

Interim Report January – June 2004

- The Group's net sales amounted to SEK 1,757 million (1,656).
 - Earnings after net financial items totalled SEK 84 million (93).
 - Earnings after tax were SEK 60 million (67).
 - Earnings per share amounted to SEK 2.87 (3.19).
- Growing market shares in all business areas.
- Keen competition in business area Oils & Fats. Continued progress for high value-added speciality products.
- Considerable development costs for conversion to larger share of speciality products.
- Steep rise in raw material prices had negative impact on earnings in business area Technical Products.
- Continued volume growth for vegetable feed raw materials.

THE PRESIDENT'S COMMENTS

Pressure on margins, yet healthy volume growth in all business areas.

Karlshamns' second-quarter earnings fell below last year's level, mainly due to steep and rapid price increases for raw materials used in business area Technical Products.

Contribution margins in business area Oils & Fats remain exposed to a relentless, heavy pressure, at the same time as earnings are impacted by considerable costs for intensified development of high value-added speciality products. On the positive side we note a healthy volume growth and strengthened market positions in all business areas.

This negative development has in part been compensated for by our strategy to focus on high value-added speciality fats and to develop business areas Technical Products and Feed Materials. As a result, the Group is now expanding its market shares in all business areas.

Our successful R&D progress has received considerable international interest in product segments edible oils, cosmetics and chocolate fats. These advances now provide a ticket to exciting, future business potentials, although the lead-time from product launch to sales contract is usually several years.

The Karlshamns Group took prompt action to adjust operations to its new business conditions. A strong balance sheet and a healthy return on net operating assets now make us well prepared for an increasingly dynamic and proactive development.

The restructuring of the vegetable oil industry, the launch of several new speciality products and intensified marketing and R&D operations are now paving the way for quite a few growth potentials in the years ahead.

Contribution margins have 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.

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

Oils & Fats

Chocolate and confectionery fats

Business sector Chocolate and confectionery fats increased its second-quarter sales. In all, volumes grew by 4 percent over the first half of 2003; the major growth achieved in markets outside Western Europe. Higher cost-efficiency has strengthened the Group's competitiveness, which, in turn, resulted in sales progress on new markets.

Edible Oils

Sales of both high and lower value-added products continued to increase through the second quarter of 2004 – an aggregate 10 percent improvement over the first half of 2003, with the strongest progress achieved in Scandinavia and Western Europe. Speciality products keep up their highly satisfactory development, in particular so in the segments for bakery fats, DFA and speciality fats for the margarine industry. Higher development costs entailed by the Group's stronger focus on speciality products are putting a strain on earnings, however. Volume products continue to account for a substantial part of sales.

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. Significant breakthroughs in the form of new customers were achieved in the first half of 2004.

Technical Products

Tefac

The surging raw material prices are fuelled partly by the growing European energy consumption (in its turn prompted by the current, high price of fuel oil), partly by the biodiesel industry's growing demand for raw materials also used in the production of fatty acids.

Tefac's sales volumes of fatty acids increased by some 3 percent over the first six months of 2003, the major growth achieved in the European chemical industry where detergents and fabric softeners constitute the most important application segment. On an aggregate level, the European market is estimated to have suffered a negative growth.

Binol

Binol continued to strengthen its Nordic market position in the second quarter of the year, with sales of Binol-branded products increasing by 14 percent over the first half of 2003. Also sales of the recently acquired product ranges are progressing well indeed. Earnings thus followed a healthy development through the past three months, even with the higher raw material prices.

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

Feed Materials

Growing sales of bypass protein ExPro™ and bypass fat Gigant helped Karlshamns increase its share of the Nordic market over the corresponding period last year, with volumes growing by some 15 percent over the first half of 2003. Nordic demand for vegetable, effective and safe feed raw materials continues to strengthen.

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

OPERATIONS

Operating profit

The Group's operating profit decreased by SEK 10 million from last year's level, to SEK 89 million. Profits in business area Oils & Fats decreased by SEK 7 million to SEK 56 million; in business area Technical Products by SEK 6 million to SEK 17 million. Business area Feed Materials achieved a profit growth by SEK 3 million, up to SEK 16 million.

Business Area Oils & Fats

(SEK m)	3 months Apr-Jun 2004	3 months Apr-Jun 2003	6 months Jan-Jun 2004	6 months Jan-Jun 2003	Full year Jan-Dec 2003
Net sales	627	568	1,243	1,165	2,397
Gross contribution	166	165	332	332	666
Operating profit	25	32	56	63	134

The Oils & Fats business area's operating profit amounted to SEK 56 million (63). Sales of speciality products are developing well, but do not fully compensate for the pressure on contribution margins of less advanced products and the rising development costs entailed by the Group's growing focus on higher value-added products.

Sales developed satisfactorily in most of the Group's markets, with volumes growing by some 10 percent over the same period last year.

Business Area Technical Products

(SEK m)	3 months Apr-Jun 2004	3 months Apr-Jun 2003	6 months Jan-Jun 2004	6 months Jan-Jun 2003	Full year Jan-Dec 2003
Net sales	126	123	254	271	501
Gross contribution	41	44	83	84	160
Operating profit	7	13	17	23	41

Operating profit in business area Technical Products amounted to SEK 17 million (23). Rising raw material prices could not be offset by price increases for fatty acids, which adversely affected contribution margins. Tefac's earnings also suffered the effect of depressed glycerine prices.

Through organic growth and strategic acquisitions, Binol has further consolidated its market position. In combination with an adjustment of operating expenditure, this contributed to a rising profit level throughout the first six months of 2004.

Business Area Feed Materials

(SEK m)	3 months Apr-Jun 2004	3 months Apr-Jun 2003	6 months Jan-Jun 2004	6 months Jan-Jun 2003	Full year Jan-Dec 2003
Net sales	135	112	260	220	419
Gross contribution	31	33	65	62	118
Operating profit	8	7	16	13	22

Operating profit in business area Feed Materials improved to SEK 16 million (13).

Sales of feed raw materials continue to grow, with Karlshamns consolidating its position on the Nordic market.

THE KARLSHAMNS GROUP

Profit after net financial items

The Group's profit after net financial items totalled SEK 84 million (93), with net financial items amounting to SEK -5 million (-6).

Capital expenditure

The Group's direct investments in fixed assets amounted to SEK 56 million (50) in the first half 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 604 million on 30 June 2004 (536), the rise mainly due to an increase in accounts receivable (a consequence of growing sales) and a decrease in current liabilities.

Cash-flow

Cash-flow generated by operating activities amounted to SEK 42 million (-10), a SEK 20 million refund of preliminary tax accounting for a major part of this increase over last year.

Financial position

The Group's shareholders' equity as of 30 June 2004 was SEK 972 million (901). Total assets amounted to SEK 1,850 million (1,807), the equity/assets ratio to 53 percent (50).

The Group's net borrowings amounted to SEK 279 million (283) on 30 June 2004.

Personnel

The Group's average number of employees in the period was 776 (747).

Key ratios

Return on equity during the preceding twelve-month period was 14 percent (17), the corresponding figure for the full year 2003 being 15 percent.

Return on net operating assets in the preceding twelve-month period was 14 percent (17).

Equity per share increased to SEK 46.13 (42.92).

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, 18 August 2004



Jerker Hartwall
President and CEO

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

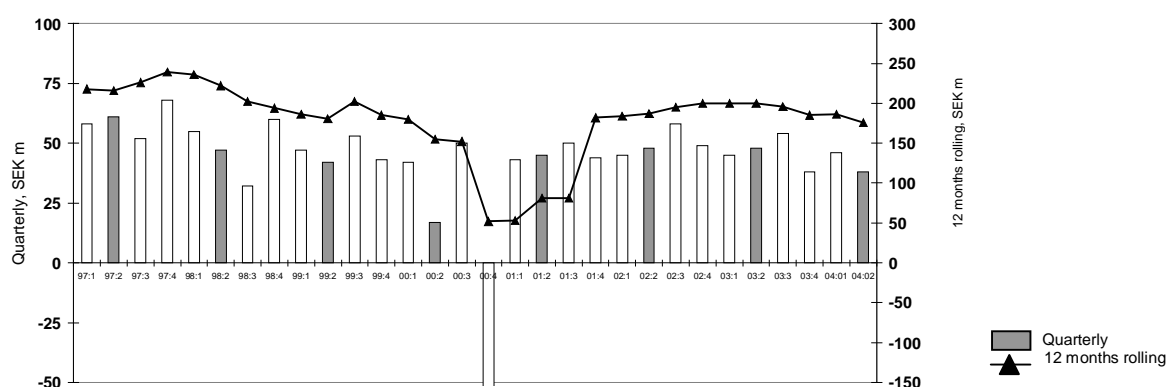
SUMMARY INCOME STATEMENT FOR THE GROUP

(SEK million)	3 months Apr-Jun 2004	3 months Apr-Jun 2003	6 months Jan-Jun 2004	6 months Jan-Jun 2003	Full year Jan-Dec 2003
Net sales	888	803	1,757	1,656	3,317
Raw material costs	-650	-561	-1,277	-1,178	-2,373
Gross contribution	238	242	480	478	944
Personnel and other external costs	-173	-167	-342	-333	-652
Depreciation	-25	-23	-49	-46	-95
Operating profit	40	52	89	99	197
Net financial items	-2	-4	-5	-6	-12
Profit after net financial items	38	48	84	93	185
Tax	-11	-13	-24	-26	-44
Net profit	27	35	60	67	141

SHARE DATA

Number of shares (000)	21,080	21,003	21,033
Outstanding warrants and convertible debt instruments (000)	834	911	881
Earnings per share before conversion and utilisation of warrants, SEK	2.87	3.19	6.73
Earnings per share after conversion and utilisation of warrants, SEK	2.80	3.13	6.58
Equity per share before conversion and utilisation of warrants, SEK	46.13	42.92	46.30
Equity per share after conversion and utilisation of warrants, SEK	44.59	41.48	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	Q2
Net sales	786	790	800	873	853	803	813	848	869	888
Gross contribution	232	241	228	261	236	242	229	237	242	238
Operating profit	49	53	61	48	47	52	58	40	49	40
Net financial items	-4	-5	-3	1	-2	-4	-4	-2	-3	-2
Profit after net financial items	45	48	58	49	45	48	54	35	46	38

SUMMARY BALANCE SHEET FOR THE GROUP

(SEK million)	30.6.2004	30.6.2003	31.12.2003
TILLGÅNGAR			
Immaterial fixed assets	13	7	14
Tangible fixed assets	751	741	740
Financial fixed assets	11	11	11
Total fixed assets	775	759	765
Inventories	407	497	455
Current receivables	564	448	535
Cash and cash equivalents	104	103	144
Total current assets	1,075	1,048	1,134
TOTAL ASSETS	1,850	1,807	1,899

SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity	972	901	972
Provisions	124	108	121
Long-term liabilities	396	389	352
Accounts payable - trade	196	184	236
Other current liabilities	35	36	63
Accrued expenses and prepaid income	127	189	155
Total current liabilities	358	409	454
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,850	1,807	1,899

CHANGE IN SHAREHOLDERS' EQUITY

(SEK million)	30.6.2004	30.6.2003	31.12.2003
Shareholders' equity, opening balance	972	915	915
Redemption of warrants	5	0	3
Dividend	-74	-74	-74
Translation differences	9	-7	-13
Net profit	60	67	141
Shareholders' equity, closing balance	972	901	972

SUMMARY CASH-FLOW STATEMENT FOR THE GROUP

(SEK million)	Jan-Jun 2004	Jan-Jun 2003	Full year 2003
Operating activities			
Cash-flow from operating activities before changes in net operating assets	135	115	212
Changes in net operating assets	-93	-125	-89
Cash-flow from operating activities	42	-10	123
Investment activities			
Cash-flow from investment activities	-51	-46	-101
Financing activities			
Cash-flow from financing activities	-33	55	20
Cash-flow for the year	-42	-1	42
Liquid funds, opening balance	144	106	106
Translation difference	2	-2	-4
Liquid funds, closing balance	104	103	144

KEY FIGURES

(SEK million unless otherwise stated)	Jan-Jun 2004	Jan-Jun 2003	Jan-Jun 2002	Full year 2003
Income statement				
Net sales	1,757	1,656	1,576	3,317
Gross contribution	480	478	473	944
Operating profit	89	99	102	197
Profit after net financial items	84	93	93	185
Net profit	60	67	67	141
Balance sheet				
Fixed assets	775	759	755	765
Current assets	1,075	1,048	994	1,134
Shareholders' equity	972	901	830	972
Provisions	124	108	131	121
Liabilities	754	798	788	806
Net operating assets	1,376	1,286	1,241	1,304
Net borrowings	279	283	284	211
Key ratios				
Return on net operating assets, %	14	17	16	16
Return on shareholders' equity, %	14	17	16	15
Equity/assets ratio, %	53	50	47	51
Debt/equity ratio, multiple	0.29	0.31	0.34	0.22
Proportion of risk-bearing capital, %	59	55	54	57
Capital turnover rate, multiple	2.5	2.7	2.4	2.6
Direct investments in fixed assets	56	50	47	108
Average number of employees	776	747	752	757
of whom in Sweden	633	611	608	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 September 2004 will be released on 21 October 2004.



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