Karlshamns

Interim Report

Interim Report
January – June 2005

- **The Group's net sales increased by 10 percent, to the total of SEK 1,923 million (1,757).**
  - **Earnings after net financial items amounted to SEK 130 million (85).**
  - **New accounting principles (IFRS) had a positive profit effect of SEK 27 million, attributable to raw material and currency derivatives.**
  - **Adjusted for this profit effect of raw material and currency derivatives, the Group's profit increased by 21 percent, to SEK 103 million (85). This figure comprises one-off items having a positive effect on earnings of SEK 4 million net.**
  - **Earnings after tax were SEK 94 million (61).**
  - **Earnings per share were SEK 4.47 (2.91).**
- **Volumes in the business area Oils & Fats increased by 16 percent. The speciality fats segment alone achieved a growth of 30 percent.**

THE PRESIDENT'S COMMENTS

Continued focus on growth and productivity

The business area Oils & Fats kept up its strong growth throughout the second quarter, with speciality fats maintaining their positive development. Contribution margins in the vegetable oil industry seem to have stabilised, after several years of turbulence.
In the first half of 2005, the Group's earnings were negatively affected by high energy prices, the effect of which totalled SEK 10 million compared to the year 2004. One-off costs for expanding the proportion of higher value-added speciality fats remained on last year's level, or SEK 5 million.

Strategy

The comprehensive development programme adopted in 2001 has generated dynamic expansion in the area of high value-added speciality products, at the same time as priority has been given to new forms of productivity improvements.
This strategy has developed successfully; generating strong growth and a satisfactory return on net operating assets, both of which compare favourably with the vegetable oil industry in general. Karlshamns' business conditions have changed dramatically in the past few years, and the vegetable oil industry is going through an intense restructuring phase.

Speciality products

Sales of high value-added speciality products continue to increase, the growth rate 30 percent in the first six months of 2005. Particularly satisfactory is the progress of the low-trans filling fats and CBE (Cocoa Butter Equivalents) developed for the chocolate industry, and the speciality fats for infant food and dairy products.

Productivity

To upgrade productivity even further, a firm productivity improvement programme was initiated in the autumn of 2004, designed to generate full profit effects from 2006 onwards to the amount of SEK 100 million p.a. Individual development projects are mainly targeting the areas of energy, processing, logistics and measures to eliminate bottlenecks in the production of high value-added speciality products. This SEK 100 million programme is proceeding according to plan, and is in no way linked to the synergies communicated in connection with the merger between Aarhus United and Karlshamns.

New accounting principles (IFRS)

A consequence of the adoption of new accounting standards is that raw material and currency derivatives are now assessed at market value at the end of each reporting period.

The result is a profit effect in the accounts only, i.e. with no impact on either cash flow or margins.

We continue to hedge margins as before, but the effect of these hedging operations may be considerable accounting differences in the income statement from one quarter to another.
For the first six months of 2005, this means that we report a net profit that exceeds our operating profit by SEK 27 million. Our internal operating profit serves as an important control instrument, and this is also the figure we use to compare today's performance with previous achievements. Adjusted for the effects of the IFRS, our internal operating profit totalled SEK 103 million (85); up 21 percent on the second quarter of 2004.

The future

In the past few years, Karlshamns has made important headway towards its goal of becoming one of the leading speciality fat companies worldwide – and this in a very tough business climate.
The year 2005 will be characterised by continued strong growth in the speciality segments, in parallel with additional streamlining that will target on production operations in particular. Top priority is given to investments with limited payback periods, which will thus provide maximum leverage in the SEK 100 million programme by 2006.

Merger with Aarhus United

The project aiming at the merger between Karlshamns and Aarhus United is proceeding according to plan. Today, however, the acceptance term was extended to 20 September 2005, due to a certain delay of the merger review by the competition authorities. The merger entails synergy effects on operational costs as well as in growth-related areas. The new company will have a turnover of around SEK 10 billion, and some 2,500 employees.

MARKET

The Group

The Karlshamns Group is divided into three business areas: Oils & Fats, Technical Products and Feed Materials. The Technical Products operations are carried out by the subsidiaries Tefac and Binol. The business area Oils & Fats has three business sectors: Chocolate & Confectionery Fats, Food Ingredients and Lipids for Care.

Oils & Fats

Chocolate & Confectionery Fats

In the business sector Chocolate & Confectionery Fats, volumes of high value-added speciality fats continued to grow through the second quarter as well. In all, volumes were 12 percent up on the second quarter of 2004 – a development largely due to the growing demand for CBE (Cocoa Butter Equivalents) and low-trans fats*, the latter a segment in which Karlshamns launched several new products last year.
Geographically, the major progress was achieved in Central and Eastern Europe.

* **What is "trans"?**

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

Food Ingredients

The trend in the business sector Food Ingredients remains on the up, with sales growing by 19 percent in the second quarter of the year. Progress is made on a broad geographical front, although the highest growth rate was achieved in Scandinavia and Western Europe. A new sales office was recently established in Oslo (Norway).
An optimised product mix has contributed to the stabilisation of contribution margins, after several years of downturn. The DFA segment (Dairy Fat Alternatives) serves as a good example of this development. The strongest progress was made in the nutritional/infant food segment, where growth surpassed 50 percent. In Karlshamns' youngest product segment, FoodService, strong progress has been thanks to a more specialised product range.

Lipids for Care

The business sector Lipids for Care keeps up its positive trend, with strong growth in the high value-added product segment. In the second quarter of 2005, sales increased by some 20 percent. Particular progress was made on the European, US and Asian markets. Demand for raw materials of vegetable origin continues to grow. A new line of emulsifiers for cosmetic products has been launched, under the brand name Akoline.

Technical Products

Tefac

On an aggregate level, the European fatty acids market is estimated to have remained on last year's second-quarter level. Even so, Tefac managed to maintain its positive volume development and expand its share of the fatty acid market from last year's level. The glycerine market remains weak, with no improvement in sight. This situation is the result of the steadily increasing biodiesel production, which keeps on adding to the overall supply of crude glycerine.

Binol

In the second quarter of 2005, Binol consolidated its Scandinavian market position even further. Sales of Binol-branded products were up 22 percent on the corresponding period in 2004.

Feed Materials

The growth of European biodiesel production has prompted demand for rapeseed oil, the result of which has been a positive effect on gross contribution.
On the other hand, pressure on feed raw material prices has hardened – the effect of a growing production of rapeseed oil and rapeseed meal throughout Europe.

OPERATIONS

Operating profit

The Group's operating profit for the first six months of 2005 was SEK 134 million (90), of which SEK 27 million attributable to fair value movements in raw material and currency derivatives reported at market value in accordance with the IFRS. Profit in the business area Oils & Fats increased by SEK 44 million to SEK 101 million, of which SEK 27 million generated by fair value movements in raw material and currency derivatives. Profit in the business area Technical Products decreased by SEK 2 million to SEK 15 million. Glycerine prices below last year's level affected earnings negatively by around SEK 2 million. In the business area Feed Materials, operating profit improved by SEK 2 million to SEK 18 million. The Group's net sales were up 10 percent on the previous year, to SEK 1,923 million.

Business Area Oils & Fats

(SEK m)	3 months Apr-Jun 2005	3 months Apr-Jun 2004[1)]	6 months Jan-Jun 2005	6 months Jan-Jun 2004[1)]	Full year Jan-Dec 2004[1)]
Net sales	740	627	1,448	1,243	2,616
Gross contribution	197	166	404	332	683
Operating profit	43	26	101	57	92
of which fair value movements in raw material and currency derivatives	10		27		

Operating profit in the business area Oils & Fats was SEK 101 million (57). Of this profit, fair value movements in raw material and currency derivatives accounted for SEK 27 million.
Reduced credit risks in Eastern Europe have limited the need for provisions for future bad debt losses, to the effect of SEK 12 million. One-off expenses related to the merger with Aarhus United and streamlining human resources had a SEK 8 million impact on earnings. The profit improvement generated by operating activities was thus SEK 13 million, mainly the effect of growing volumes of high value-added speciality fats.
In all, volumes in the business area Oils & Fats increased by 16 percent, with sales making good progress on all markets.

Business Area Technical Products

(SEK m)	3 months Apr-Jun 2005	3 months Apr-Jun 2004[1)]	6 months Jan-Jun 2005	6 months Jan-Jun 2004[1)]	Full year Jan-Dec 2004[1]
Net sales	130	126	273	254	523
Gross contribution	40	41	82	83	156
Operating profit	6	7	15	17	24

Profits in the business area Technical Products amounted to SEK 15 million (17).

Profits in the technical oils segment continued to rise, whereas earnings generated by fatty acids and glycerine declined. Glycerine prices began their downward trend in the first quarter of 2004, and have impacted on earnings ever since.
In our estimation, glycerine prices will remain under pressure in the next few years as a result of the growing biodiesel production.

Through organic growth and strategic acquisitions, Binol has consolidated its market position. As a result, earnings continued to improve through the second quarter of 2005.

Business Area Feed Materials

(SEK m)	3 months Apr-Jun 2005	3 months Apr-Jun 2004[1)]	6 months Jan-Jun 2005	6 months Jan-Jun 2004[1)]	Full year Jan-Dec 2004[1]
Net sales	98	135	202	260	490
Gross contribution	38	31	74	65	134
Operating profit	9	8	18	16	34

In the business area Feed Materials, operating profit improved to SEK 18 million (16).

Sales volumes and contribution margins have been negatively affected by the European biodiesel industry's growing consumption of rapeseed oil. Margins on biodiesel are currently on a record-high level, which means that producers with access to their own crushing and extraction facilities are less concerned about meal prices. The supply of rapeseed meal has grown accordingly, which has impacted on the business area Feed Materials' sales volumes and prices of ExPro™ meal.

High contribution margins on rapeseed crushing have compensated for the declining feed materials volumes and decreasing margins, however.

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

THE KARLSHAMNS GROUP

Profit after net financial items
The Group's profit after net financial items totalled SEK 130 million (85), of which SEK 27 million attributable to fair value movements in currency and raw material derivatives. Net financial items amounted to SEK -4 million (-5).

Capital expenditure
The Group's direct investments in fixed assets amounted to SEK 60 million (56) in the second quarter of 2005. In the financial year 2004, direct investments totalled SEK 97 million.

Working capital
The Karlshamns Group's working capital amounted to SEK 644 million (604) as of 30 June 2005.

Cash flow
Cash flow generated by operating activities amounted to SEK 49 million (42).

Financial position
The Group's shareholders' equity as of 30 June 2005 was SEK 886 million (973). Total assets amounted to SEK 1,825 million (1,851), the equity/assets ratio to 49 percent (53).
On 30 June 2005, the Group's net borrowings amounted to SEK 396 million (279).

Personnel
The Group's average number of employees in the period was 791 (776).

Key ratios
Return on equity in the preceding twelve-month period was 15 percent (14). In the financial year 2004, return on equity was 11 percent. Return on net operating assets in the preceding twelve-month period was 14 percent (14). Equity per share decreased to SEK 42.00 (46.26).

Accounting and valuation principles
As of 1 January 2005, Karlshamns prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). The interim report for the period to 30 June 2005 has thus been prepared in accordance with IFRS, and in line with IAS 34. More detailed information about the transition to IFRS from the Annual Accounts Act and the recommendations of the Swedish Financial Accounting Standards Council is provided on page 9.

Karlshamn, 24 August 2005

Jerker Hartwall
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These interim figures have not been audited

SUMMARY INCOME STATEMENT FOR THE GROUP

(SEK million)	3 months Apr-Jun 2005	3 months Apr-Jun 2004[1]	6 months Jan-Jun 2005	6 months Jan-Jun 2004[1]	Full year Jan-Dec 2004[1]
Net sales	968	888	1,923	1,757	3,629
Raw material costs	-693	-650	-1,363	-1,277	-2,656
Gross contribution	275	238	560	480	973
Personnel and other external costs	-192	-173	-376	-342	-727
Depreciation	-25	-24	-50	-48	-96
Operating profit	58	41	134	90	150
Net financial items	-2	-3	-4	-5	4
Profit after net financial items	56	38	130	85	154
Tax	-16	-11	-36	-24	-42
Net profit	40	27	94	61	112

SHARE DATA

Number of shares (000)	21,092	21,080	21,092
Outstanding warrants and convertible debt instruments (000)	746	834	746
Earnings per share before conversion and utilisation of warrants, SEK	4.47	2.91	5.33
Earnings per share after conversion and utilisation of warrants, SEK	4.35	2.84	5.21
Equity per share before conversion and utilisation of warrants, SEK	42.00	46.26	48.09
Equity per share after conversion and utilisation of warrants, SEK	40.59	44.63	46.51

PROFIT AFTER NET FINANCIAL ITEMS, QUARTERLY

	2003[2]				2004[1]				2005	
(SEK million)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Net sales	853	803	813	848	869	888	906	966	955	968
Gross contribution	236	242	229	237	242	238	238	255	285	275
Operating profit	47	52	58	40	49	41	54	6	76	58
Net financial items	-2	-4	-4	-2	-2	-3	-2	11	-2	-2
Profit after net financial items	45	48	54	38	47	38	52	17	74	56
-of which fair value movements in raw material and currency derivatives									17	10

1) Translated in accordance with IFRS but exclusive of IAS39. Further information on page 9.

2) In accordance with the Annual Accounts Act and the recommendations issued by the Swedish Financial Accounting Standards Council.

SUMMARY BALANCE SHEET FOR THE GROUP

(SEK million)	30.6.2005	30.6.2004[1)]	31.12.2004[1)]
ASSETS			
Intangible fixed assets	24	14	26
Tangible fixed assets	749	751	728
Financial fixed assets	19	11	18
Total fixed assets	**792**	**776**	**772**
Inventories	439	407	439
Current receivables	552	564	593
Cash and cash equivalents	42	104	131
Total current assets	**1,033**	**1,075**	**1,163**
TOTAL ASSETS	**1,825**	**1,851**	**1,935**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	**886**	**973**	**1,014**
Long-term liabilities	**591**	**520**	**483**
Accounts payable - trade	177	196	242
Other current liabilities	25	35	51
Accrued expenses and prepaid income	146	127	145
Total current liabilities	**348**	**358**	**438**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**1,825**	**1,851**	**1,935**

CHANGE IN SHAREHOLDERS' EQUITY

(SEK million)	30.6.2005	30.6.2004[1)]	31.12.2004[1)]
Shareholders' equity, opening balance	1,014	972	972
Adoption of new accounting standard (IAS 39)	-37		
Redemption of warrants		5	5
Dividend	-200	-74	-74
Translation differences	15	9	-1
Net profit	94	61	112
Shareholders' equity, closing balance	**886**	**973**	**1,014**

SUMMARY CASH-FLOW STATEMENT FOR THE GROUP

(SEK million)	Jan-Jun 2005	Jan-Jun 2004[1)]	Full year 2004[1)]
Operating activities			
Cash flow from operating activities before changes in net operating assets	161	135	234
Changes in net operating assets	-112	-93	-47
Cash flow from operating activities	**49**	**42**	**187**
Investment activities			
Cash flow from investment activities	-54	-51	-90
Financing activities			
Cash flow from financing activities	-87	-33	-110
Cash flow for the year	-92	-42	-13
Liquid funds, opening balance	131	144	144
Translation difference	3	2	0
Liquid funds, closing balance	**42**	**104**	**131**

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

KEY FIGURES

(SEK million unless otherwise stated)	Jan-Jun 2005	Jan-Jun 2004[1)]	Full year 2004[1)]
Income statement			
Net sales	1,923	1,757	3,629
Gross contribution	560	480	973
Operating profit	134	90	148
Profit after net financial items	130	85	154
Net profit	94	61	112
Balance sheet			
Fixed assets	792	776	772
Current assets	1,033	1,075	1,163
Shareholders' equity	886	973	1,014
Long-term liabilities	591	520	483
Current liabilities	348	358	438
Net operating assets	1,433	1,377	1,359
Net borrowings	396	279	182
Key ratios			
Return on net operating assets, %	14	14	11
Return on shareholders' equity, %	15	14	11
Equity/assets ratio, %	49	53	52
Debt/equity ratio, multiple	0.45	0.29	0.18
Proportion of risk-bearing capital, %	56	59	60
Capital turnover rate, multiple	2.7	2.5	2.7
Direct investments in fixed assets	60	56	97
Average number of employees	791	776	787
of whom in Sweden	641	633	640

STAFF WARRANTS 2002

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

REPORTING SCHEDULE

(- The interim report for the period to 30 September 2005 will be released on 2 November 2005.)

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

New accounting principles adopted on 1 January 2005

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

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

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

The adoption of IFRS is reported in accordance with IFRS 1 – "First-Time Adoption of International Financial Reporting Standards" – and transitional effects, if any, are reported as a translation of retained profits as of 1 January 2004, which is the date set for Karlshamns first-time adoption of IFRS. This interim report, for the period to 30 June 2005, is the second report prepared in accordance with IFRS. Comparative figures for 2004 have been translated accordingly. IFRS 1 provides the option of a number of exceptions from IFRS standards, of which Karlshamns has opted for the following:

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

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

Intangible assets
According to IFRS 3, goodwill shall not be amortized, but instead be valued at cost less amortizations. Amortization requirements are to be assessed at least once a year. Amortization of goodwill is thus no longer reported, and the comparative figures for 2004 have been translated accordingly. The tables below show Karlshamns' financial reporting for the period to 30 June 2004 according to Swedish accounting principles, according to IFRS and the bridge between the two accounting standards.

Preliminary effects of the first-time adoption of IFRS, on Karlshamns' income statement for the period to 30 June 2004
SEK million

	Reported on 30 June, 2004	IFRS 3 Goodwill	IFRS 30 June 2004
Net sales	1,757		1,757
Raw material costs	-1,277		-1,277
Gross contribution	**480**		**480**
Personnel and other external costs	-342		-342
Depreciation	-49	1.2	-48
Operating profit	**89**	**1.2**	**90**
Net financial items	-5		-5
Profit after net financial items	**84**	**1.2**	**85**
Tax	-24	-0.3	-24
Net profit	**60**	**0.9**	**61**
Basic earnings per share, SEK m	**2.87**	**0.04**	**2.91**
Diluted earnings per share, SEK m	**2.80**	**0.04**	**2.84**

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

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

Financial instruments

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

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

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

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

- All raw material derivatives are recognised at fair value in the balance sheet, the fair value movements on the hedging instrument recognised in profit or loss on a current basis. Raw material futures that result in actual raw material deliveries are handled as purchasing contracts; i.e. are recognised as the physical delivery is made.

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

- According to IAS 39, sales contracts in 3rd-party currencies contain embedded derivatives. IAS 39 requires such embedded derivatives to be accounted for separately at fair value in the balance sheet, their fair value movements through profit or loss.

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

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

Karlshamns and IFRS

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

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

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

The following example illustrates how Karlshamns hedges its contribution margins.

Sales – an example

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

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

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

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

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

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

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

Karlshamns AB (publ)

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