

Interim Report



Interim Report January – March 2004

- The Group's net sales amounted to SEK 869 million (853).
 - Earnings after net financial items totalled SEK 46 million (45).
 - Earnings after tax were SEK 33 million (32).
 - Earnings per share amounted to SEK 1.58 (1.53).
- Expanding market shares in all business areas.
- Volume growth in business area Oils & Fats despite keen competition, with continued progress for high value-added speciality products.
- Business area Technical Products continues to boost sales volumes.
- Profit improvement and continued volume growth in business area Feed Materials.

THE PRESIDENT'S COMMENTS

Fierce competition, yet healthy volume growth in all business areas.

Excess capacity in the European vegetable oil market has reduced margins considerably in the past few years, throughout the industry. Karlshamns' approach to this new and competitive situation has been a combination of proactive marketing operations and relentless productivity improvements. Karlshamns' development process continued through the first quarter of 2004, the result a consolidation of the Group's market positions in all business units at the same time as energy costs were reduced. We have also proven the cost-efficiency of the more recent product launches within Technical Products and Feed Materials – products integrated with business area Oils & Fats and contributing to the competitive strength of all of Karlshamns' business areas. This is quite an unmatched performance in the vegetable oil industry.

Karlshamns' high value-added products continue to make headway. In the first quarter of 2004, progress was particularly strong in the cosmetic and edible oils segments. The Group's R&D operations are now at the forefront of product development in all prioritised areas, at the same time as comprehensive productivity improvement programmes have been initiated.

The Group took prompt action to adjust operations to its new business conditions, and is now well prepared for a continued dynamic development. The restructuring of the vegetable oil industry, the launch of several new speciality products and intensified marketing operations are now paving the way for quite a few growth potentials in the years ahead.

Contribution margins have now settled on a notably lower level in all of the Oils & Fats business area's traditional product segments, however. As a result, the positive effects of Karlshamns' focus on high value-added speciality products will have notable effects on earnings only on a longer term.

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.

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

Oils & Fats

Chocolate and confectionery fats

The first-quarter volumes are in line with last year, although with a certain improvement of the average

contribution margin. Higher cost-efficiency has strengthened the Group's competitiveness, which, in turn, resulted in sales progress on new markets. Already established markets opened on a somewhat weaker note than last year, which was, however, compensated for by sales to new customers and development projects with key accounts. Early in the year a new product group was launched under the umbrella name AKOTRES. These products are free from trans-fatty acids*, a quality high in demand among a great many customers today. Several new product launches are in the pipeline.

Edible Oils

Sales of both high and lower value-added products increased in the first three months of 2004 – an aggregate 10 percent improvement over the same period last year, with the strongest progress achieved in Scandinavia and Western Europe. Speciality products keep up their highly satisfactory development, in particular so in the bakery, DFA and infant food segments. New business opportunities in the bakery segment were successfully exploited thanks to Karlshamns' pumpable solutions, which offer customers added values such as productivity improvements.

Lipids for Care

The cosmetic industry's interest in vegetable ingredients remains strong. Lipids for Care continues to expand its proportion of high value-added products, the result a satisfactory profitability development. A particularly strong volume growth was achieved in Western Europe and the US. Marketing operations remain focused and dynamic all over the world, although with priority given to China, Europe, South America and the US.

Technical Products

Tefac

Tefac boosted its fatty acid volumes by approximately 10 percent over the first quarter of 2003. Most of this volume growth was achieved in the European chemical industry, with detergents and fabric softeners the most important application segment. On a total level, the European market is estimated to have achieved only a marginal development. After their steep fall in the last quarter of 2003, glycerine prices stabilised in the first three months of 2004 – albeit on a low level.

** Nutritional experts emphasise the importance of reducing our intake of trans-fatty acids, chiefly because of their negative effect on blood cholesterol.*

Binol

Binol strengthened its Nordic market position in the first quarter of 2004, with sales of Binol-branded products increasing by 16 percent over last year. Sales of the recently acquired product ranges (Denmark and Finland) are also progressing well indeed.

The acquisition of technical oils from Raisio and the global alliance with Quaker Chemical further secured Binol's leading position on the global market for vegetable technical oils.

Feed Materials

Growing sales of the bypass protein ExPro™ and the bypass fat Gigant helped Karlshamns expand its share of the Nordic market compared to the first quarter of 2003. Nordic demand for vegetable, effective and safe feed raw materials continues to strengthen.

A successful launch of a speciality fat for horses was recently made – a new niche product on the growing market for horse feed.

Certain market segments have experienced price competition, in particular from Danish and German producers.

OPERATIONS

Operating profit

The Group's operating profit increased by SEK 2 million to SEK 49 million over last year. Profits in business area Oils & Fats were SEK 31 million. Business area Feed Materials improved its profits by SEK 2 million to SEK 8 million, whereas Technical Products achieved a profit of SEK 10 million.

Business Area Oils & Fats

(SEK m)	3 months Jan-Mar 2004	3 months Jan-Mar 2003	Full year Jan-Dec 2003
Net sales	616	597	2,397
Gross contribution	166	167	666
Operating profit	31	31	134

The Oils & Fats business area's operating profit amounted to SEK 31 million (31). Continuous productivity improvements have been achieved at all three of the business area's production plants.

Sales developed satisfactorily in most of the Group's markets, although the strongest growth was achieved in the Nordic and Western European markets.

In all, volumes increased by 10 percent over the same period in 2003.

Sales of speciality fats keep up their promising development.

Business Area Technical Products

(SEK m)	3 months Jan-Mar 2004	3 months Jan-Mar 2003	Full year Jan-Dec 2003
Net sales	128	148	455
Gross contribution	42	40	148
Operating profit	10	10	36

The Technical Products business area's operating profit amounted to SEK 10 million (10). Rising raw material prices could not be offset by price increases for fatty acids, which adversely affected contribution margins. Cost efficiency improved as a result of volume growth and capacity-expanding investments coming on stream. Tefac's earnings suffered the effect of depressed glycerine prices.

Binol continued to consolidate its market position. In combination with an adjustment of operating expenditure, this contributed to a rising profit level in the first three months of the year.

Business Area Feed Materials

(SEK m)	3 months Jan-Mar 2004	3 months Jan-Mar 2003	Full year Jan-Dec 2003
Net sales	125	108	419
Gross contribution	34	29	118
Operating profit	8	6	22

Operating profit in business area Feed Materials improved to SEK 8 million (6).

Sales of feed raw materials continued to increase, with Karlshamns strengthening its position on the Nordic market. Processing troubles early in the year made production volumes of ExPro™ meal fall short of current demand.

THE KARLSHAMNS GROUP

Profit after net financial items

The Group's profit after net financial items totalled SEK 46 million (45), with net financial items amounting to SEK -3 million (-2).

Capital expenditure

The Group's direct investments in fixed assets amounted to SEK 24 million (19) in the first quarter of 2004; the corresponding figure for the full year 2003 being SEK 108 million.

Working capital

The Karlshamns Group's working capital amounted to SEK 634 million on 31 March 2004 (540), the rise mainly due to an increase in accounts receivable (a consequence of growing sales) and a decrease in accounts payable.

Cash-flow

Cash-flow generated by operating activities amounted to SEK -30 million (-70) for the first three months of 2004, the cyclical interrelation between raw material sourcing and sales increasing the Group's working capital requirement by SEK 90 million since the turn of the year.

Financial position

The Group's shareholders' equity as at 31 March 2004 was SEK 1,020 million (942). Total assets amounted to SEK 1,901 million (1,790), the equity/assets ratio to 54 percent (53).

The Group's net borrowings as at 31 March 2004 were SEK 257 million (243).

Personnel

The Group's average number of employees in the period was 767 (746).

Key ratios

Return on equity during the preceding twelve-month period was 15 percent (17), the corresponding figure for the full year 2003 being 15 percent (17).

Return on net operating assets in the preceding twelve-month period was 15 percent (17).

Equity per share increased to SEK 48.49 (44.84).

Accounting and valuation principles

In the first quarter of 2004, the Karlshamns Group implemented a new recommendation issued by the Swedish Financial Accounting Standards Council (RR 29 on Remuneration to employees). The ensuing revaluation of pension plans had only marginal effects on the Group's balance sheet and income statement. In all other respects, this interim report has been prepared in accordance with the accounting principles applied in the Annual Report 2003.

Karlshamn, 21 April 2004



Jerker Hartwall
President and CEO

For further information, phone +46 (0)454-826 03

These interim figures have not been audited.

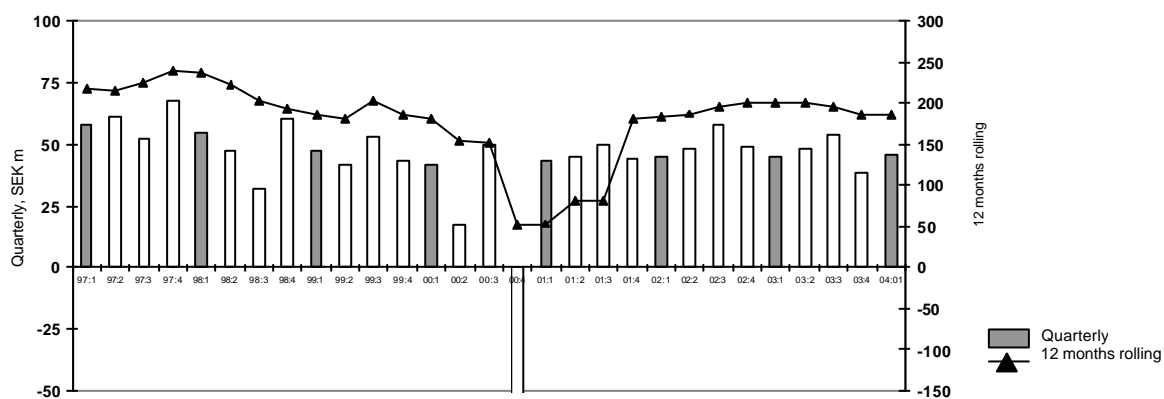
SUMMARY INCOME STATEMENT FOR THE GROUP

(SEK million)	3 months Jan-Mar 2004	3 months Jan-Mar 2003	Full year Jan-Dec 2003
Net sales	869	853	3,317
Raw material costs	-627	-617	-2,373
Gross contribution	242	236	944
Personnel and other external costs	-169	-166	-652
Depreciation	-24	-23	-95
Operating profit	49	47	197
Net financial items	-3	-2	-12
Profit after net financial items	46	45	185
Tax	-13	-13	-44
Net profit	33	32	141

SHARE DATA

Number of shares (000)	21,061	21,003	21,033
Outstanding warrants and convertible debt instruments (000)	853	911	881
Earnings per share before conversion and utilisation of warrants, SEK	1.58	1.53	6.73
Earnings per share after conversion and utilisation of warrants, SEK	1.54	1.50	6.58
Equity per share before conversion and utilisation of warrants, SEK	48.49	44.84	46.30
Equity per share after conversion and utilisation of warrants, SEK	46.81	43.29	44.70

Profit after net financial items



PROFIT AFTER NET FINANCIAL ITEMS, QUARTERLY

(SEK million)	2002				2003				2004
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Net sales	786	790	800	873	853	803	813	848	869
Gross contribution	232	241	228	261	236	242	229	237	242
Operating profit	49	53	61	48	47	52	58	40	49
Net financial items	-4	-5	-3	1	-2	-4	-4	-2	-3
Profit after net financial items	45	48	58	49	45	48	54	35	46

SUMMARY BALANCE SHEET FOR THE GROUP

(SEK million)	31.3.2004	31.3.2003	31.12.2003
ASSETS			
Immaterial fixed assets	13	7	14
Tangible fixed assets	746	735	740
Financial fixed assets	11	11	11
Total fixed assets	770	753	765
Inventories	463	449	455
Current receivables	548	502	535
Cash and cash equivalents	120	86	144
Total current assets	1,131	1,037	1,134
TOTAL ASSETS	1,901	1,790	1,899
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	1,020	942	972
Provisions	125	108	121
Long-term liabilities	382	329	352
Accounts payable - trade	172	204	236
Other current liabilities	42	44	63
Accrued expenses and prepaid income	160	163	155
Total current liabilities	374	411	454
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,901	1,790	1,899

CHANGES IN SHAREHOLDERS' EQUITY

(SEK million)	31.3.2004	31.3.2003	31.12.2003
Shareholders' equity, opening balance	972	915	915
Redemption of warrants	3	-	3
Dividend	-	-	-74
Translation differences	12	-5	-13
Net profit	33	32	141
Shareholders' equity, closing balance	1,020	942	972

SUMMARY CASH-FLOW STATEMENT FOR THE GROUP

(SEK million)	Jan-Mar 2004	Jan-Mar 2003	Full year 2003
Operating activities			
Cash-flow from operating activities before changes in net operating assets	60	54	212
Changes in net operating assets	-90	-124	-89
Cash-flow from operating activities	-30	-70	123
Investment activities			
Cash-flow from investment activities	-24	-17	-101
Financing activities			
Cash-flow from financing activities	28	67	20
Cash-flow for the year	-26	-20	42
Liquid funds, opening balance	144	106	106
Translation difference	2	0	-4
Liquid funds, closing balance	120	86	144

KEY FIGURES

(SEK million unless otherwise stated)	Jan-Mar 2004	Jan-Mar 2003	Jan-Mar 2002	Full year 2003
Income statement				
Net sales	869	853	786	3,317
Gross contribution	242	236	232	944
Operating profit	49	47	49	197
Profit after net financial items	46	45	45	185
Net profit	33	32	32	141
Balance sheet				
Fixed assets	770	753	761	765
Current assets	1,131	1,037	1,109	1,134
Shareholders' equity	1,020	942	875	972
Provisions	125	108	131	121
Liabilities	756	740	846	806
Net operating assets	1,402	1,293	1,424	1,304
Net borrowings	257	243	419	211
Key ratios				
Return on net operating assets, %	15	17	16	16
Return on shareholders' equity, %	15	17	16	15
Equity/assets ratio, %	54	53	47	51
Debt/equity ratio, multiple	0.25	0.26	0.48	0.22
Proportion of risk-bearing capital, %	60	58	54	57
Capital turnover rate, multiple	2.5	2.6	2.4	2.6
Direct investments in fixed assets	24	19	23	108
Average number of employees	767	746	750	757
of whom in Sweden	629	609	610	623

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 565,000 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.

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 June 2004 will be released on 18 August 2004.
- The interim report for the period to 30 September 2004 will be released on 21 October 2004.



Address
SE-374 82 Karlshamn

Telephone
+46 (0)454-820 00

Fax
+46 (0)454-828 20

Corp.reg.no.
556478-1796

E-mail
info@karlshamns.se

www.karlshamns.com