

# INTERIM REPORT

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## **Interim report January – March 2003**

- The Group's earnings after net financial items amounted to SEK 45 million (45).
- Volume growth in all business areas.
- Keen competition, close-down of key customer and high energy costs have negative effects on Oils & Fats.
- Focus on productivity improvements and growing sales of high value-added products to offset decrease in earnings.
- The profit level of Feed Materials and Technical Products remains on last year's level.
- Strategic investments made in 2002 are developing well.
- New growth platforms have been established in China and Western Europe.

## THE PRESIDENT'S COMMENTS

### Focus on productivity and growth in a tough business climate

So far, the new accounting year turned out just as challenging as we expected it to. The business conditions of Oils & Fats are characterised by growing competitiveness on all markets. Carlshamn Mejeri, one of our largest customers, has now begun its planned relocation of production operations to Finland; a process expected to be concluded in the first half of 2003. Karlshamns energy and pension costs are some SEK 10 million higher than in the first quarter of 2002, the major part of the increase being attributable to rising energy prices. Also, the coming on stream of Tefac's new capacity-expanding investments for fatty acids had temporary negative effects on productivity in the first three months of the year.

Despite the tough business climate, however, volume growth was achieved in all business areas. Running parallel to this achievement is the development of Karlshamns into a specialised, value-added supplier to an increasingly global market. In the first quarter of 2003, two new distributors for the cosmetic and chocolate fat segments were engaged in China. A distribution network for the Group's vegetable band saw oils has been organised in Western Europe. Last year's strategic investments – Binol's agreement with Shell, the acquisition of Raisio's industrial margarines and the establishment of a subsidiary in Poland – are all developing well.

The current business climate has considerable and immediate effects on Karlshamns earning capacity. Our strategic plans, with focus and priority on sustainable profitable growth, will have substantial profit effects – but on a somewhat longer term. Our emphasis thus remains on productivity improving measures to offset the strengthening competition, while continuing to establish and develop, at the highest possible pace, new growth platforms in accordance with our business concept.

## MARKET

The general trend of raw material prices has been a descending one through the first quarter of 2003, with the Swedish krona gaining strength against the US dollar. The stronger Swedish currency had only marginal effects on profits, however. Hardening competition in the vegetable oil industry mainly affected margins on the Western European market. The more aggressive market conditions also had negative effects on the margins for certain chocolate fats.

Volume development in Eastern Europe remains strong.

A growing demand for higher value-added non-trans products puts Karlshamns in a good position to increase its sales volumes within business area Oils & Fats.

Demand for vegetable feed raw materials remains strong. Crushing margins for the extraction of rapeseed oils have been lower than in the first quarter of 2002.

The recession in the metalworking industry continues to be an impediment to Binol's progress.

## Oils & Fats

### Chocolate & Confectionery Fats

Growing competition and decreasing margins characterise the market for chocolate fats designed to replace cocoa butter. It is currently difficult to estimate the time frame for the implementation of the 5 percent rule\* within the chocolate industry. A distribution agreement for chocolate fats has been signed in China.

### Edible Oils

High volumes despite rapidly decreasing sales to Carlshamn Mejeri, with fats for the bakery and large-scale catering industry along with DFA (Dairy Fat Alternatives) being the most rapidly growing product segments. Edible Oils continues to increase its proportion of high value-added products.

### Lipids for Care

The market for lipids in cosmetic applications continues to grow.

Sales of high value-added products to the cosmetic industry increased in the first quarter of the year, as did volumes to the clinical nutrition segment.

A distribution agreement for lipids to the cosmetic industry has been signed in China.

## Technical Products

### Tefac

Fatty acids have been developing well, with volumes growing at a rate surpassing the European market average. The progress is mainly due to a continued increase of sales to customers within detergents, fabric conditioners and candles. Demand for glycerine is growing, and a certain margin improvement is to be expected.

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

## Binol

The recession in the metalworking industry continues to hamper Binol's profitability, whereas the forestry and construction segments are progressing. A European distribution network for cleaning oils for band saws and circular saws has been established.

## Feed Materials

Karlshamns continues to profit from the feed industry's focus on feed safety and growing consumption of vegetable feed raw materials. Demand for ExPro meal has been strong, the result being volumes surpassing those of the first quarter of 2002. Sales of the new feed fat Akofeed Gigant are developing well. Contribution margins for rapeseed were lower in the first quarter of 2003 than in the same period last year.

## OPERATIONS

### The Group

The Karlshamns Group is divided into three business areas: Oils & Fats, Technical Products and Feed Materials. The Technical Products business area's operations are carried out by the subsidiaries Tefac and Binol.

Business area Oils & Fats has three business sectors: Chocolate & Confectionery Fats, Edible Oils and Lipids for Care.

### Operating profit

The Group's operating profit decreased by SEK 2 million from last year, to SEK 47 million. Profits in business area Oils & Fats declined to SEK 31 million (33), whereas business areas Feed Materials and Technical Products maintained last year's profit level.

The Group's net sales increased by some 9 percent to SEK 853 million.

### Business Area Oils & Fats

(SEK million)	3 months Jan-Mar 2003	3 months Jan-Mar 2002	Full year Jan-Dec 2002
Net sales	597	558	2,394
Gross contribution	167	167	694
Operating profit	31	33	146

The Oils & Fats business area's operating profit amounted to SEK 31 million (33). Productivity improvements have been achieved at all three of the business area's production plants, partly through continuous upgrades, partly by means of a specific programme initiated to offset the negative effects of the close-down of Carlshamn Mejeri. An optimised product mix had positive effects on earnings.

Nevertheless, keener competition on the European market in combination with rising energy costs resulted in profits falling short of last year's first-quarter level by SEK 2 million. The acquisition of Rasio's industrial margarine and the establishment of a Polish subsidiary are developing well indeed.

### Business Area Technical Products

(SEK million)	3 months Jan-Mar 2003	3 months Jan-Mar 2002	Full year Jan-Dec 2002
Net sales	148	127	455
Gross contribution	40	37	148
Operating profit	10	10	36

The Technical Products business area's operating profit amounted to SEK 10 million (10).

Capacity-expanding investments coming on stream in the first three months of 2003 brought on extra costs for purchased products. Higher energy prices than last year had additional, negative effects on earnings. Fatty acids continued to grow, with margins kept intact. Glycerine margins are on a slightly upward trend at the moment.

Binol's growing sales to the forest industry more than compensated for the continued recession within the metalworking industry.

### Business Area Feed Materials

(SEK million)	3 months Jan-Mar 2003	3 months Jan-Mar 2002	Full year Jan-Dec 2002
Net sales	108	101	400
Gross contribution	29	28	120
Operating profit	6	6	29

Operating profit in business area Feed Materials amounted to SEK 6 million (6). Crushing margins for rapeseed have been lower than in 2002 which, in combination with higher energy prices, had negative effects on earnings.

Sales of feed raw materials continued to increase in the first three months of 2003, with Karlshamns strengthening its position on the Nordic market even further. Customer preference for product safety and vegetable raw materials is becoming more and more pronounced.

## THE KARLSHAMNS GROUP

### Profit after net financial items

The Group's profit after net financial items totalled SEK 45 million (45), with net financial items amounting to SEK -2 million (-4).

### Capital expenditures

The Group's direct investments in fixed assets amounted to SEK 19 million (23) in the first quarter of 2003, the corresponding figure for the full year 2002 being SEK 103 million.

### Working capital

The Group's working capital as at 31 March 2003 was SEK 540 million (668), the decrease mainly due to lower inventory volumes and increasing trade creditors.

### Financial position

The Group's shareholders' equity as at 31 March 2003 amounted to SEK 942 million (875). Total assets amounted to SEK 1,790 million (1,870), the equity/assets ratio to 53 percent (47).

The Group's net borrowings as at 31 March 2003 were SEK 243 million (419).

### Cash flow

Cash flow generated by operating activities amounted to SEK -70 million (-105) for the first quarter of 2003.

### Personnel

The Group's average number of employees in the period was 746 (750).

### Key ratios

Return on equity during the preceding twelve-month period was 17 per cent (16); the corresponding figure for the full year 2002 being 17 per cent.

Return on net operating assets in the preceding twelve-month period was 17 percent (16).

Equity per share increased to SEK 44.84 (41.64).

### Accounting and valuation principles

This interim report has been prepared in accordance with the accounting principles applied in the Annual Report 2002. The recommendations issued by the Swedish Financial Accounting Standards Council, effective from 1 January 2003, have been implemented without resulting in any change of accounting principles.

Karlshamn 24 April 2003



Jerker Hartwall  
President

*For further information, phone +46 (0)454-826 03  
These interim figures have not been audited.*

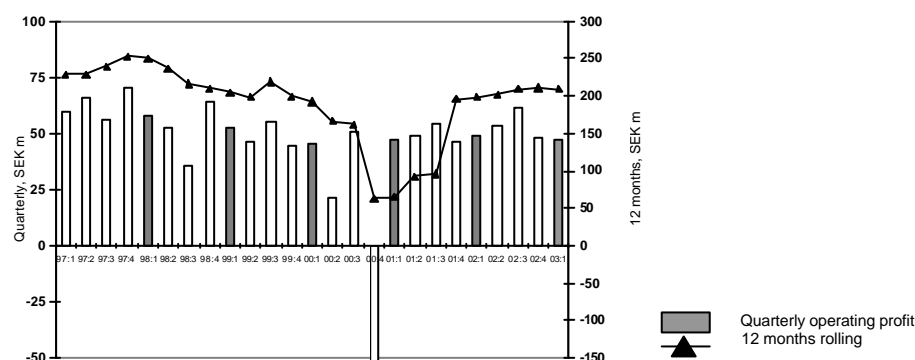
## SUMMARY INCOME STATEMENT FOR THE GROUP

(SEK million)	3 months Jan-Mar 2003	3 months Jan-Mar 2002	Full year Jan-Dec 2002
Net sales	853	786	3,249
Raw material costs	-617	-554	-2,287
Gross contribution	236	232	962
Personnel and other external costs	-166	-158	-659
Depreciation	-23	-25	-92
Operating profit	47	49	211
Net financial items	-2	-4	-11
Profit after net financial items	45	45	200
Tax	-13	-13	-48
Net profit	32	32	152

## SHARE DATA

Number of shares (000)	21,003	21,000	21,002
Outstanding warrants and convertible debt instruments (000)	911	168	912
Earnings per share before conversion and utilisation of warrants, SEK	1.53	1.53	7.23
Earnings per share after conversion and utilisation of warrants, SEK	1.47	1.52	6.93
Equity per share before conversion and utilisation of warrants, SEK	44.84	41.64	43.59

## Operating profit



## PROFIT AFTER NET FINANCIAL ITEMS, QUARTERLY

(SEK million)	2001				2002				2003
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Net sales	726	699	700	817	786	790	800	873	853
Gross contribution	222	219	218	233	232	241	228	261	236
Operating profit	47	49	54	46	49	53	61	48	47
Net financial items	-4	-4	-4	-2	-4	-5	-3	1	-2
Profit after net financial items	43	45	50	44	45	48	58	49	45

## SUMMARY BALANCE SHEET FOR THE GROUP

(SEK million)	31.3.2003	31.3.2002	31.12.2002
<b>ASSETS</b>			
Immaterial fixed assets	7	-	7
Tangible fixed assets	735	744	741
Financial fixed assets	11	17	12
<b>Total fixed assets</b>	<b>753</b>	<b>761</b>	<b>760</b>
Inventories	449	495	439
Current receivables	502	538	466
Cash and cash equivalents	86	76	106
<b>Total current assets</b>	<b>1,037</b>	<b>1,109</b>	<b>1,011</b>
<b>TOTAL ASSETS</b>	<b>1,790</b>	<b>1,870</b>	<b>1,771</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>	<b>942</b>	<b>875</b>	<b>915</b>
<b>Provisions</b>	<b>108</b>	<b>131</b>	<b>111</b>
<b>Long-term liabilities</b>	<b>329</b>	<b>498</b>	<b>260</b>
Accounts payable - trade	204	173	268
Other current liabilities	44	22	45
Accrued expenses and prepaid income	163	171	172
<b>Total current liabilities</b>	<b>411</b>	<b>366</b>	<b>485</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>1,790</b>	<b>1,870</b>	<b>1,771</b>

## CHANGES IN SHAREHOLDERS' EQUITY

(SEK million)	31.3.2003	31.3.2002	31.12.2002
Shareholders' equity, opening balance	915	850	850
Dividend	-	-	-74
Translation differences	-5	-7	-13
Net profit	32	32	152
<b>Shareholders' equity, closing balance</b>	<b>942</b>	<b>875</b>	<b>915</b>

## SUMMARY CASH FLOW STATEMENT FOR THE GROUP

(SEK million)	Jan-Mar 2003	Jan-Mar 2002	Full year 2002
<b>Operating activities</b>			
Cash flow from operating activities before changes in net operating assets	54	58	267
Changes in net operating assets	-124	-163	43
<b>Cash flow from operating activities</b>	<b>-70</b>	<b>-105</b>	<b>310</b>
<b>Investment activities</b>			
Cash flow from investment activities	-17	-35	-106
<b>Financing activities</b>			
Cash flow from financing activities	67	147	-167
Cash flow for the year	-20	7	37
Liquid funds, opening balance	106	70	70
Translation difference	0	-1	-1
<b>Liquid funds, closing balance</b>	<b>86</b>	<b>76</b>	<b>106</b>

## KEY FIGURES

(SEK million unless otherwise stated)	Jan-Mar 2003	Jan-Mar 2002	Jan-Mar 2001	Full year 2002
<b>Income statement</b>				
Net sales	853	786	726	3,249
Gross contribution	236	232	222	962
Operating profit	47	49	47	211
Profit after net financial items	45	45	43	200
Net profit	32	32	31	152
<b>Balance sheet</b>				
Fixed assets	753	761	751	760
Current assets	1,037	1,109	935	1,011
Shareholders' equity	942	875	816	915
Provisions	108	131	98	111
Liabilities	740	864	772	745
Net operating assets	1,293	1,424	1,201	1,180
Net borrowings	243	419	291	154
<b>Key ratios</b>				
Return on net operating assets, %	17	16	6	17
Return on shareholders' equity, %	17	16	4	17
Equity/assets ratio, %	53	47	48	52
Debt/equity ratio, multiple	0.26	0.48	0.36	0.17
Proportion of risk-bearing capital, %	58	54	54	57
Capital turnover rate, multiple	2.6	2.4	2.4	2.6
Direct investments in fixed assets	19	23	29	103
Average number of employees	746	750	752	754
of whom in Sweden	609	610	616	611

### 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 546,000 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 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 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 percentages.

### REPORTING SCHEDULE

- The interim report for the period to 30 June 2003 will be released on 19 August 2003.
- The interim report for the period to 30 September 2003 will be released on 21 October 2003.



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