

# INTERIM REPORT

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## **Interim report January – June 2002**

- The Group's earnings after net financial items amounted to SEK 93 million (88).
- Competition for less advanced oils and fats remains strong on the Nordic and Western European markets.
- Sales of higher value-added products are increasing in business area Oils & Fats.
- Profit improvements in business area Feed Materials.
- Satisfactory performance despite unfavourable trade conditions for Technical Products.
- Strong support for convertible debt instruments among Karlshamns employees.

## MARKET

Raw material prices remained stable all through the reporting period. The Swedish krona has gained strength since the beginning of the year; against the US dollar in particular. The stronger Swedish currency had only marginal effects on profits as of 30 June, however.

Rising cocoa bean prices have been pushing prices of cocoa butter upwards since early 2002.

Increasing competition for less advanced oils and fats throughout the vegetable oil industry has had negative effects on both volumes and margins on the Nordic and Western European markets, whereas volumes developed favourably in Eastern Europe. Demand for vegetable feed raw materials continues to increase.

Crushing margins for rapeseed remained on last autumn's high level through the first half of 2002.

The recession in the metalworking industry has dampened demand for technical oils.

From the fourth quarter 2001 onwards, demand for fatty acids on the European market has been decreasing due to the general recession.

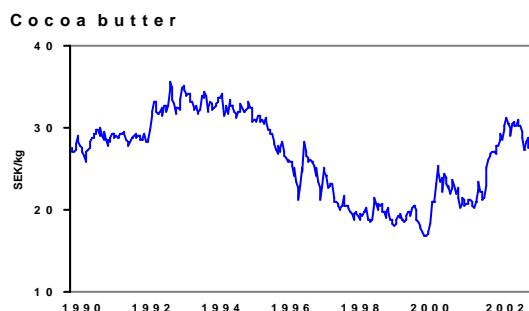
## Oils & Fats

### Chocolate & Confectionery Fats

The global market for the chocolate and confectionery industry totals some 5.6 million tonnes and grows by some 3-4 per cent each year.

Along with rising cocoa butter prices, the developing interest to replace cocoa butter with vegetable fats in the wake of the 5 per cent rule\* contributed to higher contribution margins as well as increasing volumes in the CBA\*\* segment.

The effect of rising cocoa butter prices takes some 9 months to materialise, as CBE sales are always based on long-term contracts.



\* In the spring of 2000 the European Union voted a directive allowing other vegetable fats to replace up to 5 per cent of cocoa butter in products marketed as "chocolate" within the EU. The new regulation will come into full force in the autumn of 2003.

\*\* Karlshamns vegetable alternatives to cocoa butter, so called CBA fats (Cocoa Butter Alternatives), which comprise CBE (Cocoa Butter Equivalents), CBS (Cocoa Butter Substitutes) and CBR (Cocoa Butter Replacers).

CBE margins have been negatively affected by rising shea nut prices, however.

Volumes in the first six months of 2002 increased over the same period last year, despite the continued decrease in sales volumes of less advanced speciality fats (CBS).

### Edible Oils

The world market for vegetable oils amounts to some 85 million tonnes, with an annual growth rate of 3-4 per cent.

Sales volumes in the Edible Oils sector decreased in the first half of 2002 compared with the same period last year, the main reason being the increasingly competitive situation on the Nordic and Western European markets. Sales of higher value-added products continue to progress, the growth rate in the second quarter of 2002 surpassing that of the first quarter. Volumes of less advanced oils and fats showed a smaller decrease in the second than in the first quarter of 2002.

### Lipids for Care

The market for cosmetic products, and in particular the one for skin care products, grows by 4-5 per cent each year.

To an increasing extent, consumers give priority to vegetable raw materials over synthetic, animal and mineral oil based alternatives.

Sales to the cosmetic industry continued to increase in the second quarter of 2002.

## Technical Products

### Tefac

The European fatty acids market displayed weaker trends than in the same period last year.

Tefac still managed to increase its volumes, thereby consolidating its position on the Northern European market. Glycerol margins were considerably lower in the first half of 2002 than in the same period last year.

### Binol

The current recession in the metalworking industry has reduced the total market for technical oils. Binol nevertheless maintains the market shares gained in 2001. Production segments forestry and construction remained stable.

### Feed Materials

The feed industry's stronger focus on feed safety and the growing consumption of vegetable feed fats are having positive effects on Karlshamns sales volumes. Both volumes and margins were higher in the first and second quarters than in the same periods last year.

## OPERATIONS

### The Group

Karlshamns is presently going through a far-reaching development process aiming at long-term, sustainable growth. Clear-cut strategic growth areas and explicit profit responsibilities are the cornerstones of the process launched in 2001.

The Group is organised in three business areas; Oils & Fats, Technical Products and Feed Materials.

Business area Technical Products comprises Tefac and Binol, whereas business area Oils & Fats has three business sectors: Chocolate & Confectionery Fats, Edible Oils and Lipids for Care.

The Group's environmental performance was given a top rating in Folksam's Miljöindex 2001, a review covering the environmental impact of Swedish listed companies.

#### Operating profit

The Group's operating profit increased by SEK 6 million to SEK 102 million in the first six months of 2002, over the same period last year. Profits improved to SEK 53 million (49) in the second quarter, an increase of SEK 4 million over the first quarter of 2002 and the second quarter of 2001. In business areas Oils & Fats and Technical Products, operating profit decreased by SEK 3 and 1 million respectively in the first half of 2002.

The Feed Materials business area's profit improved by SEK 10 million.

The Group's net sales increased by some 11 per cent to SEK 1,576 million (1,425).

The Group's cash flow improved significantly in the second quarter.

#### Business Area Oils & Fats

|                    | 3 months<br>Apr-Jun<br>2002 | 3 months<br>Apr-Jun<br>2001 | 6 months<br>Jan-Jun<br>2002 | 6 months<br>Jan-Jun<br>2001 | 12 months<br>Jan-Dec<br>2001 |
|--------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------------|
| (SEK million)      |                             |                             |                             |                             |                              |
| Net sales          | 587                         | 511                         | 1,145                       | 1,043                       | 2,179                        |
| Gross contribution | 172                         | 157                         | 339                         | 321                         | 651                          |
| Operating profit   | 35                          | 35                          | 68                          | 71                          | 143                          |

The Oils & Fats business area's operating profit decreased by SEK 3 million to SEK 68 million in the first half of 2002 compared with the same period last year, the main reason being the increasingly competitive situation on the Nordic and Western European markets.

Profits improved from the first to the second quarter, primarily as a result of the larger share of higher value-added products. Investments aiming at capacity expansions for the most advanced speciality fats (CBE) came on stream in the second quarter of 2002.

#### Business Area Technical Products

|                    | 3 months<br>Apr-Jun<br>2002 | 3 months<br>Apr-Jun<br>2001 | 6 months<br>Jan-Jun<br>2002 | 6 months<br>Jan-Jun<br>2001 | 12 months<br>Jan-Dec<br>2001 |
|--------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------------|
| (SEK million)      |                             |                             |                             |                             |                              |
| Net sales          | 104                         | 98                          | 231                         | 205                         | 397                          |
| Gross contribution | 37                          | 38                          | 74                          | 73                          | 142                          |
| Operating profit   | 9                           | 11                          | 19                          | 20                          | 36                           |

The Technical Products business area's operating profit amounted to SEK 19 million (20), with Tefac achieving a profit improvement in the first half of the year. Growing volumes of fatty acids compensated for lower glycerol margins than in the first half of 2001. Tefac's operating profit in the second quarter of 2002 was on a level with that of the same period last year.

The general recession, mainly in the motor industry, had negative effects on Binol's sales and profits in the first two quarters of the year.

#### Business Area Feed Materials

|                    | 3 months<br>Apr-Jun<br>2002 | 3 months<br>Apr-Jun<br>2001 | 6 months<br>Jan-Jun<br>2002 | 6 months<br>Jan-Jun<br>2001 | 12 months<br>Jan-Dec<br>2001 |
|--------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------------|
| (SEK million)      |                             |                             |                             |                             |                              |
| Net sales          | 99                          | 90                          | 200                         | 177                         | 366                          |
| Gross contribution | 32                          | 24                          | 60                          | 47                          | 99                           |
| Operating profit   | 9                           | 3                           | 15                          | 5                           | 17                           |

Operating profit in business area Feed Materials amounted to SEK 15 million (5). Gross contribution remained on a low level through the first half of 2001, but increased in the latter half of the year and has remained on a high level in 2002.

Sales of rapeseed meal and feed fats continue to increase in 2002, and Karlshamns has further consolidated its position on the Nordic market. Customers are laying more and more emphasis on product safety and show a preference for vegetable raw materials.

The profit improvement from the first to the second quarter of 2002 was primarily due to higher volumes of rapeseed meal.

To meet the growing demand for vegetable feed raw materials, a number of capacity-increasing investments were completed in the second quarter of 2002.

## THE KARLSHAMNS GROUP

### Profit after net financial items

The Group's profit after net financial items totalled SEK 93 million (88), with net financial items amounting to SEK -9 million (-8).

### Capital expenditures

The Group's net investments in fixed assets amounted to SEK 45 million (60) in the first six months of 2002. Net investments for the full year 2001 totalled SEK 109 million.

### Working capital

The Group's working capital as at 30 June 2002 amounted to SEK 491 million (413), the increase mainly due to higher raw material prices and growing volumes of exotic raw materials. In comparison with the first three months of 2002, working capital decreased by SEK 177 million.

### Financial position

The Group's shareholders' equity as at 30 June 2002 amounted to SEK 830 million (778). Total assets amounted to SEK 1,749 million (1,628). The equity/assets ratio was 47 per cent (48).

The Group's net borrowings as at 30 June 2002 were SEK 284 million (305).

### Cash flow

In the first six months of 2002, cash flow generated by operating activities amounted to SEK 125 million (69). Cash flow generated by operating activities improved by SEK 230 million in the second quarter of 2002, mainly as a consequence of a lower requirement for working capital. Direct investments were kept on a level below that of depreciations in the first six months of the year, which further contributed to the reduction of net borrowings in the second quarter of 2002.

### Personnel

The Group's average number of employees in the first six months of the year was 730 (749).

### Key ratios

Return on equity during the preceding twelve-month period was 16 per cent (6); the corresponding figure for the full year 2001 being 16 per cent.

Return on net operating assets during the preceding twelve-month period was 16 per cent (8).

Equity per share increased to SEK 39.51 (37.06).

### Convertible debt instruments

44 per cent of Karlshamns employees subscribed to convertible debt instruments, the subordinated loan thus totalling SEK 75 million. Slightly more than 50 per cent of the debt instruments were subscribed to by employees of the Swedish unit.

### Accounting and valuation principles

This interim report has been prepared in accordance with the accounting principles applied in the Annual Report 2001. The recommendations issued by the Swedish Financial Accounting Standards Council, effective from 1 January 2002, have been implemented without resulting in any change of accounting principles.

Karlshamn 20 August 2002



Jerker Hartwall  
President

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These interim figures have not been audited.

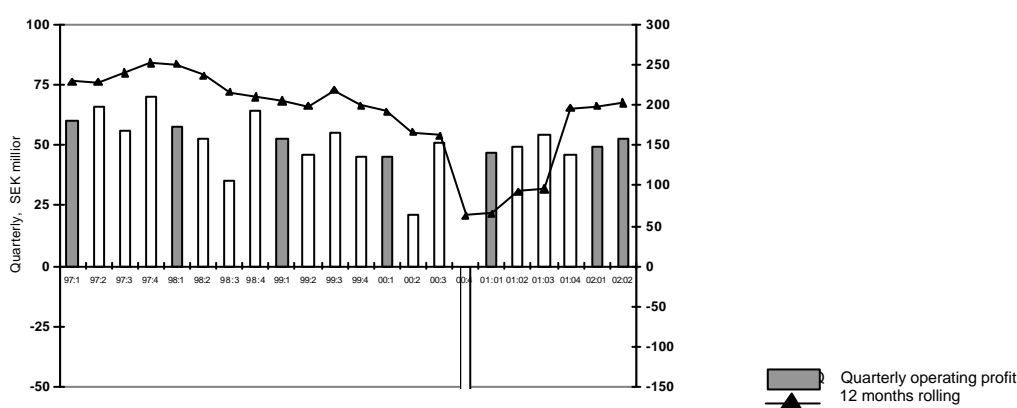
## SUMMARY INCOME STATEMENT FOR THE GROUP

| (SEK million)                      | 3 months<br>Apr-Jun<br>2002 | 3 months<br>Apr-Jun<br>2001 | 6 months<br>Jan-Jun<br>2002 | 6 months<br>Jan-Jun<br>2001 | 12 months<br>Jan-Dec<br>2001 |
|------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------------|
| Net sales                          | 790                         | 699                         | 1,576                       | 1,425                       | 2,942                        |
| Raw material costs                 | -549                        | -480                        | -1,103                      | -984                        | -2,050                       |
| Gross contribution                 | 241                         | 219                         | 473                         | 441                         | 892                          |
| Personnel and other external costs | -164                        | -148                        | -322                        | -301                        | -610                         |
| Depreciation                       | -24                         | -22                         | -49                         | -44                         | -86                          |
| Operating profit                   | 53                          | 49                          | 102                         | 96                          | 196                          |
| Net financial items                | -5                          | -4                          | -9                          | -8                          | -14                          |
| Profit after net financial items   | 48                          | 45                          | 93                          | 88                          | 182                          |
| Tax                                | -13                         | -13                         | -26                         | -25                         | -49                          |
| Net profit                         | 35                          | 32                          | 67                          | 63                          | 133                          |

## SHARE DATA

|   |        |        |        |
|---|--------|--------|--------|
| Number of shares (000)  | 21,002 | 21,000 | 21,000 |
| Outstanding warrants (000)  | 166    | 168    | 168    |
| Earnings per share before conversion and utilisation of warrants, SEK | 3.20   | 3.01   | 6.32   |
| Earnings per share after conversion and utilisation of warrants, SEK  | 3.18   | 2.99   | 6.27   |
| Equity per share after conversion and utilisation of warrants, SEK    | 39.51  | 37.06  | 40.46  |

## Operating profit



## PROFIT AFTER NET FINANCIAL ITEMS, QUARTERLY

| (SEK million)                    | 2000 |     |     |     | 2001 |     |     |     | 2002 |     |
|----------------------------------|------|-----|-----|-----|------|-----|-----|-----|------|-----|
|                                  | Q1   | Q2  | Q3  | Q4  | Q1   | Q2  | Q3  | Q4  | Q1   | Q2  |
| Net sales                        | 682  | 672 | 666 | 708 | 726  | 699 | 700 | 817 | 786  | 790 |
| Gross contribution               | 209  | 198 | 180 | 172 | 222  | 219 | 218 | 233 | 232  | 241 |
| Operating profit                 | 45   | 20  | 52  | -54 | 47   | 49  | 54  | 46  | 49   | 53  |
| Net financial items              | -3   | -3  | -2  | -3  | -4   | -4  | -4  | -2  | -4   | -5  |
| Profit after net financial items | 42   | 17  | 50  | -57 | 43   | 45  | 50  | 44  | 45   | 48  |

## SUMMARY BALANCE SHEET FOR THE GROUP

| (SEK million)                                     | 30.6.2002    | 30.6.2001    | 31.12.2001   |
|---|--------------|--------------|--------------|
| <b>ASSETS</b>                                     |              |              |              |
| Tangible fixed assets                             | 739          | 747          | 752          |
| Financial fixed assets                            | 16           | 16           | 8            |
| <b>Total fixed assets</b>                         | <b>755</b>   | <b>763</b>   | <b>760</b>   |
| Inventories                                       | 438          | 333          | 433          |
| Current receivables                               | 452          | 460          | 552          |
| Cash and cash equivalents                         | 104          | 72           | 70           |
| <b>Total current assets</b>                       | <b>994</b>   | <b>865</b>   | <b>1.055</b> |
| <b>TOTAL ASSETS</b>                               | <b>1,749</b> | <b>1,628</b> | <b>1,815</b> |
| <b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>       |              |              |              |
| <b>Shareholders' equity</b>                       | <b>830</b>   | <b>778</b>   | <b>850</b>   |
| <b>Provisions</b>                                 | <b>131</b>   | <b>98</b>    | <b>132</b>   |
| <b>Long-term liabilities</b>                      | <b>388</b>   | <b>377</b>   | <b>360</b>   |
| Accounts payable - trade                          | 200          | 158          | 255          |
| Other current liabilities                         | 40           | 16           | 28           |
| Accrued expenses and prepaid income               | 160          | 201          | 190          |
| <b>Total current liabilities</b>                  | <b>400</b>   | <b>375</b>   | <b>473</b>   |
| <b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b> | <b>1,749</b> | <b>1,628</b> | <b>1,815</b> |

## CHANGES IN SHAREHOLDERS' EQUITY

| (SEK million)                                | 30.6.2002  | 30.6.2001  | 31.12.2001 |
|--|------------|------------|------------|
| Shareholders' equity, opening balance        | 850        | 781        | 781        |
| Dividend                                     | -74        | -74        | -74        |
| Translation differences                      | -13        | 8          | 10         |
| Net profit                                   | 67         | 63         | 133        |
| <b>Shareholders' equity, closing balance</b> | <b>830</b> | <b>778</b> | <b>850</b> |

## SUMMARY CASH FLOW STATEMENT FOR THE GROUP

| (SEK million)  | Jan-Jun<br>2002 | Jan-Jun<br>2001 | Full year<br>2001 |
|--|-----------------|-----------------|-------------------|
| <b>Operating activities</b>  |                 |                 |                   |
| Cash flow from operating activities before changes in net operating assets | 140             | 104             | 237               |
| Changes in net operating assets  | -15             | -35             | -100              |
| <b>Cash flow from operating activities</b>                                 | <b>125</b>      | <b>69</b>       | <b>137</b>        |
| <b>Investment activities</b>   |                 |                 |                   |
| Cash flow from investment activities                                       | -55             | -71             | -118              |
| <b>Financing activities</b>  |                 |                 |                   |
| Cash flow from financing activities  | -32             | 8               | -15               |
| Cash flow for the year   | 38              | 6               | 4                 |
| Liquid funds, opening balance  | 70              | 63              | 63                |
| Translation difference   | -4              | 3               | 3                 |
| <b>Liquid funds, closing balance</b>                                       | <b>104</b>      | <b>72</b>       | <b>70</b>         |

## KEY FIGURES

| (SEK million unless otherwise stated) | Jan-Jun<br>2002 | Jan-Jun<br>2001 | Jan-Jun<br>2000 | Full year<br>2001 |
|---------------------------------------|-----------------|-----------------|-----------------|-------------------|
| <b>Income statement</b>               |                 |                 |                 |                   |
| Net sales                             | 1,576           | 1,425           | 1,354           | 2,942             |
| Gross contribution                    | 473             | 441             | 407             | 892               |
| Operating profit                      | 102             | 96              | 65              | 196               |
| Profit after net financial items      | 93              | 88              | 59              | 182               |
| Net profit                            | 67              | 63              | 43              | 133               |
| <b>Balance sheet</b>                  |                 |                 |                 |                   |
| Fixed assets                          | 755             | 763             | 684             | 770               |
| Current assets                        | 994             | 865             | 864             | 1,045             |
| Shareholders' equity                  | 830             | 778             | 790             | 850               |
| Provisions                            | 131             | 98              | 90              | 132               |
| Liabilities                           | 788             | 752             | 668             | 833               |
| Net operating assets                  | 1,241           | 1,172           | 1,107           | 1,264             |
| Net borrowings                        | 284             | 305             | 199             | 282               |
| <b>Key ratios</b>                     |                 |                 |                 |                   |
| Return on net operating assets, %     | 16              | 8               | 14              | 16                |
| Return on shareholders' equity, %     | 16              | 6               | 13              | 16                |
| Equity/assets ratio, %                | 47              | 48              | 51              | 47                |
| Debt/equity ratio, multiple           | 0.34            | 0.39            | 0.25            | 0.33              |
| Proportion of risk-bearing capital, % | 54              | 53              | 57              | 54                |
| Capital turnover rate, multiple       | 2.4             | 2.5             | 2.3             | 2.5               |
| Direct investments in fixed assets    | 45              | 60              | 43              | 109               |
| Average number of employees           | 730             | 749             | 767             | 731               |
| of whom in Sweden                     | 585             | 612             | 623             | 591               |

### STAFF WARRANTS 1999

Following the AGM's decision in 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 per cent. The subordinated loan had an annual interest rate of 3 per cent 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 per cent of the total offer. Dilution at full conversion will be approximately 3.5 per cent 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 June 2007. The loan carries an annual interest rate of STIBOR less 0.5 percentages. Settlement date for the convertible debt instruments was 3 July 2002, and the share data published in this report were thus not affected.

### REPORTING SCHEDULE

- The interim report for the period to 30 September 2002 will be released on 22 October 2002 (change of date).
- The summarised financial statements for the year 2002 will be released in February 2003.



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