m)



Operating profit decreased by SEK 44 million from 2003, to SEK 90 million.

### Volume development



Europe, the healthy progress of high value-added speciality fats contributed to a 13-percent growth of sales volumes in 2004. To further consolidate its position in the speciality fats market, Karlshamns took several measures in 2004, including acquisition of the assets of UK-based Kelanco Ltd were acquired, a company specialised in fats for convenience food. The Karlshamns site also inaugurated one of Europe's most state-of-the-art facilities for the production of speciality fats for bakeries.

### ■ Lipids for Care

The business sector Lipids for Care develops and markets high value-added vegetable fats for the cosmetics and skin-care market. Lipids for Care displayed strong growth throughout 2004, and sales increased by almost 20 percent. The US and European markets accounted for the major part of this progress. The cosmetics and skin-care market is expanding at a fast pace, a development fuelled partly by strong growth in certain regional markets, partly by a generally rising consumption of skin-care products.

### Total control – from raw material to finished product

The processing of raw materials into finished products is based on the concept of the eco-cycle, whereby the by-products of the various processing steps are recycled and developed into end products in their own right. When rapeseed oil is extracted, for example, a by-product is rapeseed meal that is successfully processed into feed raw materials.

A top-of-the-line product requires total control of every single step along the production chain. Karlshamns' quality work starts at the very source, i.e. with its raw materials. All raw material suppliers must fulfil rigorous requirements in the areas of quality, environment and working conditions. To supplement

its own regular audits, Karlshamns also engages independent inspectors to verify that standards are adhered to.

### Three production plants

The Group's production in the business area Oils & Fats takes place at three different plants, located in Karlshamn (Sweden), Hull (the UK) and Zaandijk (the Netherlands). The largest production unit is in Karlshamn, with a nominal capacity of 300,000 tonnes per annum. The production units in the Netherlands and the UK each have an annual capacity of 70,000 tonnes. All plants are generally characterised by a high degree of flexibility – a prerequisite for the wide product range as well as for the quick adjustments sometimes needed to adapt to changing market trends.

### Vegetable fats – for the sake of health

The food we eat influences our well-being. Fat affects our blood's cholesterol level, and thus our heart and blood vessels. Vegetable fats offer a number of nutritional advantages over their animal equivalents:

- Most vegetable oils contain only low levels of saturated fatty acids, and no trans fatty acids. Both of these are substances that may increase the risk of cardiovascular diseases.
- Vegetable oils contain essential fatty acids, i.e. fatty acids that cannot be produced by the human body. This means that we need food containing these vital components. There are two types of essential fatty acids: Omega 3 and Omega 6.
- Vegetable fats are also an important source of several vitamins, such as E and K.
- Vegetable fats are free from cholesterol.



# Chocolate & Confectionery Fats

The business sector Chocolate & Confectionery Fats develops and markets vegetable fats for the chocolate and confectionery industry. Volumes grew by 6 percent in 2004, most of which are the effect of strong sales development in South America, Central and Eastern Europe. Higher cost efficiency has added to this business sector's competitive strength and held the unrelenting pressure on prices at bay.

## Vegetable fats offer many advantages

### Cost savings

Cocoa butter is a relatively expensive raw material, and prices fluctuate heavily. When substituting alternative vegetable fats for cocoa butter, cost savings of up to 50 percent may be achieved.

### Streamlined production

CBR is a cocoa butter alternative that is much easier to handle than cocoa butter itself. Unlike cocoa butter, CBR fats do not require tempering in chocolate production. This makes the production process both simpler and safer for the chocolate manufacturer.

### Technical benefits

Compared to cocoa butter, the CBA fats are superior in the areas of shelf life, storage stability and heat resistance.

### In line with new legislation

New EU regulations have stimulated demand for cocoa butter alternatives, although to an extent that is yet to meet expectations. The regulations came into force in the summer of 2003, and allow the chocolate industry the use of up to five percent vegetable fats other than cocoa butter. The full effect of these new regulations would generate a growth of the CBA market of 25,000 – 50,000 tonnes per year.

The main ingredients of chocolate and confectionery products are sugar, fat and cocoa. The fat used in chocolate products fulfils several functions: it provides texture, it adds flavour, it influences important functions like melting point (a chocolate bar should melt in your mouth – not in your hand) and shelf life.

### From cocoa butter to other vegetable fats

By tradition, chocolate has been based mainly on cocoa butter. For several reasons, demand for vegetable alternatives (such as products based on palm, soybean or rapeseed oil) has grown in recent years.

Continuous and focused development work has positioned Karlshamns as one of the leading market players in the CBA (Cocoa Butter Alternatives) segment as well as in the market for premium filling fats with added technical value. In the latter segment, Karlshamns is the market leader in the Nordic countries, as well as in Central and Eastern Europe.

### Sales are growing despite keen competition

The global market for chocolate and confectionery products is estimated at 5.6 million tonnes, with an annual expected growth of 2 – 3 percent. Karlshamns' largest customer group consists of six multinational chocolate and confectionery manufacturers that account for some 60 percent of total world production. In addition to these six corporations, Karlshamns also focuses on a number of regional market leaders.

In 2004, volumes grew by 6 percent in a stagnant market. Despite high cocoa prices, prices of CBA fats have remained under pressure which impacted contribution margins adversely.

### Health aspects are gaining ground – focus on low-trans fats

Throughout the food industry, health aspects are becoming increasingly important for the choice of fat. The same trend applies to chocolate and confectionery products. As a consequence, demand for non-trans and low-trans fats continued to grow in 2004. New labelling regulations are coming into force on the US market in 2006. From then on, the trans content of chocolate and confectionery products must be declared on the packaging.

Karlshamns is among the leading suppliers of low-trans fats. In 2004, the range of filling fats benefited from several additions in the form of

trans-free or low-trans fats. These fats have been specifically developed for fillings in which the fat has a decisive impact on production efficiency and the quality of the end product.

### Stronger demand for technical service

Over the years, Karlshamns has gained considerable know-how about all kinds of production processes. In addition to the development and marketing of vegetable fats, the Chocolate & Confectionery sector also assists its customers with advice and support when it comes to production methods and equipment.

### Targeted R&D operations, marketing activities and cost cuts

To meet the relentless competition, focus has remained on product development, extended marketing activities and cost savings. In 2004, these measures resulted in a decreasing cost level, several new product launches and growing sales volumes.

### Streamlining pays off

Karlshamns maintained its ambition to lower the overall cost level throughout 2004, with particular priority given to the identification of bottlenecks in production operations and the optimisation of energy consumption. A major energy-saving programme has been implemented to cut energy costs at the Karlshamn plant; the profit effect is expected in 2005.

### Market-oriented product development

Akotres and Akofect LT are examples of new low-trans fats for praline fillings that were successfully introduced in the course of 2004.

### Changing competitive scenario

In the Chocolate & Confectionery Fats segment Karlshamns competes mainly with Aarhus United, Fuji Oils and IOI Loders. In recent years this market has been characterised by consolidation, a trend that is expected to continue through the next few years, with Aarhus United currently up for sale.

### The year 2005

In the year ahead of us, Chocolate & Confectionery Fats will continue to implement its strategic plans. Product development will maintain its focus on low-trans or trans-free products, with sales and market-





### What is “trans”?

By “trans” we mean unsaturated fats in a particular form: trans fatty acids. Trans fatty acids are naturally present in milk and fat from ruminants, but may also be produced when vegetable fats are hardened. Several scientific studies have demonstrated a clear connection between trans fatty acids and an extended risk of cardiovascular diseases – i.e. the same risk as entailed by saturated fats. This is also one of the main reasons why the National Food Administration in Sweden as well as in other Scandinavian countries is striving to limit the intake of both saturated fats and trans fatty acids.

ing operations still targeting on their two priority groups: large multinationals, and leading regional or national manufacturers. The goal for this business sector is to further consolidate its market-leading position in the Nordic countries as well as in Central and Eastern Europe, while also achieving global growth.

Bottlenecks in production operations will remain a priority. As the expected volume growth continues, capacity-expanding investments will be necessary in order to keep pace.

### The Oils & Fats Academy

Within the framework of the Oils & Fats Academy, Karlshamns’ technical staff volunteers as teachers for both customers and fellow employees. They teach fat chemistry in general, but also share their specialised knowledge of the fat molecule and its characteristic properties.

## Four questions for Agustín Pérez, Karlshamns’ own chocolate expert

### What trends do you see in the chocolate market?

Chocolate consumption has been growing at a steady pace in the past ten years, particularly in Central and South America and in Asia. In these markets, product development is also quicker than in the more mature European market. As for new trends, you may divide them into four different categories:

- Convenience – products you eat on the run.
- Pleasure – products for customers with money to spend who appreciate attractive packaging, high quality and sensuality.
- Freshness & lightness – energy snacks, for example, or crispy fillings, or lemon and yoghurt flavours.
- Chocolate with nutritional benefits, such as vitamins, minerals or Omega 3.



### In which part of the world do we find the highest chocolate consumption?

In Europe – by a fairly broad margin. Switzerland is number one, followed by Germany and Belgium. In all of these countries, chocolate consumption exceeds 10 kg per person per year.

### How does Swedish chocolate consumption compare to the rest of the world?

Very traditional, with a slightly limited product range. We eat close to seven kilos of chocolate per person per year, most of which is milk chocolate bought at supermarkets and kiosks. We differ from most other countries by eating just as much chocolate in summer as in winter – a consequence of our climate.

### What kind of chocolate is your own favourite?

From the beginning, I enjoyed chocolate as a candy. It then grew into a hobby and a passion, and finally became my vocation. I spent five years working in Belgium, which made me an addict! At that time, I ate around 200 grams each day. Today I’ve limited my consumption somewhat, but I still eat more than most other people do. I prefer dark chocolate, but enjoy milk chocolate as well.

### Agustín’s easy recipe for milk ganache

- 3.5 dl cream
- 60 g milk chocolate
- 5 g butter

Heat the cream to boil, add the chocolate while stirring gently. When homogenous, add the butter. Optional flavourings to add are for example a few tablespoons of coffee, or some grated orange peel. Remove from the stove, store at room temperature or in the fridge. Savour!



## New production plant for liquid margarine

In November 2004, Karlshamns inaugurated a new production line for liquid margarine. The new plant makes an important contribution to the Group's production capacity, while also facilitating Karlshamns' efforts to tailor products to specific customer demands. The investment was made in line with Karlshamns' strategy to expand its proportion of high value-added and technically advanced premium fats.

## Strong demand for liquid margarine and pumpable fats

Demand for liquid margarine and pumpable fats is growing at a steady pace, partly as a consequence of the notable price pressure and focus on cost savings that characterise the entire food industry. Pumpable fats are supplied in bulk (by tank lorry, in containers or drums) direct to the customer. On arrival, the product has a consistency that allows for convenient pumping into the customer's own production process, without any further handling whatsoever.

"Compared to solid margarine, pumpable fats are really user-friendly. They allow the customer to skip several handling steps, which clearly simplifies and rationalises the overall process. Our customers in the bakery industry are thus given a good opportunity to cut production costs," says Håkan Christensson, President of the business sector Food Ingredients.

# Food Ingredients

The business sector Food Ingredients develops and markets vegetable oils and fats for the food industry. In combination with strong volume growth in the Nordic countries and Western Europe, the healthy progress achieved by high value-added speciality fats led to a 13-percent growth in total volumes in 2004.

Karlshamns boasts one of the market's widest ranges of edible oils and fats: everything from standard cooking and margarine oils to more advanced oils with specific and tailored properties.

## Higher added value and intensified marketing activities

In recent years, the Food Ingredients sector has suffered from severe pressure on prices. Its strategy to focus on higher value-added products has proved successful, however. The combination of intensified marketing activities, higher-profile products and better service contributed to a volume growth of some 13 percent in 2004. Sales made strong progress in all markets, particularly in the Nordic countries. Speciality products continued to make headway, especially bakery fats and dairy fat alternatives, along with trans-free fat systems for the margarine industry. The proportion of high value-added products was on a level with last year.

## Rational handling at lower cost

As home baking is becoming something of a rarity, sales of industrially baked cookies, cakes and other bakery products are growing considerably. The fat itself, as well as the handling it requires accounts for an important part of a bakery's costs. Growing production volumes thus increase the need for cost-efficient production and high productivity.

To meet this demand, Karlshamns has introduced pumpable fats. This is something of an innovation on the market: fats delivered in bulk, enabling rational handling with no need whatsoever to compromise on quality in the end product. On arrival at the bakery, fats are tempered to make them easy to pump directly into the production process without any further handling. Heavy lifting is avoided, no pallets have to be moved around, and the time-consuming handling of empty packaging material is eliminated.

## Continued emphasis on health aspects

The food industry kept its focus on health aspects and food safety throughout 2004. The increasing demand for edible vegetable oils is driven not only by their lower costs, but also by a growing emphasis on issues related to health and well-being. This development is reflected by a growing demand for more nutritional fats as well as for so-called functional food products.

## Low-trans fats

A specific example of the strength of this new health trend is the steadily growing demand for low-trans fats. In 2004, Food Ingredients launched several new

fats with low trans content. Sales are progressing well, and several new products will be developed and launched in 2005.

## Three product segments

Since 2003, the product range of Food Ingredients is divided into three product segments: Formulated Fats, Dairy Fat Alternatives and Volume Products.

### ■ Formulated Fats

Product segment Formulated Fats develops and markets high value-added fats as well as complete product concepts for three major applications: bakery, food service and health products. Although Europe constitutes the main market, certain products are sold all over the world.

**Bakery.** Fat fulfils a number of functions in bread, cookies and other bakery products – particularly when it comes to flavour and shelf life. Food Ingredients supplies a wide range of fats for most types of bakery applications. This product segment made good progress in 2004 and several new fats were launched, e.g. Akobisc R, a new pumpable fat for cookies.

**Food Service.** This product segment provides restaurants, catering businesses and similar larger-scale operations with a wide range of formulated cooking and deep-frying oils, frying margarines, liquid margarines and speciality products. Established in 2003, this product segment developed well indeed in 2004. The main customers are large wholesalers who distribute Karlshamns' products under their own brands.

**Health Products.** The interest in – and indeed the understanding of – the dietary effects on our health and well-being has grown considerably in recent years. Society's and consumers' demands on food products and their ingredients are now becoming more and more stringent, and there is a steadily growing demand for organic and functional foods. In 2004, a number of important customer projects were launched, some of which target infant foods and fats contributing to the reduction of cholesterol in the blood.

### ■ Dairy Fat Alternatives

In the dairy market, the increasing competitiveness has led to pressure on prices and an accelerating demand for continuous product development.

Both of these factors have contributed to a growing demand for vegetable dairy fat alternatives in the past few years.



The product segment DFA (Dairy Fat Alternatives) offers high-quality vegetable fats with a wide range of unique properties for the manufacture of dairy products. The DFA market consists mainly of European dairies and ice-cream producers. The price level and product properties of the DFA fats contribute strongly to the competitiveness of Karlshamns' customers in this market.

Product development is continuous and intense in this market segment, and Karlshamns has a number of projects in the pipeline. One of the most exciting is Akocheese, a vegetable fat for cheese products.

Cheese fats made rapid progress in 2004, and several full-scale tests are planned for 2005.

■ **Volume Products.** This product segment comprises fats used in the production of margarine, mayonnaise, dressings and deep-frying oils. Margarine fats account for the largest volumes in this segment. Margarine consumption is decreasing at a steady pace, however, a trend that has prompted a development towards higher value-added products such as low-trans fats.

#### Excess capacity and tougher competition

The global market for vegetable oils is growing at the same pace as the population, i.e. by some 2 – 3 percent per annum. In recent years, the market has

been characterised by excess capacity among vegetable oil refineries, and stiffening competition from Asian market players. The result has been a notable pressure on prices, which in turn has precipitated a consolidation process in the market. The decision by the EU to subsidise biodiesel production will boost the demand for raw materials, which will entail a further increase in raw material costs for the food industry.

Among Karlshamns' main competitors are Aarhus United, ADM and Cargill.

#### Acquisition of UK niche company

In line with the strategy to expand its range of speciality fats, Karlshamns acquired the assets of UK-based Kelanco Ltd in September 2004.

Kelanco is specialised in flaked fats for the food industry, with annual sales of around SEK 15 million. Flaked fats are primarily used by the rapidly growing market segment for convenience foods. Flaked fats contribute several important functions, while also simplifying the handling process. The United Kingdom is market leader in this segment, but the trend to buy ready-to-eat meals in the supermarket is accelerating rapidly all over Europe. In addition to the access to a promising market, the acquisition of Kelanco also provides a platform for the development of other flaked fats.



#### Four questions about food products for Jens Harrysson, Commercial Product manager in the Food Ingredients sector

##### What are the major trends in the food segment?

The packaging is becoming more and more important. It must appeal to the consumer, it must be convenient and easy to use. The food product itself must be safe, healthy, easy to cook – and delicious, of course! The trend towards "easy cooking" on weekdays and more

advanced gourmet cooking on weekends seems to be a durable one. In a few years, we'll be able to buy an even larger number of products that are ready for the final "assembly" on our own stove. Refrigerated convenience meals or components (meat by itself, sauce by itself etc) will be the next trend to appear.

##### What is the most common deficiency in our modern diet?

The by far most serious mistake is to eat too much sugar. Sugar is a good bulk raw material with several advantages. However, it provides plenty of energy, and in combination with desk work and too little physical activity, the result is that we gain weight. To avoid further problems, we must strike a better balance between the intake and consumption of energy.

##### Does Swedish food consumption differ from other parts of the world?

In general, the Western diet contains much more saturated fat than in Asia. According to the current debate, we must be careful to reduce the amount of trans fatty

acids and saturated fats – remember? Generally speaking, it's only in our part of the world that we consume too much of these kinds of fats. The excess intake of sugar, however, is a much more urgent risk factor than our current consumption of saturated fats.

##### What's the next major trend in food products in Scandinavia?

Geographically speaking, the next major trend is bound to be African. Food trends have a tendency of reflecting our holiday preferences. First we went to the Mediterranean countries and were inspired by their local cooking; then we went to Thailand. The trend towards quick and easy "street food" will continue to grow, with the supply of alternative meals along the street increasing accordingly. We're also going to raise our standards for the food we eat: it should be good, healthy and fresh.



## What are the current drivers in the cosmetics market?

In the past few years, the cosmetics market has been characterised by rapid growth. This upswing is the result of several trends:

1. Growing consumption among older and younger customers. On average, people live longer today. For the cosmetics market, this means larger sales volumes to customers of a more mature age. At the same time, young people are spending a growing proportion of their disposable income on skin-care products and cosmetics.
2. A stronger focus on health and well-being.
3. Increasing consumption of skin- and hair-care products among men.
4. Growing middle classes in countries like China, India, Brazil, South Korea and Russia.

# Lipids for Care

Karlshamns' business sector Lipids for Care is market-leading in the development and sales of high value-added vegetable fats for the following applications: cosmetics, skin-care products and clinical nutrition. In 2004, sales increased by close to 20 percent, mostly a consequence of strong progress in Western Europe and the US.

The business sector Lipids for Care is a market leader in the segment for innovative, high value-added fats for the cosmetics and skin-care industries. These fats are used as vital ingredients in skin- and hair-care products, make-up and various toiletries for cleansing, showering and bathing. Karlshamns' speciality fats play a number of different roles: as emollients, as moisturisers, and as carriers of biologically active substances.

## Strong progress in 2004

Lipids for Care consolidated its position in several important markets, especially in the US and in Europe. The novel products launched in the past few years accounted for a substantial part of the volume growth achieved in 2004. Among the targeted growth markets, China developed particularly well.

## A growing market

The cosmetics and skin-care segment is a booming market, with a growth rate of 3 – 4 per annum – in certain regional markets even higher. This strong progress is the result of two factors in particular: higher disposable income in the West, and rapidly growing middle classes in countries like China, India, Brazil, South Korea and Russia.

## Soaring demand for natural, vegetable, functional raw materials

Vegetable oils and fats have been used in cosmetics for a long time now, and our knowledge of their health and safety aspects is thus both comprehensive and well documented.

Demand for natural, non-animal raw materials that contribute different kinds of functions to the end product has surged in the past few years. To a growing extent, consumers prefer cosmetic products based on vegetable raw materials to synthetic-, animal- or petroleum-based alternatives. One factor that is definitely stimulating demand is the growing supply of products that not only have a natural origin, but also provide some kind of special or even unique function.

## Shea – total control, from nut to end product

Products based on the oil extracted from Western African shea nuts have been among the cosmetic industry's favourites for a long time now. Among the main reasons for this popularity are their excellent "skin feel" (softening and moisturising properties) and bioactivity (e.g. anti-inflammatory properties).

In this market segment, Karlshamns enjoys a very strong position. A comprehensive product range has been developed – the "Shea Butter Family" – to offer consumers a wide variety of application alternatives.

Karlshamns' unique processes, such as a highly specialised fractionation method, contribute to the development of a steadily growing number of new members of the "Shea Butter Family".

## Total control – from nut to end product

Karlshamns controls the entire production chain:

Quality-assured purchases in Western Africa by its own, local office ➤ shipping for storage in Karlshamn ➤ own extraction ➤ own processing and refining.

This means that Karlshamns' customers are always guaranteed not only top-of-the-line quality but also a secure supply – the latter a particularly important asset in view of the strong fluctuations in harvested volumes of this wild-growing nut.

## A gentle process

Crude oils contain certain substances that should be kept intact, as they make a positive contribution to the functionality of the end product. Examples of such substances are natural antioxidants and vitamins. Thanks to Karlshamns' gentle purification process, these beneficial minor components are left unharmed while all unwanted substances, such as pollutants and odorous substances, are efficiently removed.

## At the forefront of product development

Dedicated focus on the development and marketing of vegetable speciality oils for the cosmetics market has given Karlshamns a unique position. New products are developed in our very own cosmetics laboratory, often in close cooperation with customers and partners. In 2004, these innovative efforts resulted in the launch of several novel products: Lipex® Sheasoft, Lipex® Cocoasoft and Lipex® Genova.

Lipex® Sheasoft is one of Lipids for Care's most recent, innovative additions to the "Shea Butter Family". Its improved temperature stability and crystallisation properties offer Karlshamns' customers new and promising potentials for their own development of new end products.

## Competitors

The major competitive weapons of Lipids for Care are unrivalled technical know-how about the fat molecule, the unique manufacturing processes (e.g.



### Three reasons why demand is growing for vegetable fats

- Natural raw materials.
- Unique, functional properties.
- High safety profile.

fractionation), full control of the entire production chain, innovative yet safe products, as well as a smooth and efficient distribution network.

Among Lipids for Care's main competitors are large, global chemical groups such as Cognis, Croda and Uniqema.

### The future

The target set for Lipids for Care is to surpass the growth rate of its main markets. This is to be achieved through continued focus on product development, intensified marketing activities, extended cooperation with distributors in targeted countries and a strong emphasis on a number of selected key customers.



### Seven questions for Per-Anders Nilsson, sales rep at Lipids for Care

#### What are the current trends in the cosmetics market?

There is a strong global trend towards more natural ingredients. Today's consumers have much better knowledge

of the ingredients used in cosmetics – whether it's a skin cream, a shampoo or a make-up product. To a growing extent, synthetic (silicone), mineral-oil based (paraffin oil) and animal (lanolin) raw materials are being replaced by vegetable alternatives that are safe, renewable and environmentally friendly.

#### When did we first start to use cosmetics?

Cosmetics have been used for decorative and ritual purposes for as long as mankind has been around. Cosmetics in the modern sense of the word were used in Ancient Sumeria, Egypt and Babylon, and of course by Ancient Greeks and Romans. The modern, industrial cosmetics industry was born in France, in the first half of the 19<sup>th</sup> century.

#### It's becoming more and more usual for men to use cosmetics and skin-care products. How does this development affect Karlshamns' sales?

Products adapted for male consumers constitute a rather new segment, but one that our customers are giving more and more priority to. These are mainly styling products for hair care, but also skin-care products like after-shave lotions and face scrubs. Even though this segment is displaying strong growth, it still accounts for only a few percent of the entire cosmetics market. The main consumer group is young men under the age of 25.

#### Geographically speaking, what is the most important market?

The United States is definitely the dominating market, closely followed by Europe as a whole. Asia is making rapid progress, however, and just like many other suppliers we have high hopes for the Chinese market.

#### How does Swedish cosmetics consumption compare with the rest of the world?

In Sweden, considerable volumes are sold via the state-owned pharmacies – in particular skin-care products. Well-established brands still account for the major sales volumes. With its population of just 9 million, Sweden will always be a rather limited market compared to densely populated countries like Germany, France, Great Britain, Italy and Spain.

#### What are the most important cosmetics ingredients?

A typical cosmetic product contains an emollient (such as vegetable or mineral oil), water, various plant extracts and usually some kind of emulsifier to ensure a stable emulsion of the water and the oil. Each of these ingredients has a specific function to fulfil. Today, all of these ingredients – the emollient, the active substances as well as the emulsifier – are often being replaced by vegetable alternatives. Among these alternatives, shea butter from the shea nut is clearly an important one. In this area, Karlshamns has a definite advantage thanks to our strong control of shea raw materials – from storage and processing to the finished product.

#### What types of cosmetic products are most R&D resources focusing on?

There are highly interesting developments in the interface between cosmetics and food ingredients, both of which involve vegetable oils. In the future, we'll see cosmetic products based on edible oils, for example. There is also rapid progress in the area where pharmaceuticals and cosmetics overlap. A lot of research is going into skin- and hair-care products that protect against UV radiation, car exhaust, cigarette smoke and other pollutants.

# Technical Products

Operations in the business area Technical Products are conducted by two subsidiaries: Tefac AB and Binol AB. In 2004, Technical Products accounted for 14 percent of the Group's total sales, and 16 percent of operating profits.

The positive trend enjoyed in the past few years was broken in 2004. Rising raw material prices in combination with stagnant prices of fatty acids caused a decrease in Technical Products' operating profit to SEK 24 million (41).

## Tefac

Tefac produces and markets fatty acids and glycerine. Both products are obtained from the splitting of the fat molecule and are used in a wide range of application areas. Fatty acids are mainly used as a raw material in the chemical industry. After processing into higher value-added products (such as amines and esters), fatty acids are used as raw materials in a number of market segments. The main application areas are paper chemicals, soaps, detergents, rubber and plastic. A well-known consumer product consisting entirely of fatty acid is the stearin candle.

Glycerine also has a wide range of application areas: cosmetics and explosives, paints and food products. Tefac's main customers are in the technical industry.

Around 25 percent of Tefac's sales are to Swedish customers. Other important markets are Germany, Great Britain, Finland, Russia and the Baltic countries. Some 85 percent of sales are accounted for by fatty acids, the remaining 15 percent by glycerine.

### Fatty acids

The European fatty acids market was more or less stagnant in 2004, with volumes on a level with 2003. Tefac consolidated its market position while increasing its sales volumes by 6 percent, mainly within the European chemical industry. Customers in the paper, soap, detergent and candle industries continue to account for more than 50 percent of Tefac's sales volumes of fatty acids.

The fatty acid segment is suffering severely from surging raw material prices, a development mainly caused by the growing demand for Tefac's raw materials from a number of European energy industries. These raw materials are used as bio-fuels, as prices of fuel oil are rising steeply as well. The overall effect has been generally shrinking contribution margins.

### Glycerine

The glycerine market grew only marginally in 2004. The EU is subsidising biodiesel production, resulting in a considerable oversupply of glycerine (a by-product of biodiesel production). These surplus volumes are pushing prices downwards, with contribution margins following suit.

### A strategy for the future

We expect the negative effects of EU's biodiesel subsidies to dominate the market for quite some time. Tefac's way of addressing these developments is to add further value to its products. Today, products in the fatty acid segment as well as in the glycerine segment have a fairly low degree of specialisation. The goal set for the years ahead is to advance from bulk commodities to higher value-added speciality products. Development projects have been launched in cooperation with existing customers, and the first new products are expected to be launched in 2006.

### A local market

For logistical reasons, the market for fatty acids and glycerol is mainly local. Tefac enjoys a strong position on the Nordic market, where its brand is solidly established. At the same time, Tefac is a large enough supplier to attract the interest of customers in Germany, Great Britain and Eastern Europe as well. Competitive prices, flexible deliveries, reliable quality, strong customer relations and its strong ties to the rest of Karlshamns make Tefac well-equipped to enjoy continued progress in a changing market.

### Competitors

The main players on the European fatty acid and glycerine market are Uniqema, Cognis and Oleon. In recent years we have seen major structural changes in this market, resulting in a concentration to fewer but larger players among both producers and consumers. In Europe there are now some 15 market players, of which three clearly dominate the market. In the US this concentration process has been taken one step further, with the number of major market players now reduced to six.







## Binol

Binol develops, manufactures and markets Karlshamns' environmentally friendly technical oils. Most of Binol's oils are used as fluids and lubricants in the metalworking industry, and as hydraulic oils and chainsaw oils in the forestry and construction segments. The majority of Binol's products are sold on its domestic market, i.e. in the Nordic countries. As a result of the acquisition of the technical oils operations of Raisio Chemicals and the cooperation with Quaker Chemical, sales to the Nordic countries now account for a larger share of Binol's total sales, with exports decreasing to 10 percent of total sales in 2004. In terms of actual volumes, exports increased, however, with the US, Canada and Germany constituting the single largest export markets.

On the Nordic market, the company sells Binol- and BioSafe-branded products directly to end-users. On all other markets, Binol cooperates with different partners, which means that the products are usually sold under private brands.

### Market and sales developments

In 2004, Binol continued to strengthen its position on the Nordic market. Sales grew by 75 percent, and despite surging raw material prices and pressure on sales prices, the company enjoyed a healthy profit development. The prime factors behind this positive development are growing sales to the metalworking industry, a successful integration of the technical oils operations of Raisio Chemicals and favourable effects of the Quaker Chemical cooperation.

### Stronger environmental awareness, focus on costs and new environmental labelling standards stimulate demand

There is today a general, growing environmental awareness throughout our society. As a consequence, the market for environmentally friendly technical oils is expected to grow by 5 – 10 percent per an-

num within the EU. There are considerable regional differences, however. In Germany, fiscal subsidies are granted companies that switch from mineral oils to vegetable alternatives. In a number of other EU member states it remains difficult to draw attention to environmental arguments. In December 2004, the Commission voted for an environmental labelling standard (the EU flower) for all lubricants within the Union. This is expected to generate a general increase in demand. The new labelling requirements also specify a certain proportion of renewable raw materials in the products, a condition that favours Binol's products.

The use of biodegradable oils is often specified as one of the goals of environmental certifications, such as ISO 14001. Environmental considerations are also becoming an increasingly frequent requirement in purchasing negotiations within the European Union.

### The metalworking industry

In combination with the favourable development in the metalworking industry, focused sales activities to increase the number of new customers among medium-sized companies resulted in an 18-percent sales increase of Binol-branded products. With sales of Quaker-branded products taken into account, Binol expanded its Nordic market shares and is now number two. Fierce pressure on prices in the motor industry impacted negatively on contribution margins, however.

In the metalworking industry, the substitution of mineral oils by environmentally friendly technical oils entails several advantages: higher performance, lower total costs and a considerably improved working environment. The higher price per litre is more than compensated for by the oil's longer useful life in combination with a reduction of consumption volumes by up to 50 percent.

### Forestry and construction

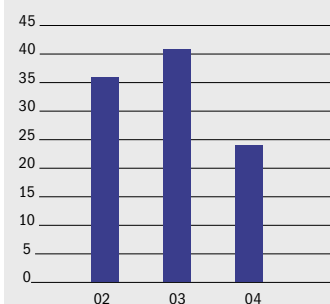
For Binol-branded products, sales to the forestry and construction industries remained on the 2003 level.

## Technical Products

	2004	2003	2002
Net sales, SEK m	523	501	455
Gross contribution, SEK m	156	160	148
Operating profit, SEK m	24	41	36
Net operating assets, SEK m	212	195	164
Return on net operating assets, %	11	24	25
Average no. of employees	101	94	90
<b>Volumes, 000 tons</b>			
Fatty acids	69	57	52
Glycerine	7	6	6
Technical oils	5	3	3

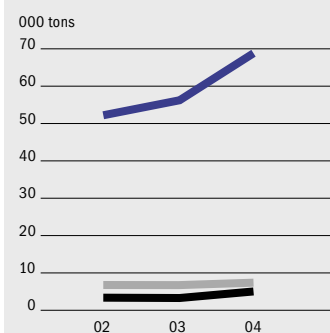
Operations in the business area Technical Products are conducted by two profit units: Tefac and Binol.

### Operating profit (SEK m)



The Technical Product business area's operating profit amounted to SEK 24 million (41).

### Volume development



■ Fatty acids  
■ Glycerine  
■ Technical oils

## Binol forms strategic alliance with Quaker Chemical

In March 2004, Binol signed a global cooperation agreement with US-based Quaker Chemical to the effect that Binol's cutting fluids for the metalworking industry will be globally marketed under the Quaker Chemical brand. In the Nordic countries, these products will continue to be sold under the two companies' respective brands. As a result of the Quaker Chemical alliance, Binol is expanding its share of the Nordic metalworking market and is now the second-largest market player – by a fair margin.

"This cooperation is entirely in line with Binol's strategy to achieve growth by offering our well-functioning and thoroughly tested products to large international corporations with strong brands and efficient distribution channels. In this particular case, the cooperation will also generate considerable advantages on our domestic market, the Nordic countries," says Magnus Jörsmo, President of Technical Products.

Inclusive of BioSafe-branded products, volumes more than doubled compared to 2003. However, a general trend in the market has been a preference among customers to satisfy their entire demand for both lubricants and fuels from a single supplier. This development has benefited the larger oil companies. There has also been considerable pressure on prices, which has decreased contribution margins.

In the forestry and construction segment, Binol's main competitive weapons are environmental advantages in combination with customised distribution formulas.

Sales of Binol's own band-saw oils increased by 10 percent in 2004. Competition is growing keener, however, and we have seen several new players establishing themselves on the market.

In 2002, Binol signed a cooperation agreement with Shell, giving Shell the right to market a large part of Binol's product range under its own brand. This cooperation has developed well, and thus contributed to growing volumes. Although the agreement is global, focus is on Europe.

### The future

The target set for 2005 is to strengthen Binol's position on the Nordic market, and to achieve global growth through strategic partnerships. The number of cooperation agreements and alliances is thus expected to increase.

A larger number of new product launches is also to be expected. The acquisition of the technical oils operations of Raisio Chemicals added considerable strength in the area of product development. To date, this has resulted in several new products in both segments – ready for launch in 2005.

For the metalworking segment, the strategy is to continue to approach medium-sized customers while also advancing towards the larger corporations in the motor industry, customers who often require worldwide supply of a given product. In both of these areas, Binol's international alliances will offer important opportunities.

In the forestry and construction segment, the goal is to also form alliances with oil companies operating in the Nordic countries. In the area of strategic alliances, Germany is a market that will be given higher priority.

## Feed Materials

The business area Feed Materials is responsible for the Group's processing and marketing of vegetable protein and fat raw materials for the animal feed industry. Feed Materials also handles the extraction of vegetable oils from rapeseed and shea nuts. In 2004, this business area accounted for 14 percent of the Group's net sales, and 23 percent of operating profit.

The year 2004 was a good one for Feed Materials, with an upward trend in both sales and profits. Sales amounted to SEK 490 million, and operating profit to SEK 34 million. The prime factors behind this considerable progress were the high gross contribution for rapeseed extraction, growing volumes of both ExPro™ meal and feed fats, efficiency improvements and optimised capacity utilisation in the crushing and extraction plants.

The sizeable gross contribution on rapeseed extraction is mainly a consequence of the growing demand for rapeseed oil for biodiesel production. As a result, the crushing of shea nuts was somewhat below the volumes of previous years.

### Extraction of vegetable oils and meal

Feed Materials handles the extraction of vegetable oils from rapeseed and nuts. Crude vegetable oil and a bypass meal rich in proteins (ExPro™ meal) are extracted from rapeseed. Most of the rapeseed oil is processed by Karlshamns, with external sales handled by the business area Oils & Fats. The majority of sales go to the food industry, whereas ExPro™ meal is sold mainly to the Nordic feed industry.

### Competitive product range

The product range of Feed Materials consists primarily of different groups of feed proteins and feed fats. ExPro™ meal is a bypass protein that enhances the effects of the feed protein and increases the yield of dairy cows.

The range of feed fats comprises both solid bypass fats and liquid feed fats. The majority of feed raw materials are used as ingredients in feed products for cattle, swine and poultry. The composition of these feed products has a decisive effect on the yield of dairy cows and the growth rate of swine and poultry.

### Market and sales trends

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





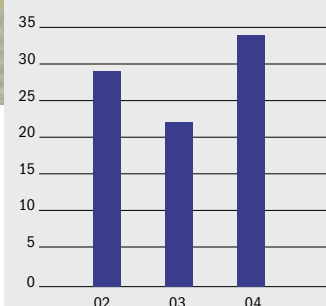
## Feed Materials

	2004	2003	2002
Net sales, SEK m	490	419	400
Gross contribution, SEK m	134	118	120
Operating profit, SEK m	34	22	29
Net operating assets, SEK m	105	112	58
Return on net operating assets, %	28	24	28
Average no. of employees	51	51	47

### Volumes, 000 tons

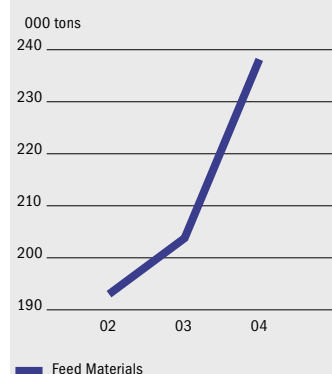
Feed Materials	238	204	193
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### Operating profit (SEK m)



Operating profit amounted to SEK 34 million in 2004.

### Volume development



of the aggregate Nordic feed market. The largest share of Feed Materials' sales is to customers in Sweden, Norway and Finland.

Customers are limited in number, but of considerable size. Svenska Lantmännen is the single largest customer on the Swedish market.

In 2004, Feed Materials continued to profit from its customers' continued focus on high cost efficiency and top-level food safety, with hygiene a particular area of priority.

Reinforced marketing resources resulted in extended market penetration, with sales volumes of ExPro™ meal growing by 20 percent in 2004. In all, sales of different kinds of feed fats grew by 11 percent. Most of this increase was achieved in the Nordic countries, although a certain progress was also made in northern Germany. A fat for horse feed was introduced in 2003. It is continuing to develop well, but sales volumes remain on a rather limited level.

The business area Feed Materials' position in the area of feed safety was further consolidated in 2004, as a new high-speed method for salmonella analyses (the PCR method) was introduced. This method considerably improves the possibility of identifying salmonella risks in external environments at a very early stage. Today, Karlshamns' supply of guaranteed salmonella-free protein products is unmatched.

### The future

Product development will be a highly prioritised task in 2005, along with intensified sales activities and continued streamlining efforts to cut costs.

In the shea oil production, projects to optimise efficiency will be initiated.

Market penetration will proceed in Poland as well as in the Baltic countries. Once livestock farming in the new European Union member states adjusts to

new levels of efficiency and these countries' standard of living improves, market potentials for cost-efficient feed materials will grow accordingly.

Quite generally, Karlshamns profits from the rising international demands for hygiene and feed safety. In Scandinavia, feed safety is already way ahead of other European Union members.

The volume growth achieved in 2004 would not have been possible without the investments in new equipment made in 2003. To increase volumes even further, considerable efforts will be spent on the identification and removal of bottlenecks in 2005. Endeavours to streamline operations and cut costs will continue as well. A prioritised task is to reduce overall energy expenditures, in particular steam consumption, as this is a heavy operational cost.



# Research and development

Karlshamns' R&D operations are at the forefront of research into the fat molecule and its properties. R&D developments constitute a central part of the Group's strategy to add further value to its products and to increase its overall degree of speciality.

Karlshamns' know-how about the fat molecule constitutes the very core of its business operations. Future competitiveness is based partly on the Group's capacity to exploit and develop its expertise in the fat molecule and its properties, partly on its talent for transforming this know-how into new, attractive products.

In 2004, Karlshamns' R&D expenses amounted to approximately SEK 30 million, or 3 percent of gross contribution.

## Central part of Karlshamns' strategy

R&D operations, always a central part of Karlshamns' business activities, have gained in importance in recent years, with the strategy to increase the degree of specialisation and add further value to the Group's product range. When the new strategy was adopted in 2001, R&D operations came to distinguish between short- and long-term projects.

**Long-term projects.** These are projects striving for the development of entirely new products and concepts. The duration of long-term projects usually exceeds one year.

**Short-term projects.** Short-term projects are often launched to upgrade, specialise or customise existing products. Such projects are often conducted in cooperation with customers and/or other business partners.

The purpose of all of the Group's R&D efforts is the development of innovative products with an obvious potential for commercial success. For the optimum effect, R&D operations undertake a limited number of projects per year. In 2004, the Group conducted around ten long-term projects and a larger number of short-term ones.

## The development process

Prerequisites for efficient and productive R&D operations are a well-defined focus; close, open-minded cooperation among all business units; and keeping abreast of current developments in the industry. The global framework of all projects is laid down in connection with the annual strategy process.

## Three main areas

Generally speaking, Karlshamns' R&D operations may be divided into three main areas:

**1. Physical properties.** One of the many functions of Karlshamns' speciality fats is to give food, chocolate

and cosmetic products their specific structure and texture. By tradition, most of the Group's R&D operations have concentrated on research into the physical properties of fat. The purpose of these activities is to continuously develop the properties of fats to guarantee the desired structure and texture in the end products.

**2. Biological functions.** Vegetable oils and fats contain a large number of components with an ability to influence various physiological processes and thus also to affect our health and well-being. Even though fats with biological functions are yet to constitute a considerable part of Karlshamns' sales, their potential is deemed to be important. Karlshamns' R&D efforts are focusing on ingredients for both functional foods and cosmetics.

**3. Production processes.** In addition to the purely functional properties of oils and fats, R&D activities also target production efficiency among Karlshamns' customers. The purpose may be to develop customised packaging alternatives, for example, or new distribution solutions.

## Prioritised areas in 2004

Last year's development work gave considerable priority to the development of low-trans fats (see more about trans fatty acids on page 15). Demand for such products has escalated in recent years, particularly among large, international customers. Karlshamns introduced a number of low-trans fats for chocolate fillings in the summer of 2004, the trans content of which has since been even further reduced.

The development of a new churnable fat for the DFA segment (Dairy Fat Alternatives) made decisive progress in 2004. The product launch is to be expected in 2005.

Important headway was also made in the development of fats with biological functions. One of the ongoing projects focuses on research into enzymes to







develop an efficient substitute for mother's milk.

In the cosmetic segment, the main focus has been on the development of active components (such as emollients) and solutions that enable customers to streamline their processes. One example in this area is fats that contribute to a quicker crystallisation process.

#### Cooperation with leading players

In addition to their close cooperation with customers, Karlshamns' researchers are in regular contact with national and international authorities, research institutes, universities and colleges. Research projects are currently being conducted in cooperation with the University of Gent, SIK (the Swedish Institute for Food and Biotechnology) and Vinnova.

#### Karlshamns' Scientific Board

Karlshamns' Scientific Board is manned by researchers and experts from Sweden, Great Britain and the United States. The Board provides access to the latest academic research.

#### The Scientific Board has the following members:

- Jari Alander, Karlshamns
- Professor Björn Bergenståhl, University of Lund
- Professor Sven Engström, Chalmers University of Technology, Gothenburg
- Professor emeritus Frank Gunstone, Scottish Crop Research Institute
- Ulf Hansson, Karlshamns
- Professor Rich Hartel, University of Wisconsin-Madison, USA
- Professor Anne-Marie Hermansson, SIK – The Swedish Institute for Food and Biotechnology
- Jan-Olof Liddefelt, Karlshamns
- Stefan Karlsson, Karlshamns
- Staffan Norberg, Karlshamns
- Professor Bengt Vessby, University of Uppsala

#### The Innovative Process

New project ideas may have several different origins: customer dialogues, scientific research, public debates, new legislation, a change in raw material supply, or internal discussions. An efficient way of identifying new ideas and changes in customer demand is to keep abreast of market developments while maintaining a good dialogue with business areas and marketing departments.

Karlshamns' Innovative Process comprises four principal steps: brainstorming, screening/decision-making, development and launch.

##### Brainstorming

In the brainstorming stage, we keep an open mind.

Karlshamns works actively to stimulate its own employees to generate creative contributions. All ideas and suggestions are welcomed, and reviewed together with their creators. A number of "idea coaches" have been appointed to make sure that all ideas advance through the decision-making process.

##### Screening and decision-making

In the next step, ideas are grouped more systematically in a process consisting of two sub-steps. In the first (screening), ideas are evaluated on the basis of their potential and timing. The ideas are then ranked to give priority to those that best fit business strategies and market developments. Karlshamns strives for a product portfolio that combines a healthy balance with creative diversity.

##### Development

Once it has been decided to put an idea into practice, a project organisation is appointed. All development work is carried out within clearly specified time frames. To coordinate all development projects and optimise the allocation of development resources, a date is set for market launch very early in the process.

##### Launch

At the early stages of development work, it is decided how to position the new product in relation to competitors. The development process continues through the product launch and until sales are up and running. Throughout the process, the innovator is kept up to date on developments.

## Thomas Kandell, Nordic sales manager, Technical Oils

### What are your main tasks?

I'm responsible for Binol's sales of environmentally adapted technical oils to customers in the Nordic metalworking industry. Besides managing day-to-day operations, I take an active part in marketing plans as well as product development. I travel a lot – usually three days a week – and try to meet with new and old customers as often as possible. You need these frequent contacts to really understand their operations and needs.

### What trends have you noted among customers – what are they asking for?

Customers are giving more and more priority to functionality, and asking for products that contribute this or that specific property. Total costs are also becoming more important. The price of the product remains decisive, but today factors like efficiency, useful life, on-time deliveries and technical service are taken into account as well.

### In March 2004, Binol signed a global cooperation agreement with Quaker Chemicals. In what ways did it impact your own area of responsibility?

For Binol as a whole, the effect was to make us number two on the Nordic market for environmentally friendly, technical oils. For the Nordic market, it meant an extension of the product range and a much stronger distribution network.

### What will be your main priorities in 2005?

In the year ahead of us, we'll be rather aggressive in the market segment "larger metalworking companies". Little by little, we've been broadening our product range and developing our distribution network to satisfy the demands of metalworking giants.

We now feel we've got everything in place. We'll also be pursuing our market progress in the Baltic countries. The new EU members will now be facing new regulations for the use of technical oils. For us, this is a development that entails a huge and exciting market.



## Committed employees

With Karlshamns' products growing more and more advanced and specialised, the Group's demand for well-educated, innovative, skilled and committed employees is growing accordingly. The combination of a successful marketing strategy, efficient production operations and committed employees is a prerequisite for Karlshamns' continued progress towards its goal of becoming a leading player on the global vegetable fats market.

As customer demand for more advanced and higher value-added products grows, Karlshamns' staff needs to develop correspondingly. A vital part of the Group's strategy is thus to ensure continuous, structured progress among its employees, on all levels of the organisation, based on Karlshamns' "Pyramid". The ultimate goal is to guarantee all those developments and continuous improvements required for profitable growth throughout the Group.

### Participation and responsibility

An important part of this work is to strengthen commitment and responsibility on all organisational levels. Obvious goals, clear-cut responsibilities, individual profit goals and a focus on project work have led to considerable growth in the number of personal initiatives in recent years. The result is a more efficient organisation with a widespread commitment to the company's development. This new way of working places higher demands on the individual employee, while providing vastly improved potential for personal development.

### Competence development a prerequisite

The continuous development of individual staff members' skills is imperative for Karlshamns' success. Competence development by means of internal or external training courses is thus a crucial part of day-to-day operations. Whenever possible, training

activities have direct links to the company's as well as to the individual employee's needs and ambitions. In addition to more specialised vocational courses, workshops in leadership, business economics and stress management were arranged in 2004.

### Planning for future recruitments

Karlshamns' ambitions in the area of competence development do not limit themselves to the present organisation, however. The Group's strategy to increase the proportion of high value-added fats entails a growing demand for additional, future resources as well. One of the primary tasks of the Human Resources department is to handle the recruitment of the workforce needed to reach the goals set for Karlshamns.

In 2004, Karlshamns thus undertook its first "Organisation Audit" in a more formal way. The result of this audit will function as the basis for a development programme for present executives as well as for young, potential candidates. The audit also provides a good picture of Karlshamns' future recruitment needs. In the next few years, the greatest demand will be for staff in product and process development – preferably with university degrees.

### Low absence due to illness

The number of sick-days remained on a relatively low level throughout 2004. Karlshamns' goal is to





## Karlshamns' Pyramid – the foundations of future progress

In the past two years Karlshamns has gone through a comprehensive development process, the primary purpose of which has been to lay the foundations for accelerated, profitable growth.



This development process has been a considerable success, largely thanks to the fact that it managed to pervade the entire organisation and was conducted on several levels.

### Continuous improvements

Karlshamns' pyramid constitutes the base for continuous improvements and functions as a vital tool in the current development process.

■ Karlshamns' six fundamentals are a set of values that should characterise everyday work. The fundamentals pervade the teamwork that constitutes the base of the pyramid. This teamwork also serves as a starting point for the continuous improvements required for profitable growth.

■ Karlshamns' business concept and strategy describe the general direction of our operations, and identify the way to reach our goals.

■ Leadership is about creating the best possible conditions for all employees. The new leadership model is meant to stimulate Karlshamns' executives to improve even further in this area: to inspire ambition among the staff, to communicate and explain goals and strategies, to encourage team spirit and to promote the development process.

■ Karlshamns' project culture is about a structured way of working. The new project culture provides the ambience for improved efficiency and flexibility, while also facilitating the prioritisation of the right tasks.

■ Calculating and monitoring key figures is yet another way of contributing to efficiency and profit improvements. Key figures constitute an underlying theme in all of Karlshamns' operations. In addition to financial and productivity-related key figures, Karlshamns also conducts regular opinion polls among both customers and employees.

reduce this number even further, however. In 2004, around 50 managers were educated in stress management to minimise the risk of absence due to stress-

related diseases. Also, a number of weight-watching and quit-smoking programmes were initiated last year.

## Pär Torstensson – Raw material purchaser, on location in Benin

### What's the story behind your ending up in Benin?

When I read about this assignment among the vacancies on Karlshamns' intranet I felt right away that this was a challenge I simply couldn't resist. Today I'm convinced that I would have regretted it forever if I hadn't taken this chance. This was something new – I wasn't succeeding someone else, but this was a new venture for Karlshamns as well. So, a true challenge it was!

### What are your main tasks?

My job here in Benin is to provide Karlshamns with more accurate information about the shea nut market, and to make sure that we buy the quantities we need – of the desired quality, and at the right price. We work hard to make this process more efficient, as a way to cut costs.

### How important is it to be "on location" in Benin?

When you're here, you get much more, and definitely more accurate information about the market. We're in direct contact with suppliers every single day, we get a

better grip on costs, our relations with local authorities improve and we're there when the vessels are loaded. All of this is really important.

### How important is the raw material quality for the end product?

The largest effect is the economic one, as we remove all unwanted substances such as free fatty acids and water. The amount of oil extracted from a certain number of nuts depends entirely on the original quality.

### What factors influence the quality of the shea nut harvest?

The weather plays a certain role of course, but also how the crop is handled along its way from the harvesting to the warehouses. Nuts are picked in the villages, where they are prepared for sales. It's crucial to put a stop to the oxidation process – there are different regional methods for this. In some regions the nuts are heated in a boiling process, in others by smoking or roasting. So, there are quite a few local differences.

### How large are Benin's annual shea exports?

Benin exports almost 30,000 tonnes of shea nuts every year, which makes shea Benin's third largest export commodity. In all, we work with some 70 different suppliers based all over West Africa.

### What kinds of problems are the most frequent?

Well, nothing is really straightforward in this part of the world.... There is a serious shortage of diesel fuel, for example. Power failures are common. Communication and transport are rather complicated matters, as Benin's infrastructure leaves much to be desired.



# Continuous quality improvements

To a large extent, Karlshamns' competitive strength depends on its continuous improvement of products, services and processes. This development is supported by round-the-clock quality work in all of the Group's business areas and business sectors.



The main purpose of these activities is to sharpen Karlshamns' competitive edge by continuously upgrading products and processes. Quality endeavours are thus contributing to customer satisfaction and a healthy profit development. As a consequence, quality work comprises everything from business development and quality assurance of routines and products, to issues related to food safety and hygiene.

## Every single part

For quality work to be efficient, it must be targeted, sustainable and based on considerable knowhow. Karlshamns' quality operations are of a long-term character and comprise every single part of operations – from product development and raw material handling to production and final delivery.

## Reliable raw material handling

The quality of the end product is never better than the raw material on which it is based. Karlshamns thus spends considerable efforts in this area, and monitors its raw materials all the way from audited and approved suppliers, to the arrival in Karlshamn and throughout the production process.

This work consists of a number of different steps: quality controls of the raw material in question, choosing the best freight alternative, tank installations in harbours, environmental consequences, product and production development as well as aspects related to ethics and shelf life.

## Internal commitment a prerequisite

To succeed with its quality work, Karlshamns needs a widespread, internal awareness of the quality concept, along with a strong commitment to the process itself. Targeted training sessions and a continuous and constructive dialogue on improvement potentials are thus crucial in this area.

## Product safety and food hygiene

In 2004, several projects were implemented to strengthen Karlshamns' position in the area of product safety and food hygiene. Developments here are guided not only by laws and regulations, but also by more stringent customer demands. Applicable laws are national as well as European, the most recent ones being EU regulations specifying the demands for traceability and labelling.

## Evaluation

All quality work is evaluated in several ways. It is reflected on Karlshamns' bottom line, but is also subjected to internal and external audits. Internally, quality developments are continuously measured and evaluated in terms of a number of quality indicators. Externally, progress is measured by opinion polls among customers, and quality audits performed by external auditors, customers and certifying organisations.

## Essential certificates

- ISO 9001
- ISO 14001
- ISO 17025



## Karlshamns and the environment

Karlshamns' endeavours in the environmental area are as committed as they are focused. It is the Group's ambition to minimise its environmental impact, to optimise its utilisation of resources while at the same time strengthening environmental awareness among its suppliers, staff and business partners.

### Environmental management and concessions

Karlshamns' efforts in the environmental area are based on established and thoroughly tested environmental management systems. The plants in Sweden and the Netherlands follow ISO 14001, whereas the UK plant conforms to BS 7750. These systems ensure continuous, gradual and systematic improvements of Karlshamns' environmental performance. The environmental management systems applied in Zaandijk and Karlshamn have been externally certified, whereas the UK plant is certified in-house.

Official permits are required for business operations in their entirety. Permits in accordance with environmental legislation and IPPC must be obtained in Sweden. The Swedish operations had their permit renewed in 2003. The new permit covers IPPC as well as current extension plans. Karlshamns' other production plants are not covered by the IPPC standard. In the United Kingdom there are permits that comprise all current extension plans, and the environmental permit for the Zaandijk plant was recently renewed.

### Environmental impacts

**Consumption of resources:** Karlshamns' production process consumes freshwater, electricity, fossil fuels, chemicals and additives. In 2004, the company

concentrated its efforts on a long-term reduction of energy consumption in combination with a maximum substitution of fossil fuels by biofuels. In 2004 these endeavours were further intensified, the installation of a multiple-stage evaporation facility in the fractionation plant being among the most important developments.

Capacity utilisation in the steam power plant improved in 2004, with beneficial effects on overall energy consumption. Work is underway to improve efficiency even further. In early 2006, a new facility for wooden pellets will come on stream. Among its beneficial effects are lower fuel costs and the absence of fossil carbon dioxide. Karlshamns is thus well prepared for future trading in emission rights for carbon dioxide.

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

In 2004, the harbour in Karlshamn was deepened to allow larger vessels to berth. Logistical efficiency thereby improved, as the proportion of bulk deliveries could be expanded.

**Waste and by-products:** Karlshamns bases its operations on the concept of the eco-cycle, its aim being to assure proper utilisation and handling of 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 and certain other production waste are used as fuel. 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. By identifying new application areas for recycled waste, Karlshamn has gradually reduced the waste volumes sent to the municipal disposal unit. Today, there are recycling alternatives for practically all kinds of waste. Karlshamn is now well equipped to comply with all rules or regulations applying to waste management.

**Air emissions:** Karlshamn's production units generate emissions from incineration and extraction hexane, as well as a certain amount of odour. Emissions of extraction hexane are largest in Karlshamn, where crude oil production takes place. Recycling is comprehensive, however. Air containing hexane is collected and led to steam boilers where the hexane is combusted into non-hazardous waste.

Measures to reduce unpleasant odours from operations in Karlshamn were implemented several years ago. Due to operational disturbances in older equipment, these problems were accentuated in 2004. Corrective measures have now been taken, and endeavours to reduce unpleasant odours even further are continuing.

Operational disturbances in a new process caused a certain amount of dust emissions. The cause of the problem has been identified, and corrective measures have been taken. An action programme to eliminate the problem permanently has been planned for 2005.

**Water emissions:** The main environmental impact of oil refineries is the emission of phosphorus, a nutrient that acts as a fertilizer in the streams, lakes and

rivers affected by such emissions.

All of the Group's plants generate emissions of sanitary wastewater, industrial wastewater, surface water and cooling water. Wastewater 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 Sweden, industrial wastewater is treated in the company's own treatment plant and then released into the adjacent sea.

In the United Kingdom and the Netherlands, industrial wastewater goes through an internal treatment process and is then channelled into the municipal wastewater system.

**Noise:** Noise disturbances from Karlshamn's operations are minimal and within acceptable limits at all of the company's plants.

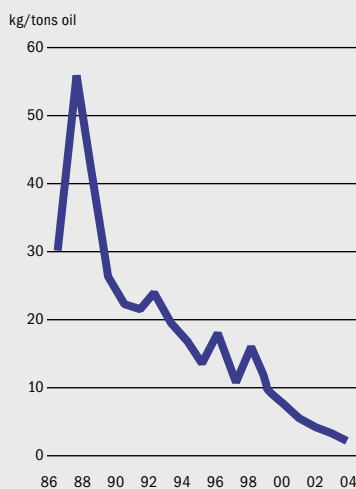
**Soil pollution:** A certain amount of soil pollution identified within a limited distance of the Group's plant in the Netherlands has now been dealt with. All other surveys have been successfully concluded, without any indications that measures need to be taken.

### Global responsibility

Karlshamn's commitment goes beyond its own working environment to comprise global environmental issues as well. One such example is the actions taken to improve conditions for palm cultivation.

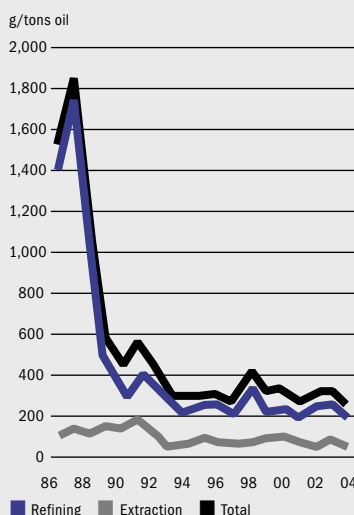
Palm oil is an important raw material for the global food industry, and also a vital nutrient in many poor countries around the world. For the producing countries it generates considerable export income, of course. Palm oil production entails a number of problems, however. Each year large areas of rain forests are destroyed. Even though palm plantations account for only a limited share of these areas, the growing palm oil production nevertheless poses a threat to the biological diversity of South East Asia's tropical rain forests.

### Dumped waste



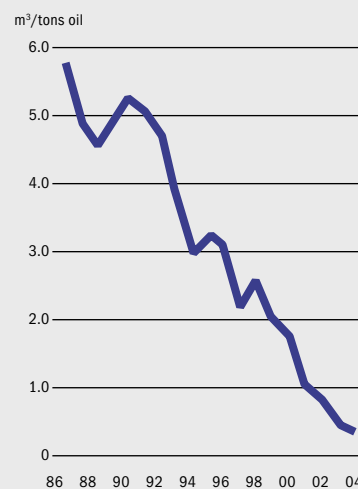
Karlshamn in Sweden

### Hexane



Karlshamn in Sweden

### Flow to treatment plant



Karlshamn in Sweden

A group of European and Indonesian palm oil and food producers, the WWF and Malaysian palm oil producers and their trade organisation have now joined forces to establish a framework for how to proceed towards sustainable development in this area.

Today, Karlshamns buys palm oil exclusively from selected suppliers. Our selection criteria comprise not only environmental standards, but also requirements of a more social character. We pay regular visits to all our suppliers and cooperate intimately with local trade organisations to keep a close eye on the entire process, from raw material to processed oil.

### Costs for environmental work

Karlshamns' costs for environmental work have developed as follows:

(SEK m)	2004	2003	2002
Administration	1	1	1
Operations	16	16	19
Taxes	7	6	5
<b>Total</b>	<b>24</b>	<b>23</b>	<b>25</b>

In addition to these expenses, investments related to environmental measures amounted to SEK 25 million in 2004. To meet future plans for environmental measures, investments over the next three years are estimated to total around SEK 20 million.



### Environmental measures planned

#### Sweden

- Reduce odour emissions.
- Reduce energy consumption by 3 percent by 2007.
- Reduce VOC emissions.
- Reduce consumption of fossil fuels.
- Reduce nitric oxide emissions.

#### The UK

- Reduce energy consumption by 10 percent before the end of 2011.

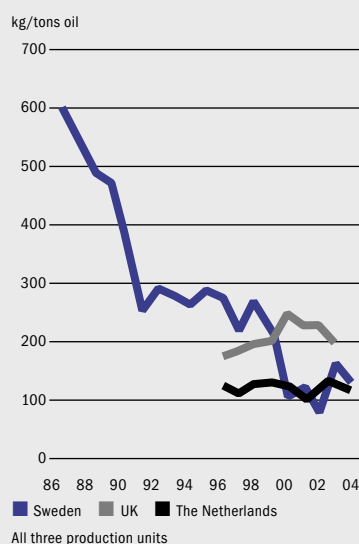
#### The Netherlands

- Reduce the amount of energy consumed by production operations.
- Optimise capacity utilisation in production operations.

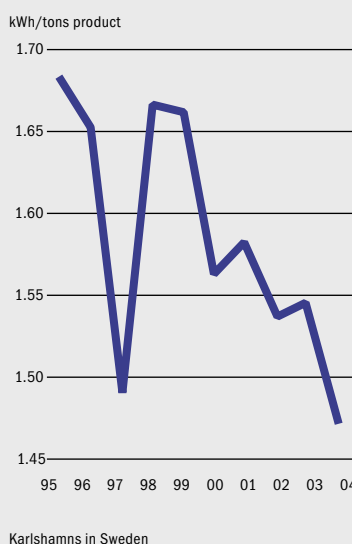
### Karlshamns' environmental policy

It is Karlshamns' ambition to contribute to sustainable global development, the ultimate goal being a society based on the eco-cycle. Karlshamns' operations are thus to be conducted with resource consumption and environmental impacts that are minimised to the greatest possible extent. Our products shall be safe for the environment as well as for people and property. Our production operations must fulfil applicable laws, rulings and regulations, at all times. Our environmental efforts shall be a dynamic process based on the concept of the ecocycle – from oil-yielding plant to final consumer – and our ambition shall be to always make the best possible use of new knowledge and techniques. Priority shall be given to processes that minimise or eliminate environmental problems. Our working methods shall be designed to generate continuous improvements. Environmental information to customers, authorities, neighbours and the public at large shall be characterised by objectivity and openness. All employees shall be guaranteed sufficient training in, and information about, environmental issues to be able to participate in and contribute to the Group's environmental achievements.

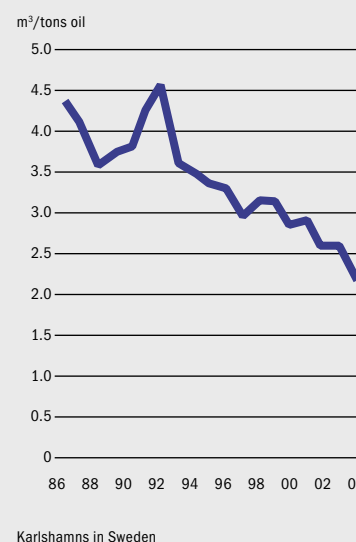
### Carbon dioxide



### Electricity and steam



### Freshwater consumption





# Directors' Report

## Operations

Karlshamns supplies oils and fats with varying degrees of specialisation, and is one of the world's leading manufacturers of high value-added speciality vegetable fats. Karlshamns' products have many application areas, and are sold to customers in a wide range of industries. The majority, however, operate in the food, chocolate, confectionery, cosmetics, animal feed and technical industries. The Group is divided into three different business areas: Oils & Fats, Technical Products and Feed Materials. All three business areas base their operations on the concept of the eco-cycle, with waste and by-products being carefully utilised, processed and then marketed as end-products in their own right.

**Oils & Fats**, which is Karlshamns' largest business area, is further divided into three business sectors: Chocolate & Confectionery Fats, Food Ingredients (formerly Edible Oils) and Lipids for Care. Each of these sectors has a well-defined profit responsibility, and they all have the purpose of developing, producing and marketing their respective products to targeted customer segments all over the world.

*Chocolate & Confectionery Fats* has its focus on high-quality chocolate fats (so-called Cocoa Butter Alternatives or CBA) and premium filling fats (which are filling fats that generate technical value-added properties).

*Food Ingredients* has three product segments that target the entire food industry:

- Formulated Fats, high value-added products and full-range product concepts that are marketed to three specific customer segments: Bakeries, Restaurants & Catering operations, and Health products;
- Dairy Fat Alternatives (DFA), which are vegetable fats for dairy applications;
- Volume Products, which are fats sold in larger volumes for applications like margarine, mayonnaise, dressings and deep-frying.

*Lipids for Care* specialises in high value-added products developed mainly for cosmetic applications, skin care and clinical nutrient solutions.

Supported by the global functions for raw-material sourcing, production, administration and R&D, these business sectors are responsible for the operating profit of business area Oils & Fats. The Oils & Fats production is handled by Karlshamns' own production plants, which are characterised by a high degree of flexibility to allow for a wide product range and rapid adjustments to changing market conditions. The three different plants are located in Karlshamn (Sweden), Hull (the United Kingdom) and 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 the fatty-acid segment, Karlshamns is the market leader in Sweden as well as in Finland. Binol develops, manufactures and markets environmentally friendly technical oils

for the metalworking, construction and forestry industries. These products are used as alternatives to petroleum-based oils in certain technical applications.

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

**Feed Materials** is responsible for the processing and marketing of vegetable proteins and fats for the animal feed industry. This business area also handles Karlshamns' extraction of vegetable oils from rapeseed and shea nuts. Crude rapeseed oil and rapeseed meal are extracted from rapeseed. The rapeseed meal, which is 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, Sweden.

## Developments in 2004

Continuous product improvements throughout the Group have made it possible to maintain strong profit and cash flow levels despite radical changes in Karlshamns' business conditions. One-off expenses arising from the Group's workforce downsizing impacted the 2004 earnings by SEK 26 million. Also, the vigorous volume growth in the speciality fat segment entailed conversion costs of approximately SEK 20 million. To further improve overall efficiency, a firmly outlined productivity improvement programme was launched in the autumn of 2004. This programme will generate full profit effects from 2006 onwards, to the amount of SEK 100 million p.a. Individual development projects are mainly targeting the areas of energy, processing and logistics, streamlining human resources and eliminating bottlenecks in the production of speciality products.

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

In the business sector Chocolate & Confectionery Fats, volumes grew by 6 percent in 2004. The major part of this increase was generated by the growing demand for low-trans fats, a segment in which several new products were launched in 2004. Prices are still under pressure, but Karlshamns has strengthened its competitiveness through higher cost efficiency. As a consequence, Karlshamns has also managed to expand its market shares.

In the business sector Food Ingredients, volumes increased by 13 percent in 2004, the strongest progress made in Scandinavia and Western Europe. In line with its strategy to expand the proportion of high value-added products, Karlshamns acquired the assets of Kelanco Ltd (a UK-based speciality fats company) in September 2004. In November, a new production line for liquid margarine was inaugurated in Karlshamn. The new facility adds considerable production capacity, while also facilitating Karlshamns' efforts to tailor speciality products to individual customer demands. This investment also constituted an important step towards a growing proportion of high value-added, technically advanced speciality fats.

The cosmetic industry's interest in vegetable ingredients remains



on the up, with sales increasing by almost 20 percent in 2004. This business sector continues to expand its proportion of high value-added products, resulting in a satisfactory profit development throughout the year. Several new products were launched, most of which feature functional properties sought by the cosmetic industry.

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

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

Tefac strengthened its position on the European fatty-acids market, with volumes growing by approximately 6 percent in 2004. Unfavourable raw material prices had a strong, negative impact on contribution margins however, as they could not be offset by a corresponding increase of sales prices. Glycerine prices continued downwards, a consequence of a growing supply from the subsidised biodiesel industry.

Binol's Scandinavian market position strengthened considerably in 2004, through the acquisition of BioSafe from the Finnish Raisio Group and the global cooperation agreement signed with Quaker Chemical in March. Binol's organic growth was 12 percent; with acquisitions and alliances taken into account, sales increased by 75 percent compared to 2003.

Throughout 2004, Feed Materials continued to profit from customer focus on cost efficiency, feed safety and hygiene issues. As a result of intensified marketing activities, sales of ExPro™ meal increased by 10 percent in 2004, and sales of AkoFeed fats by 20 percent. The strongest growth was achieved in England, Poland and Finland. A number of new products were launched in 2004, including a brand-new feed variety for horses. Sales of this product are developing well. Feed Materials consolidated its position in the area of feed safety even further in 2004, and a new method for salmonella analyses was introduced.

## Environment

Karlshamns' production operations impact on the environment in the form of emissions of odorous substances, organic solvents and smoke gases into the atmosphere, the discharge of fat, oxygen-consuming substances and nutritive salts into water; and the production of organic waste and noise pollution. All of Karlshamns' production units have been using established and thoroughly tested environmental management systems for several years. The plants in Sweden and the Netherlands follow ISO 14001, whereas the UK plant follows the format of BS 7750. These systems ensure continuous, gradual and systematic improvements in Karlshamns' environmental performance. Concessions must be obtained for the Group's operations in Sweden as well as abroad. Permits in accordance with environmental

legislation and IPPC must be obtained in Sweden. The Swedish operations had their permit renewed in 2003. Production operations are developing at a fast pace, and a new application has been filed to cover current extension plans. Karlshamns' other production units are not covered by the IPPC standard. Operations in the UK and the Netherlands have had their permits recently renewed, to cover both current and planned operations. No comprehensive or expensive measures are expected in connection with the extension of the Swedish permit. In all, the Group's planned environmental investments are estimated at some SEK 20 million for the next three years.

## Research and Development

Karlshamns' R&D operations are at the forefront of research into the fat molecule and its properties, the Group's know-how of vegetable oils and fats constituting the very core of its business operations. Future competitiveness is based partly on the Group's capacity to exploit and develop this expert know-how, partly on its talents for transforming it into new, attractive products. R&D operations have always been a central part of Karlshamns' business activities. Their importance has grown even further in recent years, exemplified by Karlshamns' strategy to increase the degree of specialisation and add further value to the Group's product range. When the new strategy was adopted in 2001, R&D operations came to distinguish between two project categories: short-term and long-term. Long-term projects, usually more than one year, are those striving for the development of entirely new products and concepts. Short-term projects are often launched to upgrade, specialise or customise existing products. Such projects are often conducted in cooperation with customers and/or business partners.

The aim of all R&D efforts is to optimise the properties and functionality of oils and fats, not only in view of the end-product in which the oils and fats will be used, but also to optimise the production process of the end-product in question. Most product development projects are carried out in close cooperation with customers, with a view to strengthening their market position and competitiveness.

Research is mainly concentrated to the Group's largest business area, Oils & Fats, but also to Technical Products and Feed Materials. In line with the Group's strategy to increase the proportion of high value-added products, R&D operations now focus on new and upgraded applications in Chocolate & Confectionery Fats, Food Ingredients and Lipids for Care. In addition to their close cooperation with customers, Karlshamns researchers are in regular contact with national and international authorities, research institutes, universities and colleges.

In 2004, the Group's costs for research and development amounted to SEK 30 million, or approximately 3 percent of the gross contribution of SEK 973 million.

## First-time adoption of International Financial Reporting Standards 2005 (IAS/IFRS)

### Summary

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

### Introduction

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

### Karlshamns' IFRS project

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

### The transition in general

The Karlshamns Group will reverse its translation difference in equity, which is an option in accordance with IFRS 1. Also in line with IFRS 1, the Group has chosen not to revalue acquisitions made before 2004, and to report land at deemed costs.

### Amortization of goodwill

According to IAS 38 (Intangible Assets), goodwill will no longer be amortized from 1 January 2005 onwards.

Amortization of goodwill that was recognised as profit or loss in 2004 will be reversed, as the year 2004 is reported as a comparative year in accordance with IFRS. The reversal effect on the 2004 accounts amounts to SEK 2.5 million.

### Financial instruments

Karlshamns is adopting IAS 39 "Financial Instruments: Recognition and Measurement" as of 1 January 2005, but without adjusting comparative figures in accordance with the special provisions of IFRS 1.

All accumulated effects attributable to the revaluation of financial instruments in accordance with IAS 39 will be reported as an equity adjustment as of 1 January 2005.

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

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

### The adoption of IAS 39 will have the following effects:

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

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

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

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

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

**Profit before tax** will be marginally affected by the adoption of IAS/IFRS. The 2004 net profit will be affected only by the reversal of goodwill amortization, the effect amounting to SEK 2.5 million.

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

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

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

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

## Risk management and sensitivity analysis

The Group's risk management is described under the heading "Risk management and sensitivity analysis" on page 66.

## Corporate Governance

Karlshamns' Board of Directors and its activities are described in greater detail under the heading "Corporate Governance" on page 72.

## The parent company

The parent company conducts its operations in the business areas Oils & Fats and Feed Materials, and carries the main responsibility for all of the Group's global functions. The parent company's total sales amounted to SEK 2,566 million in 2004, or approximately 70 percent of the Group's total sales. The total number of employees in the parent company was 499, or around 60 percent of the total number of employees in the Group.

## Proposed appropriation of profits

### The Group

In accordance with the prepared balance sheet, the Group's unrestricted equity on 31 December 2004 amounted to SEK 288,729,000. No allocations to restricted reserves are proposed.

### Parent company

Available to the Annual General Meeting:

Balance brought forward	SEK 153,319,689
Net profit for the year	<u>SEK 52,013,011</u>
	SEK 205,332,700

The Board of Directors proposes that the profits be disposed of as follows: a dividend of SEK 5.00 per share to be distributed to shareholders, with the addition of a supplementary, one-off dividend of SEK 4.50 per share.

Ordinary dividend	SEK 105,461,500
Supplementary dividend	SEK 94,915,350
Balance to be carried forward	<u>SEK 4,955,850</u>
	SEK 205,332,700

# Consolidated income statement

Amounts in SEK 000s		2004	2003
Net sales	Note 1, 2	3,629,250	3,316,670
Changes in inventories		-25,194	8,994
Own work capitalised		14,733	14,990
Other operating income		13,941	12,411
<b>Total operating income</b>		<b>3,632,730</b>	<b>3,353,065</b>
Raw materials and supplies		-2,492,909	-2,223,788
Goods for resale		-143,639	-160,159
Other external expenses		-316,362	-292,802
Personnel costs	Note 3	-433,343	-384,119
Depreciation	Note 11, 12	-98,555	-94,738
Other operating expenses		-69	-166
<b>Total operating expenses</b>		<b>-3,484,877</b>	<b>-3,155,772</b>
<b>Operating profit</b>	Note 1	<b>147,853</b>	<b>197,293</b>
Financial income and expenses	Note 6	3,643	-11,705
<b>Profit after financial items</b>		<b>151,496</b>	<b>185,588</b>
Tax	Note 8	-40,832	-44,223
<b>Profit for the year</b>		<b>110,664</b>	<b>141,365</b>

Earnings per share	Note 9	2004	2003
Number of shares (000)		21,092	21,033
Outstanding warrants and convertible debt instruments		746	881
Earnings per share before conversion and utilisation of warrants, SEK		5.25	6.73
Earnings per share after conversion and utilisation of warrants, SEK		5.15	6.58
Equity per share before conversion and utilisation of warrants, SEK		48.01	46.30
Equity per share after conversion and utilisation of warrants, SEK		46.45	44.79
Proposed dividend per share, SEK	Note 10	9.50	3.50

## Karlshamns profit development, with quarterly figures

(SEK million)	2004					2003				
	Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3	Q4	Full year
Net sales	869	888	906	966	3,629	853	803	813	848	3,317
Gross contribution	242	238	238	255	973	236	242	229	237	944
Operating profit	49	40	53	6	148	47	52	58	40	197
Financial items	-3	-2	-2	11	4	-2	-4	-4	-2	-12
Profit after financial items	46	38	51	17	152	45	48	54	38	185

## Comments on the income statement

### Net sales

The Group's net sales increased by 9.4 percent to SEK 3,629 million (3,317), mainly thanks to growing sales volumes in all business areas.

### Gross contribution

Gross contribution increased by 3.1 percent, to SEK 973 million (944). In the business area Oils & Fats, the increase was SEK 17 million, in Feed Materials SEK 16 million, whereas Technical Products suffered a decrease of SEK 4 million.

### Operating profit

The Group's operating profit decreased by SEK 49 million from 2003, to SEK 148 million. One-off costs had a negative profit effect of SEK 37 million; SEK 26 million of which was related to the streamlining of the Group's human resources, SEK 11 million to financial, legal and other advisory fees in connection with ongoing acquisition projects, as well as to the adaptation of computer software to new accounting principles (IFRS). Depreciation increased by SEK 4 million from the preceding year, and now amounts to SEK 99 million.

### Business area Oils & Fats

(SEK million)	2004	2003	2002
Net sales	2,616	2,397	2,394
Gross contribution	683	666	694
Operating profit	90	134	146
Net operating assets	1,040	997	958
Return on net operating assets, %	9	13	14

Operating profit in the business area Oils & Fats decreased by SEK 44 million to SEK 90 million, of which SEK 20 million refers to one-off costs caused by the rapidly growing proportion of high value-added speciality products. Earnings suffered an additional negative impact of SEK 37 million due to one-off costs for staff downsizing (SEK 26 million) and financial, legal and other advisory fees in connection with ongoing acquisition projects, as well as to the adaptation of computer software to the new accounting principles of IFRS (SEK 11 million). Sales of speciality products are developing well, but do not fully compensate for decreasing margins and

the additional costs entailed by the growing volumes of speciality products. In 2004, sales progressed in most of the Group's markets. In all, volumes increased by approximately 11 percent compared to 2003.

### Business area Technical Products

(SEK million)	2004	2003	2002
Net sales	523	501	455
Gross contribution	156	160	148
Operating profit	24	41	36
Net operating assets	212	195	164
Return on net operating assets, %	11	24	25

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

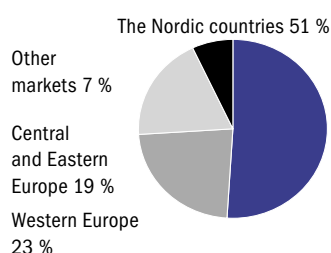
Through organic growth and strategic acquisitions, Binol has further consolidated its market position. In combination with a streamlining of costs and operations, this contributed to a rising profit level in 2004.

### Business area Feed Materials

(SEK million)	2004	2003	2002
Net sales	490	419	400
Gross contribution	134	118	120
Operating profit	34	22	29
Net operating assets	105	112	58
Return on net operating assets, %	28	24	28

In the business area Feed Materials, operating profit improved to SEK 34 million (22), largely thanks to growing sales volumes, high contribution margins on rapeseed extraction, efficiency improvements and higher capacity utilisation. Sales of feed raw materials continue to grow, with Karlshamns consolidating its position on the Nordic market. Investments in capacity-expanding production facilities contributed to the growing sales volumes, particularly in the second half of the year.

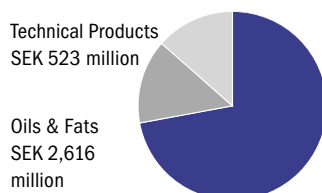
### Karlshamns' sales by geographic markets, 2004



49 % of Karlshamns' sales are to countries outside the Nordic region.

### Net sales by business area

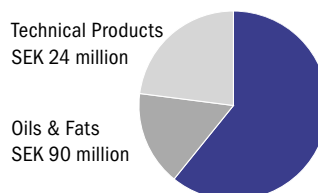
Feed Materials SEK 490 million



The business area Oils & Fats accounts for 72 % of Karlshamns' net sales.

### Operating profit by business area

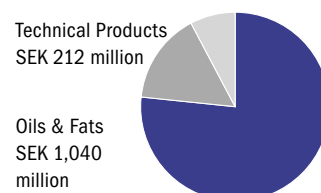
Feed Materials SEK 34 million



Karlshamns' total operating profit amounted to SEK 148 million.

### Net operating assets by business area

Feed Materials SEK 105 million



The total net operating assets amounted to SEK 1,357 million.



# Consolidated cash flow statement

Amounts in SEK 000s	2004	2003
<b>OPERATING ACTIVITIES</b>		
Operating profit	147,853	197,293
Depreciation	98,555	94,738
Changes in provisions	-2,287	-1,492
Other items not affecting liquidity	-4,101	1,197
	240,020	291,736
Interest received	1,177	-194
Dividend received	24	228
Interest paid	-10,870	-11,278
Tax paid	723	-68,731
	<b>231,074</b>	<b>211,761</b>
<b>Changes in working capital</b>		
Decrease/Increase in inventories	15,490	-17,987
Increase in accounts receivable – trade	-28,636	-18,975
Increase in other current receivables	-26,754	-32,836
Increase/decrease in accounts payable – trade	11,330	-34,132
Decrease/increase in other current operating liabilities	-18,221	8,781
<b>Cash flow from operating activities</b>	<b>184,283</b>	<b>116,612</b>
<b>INVESTMENT ACTIVITIES</b>		
Investments in tangible/intangible fixed assets	-102,402	-101,189
Shares and participations sold	11,419	-
Investments in other financial fixed assets	712	122
Increase/decrease in long-term liabilities	2,998	-
<b>Cash flow from investment activities</b>	<b>-87,273</b>	<b>-101,067</b>
<b>FINANCING ACTIVITIES</b>		
Redemption of warrants	5,565	2,417
Loans raised	-	91,547
Liabilities repaid	-31,417	-
Decrease/increase in current financial liabilities	-9,968	6,040
Dividend paid	-73,770	-73,511
<b>Cash flow from financing activities</b>	<b>-109,590</b>	<b>26,493</b>
<b>Cash flow for the year</b>	<b>-12,580</b>	<b>42,038</b>
<b>Liquid funds, opening balance</b>	<b>144,036</b>	<b>105,994</b>
<b>Translation difference, liquid funds</b>	<b>-139</b>	<b>-3,996</b>
<b>Liquid funds, closing balance</b>	<b>131,317</b>	<b>144,036</b>

# Comments on the cash flow statement

## Operating activities

Cash flow from operating activities increased in 2004, amounting to SEK 184 million (116) or SEK 8.74 per share (5.54) on closing date. A decrease in operating profit and an increase in working capital had a negative impact on cash flow, whereas transfers to untaxed reserves had positive effects on taxes paid. In all, cash flow increased from 2003 to 2004.

## Investment activities

Cash flow generated by investment activities totalled SEK -87 million in 2004 (-101). The sale of Karlshamns' entire shareholding (20 percent of total shares) in the Swiss company AKOLEO had a SEK 11 million positive effect on cash flow from investment activities. The Group's direct investments in fixed assets amounted to SEK 97 million (108), of which the business area Oils & Fats accounted for

SEK 76 million (47), Technical Products SEK 13 million (24) and Feed Materials SEK 8 million (37).

## Liquid funds

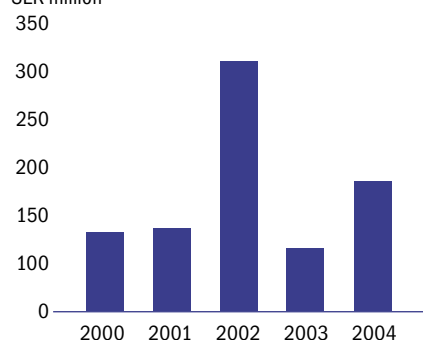
The Group's liquid funds on closing date amounted to SEK 131 million (144), of which SEK 131 million (142) held in cash and cash equivalents. In 2003, an additional SEK 2 million was held in short-term deposits.

## Net borrowings

Net borrowings decreased by SEK 29 million in 2004, totalling SEK 182 million at year-end. The Group's liabilities to credit institutions decreased by SEK 31 million, with the closing balance amounting to SEK 245 million.

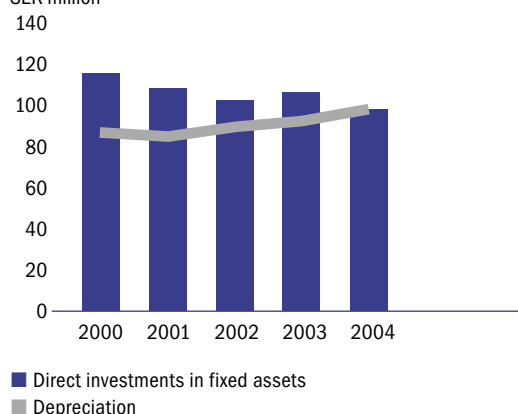
## Cash flow from operating activities

SEK million



## Direct investments – Depreciation

SEK million



## Changes in interest-bearing net liabilities

Amounts in SEK 000s	31.12.2003	Cash flow	Change in loans	Other changes	31.12.2004
Long-term receivables	2,858			-491	2,367
Current receivables	616			4,359	4,975
Liquid funds	144,036	-12,580		-139	131,317
Liabilities to credit institutions	-276,337		31,350		-244,987
Convertible loans	-74,625				-74,625
Other liabilities	-7,226			6,457	-769
<b>Interest-bearing net liabilities</b>	<b>-210,678</b>	<b>-12,580</b>	<b>31,350</b>	<b>10,186</b>	<b>-181,722</b>

# Consolidated balance sheet

Amounts in SEK 000s

31.12.2004

31.12.2003

## ASSETS

### Fixed assets

Intangible fixed assets	Note 11		
Computer software		11,502	-
Goodwill		11,738	13,906
		<b>23,240</b>	<b>13,906</b>
Tangible fixed assets	Note 12		
Land and buildings		146,727	142,898
Plant and machinery		527,424	524,618
Equipment, tools, fixtures and fittings		14,917	14,502
Construction in progress		38,783	57,840
		<b>727,851</b>	<b>739,858</b>
Financial fixed assets			
Shares and participations	Note 13, 24	150	432
Long-term receivables	Note 14	18,580	10,494
		<b>18,730</b>	<b>10,926</b>
<b>Total fixed assets</b>		<b>769,821</b>	<b>764,690</b>
<b>Current assets</b>			
Inventories	Note 15	439,397	455,039
Current receivables			
Accounts receivable – trade		473,200	442,332
Other receivables	Note 16	93,754	74,440
Prepaid expenses and accrued income		25,653	18,739
		<b>592,607</b>	<b>535,511</b>
Current investments			
Bonds and securities		-	2,450
Cash and bank balances		131,317	141,586
<b>Total current assets</b>		<b>1,163,321</b>	<b>1,134,586</b>
<b>TOTAL ASSETS</b>		<b>1,933,142</b>	<b>1,899,276</b>

## Comments on the balance sheet

### Assets and working capital

The Group's total assets at year-end totalled SEK 1,933 million, an increase of SEK 34 million compared to the year 2003.

The Group's working capital as per 31 December 2004 was SEK 590 million (543), the rise mainly due to an increase in accounts receivable – in turn a direct consequence of growing sales. Working capital includes inventories that totalled SEK 439 million at year-end, a decrease of SEK 16 million from 2003. Operating receivables increased by SEK 54 million in 2004, other receivables by SEK 23 million and trade accounts receivable by SEK 31 million.

### Shareholders' equity

The Group's equity increased by SEK 40 million in 2004, thus totalling SEK 1,013 million on closing date.

### The change was due to the following factors:

	SEK m
Profit for the year	111
Redemption of warrants	5
Dividend	-74
Translation effects of foreign subsidiaries	-2
<b>Total</b>	<b>40</b>

### Key figures

The Group's equity/assets ratio at year-end was 52 percent (51). Return on shareholders' equity decreased by 26 percent to 11 percent, return on net operating assets by 30 percent to 11 percent. Earnings per share decreased from SEK 6.73 to SEK 5.25, whereas shareholders' equity per share increased by SEK 1.71, thus totalling SEK 48.01 per share on closing date.

Amounts in SEK 000s

31.12.2004

31.12.2003

**SHAREHOLDERS' EQUITY AND LIABILITIES****Shareholders' equity**

Note 17

## Restricted equity

Share capital

210,923

210,326

Restricted reserves

512,895

486,483

**723,818****696,809**

## Unrestricted equity

Distributable reserves

178,065

134,411

Profit for the year

110,664

141,365

**288,729****275,776****Total shareholders' equity****1,012,547****972,585****Provisions**

Pensions and similar commitments

16,318

1,523

Deferred tax

Note 19

146,223

119,939

**Total provisions****162,541****121,462****Long-term liabilities**

Liabilities to credit institutions

Note 20

244,987

276,337

Convertible loans

74,625

74,625

Other long-term liabilities

Note 21

-

848

**Total long-term liabilities****319,612****351,810****Current liabilities**

Advance payments from customers

5,667

-

Accounts payable – trade

241,626

236,190

Other current liabilities

Note 22

46,089

62,260

Accrued expenses and prepaid income

Note 23

145,060

154,969

**Total current liabilities****438,442****453,419****TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES****1,933,142****1,899,276****Assets pledged****None****None****Contingent liabilities**

Note 25

**15,736****20,260****Changes in shareholders' equity**

	Share capital	Restricted reserves	Unrestricted equity	Total
<b>Balance sheet 31.12.2002</b>	<b>210,020</b>	<b>406,492</b>	<b>298,970</b>	<b>915,482</b>
Redemption of warrants	306	2,111		2,417
Dividend			-73,510	-73,510
Transfer between restricted and unrestricted equity		77,880	-77,880	-
Translation differences			-13,169	-13,169
Profit for the year			141,365	141,365
<b>Balance sheet 31.12.2003</b>	<b>210,326</b>	<b>486,483</b>	<b>275,776</b>	<b>972,585</b>
Effect of new accounting principle (RR 29)			-386	-386
Redemption of warrants	597	4,968		5,565
Dividend			-73,770	-73,770
Transfer between restricted and unrestricted equity		21,444	-21,444	-
Translation differences			-2,111	-2,111
Profit for the year			110,664	110,664
<b>Balance sheet 31.12.2004</b>	<b>210,923</b>	<b>512,895</b>	<b>288,729</b>	<b>1,012,547</b>

# Parent company income statement

Amounts in SEK 000s		2004	2003
Net sales	Note 1, 2	2,565,935	2,309,589
Changes in inventories		-30,543	17,232
Own work capitalised		14,733	14,990
Other operating income		8,185	10,536
<b>Total operating income</b>		<b>2,558,310</b>	<b>2,352,347</b>
Raw materials and supplies		-1,774,514	-1,525,639
Goods for resale		-117,275	-146,130
Other external expenses		-249,501	-260,591
Personnel costs	Note 3	-283,480	-259,704
Depreciation	Note 11, 12	-63,831	-62,461
<b>Total operating expenses</b>		<b>-2,488,601</b>	<b>-2,254,525</b>
<b>Operating profit</b>	Note 1	<b>69,709</b>	<b>97,822</b>
Financial income and expenses	Note 6	65,771	24,297
<b>Profit after financial items</b>		<b>135,480</b>	<b>122,119</b>
Appropriations	Note 7	-83,146	-56,045
Tax	Note 8	-321	-14,898
<b>Profit for the year</b>		<b>52,013</b>	<b>51,176</b>



# Parent company cash flow statement

Amounts in SEK 000s	2004	2003
<b>OPERATING ACTIVITIES</b>		
Operating profit	69,709	97,822
Depreciation	<u>63,831</u>	<u>62,461</u>
	133,540	160,283
Interest received	8,511	10,365
Dividend received	50,953	8,244
Interest paid	-17,835	-22,640
Tax refunded/paid	<u>10,819</u>	<u>-59,367</u>
	<b>185,988</b>	<b>96,885</b>
<b>Changes in working capital</b>		
Decrease/Increase in inventories	30,098	-28,692
Increase/decrease in accounts receivable – trade	-9,553	26,577
Increase in other current receivables	-22,527	-4,016
Increase in accounts payable – trade	4,877	156
Decrease in other current operating liabilities	-46,043	-76,121
<b>Cash flow from operating activities</b>	<b>142,840</b>	<b>14,789</b>
<b>INVESTMENT ACTIVITIES</b>		
Investments in tangible/intangible fixed assets	-73,530	-69,204
Shares and participations sold	11,419	-
Change in other financial fixed assets	23,938	10,914
<b>Cash flow from investment activities</b>	<b>-38,173</b>	<b>-58,290</b>
<b>FINANCING ACTIVITIES</b>		
Redemption of warrants	5,565	2,417
Loans raised	7,410	92,240
Liabilities repaid	-42,259	-1,695
Group contributions received	29,200	22,700
Dividend paid	-73,770	-73,511
<b>Cash flow from financing activities</b>	<b>-73,854</b>	<b>42,151</b>
<b>Cash flow for the year</b>	<b>30,813</b>	<b>-1,350</b>
<b>Liquid funds, opening balance</b>	<b>66,861</b>	<b>68,211</b>
<b>Liquid funds, closing balance</b>	<b>97,674</b>	<b>66,861</b>

# Parent company balance sheet

Amounts in SEK 000s

31.12.2004

31.12.2003

## ASSETS

### Fixed assets

Intangible fixed assets	Note 11		
Computer software		11,502	-
Goodwill		4,297	5,837
		<b>15,799</b>	<b>5,837</b>
Tangible fixed assets	Note 12		
Land and buildings		127,698	122,007
Plant and machinery		303,436	294,363
Equipment, tools, fixtures and fittings		4,052	4,031
Construction in progress		36,544	57,053
		<b>471,730</b>	<b>477,454</b>
Financial fixed assets			
Shares and participations	Note 13, 24	276,779	285,111
Long-term receivables	Note 14	76,716	92,363
		<b>353,495</b>	<b>377,474</b>
<b>Total fixed assets</b>		<b>841,024</b>	<b>860,765</b>
<b>Current assets</b>			
Inventories		304,634	334,732
Current receivables	Note 15		
Accounts receivable – trade		280,119	270,566
Other receivables	Note 16	196,074	185,470
Prepaid expenses and accrued income		19,367	15,351
		<b>495,560</b>	<b>471,387</b>
Cash and bank balances		97,674	66,861
<b>Total current assets</b>		<b>897,868</b>	<b>872,980</b>
<b>TOTAL ASSETS</b>		<b>1,738,892</b>	<b>1,733,745</b>

Amounts in SEK 000s

31.12.2004

31.12.2003

**SHAREHOLDERS' EQUITY AND LIABILITIES****Shareholders' equity**

Note 17

## Restricted equity

Share capital	210,923	210,326
Share premium reserve	7,217	2,249
Revaluation reserve	34,848	34,848
Restricted reserves	42,000	42,000

**294,988** **289,423**

## Unrestricted equity

Retained profits	153,320	175,914
Profit for the year	52,013	51,176

**205,333** **227,090**
**Total shareholders' equity**
**500,321** **516,513**
**Untaxed reserves**

Note 18

**378,679** **295,533**
**Long-term liabilities**

## Liabilities to credit institutions

Note 20

244,663 274,896

## Convertible loans

74,625 74,625

## Other long-term liabilities

Note 21

3,526 8,142

**Total long-term liabilities**
**322,814** **357,663**
**Current liabilities**

## Advance payments from customers

5,667 -

## Accounts payable – trade

163,475 164,059

## Other current liabilities

Note 22

260,662 272,002

## Accrued expenses and prepaid income

Note 23

107,274 127,975

**Total current liabilities**
**537,078** **564,036**
**TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES**
**1,738,892** **1,733,745**
**Assets pledged**

None

None

**Contingent liabilities**

Note 25

**34,946** **26,379**
**Changes in shareholders' equity**

Parent company	Share capital	Share premium reserve	Revaluation reserve	Statutory reserve	Unrestricted equity	Total
<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>
Redemption of warrants	306	2,111				2,417
Dividend					-73,510	-73,510
Profit for the year					51,176	51,176
<b>Balance sheet 31.12.2003</b>	<b>210,326</b>	<b>2,249</b>	<b>34,848</b>	<b>42,000</b>	<b>227,090</b>	<b>516,513</b>
Redemption of warrants	597	4,968				5,565
Dividend					-73,770	-73,770
Profit for the year					52,013	52,013
<b>Balance sheet 31.12.2004</b>	<b>210,923</b>	<b>7,217</b>	<b>34,848</b>	<b>42,000</b>	<b>205,333</b>	<b>500,321</b>

# Notes

(amounts in SEK 000s unless otherwise stated)

## Accounting principles

The main accounting principles applied in the preparation of Karlshamns' Annual Report and Consolidated Accounts are reported in the following. These principles were applied consistently to all financial years, unless otherwise stated.

### Basis for the Annual Report and Consolidated Accounts

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 Annual Report as well as the Consolidated Accounts have been prepared in line with the acquisition accounting method.

In 2004, the accounts have been adjusted to comply with RR 29 "Remuneration to employees". As a result, the opening balance of shareholders' equity has been adjusted by SEK -386,000.

## Consolidated accounts

### Subsidiaries

The consolidated accounts comprise Karlshamns AB and all its subsidiaries. Companies qualifying as "subsidiaries" are those in which the Group has a controlling influence on financial and operational strategies, in a way usually entailed a holdings in excess of 50 percent of voting rights. Subsidiaries are consolidated from the date of acquisition onwards (i.e. on the day the Group achieved a controlling influence) and up to the date of disposal (the day on which the Group ceased to have a controlling influence).

### Acquisition accounting method

All of the Group's acquisitions of subsidiaries are reported in line with the acquisition accounting method. The acquisition cost of an acquisition consists of the net realisable value of the assets used as payment, plus expenses directly referable to the acquisition. Identifiable, acquired assets and liabilities are initially valued at their net realisable value on acquisition day. The surplus value, arising from the difference between the acquisition value of the shares in the acquired subsidiary and the net realisable value of the subsidiary's net assets on acquisition day, is reported as goodwill. All inter-company transactions, balance sheet items and unrealised inter-company profits have been eliminated, unless the transaction constitutes evidence of a decrease in value of the assets sold. Whenever it has been deemed necessary, the accounting principles applied on subsidiaries have been adjusted to guarantee a consistent reporting in line with the Group's accounting principles.

### 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 (SEK) using the current method, whereby balance sheets are converted at the closing day rate; income statements at the average rate. The translation differences 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	
	2004	2003	31.12.2004	31.12.2003
USD	7.32	8.08	6.62	7.25
EUR	9.12	9.12	9.02	9.06
GBP	13.37	13.24	12.72	12.89

### 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 tax rate of the country in question. 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 the Karlshamns Group has a considerable yet not controlling influence, a condition that usually applies to shareholdings in the range of 20 – 50 percent of voting rights, are accounted for as associated companies. As of 31 December 2004, Karlshamns AB had no shareholdings that qualified as associated companies. The shareholding divested in 2004 was of a very limited importance, in relation to other balance sheet items as well as to profit and loss items. In the consolidated accounts, it was thus reported in line with the acquisition accounting method.

## Valuation

### Revenue recognition

Sales comprise the net realisable value of goods sold, exclusive of VAT, discounts and intra-group sales. Sales are recorded upon shipment of products to customers in accordance with agreed terms of sale, to the extent that invoice payment is deemed reasonable safe. Interest income is reported proportionally over the duration, in accordance with the effective interest method.

### Employee benefits

#### a) Pension commitments

Pension plans differ among Group companies, and are usually financed by means of premium payments to insurance companies or pension funds according to periodical actuarial calculations. Some are classified as benefit plans, others as contribution plans. A defined benefit plan is a plan stating a fixed amount to be paid to the employee after his/her retirement – usually based on one or several factors such as age, period of service and/or salary. A defined contribution plan is a plan under which the Group pays fixed contributions to a separate legal entity. The Group has no legal or informal obligations to pay additional fees, should the assets held by the pension fund prove insufficient for the remunerations to which employees are entitled under current or previous periods of service.

The liability reported in the balance sheet for pensions based on defined benefit plans represents the present value of the defined benefit obligation on the balance sheet date. The defined benefit obligation is regularly evaluated by independent actuaries, who apply the so-called "projected unit credit method". The present value of the defined benefit obligation is established by discounting estimated future cash flows, on the basis of the interest rate of commercial papers with high ratings issued in the same currency as the one in which pension benefits are later to be paid, and with durations comparable to the actual pension liability.

Actuarial profits/losses, arising from adjustments and changes in actuarial assumptions based on experiences, are carried as income or expenses over the estimated average remaining period of service of the employees. The part of accumulated actuarial profits/losses

that exceeds 10% of the present value of the Group's main pension liabilities and the fair value of plan assets at the end of the previous accounting year is reported as profit or loss over the employees' average period of service. Costs related to previous periods of service are reported directly through profit or loss, unless pension plan adjustments are conditional and require the employees to remain in service throughout the specified period.

Commitments for retirement pensions and family pensions for Swedish salaried employees are guaranteed by an insurance policy with Alecta or KP. According to a statement (URA 42) made by the Emerging Issues Task Force (Swedish Financial Accounting Standards Council), the Alecta insurance is a defined benefit plan comprising several employers. For the accounting year 2004, the Group lacked access to the information necessary to report this plan in accordance with the above statement. The pension plan according to ITP, which is guaranteed by insurance with Alecta, is therefore reported as a defined contribution plan. Fees paid for pension insurances with Alecta amounted to SEK 771,000 in 2004. Alecta's surplus may be distributed to the insurant and/or the insured. Equivalent conditions apply to the insurance with KP (KP Pensionskassa). Fees paid for pension insurances with KP totalled SEK 3,402,000 in 2004.

#### b) Compensation paid on notice of termination

Compensation is paid whenever an employee is given notice of termination before his/her normal retirement age, or when an employee accepts voluntary retirement in exchange for such compensation. The Group reports such termination payments in cases where it has an obvious commitment either to give notice to employees in accordance with a detailed, formal plan with no right of rescission, or when there is an obligation to honour termination payments when notice was given as a result of an offer made to stimulate voluntary resignation.

### Leasing

Leasing contracts for which the lessor retains a considerable part of risks and gains are classified as operating leases. All of the Group's current leasing agreements are classified as operating leases. Payments made during the lease term (after deduction of any possible incentives given by the lessor) are carried as straight-line expenses over the lease term.

### Research and development

Research and development costs are expensed as incurred. Karlshamns' R&D operations mainly focus on the optimisation of properties and functions of vegetable oils and speciality fats, partly to add value to the end products for which the oil or fat is destined, partly to improve production efficiency for that end product. None of these activities fulfil the requirements for capitalization as issued by the Swedish Financial Accounting Standards Council (RR15), and are thus carried as expenses.

### Impairment losses

Assets susceptible to impairment losses are valued with respect to changes in their fair value, whenever events or changing conditions indicate that the carrying value might not be recoverable. The write-down is then equivalent to the amount by which the carrying value of the asset exceeds its recoverable value. The recoverable value is the higher of the fair value of the asset less sales costs, and its value in use. When assessing the need for write-downs, assets are grouped on the lowest levels of separate, identifiable cash flows (cash-generating units). The Group reported no such impairment losses in 2003 or 2004.

### Interest expenses

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

### Intangible fixed assets

Goodwill is the amount by which acquisition value exceeds the fair value of the Parent company's share of acquired assets and liabilities, and the Group's share of the acquired subsidiary's net assets. Goodwill is valued at acquisition cost, less accumulated amortizations. Goodwill is amortized over 5 or 10 years. Expenses for computer software specifically developed, or comprehensively adapted, for the Group are capitalised as an intangible fixed asset whenever the software in question has probable financial gains that exceed its expenses after one year of use. Linear depreciation is applied on capitalised expenses for acquired software programmes, over their useful life – the maximum depreciation period being five years, however. Acquired software programmes of a standard character are reported as costs.

### Tangible fixed assets

Land and buildings normally comprise factory buildings and offices. All tangible fixed assets are reported at acquisition value, less accumulated depreciation. The acquisition value includes expenses directly referable to the acquisition of the asset.

Subsequent expenses are added to the reported value of the asset, or are reported as a separate asset – whichever is deemed most appropriate – only in cases when there is a probability that the future financial gains related to the asset will benefit the Group, and when the acquisition value of the asset may be reliably measured. All other types of repairs and maintenance are expensed in the reporting period in which they occur.

Land is not depreciated. Depreciation of other tangible fixed assets, to distribute their acquisition value over time, down to their estimated residual value, is made in the form of linear depreciation over the estimated useful life of the assets. For industrial buildings and research laboratories, depreciation periods of 20 or 25 years apply; for office buildings 50 years. For plant and machinery as well as for equipment, tools, fixtures and fittings, depreciation periods of between 3 and 15 years apply. Whenever the carrying amount of an asset exceeds its estimated recoverable value, the asset in question is written down immediately to its recoverable amount.

The residual value and estimated useful life of each asset is assessed on each reporting date, and adjusted when needed.

Profit/loss on the disposal of assets is established through a comparison between sales income and carrying value; the difference reported through profit and loss.

### 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.

### Accounts receivable

Receivables are initially reported at their fair value, henceforth at their fair value less provisions made for value adjustments whenever required. Provisions for value adjustments are made whenever there is objective proof that the Group will not be able to recover the amounts originally due. The provision is reported through profit and loss.



### Receivables and liabilities in foreign currencies

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

### Shareholders' equity

Ordinary shares are classified as shareholders' equity. Transaction costs directly referable to the issue of new shares or warrants are posted to equity, net after tax, as a deduction from paid-in capital.

### Borrowings

Borrowings are initially reported at their fair value, net after transaction costs, and subsequently at their accrued acquisition value. The fair value of the liability of convertible debt instruments is established on the basis of the market rate for an equivalent, non-convertible debt instrument. According to RR27, such an amount is to be reported as a liability, at its accrued acquisition value, until the liability ceases to exist as a consequence of redemption or conversion. The difference between such valuation and the issue price of the convertible debt instruments is only marginal, and these liabilities are thus reported at their issue price.

### Other provisions

Other provisions are reported whenever the Group has a legal or informal obligation ensuing from previous events, the probability of a necessary outflow of resources to honour the commitment is greater than the unlikelihood of such outflow, and the amount has been calculated in a reliable way.

### 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 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 applicable on balance sheet date, or expected to apply when the deferred tax assets are realised or the deferred tax liabilities are due for payment. Tax expenses consist of both 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 of 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.

Deferred taxes are calculated on temporary differences arising from shares in subsidiaries, unless timing for the reversal of temporary differences is controlled by the Group and the temporary differences are unlikely to be reversed in the near future.

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.

## Other items

### Cash and cash equivalents

In the cash flow statement, liquid funds comprise cash in hand, bank balances, current accounts and deposits held at call with banks and convertible into cash within three months.

### Segment information

A business segment is a group of assets and operations that supply products exposed to risks and potentials that differ from those in other business segments.

The business segments of the Karlshamns Group are classified as business areas. The Group operates in three such business areas: Oils & Fats, Technical Products and Feed Materials, of which Oils & Fats and Feed Materials are part of the parent company. These are the primary segments.

A geographic area supplies products in an economic environment exposed to risks and potentials that differ from those in other economic environments. The Group's operations are divided into the following geographic markets: the Nordic countries, Western Europe, Central and Eastern Europe and Other countries. These are Karlshamns' secondary segments. Sales figures are based on the country in which the customer is based. The reporting of assets and investments is based on the location of the assets.

### Internal pricing

Intra-group sales and purchases are made at market prices.

### Earnings per share

Earnings per share are calculated as the income statement profit adjusted for interest costs on convertible debt instruments, in relation to the average number of shares before and after conversion.

### Dividend

The dividend payable to the shareholders of Karlshamns AB is reported as a liability in the financial reports issued in the period when dividend is determined by the Parent company's shareholders.

## Note 1 – Primary segments – business areas

<b>2004</b>	Oils & Fats	Technical Products	Feed Materials	Other	Elimination	Group
<b>Income</b>						
External sales	2,616,358	522,933	489,959			3,629,250
Intra-group sales	58,614	209,364	548,980		-816,958	-
<b>Total income</b>	<b>2,674,972</b>	<b>732,297</b>	<b>1,038,939</b>		<b>-816,958</b>	<b>3,629,250</b>
<b>Profit</b>						
Operating profit by business area	<b>90,273</b>	<b>23,458</b>	<b>34,122</b>			<b>147,853</b>
Dividend						255
Profit/loss on sale of shares						10,906
Interest income						3,176
Interest expenses						-10,694
Tax						-40,832
<b>Net profit</b>						<b>110,664</b>
<b>Other information</b>						
Operating assets	1,424,427	293,206	182,811	-	-105,961	1,794,483
Other assets	-	-	-	138,659	-	138,659
<b>Total assets</b>	<b>1,424,427</b>	<b>293,206</b>	<b>182,811</b>	<b>138,659</b>	<b>-105,961</b>	<b>1,933,142</b>
Operating liabilities	383,571	80,904	78,082	-	-104,884	437,673
Other liabilities and shareholders' equity	-	-	-	1,495,469	-	1,495,469
<b>Total liabilities and shareholders' equity</b>	<b>383,571</b>	<b>80,904</b>	<b>78,082</b>	<b>1,495,469</b>	<b>-104,884</b>	<b>1,933,142</b>
Investments	76,358	13,100	7,660			97,118
Depreciation	74,888	12,383	11,284			98,555
Costs, other than depreciation, not matched by corresponding payments						6,388
<b>2003</b>	Oils & Fats	Technical Products	Feed Materials	Other	Elimination	Group
<b>Income</b>						
External sales	2,396,783	500,954	418,933			3,316,670
Intra-group sales	48,816	190,099	405,742		-644,657	-
<b>Total income</b>	<b>2,445,599</b>	<b>691,053</b>	<b>824,675</b>		<b>-644,657</b>	<b>3,316,670</b>
<b>Profit</b>						
Operating profit by business area	<b>133,758</b>	<b>41,584</b>	<b>21,951</b>			<b>197,293</b>
Dividend						244
Interest income						2,963
Interest expenses						-14,912
Tax						-44,223
<b>Net profit</b>						<b>141,365</b>
<b>Other information</b>						
Operating assets	1,383,528	255,374	196,369	-	-86,649	1,748,622
Other assets	-	-	-	150,654	-	150,654
<b>Total assets</b>	<b>1,383,528</b>	<b>255,374</b>	<b>196,369</b>	<b>150,654</b>	<b>-86,649</b>	<b>1,899,276</b>
Operating liabilities	387,004	60,180	84,456	-	-86,563	445,077
Other liabilities and shareholders' equity	-	-	-	1,454,199	-	1,454,199
<b>Total liabilities and shareholders' equity</b>	<b>387,004</b>	<b>60,180</b>	<b>84,456</b>	<b>1,454,199</b>	<b>-86,563</b>	<b>1,899,276</b>
Investments	46,685	23,699	37,249			107,633
Depreciation	73,657	10,203	10,878			94,738
Costs, other than depreciation, not matched by corresponding payments						295
<b>Net sales and operating profit, by business area (Parent company)</b>						
<b>Business area</b>	Net sales		Operating profit			
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>		
Oils & Fats	<b>2,075,976</b>	1,890,656	<b>30,787</b>	75,871		
Feed Materials	<b>489,959</b>	418,933	<b>38,922</b>	21,951		
<b>Total</b>	<b>2,565,935</b>	2,309,589	<b>69,709</b>	97,822		

## Note 2 – Sales, assets and investments by geographic market

Group	Net sales		Assets		Investments in intangible and tangible assets	
	2004	2003	2004	2003	2004	2003
Nordic countries	<b>1,840,796</b>	1,635,822	<b>1,510,269</b>	1,486,945	<b>82,820</b>	100,276
Western Europe	<b>839,055</b>	787,133	<b>313,685</b>	309,380	<b>14,178</b>	7,081
Central and Eastern Europe	<b>690,118</b>	656,694	<b>34,141</b>	33,109	<b>90</b>	227
Other countries	<b>259,281</b>	237,021	<b>2,653</b>	5,837	<b>29</b>	49
<b>Total</b>	<b>3,629,250</b>	3,316,670	<b>1,860,748</b>	1,835,271	<b>97,118</b>	107,633
Undistributed assets and eliminations			<b>72,394</b>	64,005		
<b>Total</b>			<b>1,933,142</b>	1,899,276		

Parent company	Net sales	
	2004	2003
Nordic countries	<b>1,634,830</b>	1,586,997
Western Europe	<b>151,598</b>	103,382
Central and Eastern Europe	<b>603,367</b>	490,719
Other countries	<b>176,140</b>	128,491
<b>Total</b>	<b>2,565,935</b>	2,309,589

## Note 3 – Salaries, remuneration and payroll overheads

	Group		Parent company	
	2004	2003	2004	2003
Salaries and remuneration	<b>279,212</b>	259,294	<b>177,206</b>	167,809
Payroll overheads	<b>144,032</b>	116,292	<b>98,602</b>	83,857
(of which pension costs)	<b>(59,221)</b>	(38,313)	<b>(39,722)</b>	(28,825)

Of the Group's pension costs SEK 5,622,000 (8,615,000) refers to Board, President and other senior executives.

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

	2004			2003		
	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	<b>12,286</b>	<b>828</b>	<b>164,275</b>	15,412	772	152,397
Subsidiaries in Sweden	<b>2,210</b>	<b>89</b>	<b>43,027</b>	2,113	-	40,184
	<b>14,496</b>	<b>917</b>	<b>207,302</b>	17,525	772	192,581
Subsidiaries abroad:						
The Netherlands	<b>1,051</b>	-	<b>37,335</b>	1,019	-	31,656
The UK	<b>1,016</b>	-	<b>13,146</b>	927	-	11,589
Lithuania	-	-	<b>457</b>	-	-	598
Malaysia	<b>388</b>	-	<b>322</b>	590	-	509
Poland	-	-	<b>1,406</b>	-	-	1,692
The Czech Republic	<b>468</b>	-	<b>148</b>	453	-	156
Finland	-	-	<b>1,677</b>	-	-	-
	<b>2,923</b>	-	<b>54,491</b>	2,989	-	46,200
<b>Group total</b>	<b>17,419</b>	<b>917</b>	<b>261,793</b>	20,514	772	238,780

In line with the decision taken at the AGM, fees to Board Members who are not employed by the Group amounted to SEK 1,020,000 (900,000), of which SEK 370,000 (370,000) to the Chairman. No other fees were paid.

The President, Jerker Hartwall, was paid a salary for the year 2004 of SEK 3,185,000 (3,029,000) as well as the free use of accommodation and a company car. Jerker Hartwall was also paid a bonus of SEK 500,000 (500,000) related to milestones achieved in Karlshamns business development. There are a total of 10 (14) other senior executives, to whom were paid salaries, benefits and, in certain cases, bonuses amounting to SEK 9,105,000 (11,997,000) in 2004.

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. 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 three 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 proposed by the Remuneration committee and decided by the parent company Board of Directors. Salaries and benefits to other senior executives are proposed by the President and decided by the Remuneration committee.

## Equity-related remuneration to employees

### Staff warrants 1999

Following the AGM's decision on 18 May 1999 the company raised a subordinated loan of a nominal maximum of SEK 2,825,000 through an issue of promissory notes of a maximum 565,000 warrants for the subscription of new shares. Employees subscribed to 167,800 of the total 546,400 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 is 0.8 percent. The subordinated loan had an annual interest rate of 3 percent and matured on 1 July 2000.

### Staff warrants 2002

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

## Note 4 – Average number of employees and other staff-related information

	2004			2003		
	No. of employees	Of whom men	Of whom women	No. of employees	Of whom men	Of whom women
Average number of employees						
Parent company in Sweden	499	391	108	487	381	106
Subsidiaries in Sweden	141	113	28	136	111	25
	640	504	136	623	492	131
Subsidiaries abroad:						
The Netherlands	84	69	15	83	68	15
The United Kingdom	39	30	9	33	27	6
Lithuania	3	2	1	5	3	2
Malaysia	5	2	3	5	2	3
Poland	9	4	5	5	2	3
The Czech Republic	3	1	2	3	1	2
Finland	4	2	2	-	-	-
Total abroad	147	110	37	134	103	31
Group total	787	614	173	757	595	162

	2004		2003	
	On closing date	Of whom men (%)	On closing date	Of whom men (%)
Number of Board members and senior executives				
Group (incl. subsidiaries)				
Board members	72	81	70	90
President and other senior executives	46	83	51	92
Parent company				
Board members <sup>(1)</sup>	9	78	8	87
President and other senior executives	11	91	15	93

<sup>(1)</sup> Two of the members appointed by the employees, of whom one male.

Absence due to illness (%)	Parent company	
	2004	1.7.2003 – 31.12.2003
Total absence due to illness	4.2	3.8
of which long-term	45.7	24.0
- absence due to illness, men	4.0	3.5
- absence due to illness, women	4.8	4.8
- employees younger than 29 years of age	2.0	1.4
- employees 30 – 49 years	3.1	2.4
- employees older than 50 years of age	7.3	7.1

## Note 5 – Provisions for pensions and similar commitments

### Defined benefit plans

Within the Karlshamns Group, there are defined benefit plans giving employees the right to a pension benefit after terminated employment, based on their final salary and period of service. The Swedish and Dutch units are affiliated to such defined benefit plans. There are also commitments made for retirement pensions and family pensions for Swedish salaried employees; commitments guaranteed by means of an insurance policy with Alecta or KP (KP Pensionskassa). The transitional ruling of RR 29 stipulates that defined benefit plans are to be reported from this year onwards, which thus means that comparative figures are not reported for this first year of adoption. In future years, however, comparative figures will be reported as well.

	Defined benefit plans 2004
<b>The amounts reported in the consolidated balance sheet have been calculated as follows:</b>	
Present value of committed fund assets	368,736
Fair value of plan assets	-345,303
	23,433
Present value of commitments other than pension funds	-
Actuarial profits (-) and losses (+) not reported	-17,945
Costs for previous periods of service not reported	-
<b>Net liability</b>	<b>5,488</b>

### The net amount is reported under the following items in the consolidated balance sheet:

Financial fixed assets	-9,983
Provisions for pensions and similar commitments	15,471
<b>Net liability</b>	<b>5,488</b>

	Defined benefit plans 2004
<b>The following amounts are reported in the consolidated income statement:</b>	
Costs related to service in the current year	10,092
Interest costs	16,705
Expected return on plan assets	-15,468
Actuarial losses (+) and profits (-) reported net in the current year	-
Costs related to previous years' service	-
Losses (+) or profits (-) on curtailments and settlements	-1,358
<b>Total</b>	<b>9,971</b>

	Pension costs 2004
<b>Total pension costs reported in the consolidated income statement:</b>	
Total costs for defined benefit plans, including special employer's contribution	10,687
Total costs for defined contribution plans, including special employer's contribution	48,534
<b>Total</b>	<b>59,221</b>

	Defined benefit plans 2004
<b>Specification of net liability movements reported in the consolidated balance sheet:</b>	
Net liability, opening balance 1.1.2004	-
Effect of adoption of new accounting principles	3,961
<b>Adjusted net liability, opening balance 1.1.2004</b>	<b>3,961</b>
Net cost as reported in the income statement	9,971
Benefit payments	-10,587
Employer's contributions to fund assets	2,115
Exchange rate differences on foreign benefit plans	28
<b>Net liability, closing balance 31.12.2004</b>	<b>5,488</b>

	Defined benefit plans 2004	
	The Netherlands	Sweden
<b>Principal actuarial assumptions on balance sheet date:</b>		
Discount rate	4.5%	4.1%
Expected return on plan assets	4.5%	4.5%
Future annual salary increases	2.0%	3.0%
Future annual pension increases	2.0%	2.0%
Employee turnover	5.0%	5.0%



## Note 6 – Result from financial investments

	Group		Parent company	
	2004	2003	2004	2003
Profit from shares in subsidiaries				
Dividend			50,698	8,000
Group contribution			11,500	29,200
Profit from other shares and participations				
Profit from divestment of shares	10,906	–	10,906	–
Dividend	255	244	255	244
Gain/loss on receivables				
Interest income, subsidiaries (long-term)			6,829	8,040
Interest income, other	3,176	2,963	1,250	1,906
Interest expenses				
Interest expense, subsidiaries			-5,845	-9,330
Interest expense, convertible loan	-1,838	-2,609	-1,838	-2,609
Interest expense, other	-8,856	-12,303	-7,984	-11,154
<b>Net financial items</b>	<b>3,643</b>	<b>-11,705</b>	<b>65,771</b>	<b>24,297</b>

## Note 7 – Appropriations

	Parent company	
	2004	2003
Change in depreciation in excess of plan,		
- buildings	3,536	3,724
- machinery and equipment, tools, fixtures and fittings	-110,500	-68,336
Change in tax allocation reserve	23,818	8,567
<b>Total</b>	<b>-83,146</b>	<b>-56,045</b>

## Note 8 – Tax

	Group		Parent company	
	2004	2003	2004	2003
Current tax	-9,264	-30,539	-793	-14,744
Current tax on previous years' profit	-122	916	–	937
Deferred tax on taxable temporary differences	-30,637	-12,204	–	–
Translation differences	-466	-1,369		
Deferred tax on tax-exempt temporary differences	-343	-1,027	-472	-1,091
<b>Total</b>	<b>-40,832</b>	<b>-44,223</b>	<b>-321</b>	<b>-14,898</b>
<b>Difference between nominal and actual tax charge</b>				
	Group		Parent company	
	2004	2003	2004	2003
Profit before tax	151,496	185,588	52,334	66,074
Nominal tax 28 percent	42,421	51,965	14,654	18,501
Tax effect of non-tax expenses	4,032	2,122	2,212	807
Tax effect of tax-exempt income	-4,736	-3,267	-16,545	-3,158
Adjustment for previous years' tax	122	-916	–	-937
Effect of foreign tax rates	-447	-8,829	–	–
Tax on Group adjustments	-560	3,501	–	–
Other	–	-373	–	-315
<b>Total</b>	<b>40,832</b>	<b>44,203</b>	<b>321</b>	<b>14,898</b>

## Note 9 – Earnings per share

	Group	
	2004	2003
Net profit	<b>110,664</b>	141,365
Interest expense on convertible loan	<b>1,838</b>	2,608
Tax referable to above items	<b>-515</b>	-730
<b>Adjusted profit for calculation of earnings per share after dilution</b>	<b>111,987</b>	143,243

	Group	
	2004	2003
<b>Average number of shares before dilution (000)</b>	<b>21,092</b>	21,006
Presumed redemption of warrants	-	6
Presumed conversion of convertible debt instruments	<b>746</b>	746
<b>Average number of shares after dilution</b>	<b>21,838</b>	21,758

## Note 10 – Dividend per share

On 11 May 2005 the Annual General Meeting will propose a dividend of SEK 9.50 per share (of which SEK 4.50 a supplementary, one-off dividend payment) for the financial year 2004; SEK 200,376,850 all in all. This amount has not been reported as a year-end liability, but will be posted to shareholders' equity under "Appropriation of profit" in the 2005 accounts. In both 2003 and 2002, a dividend of SEK 3.50 per share was paid.

## Note 11 – Intangible fixed assets

Group	Group				Parent company			
	Goodwill		Software		Goodwill		Software	
	2004	2003	2004	2003	2004	2003	2004	2003
Acquisition value, opening balance	<b>15,842</b>	7,700	-	-	<b>7,700</b>	7,700	-	-
Additions	<b>288</b>	8,142	<b>663</b>	-	-	-	<b>663</b>	-
Reclassifications	-	-	<b>13,715</b>	-	-	-	<b>13,715</b>	-
<b>Accumulated acquisition value, closing balance</b>	<b>16,130</b>	15,842	<b>14,378</b>	-	<b>7,700</b>	7,700	<b>14,378</b>	-
Depreciation, opening balance	<b>1,936</b>	323	-	-	<b>1,863</b>	323	-	-
Depreciation charge for the year	<b>2,456</b>	1,613	<b>2,876</b>	-	<b>1,540</b>	1,540	<b>2,876</b>	-
<b>Accumulated depreciation, closing balance</b>	<b>4,392</b>	1,936	<b>2,876</b>	-	<b>3,403</b>	1,863	<b>2,876</b>	-
<b>Planned residual value, closing balance</b>	<b>11,738</b>	13,906	<b>11,502</b>	-	<b>4,297</b>	5,837	<b>11,502</b>	-

## Note 12 – Tangible fixed assets

Group	Land and buildings		2004	Plant and machinery		2003	Equipment, tools, fixtures and fittings		2004	Construction in progress		2003
	2004	2003		2004	2003		2004	2003		2004	2003	
Acquisition value, opening balance	<b>354,612</b>	354,802	<b>1,211,622</b>	1,195,013	<b>109,971</b>	96,623	<b>57,840</b>	8,790				
Additions	<b>4,266</b>	764	<b>58,633</b>	40,472	<b>6,442</b>	5,436	<b>26,825</b>	52,820				
Disposals	-	-	<b>-5,102</b>	-1,392	<b>-4,030</b>	-1,617	-	-				
Reclassifications	<b>9,125</b>	815	<b>20,648</b>	-7,733	<b>2,308</b>	10,688	<b>-45,796</b>	-3,770				
Translation differences	<b>-411</b>	-1,769	<b>-3,065</b>	-14,738	<b>-267</b>	-1,159	<b>-86</b>	-				
<b>Accumulated acquisition value, closing balance</b>	<b>367,592</b>	354,612	<b>1,282,736</b>	1,211,622	<b>114,424</b>	109,971	<b>38,783</b>	57,840				
Depreciation, opening balance	<b>246,562</b>	238,365	<b>687,004</b>	627,135	<b>95,469</b>	83,985	-	-				
Disposals	-	-	<b>-4,917</b>	-778	<b>-4,033</b>	-1,614	-	-				
Reclassifications	<b>18</b>	-	<b>-2,114</b>	-6,853	<b>2,096</b>	6,853	-	-				
Depreciation charge for the year	<b>9,429</b>	9,030	<b>77,555</b>	76,838	<b>6,243</b>	7,255	-	-				
Translation differences	<b>-296</b>	-833	<b>-2,216</b>	-9,338	<b>-268</b>	-1,010	-	-				
<b>Accumulated depreciation, closing balance</b>	<b>255,713</b>	246,562	<b>755,312</b>	687,004	<b>99,507</b>	95,469	-	-				
Write-ups, opening balance	<b>34,848</b>	34,848	-	-	-	-	-	-				
<b>Accumulated write-ups, closing balance</b>	<b>34,848</b>	34,848	-	-	-	-	-	-				
<b>Planned residual value, closing balance</b>	<b>146,727</b>	142,898	<b>527,424</b>	524,618	<b>14,917</b>	14,502	<b>38,783</b>	57,840				
Of which land	<b>62,734</b>	57,429										
Tax assessment values												
Swedish companies												
Land and buildings	<b>137,733</b>	139,934										
Book value of corresponding assets	<b>129,850</b>	124,294										

Parent Company	Land and buildings		2004	Plant and machinery		2003	Equipment, tools, fixtures and fittings		2004	Construction in progress		2003
	2004	2003		2004	2003		2004	2003		2004	2003	
Acquisition value, opening balance	<b>287,890</b>	286,311	<b>518,850</b>	495,838	<b>31,153</b>	28,998	<b>57,053</b>	8,789				
Additions	<b>4,265</b>	764	<b>35,312</b>	20,057	<b>2,542</b>	2,155	<b>25,287</b>	52,034				
Disposals	-	-	-	-	-	-	-	-				
Reclassifications	<b>9,125</b>	815	<b>22,956</b>	2,955	-	-	<b>-45,796</b>	-3,770				
<b>Accumulated acquisition value, closing balance</b>	<b>301,280</b>	287,890	<b>577,118</b>	518,850	<b>33,695</b>	31,153	<b>36,544</b>	57,053				
Depreciation, opening balance	<b>200,731</b>	193,452	<b>224,487</b>	174,900	<b>27,122</b>	23,067	-	-				
Disposals	-	-	-	-	-	-	-	-				
Depreciation charge for the year	<b>7,699</b>	7,279	<b>49,195</b>	49,587	<b>2,521</b>	4,055	-	-				
<b>Accumulated depreciation, closing value</b>	<b>208,430</b>	200,731	<b>273,682</b>	224,487	<b>29,643</b>	27,122	-	-				
Write-ups, opening balance	<b>34,848</b>	34,848	-	-	-	-	-	-				
<b>Accumulated write-ups, closing value</b>	<b>34,848</b>	34,848	-	-	-	-	-	-				
<b>Planned residual value, closing value</b>	<b>127,698</b>	122,007	<b>303,436</b>	294,363	<b>4,052</b>	4,031	<b>36,544</b>	57,053				
Of which land	<b>56,127</b>	50,742										
Tax assessment values												
Land and buildings	<b>133,499</b>	135,753										

### Note 13 – Shares and participations

	Group		Parent company	
	2004	2003	2004	2003
<b>Shares in subsidiaries</b>				
Acquisition value, opening balance			238,595	238,595
Liquidation of subsidiary			-8,050	-
<b>Accumulated acquisition value, closing balance</b>			230,545	238,595
Write-ups, opening balance			94,878	94,878
<b>Accumulated write-ups, closing balance</b>			94,878	94,878
Depreciation, opening balance			48,793	48,793
<b>Accumulated depreciation, closing balance</b>			48,793	48,793
<b>Planned residual value, closing balance</b>			276,630	284,680
<b>Shares in associated companies</b>				
Acquisition value, opening balance	282	282	282	282
Disposals	-282	-	-282	-
<b>Accumulated acquisition value, closing balance</b>	-	282	-	282
<b>Planned residual value, closing balance</b>	-	282	-	282
<b>Shares in other companies</b>				
Acquisition value, opening balance	150	150	149	149
<b>Accumulated acquisition value, closing balance</b>	150	150	149	149
<b>Planned residual value, closing balance</b>	150	150	149	149
<b>Total</b>	<b>150</b>	<b>432</b>	<b>276,779</b>	<b>285,111</b>

See Note 24 for shareholding specifications.

### Note 14 – Long-term receivables

	Group		Parent company	
	2004	2003	2004	2003
<b>Receivables from subsidiaries</b>				
Acquisition value, opening balance			152,424	163,338
Loans			-	330
Repayment			-15,374	-9,178
Translation difference			-745	-2,066
<b>Accumulated acquisition value, closing balance</b>			136,305	152,424
Write-downs, opening balance			65,935	65,935
<b>Accumulated write-downs, closing balance</b>			65,935	65,935
<b>Book value, receivables from subsidiaries</b>			70,370	86,489
<b>Other receivables</b>				
<i>Interest-bearing</i>				
Acquisition value, opening balance	2,858	-	-	-
Translation differences	-10	-	-	-
Refund from KP and Alecta	-481	2,858	-	-
	2,367	2,858	-	-
<i>Non interest-bearing</i>				
Acquisition value, opening balance	7,636	11,659	5,874	6,965
Deferred tax asset	-3,896	-1,028	472	-1,091
Refund from KP and Alecta	-	-2,995	-	-
Pensions and special employer's contribution according to RR29	12,473	-	-	-
	16,213	7,636	6,346	5,874
<b>Book value, other receivables</b>	<b>18,580</b>	<b>10,494</b>	<b>6,346</b>	<b>5,874</b>
<b>Total long-term receivables</b>	<b>18,580</b>	<b>10,494</b>	<b>76,716</b>	<b>92,363</b>

## Note 15 – Inventories

	Group		Parent company	
	2004	2003	2004	2003
Raw materials and supplies	318,815	318,214	239,688	239,243
Work in progress	36,519	56,329	24,448	49,191
Finished goods and goods for resale	84,063	80,496	40,498	46,298
<b>Total</b>	<b>439,397</b>	<b>455,039</b>	<b>304,634</b>	<b>334,732</b>

## Note 16 – Other receivables

	Group		Parent company	
	2004	2003	2004	2003
<i>Interest-bearing</i>				
Other receivables	4,975	616	-	-
<i>Non interest-bearing</i>				
Receivable from subsidiaries			143,403	139,698
Current tax assets	20,491	24,825	15,900	27,512
Other receivables	68,288	48,999	36,771	18,260
	88,779	73,824	196,074	185,470
<b>Total</b>	<b>93,754</b>	<b>74,440</b>	<b>196,074</b>	<b>185,470</b>

## Note 17 – Shareholders' equity

Group	Share capital	Restricted reserves	Non-restricted equity	Total
<b>Balance sheet 31.12.2002</b>	<b>210,020</b>	<b>406,492</b>	<b>298,970</b>	<b>915,482</b>
Redemption of warrants	306	2,111		2,417
Dividend			-73,510	-73,510
Transfer between restricted and non-restricted equity		77,880	-77,880	-
Translation differences			-13,169	-13,169
Profit for the year			141,365	141,365
<b>Balance sheet 31.12.2003</b>	<b>210,326</b>	<b>486,483</b>	<b>275,776</b>	<b>972,585</b>
Effect of new accounting principle (RR29)			-386	-386
Redemption of warrants	597	4,968		5,565
Dividend			-73,770	-73,770
Transfer between restricted and non-restricted equity		21,444	-21,444	-
Translation differences			-2,111	-2,111
Profit for the year			110,664	110,664
<b>Balance sheet 31.12.2004</b>	<b>210,923</b>	<b>512,895</b>	<b>288,729</b>	<b>1,012,547</b>

Parent company	Share capital	Share premium reserve	Revaluation reserve	Statutory reserve	Non-restricted equity	Total
<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>
Redemption of warrants	306	2,111				2,417
Dividend					-73,510	-73,510
Profit for the year					51,176	51,176
<b>Balance sheet 31.12.2003</b>	<b>210,326</b>	<b>2,249</b>	<b>34,848</b>	<b>42,000</b>	<b>227,090</b>	<b>516,513</b>
Redemption of warrants	597	4,968				5,565
Dividend					-73,770	-73,770
Profit for the year					52,013	52,013
<b>Balance sheet 31.12.2004</b>	<b>210,923</b>	<b>7,217</b>	<b>34,848</b>	<b>42,000</b>	<b>205,333</b>	<b>500,321</b>

The share capital consists of 21,092,300 shares of the nominal value SEK 10 each. All shares are fully paid up.

<b>Total issued shares at 31.12.2003</b>	<b>21,032,600</b>
Utilised warrants	59,700
<b>Total issued shares at 31.12.2004</b>	<b>21,092,300</b>



**Note 18 – Untaxed reserves**

	Parent Company	
	2004	2003
Depreciation in excess of plan,		
- buildings	18,079	21,615
- machinery and equipment; tools, fixtures and fittings	233,059	122,559
Tax allocation reserve	127,541	151,359
<b>Total</b>	<b>378,679</b>	<b>295,533</b>

**Note 19 – Deferred tax**

	Group		Parent Company	
	2004	2003	2004	2003
<b>Temporary differences</b>				
Deferred tax assets				
Losses carried forward	120	1,133	-	-
Pensions	3,127	5,960	5,853	5,331
Other	493	543	493	543
<b>Total</b>	<b>3,740</b>	<b>7,636</b>	<b>6,346</b>	<b>5,874</b>
Deferred tax liabilities				
Losses carried forward	-2,000	-	-	-
Pensions	-5,112	-	-	-
Untaxed reserves	131,291	106,050	-	-
Consolidation adjustments	-1,381	-5,958	-	-
Machinery and equipment	23,425	19,847	-	-
<b>Total</b>	<b>146,223</b>	<b>119,939</b>	<b>-</b>	<b>-</b>

The deferred tax asset is recorded as a Long-term receivable, see Note 14.

**Note 20 – Liabilities to credit institutions**

	Group		Parent company	
	2004	2003	2004	2003
<i>Interest-bearing</i>				
Borrowings in foreign currency	126,218	126,910	126,218	126,910
Credit market loans	118,769	149,427	118,445	147,986
<b>Total</b>	<b>244,987</b>	<b>276,337</b>	<b>244,663</b>	<b>274,896</b>
Of which having a duration longer than five years	0	0	0	0

**Note 21 – Other long-term receivables**

	Group		Parent Company	
	2004	2003	2004	2003
<i>Interest-bearing</i>				
Liabilities to subsidiaries	-	848	-	3,768
Other long-term liabilities	-	848	-	-
	-	848	-	3,768
<i>Non interest-bearing</i>				
Liabilities to subsidiaries	-	-	3,526	3,526
Other long-term liabilities	-	-	-	848
	-	-	3,526	4,374
<b>Total</b>	<b>-</b>	<b>848</b>	<b>3,526</b>	<b>8,142</b>
Of which having a duration longer than five years	-	0	0	0

**Note 22 – Other current liabilities**

	Group		Parent Company	
	2004	2003	2004	2003
<i>Interest-bearing</i>				
Liabilities to subsidiaries			-	-
Other liabilities	761	6,378	-	-
	761	6,378	-	-
<i>Non interest-bearing</i>				
Tax liabilities	5,629	-	-	-
Liabilities to subsidiaries			243,403	258,091
Other liabilities	39,699	55,882	17,259	13,911
	45,328	55,882	260,662	272,002
<b>Total</b>	<b>46,089</b>	<b>62,260</b>	<b>260,662</b>	<b>272,002</b>

**Note 23 – Accrued expenses and prepaid income**

	Group		Parent company	
	2004	2003	2004	2003
<i>Non interest-bearing</i>				
Accrued salary costs	45,588	42,615	31,038	29,656
Accrued payroll overheads	24,252	20,769	15,620	14,753
Accrued pension costs	20,769	12,180	10,987	9,596
Customs duties	35,135	55,250	35,135	55,250
Others	19,316	24,155	14,494	18,720
<b>Total</b>	<b>145,060</b>	<b>154,969</b>	<b>107,274</b>	<b>127,975</b>

**Note 24 – 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
BioSafe Oy	1877093-5	Reso	100	100	-
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 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>276,630</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 25 – Contingent liabilities**

	Group		Parent Company	
	2004	2003	2004	2003
Guarantees				
On behalf of subsidiaries			<b>18,966</b>	20,379
Other	<b>15,736</b>	20,260	<b>15,980</b>	6,000
<b>Total</b>	<b>15,736</b>	20,260	<b>34,946</b>	26,379

**Note 26 – Auditors' fees**

	Group		Parent Company	
	2004	2003	2004	2003
Öhrlings PricewaterhouseCoopers				
Audit assignments	<b>1,353</b>	1,631	<b>393</b>	503
Other assignments	<b>3,129</b>	913	<b>2,564</b>	773

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 27 – Inter-company transactions**

The Parent company's sales to other Group companies amount to 11 percent (11) of net sales, whereas the corresponding purchases amount to 7 percent (10) of operating costs.

**Note 28 – Risk management and sensitivity analysis**

The Group's risk management is described under the heading "Risk management and sensitivity analysis" on page 66.

Karlshamn, 10 March 2005

Melker Schörling  
Chairman of the Board

Clas Eriksson

Håkan Hellmo

Mikael Ekdahl

Gösta Wiking

Märit Beckeman

Irene Friberg-Johansson

Leif Håkansson

Jerker Hartwall  
President

Our audit report was submitted on 10 March 2005  
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 2004. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Their responsibility is also to ensure that the Annual Accounts Act is applied in the preparation of the annual accounts and the consolidated financial statements. 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 sampling 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 significant estimations made by the Board of Directors and the President in their preparation of the annual accounts and the consolidated financial statements, together with 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. The Directors' report is consistent with all other parts of the annual accounts and the consolidated financial statements.

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, Sweden, 10 March 2005

Öhrlings PricewaterhouseCoopers AB

Åke Christiansson  
Auktoriserad revisor  
(Authorized Public Accountant)

# A stock market analysis of Karlshamns

The Karlshamns share has been listed on the Stockholm Stock Exchange since 1997. In the following, three stock market analysts express their opinions on the development, strengths and weaknesses of the Karlshamns share, and describe the analysis model they use when monitoring Karlshamns' development.

	1. What, in your opinion, are the most important factors for the development of the Karlshamns share?	2. Is there anything in particular to watch for in the interim reports?	3. What three key ratios best describe Karlshamns' development?	4. What are the strengths (positive) and weaknesses (negative) of the Karlshamns share?	5. What analysis model do you use for Karlshamns?
<b>GERTH FRISTRÖM</b>	1. The growth rate of a company's sales volumes and earnings is always fundamental for its development. Sales volumes may grow organically, or through acquisitions. For a rising profit level, you need larger sales of products with a satisfactory contribution margin.	2. How sales volumes develop, and in which segments volumes increase or decrease. Karlshamns strives to expand its proportion of high value-added products, which should lead to gradually increasing margins. Needless to say, you must keep an eye on costs, too.	3. The growth rate in sales volumes, operating margin and return on capital employed.	4. Its strength: it's a rather safe investment, with a high dividend yield. Its weakness: the company and its products are relatively unknown, and the share has low liquidity.	5. The analysis software developed by the Swedish Association of Share Investors, which is the only available programme based on fundamental analysis, and thus well suited for companies like Karlshamns.
<b>MATS LARSSON</b>	1. Two factors in particular: the growth rate achieved by high value-added products (for which contribution margins are considerably higher than for standard products), and the fact that the Nordic market is facing extensive consolidation what with Danish Aarhus United being up for sale, Norwegian Denofa (Orkla) having closed down its refinery and the two Finnish market players Raisio and Mildola suffering from weak profitability. Karlshamns' strong market position makes it the likely winner in this process.	2. The growth rate of high value-added products and gross contribution. Comments on the competitive situation and news of R&D developments are also of considerable interest. Investment plans.	3. The development of gross contribution. Contribution margins, i.e. operating profit divided by gross contribution, provide a strong indication of the development of internal efficiency. The debt/equity ratio.	4. Its strength is its defensive character – strong financial position and high dividend yield – and the fact that most of the Group's customers operate in business sectors with only limited exposure to business fluctuations. There is also a strong potential, depending on how successful the company's focus on high value-added products turns out to be. Among its weaknesses are its low liquidity, and the complex nature of the Group's operations. Also, there are very few comparable objects on the Stockholm Stock Exchange, which may dampen interest among investors.	5. We use a combination of different analysis models, among which a cash-flow model is the most important. As a consequence of Karlshamns' strong financial position we tend to focus on purely operational analyses – setting financing matters aside, and adjusting for differences in financial assets.
<b>THOMAS JOHANSSON</b>	1. Its profit growth, dividend payments and the market's focus on limited-size companies and/or defensive sectors.	2. In addition to the more global factors behind the share's development, you should also keep an eye on changes in market conditions (competition, prices etc) and indications of an increase/decrease in visibility.	3. Profit growth, volume developments, high value-added products and cost level.	4. Stability/safety and high dividends (positive), versus limited liquidity, niche business (difficult to grasp) and lack of good market information.	5. Several different models: DCF, absolute PE, total yield etc. A combination of an analysis of Karlshamns as such, and the attractiveness of the share in relation to similar investments and suitable indexes.





**GERTH FRISTRÖM,**  
Aktiespararna, Swedish Share-  
holders Association, Regional  
Manager South Sweden



**MATS LARSSON,**  
Swedbank



**THOMAS JOHANSSON,**  
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**6. If we want to compare Karlshamns with other, similar companies, which ones should we choose?**

6. There are no comparable companies on the Stockholm Stock Exchange. The best alternative would be Aarhus United, which is listed on the Copenhagen Stock Exchange (Denmark). To a certain extent, you may use companies like Sardus and Cloetta Fazer as reference objects.

6. There are no good comparable objects, really. Two possible reference objects would be Cloetta Fazer and Sardus, both of which operate in the food industry. There are also certain similarities with SSAB, a company that progressed from its original, strong domestic market position (high transport costs) in the low value-added segment, to high value-added niche products with global growth. Other similarities are the two companies' exposure to raw material prices, currency rates and energy costs.

6. It's difficult to find good comparable objects. In my opinion, the best alternative would be defensive, limited-size companies – in particular those operating in the consumer goods market.

**7. Are there any listed companies outside Sweden that could be interesting as reference objects?**

7. See my reply to the previous question.

7. Aarhus United (Denmark) would be the best reference object, although the important key ratios have now been "interfered with" as the main owner has its shareholding up for sale. Other possibilities would be Bunge (USA), Raisio (Finland), Danisco (Denmark) and Archer Daniels Midland (USA).

7. Specialty chemicals companies.

**8. Are there any companies in other lines of business that might function as indicators for Karlshamns as well?**

8. If so, you'd have to look at other raw material companies – the pulp and paper industries, for example. Just like Karlshamns, they are dependent on raw material prices, they have large, capital-intensive production plants, they are heavy energy consumers and their profits are more or less exposed to currency fluctuations.

8. Besides the ones I already mentioned, I can't think of any such company.

8. Even though the nature of their operations differs, limited- and medium-sized companies with defensive qualities tend to be grouped with Karlshamns. Among those are Sardus, Axfood and Cloetta Fazer, for example.

**9. Do you consider the Karlshamns share more or less risk-exposed than the stock exchange average?**

9. I would classify its risk as low to average. Karlshamns operates in an industry that develops at a rather moderate pace, which limits the risk of unexpected, negative surprises. Also, the company's sales to the food industry are more or less unaffected by business fluctuations.

9. In my opinion the risk is lower, what with the company's strong financial position and high dividend yield. Historically, operating risks have proven considerably larger than expected, considering that the majority of Karlshamns' customers operate in business sectors with a limited exposure to general business fluctuations. Local monopolies have largely disappeared by now, and the effects of that situation have probably already impacted margins.

9. Less exposed.

**10. What is the 12-month trend of the Stockholm Stock Exchange?**

10. In the last 24 months, the stock exchange has enjoyed a healthy financial climate. Share prices rose by an average of 29.8 percent in 2003, by 17.8 percent in 2004 and by 6.5 percent in the first months of 2005. Throughout this period, inflation has remained low indeed – only a few percent – and real yields have thus been very good. Should these favourable conditions continue, there are very good prospects for a healthy return on investments in the next 12 months as well.

10. I believe in a 10–15 percent increase in 2005. Conditions are favourable on the stock market right now, with high market liquidity, healthy profit developments and valuations on a reasonably attractive level. Compared to interest-bearing securities in particular, the stock exchange provides an interesting investment alternative.

10. Rising.

# The Karlshamns share

Karlshamns' shares have been listed on the Stockholm Stock Exchange since 1997. In 2004 a total of 2,440,186 (4,529,326) shares were traded, representing a total value of SEK 216,517,657 (370,053,056) or a turnover rate of 11.6 percent.

In 2004, an average of 9,645 (18,190) shares were traded each day. At year end the share price was SEK 95.75 (94.00), giving Karlshamns a market value of SEK 2,020 million (1,977). The lowest price paid in 2004 was SEK 80.00 (on 27 April, 12 May and 13 May), the highest price paid was SEK 100 (on 23 December).

## Share capital

At year end, Karlshamns' nominal share capital amounted to SEK 210,923,000, divided into 21,092,300 shares with a nominal value of SEK 10 each. Each share carries equal rights to participate in the company's assets and profits. Each share also entitles its holder to one vote and, at the Annual General Meeting, each person entitled to vote may vote his/her entire shareholding (as well as shares held by proxy) without limitation to the number of votes.

## Changes in ownership

Karlshamns' total number of shareholders on 31 December 2004 was 6,328, an increase of 1 percent over 31 December 2003. 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 9.3 percent of the share capital and voting rights, equivalent to 1,960,257 shares. Melker Schörling AB is thereby the largest shareholder of Karlshamns

AB, currently holding a total of 31 percent of share capital and votes.

In 2004 the largest change was recorded among owners holding 1 – 500 shares, where the number of shareholders increased by 81 up to 4,596.

At the end of 2004, institutions held 25.7 percent (25.6) of the shares. The number of Swedish institutions increased to 22.9 percent (22.6), whereas foreign institutions decreased to 2.8 percent (3.0).

Private ownership in Sweden remained on a level with 2003, at 21.8 percent. The corresponding share of foreign private owners increased to 0.6 percent (0.5). Total foreign ownership at year end was 3.4 percent (3.5) or 707,502 shares (745,521).

Of the total number of shares, 64.3 percent (65.2) were directly registered. All in all, 13,561,467 shares (13,705,755) were directly registered, divided among 2,896 owners (2,963).

The number of nominee-registered shares at year end was 35.7 percent (34.8) percent, corresponding to 7,530,833 shares (7,326,845) divided among 3,432 owners (3,301). Karlshamns' major shareholders at year end are specified in the table on page 65.

## Staff warrants 1999

Following the AGM's decision in May 1999, the company raised a subordinated loan of a nominal maximum SEK 2,825,000 through the issue of promissory notes of no more than 565,000 warrants for the subscription of new shares. Employees subscribed to 167,800 of the total 546,400 warrants.

## Data per share

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Number of shares (000s)	14,000	21,000	21,000	21,000	21,000	21,000	21,002	21,033	21,092
Outstanding warrants (000s)	-	-	-	168	168	168	912	881	746
Number of shareholders	-	4,686	4,971	5,203	4,964	5,510	6,034	6,264	6,328
Share price at year end, SEK	-	124.00	60.00	70.50	67.00	80.50	89.00	94.00	95.75
Dividend, SEK	10.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	9.50 <sup>1)</sup>
Yield, %	-	2.8	5.8	5.0	5.2	4.3	3.9	3.7	9.9
Dividend as % of year's profit after tax, %	88.6	40.3	51.5	59.9	258.8	55.4	48.4	52.0	181.1
EPS before conversion and utilisation of warrants, SEK	11.84	8.68	6.80	5.84	1.35	6.32	7.23	6.73	5.25
EPS after conversion and utilisation of warrants, SEK	11.84	8.68	6.80	5.80	1.34	6.27	7.16	6.58	5.15
Shareholders' equity per share before conversion and utilisation of warrants, SEK	45.96	33.10	36.77	39.14	37.20	40.46	43.59	46.30	48.01
Shareholders' equity per share after conversion and utilisation of warrants, SEK	45.96	33.10	36.77	38.83	36.91	40.13	42.81	44.79	46.45
P/E ratio after tax, SEK	-	14.3	8.8	12.1	49.60	12.7	12.3	14.0	18.2
Share price/Equity	-	3.7	1.6	1.8	1.8	2.0	2.0	2.0	2.0

1) Proposed dividend, of which SEK 4.50 a supplementary, one-off payment per share.  
For definitions, see page 71.

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. The conversion period expired on 1 July 2004.

Of the total 167,800 option rights, 92,300 were converted into shares. The dilution effect was 0.4 percent.

### Staff warrants 2002

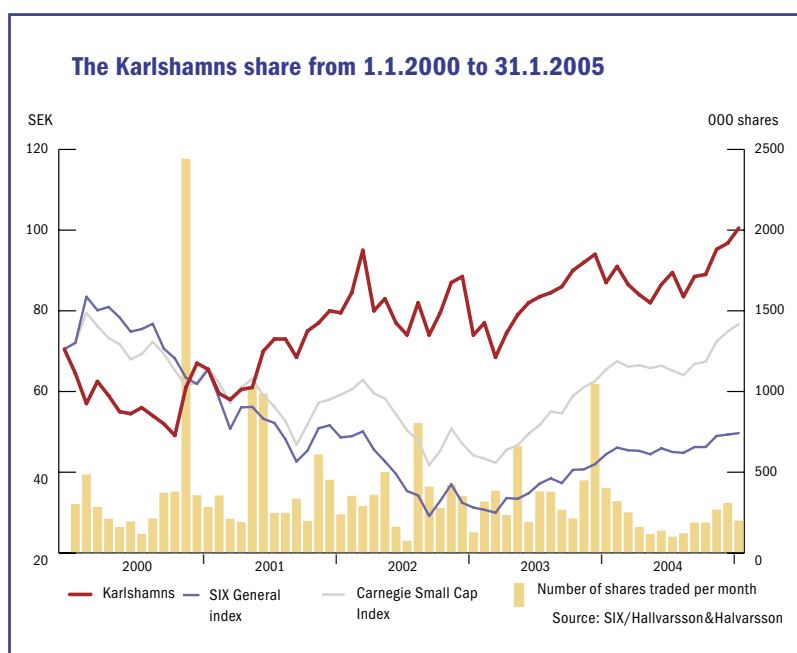
In April 2002, the Annual General Meeting decided to offer all permanent employees in Sweden, the United Kingdom and the Netherlands the possibility to subscribe for convertible debt instruments for a maximum SEK 93,700,000. Of this total offer, SEK 74,625,000, or some 80 percent, were subscribed for. 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, and 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 percentage points.

### Dividend policy

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

### Proposed dividend

The Board of Directors proposes that a dividend of SEK 5.00 (3.50) per share be paid for the year 2004,



i.e. a total dividend payment of SEK 105 million (74). Such dividend will be equivalent to 95 percent (52) of the Group's net profit, and 57 percent (64) of cash flow from operating activities. To further optimise the capital structure of the Group, the Board of Directors also proposes a supplementary, one-off dividend of SEK 4.50 per share, or a total of SEK 95 million.

### Investors' relations

It is the ambition of Karlshamns' management to have a continuous dialogue with both media and the stock market. 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 by telephone +46 454 – 820 00, fax +46 454 – 828 20 or email [info@karlshamns.se](mailto:info@karlshamns.se).

### Major shareholders on 31 December 2004

	Number of shares	Share of share capital and voting rights, %
Melker Schörling AB	6,512,823	30.88
Lantmännen Invest AB	4,454,245	21.12
SEB Fonder	1,086,035	5.15
AMF Pension Fondförvaltning AB	955,300	4.53
AMF Pensionsförsäkring AB	888,600	4.21
TIBIA Konsult AB	401,700	1.90
Östersjöstiftelsen	258,000	1.22
Livförsäkrings AB	200,000	0.95
Försäkringsbolaget Pensionsgaranti	192,700	0.91
Robur Fonder	123,000	0.58
Others	6,019,897	28.54
<b>Total</b>	<b>21,092,300</b>	<b>100.0</b>

### Division of shareholding on 31 December 2004

Number of shares	Number of shareholders	Share of all shareholders, %	Share of share capital and voting rights, %
1 – 500	4,595	72.63	4.43
501 – 1,000	953	15.06	3.93
1,001 – 2,000	389	6.15	3.14
2,001 – 5,000	222	3.51	3.60
5,001 – 10,000	90	1.41	3.28
10,001 – 20,000	26	0.41	1.81
20,001 – 50,000	25	0.40	3.68
50,001 – 100,000	13	0.21	4.21
100,001 –	14	0.22	71.92
<b>Total</b>	<b>6,328</b>	<b>100.00</b>	<b>100.00</b>



## Risk management and sensitivity analysis

The Karlshamns Group is an international business operation, and as such exposed to a number of different risks. Karlshamns' risk management is governed by established policies and routines, all of which are reviewed and updated by the Board of Directors once yearly. Karlshamns' own Risk Manager has global responsibility for the identification, assessment and management of all risks.

The Raw Material Sourcing Policy contains risk limits for the Group's raw material trading. Risks related to foreign currencies, interest rates and liquidity are dealt with in the Financial Policy, whereas Karlshamns' Credit Policy contains guidelines for how to handle credit and contract risks.

### Risks related to business environment and operations

The major risk related to Karlshamns' business environment is that of the economic development in the Group's various customer segments. This potential risk necessitates an ever-growing understanding of current and future needs, requirements and wishes among Karlshamns' customers as well as among the end consumers. To eliminate such commercial risks, Karlshamns strives for close cooperation with its customers, access to comprehensive market intelligence and a continuous reassessment of both global and regional strategies.

### Risks related to energy prices

Fluctuations in energy costs may have considerable effects on Group profits, as Karlshamns' operations are clearly energy-intensive. Dedicated efforts are made to reduce both consumption and costs, and to ensure access to several alternative energy

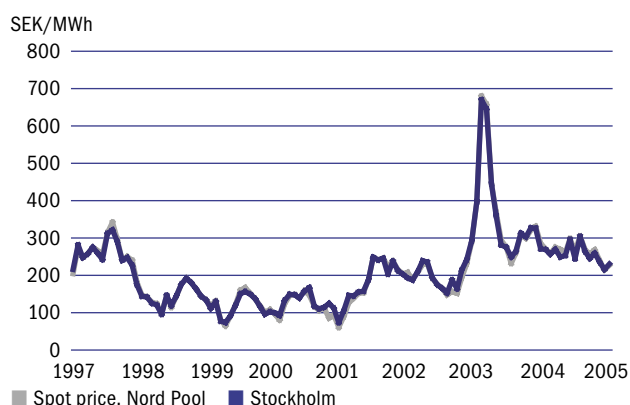
sources. To minimise its risk exposure in this area, Karlshamns buys futures contracts on the Nord Pool market to hedge the cost level of its future electricity supply. A specific risk policy deals with all trading operations on the electricity market.

### Bought electricity futures (Nord Pool)

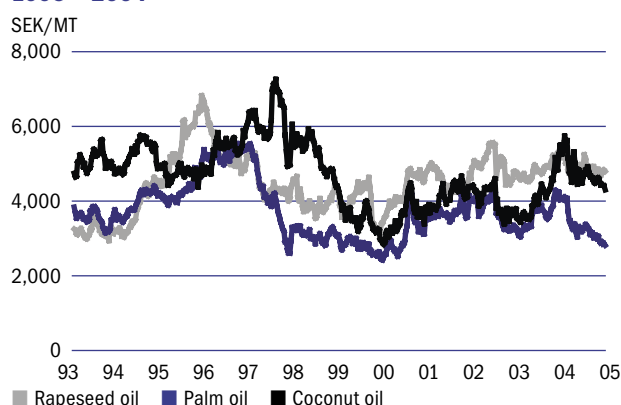
Period/year	Hedged volumes as a percentage of annual requirement	Hedged volumes (GWh)	Market value (SEK million) 31.12.2004
2005	69.7	80	-6.01
2006	20.9	24	-0.04
2007	0	0	0
2008	0	0	0
<b>Total</b>			<b>-6.05</b>

### Price risks for raw materials

Raw material sourcing is handled by a global purchasing function, which monitors and controls the Group's raw material exposure round the clock. Karlshamns' raw material costs amount to around three-quarters of sales. 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.

**Electricity prices, Swedish spot market 1997 – 2004**

Electricity prices stabilised in 2004.

**Price developments rapeseed, palm and coconut oil 1993 – 2004**

Raw material prices decreased throughout 2004.

As the average customer contract has a delivery time of around six months, the raw materials required are hedged by means of futures contracts on the world market. Karlshamns' bottom line is thereby only marginally affected by changes in raw material prices, whereas effects are considerably larger on total sales and operating capital.

Raw material prices fluctuate considerably, and a top priority for raw material sourcing is therefore to continuously monitor and manage the Group's raw material exposure, with a view to limiting the effects of fluctuating raw material prices on Karlshamns' bottom line. To simplify raw material sourcing, the staff may, within the framework of the trading policy issued by the Board, take limited risks in raw material prices.

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. Prices are hedged by means of futures contracts or purchasing contracts based on a fixed price level. Purchases of raw materials and sales of processed materials are hedged by means of standardised raw material contracts, on commodity exchanges or via brokers.

Raw material purchases are managed and administered on the basis of five separate portfolios of equivalent oils or seeds: liquids (rapeseed and soybean oil), palm, laurics (coconut and palm-kernel oil), seed/meal (rapeseed) and exotic raw materials (shea and illipe). The more exotic raw materials are not traded on commodity exchanges and are therefore considerably more difficult to hedge.

The market value of raw material contracts classified as financial instruments is set forth in the following table, where the difference between contract rate and year-end market value is shown.

**Market value of financial raw material futures 31 December 2004**

Raw material portfolio	Tons bought	Tons sold	Market value SEK m
Liquids	26,333	10,300	-0.4
Laurics	11,500	10,475	-0.1
Palm	32,500	3,000	-1.4
Seed/meal	6,500	19,000	3.7
<b>Total</b>	<b>76,833</b>	<b>42,775</b>	<b>1.8</b>

**Gross contribution for rapeseed**

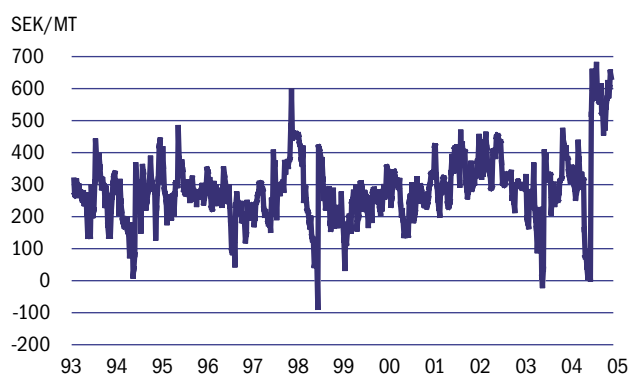
Gross contribution is a way of measuring the difference between the sales price Karlshamns may charge for a processed oil, and the purchase price paid for the raw materials used in the product. The gross contribution from the extraction of rapeseed oil and rapeseed meal varies considerably over time, with direct effects on profitability in the 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. The 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.

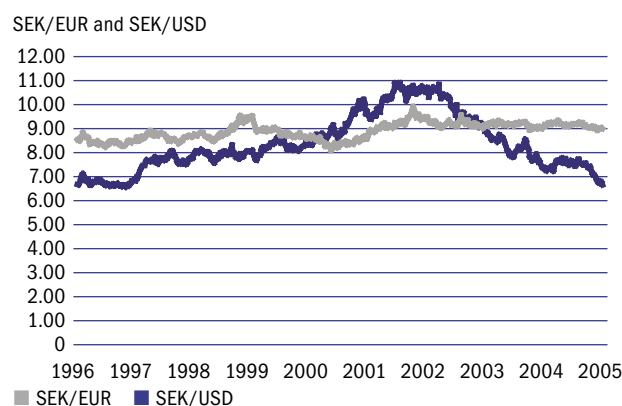
**Financial risks**

Karlshamns' treasury operations are centralised to the parent company and also function as the Group's own bank. Karlshamns' treasury department is responsible for borrowing, cash management and all financial risk management. All financing matters are governed by a global Financial Policy, which is revised by the Board of Directors once a year.



**Gross contribution, rapeseed 1993- 2004**

Gross contribution remained on a high level in the second half of 2004.

**Exchange rate trends, 1996 - 2004**

The USD continued to weaken throughout 2004.

The Financial Policy states the goals of Karlshamns' treasury operations; it describes the global distribution of responsibilities in all financing matters and specifies how risks ensuing from all financial operations are to be managed. Among the primary goals of Karlshamns' treasury operations are:

- to limit financial risks
- to minimise costs of loan capital
- to ascertain access to supplementary financing whenever needed.

Among Karlshamns' financial risks, the most important are those arising from currency fluctuations, refinancing/liquidity, interest rates, contracts and credits.

**Currency 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 entered into by its subsidiaries, in accordance with a policy issued by the Board of Directors. The gross contribution for each sales contract is thus hedged in the selling company's own domestic currency.

The scope of the Group's currency hedging is established by the Board, in accordance with the Financial Policy that is revised once a year. Foreign subsidiaries' equity is relatively low, and is therefore not hedged.

The market value of the currency futures used to hedge the Group's currency exposure is set forth in the following table. These currency futures hedge

Karlshamns' gross contribution from the moment the sales or purchasing contract is signed.

The average duration of the current portfolio of currency futures is approximately six months.

**Market value of currency futures on 31.12.2004 (SEK m)**

Hedged currency	Exchange rate 31.12.2004	Bought	Sold	Market value
CZK	0.2964	6.1	25.9	-1.3
DKK	1.2113	0.0	20.0	0.0
EUR	9.0156	35.4	321.7	2.1
GBP	12.723	32.5	3.2	1.6
NOK	1.0921	55.2	275.8	1.8
PLN	2.2131	0.0	76.8	-4.9
SKK	0.2326	0.0	3.0	0.0
USD	6.6199	134.3	59.5	6.8
<b>Total</b>		<b>263.5</b>	<b>785.9</b>	<b>6.1</b>

Karlshamns' Swedish production unit competes mainly with companies having the 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 2004 was mainly characterised by a considerably stronger Swedish currency in relation to the US dollar. Changes in exchange rates have a delayed effect on Karlshamns' profits, and it usually takes some six months for results to materialise.

**Refinancing risks**

By refinancing risk we mean the risk of failing to finance Karlshamns' operations, and/or the risk of having to renew a loan under unfavourable market conditions. This may be the case when a loan must be raised to finance a new investment, or when a current loan matures. To minimise these risks, Karlshamns strives for a loan portfolio that matures at regular and manageable intervals. The average duration of all outstanding loans shall be linked to the Group's debt/equity ratio. In periods when the



Group's debt/equity ratio is high, the loan portfolio is given a longer duration.

The Group's Financial Policy requires a liquidity reserve sufficient in the event of a temporary squeeze. Business operations must have access to capital or financing on short notice. At all times, there must be liquidity and credits guaranteed by a bank amounting to 10 percent of annual sales.

#### Interest-rate risks

Interest-rate exposure refers to the effect of a change in current interest rates on the Group's net financial items. Karlshamns' average fixed interest term is currently two months. The Group's risk limit in this area specifies that an increase of interest rates may never affect the year's earnings by more than SEK 4 million. To achieve this goal, the Group converts floating interest rates into fixed interest rates by means of financial derivatives.

#### Financial credit risks

The Group's Financial Policy defines financial credit risks as those entailed by transactions and contracts with financial institutes. Accepted counterparties in financial transactions are banks given a high credit rating by Standard & Poor's or Moody's.

#### Counterpart and credit risks

By counterpart and credit risks we mean the risk of the Group suffering financial losses due to a coun-

terpart failing to fulfil its contractual obligations. Customer relations are handled by each respective business unit.

As a consequence, counterpart and credit risks are handled on the business unit level, but are continuously followed up by the global treasury function.

Among Karlshamns' customers, the largest single customer accounts for less than five percent and the average-size customer for less than one percent of incomes. This structure considerably limits counterpart risks and their potential effects on profits.

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.

#### Insurance-related 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.

#### Sensitivity analysis

All of the risks described in the above affect the Group's bottom line in one way or another. The following table illustrates the theoretical effects in the course of a "normal" business year.

Risk factors (SEK m)	Change + / -	Impact on Group's		
		Profit	Sales	Working capital
Raw material prices (hedged)	10%	+ / - 0	+ / - 200	+ / - 50
Exchange rates SEK/EUR	10%	+ / - 30	-	-
Exchange rates SEK/USD	10%	+ / - 5	-	-
Gross contribution rapeseed	25 SEK/tonne	+ / - 5		
Electricity (Sweden)	0.05 SEK/kWh	+ / - 5	-	-
Interest costs (net borrowings, 2004)	1% on lending rate	+ / - 2		

# Eight-year summary

SEK m unless otherwise stated	1997	1998	1999	2000	2001	2002	2003	2004 <sup>4)</sup>
<b>Income statement</b>								
Net sales	3,188	3,163	3,000	2,728	2,942	3,249	3,317	<b>3,629</b>
Proportion of net sales from abroad, %	57.9	60.6	62.9	61.5	62.0	62.2	66.1	<b>67.3</b>
Gross contribution	862	833	817	759	892	962	944	<b>973</b>
Operating profit	252	210	199	63	196	211	197	<b>148</b>
Profit after net financial items	239	194	185	52	182	200	185	<b>152</b>
Profit for the year	182	143	123	28	133	152	141	<b>111</b>
<b>Operating profit per business area</b>								
Oils & Fats	210	162	155	6	143	146	134	<b>90</b>
Technical Products	23	31	29	39	36	36	41	<b>24</b>
Feed Materials	19	17	15	18	17	29	22	<b>34</b>
<b>Balance sheet</b>								
Fixed assets	537	632	687	736	770	760	765	<b>770</b>
Current assets	899	1,006	939	926	1,045	1,011	1,134	<b>1,163</b>
Shareholders' equity	695	772	822	781	850	915	972	<b>1,013</b>
Provisions	106	113	103	97	132	111	121	<b>163</b>
Liabilities	635	753	701	784	833	745	806	<b>757</b>
Capital employed	930	1,185	1,108	1,101	1,264	1,180	1,304	<b>1,357</b>
Net borrowings	159	318	183	223	282	154	211	<b>182</b>
<b>Key figures</b>								
Return on capital employed, %	30.3	19.8	16.0	5.6	16.4	16.7	15.6	<b>10.9</b>
Return on shareholders' equity, %	27.2	19.5	15.5	3.4	16.4	17.5	15.1	<b>11.2</b>
Equity/assets ratio, %	48.4	47.2	50.6	47.0	46.8	51.7	51.2	<b>52.4</b>
Debt/equity ratio, multiple	0.23	0.41	0.22	0.29	0.33	0.17	0.22	<b>0.18</b>
Proportion of risk-bearing capital, %	53.7	53.3	56.2	52.3	53.3	57.3	57.1	<b>59.8</b>
Interest cover ratio, multiple	16.0	11.2	11.2	4.0	9.4	11.0	13.4	<b>15.2</b>
Capital turnover rate, multiple	3.9	3.0	2.4	2.4	2.5	2.6	2.6	<b>2.7</b>
Cash flow from operating activities	139	76	307	131	137	310	116	<b>184</b>
Direct investments in fixed assets	124	160	136	117	109	103	108	<b>97</b>
Research and development costs	33	34	34	35	36	38	30	<b>30</b>
Average number of employees	806	787	782	761	751	754	757	<b>787</b>
of whom in Sweden	629	617	619	620	611	611	623	<b>640</b>
of whom abroad	177	170	163	141	140	143	134	<b>147</b>
Salaries and remuneration	225	223	226	229	239	259	259	<b>279</b>
<b>Share data</b>								
Number of shares (000)	21,000	21,000	21,000	21,000	21,000	21,002	21,033	<b>21,092</b>
Outstanding warrants (000)	-	-	168	168	168	912	881	<b>746</b>
EPS before conversion and utilisation of warrants, SEK	8.68	6.80	5.84	1.35	6.32	7.23	6.73	<b>5.25</b>
EPS after conversion and utilisation of warrants, SEK	8.68	6.80	5.80	1.34	6.27	7.16	6.58	<b>5.15</b>
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	46.30	<b>48.01</b>
Shareholders' equity per share after conversion and utilisation of warrants <sup>1)</sup> , SEK	33.10	36.77	38.83	36.91	40.13	42.81	44.79	<b>46.45</b>
Dividend per share, SEK <sup>2)</sup>	3.50	3.50	3.50	3.50	3.50	3.50	3.50	<b>9.50<sup>3)</sup></b>

1) Before proposed dividend, of which SEK 4.50 constitutes a supplementary, one-off dividend. The dividend for 2003, paid out in May 2004, was SEK 73.8 million or SEK 3.50 per share.

2) Decided dividend

3) Proposed dividend, of which SEK 4.50 constitutes a supplementary, one-off dividend.

4) RR49 only applied to the 2004 figures (see Accounting principles, page 46).

# Definitions

## Key figures

### Capital employed

Non-interest-bearing current assets, less non-interest-bearing liabilities and excluding deferred tax liabilities.

### 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 average 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 with a duration shorter than three months.

### 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

Non-interest-bearing current assets less 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 average number of shares on closing date.

### Yield

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



## Corporate Governance

In their information to the company's shareholders, one aim of Karlshamns' Board and Management is to make it easier for the individual investor to understand and follow the company's decision-making process; another is to describe Karlshamns' general assignment of responsibilities and delineation of authorities.

The Annual General Meeting of Karlshamns AB (publ) is the Group's supreme decision-making body, and also the forum for shareholders to exert their influence. The duties of the AGM are specified by the Companies Act as well as in the company's Articles of Association.

In 2004, the Annual General Meeting was held on 21 April in the Rio-Grande Hall, Blekinge Institute of Technology in Karlshamn. The meeting was attended by 102 shareholders who represented 61.6 percent of the total number of shares and votes. The AGM re-elected the Board in its entirety, consisting of Directors Mikael Ekdahl, Clas Eriksson, Jerker Hartwall, Håkan Hellmo, Melker Schörling and Gösta Wiking. Märit Beckeman was elected new member of the Board. The AGM confirmed the Board's dividend proposal of SEK 3.50 per share.

### Board of Directors

In the period from its election and up to the next Annual General Meeting the Board of Directors is responsible for the management of the company, and thus acts as the Group's supreme decision-making body.

The responsibilities of the Board of Directors are specified in the Swedish Companies Act and in the Articles of Association, and are also regulated by the so-called Rules of Procedure adopted each year by the statutory meeting following the AGM. These rules also specify the distribution of responsibilities between the Board, its Chairman and the President, as well as 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. 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 consists of seven members appointed by the AGM, and four members (two ordinary members, two alternates) appointed by Karlshamns' employees. In 2004, these latter were Irene Friberg-Johansson (PTK), Leif Håkansson (Industrifacket), Bo Ohlsson (PTK) and Christer Svantesson (Industrifacket).

A statutory Board meeting always follows the election by the AGM. During this meeting the Directors confirm their distribution of responsibilities, the Rules of Procedure, their instructions to the President and the Remuneration Committee as well as the Authorisation manual.

In addition to the Board meeting following their election, Karlshamns' Board of Directors met five times and held a number of telephone meetings in the period between the AGM of 2004 and the adoption of these annual accounts. The main items on the agendas have been:

<b>February</b>	Summary financial statements, audit report
<b>April</b>	Interim report for the first quarter of the year, investments
<b>August</b>	Interim report for the second quarter, investments
<b>October</b>	Interim report for the third quarter, investments
<b>December</b>	Strategic review, budget

Stefan Sjölin, CFO, acted as Secretary of the Board throughout 2004.

### Chairman

The Board meeting following the election on 21 April 2004 re-elected Melker Schörling as its Chairman. The Chairman actively supervises the development of business operations, and is responsible for continuously informing all other Board members to ascertain that the Board may carry out its responsibilities in the very best way and in accordance with the Companies Act.

### Committees

As of February 2003, all matters connected with audit and remuneration are handled by separate, appointed committees. Their task is to prepare current matters and submit proposals for the Board to vote on. The recent AGM appointed Melker Schörling, Håkan Hellmo and Tor Marthin (AMF Pension) to the Nominating Committee, the task of which is to nominate board members, propose the level of directors' fees and similar issues. At the time of their appointment, these members represented approximately 60 percent of total number of shares and votes.

In 2004, the Remuneration Committee and the Nominating Committee each held one meeting. Minutes of both meetings were kept.

### The President and Management Group

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.

In 2004 the Management Group was reorganised to comprise 10 members. During the year, the Management Group convened for 19 formal and numerous informal meetings. These meetings are chaired by the President, who then decides in accordance with the recommendations of the Group members.

### Organisation

The Karlshamns Group consists of the parent company Karlshamns AB (publ), subsidiaries and associated companies, all of which are specified in the Notes on page 59. All subsidiaries report directly to the President, on a monthly basis.

### Major policies

Karlshamns' operations are guided by a number of policies aiming at operational efficiency along with correct external and internal conduct. Among Karlshamns' most central policies are its:

- Financial Policy
- Raw Material Sourcing Policy
- Environmental Policy
- Electricity Trading Policy
- Credit Policy
- Insider Policy
- Purchasing Policy
- Health Policy
- Information Policy

### Audit

Karlshamns' auditors are appointed by the Annual General Meeting for a four-year term. The current period comprises the years 2004 – 2007, and the next election is thus scheduled for the AGM held in 2008.

The company's auditors are Öhrlings PricewaterhouseCoopers AB (Certified Public Accountants), with Åke Christiansson as the principal auditor. Öhrlings PricewaterhouseCoopers AB have been Karlshamns' auditors since 1992, and Åke Christiansson its principal auditor since 1999.

Separate meetings have been convened for the purpose of submitting audit reports to the Board of Directors and Group Management. In addition to their audit assignments, Öhrlings PricewaterhouseCoopers AB also provides Karlshamns with advisory and other professional services. All services commissioned outside the range of ordinary audit assignments are given due consideration to ascertain that no conflicts may arise with respect to independence or lawful disqualification.

### Agreements with related parties

Karlshamns has no agreements with related parties.

### Swedish Corporate Governance Code

A Swedish code for Corporate Governance is currently being developed. Karlshamns has been monitoring this development closely, and will continue to do so. Corrective measures, if needed, will thus be taken well ahead of the implementation of the Corporate Governance Code.



# Remuneration to employees

To attract and keep a skilled and committed workforce, Karlshamns endeavours to offer its employees attractive and competitive salary levels and benefits. Short- as well as long-term benefits are linked not only to individual performance and progress, but also to Karlshamns' development and profitability.

All of Karlshamns' permanent employees are remunerated in the form of fixed salaries or wages. All employees also benefit from a global bonus programme. On two separate occasions, Karlshamns' staff has also been offered to subscribe for staff warrants issued by the parent company.

## Bonus system

Since 2002, all employees benefit from a bonus system based on Group profits. The condition set for bonus payments is a return on net operating assets (RONA) exceeding 16 percent. The bonus amount then increases gradually, up to a RONA of 18 percent. The bonus per employee is maximised to SEK 5,000. No bonus payments were triggered in 2004.

## Other benefits

Besides the free use of accommodation granted to the Group's CEO and CFO, and company cars supplied to a limited number of employees, Karlshamns paid its staff no other remuneration than fixed or variable wages and salaries.

## Staff warrants 1999

Following the AGM's decision in May 1999, the company raised a subordinated loan of a nominal maximum SEK 2,825,000 through the issue of promissory notes with a maximum 565,400 warrants for the subscription of new shares. Employees subscribed to 167,800 of the total offer of 546,000 warrants. The price per warrant was established at SEK 7.20, and the issue price per share was fixed at SEK 101 for the period 1 September 1999 to 31 August 2001, and at SEK 79 for the period 1 September 2001 to 1 July 2004. Dilution at full conversion is 0.8 percent. The subordinated loan had an annual interest rate of 3 percent and matured on 1 July 2000.

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

## Staff warrants 2002

In April 2002, the AGM decided to invite all permanent employees in Sweden, the UK and the Netherlands to subscribe to convertible debt instruments, to be issued by Karlshamns AB to an aggregate amount of SEK 93,700,000. As a result, employees subscribed to debt instruments corresponding to SEK 74,625,000, or approximately 80 percent of the

total offer. Dilution at full conversion will be approximately 3.5 percent of capital and voting rights. The loan matures on 20 June 2007, should conversion not have taken place before that. The conversion rate was fixed at SEK 100, the conversion period running from 10 May 2005 to 10 May 2007. The loan carries an annual interest rate of STIBOR less 0.5 percentage points.

## Salaries and remuneration to the President and other senior executives

Salary and other benefits to the President are proposed by the Remuneration Committee and decided by the Board of Directors. Salaries and benefits to other senior executives are proposed by the President and decided by the Remuneration Committee. The total amount paid to the President and senior executives is specified in the table overleaf.

## Pension rights of President and other senior executives

In 2004, pension fund allocations of SEK 730,000 were paid for the President, in excess of the KTP plan. The President is entitled to retire, with a pension, from the age of 58. He then maintains 54 percent of gross salary excluding benefits until 65, when normal pension rights apply.

Other senior executives have pension rights in accordance with applicable union agreements. In 2004, other pension fund allocations in excess of the KTP amounted to SEK 180,000 and were reported through profit and loss.

## Term of notice and severance pay

The President's employment agreement specifies severance pay corresponding to one year's salary, should his employment be terminated at the request of the company. Such severance pay is to be paid out irrespective of whether or not the President is paid a salary by a new employer. The President has no right to request a severance pay if employment is terminated at his own request. Notice of termination of employment 12 months for the company, and 6 months if at the President's own request.

Corresponding termination provisions apply for two other senior executives – i.e. severance pay corresponding to one year's salary, irrespective of remuneration payments from other employers. These senior executives have no right to request severance pay if employment is terminated at their own request. Three senior executives have a term of notice



of 6 months if at their request, and 12 months if employment is terminated by the company. Termination conditions in accordance with applicable union agreements apply to all other senior executives.

#### Directors' fees

Board members elected by the Annual General Meeting are paid directors' fees in accordance with a decision taken by the AGM. The distribution of fees among the Board members is based on a decision taken by the Board itself. On 21 April 2004, the AGM approved directors' fees for the period up to the next Annual General Meeting of SEK 1,020,000. The Chairman of the Board, Melker Schörling, was paid a director's fee of SEK 370,000 in 2004. No other fees or benefits were paid to the Chairman of the Board.

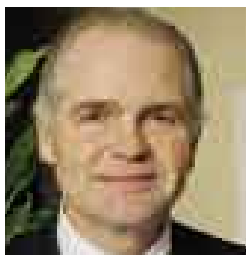
To other Board members, directors' fees of an aggregate SEK 650,000 were paid in 2004. Besides reimbursements of travel expenses, no other remuneration or benefits were paid. Neither the President, the Secretary of the Board (the Group's CFO) nor the employee representatives is paid any fees other than the reimbursement of expenses in connection with Board meetings.



#### Remuneration to the President and other senior executives

SEK m	Fixed salary	Variable salary	Pension costs	Total
The President	3.2	0.5	2.0	5.7
Other senior executives	9.1	0.3	3.6	13.0
<b>Total</b>	<b>12.3</b>	<b>0.8</b>	<b>5.6</b>	<b>18.7</b>

# Board of Directors



**Melker Schörling**



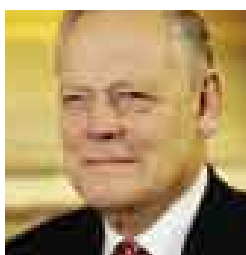
**Clas Eriksson**



**Håkan Hellmo**



**Mikael Ekdahl**



**Gösta Wiking**



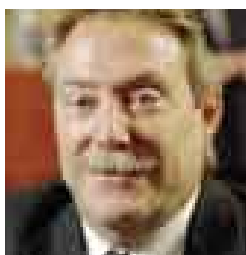
**Jerker Hartwall**



**Märit Beckeman**



**Irene Friberg-Johansson**



**Leif Håkansson**



**Christer Svantesson**



**Bo Ohlsson**

## **Melker Schörling**

Born 1947.

Chairman of the Board.

Board member since 2001.

Other Board positions:

Chairman of Securitas and Hexagon.

Deputy Chairman of Assa Abloy.

Board member of H&M.

Shareholding: 6,512,823 shares

(via own company).

melker.schorling@securitasgroup.com

## **Clas Eriksson**

Born 1949.

President of Lantmännen Invest AB.

Vice President of Svenska Lantmännen

Ekonomiska Förening.

Board member since 1994.

Other Board positions:

Chairman of Swecon AB and Aggroil AB,

Board member of AnalyCen Nordic AB, Lant-

männen Invest AB, Svalöf Weibull AB, Swecon

Baumachinen GmbH and Farm Plant Eesti AS.

Shareholding: 0.

clas.eriksson@lantmannen.se

## **Håkan Hellmo**

Born 1941.

Former President and CEO of Svenska

Lantmännen.

Deputy Board member in 1994 – 1997.

Board member since 1997.

Shareholding: 2,000 shares.

hakan.hellmo@lantmannen.se

## **Mikael Ekdahl**

Born 1951.

Attorney and partner of Mannheimer Swartling

Advokatbyrå AB.

Board member since 2001.

Other Board positions:

Chairman of Bong Ljungdahl AB and Marco AB.

Board member of KonstruktionsBakelit AB and

Börje Jönsson Åkeri AB.

Shareholding: 8,000 shares.

mek@msa.se

## **Gösta Wiking**

Born 1937.

Board member since 1997.

Other Board positions:

Chairman of Mölnlycke Health Care AB and

Angiogenetics AB.

Deputy Chairman of S E B.

Board member of Bong Ljungdahl AB and

Xcounter AB.

Shareholding: 300 shares.

g.wiking@telia.com

## **Jerker Hartwall**

Born 1952.

President and CEO of Karlshamns AB.

Board member since 2001.

Other Board positions: Board member of

Novozymes A/S.

Shareholding: 30,300 shares.

Convertible debt instruments corresponding to

63,500 shares.

jerker.hartwall@karlshamns.se

## **Märit Beckeman**

Born 1943.

Board member since 2004.

Shareholding: 0.

maritbeckeman@yahoo.com

## Board members appointed by the employees

### **Irene Friberg-Johansson**

Born 1945.

Karlshamns AB.

Appointed by PTK.

Board member since 1993.

Shareholding: 0.

Convertible debt instruments corresponding to

650 shares.

irene.friberg@karlshamns.se

### **Leif Håkansson**

Born 1957.

Karlshamns AB.

Appointed by Industrifacket.

Board member since 2001.

Shareholding: 0.

Convertible debt instruments corresponding to

650 shares.

leif.hakansson@karlshamns.se

## Deputies

### **Christer Svantesson**

Born 1951.

Karlshamns AB.

Appointed by Industrifacket.

Deputy since 2002.

Shareholding: 0.

Convertible debt instruments corresponding to

650 shares.

christer.svantesson@karlshamns.se

### **Bo Ohlsson**

Born 1948.

Karlshamns AB.

Appointed by PTK.

Deputy since 2000.

Shareholding: 200.

Convertible debt instruments corresponding to

1,500 shares.

bo.ohlsson@karlshamns.se

## Auditor

Öhrlings PricewaterhouseCoopers AB.

### **Åke Christiansson**

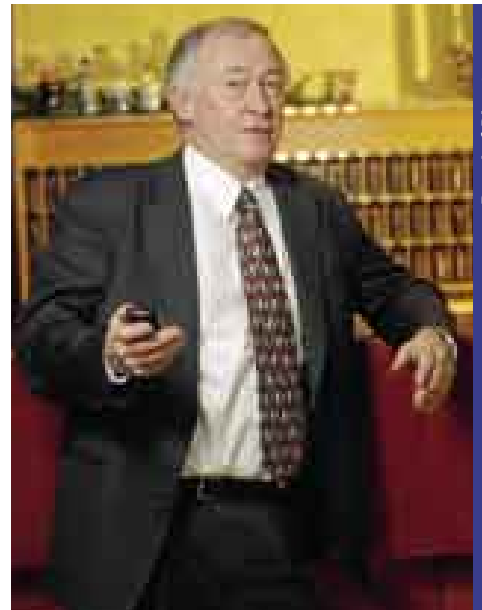
Born 1954.

Auktoriserad revisor.

(Authorized public accountant)

Company auditor since 1999.







# Senior executives

## **Jerker Hartwall**

Born 1952.  
President and CEO.  
Employed since 2000.  
Shareholding: 30,300 shares.  
Convertible debt instruments  
corresponding to 63,500 shares.  
jerker.hartwall@karlshamns.se

## **Gunnar Bystedt**

Born 1955.  
Supply Chain Director.  
Employed since 2003.  
Shareholding: 0.  
Convertible debt instruments  
corresponding to 13,250 shares.  
gunnar.bystedt@karlshamns.se

## **Håkan Christensson**

Born 1962.  
President Business Sector Edible Oils.  
Employed since 1986.  
Shareholding: 0.  
Convertible debt instruments  
corresponding to 26,500 shares.  
hakan.christensson@karlshamns.se

## **Jan Gunnerdal**

Born 1946.  
President Business Sector  
Chocolate & Confectionery Fats.  
Employed since 1970.  
Shareholding: 35,700.  
Convertible debt instruments  
corresponding to 4,250 shares.  
jan.gunnerdal@karlshamns.se

## **Ulf Hansson**

Born 1963.  
Global R&D and Quality Manager.  
Employed since 1988.  
Shareholding: 200 shares.  
Convertible debt instruments  
corresponding to 26,500 shares.  
ulf.hansson@karlshamns.se

## **Magnus Jörsmo**

Born 1965.  
President Technical Products.  
Employed since 1986.  
Shareholding: 2,000.  
Convertible debt instruments  
corresponding to 26,500 shares.  
magnus.jorsmo@karlshamns.se

## **Hans Nilsson**

Born 1950.  
Vice President, Strategic Raw Material  
Sourcing.  
President Feed Materials.  
Employed since 1986.  
Shareholding: 24,400 shares.  
Convertible debt instruments  
corresponding to 4,250 shares.  
hans.nilsson@karlshamns.se

## **Stefan Sjölin**

Born 1955.  
Vice President and CFO.  
Employed since 2001.  
Shareholding: 200 shares.  
Convertible debt instruments  
corresponding to 26,500 shares.  
stefan.sjolin@karlshamns.se

## **Bo Svensson**

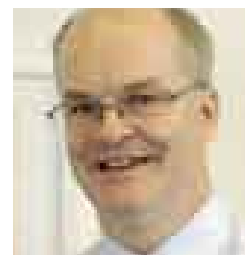
Born 1951.  
Vice President and CIO.  
Employed since 1974.  
Shareholding: 2,300 shares.  
Convertible debt instruments  
corresponding to 26,500 shares.  
bo.svensson@karlshamns.se

## **Karina Petterson**

Born 1962.  
President Business Sector Lipids for Care.  
Employed since 1988.  
Shareholding: 0 shares.  
Convertible debt instruments  
corresponding to 4,250 shares.  
karina.petterson@karlshamns.se



**Jerker Hartwall**



**Gunnar Bystedt**



**Håkan Christensson**



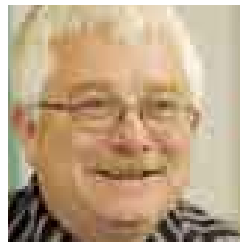
**Jan Gunnerdal**



**Ulf Hansson**



**Magnus Jörsmo**



**Hans Nilsson**



**Stefan Sjölin**



**Bo Svensson**



**Karina Petterson**



# Financial information

Karlshamns will be publishing the following financial information in 2005:

- The interim report for the period to 31 March will be released at the Annual General Meeting on 11 May 2005.
- The interim report for the first six months of 2005 will be released on 31 August.
- The interim report for the period to 30 September 2005 will be released on 2 November.
- The summarised financial statements for 2005 will be released in February 2006.

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

Phone +46 – 454 820 00, fax +46 – 454 828 20.

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 Wednesday 11 May 2005 at 2.00 p.m. in the "Rio-grande" Hall, Blekinge Institute of Technology in Karlshamn. The premises will open for registration at 1 p.m. Registration must be completed 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 1 May 2005 and has given notice of his/her intention to attend the meeting no later than 4 p.m., 4 May 2005, has the right to participate. Due to the intervening bank holiday, however, registration must be made no later than Friday 29 April 2005.

### 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 29 April 2005. 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 29 April 2005.

### Notification

Shareholders intending to attend the AGM must notify the company as soon as possible but no later than 4.00 p.m. on 4 May 2005, 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 [kerstin.wemby@karlshamns.se](mailto:kerstin.wemby@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 Blekinge Läns Tidning, Sydöstra Sveriges Dagblad AB, the Swedish Official Gazette and Svenska Dagbladet, together with the Meeting agenda.

# Karlshamns' Glossary

**Amines** – Products made of fatty acids, with surface-active properties. Used as components in a wide range of industries.

**Bypass fats** – Fats that have been tailored to bypass the rumen of ruminants, which means that a larger amount of fat and energy is left intact for high-yielding dairy cows.

**Bypass meal** – Rapeseed meal treated in a special process to make it bypass the rumen of ruminants. Nutritionally superior to standard rapeseed meal.

**Cocoa butter** – Another name for cocoa fat.

**CBA (Cocoa Butter Alternatives)** – Fats with properties similar to those of cocoa butter, i.e. solid at room temperature and with very rapid melt-off in the mouth.

**CBE (Cocoa Butter Equivalents)** – A type of CBA that is identical to cocoa butter and that may be used in chocolate in proportions of up to 5 percent as per current EU regulations. CBE are made from exotic raw materials, such as shea nut oil.

**CBR (Cocoa Butter Replacers)** – CBA with properties similar to those of cocoa butter. CBR are used in chocolate coatings for cookies and biscuits. User-friendlier than CBE, as no tempering is required.

**CBS (Cocoa Butter Substitutes)** – CBA with properties and application areas similar to those of CBR. Made from palm-kernel oil.

**Cocoa fat** – A fat extracted by crushing cocoa beans. Its composition lends chocolate its unique properties.

**DFA (Dairy Fat Alternatives)** – Fats developed for use in dairy products like cheese, cream, cooking and table margarine, ice cream etc. These fats replace butter fat and add beneficial properties to the end product.

**Essential fatty acids** – Two different types of polyunsaturated fatty acids (Omega 3 and Omega 6) that are essential to our health and well-being. Cannot be produced by the human body, but we need food containing these vital components. Rapeseed oil is one of very few vegetable oils that contain both types of essential fatty acids.

**Esters** – Chemical compounds of fatty acids and alcohols. Triglycerides, which are the main constituent of fat, consist of alcohol, glycerine and fatty acids. Consequently, triglycerides are a type of esters.

**Fatty acids** – A fatty acid is a hydrocarbon chain that terminates with an acid group known as carboxylic. The fatty acids most common in vegetable oils contain between 12 and 18 carbon atoms.

**Flaked fats** – Fats with a high melting point, supplied in the form of little solid “flakes” – a type of product that simplifies handling and production for certain customer groups.

**Fractionation** – Multiple-stage crystallisation process used in the manufacture of CBA.

**Glycerine** – An alcohol that is one of the constituents of the fat molecule.

**IPPC** – EU directive on environmental audits of industrial plants. The directive comprises the aggregate environmental impact of the plant, such as emissions into the air, effluents into water, waste production, raw material consumption and energy efficiency.

**Lanolin** – A fat found naturally on sheep's wool and used purified as a base for skin-care products.

**Lipids** – A collective name for a wide range of natural products in which fats constitute one of the ingredients.

**Mould releasers** – Fat-based products applied on the insides of casting moulds. Mould releasers make it easier to remove the casting mould once the concrete has set, without damaging its surface.

**Omega 3** – Essential polyunsaturated fatty acids in which the first double bond is located three carbon atoms from the end of the carbon chain.

**Omega 6** – Essential polyunsaturated fatty acids in which the first double bond is located six carbon atoms from the end of the carbon chain.

**PCR** – A method used to identify genetically modified seeds (GMO). The abbreviation stands for Polymerase Chain Reaction.

**Polyunsaturated fatty acids** – Fats with two or more double bonds, which are of considerable importance for the biological function of the fats in question.

**Pumpable fats** – Products consisting of fat crystals dispersed in liquid oil, delivered by tank lorry. Pumpable fats are mainly used by bakeries, to replace solid fats in 10-kg packages.

**Saturated fats** – Fats with no double bonds along the carbon chain.

**Trans content** – the proportion of trans fatty acids in a fat.

**Trans fatty acids** – Unsaturated fatty acids with a different kind of double bond than those naturally occurring in vegetable oils.

**Unsaturated fats** – Fats with one or more double bonds along the carbon chain.

# Addresses

## Karlshamns AB

Head office  
Karlshamns AB (publ)  
SE-374 82 Karlshamn  
SWEDEN  
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Telephone: +46 – 454 820 00  
Fax: +46 – 454 828 20  
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

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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

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Visiting address: Václavské nám. 64  
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Fax +420 – 222 21 20 87  
karlshamns@iol.cz

### Karlshamns (Malaysia) SDN.BHD

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lam@karlshamns.com.my

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

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PL-03-916 Warsaw  
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Telephone +48 - 226 164 182  
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@karlshamn.se

## Technical Products

### Tefac AB

SE-374 82 Karlshamn  
SWEDEN  
Visiting address: Västra Kajen  
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Fax +46 – 454 75 20 05  
tefac@karlshamns.se

### Binol AB

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

### Karlshamns Baltic

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Telephone +37 - 052 70 00 61  
Fax +37 - 052 70 04 40  
karlshamns.baltic@takas.lt

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.

Karlshamns is one of the world's leading manufacturers of high value-added speciality vegetable oils and fats. These fats have a large number of application areas, and are sold to customers in a wide range of industries. The majority, however, operate in the food, cosmetic, animal feed and technical industries.



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[www.karlshamns.com](http://www.karlshamns.com)  
[info@karlshamns.se](mailto:info@karlshamns.se)  
Corp.reg.no. 556478 - 1796