

Annual Report 2003





Contents

- 3 The year 2003 in brief
- 4 Karlshamns in 60 seconds
- 5 Business concept, goal and strategy
- 6 To Karlshamns shareholders
- 8 Karlshamns' customer offer
- 10 Karlshamns – you meet us daily
- 12 Oils & Fats
- 14 Chocolate & Confectionery Fats
- 16 Edible Oils
- 18 Lipids for Care
- 20 Technical Products
- 23 Feed Materials
- 24 Our staff
- 26 Research & Development
- 28 Karlshamns and the environment

- 32 Annual Accounts ***
- 32 Directors' report
- 34 Consolidated income statement
- 36 Consolidated cash-flow statement
- 38 Consolidated balance sheet
- 40 Parent-company income statement
- 41 Parent-company cash-flow statement
- 42 Parent-company balance sheet
- 44 Notes to the financial statements
- 57 Audit report
- 58 Stock market analysis of Karlshamns
- 60 The Karlshamns share
- 62 Risk management and sensitivity analysis
- 66 Seven-year summary
- 67 Definitions
- 68 Corporate Governance
- 70 Board of Directors and Auditors
- 72 Senior Executives
- 74 Financial information
- 74 Annual General Meeting
- 75 Addresses

* The Annual Accounts comprise pages 32-57

This document is a translation of the Swedish language version. In the event of any discrepancies between the translation and the original Swedish annual report, the latter shall prevail.

The year 2003 in brief

Profit

The Group's operating profit decreased by SEK 14 million from last year, to SEK 197 million. The Oils & Fats business area's operating profit fell to SEK 134 million (146), Feed Materials declined by SEK 7 million to SEK 22 million, whereas the business area Technical Products increased its operating profit by SEK 5 million to SEK 41 million.

Sales

Net sales increased to SEK 3,317 million (3,249).



Our business environment

The year 2003 was characterised by a general softening of the market. Competition grew keener in all markets for Oils & Fats, with Karlshamns and the entire oils and fats industry suffering sizeable negative effects on margins. Karlshamns countered these unfavourable business conditions with productivity improvements worth some SEK 45 million and new business opportunities worth some SEK 30 million.

Growing share of high value-added products

Karlshamns maintains its focus on expanding the share of higher value-added products. The Group's production capacity for speciality products was stepped up all through 2003, with the remaining projects expected to come on stream in the autumn of 2004.

Successful development process

A comprehensive development process was launched in 2001, some of its results being higher operating efficiency, a profit-oriented organisation based on business areas and a generational change in Karlshamns' management. Last year's achievements displayed measurable improvements and indicate that our strategy is indeed the right one.

Acquisitions and alliances

In December 2003, the Karlshamns subsidiary Binol acquired the technical oils operations of Finnish Raisio Chemicals Oy, having earlier in the year taken over the technical oils operations of Danish Aarhus United. Both acquisitions serve to consolidate Binol's position as number one on the global market for vegetable technical oils.

Binol also established two global alliances – with Shell and Quaker Chemical – thereby paving the way for future growth outside the Nordic market.

The business sector Lipids for Care, part of the business area Oils & Fats, signed distribution agreements in South Korea, Russia and China.

Product launches

A dedicated focus on research and development resulted in the following product launches in 2003:

- Lipex™ Lsens – a vegetable alternative to lanolin (fat from sheep's wool) in skin-care products.
- CBR Akopol – low-trans fat for chocolate coatings (CBR – Cocoa Butter Replacer).
- Akocheese – a vegetable fat for cheese production, with a number of unique properties.

New business opportunities generated by low-trans

The food industry is voicing a growing preference for fats free from trans-fatty acids. Karlshamns has a strong range of products which are either low-trans or non-trans. In combination with far-reaching application know-how, these products are attracting new customers, and important breakthroughs have been made in the bakery, chocolate and margarine industries.

	2003	2002	2001
Net sales, SEK million	3,317	3,249	2,942
Gross contribution, SEK million	944	962	892
Profit before depreciation, SEK million	292	303	282
Profit after financial items, SEK million	185	200	182
Profit for the year, SEK million	141	152	133
Cash flow from operating activities, SEK million	123	310	137
Direct investments, SEK million	108	103	109
Net borrowings, SEK million	211	154	282
Shareholders' equity, SEK million	972	915	850
Equity/assets ratio, %	51	52	47
Earnings per share before conversion and utilisation of warrants, SEK	6.73	7.23	6.32
Earnings per share after conversion and utilisation of warrants, SEK	6.58	7.16	6.27
Equity per share before conversion and utilisation of warrants, SEK	46.30	43.59	40.46
Dividend per share, SEK	3.50 ⁽¹⁾	3.50	3.50
Return on shareholders' equity, %	15	17	16
Return on net operating assets, %	16	17	16
Average no. of employees	757	754	751

¹⁾ Proposed dividend. Definitions, see page 67. Annual General Meeting, see page 74.



Karlshamns in 60 seconds

- Karlshamns is one of the world's leading manufacturers of **high value-added speciality vegetable oils and fats**.
- **Karlshamns' products** have a large number of application areas and are sold to customers in a wide range of industries. The majority, however, operate in the food, chocolate, cosmetic, animal feed and technical industries.
- The Karlshamns Group is **organised in three business areas**: Oils & Fats, Technical Products and Feed Materials. All three business areas base their operations on the concept of the eco-cycle, with by-products being recycled, processed and marketed as end products in their own right.
- **Oils & Fats** manufactures and sells speciality fats to the food, chocolate and confectionery industries, as well as to customers in the cosmetics and pharmaceutical segments.
- **Technical Products** processes and markets products destined mainly for technical applications.
- **Feed Materials** processes and markets vegetable proteins and fat raw materials for the animal feed industry.
- Karlshamns is **on the forefront of research into the fat molecule**. R&D operations are carried out in close cooperation with customers, national and global authorities, research institutes, universities and colleges.
- **Karlshamns' headquarters** and largest production facility are located in Karlshamn, Sweden. The Group's other two production plants are in Hull (the United Kingdom) and in Zaandijk (the Netherlands). The Group's average number of employees in 2003 was 757, of whom 623 are in Sweden.
- The Karlshamns share has been **listed on the Stockholm Stock Exchange** since 1997. Among the major shareholders are Melker Schörling AB, Lantmännen Invest AB and AMF. In 2003, Karlshamns' total sales amounted to SEK 3,317 million.



Business concept, goals and strategy

Business concept

It is Karlshamns' ambition to achieve leading global positions in defined niche areas based on our specialist know-how of oils and fats.

We also aim for a development of new business areas related to this unique expertise. Innovation, customer-orientation and high overall efficiency are our critical success factors.

Goals

Karlshamns' growth rate shall surpass that of market in targeted segments. In parallel with this, the company is also striving to achieve a strong cash flow and a steadily increasing return on net operating assets.

Strategy

Karlshamns' primary success factors are innovation excellence, close customer relations, high productivity and committed employees. The Group's global strategy may be summarised in the following way:

■ A growing share of high value-added products

Extensive research into vegetable oils and fats will increase the proportion of high value-added products in Karlshamns product range.

■ Continued globalisation

Today, Karlshamns is the market leader in the Nordic and Central European markets for vegetable speciality fats. Our goal is not only to increase our share of the markets in which we currently operate, but also to identify new growth markets – global and regional.

■ Focus on key accounts and selected markets

Karlshamns' sales and marketing operations focus on identified key customers who operate in selected markets.

■ Larger individual responsibility

A prerequisite of continued, profitable growth is a committed staff who take active part in Karlshamns' development. Important cornerstones of our strategy are thus to develop our skills and to extend our individual areas of responsibility.

■ Continuous environmental improvement

Karlshamns pursues continuous development to minimise the Group's environmental impact. In addition to environmental concerns, these endeavours also offer financial benefits, as considerable savings may be achieved by a more efficient utilisation of our resources.

To Karlshamns shareholders

The year 2003 was characterised by heavy pressure on marginal contributions, but also by rapid strategic and organisational development throughout the Karlshamns Group. The relocation to Finland of Carlshamn Mejeri (one of our largest customers), high energy costs and unfavourable developments on the currency market affected profits negatively; the total effect amounting to around SEK 90 million. Thanks to productivity improvements worth SEK 45 million and new business opportunities worth SEK 30 million, some of these damaging influences were offset, and Karlshamns achieved a profit of SEK 185 million (200) after financial items.

Return on equity was 15 percent (17), with an equity/asset ratio of 51 percent (52).

The year 2003 clearly indicates that the organisation we implemented and the strategic decisions made two years ago were indeed the right ones. All of our business units have consolidated their market positions in slackening business conditions. At the same time, competition has grown even keener and is putting heavy pressure on marginal contributions. This has particularly affected the lower value-added oils and fats for food applications. In the past few years alone, Karlshamns has lost some SEK 125 million on shrinking margins. Prospects for continued growth based on vegetable raw materials nevertheless remain very bright in all business areas.

Oils & Fats

Toughening competition has been countered with productivity improvements and healthy growth in all prioritised areas. The segment Chocolate & Confectionery Fats continues to make headway despite the delayed implementation of the so-called five-percent rule, the purpose of which is to allow five percent of cocoa butter to be replaced by vegetable alternatives – with the end product still marketable as chocolate. In 2003 we also launched a low-trans CBR (Cocoa Butter Replacer) that gained strong market interest.

The product area “dairy fat alternatives for food products” is showing strong growth, and Karlshamns has consolidated its leading market position even further. Our product Akocheese was short-listed for the “Most Innovative Food Ingredient” award at Food Ingredients Europe (FIE), as a result of which Akocheese is now being tested by the European dairy industry. The priority given to bakery fats is achieving promising results as well.

The popularity of vegetable fats in the cosmetic industry continues to flourish, and a number of new products were launched in 2003. All in all, our R&D-powered growth strategy is beginning to pay off.

Technical Products

In a softening market, Tefac continues to strengthen

its position in the fatty acids segment, mainly in the detergent and paper industries. Cost-efficient investments to expand production capacity and proactive customer service have been vital success factors.

Through its acquisitions of the technical oils operations of Aarhus United and Raisio Chemicals, Binol has secured a leading position on the global market for vegetable oils tailored for the metalworking, forestry and construction segments. Strategic alliances with Shell and Quaker Chemical have enabled a more effective approach to working with this global market. Both Tefac and Binol are maintaining their positive profit development.

Feed Materials

The demand for vegetable feed raw materials continues to grow, with the Nordic market remaining Karlshamns’ centre of attention. A major investment in larger production capacity went on stream in 2003, the full effects of which will be seen in 2004.

The future

Karlshamns is now well positioned to capitalise on any growth potentials based on the advantages of vegetable raw materials. A sharper focus on health aspects is creating new openings for cost-efficient vegetable alternatives in the food industry. Market trends for vegetable feed materials and the use of vegetable oils as an eco-friendly alternative in the metalworking and forestry industries are strongly favourable as well. The increasing demand for low-trans or non-trans fats is providing new business opportunities in a highly competitive market situation.

Karlshamns’ development process has been far-reaching indeed. We have invested in our human resources in the form of targeted training courses on all levels throughout the Group; and we have established a market-driven and profit-oriented organisation.

All things considered, those years of dedicated development work have now laid a solid foundation for profitable growth in all business areas. Our strategy is the right one. Our priority on R&D and marketing activities in a generally slow market has created the very best conditions for a stronger Karlshamns.

Operationally as well as organisationally, our company is now advancing in the right direction. This gives me strong faith in the future, and in our goal of strong, sustainable value growth.

Karlshamn, March 2004



Jerker Hartwall
President and CEO





Karlshamns' customer offer



Specialist know-how

Karlshamns' operations are characterised by the concept of the eco-cycle. Throughout the process – from raw material to value-added product – Karlshamns makes good use of the by-products of purification, extraction and splitting. When oil is extracted from rapeseed, for example, one by-product is rapeseed meal, which is further processed into animal feed. From rapeseed, palm, soybean and coconut oils etc, we obtain not only the lower value-added standard fats used in Karlshamns' fundamental product range, but also high value-added speciality fats that are tailored to individual customer demands. All of this is based on the specialist know-how that is the hallmark of Karlshamns.

Products

Karlshamns offers its customers vegetable oils and fats of varying specialisation. Vegetable fats from Karlshamns satisfy the market's ever-growing demand for products based on natural raw materials. Our ambition is to diversify in the area of high value-added products, i.e. products with a higher degree of specialisation. Advanced oils and fats often contribute that little extra to the end product; be it a certain functionality or a specific texture. The development of such products requires considerable experience, and entrance barriers are often very high.

Customers

Karlshamns customers operate in a large number of very different areas. For Oils & Fats, which is Karlshamns' largest business area, customers are found among some of the world's principal food, chocolate and cosmetic manufacturers, who place high and specific demands on new, innovative products and solutions. The products supplied by Oils & Fats are those with the highest added value. In the business area Technical Products, the majority of customers are found in the chemical, metalworking, forestry and construction industries, whereas Feed Materials supplies most of its products to the Swedish feed industry.

Karlshamns' competitive edge

Expertise in oils and fats

- On the basis of far-reaching experience and specialist know-how about the properties of fat – such as its structure, texture, functions and crystallisation rate – Karlshamns continuously develops new products to satisfy customer demands in the best way possible.
- Karlshamns pursues research focused on high value-added products in cooperation with leading researchers in Sweden, the United States and the United Kingdom.

As a result, our products are always developed in accordance with state-of-the-art R&D methods.

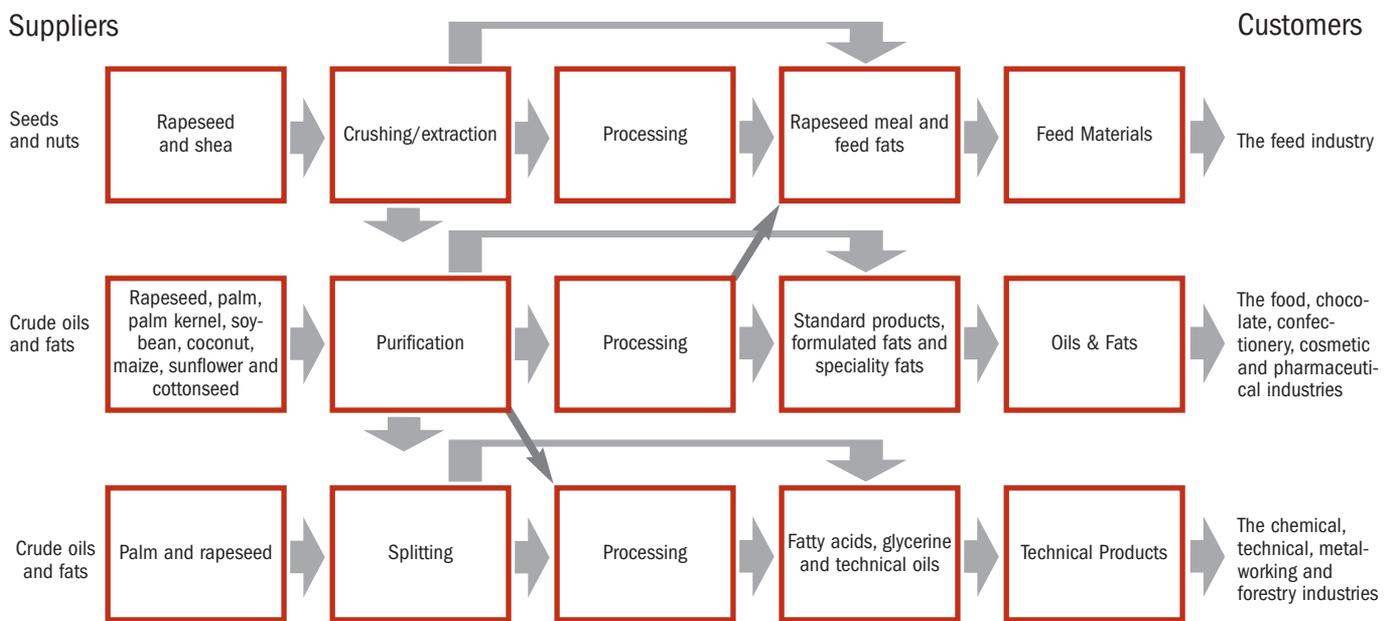
- Karlshamns provides training courses for customers within the framework of the Oils & Fats Academy.

A safe choice

- Karlshamns' trademark is high-quality vegetable oils and fats. To assure this quality level, all products are subjected to comprehensive quality control through all



Karlshamns' value chain



phases of the production process. Food safety is becoming an increasingly important factor in product branding.

- Karlshamns has a comprehensive programme for product safety, all the way from raw material to the finished product.

- The fact that we cooperate exclusively with selected suppliers vouches for safe deliveries – in production and distribution alike.

Cost efficiency in both products and production

- Karlshamns' products are generally lower priced than their alternatives, as the former often replace cocoa butter. At the same time, flexible delivery solutions facilitate cost-cutting in the customer's own production process.

- In many cases, Karlshamns' products also offer superior shelf-life, heat resistance and storage stability.

Close cooperation with customers and partners

- Karlshamns cooperates closely with customers as well as partners. Such relationships provide experiences from, and knowledge of, customer applications and market trends.

- Close relations with customers and partners also make it possible for Karlshamns to tailor product solutions to individual needs. Certain products are specifically commissioned by our customers.

Karlshamns – you meet us daily

Barbecue oil

In barbecue oil, the primary role of fat is as a carrier of flavour.

Cosmetics and skin cream

In cosmetics and skin cream, fat provides the right texture. It also has a beneficial, softening effect on human skin.

Newsprint

In the production of newsprint, fatty acid products are used to improve printing properties.

Bread

Fat is added to the dough to provide structure and form.

Pastries

As in bread, fat is used mainly to provide structure and texture.

Chocolate

In chocolate, other vegetable fats often replace cocoa butter. The composition of the fat is of vital importance for the texture and melting profile of the chocolate.

Candles

Candles made from stearin have superior burning properties. Pure stearin consists of fatty acids.

Oil for power saws

In technical oils, such as oil used in power saws, fat is a vital component thanks to its natural lubricating properties.

Wellingtons

In Wellingtons, fatty acids are used to make the rubber softer and more pliable.





Potato crisps

Fat is important for heat transfer in the production of crisps. Fat also ensures crisps that are crispy – not dry.

Muesli

In muesli products, fat has the role of stabilising agent, providing the right texture and structure.

Porridge

In porridge, fat mainly functions as a source of energy while also adding essential fatty acids.

Sandwich spreads

In most kinds of sandwich spreads, fat acts as a binding agent and gives the end product its creamy texture.

Cheese

In cheese, fat provides the right texture, softness and creaminess.

Table margarine

When used in table margarine, fat mainly functions as a viscosity agent, giving the margarine its soft, “spreadable” texture.

Detergents and fabric softeners

In detergents and fabric softeners, fat is used as a softening agent. Fat-based surfactants are used to dissolve dirt.

Karlshamns utilises its knowledge of vegetable oils and fats and their composition to tailor solutions for a wide range of products and applications. Speciality fats from Karlshamns are used as important ingredients in a vast number of products: from foods and cosmetics to animal feed and advanced technical oils. Among other things, fats contribute flavour, texture and structure.



Oils & Fats

Oils & Fats is Karlshamns' largest business area and comprises three separate business sectors: Chocolate & Confectionery Fats, Edible Oils and Lipids for Care. Each sector has its own specified profit responsibility, as well as its own goal to develop, manufacture and market its respective products to customers all over the world.

Karlshamns' operations are based on the company's extensive know-how about the fat molecule. This expertise makes it possible for Karlshamns to supply a wide range of products that fulfil customer demands for quality, reliability and safety.

Karlshamns strives for creativeness and innovativeness, the result of which should be continuous and successful product development. We also put our know-how to good use in the form of customer support. In close cooperation with our customers, we tailor products and solutions to suit individual needs and requirements.

The vegetable oils and fats products supplied by the three business sectors of Oils & Fats range from the highest value-added products to standard products.

In 2003, Oils & Fats accounted for 72 percent of the Group's total sales and 68 percent of operating profit.

Towards fats with greater added value

A growing share of Karlshamns' product range consists of high value-added speciality fats.

The products supplied by Lipids for Care are speciality products for the cosmetic and pharmaceutical industries. Most of the products from the business sector Chocolate & Confectionery Fats are based on advanced speciality fats, whereas Edible Oils supplies speciality fats, formulated fats, as well as standard products.

Wide range of raw materials

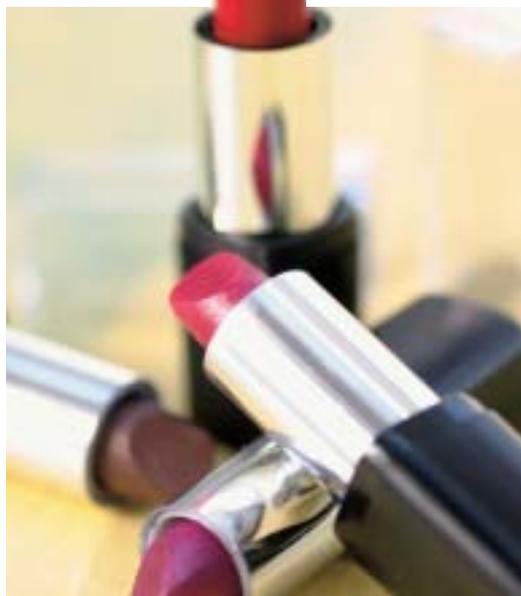
An attractive range of speciality products requires access to a large base of close to 50 different raw materials and grades. These include exotic raw materials not available on commodity exchanges or similar market places.

Continuous demands for upgraded products also require considerable resources allocated to research and development. Due to the entrance barriers in the form of expertise and resources, there are considerably fewer competitors in the speciality fats market than in Karlshamns' other product segments. However, satisfactory profitability in this segment also requires higher processing margins due to the higher costs of the wide diversity of raw materials, more advanced production processes and considerable R&D resources.

Market and sales volumes

The world market for vegetable edible fats is growing by some 3 – 4 percent each year and was estimated at slightly more than 90 million tonnes in 2003. The Western European market has an annual growth rate of around 2 percent.

The business sector Chocolate & Confectionery Fats achieved a sales volume of 77,000 tonnes in 2003 (76,000). Pressure on marginal contributions remains fierce, but volumes increased somewhat over the preceding year. The largest volume growth was achieved in Eastern and Western Europe. Interest in speciality



products, CBE, has been generally strong although the implementation of the five-percent rule has taken longer than expected.

Sales in the business sector Edible Oils were 200,000 tonnes (205,000), with a growing proportion of higher value-added products and a corresponding decrease in standard product volumes. Total volumes were somewhat lower than in 2002. Adjusted for the volume loss caused by Carlshamn Mejeri, volumes grew by approximately 8 percent. Higher value-added products are continuing to develop well, particularly in the bakery, food service and dairy segments. The largest volume growth was achieved in the Nordic countries and in Central Europe.

Sales in the Lipids for Care sector totalled 3,000 tonnes. The cosmetic industry's interest in vegetable products remains strong. The proportion of advanced speciality products is growing, with positive effects on marginal contributions. The largest volume growth was achieved in Western Europe and in the US.

Production

The Group's production in the business area Oils & Fats takes place at three different plants, located in Karlshamn (Sweden), Hull (the United Kingdom) and Zaandijk (the Netherlands). The largest production unit is in Karlshamn, with a nominal capacity of 300,000 tonnes per annum. The production units in the Netherlands and the UK each have an annual capacity of 70,000 tonnes. All of the Group's production plants are quality certified according to ISO 9001 and are generally characterised by a high degree of flexibility – a prerequisite for the wide range of products demanded in the product segment Speciality Fats.

Oils & Fats in 2003

Throughout 2003, Oils & Fats operated in a business situation characterised by growing competitiveness. The effects, however, were successfully countered by continued productivity improvements and volume growth in the Speciality Fats segment. All in all, operating profit decreased by SEK 12 million to SEK 134 million.

Successful R&D projects resulted in the launch of several new products in all product segments. In the sector Edible Oils, Karlshamns' vegetable fat for hard cheeses attracted considerable attention when short-listed for the "Most innovative food ingredient" award at the Food Ingredients Europe fair. New products with low contents of trans-fatty acids were launched by Chocolate & Confectionery Fats, and several innovative products in the cosmetic and skin care segments were introduced by Lipids for Care.

Fat – a vital component

Fat contains essential fatty acids that are vital for many of our bodily functions. These fatty acids cannot be produced by the human body, which means that we need food containing these vital components. Essential fatty acids are transformed into signal substances similar to hormones, and control vital processes in our cells. They function as building-blocks in our cell membranes, and they are of decisive importance for our brain functions as well as for our eyesight.

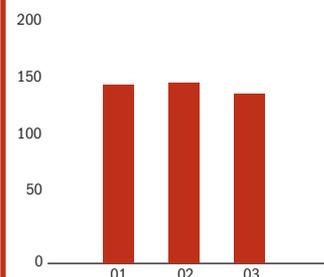
Vegetable oils are also an important source of fat-soluble vitamins (A, D, E, K), equally necessary for a number of vital bodily functions.

Oils & Fats

	2003	2002	2001
Net sales, SEK m	2,397	2,394	2,179
Gross contribution, SEK m	666	694	651
Operating profit, SEK m	134	146	143
Net operating assets, SEK m	997	958	994
Return on net operating assets, %	13	14	16
Average no. of employees	612	617	615
Volumes, 000 tonnes			
Edible Oils	200	205	208
Chocolate & Confectionery Fats	77	77	75
Lipids for Care	3	3	2
Total	280	285	285

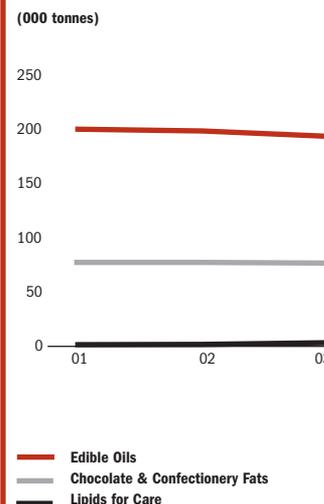
Oils & Fats is a full-range supplier to the food industry. The business area is divided into three business sectors: Chocolate & Confectionery Fats, Edible Oils and Lipids for Care.

Operating profit (SEK m)



Operating profit decreased by SEK 12 million from 2002, to SEK 134 million.

Volume development





Chocolate & Confectionery Fats

In 2003, Karlshamns launched the first CBR of its kind – a unique combination of sensory properties and a low content of trans-fatty acids. The product is a further development of Karlshamns' existing range of chocolate coatings, all of which are cost-efficient and user-friendly alternatives to cocoa butter.

The business sector Chocolate & Confectionery Fats handles an ample range of vegetable alternatives to cocoa butter, so-called CBA (Cocoa Butter Alternatives). On the basis of Karlshamns' extensive expertise in the area of oils and fats, new products are continuously being developed to satisfy market trends and customer demands. Interest in products with a low content of fatty acids continued to grow throughout 2003, and was further fuelled by public debates. This makes it all the more gratifying for Karlshamns to be the first supplier to offer an entirely new type of low-trans CBR.

High quality and attractive price

Cocoa butter is traditionally the main fat used in chocolate production. Milk chocolate contains varying amounts of milk fat as well. Cocoa butter is a relatively expensive raw material, however, and prices fluctuate heavily.

Karlshamns has developed several vegetable alternatives to cocoa butter, so-called CBA (Cocoa Butter Alternatives). These fats include CBE (Cocoa Butter Equivalents), CBR (Cocoa Butter Replacers) and CBS (Cocoa Butter Substitutes). When substituting these products for cocoa butter – partly or completely – chocolate manufacturers achieve not only financial advantages but also a more efficient production process. There are several technical advantages to be gained by replacing part or all of the cocoa butter, mainly in the areas of shelf life, heat resistance and storage stability. Unlike cocoa butter, neither CBS nor CBR fats require tempering in chocolate production, which makes the production process both simpler and safer for the chocolate manufacturer. In addition to their non-tempering properties, CBS and CBR fats offer the considerable advantage of being based on significantly cheaper raw materials than cocoa butter.

Pressure on prices

Competition on this market is growing keener, with excess capacity among suppliers of chocolate and confectionery fats putting pressure on prices. As a consequence, the influence of cocoa prices on the pricing of Karlshamns' products has been reduced.

New EU regulations allow the chocolate industry the use of up to five percent vegetable fat in products marketed as chocolate on the EU market. The regulations came into force in August 2003 and are considered favourable for CBE producers; the growth potential in the CBE market is estimated at 25,000 – 50,000 tonnes. The five-percent rule is expected to generate increasing CBE volumes in 2005/2006.

Cost-efficient and simplified production

Vegetable fats are important ingredients in many kinds of chocolate and confectionery fillings. The properties of a filling fat are of decisive importance for the end-product's taste, flavour release and shelf life. Karlshamns has gathered its premium filling fats under the product names Akomic and Akocent. All of these products are characterised by excellent melt-off, a vital quality that enables a filling fat to melt completely in the mouth without any "fatty" sensation whatsoever.

Cocoa butter replacers are made from readily available raw materials such as palm oil, soybean oil and rapeseed oil. This applies to traditional CBR as well as Karlshamns' new low-trans products: the Akopol LT15 series. Even though CBR require an advanced process to maintain their characteristic properties, they are considerably lower priced than both cocoa butter and CBE. This provides good opportunities for the chocolate producer to optimise cost efficiency.

Karlshamns' new CBR products have a strong crystallisation pattern that tolerates a wide range of cooling conditions and temperature profiles. This gives our range of chocolate coating fats properties that ensure high functionality in large-scale industrial production as well



as in smaller bakeries where coated cookies and biscuits are manufactured on a much smaller scale.

Market and competitors

The global market for chocolate and confectionery products is estimated at 5.6 million tonnes, with an annual expected growth of 2–3 percent. The largest customer group consists of six multinational chocolate and confectionery manufacturers that account for some 60 percent of total world production.

In 2003, Europe experienced a very hot summer, which put a damper on demand for chocolate products. There is thus a trend towards a slower growth rate. On the other hand, Karlshamns is noting a growing demand for speciality products such as fats with little or no trans-fatty acids. Karlshamns has spent quite a few years developing its sophisticated techniques – which today provide a clear competitive edge in the market for advanced speciality fats.

In business sector Chocolate & Confectionery Fats, Karlshamns competes on the global market and thus supplies its customers from all three production units. The main competitors are Aarhus United (formerly Aarhus Olie), Fuji Oils and Loders Croklaan.

The future

For the next few years, Karlshamns has adopted quite an aggressive strategy for Chocolate & Confectionery Fats. Sales as well as product development are to focus on high-quality chocolate fats (fractionated CBA) and premium filling fats. The goal for this business sector is to further consolidate its market-leading position while also achieving global growth, with continued priority on selected geographic markets and key accounts.



Edible Oils

The proportion of speciality products keeps growing in the business sector Edible Oils, whereas standard product volumes are decreasing. Edible Oils is responsible for Karlshamns' customers in the food industry, with the exception of chocolate and confectionery manufacturers.

Edible Oils handles a comprehensive range of products, from cooking and margarine oils to advanced, functional ingredients. Karlshamns offers a wide enough product range to satisfy every conceivable demand in this segment, thereby making the Group one of the market's most comprehensive suppliers of oils and fats.

In 2003, Edible Oils suffered the effects of the relocation of Carlshamn Mejeri, mainly in the form of decreasing volumes – a total drop of some 10 percent. Several new customers were gained, however, and in combination with the acquisition of Industrial Margarine (formerly a division of Carlshamn Mejeri), this loss was all but compensated for by year end. The sector's operating profit finished on a level with 2002.

A change in the boundaries between product segments has been implemented, to the effect that Edge Products is no longer a separate speciality products segment but part of Formulated Fats. No alterations have been made to Volume Products or Dairy Fat Alternatives.

Formulated Fats – value-added products, or products that have been processed to a more specialised level to give customers added value in the form of specific functional properties.

Dairy Fat Alternatives (DFA) – vegetable fats for dairy applications.

Volume Products – products sold in large volumes for applications like cooking oil, margarine or deep-frying.

Competitors

Karlshamns' main competitors in the Edible Oils segment are Aarhus United, ADM and Cargill. In 2003, ADM acquired a UK-based refinery from Van den Bergh.

The future

The three-year goal set for Edible Oils is to consolidate its already strong market position, to increase its sales volumes and to pursue its development towards increased specialisation and higher value-added products. The target is to be met through increased focus on service and quality in combination with strong growth throughout Europe. An important tool will be competitive application solutions which add value to the end products of Karlshamns' customers.

Formulated Fats

The product segment Formulated Fats was established in 2003, its purpose being to prioritise value-added products in a number of selected application areas. Products formerly classified as Edge Products are now marketed under Formulated Fats.

Formulated Fats are products that provide the customer with some kind of added value, often in the form of a certain function. Another characteristic of these products is their more complicated production process. They also require very specific technical know-how, which in itself raises entrance barriers for competitors.

Formulated fats are used by the food industry as ingredients in a wide range of applications: bakery products, infant formulas, convenience foods etc.

Market

The primary market for this product group is Europe, although certain products have customers all over the world.



Growing interest in nutritional products and food safety

Consumers are displaying an ever-growing interest in health aspects, and many of them are concerned about what to eat and what to avoid. Among Karlshamns' customers, food safety is certainly high on the list of priorities. Customers want to be sure that raw materials are carefully enough controlled to assure optimum quality in the finished product, and their demand for safe ingredients is closely linked to the profiling of their own brand names.

Karlshamns is on the forefront in the area of food safety, with its stringent control through all production and handling processes.

The infant food industry is one good example of a segment with very high demands on raw materials and suppliers. Karlshamns has been a solidly established supplier to this segment for quite some years now.

Liquid margarine – a growing product segment

Liquid margarine is definitely a product that provides customers with added value. Thanks to Karlshamns' new product Akoflow, the food industry may now manufacture liquid margarine and butter blends without any investment whatsoever in expensive process equipment. Liquid margarine is a user-friendly alternative to the traditional solid varieties on the dairy shelves, and the only product group in the edible oils segment that is growing.

Cost-efficient solutions

Pressure on prices is strong throughout the food industry, the result being continuous pressure on Karlshamns' customers to improve their cost efficiency. One way for Karlshamns to contribute to a more cost-efficient production process is to offer pumpable fats and margarines. Pumpable systems are those for which Karlshamns supplies bakery fats in bulk, tanker or container. On arrival, the bakery fat is tempered, to make it easy to pump straight into the process without any further handling. Productivity increases, and the customer is supported to achieve better competitiveness.

Food Service – a growing market

Karlshamns notes a growing interest in products addressing catering and larger-scale restaurant operations, such as liquid margarine and other speciality products. There is a trend towards an increasing number of meals consumed outside the home, which stimulates demand from the catering industry for such products.

Karlshamns pursues continuous development projects to launch new products in this sector.

Dairy Fat Alternatives

Dairy Fat Alternatives are vegetable fats developed to replace milk fats. These products are mainly used by the dairy industry and by ice-cream manufacturers. The main sales argument is lower costs, but vegetable fats may also deliver positive health effects and new functions. Most of Karlshamns' DFA products are based on fats specifically developed to produce a certain functionality in the end products.

The combination of highly efficient products, superior taste quality and, in particular, extensive know-how about customer applications will put Karlshamns in a position to offer its customers the most cost-efficient solution for dairy products.

Akocheese – short-listed for “Most Innovative Food Ingredient”

In 2003, Karlshamns' product Akocheese was short-listed for the “Most Innovative Food Ingredient” award at the Food Ingredients Europe fair. Such a nomination is a confirmation of Karlshamns' innovative and ground-breaking product development. The main edge of Akocheese over conventional vegetable fats is its contribution to flavour development during the ripening process.

Market

The primary market for Dairy Fat Alternatives is Europe, as transportation costs are an important competitive factor. Individual market potentials depend on price, current supply of milk and milk fats and national legislation as to ingredients allowed in dairy products.

Volume products

The product segment Volume Products handles ingredients used in the production of margarine, mayonnaise, dressings and deep-frying fats. Volume-wise, fats for the margarine industry constitute Karlshamns' largest segment. The consumer market for margarine is steadily decreasing, but the growing interest in more advanced products, in particular non-trans varieties, offers ample possibilities to compensate for declining sales of traditional margarine fats.

Market

For Volume Products the primary competitive weapons are price, on-time deliveries and consistently high product quality. The market was characterised by continued pressure on prices throughout 2003, mainly due to surplus capacity and price competition in the food industry.



Lipids for Care

The Lipids for Care product range is based mainly on advanced speciality fats, the primary customer segment being the cosmetic industry. In 2003 the organisation was reinforced on both the technical and the sales sides.

The business sector Lipids for Care was formed in 2000 to strengthen Karlshamns' focus on the future growth areas identified within cosmetics and clinical nutrition. It has made continuous progress ever since, largely thanks to the market's ever-growing interest in, and demand for, cosmetics and skin-care products based on vegetable raw materials.

Lipids for Care is quite a unique venture for an oils and fats supplier like Karlshamns, as most competitors are found in the chemical industry. Karlshamns' major competitive advantage is its extensive lipid know-how, for which new application areas are continuously being identified. Lipids for Care is now gradually establishing itself as the leading lipid specialist among suppliers to the cosmetic industry.

A never-ending consumer demand for cosmetic and skin-care products with new functions ensures an insatiable need for new ingredients and novel formulations in the cosmetic industry. To better satisfy these needs, Karlshamns added extra muscle to its sales and development departments in 2003, and also invested in a cosmetic laboratory inaugurated in September.

Safe products with high functionality

Important characteristics of the products developed by Lipids for Care are their advantage of being neutral, natural, non-toxic and non-irritant. Other important properties are their inertness to active components and their biodegradability, both of which make vegetable oils and speciality fats safe and reliable ingredients in cosmetic products and clinical nutrition.

Karlshamns' vegetable products add unique functions to skin and hair care products, make-up and various toiletries for cleansing, showering and bathing. Such products not only soften the skin, but also restore its natural moisture balance. Karlshamns' lipid systems for cosmetic applications have direct effects on skin structure as well

as a balancing influence on skin cells. To maintain the natural freshness of the skin, certain oils and fats have been developed to contribute several biologically active substances. These systems are used in highly advanced cosmetics and skin-care products, some of which provide a barrier to pollution or act as a sun screen, whereas others soothe irritated skin or supply the skin with essential fatty acids.

Advanced speciality fats in market-leading cosmetics

Karlshamns has developed a number of systems based on high value-added vegetable oils and fats that are used as ingredients in market-leading cosmetic products for skin and hair care as well as in branded make-up products and toiletries. Products derived from shea butter are among Karlshamns' flagships, and the Group has established an entire family of products based on shea: the Shea Butter Family. Products based on shea butter are not only blessed with softening and caring properties, but also have anti-inflammatory effects. The Shea Butter products contain everything from pure shea nut oil to a super-concentrate (Lipex™ Shea-U) manufactured in a patented process. There are also water-dispersible products developed specifically for use in hair care and shower products.

Akorex L and Lipex™ Canola-U (the latter a patented product) are two unique oils based on rapeseed oil, tailored for cosmetic applications. Both products have documented healing and anti-inflammatory effects on irritated skin. Karlshamns' product range for the cosmetic industry is marketed under the brand Lipex™.

Focus on product development

In 2003, Karlshamns reinforced the Lipids for Care organisation in preparation for future growth. With stronger technical and sales departments in combination with the new cosmetic laboratory, Karlshamns is now well equipped for new product development and tailor-made customer solutions.

To be able to provide products that fulfil the promised functionality, extensive and stringent tests are performed on laboratory scale to measure and evaluate every function.

Several new products were developed and launched in 2003, one of the most important being Lipex™ L'sens. This vegetable alternative to lanolin (fat from sheep's wool) was launched at the In-Cosmetics fair in Paris in the spring of 2003. Lanolin is currently used in most cosmetic products: from lipsticks to make-up, from hair to skin-care products. Based on soybean oil and shea butter, Lipex™ L'sens has a semi-solid and very smooth texture. The product has properties very similar to lanolin in terms of structure, gloss, protective and moisturising capacity. As to water-absorption, Lipex™ L'sens is twice as effective as lanolin.

Another example of novel products is Lipex™ Soya Max, a natural alternative to mineral oil, characterised by its clarity, liquidity and superior stability in combination with caring and protective properties. Lipex™ Soya Max is thus a safe ingredient for even the most sensitive skin types.

A new member of the Shea Family is the crystallisation-stable Lipex™ Shea. Its unique composition gives it flexibility for use in all types of skin-care and make-up products.

Yet another newcomer on the market is Lipex™ Sheasoft, a Shea Family member developed for use in so-called body butters. These are products very rich in fat, which means extra high demands on the functionality of the fat used. Lipex™ Sheasoft fulfils these high requirements by giving the end product a soft and smooth texture along with superior heat stability and long shelf-life.

Market and competitors

The cosmetic market, and in particular the segment for body-care products, is growing by around four percent each year. The growth rate is even higher in the segment for cosmetics and skin-care products based on active components, as demand for documented functionality keeps growing. Such products are, for example, anti-ageing products, soothing products for sensitive skin or products containing other active ingredients that contribute to a smooth and healthy skin.

Karlshamns' competitors on the cosmetic and pharmaceutical markets differ considerably from those in the food industry. The main competitors of Lipids for Care are large, global chemical groups such as Cognis, Croda and Uniqema. Karlshamns has a competitive advantage, however, in its specialist know-how about fat technology.

In 2003, Lipids for Care signed three new distribution agreements: for the Chinese, Russian and South Korean markets.

The future

The target set for Lipids for Care is to surpass the growth rate of its main markets. This is to be achieved through focus on key customers and selected geographic markets, closer cooperation with distributors in prioritised countries, and strategic product development to expand the current product range. Karlshamns also strives for continued consolidation of the close cooperation established with key customers, to better respond to each customer's individual needs for tailored product development.



The following characteristics are typical for products marketed by Lipids for Care:

- natural raw materials
- vegetable products
- functionality
- biologically active properties



Technical Products

Operations in Karlshamns second largest business area are conducted by two subsidiaries: Tefac AB and Binol AB. Tefac supplies fatty acids and glycerine, whereas Binol develops, manufactures and markets environmentally adapted technical oils.

Operating profit in the business area Technical Products amounted to SEK 41 million in 2003 (36). Tefac managed to improve its profitability despite heavy pressure on glycerine prices towards the end of the year, mainly thanks to higher production capacity and a more efficient cost structure. Binol also improved over last year, primarily a consequence of an adjustment of operating expenditures.

Tefac

Tefac produces and markets fatty acids and glycerine. Both products are obtained from the splitting of the fat molecule and are used in a wide range of application areas. Fatty acids are mainly used as a raw material in the chemical industry. After processing into higher value-added products (such as fatty alcohols, amines and esters), fatty acids are used in paper chemicals, soaps, detergents, rubber and plastic. A well-known consumer product consisting entirely of fatty acid is the stearin candle.

Glycerine also has a wide range of application areas: cosmetics and food products, tobacco and paints. Tefac's main customers are in the technical industry.

Market and sales trends in 2003

The growth of the European fatty acids market was estimated to be limited to a few percentage points in 2003. Tefac nevertheless increased its sales volumes by slightly more than 10 percent, primarily among customers producing detergents, fabric softeners and paper chemicals. Detergents and fabric softeners constitute the largest application area for fatty acids in Europe, and these are also Tefac's primary customers. This customer segment is largely unaffected by general business fluctuations, as is the candle industry. Their effect on Tefac's earnings is thus a stabilising one.

Tefac strengthened its market position in several countries outside the Nordic area in 2003. Some 20 percent of Tefac's sales are to the Swedish market; other important markets are Germany, the United Kingdom, Finland and Russia.

Fatty acids accounted for somewhat more than 80 percent of operating income. Prices remained more or less on a level with 2002, but rising energy costs were sufficiently offset by growing volumes and lowered costs for Tefac to achieve a certain margin improvement.

Glycerine prices were subjected to heavy pressure in the latter half of the year, largely a consequence of a decision by the European Union to subsidise biodiesel (crude glycerine being a by-product of biodiesel production). Subsidies have attracted a growing number of market players and production capacity has multiplied, causing the growing supply of crude glycerine to surpass demand and thus pushing prices downwards. Glycerine prices stabilised somewhat towards year end, but are expected to remain on a low level. The European glycerine market is estimated at some 300,000 tonnes per year, of which Tefac's share is approximately 2 percent.



Competitors

The main players on the European fatty acid and glycerine market are Uniqema, Cognis and Oleon. The previous strong trend towards concentration among both producers and consumers is now less noticeable, and the market has stabilised. There are currently some 15 major players in Europe, of which three clearly dominate the market. The number of players in the European glycerine market has increased dramatically after the EU decision to subsidise biodiesel.

The future

Tefac strives for continued expansion of market shares in its largest customer segments, paralleled by corresponding build-ups of production capacity. Focus will remain on northern, central and eastern Europe. Tefac's primary competitive weapons are high efficiency, exceptional flexibility and sufficient capacity even for the largest customer. The strategy to deliver nothing but ingredients or components also means that Tefac, unlike several of its competitors, never competes with its own customers.

Binol

Binol develops, manufactures and markets environmentally friendly technical oils based on renewable, biodegradable vegetable oils – an alternative to petroleum-based oils. The Nordic region is Binol's main market, the largest export markets being the United States, Canada and Germany. On the Nordic market, the company sells Binol-branded products directly to the end user. On all other markets the products are usually sold under private brands, as customers are mainly large international companies in the technical oils and lubricants business.

Focus on the metalworking, forestry and construction industries

Most of Binol's oils are used in the metalworking industry, or as hydraulic oils, band-saw oils and

chainsaw oils in the forestry and construction segments.

The European Union market for environmentally friendly technical oils is expected to grow by 10 – 15 percent in the next few years. A tougher business climate put a damper on the growth rate in 2003, however. Among the strongest competitive weapons of Binol are the positive environmental effects of vegetable technical oils – in and out of doors – along with their excellent technical performance and competitive total cost. When switching to Binol's environmentally friendly technical oils, smaller volumes are needed. This not only reduces overall costs, but also minimises hazardous emissions.

The use of environmentally friendly technical oils (instead of traditional petroleum-based mineral alternatives) strengthens the customer's environmental profile. The use of biodegradable oils is a requirement for several environmental certificates, and environmental considerations are also becoming an increasingly frequent requirement in purchasing negotiations within the European Union.

A global product range

The Nordic market remains Binol's primary target, at the same time as the company's product range is being adapted for the global market to pave the way for continued growth. Such growth is to be achieved partly through a consolidation of Binol's already strong position on the Nordic market, partly through a build-up of sales to large, international companies with their own strong brands and large-scale distribution resources.

Acquisitions and partnerships

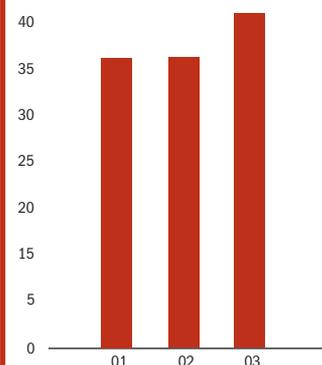
When the technical oils operations of Raisio Chemicals and Aarhus United were acquired in 2003, a significant step was taken towards a stronger Nordic market position. At the same time, these investments consolidate Binol's position as number one on the world market for vegetable technical oils.

Technical Products

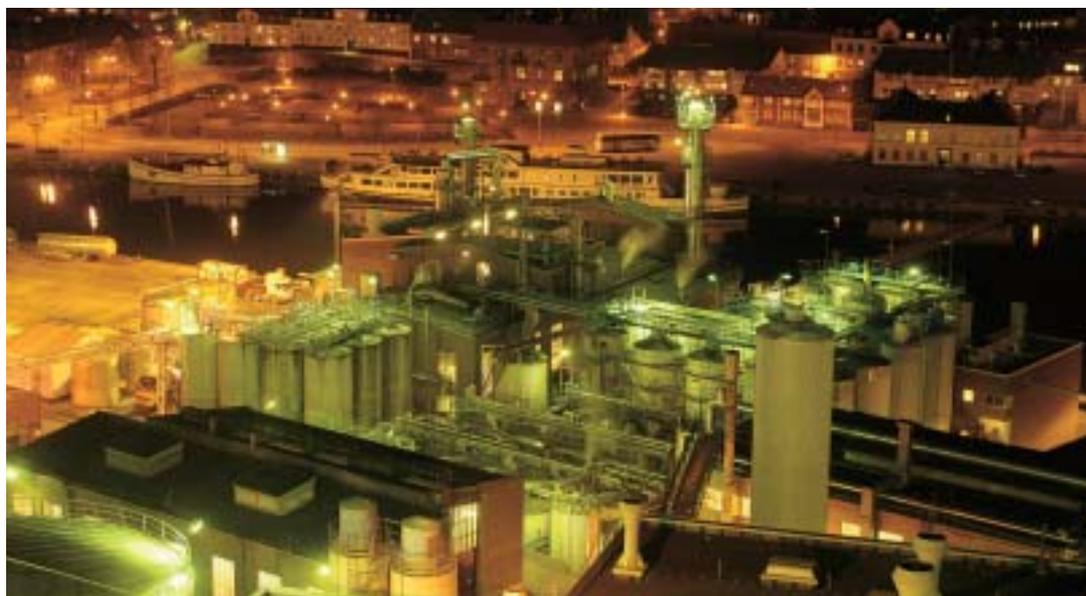
	2003	2002	2001
Net sales, SEK m	501	455	397
Gross contribution, SEK m	160	148	142
Operating profit, SEK m	41	36	36
Net operating assets, SEK m	195	164	133
Return on net operating assets, %	24	25	29
Average no. of employees	94	90	89
Volumes, 000 tonnes			
Fatty acids	57	52	48
Glycerine	6	6	6

Operations in business area Technical Oils are conducted by two profit units: Tefac and Binol.

Operating profit (SEK m)



The Technical Product business area's operating profit amounted to SEK 41 million (36).



The acquired product ranges more or less correspond to Binol's own, plus a certain number of new technologies.

In 2002, Binol signed a cooperation agreement with Shell, giving Shell the right to market Binol's hydraulic oils, chainsaw oils, cutting fluids, mould releasers and sawmill products. This cooperation developed well in 2003, resulting in satisfactory volume growth. Although the agreement is global, focus is on Europe outside the Nordic area.

Binol also built up a European distribution network for band-saw oils which is expected to give full effect in 2004.

Early in 2004, Binol entered into a global strategic alliance with Quaker Chemical, to the effect that Quaker Chemical will handle the global distribution of Binol's vegetable lubricants under the Quaker brand. In the Nordic market Binol will be supplying both product ranges, each under its respective brand name. Customers will profit in the form of a wider product range and stronger resources in the areas of sales and service.

Market and sales trends in 2003

Last year's market was characterised by heavy pressure on prices. The overall Nordic market for metalworking lubricants decreased by around five percent, whereas forestry and construction remained on a level with 2002. Binol's strategic focus on the metalworking segment was successful, however, with a number of new customers gained in the course of the year.

Sales to the forestry and construction segments rose sharply throughout 2003, particularly chainsaw oils (up 20 percent) and band-saw oils (up 25 percent).

Sales to strategic alliance partners strengthened, which in combination with a vigilant eye on operating costs produced a positive effect on profits.

A new cutting fluid launched in 2003 was

favourably received, with sales developing according to plan.

Competitors and strengths

Quite naturally, the acquisition of the technical oils operations of Raisio Chemicals and Aarhus United altered Binol's competitive situation. Among the competitors are also the chemical companies Cognis and Uniqema, although they supply only basic oils and no formulated products. In the forestry and construction segments, Binol has felt growing competition from larger Nordic oil companies such as Statoil and OKQ8.

Binol's competitive strengths differ between the metalworking segment on the one hand, and the forestry and construction segments on the other. In addition to the obvious environmental advantages of its products, Binol's strategy is to offer metalworking customers a full range of technical support along with highly competitive total costs. The strategy addressing customers in the forestry/construction segment is to supply tailored distribution solutions. On the global market, Binol's prime asset is the supply of formulated products that have already been thoroughly tested and used on Binol's own domestic market.

The future

Binol spent 2003 consolidating its position on the technical oils market. The target set for 2004 is to keep growing on the Nordic market, particularly in the metalworking industry. At the same time the distribution network will be further developed through new strategic alliances with international partners. The acquisitions of the technical oil operations of Raisio Chemicals and Aarhus United pave the way for promising development in both of these areas, with synergies to be achieved in product development, logistics as well as in production.

Feed Materials

The business area Feed Materials is responsible for the Group's processing and marketing of vegetable protein and fat raw materials for the animal feed industry. Feed Materials also handles the extraction of vegetable oils from rapeseed and shea nuts. Food safety, high cost efficiency and on-time deliveries are among this business area's primary competitive advantages.



In 2003, Feed Materials accounted for 13 percent of the Group's net sales, and 11 percent of operating profit. Sales are developing satisfactorily, mainly generated by growing volumes. Last year Feed Materials' share of the Nordic market increased to 25 percent for bypass proteins and 40 percent for bypass fats. High energy prices and start-up problems in connection with expanded production facilities, however, had negative effects on profits.

Products

The majority of Karlshamns' feed raw materials are used as ingredients in feed for cattle, swine and poultry. Raw materials are rapeseed, vegetable fats and fatty acids. Crude vegetable oil and a meal rich in proteins are extracted from rapeseed. The rapeseed oil is processed by Karlshamns, while external sales are handled by the business area Oils & Fats. The meal is sold to the animal feed industry. The most important competitive weapons of this business area are cost-efficiency, feed safety and on-time deliveries.

The product range consists of two main product groups: ExPro™ meal and solid or liquid AkoFeed feed fats. These products serve as important protein and fat components in the feed industry's feed mixes. The composition of a feed product has direct and significant effects on the end customer's profitability. A dairy farmer, for example, may suffer price reductions whenever the fat and protein content of his milk falls short of certain levels. Feed products rich in fat and proteins thus have immediate and positive effects on the dairy farmer's bottom line.

Market and sales trends in 2003

The main segments of the animal feed market are feed for cattle, swine and poultry. Cattle feed is the largest segment and accounts for around 50 percent of the aggregate Nordic feed market. The largest share of Feed Materials' sales by far is to customers in Sweden, Norway and Finland, with Svenska

Lantmännen as the single largest customer.

Karlshamns continues to profit from the feed industry's focus on food safety and the growing consumption of vegetable feed materials. Sales in the business area Feed Materials increased by 5 percent in 2003, mainly generated by larger sales volumes of ExPro™ meal and the significant progress achieved by the new product AkoFeed Gigant. Volume growths were made possible by recent investments in a new cooler/dryer facility, which also strengthened Karlshamns' leading position as a supplier of safe feed products.

Competitors

Karlshamns' feed products compete with soybean and rapeseed meal from the production units of ADM and Cargill. Keener competition in Denmark and Germany also made a growing number of Danish and German suppliers approach markets outside their own. Feed Materials enjoys a leading position in the area of food safety, however, which constitutes an important competitive advantage on the Nordic market. For a number of years now, Karlshamns' products have also kept a step ahead of EU legislation, which provides another strong sales argument.

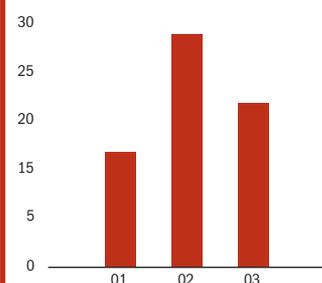
Future

In 2004, Feed Materials is to focus on product development, sales and marketing, with Eastern and Central Europe remaining prioritised areas for future growth. The market provided by the new European Union members will eventually offer promising opportunities once livestock farming adjusts to new levels of efficiency.

Feed Materials

	2003	2002	2001
Net sales, SEK m	419	400	366
Gross contribution, SEK m	118	120	99
Operating profit, SEK m	22	29	17
Net operating assets, SEK m	112	58	137
Return on net operating assets, %	24	28	15
Average no. of employees	51	47	47
Volumes, 000 tonnes			
Feed fats	204	193	180

Operating profit (SEK m)



Operating profit amounted to SEK 22 million in 2003 (29).



Karlshamns' staff

For a company to achieve global leadership it needs committed employees on all levels. Staff members should develop in step with the company; they must be involved in its development and agree with the company's fundamental principles.

Participation and responsibility

One of Karlshamns' fundamental philosophies is that all employees must be given an opportunity to actively participate in the company's development. This requires an open mind and a willingness to take on new responsibilities – from both management and staff.

All through 2003, most of the Group's in-house training activities were based on a programme described as Karlshamns Fundamentals – about personal commitment, about sharing the same values and working together. The agenda included how to take responsibility for Karlshamns' development, how to

strengthen individual commitment and take an even more active part. These are important components of Karlshamns' company culture, which requires a straightforward and open dialogue to make sure that knowledge and information are shared on all organisational levels.

A keen ear for customer demands

For a company to develop in the right direction, it needs staff with a keen ear for, and an absolute understanding of, the demands and wishes of its customers. During 2003, Karlshamns Fundamentals enabled our employees to gain a better understanding of how to work with our customers. Without a keen ear for cus-



tomter demands, product development would decline and the company would fail to reach its goals. The key concepts of the Fundamentals are confidence, respect and consideration.

Clear-cut responsibilities and obvious goals

Organisational structure is of great importance for any company's capacity to make good use of the potentials and competence of its staff. Well-defined areas of responsibility, in combination with individual goals for each department and employee, provide a solid foundation for efficiency and incentive, both of which are vital for the continued commitment of all staff members.

Leadership

Karlshamns continued to prioritise its leadership training throughout 2003. The company's leadership philosophy is based on the capacity to stimulate commitment among the staff, to communicate and explain our goals, and to encourage teamwork and progress.

Last year's training sessions focused on situational adaptability, conflict management and self-examination. All employees also had the opportunity to develop their capacity for trouble-shooting. Solving a problem, no matter when or where it arises, invariably improves efficiency and stimulates our continued development work.

Regular opinion polls

In 2003 Karlshamns undertook a comprehensive opinion poll among its staff for the second year in a row. All employees were thus given the opportunity to voice their opinions on internal communication, cooperation, leadership and development potentials. The poll provides an excellent basis for corrective measures, on a local as well as on a global level.

Last year's poll showed that Karlshamns' employees, in line with the previous year, are highly motivated and strongly committed to their work. A gratifying improvement was also a more positive opinion in the areas of leadership and communication.

Absence due to illness

There was no increase in the number of sick-days among Karlshamns' staff in 2003. The total absence due to illness is already on a low level, but it is Karlshamns' ambition to improve even further in this area. To stimulate greater concern about health and well-being among our employees, a health policy was introduced in 2003.

Recruitment

A considerable number of new employees were recruited in 2002, the result being a limited need for additional employment in 2003. Karlshamns' future expansion will require new resources, however, primarily among staff with university degrees. The company's current age distribution means a limited number of retirements, which further reduces the need for new recruitment.

Christer Persson is a foreman in the department supplying the rest of the company with electricity, steam, water, LPG etc. During 2003 he spent considerable efforts on securing his team's support for Karlshamns Fundamentals. A valuable tool has been the workbook produced specifically for this purpose, containing a number of hands-on exercises.

How did you use the workbook?

We had thorough discussions on the subject of Karlshamns' pyramid, which is closely related to the Fundamentals. We also discussed the various parts of the Fundamentals from the employee's point of view as well as from the company's perspective. We're hoping to get some specific development projects to concentrate on.

What effects did your discussions about the Fundamentals have?

I think my colleagues have a better understanding of the development process Karlshamns is going through. And what's more important, they now understand why it is necessary. They're also much more committed than they used to be. There's lots of enthusiasm, all over the company.

Did you focus on any particular part of Fundamentals?

Yes, we did spend some extra time on competence development and personal goals. Our people were offered various kinds of training courses. Personally, I had very good use of a training session focusing on how to best adapt my leadership skills to different situations.

Jan Holmberg is a machine operator in the same department as Christer. He has noticed obvious results of the discussions around Karlshamns Fundamentals in the form of improved cooperation between different units.

Do you see any difference between the new working methods, and the way it used to be?

I do, yes. The decision-making process has become much more efficient, probably because more responsibility has been delegated to more people. So we've been able to eliminate most of the bottlenecks in the decision-making process.

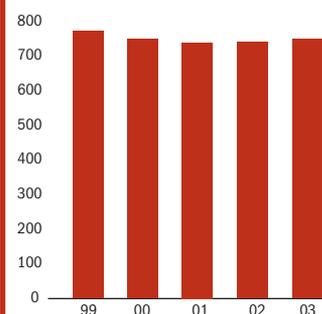
Did your discussions result in any kind of decision about improvements to be made?

We agreed on a number of targets - to reduce the number of non-compliances in the production processes, to improve our follow-up routines and to boost our overall cost-awareness. We'll be having further discussions on how to go about it.

In what ways will you continue to use the workbook?

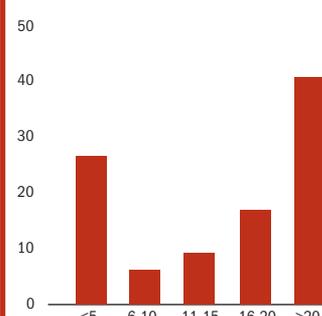
I think the current development will continue. The main thing, however, is to make sure to carry on supporting our fundamental values and principles, and to keep up our present enthusiasm and activity.

Average number of employees



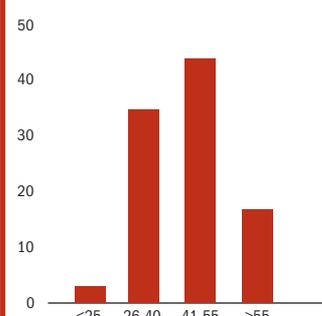
The average number of employees in 2003 was 757.

Length of service



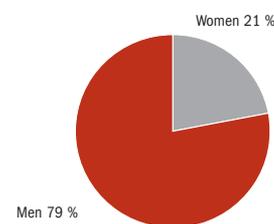
41 percent have more than 20 years' service with the company.

Age distribution



35 percent of employees are between 26 and 40 years old.

Distribution men/women



21 percent of employees are women.



Research and development

Karlshamns' determined research in the direction of specialised, high value-added products resulted in three successful launches in 2003. To provide additional support for future research, a Scientific Board has been established, manned by well-known scientists from Sweden, the United States and the United Kingdom.

The Scientific Board is to reinforce the very foundation of Karlshamns' research, partly by contributing its own ideas and know-how, partly by providing access to its extensive network.

Karlshamns' current R&D activities stem from

many years of hard and dedicated work. The Group's future competitiveness is first and foremost dependent on its capacity to exploit and develop its aggregate knowledge of the fat molecule and its functionality in various customer applications. Most product

development projects are carried out in close cooperation with customers, with a view to strengthening their market position and competitiveness. Over the years, Karlshamns has developed considerable know-how in sensory analysis, for application in almost any product segment. This is indeed a valuable tool in all customer dialogues.

In 2003, Karlshamns' R&D operations contributed to the launch of three high value-added products, all of which aroused strong customer interest:

- A vegetable alternative to lanolin (fat from sheep's wool) in skin-care products
- A low-trans CBR (Cocoa Butter Replacer) for chocolate coatings
- Akocheese, a vegetable fat for cheese production with a number of unique properties

The latter was short-listed for the "Most Innovative Food Ingredient" award at the Food Ingredients Europe fair – a confirmation of Karlshamns' innovative product development.

The aim of all R&D efforts is to optimise the properties and functionality of oils and fats, not only in view of the end product in which the oils and fats will be used, but also to optimise the production process of the end product in question. Generally speaking, Karlshamns concentrates all research and development on the optimisation of three different technological functions, regardless of which application area the product is addressing:

Physical properties – the ability of fat to create the desired structure and texture in the end product.

Biological function – the ability of fat to influence various physiological processes.

Processing aid – the ability of fat to contribute to a more efficient production process.

Physical properties

One of the many functions of Karlshamns' speciality fats is to give food, chocolate and cosmetic products their specific texture and structure. The same goes for clinical nutrition, where lipids often contribute to the desired structure. Giving fats their tailor-made physical properties is the key to the desired texture in the end product. Most of the Group's revenues from Chocolate & Confectionery Fats and Lipids for Care are generated by products carrying vital physical properties. A fundamental understanding and knowledge of the physical chemistry and properties of fats, whether in solid or liquid form, is a prerequisite to the continued, successful development of Karlshamns' speciality fats on the international market.

Biological function

Apart from developing entirely new products, Karlshamns also conducts research to create new speciality fats for the food industry. So far only a minor part of sales is generated by products in which the

biological properties are the dominating factor.

Vegetable oils consist of a large number of different components with properties that might affect various physiological processes – and which may thus have a significant value in matters of health and well-being. These aspects are not only interesting for functional foods, but may also be utilised in ingredients for salves and ointments. It is still too early to say, however, if and when these research findings will be ready for commercialisation. Current R&D projects indicate a number of interesting possibilities for fats containing biologically or physiologically active components.

International cooperation

In addition to their close cooperation with customers, Karlshamns researchers are in regular contact with national and international authorities, research institutes, universities and colleges.

Scientific and technical cooperation projects conducted in collaboration with universities and research institutes are an integral part of Karlshamns' long-term development.

The recently established Scientific Board, which is expanding Karlshamns' international network even further, is generating added value through cooperation with prominent scientists and universities.

The cutting edge of research

Karlshamns' research has gained considerable momentum in the past few years, and it is the Group's assessment that Karlshamns' research and development operations are at the forefront of its industry. The Group is also well prepared to meet any new requirements from national or international authorities with respect to health, safety and environmental issues, both for products and production plants.

As a result of Karlshamns' farsighted strategy, the company is now in a position to offer several products entirely free from trans-fatty acids – a frequent issue in recent public debates. Karlshamns' research and product development help customers prepare for new market trends, thus constantly providing new choices for both customers and consumers.

Karlshamns' R&D operations clearly distinguish between short- and long-term projects, in combination with a specific portfolio with direct links to the various business areas. Most of the Group's researchers are based in Karlshamn, which is also the location of the company's well-equipped, state-of-the-art laboratories. All in all, 30 of Karlshamns employees are engaged in research and development activities.

The Group's total R&D operations annually account for 4 – 5 percent of the gross contribution. In 2003, the Group's costs for research and development amounted to SEK 30 million, or slightly more than 3 percent of the gross contribution of SEK 944 million.





Karlshamns and the environment

The aim of Karlshamns' efforts in the environmental area is to minimise the Group's environmental impact, to optimise its utilisation of resources and to strengthen the environmental awareness among its suppliers, partners and staff.

In 2003 a number of different projects were initiated, implemented and evaluated. Important parts of this work have been to optimise energy consumption in both production and logistics, to reduce waste for landfill and to minimise odour emissions from the Swedish plant.

For several years Karlshamns has been successful in its endeavours to reduce energy consumption. This trend was broken in 2003, and work will now intensify to get back on track.

The project aiming to increase logistical efficiency by deepening the Karlshamn harbour was continued into 2004. Once completed, this project will allow larger vessels to berth, which in turn will reduce the overall number of transports.

Environmental management and concessions

All of Karlshamns' production units have been using established and thoroughly tested environmental management systems for several years. The plants in Sweden and the Netherlands follow ISO 14 001, whereas the UK plant follows the format of BS 7750.

These systems ensure continuous, gradual and systematic improvements of Karlshamns' environmental performance. The environmental management systems applied in Zaandijk and Karlshamn have been externally certified, whereas the UK plant is in-house certified.

Official permits are required for operations in their entirety in Sweden, the Netherlands and the

UK. Permits in accordance with environmental legislation and IPPC must be obtained in Sweden. The Swedish operations had their permit renewed in 2003. The new permit covers IPPC as well current extension plans. Karlshamns' other production plants are not comprised by the IPPC standard.

The permit for operations in the UK was awarded in 1992 and is currently the subject of an application for renewal. In the Netherlands, a number of environmental measures have been implemented, one of which involves a project to clean up a limited area of soil pollution. The environmental permit for the Zaandijk plant is up for renewal, but no comprehensive or expensive measures are expected in this respect.

Environmental impacts

Consumption of resources: Karlshamns' production process consumes freshwater, electricity, fossil fuels, chemicals and additives. In 2003, the company concentrated its efforts on a long-term reduction of energy consumption in combination with a maximum substitution of fossil fuels by biofuels. In the past few years, a number of limited measures allowed Karlshamns to reduce energy consumption by some 3.5 percent annually, a trend that was broken in 2003. The reduction is expected to surpass the 3.5 percent level again in 2004, however. A feasibility study launched in 2003 is currently looking into the possibility to use solid fuels.

Transports of raw materials and finished prod-



ucts to and from production units are evenly distributed between land and sea.

In 2003 a decision was taken to deepen the harbour in Karlshamn. The necessary reinforcements have been made, and dredging operations were completed in the first quarter of 2004.

Waste and by-products: Karlshamns bases its operations on the concept of the eco-cycle, its aim being to assure proper utilisation and handling of the materials used in production. Nutrients separated in the treatment plant in Karlshamn have, for example, been converted into a phosphorised lime used by farmers. Pitch from the fatty acid production is used as fuel in an external boiler plant, while the energy content from other production waste is recovered in the Group's own boilers. The Swedish system for handling packaging waste is implemented in Karlshamn. The company also generates normal waste products, process waste and hazardous waste. Hazardous waste consists mainly of laboratory waste and lubricating oils. These are dealt with to meet legal requirements in each country. In 2003 Karlshamns began to separate all combustible waste, the result a 24-percent reduction in waste volumes sent to the municipal disposal unit.

Air emissions: Karlshamns' production units generate emissions from incineration and extraction hexane, as well as a certain amount of odour. Emissions of extraction hexane are largest in Karlshamn, where crude oil production takes place. Recycling is comprehensive, however. Air containing hexane is collected and led to steam boilers where the hexane is combusted. Measures to reduce unpleasant odours from operations in Karlshamn were implemented in 2003. Considerably fewer odours are generated by operations in the UK and the Netherlands.

Water emissions: The main environmental impact of oil refineries is the emission of phosphorus, a nutrient that acts as a fertilizer in the streams, lakes and rivers affected by such emissions.

All of the Group's plants generate emissions of sanitary wastewater, industrial wastewater, surface water and cooling water. Wastewater is sent into the municipal treatment system. Surface and cooling water in Sweden and the Netherlands is treated in special systems to ensure that no waste fat pollutes the surrounding area. In Sweden, industrial wastewater is treated in the company's own treatment plant and then released into the adjacent sea.

In the United Kingdom and the Netherlands, industrial waste water goes through an internal treatment process and is then channelled into the municipal wastewater system.

Noise: Noise disturbances from Karlshamns' operations are minimal and within acceptable limits at all of the company's plants.

Soil pollution: A certain amount of soil pollution identified within a restricted distance of the Group's plant in the Netherlands has now been dealt with. An ongoing survey is looking into the possibility of soil pollution at the UK plant, but it is the Group's assessment that there is no significant pollution that would require expensive measures.

A survey of the Swedish operations has identified a number of areas in need of closer evaluation. There are no indications of immediate measures to be taken.

Commendable environmental performance

As in previous years, Karlshamns was recognised for its commitment to environmental matters. In its annual review of the efforts of Swedish listed companies to reduce emissions of carbon dioxide, the insurance group

Karlshamns' environmental performance compared with the Scandinavian industry index (SII)¹⁾

Hexane from extraction²⁾ (kg/tonnes seed)

SII	1.70
Karlshamns in Sweden	0.25

COD³⁾ (kg/tonnes oil)

SII	1.90
Karlshamns in Sweden	0.72
in the UK	1.66
in the Netherlands	0.59

Phosphors²⁾ (g/tonnes oil)

SII	13.0
Karlshamns in Sweden	13.8

Fresh water consumption (m³/tonnes oil)

SII	2.8
Karlshamns in Sweden	2.6
in the UK	1.8
in the Netherlands	0.7

Waste (kg/tonnes oil)

SII	3.4
Karlshamns in Sweden	3.3
in the UK	2.5
in the Netherlands	1.5

Carbon dioxide (kg/tonnes oil)

SII	560
Karlshamns in Sweden	159
in the UK	194
in the Netherlands	126

Nitric oxides NO_x (mg/MJ supplied fuel)

Average	
in Sweden, 2002	58
Karlshamns in Sweden	57

1) The index is based on data published in 1996 - 2001 by Karlshamns in Sweden, Aarhus United in Denmark and Denofa in Norway.

2) Emissions of hexane and phosphorus are not measured in the UK or the Netherlands as operations there produce little or no emissions.

3) COD, Chemical Oxygen Demand, or oxygen-consuming substance.



Folksam gave Karlshamns a top rating in the area of carbon dioxide emissions as well as environmental reporting. This review tracks the overall performance of all companies listed on the Stockholm Stock Exchange, but also evaluates each company's efforts to reduce emissions of carbon dioxide. Karlshamns has also been selected for the "top list" of Banco Svensk Miljöfond, a Swedish trust that invests exclusively in Swedish companies that meet its environmental criteria for companies regarded as likely to be successful in a future "sustainability-driven" society. The evaluation model has been developed by the foundation Det Naturliga Steget. ("the natural step").

Global responsibility

Karlshamns' commitment goes beyond its own working environment to comprise global environmental issues as well. One such example is the actions taken to improve conditions for palm cultivation.

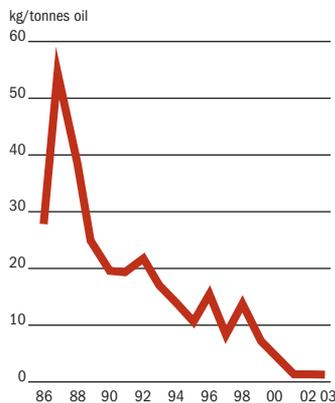
Palm oil is an important raw material for the global food industry, and also a vital nutrient in many poor countries around the world. For the producing

countries it generates considerable export income, of course. Palm oil production entails a number of problems, however. Each year large areas of rain forests are destroyed. Even though palm plantations account for only a limited share of these areas, the growing palm oil production nevertheless poses a threat to the biological diversity of South East Asia's tropical rain forests.

In the summer of 2003, a first conference was held in Kuala Lumpur, a meeting organised by a group of European palm oil and food producers in cooperation with the WWF and Malaysian palm oil producers. The purpose of this meeting was to discuss how to join forces and proceed towards sustainable development in this area, and the conference successfully reached a consensus on a manifesto.

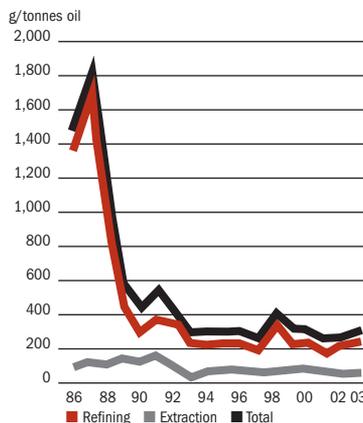
Karlshamns is acting accordingly: for the past few years, the Group buys palm oil exclusively from selected suppliers in Western Malaysia. Our selection criteria comprise not only environmental standards, but also requirements of a more social character. We pay regular visits to all our suppliers and cooperate

Dumped waste



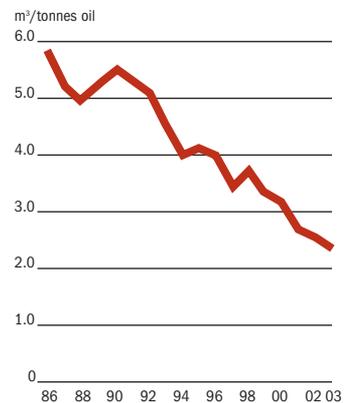
Karlshamns in Sweden

Hexane



Karlshamns in Sweden

Flow to treatment plant



Karlshamns in Sweden



intimately with local trade organisations to keep a close eye on the entire process; from raw material to processed oil.

Costs for environmental work

Karlshamns' costs for environmental work have developed as follows:

SEK m	2003	2002	2001
Administration	1	1	1
Operations	16	19	16
Taxes	6	5	7
Total	23	25	24

In addition to these expenses, investments related to environmental measures amounted to SEK 4 million in 2003. To meet future plans for environmental measures, investments over the next three years are estimated to total around SEK 14 million.

Environmental measures planned for 2004

Sweden:

- Develop systems for sustainable development.
- Reduce odour emissions.
- Reduce energy consumption by 5 percent by 2005.
- Reduce overall operating risks to targeted levels.
- Reduce the amount of energy consumed by transports.

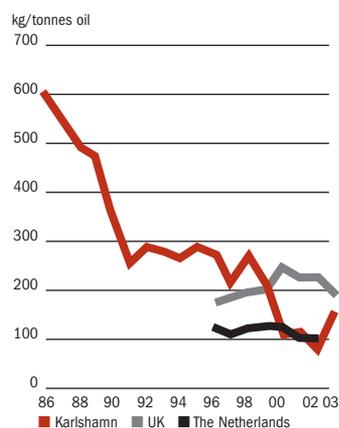
The UK:

- Renew the company's environmental permit.
- Reduce energy consumption by 10 percent before 2011.

The Netherlands:

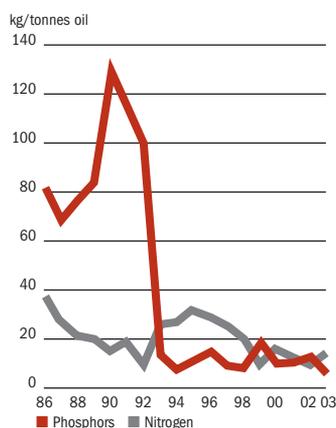
- Issue final report on the decontamination of polluted soil.
- Apply for a new environmental permit.
- Upgrade the current energy control system.
- Reduce the amount of energy consumed by production operations.

Carbon dioxide



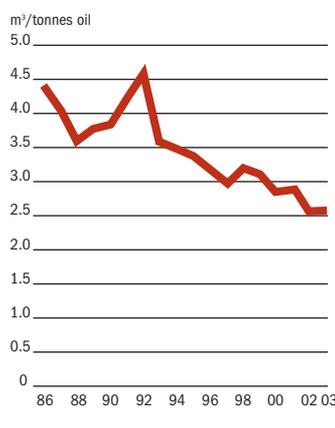
All three production units

Phosphors and nitrogen to water



Karlshamns in Sweden

Freshwater consumption



Karlshamns in Sweden

Directors Report

Operations

Karlshamns supplies oils and fats with varying degrees of specialisation, and is one of the world's leading manufacturers of high value-added speciality vegetable fats. Karlshamns' products find their applications in many different areas, as its customers operate in many different industries. Most Karlshamns customers, however, are found in the food, chocolate, confectionery, cosmetics, animal feed and technical industries. The Group operates in three different business areas: Oils & Fats, Technical Products and Feed Materials. All three business areas base their operations on the concept of the eco-cycle, with waste and by-products being carefully utilised, processed and then marketed as end products in their own right. The parent company conducts its business operations in business areas Oils & Fats and Feed Materials, but also carries the main responsibility for all of the Group's global functions.

Oils & Fats, which is Karlshamns' largest business area, is further divided into three business sectors: Chocolate & Confectionery Fats, Edible Oils and Lipids for Care. Each of these sectors has a well-defined profit responsibility, and they all have the purpose of developing, producing and marketing their respective products to targeted customer segments all over the world.

Chocolate & Confectionery Fats has its focus on high-quality chocolate fats (so-called Cocoa Butter Alternatives or CBA) and premium filling fats (which are filling fats generating technical value-added properties).

Edible Oils has three product segments that target the entire food industry: Formulated fats, which are all value-added products, i.e. products that have been processed to a more advanced level to offer customers added value in the form of specific properties; Dairy Fat Alternatives (DFA), which are vegetable fats for dairy applications; and Volume Products sold in larger volumes for applications like cooking oil, margarine and deep-frying.

Lipids for Care specialises in advanced products, mainly for cosmetics applications and clinical nutrient solutions.

Supported by the global functions for raw material sourcing, production, administration and R&D, these business sectors are responsible for the operating profit of business area Oils & Fats. The Oils & Fats production is handled by three different production plants located in Karlshamn (Sweden), Hull (the United Kingdom) and Zaandijk (the Netherlands).

Technical Products, the second largest of Karlshamns' business areas, operates through two wholly-owned subsidiaries: Tefac AB and Binol AB. Tefac develops, manufactures and markets fatty acids and glycerine, products which are mainly used as raw materials by the chemical industry. In the fatty acid segment, Karlshamns is the market leader in Sweden as well as in Finland. Binol develops, manufactures and markets environmentally friendly technical oils for the metalworking, construction and forestry industries. In Sweden, Binol is the leading manufacturer of technical oils based on renewable, biodegradable vegetable oils. The products are used as alternatives to petroleum-based oils in certain technical applications.

The Group has one production plant for fatty acids and glycerine, and one for the blending of environmentally friendly technical oils. Both plants are located in Karlshamn.

Feed Materials is responsible for the processing and marketing of vegetable proteins and fats for the animal feed industry. This business area also handles Karlshamns' extraction of vegetable oils from rapeseed and shea nuts. Crude rapeseed oil and rapeseed meal are extracted from rapeseed. The rapeseed meal, which is rich in protein, is processed within the business area, whereas the crude rapeseed oil is processed within Oils & Fats and then sold to the food industry. The Feed Materials production plant is located in Karlshamn, Sweden.

Developments in 2003

The year 2003 was characterised by a general softening of the market, unfavourable developments on the currency market and high energy costs.

Pressure on marginal contributions in the Chocolate & Confectionery Fats segment remains heavy, but volumes nevertheless increased somewhat over 2002. Interest in speciality products (CBE, or Cocoa Butter Equivalents) remains strong despite the delayed implementation of the so-called five-percent rule, the purpose of which is to allow five percent of cocoa butter to be replaced by vegetable alternatives – with the end product still marketable as chocolate. In 2003, Karlshamns launched a CBR product that uniquely combines excellent sensory properties with a low content of trans-fatty acids, the first of its kind on the market.

Among the year's most important developments for Edible Oils was the relocation to Finland of Carlshamn Mejeri. This had considerable negative effects – some 10 percent – on overall sales volumes. New business opportunities had offset most of this decrease by year-end, however.

In 2003, Lipids for Care signed distribution agreements in South Korea, Russia and China.

In the business area Technical Products, cost-efficient investments helped Tefac gradually increase production capacity as well as sales volumes. Tefac thus managed to consolidate its market position and improve its profitability despite downward economic trends. In the last quarter of 2003, glycerine prices fell dramatically, the result of a growing supply from the biodiesel industry.

Through its acquisitions of the technical oils operations of Aarhus United and Raisio Chemicals, Binol has secured a leading position on the global market for vegetable metalworking oils. Strategic alliances with Shell and Quaker Chemical provide the foundation for future growth beyond the Nordic market.

Environment

Karlshamns' production operations impact on the environment in the form of emissions of odorous substances, organic solvents and smoke gases into the atmosphere, the discharge of fat, oxygen-consuming substances and nutritive salts into water; and the production of organic waste and noise pollution. All of Karlshamns' production units have been using established and thoroughly tested environmental management systems for several years. The plants in Sweden and the Netherlands follow ISO 14 001, whereas the UK plant follows the format of BS 7750. These systems ensure continuous, gradual and systematic improvements of Karlshamns' environmental performance. Concessions must be obtained for the Group's operations in Sweden as well as abroad. Permits in accordance with environmental legislation and IPPC must be obtained in Sweden. The Swedish operations had their permit renewed in

2003. The new permit covers IPPC as well as current extension plans. Karlshamns' other production units are not comprised by the IPPC standard. The permit for operations in the UK was awarded in 1992, and is currently the subject of an application for renewal. In the Netherlands a number of environmental measures have been implemented, one of which involves a project to clean up a limited area of soil pollution. The environmental permit for the Zaandijk plant is up for renewal, but no comprehensive or expensive measures are expected in this respect. In all, the Group's planned environmental investments are estimated at some SEK 14 million for the next three years.

Research and Development

Karlshamns' present R&D activities stem from many years of hard and dedicated work. The aim of all R&D efforts is to optimise the properties and functionality of oils and fats, not only in view of the end product in which the oils and fats will be used, but also to optimise the production process of the end product in question. Most product development projects are carried out in close cooperation with customers, with a view to strengthening their market position and competitiveness.

Research is mainly concentrated to the Group's largest business area, Oils & Fats, but also to Technical Products. In line with the Group's strategy to increase the proportion of high value added products, R&D operations now focus on new and upgraded applications in Chocolate & Confectionery Fats, Edible Oils and Lipids for Care. In addition to their close cooperation with customers, Karlshamns' researchers are in regular contact with national and international authorities, research institutes, universities and colleges. It is the Group's assessment that Karlshamns' research and development operations are at the forefront of its industry. The Group is also well prepared to meet any new requirements from national or international authorities with respect to health, safety and environmental issues, both for products and production plants.

A total of 30 Karlshamns employees are engaged in research and development activities. In 2003, the Group's costs for research and development amounted to SEK 30 million, or slightly more than 3 percent of the gross contribution of SEK 944 million.

Conversion to IFRS

From the accounting year 2005 onwards the Karlshamns Group will report in accordance with the International Financial Reporting Standards (IFRS). The 2004 consolidated accounts will thus be the last ones rendered according to the recommendations issued by the Swedish Financial Accounting Standards Council. The interim report for the period to 31 March 2005 and the consolidated annual accounts for 2005 will comprise a reconciliation of the 2004 accounts in accordance with IFRS and the Group's current accounting principles.

The recommendations issued by the Swedish Financial Accounting Standards Council have gradually approached those of IFRS, although there still remain a number of differences. The number of such differences are now beginning to increase again, as a number of changes to the IFRS are currently being implemented. All IFRS to be applied in 2005 are not yet available in their final form. Karlshamns is monitoring this development to

adjust its reporting routines to the new standards. Based on what we know today, the major differences between the Group's current accounting principles and the future IFRS will be:

- Specification of pensions (this difference will disappear with the introduction of a new recommendation by the Swedish Financial Accounting Standards in 2004, however).
- Specification of financial instruments, which means more financial instruments will be reported at their actual value. As a consequence, the conditions applying to hedge accounting will also become more stringent.
- For goodwill and certain intangible assets, straight-line depreciation will no longer apply. It will instead become obligatory to establish the current depreciation requirements on an annual basis.

The consolidated accounts will also be affected by changes in the IFRS requirements for classification and disclosure, changes which are likely to affect key ratios as well. The Karlshamns Group has not yet implemented IFRS to a degree where these changes are quantifiable, however.

Karlshamns is currently reviewing its reporting routines to ascertain safe and efficient collection of all data needed for the IFRS accounting. Throughout 2004, the Group will also organise all information needed for comparative figures in the interim statements and annual accounts referring to the accounting year 2005. A steering committee headed by the Group's CFO has been in charge of these tasks since 2002.

Risk management and sensitivity analysis

The Group's risk management is described under the heading "Risk management and sensitivity analysis" on page 62.

Corporate governance

Karlshamns' Board of Directors and its activities are described in closer detail under the heading "Corporate governance" on page 68.

Proposed appropriation of profits

The Group

In accordance with the prepared balance sheet, the Group's unrestricted equity on 31 December 2003 amounted to SEK 275,776,000. No allocations to restricted reserves are proposed.

Parent company

Available to the Annual General Meeting:

Balance brought forward	SEK	175,913,067
Net profit for the year	<u>SEK</u>	<u>51,176,471</u>
	SEK	227,089,538

The Board of Directors proposes that the profits be disposed of as follows: a dividend of SEK 3.50 per share to be distributed to shareholders.

Dividend	SEK	73,671,150
Balance to be carried forward	<u>SEK</u>	<u>153,418,388</u>
	SEK	227,089,538

Consolidated income statement

Amounts in SEK 000s		2003	2002
Net sales	Note 1,2	3,316,670	3,248,563
Changes in inventories		8,994	18,965
Own work capitalised		14,990	6,939
Other operating income		12,411	10,631
Total operating income		3,353,065	3,285,098
Raw materials and supplies		-2,223,788	-2,178,050
Goods for resale		-160,159	-98,087
Other external expenses		-292,802	-314,089
Personnel costs	Note 3	-384,119	-391,365
Depreciation	Note 10,11	-94,738	-91,660
Other operating expenses		-166	-456
Total operating expenses		-3,155,772	-3,073,707
Operating profit	Note 1	197,293	211,391
Financial income and expenses	Note 5	-11,705	-11,361
Profit after financial items		185,588	200,030
Tax	Note 7	-44,223	-48,133
Profit for the year		141,365	151,897

Earnings per share

	Note 8	2003	2002
Number of shares (000)		21,033	21,002
Outstanding warrants and convertible debt instruments		881	912
Earnings per share before conversion and utilisation of warrants, SEK		6.73	7.23
Earnings per share after conversion and utilisation of warrants, SEK		6.58	7.16
Equity per share before conversion and utilisation of warrants, SEK		46.30	43.59
Equity per share after conversion and utilisation of warrants, SEK		44.70	42.81
Proposed dividend per share, SEK	Note 9	3.50	3.50

Karlshamns profit development, broken down quarterly

(SEK million)	2003					2002				
	1	2	3	4	Full year	1	2	3	4	Full year
Net sales	853	803	813	848	3,317	786	790	800	873	3,249
Gross contribution	236	242	229	237	944	232	241	228	261	962
Operating profit	47	52	58	40	197	49	53	61	48	211
Financial items	-2	-4	-4	-2	-12	-4	-5	-3	1	-11
Profit after financial items	45	48	54	38	185	45	48	58	49	200

Comments to the income statement

Net sales

The Group's net sales increased by 2 percent to SEK 3,317 million (3,249), mainly due to higher raw material prices and the volume growth achieved by Technical Products and Feed Materials.

Gross contribution

Gross contribution decreased by 2 percent to SEK 944 million (962). Business area Oils & Fats accounts for SEK 28 million of this decrease and Feed Materials for SEK 2 million, whereas business area Technical Products improved by SEK 12 million.

Operating profit

The Group's operating profit decreased by SEK 14 million from 2002, to SEK 197 million. The increasingly competitive situation on the oils and fats market in Western Europe has necessitated immediate cost structure adjustments at our plants in Sweden, the UK and the Netherlands. Depreciation increased by SEK 3 million over last year, thus totalling SEK 95 million.

Business Area Oils & Fats

(SEK million)	2003	2002	2001
Net sales	2,397	2,394	2,179
Gross contribution	666	694	651
Operating profit	134	146	143
Net operating assets	997	958	994
Return on net operating assets, %	13	14	16

The Oils & Fats business area's operating profit amounted to SEK 134 million (146). Productivity improvements were 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 sizeable volume drop caused by Carlshamn Mejeri, formerly one of the Group's largest customers in terms of volumes. Keener competition on the European market in combination with rising energy costs nevertheless made profits fall short of last year's level by SEK 12 million. Sales to Central and Eastern Europe developed well throughout the year, whereas volumes to the Nordic market decreased due to diminishing sales to Carlshamn Mejeri.

Business Area Technical Products

(SEK million)	2003	2002	2001
Net sales	501	455	397
Gross contribution	160	148	142
Operating profit	41	36	36
Net operating assets	195	164	133
Return on net operating assets, %	24	25	29

The Technical Products business area's operating profit totalled SEK 41 million (36). Fatty acids volumes continued to grow, with margins intact. Capacity-expanding investments came on stream in the first quarter of the year, to give full effects throughout the rest of the year. Falling glycerine prices had negative effects on Tefac's profits in the fourth quarter.

Binol consolidated its market position in 2003. In combination with an adjustment of operating expenditure this contributed to a rising profit level all through the year.

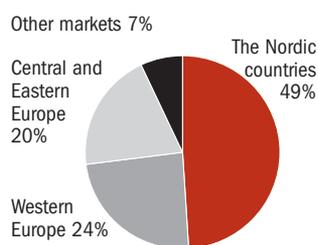
Business Area Feed Materials

(SEK million)	2003	2002	2001
Net sales	419	400	366
Gross contribution	118	120	99
Operating profit	22	29	17
Net operating assets	112	58	137
Return on net operating assets, %	24	28	15

Operating profit in business area Feed Materials amounted to SEK 22 million (29), with higher energy costs and intensifying marketing activities having negative effects on earnings. Sales of feed raw materials continued to grow, with Karlshamns strengthening its position on the Nordic market. Customer preference for product safety and vegetable raw materials is becoming more and more pronounced.

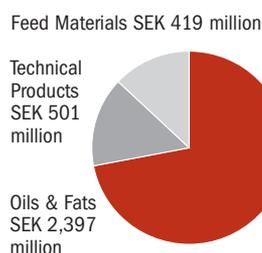
Start-up problems in connection with a capacity-expanding investment affected earnings negatively by SEK 6 million in 2003.

Karlshamns' sales by geographic markets, 2003



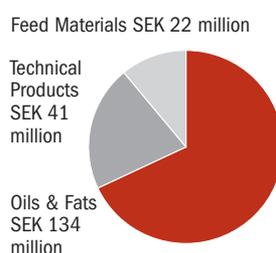
51% of Karlshamns' sales are to countries outside the Nordic region.

Net sales by business area, 2003



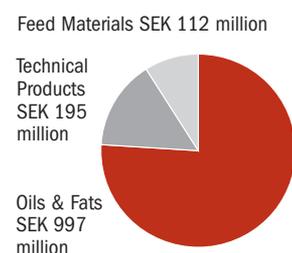
Oils & Fats accounts for 72% of Karlshamns' net sales.

Operating profit by business area, 2003



Karlshamns' total operating profit amounted to SEK 197 million.

Net operating assets by business area, 2003



Total net operating assets amounted to SEK 1,304 million.

Consolidated cash flow statement

Amounts in SEK 000s	2003	2002
OPERATING ACTIVITIES		
Operating profit	197,293	211,391
Depreciation	94,738	91,660
Changes in provisions	-1,492	-533
Other items not affecting liquidity	<u>1,197</u>	<u>-1,930</u>
	291,736	300,588
Interest received	-194	5,617
Dividend received	228	602
Interest paid	-11,278	-17,054
Tax paid	<u>-68,731</u>	<u>-22,835</u>
	211,761	266,918
Changes in working capital		
Increase in inventories	-17,987	-9,132
Increase in accounts receivable - trade	-18,975	-12,047
Increase/decrease in other current receivables	-32,836	47,326
Decrease/increase in accounts payable - trade	-34,133	28,673
Increase/decrease in other current operating liabilities	15,160	-11,937
Cash flow from operating activities	122,990	309,801
INVESTMENT ACTIVITIES		
Investments in tangible/intangible fixed assets	-101,189	-110,621
Tangible fixed assets sold	-	1,328
Shares and participations sold	-	2,835
Investments in other financial fixed assets	122	-
Cash flow from investment activities	-101,067	-106,458
FINANCING ACTIVITIES		
Redemption of warrants	2,417	158
Loans raised	91,547	74,625
Liabilities repaid	-	-169,652
Decrease/increase in current financial liabilities	-338	1,806
Dividend paid	-73,511	-73,507
Cash flow from financing activities	20,115	-166,570
Cash flow for the year	42,038	36,773
Liquid funds, opening balance	105,994	70,440
Translation difference, liquid funds	-3,996	-1,219
Liquid funds, closing balance	144,036	105,994

Comments to the cash flow statement

Operating activities

Cash flow from operating activities decreased in 2003, amounting to SEK 123 million (310) or 5.85 SEK per share (14.75). An increase in working capital had negative effects on cash flow.

Investment activities

Cash flow generated by investment activities over the year totalled SEK -101 million (-106). The Group's direct investments in fixed assets amounted to SEK 108 million (103), of which business area Oils & Fats accounted for SEK 47 million (61), Technical Products for SEK 24 million (32) and Feed Materials for SEK 37 million (10).

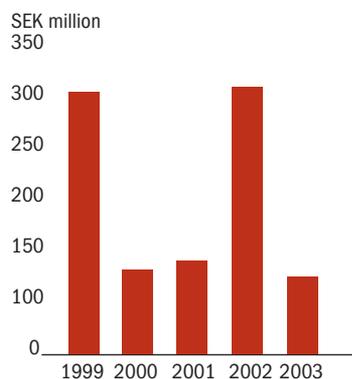
Liquid funds

The Group's liquid funds on closing date amounted to SEK 144 million (106), of which SEK 142 million (96) held in cash and cash equivalents and SEK 2 million (10) in short-term deposits.

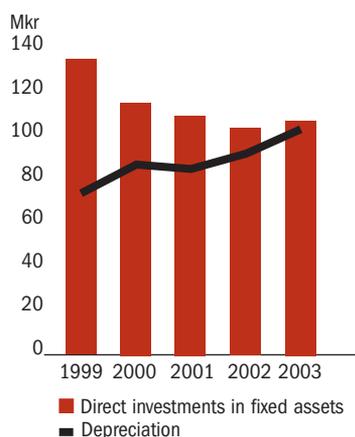
Net borrowings

Net borrowings increased by SEK 57 million in 2003, totalling SEK 211 million at year-end. The Group's liabilities to credit institutions rose by SEK 92 million, and closing balance thus amounted to SEK 276 million.

Cash flow from operating activities



Direct investments - Depreciation



Changes in interest-bearing net liabilities

Amounts in SEK 000s	31.12.2002	Cash flow	Change in loans	Other changes	31.12.2003
Long-term receivables	-	-	-	2,858	2,858
Current receivables	514	-	-	102	616
Liquid funds	105,994	42,038	-	-3,996	144,036
Liabilities to credit institutions	-184,574	-	-91,763	-	-276,337
Convertible loans	-74,625	-	-	-	-74,625
Other liabilities	-1,084	-	-	-6,142	-7,226
Interest-bearing net liabilities	-153,775	42,038	-91,763	-7,178	-210,678

Consolidated balance sheet

Amounts in SEK 000s		31.12.2003	31.12.2002
ASSETS			
Fixed assets			
Intangible fixed assets	Note 10	13,906	7,377
		13,906	7,377
Tangible fixed assets	Note 11		
Land and buildings		142,898	151,285
Plant and machinery		524,618	567,878
Equipment, tools, fixtures and fittings		14,502	12,638
Construction in progress		57,840	8,790
		739,858	740,591
Financial fixed assets			
Shares and participations	Note 12,23	432	432
Long-term receivables	Note 13	10,494	11,659
		10,926	12,091
Total fixed assets		764,690	760,059
Current assets			
Inventories	Note 14	455,039	439,534
Current receivables			
Accounts receivable – trade		442,332	430,135
Other receivables	Note 15	74,440	24,635
Prepaid expenses and accrued income		18,739	11,066
		535,511	465,836
Current investments			
Bonds and securities		2,450	9,521
Cash and bank balances		141,586	96,473
Total current assets		1,134,586	1,011,364
TOTAL ASSETS		1,899,276	1,771,423

Comments to the balance sheet

Assets and working capital

The Group's total assets at year end totalled SEK 1,899 million, an increase of SEK 128 million over last year.

The Group's working capital at 31 December 2003 was SEK 543 million (420). Working capital includes inventories totalling SEK 455 million at year end, an increase of SEK 16 million over 2002. Operating receivables increased by SEK 70 million, other receivables by SEK 58 million and trade accounts receivable by SEK 12 million.

Shareholders' equity

The Group's equity increased by SEK 57 million in 2003, totalling SEK 972 million on closing date.

The change was due to the following factors:

	SEK m
Profit for the year	141
Redemption of warrants	3
Dividend	-74
Translation effects of foreign subsidiaries	-13
Total	57

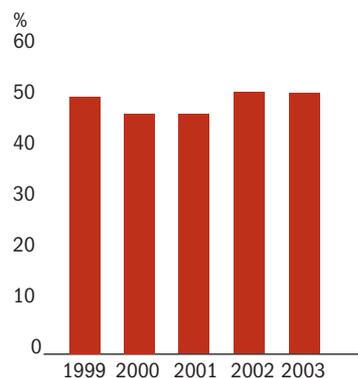
Key figures

The Group's equity/assets ratio at year end was 51 percent (52). Return on shareholders' equity decreased by 2 percent to 15 percent, return on net operating assets by 1 percent to 16 percent. Earnings per share decreased from SEK 7.23 to SEK 6.73, whereas shareholders' equity per share increased by SEK 2.71, thus totalling SEK 46.30 per share on closing date.

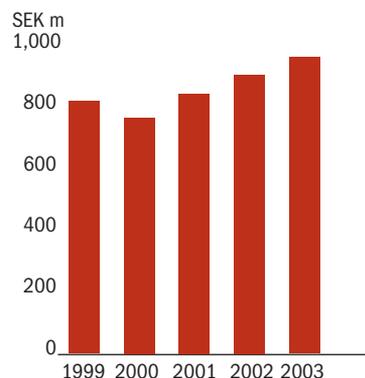
Amounts in SEK 000s 31.12.2003 31.12.2002

SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity	Note 16		
Restricted equity			
Share capital		210,326	210,020
Restricted reserves		486,483	406,492
		696,809	616,512
Unrestricted equity			
Distributable reserves		134,411	147,074
Profit for the year		141,365	151,897
		275,776	298,970
Total shareholders' equity		972,585	915,482
Provisions			
Pensions and similar commitments		1,523	3,028
Deferred tax	Note 18	119,939	107,735
Total provisions		121,462	110,763
Long-term liabilities			
Liabilities to credit institutions	Note 19	276,337	184,574
Other long-term liabilities	Note 20	75,473	75,473
Total long-term liabilities		351,810	260,047
Current liabilities			
Accounts payable – trade		236,190	268,457
Other current liabilities	Note 21	62,260	44,826
Accrued expenses and prepaid income	Note 22	154,969	171,848
Total current liabilities		453,419	485,131
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,899,276	1,771,423
Assets pledged		None	None
Contingent liabilities	Note 24	20,260	34,378

Equity/Assets ratio

The equity/assets ratio on closing date was 51%.

Shareholders' equity

Shareholders' equity amounted to SEK 972 million on 31.12.2003.

Parent company income statement

Amounts in SEK 000s		2003	2002
Net sales	Note 1,2	2,309,589	2,256,194
Changes in inventories		17,232	9,050
Own work capitalised		14,990	6,939
Other operating income		10,536	9,028
Total operating income		2,352,347	2,281,211
Raw materials and supplies		-1,525,639	-1,490,680
Goods for resale		-146,130	-81,172
Other external expenses		-260,591	-228,001
Personnel costs	Note 3	-259,704	-247,426
Depreciation	Note 10,11	-62,461	-58,820
Total operating expenses		-2,254,525	-2,106,099
Operating profit	Note 1	97,822	175,112
Financial income and expenses	Note 5	24,297	22,130
Profit after financial items		122,119	197,242
Appropriations	Note 6	-56,045	26,101
Tax	Note 7	-14,898	-60,985
Profit for the year		51,176	162,358

Parent company cash flow statement

Amounts in SEK 000s	2003	2002
OPERATING ACTIVITIES		
Operating profit	97,822	175,112
Depreciation	<u>62,461</u>	<u>58,820</u>
	160,283	233,932
Interest received	10,365	13,003
Dividend received	8,244	9,602
Interest paid	-22,640	-22,222
Tax paid	<u>-59,367</u>	<u>-15,830</u>
	96,885	218,485
Changes in working capital		
Increase in inventories	-28,692	-2,117
Decrease/increase in accounts receivable - trade	26,577	-25,840
Increase/decrease in current receivables	-4,016	19,670
Increase/decrease in accounts payable - trade	156	-1,838
Decrease in other current operating liabilities	-76,121	-3,243
Cash flow from operating activities	14,789	205,117
INVESTMENT ACTIVITIES		
Investments in intangible and tangible fixed assets	-69,204	-71,306
Tangible fixed assets sold	-	1,328
Shares and participations sold	-	2,835
Investments in other financial fixed assets	10,914	4,873
Cash flow from investment activities	-58,290	-62,270
FINANCING ACTIVITIES		
Redemption of warrants	2,417	158
Loans raised	92,240	74,858
Liabilities repaid	-1,696	-154,031
Group contributions received	22,700	31,000
Dividend paid	-73,510	-73,507
Cash flow from financing activities	42,151	-121,522
Cash flow for the year	-1,350	21,325
Liquid funds, opening balance	68,211	46,886
Liquid funds, closing balance	66,861	68,211

Parent company balance sheet

Amounts in SEK 000s 31.12.2003 31.12.2002

ASSETS

Fixed assets

Intangible fixed assets	Note 10	5,837	7,377
		5,837	7,377

Tangible fixed assets	Note 11		
Land and buildings		122,007	127,707
Plant and machinery		294,363	320,938
Equipment, tools, fixtures and fittings		4,031	5,931
Construction in progress		57,053	8,789

		477,454	463,365
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Financial fixed assets

Shares and participations	Note 12, 23	285,111	285,111
Long-term receivables	Note 13	92,363	104,368

		377,474	389,479
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Total fixed assets		860,765	860,221
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Current assets

Inventories	Note 14	334,732	306,040
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Current receivables

Accounts receivable - trade		270,566	297,143
Other receivables	Note 15	185,470	124,927
Prepaid expenses and accrued income		15,351	8,558

		471,387	430,628
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Cash and bank balances		66,861	68,211
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Total current assets		872,980	804,879
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TOTAL ASSETS		1,733,745	1,665,100
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Amounts in SEK 000s		31.12.2003	31.12.2002
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	Note 16		
Restricted equity			
Share capital		210,326	210,020
Share premium reserve		2,249	138
Revaluation reserve		34,848	34,848
Restricted reserves		42,000	42,000
		289,423	287,006
Unrestricted equity			
Retained profits		175,914	87,066
Profit for the year		51,176	162,358
		227,090	249,424
Total shareholders' equity		516,513	536,430
Untaxed reserves	Note 17	295,533	239,488
Long-term liabilities			
Liabilities to credit institutions	Note 19	274,896	183,832
Other long-term liabilities	Note 20	82,767	83,287
Total long-term liabilities		357,663	267,119
Current liabilities			
Accounts payable - trade		164,059	158,097
Other current liabilities	Note 21	272,002	330,498
Accrued expenses and prepaid income	Note 22	127,975	133,468
Total current liabilities		564,036	622,063
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,733,745	1,665,100
Assets pledged		None	None
Contingent liabilities	Note 24	26,379	43,069

Notes (amounts in SEK 000s unless otherwise stated)

Accounting principles

The Annual Report and Consolidated Accounts have been prepared in line with the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendations and opinions. The accounting and valuation principles applied are in accordance with previous years. Adjustments have been made to recommendations issued by the Council and coming into force in 2003. This did not, however, necessitate any change of accounting principles.

Consolidated accounts

Subsidiaries

The consolidated accounts include Karlshamns AB and all companies in which the Parent Company holds, directly or indirectly, more than 50 percent of the voting rights.

Acquisition accounting method

The consolidated accounts are prepared in line with the acquisition accounting method. In cases where the acquisition value of shares in acquired subsidiaries exceeds the subsidiary's shareholders' equity at the time of acquisition, the difference is assigned to the subsidiary's assets or goodwill. Subsidiaries are consolidated from the acquisition day to disposal day. All of the Group's internal transactions, intra-Group receivables and liabilities as well as internal profits are eliminated.

Translation of the accounts of foreign subsidiaries

All foreign subsidiaries have been classified as independent business units. Hence, foreign subsidiaries' accounts have been translated to Swedish kronor using the current method whereby balance sheets are converted at the closing day rate, income statements at the average rate. Translation differences arising have been assigned directly to shareholders' equity. Whenever a foreign subsidiary is sold, the accumulated exchange rate differences are reported as part of the capital gain/loss.

Translation has been effected at the following rates of exchange:

Currency	Average rate		Closing day rate	
	2003	2002	31.12.2003	31.12.2002
USD	8.08	9.71	7.25	8.78
EUR	9.12	9.14	9.06	9.15
GBP	13.24	14.57	12.89	14.07

Deferred tax

The Group reports deferred tax that is related to untaxed reserves and consolidation adjustments. Untaxed reserves and appropriations in individual companies are reversed in the consolidated accounts, by applying the actual tax rate for the country concerned. The calculated deferred tax is reported in the consolidated income statement as deferred tax. The accumulated deferred tax liability is reported in the consolidated balance sheet as deferred tax under "Provisions".

Associated companies

Companies in which Karlshamns AB has a long-term shareholding corresponding to between 20 and 50 percent of the voting rights are accounted for as associated companies. The aggregate effect on profits of these associated companies is immaterial, and they are therefore accounted for in line with the acquisition cost method in the consolidated accounts.

Valuation

Revenue recognition

Sales are recorded upon shipment of products to customers in accordance with agreed terms of sale. Sales are reported net, exclusive of VAT, discounts and intra-Group sales.

Leasing

The Group has no leasing objects classified as financial leasing. All current leasing agreements are classified as operating leases and are of only limited value.

Research and development

Research and development costs are expensed as incurred. Karlshamns R&D operations mainly focus on the optimisation of properties and functions of vegetable oils and speciality fats, partly to add value to the end products for which the oil or fat is destined, partly to improve production efficiency for that end product. None of these activities fulfil the requirements for capitalization as issued by the Swedish Financial Accounting Standards Council (RR15), but are thus carried as expenses.

Pension costs

Pension costs are reported in accordance with applicable regulations in each respective country.

Interest expenses

Interest expenses are reported in the period to which they refer.

Convertible loan

The convertible loan has been valued at its issue price; the calculation according to the Swedish Financial Accounting Standards Council's recommendation on equity share (RR27) resulting in a marginal difference only.

Tangible and intangible fixed assets

Tangible and intangible fixed assets are reported at their acquisition value, less accumulated depreciation according to plan. Depreciation is based on the estimated useful life. For goodwill, a depreciation period of 5 or 10 years is applied. For plant and machinery as well as for equipment, tools, fixtures and fittings, depreciation periods of between 3 and 15 years apply. For industrial buildings and research laboratories depreciation periods of 20 or 25 years apply; for office buildings 50 years. Where the carrying amount of an asset is greater than its estimated recoverable amount, such asset is written down immediately to its recoverable amount.

Inventories

Inventories are valued at the lower of acquisition cost and net realisable value, the acquisition value being determined by the FIFO (first in, first out) principle. The cost of finished goods and work in progress comprises raw material costs, direct labour, other direct costs and a reasonable part of overhead costs, based on normal production capacity but exclusive of interest expenses. The net realisable value is based on the estimated sales price under normal conditions, less production and marketing costs.

Receivables

Trade receivables are reported at individual, anticipated realisable value.

Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currencies are valued at the closing day rate. In cases where currencies have been hedged, the valid futures rate applies. Profits and losses on operating receivables and liabilities are reported net under operating profit/loss, whereas profits and losses on financial receivables and liabilities are reported as financial items.

Futures contracts for raw materials and currencies

Most futures contracts for raw materials and foreign currencies are signed in view of hedging the purchase prices on which actual sales contracts are based. Profits from closed positions are reported as gain/loss on an ongoing basis.

Tax

All taxes on net profits are reported in the income statement. Such taxes have been calculated on the basis of each individual country's tax rules, and consist of actual tax and deferred tax. Deferred tax is accounted for using the liability method to reflect the net tax effects of all temporary differences between the financial reporting and tax bases of assets and liabilities. The main part of such temporary differences arises from depreciation of tangible fixed assets, pension provisions and the carry-forward of unused tax losses. Deferred taxes have been calculated on the basis of each individual country's tax rates. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary tax differences may be utilised. In the parent company, deferred taxes on untaxed reserves are reported as part of untaxed reserves by reason of the connections between accounting regulations and fiscal legislation.

Other items

Cash and cash equivalents

In the cash flow statement, liquid funds comprise cash in hand, bank balances, current accounts and deposits held at call with banks and convertible into cash within three months.

Segment information

The Group operates in three business areas: Oils & Fats, Technical Products and Feed Materials, of which Oils & Fats and Feed Materials are part of the parent company. These are the primary segments.

Operations by geographic market (the Nordic countries, Western Europe, Central and Eastern Europe and Other countries) are Karlshamns secondary segments.

Internal pricing

Intra-group sales and purchases are made at market prices.

Earnings per share

Earnings per share are calculated in accordance with RR18, i.e. as the income statement profit adjusted for interest costs on convertible debt instruments in relation to the average number of shares before and after conversion.

Note 1 – Primary segments – business areas

2003	Oils & Fats	Technical Products	Feed Materials	Other	Elimination	Group
Income						
External sales	2,396,783	500,954	418,933			3,316,670
Intra-group sales	48,816	190,099	405,742		-644,657	-
Total income	2,445,599	691,053	824,675		-644,657	3,316,670
Profit						
Operating profit by business area	133,758	41,584	21,951			197,293
Dividend						244
Interest income						2,963
Interest expenses						-14,912
Tax						-44,223
Net profit						141,365
Other information						
Operating assets	1,383,528	255,374	196,369	-	-86,649	1,748,622
Other assets	-	-	-	150,654	-	150,654
Total assets	1,383,528	255,374	196,369	150,654	-86,649	1,899,276
Operating liabilities	387,004	60,180	84,456	-	-86,563	445,077
Other liabilities and shareholders' equity	-	-	-	1,454,199	-	1,454,199
Total liabilities and shareholders' equity	387,004	60,180	84,456	1,454,199	-86,563	1,899,276
Investments	46,685	23,699	37,249			107,633
Depreciation	73,657	10,203	10,878			94,738
Costs, other than depreciation, not matched by corresponding payments						295
2002						
Income						
External sales	2,394,333	454,564	399,666			3,248,563
Intra-group sales	43,163	175,319	408,508		-626,990	-
Total income	2,437,496	629,883	808,174		-626,990	3,248,563
Profit						
Operating profit by business area	145,911	36,079	29,401			211,391
Dividend and profit on share sale						3,009
Interest income						5,712
Interest costs						-20,082
Tax						-48,133
Net profit						151,897
Other information						
Operating assets	1,342,677	230,575	151,688	-	-69,190	1,655,750
Other assets	-	-	-	115,673	-	115,673
Total assets	1,342,677	230,575	151,688	115,673	-69,190	1,771,423
Operating liabilities	384,795	66,636	93,645	-	-69,637	475,439
Other liabilities and shareholders' equity	-	-	-	1,295,984	-	1,295,984
Total liabilities and shareholders' equity	384,795	66,636	93,645	1,295,984	-69,637	1,771,423
Investments	60,990	32,510	9,735			103,235
Depreciation	71,175	9,219	11,266			91,660
Costs, other than depreciation, not matched by corresponding payments						2,463
Net sales and operating profit, by business area (Parent company)						
Business area	2003	Net sales		Operating profit		
		2002	2003	2002		
Oils & Fats	1,890,656	1,856,528	75,871	145,711		
Feed Materials	418,933	399,666	21,951	29,401		
Total	2,309,589	2,256,194	97,822	175,112		

Note 2 – Sales, assets and investments by geographic market

Group	Net sales		Assets		Investments in intangible and tangible assets	
	2003	2002	2003	2002	2003	2002
Nordic countries	1,635,822	1,630,147	1,486,945	1,392,155	100,276	93,558
Western Europe	787,133	684,896	309,380	287,138	7,081	9,239
Central and Eastern Europe	656,694	681,934	33,109	27,526	227	399
Other countries	237,021	251,586	5,837	18,121	49	39
Total	3,316,670	3,248,563	1,835,271	1,724,940	107,633	103,235
Undistributed assets and eliminations			64,005	46,483		
Total			1,899,276	1,771,423		

Parent company	Net sales	
	2003	2002
Nordic countries	1,586,997	1,437,486
Western Europe	103,382	107,791
Central and Eastern Europe	490,719	556,836
Other countries	128,491	154,081
Total	2,309,589	2,256,194

Note 3 – Salaries, remuneration and payroll overheads

	Group		Parent company	
	2003	2002	2003	2002
Salaries and remuneration	259,294	258,513	167,809	158,040
Payroll overheads	116,292	118,012	83,857	80,474
(of which pension costs)	(38,313)	(43,718)	(28,825)	(28,114)

Of the Group's pension costs SEK 8,615,000 (7,433,000) refers to Board, President and other senior executives.

Salaries and remuneration broken down by country and between Board members etc. and other employees:

	2003			2002		
	Board, President, other senior executives		Other employees	Board, President, other senior executives		Other employees
	Salaries and remuneration	Of which bonuses	Salaries and remuneration	Salaries and remuneration	Of which bonuses	Salaries and remuneration
Parent company in Sweden	15,412	772	152,397	13,895	553	144,145
Subsidiaries in Sweden	2,113	-	40,184	2,151	166	38,793
	17,525	772	192,581	16,046	719	182,938
Subsidiaries abroad:						
The Netherlands	1,019	-	31,656	3,027	-	33,400
The UK	927	-	11,589	1,049	-	18,815
Lithuania	-	-	598	-	-	619
Malaysia	590	-	509	728	-	447
Poland	-	-	1,692	-	-	837
The Czech Republic	453	-	156	459	-	148
Group total	20,514	772	238,780	21,309	719	237,204

In line with the decision taken at the AGM, fees to Board Members who are not employed by the Group amounted to SEK 900,000 (900,000), of which SEK 370,000 (370,000) to the Chairman. No other fees were paid.

The President, Jerker Hartwall, was paid a salary for the year 2003 of SEK 3,029,000 (2,845,000) as well as the free use of accommodation. Jerker Hartwall was also paid a bonus of SEK 500,000 (350,000) related to milestones achieved in Karlshamns' business development. There are a total of 14 other senior executives, to whom were paid salaries and benefits amounting to SEK 11,997,000 (11,747,000) in 2003.

The President is entitled to retire, with a pension, from the age of 58, maintaining 54 percent of gross salary excluding benefits until 65, when normal pension rights apply. Of other senior executives, four are entitled to retire from the age of 60, maintaining 70 percent of gross salary excluding benefits until 65. Other senior executives have pension rights in accordance with applicable union agreements. Pension provisions have been made in the form of premium payments to insurance companies.

Termination of employment by the company for the President is 12 months, and 6 months if at his request. In the event that the company terminates his employment, the President is entitled to severance pay corresponding to one year's salary. Corresponding termination provisions apply for seven of the other senior executives, whereas termination conditions in accordance with applicable union agreements apply to all other senior executives.

Salary and other benefits to the President are proposed by the Compensation committee and decided by the parent company Board of Directors. Salaries and benefits to other senior executives are proposed by the President and decided by the Compensation committee.

Equity related remuneration to employees

Staff warrants 1999

Following the AGM's decision on 18 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 June 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.

Note 4 – Average number of employees and other staff-related information

Average number of employees	2003			2002		
	No. of employees	Of whom men	Of whom women	No. of employees	Of whom men	Of whom women
Parent company in Sweden	487	381	106	475	372	103
Subsidiaries in Sweden	136	111	25	136	112	24
	623	492	131	611	484	127
Subsidiaries abroad:						
The Netherlands	83	68	15	86	71	15
The United Kingdom	33	27	6	40	34	6
Lithuania	5	3	2	5	3	2
Malaysia	5	2	3	5	2	3
Poland	5	2	3	4	2	2
The Czech Republic	3	1	2	3	1	2
Total abroad	134	103	31	143	113	30
Group total	757	595	162	754	597	157

Number of Board members and senior executives	2003		2002	
	On closing date	Of whom men %	On closing date	Of whom men %
Group (incl. subsidiaries)				
Board members	70	90	70	91
Presidents and other senior executives	51	92	50	94
Parent company ⁽¹⁾				
Board members	8	87	8	87
President and other senior executives	15	93	15	93

⁽¹⁾ Two of the members appointed by the employees, of whom one male.

Absence due to illness %	Parent company 1.7.2003 – 31.12.2003
Total absence due to illness	3.8
of which long-term	23.7
- absence due to illness, men	3.5
- absence due to illness, women	4.8
- employees younger than 29 years of age	1.4
- employees 30 – 49 years	2.4
- employees older than 50 years of age	7.1

Note 5 – Financial items

	2003	Group 2002	Parent company	
			2003	2002
Profit from shares in subsidiaries				
Dividend			8,000	9,000
Group contribution			29,200	22,700
Profit from other shares and participations				
Profit from divestment of shares	-	2,407	-	2,407
Dividend	244	602	244	602
Gain/loss on receivables				
Interest income, subsidiaries (long-term)			8,040	9,174
Interest income, other	2,963	5,712	1,906	2,718
Interest expenses				
Interest expense, subsidiaries			-9,330	-7,603
Interest expense, convertible loan	-2,609	-1,576	-2,609	-1,576
Interest expense, other	-12,303	-18,506	-11,154	-15,292
Net financial items	-11,705	-11,361	24,297	22,130

Note 6 – Appropriations

	Parent company	
	2003	2002
Change in depreciation in excess of plan,		
-buildings	3,724	3,724
-machinery and equipment, tools, fixtures and fittings	-68,336	49,477
Change in tax allocation reserve	8,567	-27,100
Total	-56,045	26,101

Note 7 – Tax

	2003	Group	Parent company	
		2002	2003	2002
Current tax	-30,539	-66,173	-14,744	-60,304
Current tax on previous years' profit	916	-	937	-
Deferred tax on taxable temporary differences	-12,204	20,603	-	-
Translation differences	-1,369	-708	-	-
Deferred tax on tax-exempt temporary differences	-1,027	-1,855	-1,091	-681
Total	-44,223	-48,133	-14,898	-60,985

Difference between nominal and actual tax charge	2003	Group	Parent company	
		2002	2003	2002
Profit before tax	185,588	200,030	66,074	223,342
Nominal tax 28 percent	51,965	56,008	18,501	62,536
Tax effect of non-tax expenses	2,122	2,050	807	1,088
Tax effect of tax-exempt income	-3,267	-2,792	-3,158	-2,738
Adjustment for previous years' tax	-916	-	-937	-
Adjustment for previous years' deferred tax	-	-6,805	-	-
Deferred tax asset on pensions	-	-43	-	681
Effect of foreign tax rates	-8,829	383	-	-
Tax on Group adjustments	3,501	1,298	-	-
Utilised but not reported losses carried forward	-	-1,542	-	-
Other	-373	-424	-315	-582
Total	44,223	48,133	14,898	60,985

Note 8 – Earnings per share

	2003	Group
		2002
Net profit	141,365	151,897
Interest expense on convertible loan	2,608	1,576
Tax referable to above items	-730	373
Adjusted profit for calculation of earnings per share after dilution	143,243	153,032

	2003	Group
		2002
Average number of shares before dilution (000)	21,006	21,002
Presumed redemption of warrants	6	12
Presumed conversion of convertible debt instruments	746	373
Average number of shares after dilution	21,758	21,387

Note 9 – Dividend per share

On 21 April 2004 the Annual General Meeting will propose a dividend of SEK 3.50 per share for the financial year 2003; SEK 73,671,150 all in all. This amount has not been accounted for as a year-end liability, but will be posted to shareholders' equity under "Appropriation of profit" in the 2004 accounts. In both 2002 and 2001, a dividend of SEK 3.50 per share was paid.

Note 10 – Intangible fixed assets

	Group		Parent company	
	2003	Goodwill 2002	2003	Goodwill 2002
Acquisition value, opening balance	7,700	-	7,700	-
Additions	8,142	7,700	-	7,700
Accumulated acquisition value, closing balance	15,842	7,700	7,700	7,700
Depreciation, opening balance	323	-	323	-
Depreciation charge for the year	1,613	323	1,540	323
Accumulated depreciation, closing balance	1,936	323	1,863	323
Planned residual value, closing balance	13,906	7,377	5,837	7,377

Note 11 – Tangible fixed assets

Group	Land and buildings		Plant and machinery		Equipment, tools fixtures and fittings		Construction in progress	
	2003	2002	2003	2002	2003	2002	2003	2002
Acquisition value, opening balance	354,802	349,266	1,195,013	1,112,128	96,623	93,639	8,790	40,713
Additions	764	4,356	40,472	77,380	5,436	5,075	52,820	8,726
Disposals	-	-	-1,392	-11,854	-1,617	-1,528	-	-1,328
Reclassifications	815	3,558	-7,733	35,119	10,688	644	-3,770	-39,321
Translation differences	-1,769	-2,378	-14,738	-17,760	-1,159	-1,207	-	-
Accumulated acquisition value, closing balance	354,612	354,802	1,211,622	1,195,013	109,971	96,623	57,840	8,790
Depreciation, opening balance	238,365	230,799	627,135	569,897	83,985	77,888	-	-
Disposals	-	-	-778	-6,710	-1,614	-1,434	-	-
Reclassifications	-	-	-6,853	-803	6,853	803	-	-
Depreciation charge for the year	9,030	8,770	76,838	74,821	7,255	7,745	-	-
Translation differences	-833	-1,204	-9,338	-10,070	-1,010	-1,017	-	-
Accumulated depreciation, closing balance	246,562	238,365	687,004	627,135	95,469	83,985	-	-
Write-ups, opening balance	34,848	34,848	-	-	-	-	-	-
Accumulated write-ups, closing balance	34,848	34,848	-	-	-	-	-	-
Planned residual value, closing balance	142,898	151,285	524,618	567,878	14,502	12,638	57,840	8,790
Tax assessment values								
Swedish companies								
Buildings	95,615	100,282						
Land	44,319	44,146						
Total	139,934	144,428						
Book value of corresponding assets	124,294	130,129						
Of which land	51,107	49,997						

Note 11 – Tangible fixed assets (continued)

Parent company	Land and buildings		2003	Plant and machinery		Equipment, tools fixtures and fittings		Construction in progress	
	2003	2002		2002	2002	2003	2002	2003	2002
Acquisition value, opening balance	286,311	278,498	495,838	424,406	28,998	26,586	8,789	40,713	
Additions	764	4,255	20,057	35,669	2,155	2,412	52,034	8,725	
Disposals	-	-	-	-	-	-	-	-1,328	
Reclassifications	815	3,558	2,955	35,763	-	-	-3,770	-39,321	
Accumulated acquisition value, closing balance	287,890	286,311	518,850	495,838	31,153	28,998	57,053	8,789	
Depreciation, opening balance	193,452	186,438	174,900	127,531	23,067	18,953	-	-	
Disposals	-	-	-	-	-	-	-	-	
Depreciation charge for the year	7,279	7,014	49,587	47,369	4,055	4,114	-	-	
Accumulated depreciation, closing value	200,731	193,452	224,487	174,900	27,122	23,067	-	-	
Write-ups, opening balance	34,848	34,848	-	-	-	-	-	-	
Accumulated write-ups, closing value	34,848	34,848	-	-	-	-	-	-	
Planned residual value, closing value	122,007	127,707	294,363	320,938	4,031	5,931	57,053	8,789	
Tax assessment values									
Buildings	92,540	97,228							
Land	43,213	43,061							
Total	135,753	140,289							
Book value of corresponding assets	122,007	127,707							
Of which land	50,742	49,607							

Note 12 – Shares and participations

	2003	Group 2002	Parent company 2003	Parent company 2002
Shares in subsidiaries				
Acquisition value, opening balance			238,595	230,545
Additions			-	8,050
Accumulated acquisition value, closing balance			238,595	238,595
Write-ups, opening balance			94,878	94,878
Accumulated write-ups, closing balance			94,878	94,878
Depreciation, opening balance			48,793	48,793
Accumulated depreciation, closing balance			48,793	48,793
Planned residual value, closing balance			284,680	284,680
Shares in associated companies				
Acquisition value, opening balance	282	711	282	711
Disposals	-	-429	-	-429
Accumulated acquisition value, closing balance	282	282	282	282
Planned residual value, closing balance	282	282	282	282
Shares in other companies				
Acquisition value, opening balance	150	150	149	149
Accumulated acquisition value, closing balance	150	150	149	149
Planned residual value, closing balance	150	150	149	149
Total	432	432	285,111	285,111

See Note 23 for shareholding specifications.

Note 13 – Long-term receivables

	2003	Group 2002	Parent company	
			2003	2002
Receivables from subsidiaries				
Acquisition value, opening balance			163,338	176,260
Loans			330	432
Repayment			-9,178	-9,101
Reclassification			-2,066	-4,253
Accumulated acquisition value, closing balance			152,424	163,338
Write-downs, opening balance			65,935	65,935
Accumulated write-downs, closing balance			65,935	65,935
Book value, receivables from subsidiaries			86,489	97,403
Other receivables				
<i>Interest-bearing</i>				
Acquisition value, opening balance	0	5,562	-	2,529
Refund from KP and Alecta	2,858	-5,562	-	-2,529
	2,858	0	-	0
<i>Non interest-bearing</i>				
Acquisition value, opening balance	11,659	11,945	6,965	7,646
Deferred tax asset	-1,028	-1,855	-1,091	-681
Refund from KP and Alecta	-2,995	-	-	-
Loans	-	1,569	-	-
	7,636	11,659	5,874	6,965
Book value, other receivables	10,494	11,659	5,874	6,965
Total long-term receivables	10,494	11,659	92,363	104,368

Note 14 – Inventories

	2003	Group 2002	Parent company	
			2003	2002
Raw materials and supplies	318,214	308,323	239,243	227,783
Work in progress	56,329	53,298	49,191	46,052
Finished goods and goods for resale	80,496	77,913	46,298	32,205
Total	455,039	439,534	334,732	306,040

Note 15 – Other receivables

	2003	Group 2002	Parent company	
			2003	2002
<i>Interest-bearing</i>				
Refund from KP and Alecta	616	514	-	-
<i>Non interest-bearing</i>				
Receivables from subsidiaries			139,698	103,890
Current tax assets	24,825	-	27,512	-
Other receivables	48,999	24,121	18,260	21,037
	73,824	24,121	185,470	124,927
Total	74,440	24,635	185,470	124,927

Note 16 – Shareholders' equity

Group	Share capital	Restricted reserves	Non-restricted equity	Total
Balance sheet 31.12.2001	210,000	381,884	257,691	849,575
Redemption of warrants	20	138		158
Dividend			-73,507	-73,507
Transfer between restricted and non-restricted equity		24,470	-24,470	0
Translation differences			-12,641	-12,641
Profit for the year			151,897	151,897
Balance sheet 31.12.2002	210,020	406,492	298,970	915,482
Redemption of warrants	306	2,111		2,417
Dividend			-73,510	-73,510
Transfer between restricted and non-restricted equity		77,880	-77,880	0
Translation differences			-13,169	-13,169
Profit for the year			141,365	141,365
Balance sheet 31.12.2003	210,326	486,483	275,776	972,585

Parent company	Share capital	Share premium reserve	Revaluation reserve	Statutory reserve	Non-restricted equity	Total
Balance sheet 31.12.2001	210,000	-	34,848	42,000	160,573	447,421
Redemption of warrants	20	138				158
Dividend					-73,507	-73,507
Profit for the year					162,358	162,358
Balance sheet 31.12.2002	210,020	138	34,848	42,000	249,424	536,430
Redemption of warrants	306	2,111				2,417
Dividend					-73,510	-73,510
Profit for the year					51,176	51,176
Balance sheet 31.12.2003	210,326	2,249	34,848	42,000	227,090	516,513

The share capital consists of 21,032,600 shares of the nominal value SEK 10 each. All shares are fully paid up.

Total issued shares 31.12.2002	21,002,000
Utilised warrants	30,600
Total issued shares 31.12.2003	21,032,600

Note 17 – Untaxed reserves

	Parent company	
	2003	2002
Depreciation in excess of plan,		
- buildings	21,615	25,339
- machinery and equipment; tools, fixtures and fittings	122,559	54,223
Tax allocation reserve	151,359	159,926
Total	295,533	239,488

Note 18 – Deferred tax

Temporary differences	2003	Group 2002	Parent company	
			2003	2002
Deferred tax assets				
Tax losses carried forward	1,133	975	-	-
Pensions	5,960	7,096	5,331	6,373
Other	543	592	543	592
Total	7,636	8,663	5,874	6,965
Deferred tax liabilities				
Untaxed reserves	106,050	87,633	-	-
Consolidation adjustments	-5,958	-1,732	-	-
Machinery and equipment	19,847	21,834	-	-
Total	119,939	107,735	-	-

The deferred tax asset is recorded as a Long-term receivable, see Note 13.

Note 19 – Liabilities to credit institutions

	2003	Group 2002	Parent company	
			2003	2002
Interest-bearing				
Borrowings in foreign currency	126,910	128,086	126,910	128,086
Credit market loans	149,427	56,488	147,986	55,746
Total	276,337	184,574	274,896	183,832
Of which having a duration longer than five years	0	0	0	0

Note 20 – Other long-term liabilities

	2003	Group 2002	Parent company	
			2003	2002
Interest-bearing				
Liabilities to subsidiaries			3,768	3,928
Convertible loans	74,625	74,625	74,625	74,625
Other long-term liabilities	848	848	-	-
	75,473	75,473	78,393	78,553
Non interest-bearing				
Liabilities to subsidiaries			3,526	3,886
Other long-term liabilities	-	-	848	848
	-	-	4,374	4,734
Total	75,473	75,473	82,767	83,287
Of which having a duration longer than five years	0	0	0	0

Note 21 – Other current liabilities

	2003	Group 2002	Parent Company	
			2003	2002
Interest-bearing				
Liabilities to subsidiaries			-	43,600
Other liabilities	6,378	236	-	-
	6,378	236	-	43,600
Non interest-bearing				
Tax liabilities	-	13,536	-	18,048
Liabilities to subsidiaries			258,091	243,060
Other liabilities	55,882	31,054	13,911	25,790
	55,882	44,590	272,002	286,898
Total	62,260	44,826	272,002	330,498

Note 22 – Accrued expenses and prepaid income

	2003	Group 2002	Parent company	
			2003	2002
Non interest-bearing				
Accrued salary costs	42,615	44,336	29,656	27,922
Accrued payroll overheads	20,769	19,930	14,753	14,677
Accrued pension costs	12,180	21,572	9,596	13,451
Customs duties	55,250	50,882	55,250	50,202
Other	24,155	35,128	18,720	27,216
Total	154,969	171,848	127,975	133,468

Note 23 – Specification of shares and participations

PARENT COMPANY'S SHARES IN SUBSIDIARIES

	Corp.reg.no.	Registered office	No. of shares	Share of equity, %	Book value
Karlshamns Sweden AB	556377-1574	Karlshamn	1,000	100	144,778
Tefac AB	556283-5214	Karlshamn	1,000	100	40,050
Binol AB	556111-3472	Karlshamn	20,000	100	3,000
Karlshamns Crushing & Feed AB	556026-0811	Karlshamn	81,000	100	9,238
Belico Holding AB	556537-0904	Karlshamn	9,000	100	750
Karlshamns Lipid Specialities AB	556283-5156	Karlshamn	20,000	100	3,040
Gnikiv East Holding AB	556379-1598	Karlshamn	1,000	100	100
Karlshamns Baltic Holding AB	556381-8664	Karlshamn	1,000	100	100
UAB Karlshamns Baltic, Lithuania		Vilnius	254	100	-
Karlshamns spol. s.r.o., Czech Republic		Prague		100	-
Karlshamns Polska Sp.z o.o., Poland		Warsaw	100	100	-
Lipex AB	556345-4585	Karlshamn	1,000	100	100
Filium AB	556305-9426	Karlshamn	20,000	100	230
Binol Vegetabiliska Oljor AB	556345-4577	Karlshamn	2,000	100	200
Karlshamns Re AG, Switzerland		Zug	1,090	100	8,050
Karlshamns BV, the Netherlands		Zaandijk	500	100	2,145
Karlshamns UK Holdings Plc., United Kingdom		Hull	4,848,499	100	69,960
Karlshamns International Plc., United Kingdom		Hull	50,000	100	-
Chambers & Fargus Ltd, United Kingdom		Hull	900,000	100	-
Karlshamns Ltd, United Kingdom		Hull	1,500,000	100	-
Karlshamns (M) Sdn. Bhd., Malaysia		Kuala Lumpur	1,500,000	100	2,806
Karlshamns Far East Sdn. Bhd., Malaysia		Kuala Lumpur	500,000	100	133
Karlshamns Specialty Fats Sdn. Bhd., Malaysia		Kuala Lumpur	2	100	0
Total					284,680

GROUP'S AND PARENT COMPANY'S SHARES AND PARTICIPATIONS IN ASSOCIATED COMPANIES

	Registered office	No. of shares	Share of equity, %	Book value	Group's share of operating profit/loss 2003	Group's share of equity 2003
Foreign						
Akoleo S.A., Switzerland	Geneva	60	20	282	361	2,113
Total				282	361	2,113

GROUP'S AND PARENT COMPANY'S SHARES AND PARTICIPATIONS IN OTHER COMPANIES

	Corp.reg.no.	Registered office	No. of shares	Share of equity %	Book value
Svensk Raps AB	556220-7406	Malmö	300	10.0	59
Elektronikcentrum i Svängsta AB	556254-0905	Svängsta	1,609	8.7	90
Shares in associations and minor holdings			5	0	1
Total					150

Note 24 – Contingent liabilities

	2003	Group 2002	Parent company 2003	Parent company 2002
Guarantees				
On behalf of subsidiaries			20,379	35,179
Other	20,260	34,378	6,000	7,890
Total	20,260	34,378	26,379	43,069

Note 25 – Auditors' fees

	2003	Group 2002	Parent company	
			2003	2002
Öhrlings PricewaterhouseCoopers				
Audit assignments	1,631	1,492	503	600
Other assignments	913	944	773	644

Audit assignments refer to the audit of the annual report, the accounting records and the administration by the Board of Directors and the President. Audit assignments also include any other responsibility of the company's auditor, along with advisory or other professional services brought about by observations made in the framework of such audit or responsibilities. All other activities are classified as "Other assignments".

Note 26 – Inter-company transactions

The Parent company's sales to other Group companies amount to 11 percent (9) of net sales, whereas the corresponding purchases amount to 10 percent (10) of operating costs.

Note 27 – Risk management and sensitivity analysis

The Group's risk management is described under the heading "Risk management and sensitivity analysis" on page 62.

Karlshamn, 10 March 2004



Melker Schörling
Chairman of the Board



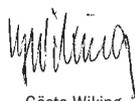
Clas Eriksson



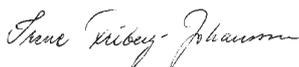
Håkan Hellmo



Mikael Ekdahl



Gösta Wiking



Irene Friberg-Johansson



Leif Håkansson



Jerker Hartwall
President

Our audit report was submitted on 10 March 2004
Öhrlings PricewaterhouseCoopers AB



Åke Christiansson
Auktoriserad revisor
(Authorized public accountant)

Audit report

To the general meeting of the shareholders of Karlshamns AB (publ)
Corporate identity number 556478-1796

We have audited the annual accounts, the consolidated financial statements, the accounts and the administration of the Board of Directors and the President of Karlshamns AB for the year 2003. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual accounts, the consolidated financial statements and the administration, based on our audit.

The audit was conducted in accordance with Generally Accepted Auditing Standards in Sweden. This means that the audit was planned and executed to obtain reasonable assurance that the annual accounts and consolidated financial statements are free of material misstatement. An audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the annual accounts and consolidated financial statements. As a basis for our opinion concerning discharge of liability, we examined significant decisions,

actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any Board Member or the President. We also examined if any Board Member or the President has, in any other way, acted in contravention of the Swedish Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act, and thereby give a true and fair view of the Company's and the Group's results and financial position in accordance with generally accepted accounting principles in Sweden.

We recommend to the Annual General Meeting that the income statements and balance sheets for the parent company and Group be adopted, and that the profit for the parent company be dealt with in accordance with the proposal in the Directors report and that the Board of Directors and the President be discharged from liability for the financial year.

Karlshamn, 10 March 2004

Öhrlings PricewaterhouseCoopers AB



Åke Christiansson

Auktoriserad revisor

(Authorized Public Accountant)

The Karlshamns share has been listed on the Stockholm Stock Exchange since 1997. In the following, two stock market analysts express their opinions on the development, strengths and weaknesses of the Karlshamns share, and let us know which analysis model they use when monitoring Karlshamns' development.



A stock market analysis of Karlshamns



Jonas Eixmann



Christina Rinman

Jonas Eixmann

Analyst, Handelsbanken Capital Markets

Christina Rinman

Former analyst, Nordea

What factors are, in your opinion, the most important ones for the development of the Karlshamns share?

The company's profit growth in particular, but also its sales development and dividend potentials. Karlshamns' balance sheet is too strong.

Expanding sales of products that generate high contribution margins: high value-added speciality fats marketed in particular by business segments Edible Oils and Lipids for Care. Binol will have additional powers to generate value growth, if only the new alliances with Shell and Quaker Chemicals pay off as expected. Finally, Karlshamns R&D activities are of great interest as long as they generate new, high value-added applications that are promoted into sales successes.

Is there anything in particular to look out for in the interim reports?

The development of contribution margins. With a growing proportion of high value-added products, margins should strengthen accordingly. Costs must be kept on a reasonable level as well.

Comments on the company's competitive situation and sales development. Are things deteriorating or improving? Is the profitability strong enough to stand even tougher challenges? It's also advisable to monitor energy prices and currency rates (EUR and USD), as those are factors with considerable influence on Karlshamns' bottom line.

Choose the three key ratios that best describe Karlshamns' development.

The EBIT margin, the EPS growth, net borrowings in relation to equity.

Contribution margin, sales growth and return on net operating assets.

What are the strengths (positive) and weaknesses (negative) of the Karlshamns share?

Its strengths: it's stable, it's a turn-around case and it's relatively low priced.
Its weaknesses: The share has low liquidity; the company and its products are relatively unknown.

Its strengths: the share offers a fairly safe investment in combination with good yield prospects, should the company's focus on high value-added products be successful.
Its weaknesses: there are very few comparable companies on the Stockholm Stock Exchange. Also, the company's complex processes can be difficult to grasp.



The Karlshamns share offers limited risk

The development of the stock market as a whole affects individual, listed shares to a greater or lesser degree. When investors lose faith in the stock market, they move on to other kinds of assets, e.g. bonds. As a consequence, stock prices fall, some deeper than others. Certain shares depend heavily on general stock market trends, whereas others are more or less independent of the overall development.

To establish to what extent a certain share follows the general stock market development, you may study its so-called beta value, which is a statistical measurement to describe the market risk of an individual share. The "beta value 1" means that the share in question correlates with stock market index. When the overall stock market trend is up 2 percent, the individual share is up 2 percent as well. A beta value higher than 1 indicates a share price that fluctuates beyond index, whereas a beta value lower than 1 signifies an average share value more stable than index.

The Karlshamns share has a beta value of 0.4, which thus means that should the Stockholm Stock Exchange fall by 10 percent, the Karlshamns share would only lose 4 percent of its value. The same relation applies to a rising trend. This makes Karlshamns fairly independent of the general stock market development.

Jonas Eixmann
Analyst, Handelsbanken Capital Markets

Christina Rinman
Former analyst, Nordea

What analysis model do you use for Karlshamns?

The cash-flow model.

A cash-flow model based on assumptions I have made of the company, its competitors and its market.

If we would like to compare Karlshamns with other, similar companies, which ones should we choose?

There are very few comparable objects on the stock market today. Two possible reference objects would be Sardus and Cloetta Fazer.

It's hard to find comparable companies on the Stockholm Stock Exchange today. The best alternative would be to compare Karlshamns with Aarhus United, which is listed on the Copenhagen Stock Exchange (Denmark). Some possibilities on the Stockholm Stock Exchange would be other raw material suppliers – the pulp and paper industries, for example. Just like Karlshamns, they are dependent on raw material prices, they are heavy energy consumers, they have large, capital-intensive production plants and their profits are more or less exposed to currency fluctuations.

Do you consider the Karlshamns share more or less risk-exposed than the stock exchange in average?

The Karlshamns share is safer than the stock exchange in general.

I would classify its risk as low to average. As concerns the company's sales to the food industry, it is rather exposed to general business conditions. In all other aspects this is a solidly established industry that develops at a rather moderate pace. Unexpected, negative surprises would thus be less common in a company like Karlshamns, than on the stock exchange in general.

What is the 12-month trend of the Stockholm Stock Exchange?

Our opinion is one of careful optimism, and we count on a 5 – 10 percent increase in the first half of 2004. Should the recovery be a sustainable one, the trend might continue upwards throughout the rest of the year.

The economic upswing we are discerning right now is already reflected in share prices. The stock market rose by 31 percent last year, but I nevertheless expect the index to follow the economic climate upwards. My estimate would be another 15 – 20 up, on a twelve-month basis.

The Karlshamns Share

Karlshamns' shares have been listed on the Stockholm Stock Exchange since 1997. In 2003 a total of 4,529,326 (4,119,479) Karlshamns shares were traded, representing a total value of SEK 370,053,056 (323,950,816).

The turnover rate was 22.0 percent, with an average of 18,190 (16,478) shares traded each day. By closing date the share price was SEK 94.00 (89.00), giving Karlshamns a market value of SEK 1,977 million (1,870). The lowest price paid in 2003 was SEK 67.50 (on 31 March); the highest price paid was SEK 95 (on 7 November and 30 December).

Share capital

At year end, Karlshamns' nominal share capital amounted to SEK 210,326,000, divided into 21,032,600 shares with a nominal value of SEK 10 each. Each share carries equal rights to participate in the company's assets and profits.

Each share also entitles its holder to one vote and, at the Annual General Meeting, each person entitled to vote may vote his/her entire shareholding (as well as shares held by proxy) without any limitation to the number of votes.

Changes in ownership

Karlshamns' total number of shareholders on 31 December 2003 was 6,264 (6,034), an increase of 4 percent over 31 December 2002.

The most recent, major changes in ownership took place in 1999, as KF Invest transferred its holding in Karlshamns to Kooperativa Förbundet Ekonomisk Förening (KF Finans), and in 2000 when Melker Schörling AB acquired 1,960,257 shares, equivalent to 9.3 percent of the share capital and voting rights. Melker Schörling AB is thereby the largest shareholder of Karlshamns AB, currently holding a total of 31 percent of share capital and votes.

In 2003 the largest change was recorded among owners holding 1 – 500 shares, where the number of shareholders increased by 180 up to 4,515.

At the end of 2003, institutions held 25.6 percent (26.3) of the shares. The holdings of Swedish institutions fell somewhat, to 22.6 percent (23.3), whereas foreign institutions remained on a level with 2002, at 3.0 percent.

Private ownership in Sweden increased to 21.8 percent (20.9), the corresponding share of foreign

Division of shareholding on 31 December 2003

Number of shares	Number of shareholders	Proportion of all shareholders, %	Proportion of share capital and voting rights, %
1-500	4,515	71.79	4.21
501-1,000	947	15.48	3.90
1,001-2,000	410	6.45	3.18
2,001-5,000	231	3.61	3.58
5,001-10,000	77	1.21	2.71
10,001-20,000	28	0.50	2.02
20,001-50,000	31	0.53	4.99
50,001-100,000	10	0.17	2.40
100,001-	15	0.26	73.01
Total	6,264	100.00	100.00

Major shareholders on 31 December 2003

	Number of shares	Proportion of share capital and voting rights, %
Melker Schörling AB	6,512,823	31.0
Lantmännen Invest AB	4,454,245	21.2
SEB Fonder	1,082,035	5.1
AMF Pension Fondförvaltning AB	985,000	4.7
AMF Pensionsförsäkring AB	888,600	4.2
Robur Fonder	229,000	1.1
Östersjöstiftelsen	228,000	1.1
Odey Continental European Fund	221,500	1.0
Försäkringsbolaget Pensionsgaranti	202,300	1.0
Livförsäkringsbolaget Skandia	200,000	0.9
Others	6,029,097	28.7
	21,032,600	100.0
Total number of shareholders	6,264	

Data per share

	1996	1997	1998	1999	2000	2001	2002	2003
Number of shares (000s)	14,000	21,000	21,000	21,000	21,000	21,000	21,002	21,033
Outstanding warrants (000s)	-	-	-	168	168	168	912	881
Number of shareholders	-	4,686	4,971	5,203	4,964	5,510	6,034	6,264
Share price at year-end, SEK	-	124.00	60.00	70.50	67.00	80.50	89.00	94.00
Dividend, SEK	10.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50 ¹⁾
Yield, %	-	2.8	5.8	5.0	5.2	4.3	3.9	3.7
Dividend as % of year's profit after tax, %	88.6	40.3	51.5	59.9	258.8	55.4	48.4	52.0 ¹⁾
EPS before conversion and utilisation of warrants, SEK	11.84	8.68	6.80	5.84	1.35	6.32	7.23	6.73
EPS after conversion and utilisation of warrants, SEK	11.84	8.68	6.80	5.80	1.34	6.27	7.16	6.58
Shareholders' equity per share before conversion and utilisation of warrants, SEK	45.96	33.10	36.77	39.14	37.20	40.46	43.59	46.30
Shareholders' equity per share after conversion and utilisation of warrants, SEK	45.96	33.10	36.77	38.83	36.91	40.13	42.81	44.70
P/E ratio after tax, SEK	-	14.3	8.8	12.1	49.6	12.7	12.3	14.0
Share price/Equity	-	3.7	1.6	1.8	1.8	2.0	2.0	2.0

1) Proposed dividend.
For definitions, see page 67.

private owners decreasing to 0.5 percent (0.6). Total foreign ownership at year end was 3.5 percent (3.6) or 745,521 shares (749,948).

Of the total number of shares, 65.2 percent (66.4) were directly registered. All in all, 13,705,755 shares (13,947,651) were directly registered, divided among 2,963 owners (2,816).

The number of nominee-registered shares at year end was 34.8 percent (33.6), corresponding to 7,326,845 shares (7,054,349) divided among 3,301 owners (3,218).

Karlshamns' major shareholders at closing date are specified in the table on page 60.

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 of no more than 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 will be 0.8 percent. The subordinated loan carried an annual interest rate of 3 percent and matured on 1 July 2000.

Staff warrants 2002

In April 2002, the Annual General Meeting decided to offer all permanent employees in Sweden, the United Kingdom and the Netherlands the possibility to subscribe for convertible debt instruments for a maximum SEK 93,700,000. Of this total offer, SEK 74,625,000, or some 80 percent, were subscribed for.

Dilution on full conversion will be around 3.5 percent of share capital and voting rights. The convertible loan matures on 20 June 2007, should conversion not have taken place by then. The conversion rate was fixed at SEK 100, and the conversion period runs from 10 May 2005 to 10 May 2007.

The loan carries an annual rate of interest corresponding to STIBOR less 0.5 percentage points.

Dividend proposal

The Karlshamns Board proposes that a dividend of SEK 3.50 per share be paid for the 2003 financial year. Based on the market price for the share at year end, the proposed dividend is the yield equivalent of 3.7 percent.

Dividend policy

The aim of the Board of Directors of Karlshamns is to develop and maintain a financial balance with respect to financial position, net income, cash flow and anticipated future profitability.

Based on these objectives, it is the Board's intention that 35 – 50 percent of the Group's profit after tax for the year be distributed as dividends.

Investors' relations

It is the ambition of Karlshamns' management to contribute to the market's knowledge and understanding of the Karlshamns Group.

All of Karlshamns' press releases are distributed via Waymaker, and are also available on www.karlshamns.com.

Members of Group Management may be contacted by telephone +46 454 – 820 00, fax +46 454 – 828 20 or E-mail info@karlshamns.se.

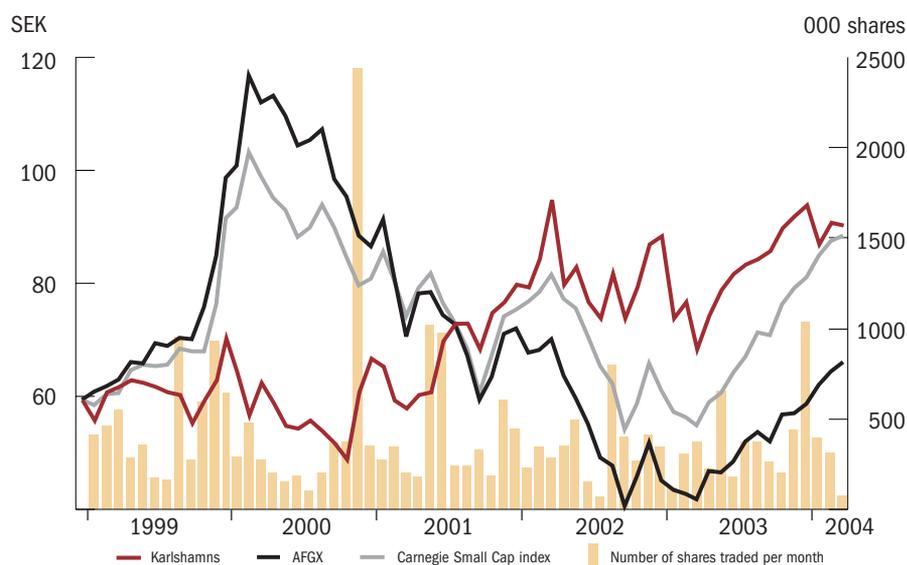
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The Karlshamns Share



Source: SIX/Hallvarsson&Halvarsson



Risk management and sensitivity analysis

Karlshamns' risk management is governed by established policies and routines. The Raw Material Sourcing Policy contains risk limits for the Group's raw material trading. Risks related to foreign currencies, interest rates and liquidity are dealt with in the Financial Policy, whereas Karlshamns' Credit Policy contains guidelines for how to handle credit and contract risks. Karlshamns' own Risk Manager has global responsibility for the identification, follow-up and management of all risks arising from or relating to the Group's operations.

Risks related to business environment and operations

The major risk related to Karlshamns' business environment is that of the economic development in the Group's various customer segments. This potential risk necessitates an ever-growing understanding of current and future needs, requirements and wishes among Karlshamns' customers as well as among the end consumers. To eliminate such commercial risks, Karlshamns strives for close cooperation with its customers, access to comprehensive market intelligence and a continuous reassessment of both global and regional strategies.

Karlshamns' reliance on the development of the food industry is rather strong, but is partly offset by sales to other industries with business cycles deviating from that of the food industry.

Risks related to operating costs

Among the operational risks are also those arising from changes in Karlshamns' cost structure. Of particular importance are costs related to operations, maintenance and raw materials. Operational and maintenance expenses consist primarily of costs for personnel and energy.

In the short term, the development of salaries and wages is relatively difficult to control.

Risks related to energy prices

Fluctuations in energy costs may have considerable effects on Group profits, as Karlshamns' operations are clearly energy-intensive. Dedicated efforts are being made to reduce both consumption and costs, and thus also to limit risk exposure in this area. To minimise risks, the Group has introduced a risk policy for all trading operations on the electricity market. Karlshamns buys futures contracts on the Nordpool market to hedge the cost level of its future electricity supply. The year-end hedging status is specified in the table below.

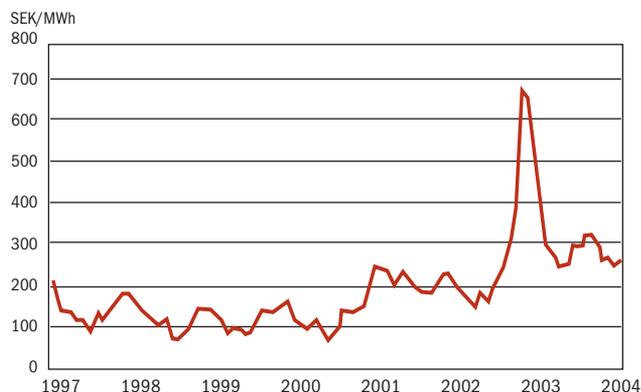
Electricity futures (Nordpool)

Period / year	Hedged volumes as a percentage of annual requirement	Hedged volumes	Market value 31.12.2003 (SEK m)
2004	55.1	63	2.4
2005	46.2	53	0.4
2006	38.5	44	0.6
2007	38.5	44	0.2
TOTAL			3.6

Price risks for raw materials

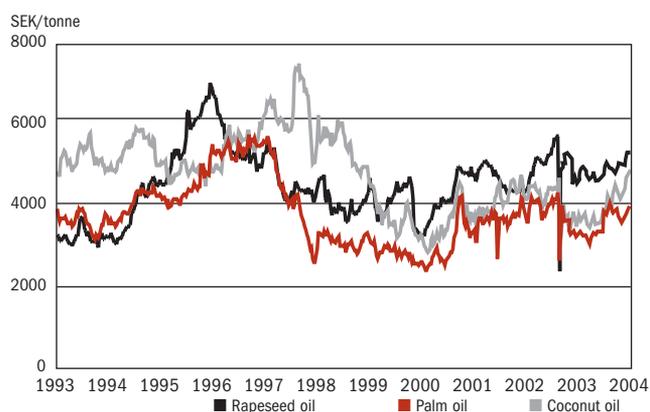
Raw material sourcing is handled by a global purchasing function, which monitors and controls the Group's raw material exposure around the clock.

Electricity prices, Swedish spot market



Electricity prices rose significantly in 2002.

Price developments rapeseed, palm and coconut oil 1993-2003



Raw material prices remained stable throughout 2003.

Karlshamns' raw material costs amount to around three-quarters of sales. Customer prices for most of Karlshamns' products are set according to the prevailing world market price for the raw materials, plus a gross contribution that is exposed to competition. As the average customer contract has a delivery time of around six months, the raw materials required are hedged by means of futures contracts on the world market. Karlshamns' bottom line is thereby only marginally affected by changes in raw material prices, whereas effects are considerably larger on total sales and operating capital.

Raw material prices fluctuate considerably, and it is Karlshamns' policy not to speculate in such price movements. Another top priority for raw material sourcing is therefore also to continuously monitor and manage the Group's raw material exposure, with a view to limiting the effects of fluctuating raw material prices on Karlshamns' bottom line.

To simplify raw material sourcing, the staff may, within the framework of the trading policy issued by the Board, take limited risks in raw material prices.

A considerable part of the Group's raw materials are purchased in South East Asia, where there are extended lead-times between purchase and sale. Prices are hedged by means of futures contracts or purchasing contracts based on a fixed price level. Purchases of raw materials and sales of processed materials are hedged by means of standardised raw material contracts, on commodity exchanges or via brokers.

Raw material purchases are managed and administered on the basis of five separate portfolios of equivalent oils or seeds: liquids (rapeseed and soybean oil), palm, laurics (coconut and palm-kernel oil), seed/meal (rapeseed) and exotic raw materials (shea and illipe). The more exotic raw materials are not traded on commodity exchanges and are therefore

considerably more difficult to hedge.

The market value of raw material contracts classified as financial instruments (according to the definition by the Swedish Financial Accounting Standards Council) is set forth in the following table, where the difference between contract rate and year-end market value is shown. The Group's future profits are only marginally affected by price fluctuations of the underlying raw materials, however, as the majority of Karlshamns' external raw material futures are based on actual sales and purchase agreements. The Group's cash-flow will be gradually affected as the raw material futures mature, particularly in the first half of 2004.

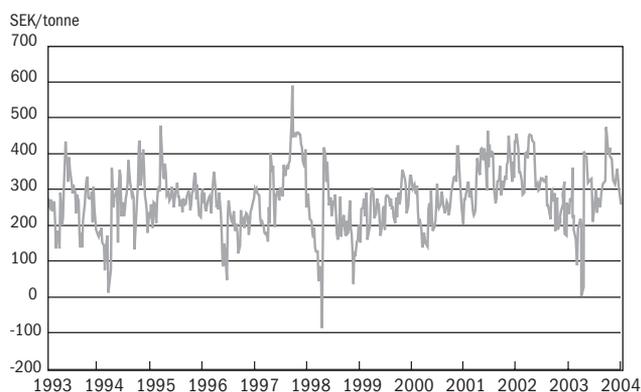
Market value of financial raw material futures 31 December 2003

Raw material portfolio	Tonnes bought	Tonnes sold	Market value, SEK m
Liquids	28,600	19,000	0.5
Laurics	50,953	45,999	-1.2
Palm	42,584	31,584	12.1
Seed/meal	5,500	30,250	4.4
Total	127,637	126,833	15.8

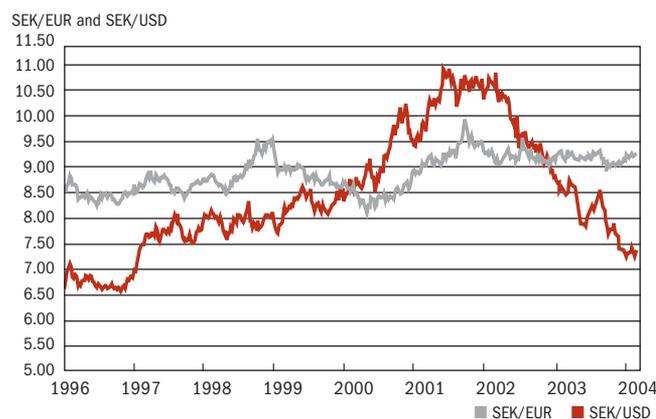
Gross contribution for rapeseed

Gross contribution is a way of measuring the difference between the sales price Karlshamns may charge for a processed oil, and the purchase price paid for the raw materials used in the product. The gross contribution from the extraction of rapeseed oil and rapeseed meal varies considerably over time, with direct effects on profitability in business area Feed Materials.

By selling crude rapeseed oil and rapeseed meal on the futures market when rapeseed is purchased, price risks are eliminated at the same time as gross contri-

Gross contribution, rapeseed 1993 - 2003

Gross contribution decreased in the first half of 2003, but increased again in the second half of the year.

Exchange rate trends, 1996 - 2003

The USD lost considerable strength in 2003.

tribution is hedged. The business area Feed Materials hedges all purchases of rapeseed as well as all sales of feed meal and rapeseed oil via the Group's global function for raw material sourcing.

Financial risks

Karlshamns' treasury operations are centralised to the parent company and also function as the Group's own bank. Karlshamns' treasury department is responsible for borrowing, cash management and all financial risk management. All financing matters are governed by a global Financial Policy, which is revised by the Board of Directors at regular intervals. The Financial Policy states the goals of Karlshamns' treasury operations; it describes the global distribution of responsibilities in all financing matters and specifies how risks ensuing from all financial operations are to be managed. Among the primary goals of Karlshamns' treasury operations are:

- to limit financial risks
- to minimise costs of loan capital
- to ascertain access to supplementary financing whenever needed

Among Karlshamns' financial risks, those arising from currency fluctuations, refinancing/liquidity, interest rates, contracts and credits are considered the most important ones.

Currency risks

Changes in exchange rates affect Karlshamns in different ways:

- Commercial flows that generate transactions in different currencies are exposed to transaction risks.
- The results of foreign subsidiaries are affected by exchange rate fluctuations when converted to SEK.
- The Group's equity is affected when the equity of foreign subsidiaries is converted to SEK.

A significant part of the Group's sales and pur-

chases are in foreign currencies. It is Karlshamns' policy to hedge all sales and raw material contracts in the selling/purchasing company's base currency. The gross contribution for each sales contract is thus hedged in the selling company's own domestic currency.

The scope of the Group's currency hedging is established by the Board. Foreign subsidiaries' equity is relatively low, and is therefore not hedged.

The market value of currency futures classified as financial instruments (according to the definition by the Swedish Financial Accounting Standards Council) is set forth in the following table. These currency futures hedge Karlshamns' gross contribution from the moment the sales or purchasing contract is signed, which means that the effects of future currency fluctuations on Karlshamns' bottom line are eliminated.

Market value of currency futures on 31.12.2003 (SEK m)

Hedged currency	Bought	Sold	Market value
CZK	0.0	30.9	0.4
DKK	4.9	42.0	0.0
EUR	9.9	378.2	0.8
GBP	0.0	18.7	0.3
NOK	27.2	113.0	1.6
PLN	0.0	40.6	1.2
USD	20.4	76.9	8.9
Total	62.5	700.3	13.3

The average duration of the current portfolio of currency futures is approximately six months.

Karlshamns' Swedish production unit competes mainly with companies having the Euro as their base currency. Consequently, Karlshamns' profitability is to a large extent dependent on the exchange rate SEK/EUR.

The development of exchange rates in 2003 was mainly characterised by a considerably stronger Swedish currency in relation to the US dollar. When the Swedish currency weakens against the



Euro, or when the Euro falls in relation to the US dollar, this has positive effects on earnings. Changes in exchange rates have a delayed effect on profits, however, and it usually takes some six months for results to materialise.

Refinancing risks

By refinancing risk we mean the risk of failing to finance Karlshamns' operations, and/or the risk of having to renew a loan under unfavourable market conditions. This may be the case when a loan must be raised to finance a new investment, or when a current loan matures. To minimise these risks, Karlshamns strives for a loan portfolio that matures at regular and manageable intervals. The Group's Financial Policy requires a liquidity reserve of at least SEK 100 million in the form of credits guaranteed by a bank. On closing date, this liquidity reserve amounted to SEK 300 million.

Interest rate risks

Interest rate exposure refers to the effect of a change in current interest rates on the Group's net financial items. The Group's net borrowings amount to approximately SEK 250 million, with an average fixed interest term of 8 months. For safe management of the ensuing interest rate risk, the total borrowing is divided into several, more manageable amounts with varying interest terms and maturity dates.

Counterpart and credit risks

By counterpart and credit risks we mean the risk of the Group suffering financial losses due to a counterpart failing to fulfil its contractual obligations. Among Karlshamns' customers, the largest single customer accounts for less than five percent and the average-size customer for less than one percent of incomes. This structure considerably limits counterpart risks

and their potential effects on profits.

Slightly more than one quarter of the Group's sales are to countries where commercial and political risks are higher than on the Nordic and Western European markets.

Customer relations are handled by each respective business unit. As a consequence, counterpart and credit risks are handled on the business unit level, but are continuously followed up by the global treasury function.

Accepted counterparts in financial transactions are banks given a high credit rating by Standard & Poor's or Moody's.

Other risks

Karlshamns' risk management for damage is handled centrally for the whole Group, to achieve synergies in the form of lower insurance premiums and a uniform insurance cover for all of the Group's production units.

Sensitivity analysis

All of the risks described in the above affect the Group's bottom line in one way or another. The following table illustrates the theoretical effects in the course of a "normal" business year.

Risk factors (SEK m)	Change +/-	Impact on Group's		
		Profit	Sales	Working capital
Raw material prices (hedged)	10%	+/- 0	+/- 200	+/- 50
Exchange rates SEK/EUR	10%	+/- 30	-	-
Exchange rates SEK/USD	10%	+/- 5	-	-
Gross contribution rapeseed	25 SEK/tonne	+/- 5	-	-
Electricity (Sweden)	0.05 SEK/Kwh	+/- 5	-	-
Interest costs (net borrowings, 2003)	1% on lending rate	+/- 3	-	-

Seven-year summary

SEK m unless otherwise stated

Income statement	1997	1998	1999	2000	2001	2002	2003
Net sales	3,188	3,163	3,000	2,728	2,942	3,249	3,317
Proportion of net sales from abroad, %	57.9	60.6	62.9	61.5	62.0	62.2	66.1
Gross contribution	862	833	817	759	892	962	944
Operating profit	252	210	199	63	196	211	197
Profit after net financial items	239	194	185	52	182	200	185
Profit for the year	182	143	123	28	133	152	141

Operating profit per business area

Oils & Fats	210	162	155	6	143	146	134
Technical Products	23	31	29	39	36	36	41
Feed Materials	19	17	15	18	17	29	22

Balance sheet

Fixed assets	537	632	687	736	770	760	765
Current assets	899	1,006	939	926	1,045	1,011	1,134
Shareholders' equity	695	772	822	781	850	915	972
Provisions	106	113	103	97	132	111	121
Liabilities	635	753	701	784	833	745	806
Capital employed	930	1,185	1,108	1,101	1,264	1,180	1,304
Net borrowings	159	318	183	223	282	154	211

Key figures

Return on capital employed, %	30.3	19.8	16.0	5.6	16.4	16.7	15.6
Return on shareholders' equity, %	27.2	19.5	15.5	3.4	16.4	17.5	15.1
Equity/assets ratio, %	48.4	47.2	50.6	47.0	46.8	51.7	51.2
Debt/equity ratio, multiple	0.23	0.41	0.22	0.29	0.33	0.17	0.22
Proportion of risk-bearing capital, %	53.7	53.3	56.2	52.3	53.3	57.3	57.1
Interest cover ratio, multiple	16.0	11.2	11.2	4.0	9.4	11.0	13.4
Capital turnover rate, multiple	3.9	3.0	2.4	2.4	2.5	2.6	2.6
Cash flow from operating activities	139	76	307	131	137	310	123
Direct investments in fixed assets	124	160	136	117	109	103	108
Research and development costs	33	34	34	35	36	38	30
Average number of employees	806	787	782	761	751	754	757
of whom in Sweden	629	617	619	620	611	611	623
of whom abroad	177	170	163	141	140	143	134
Salaries and remuneration	225	223	226	229	239	259	259

Share data

Number of shares (000)	21,000	21,000	21,000	21,000	21,000	21,002	21,033
Outstanding warrants (000)	-	-	168	168	168	912	881
EPS before conversion and utilisation of warrants, SEK	8.68	6.80	5.84	1.35	6.32	7.23	6.73
EPS after conversion and utilisation of warrants, SEK	8.68	6.80	5.80	1.34	6.27	7.16	6.58
Shareholders' equity per share before conversion and utilisation of warrants ¹⁾ , SEK	33.10	36.77	39.14	37.20	40.46	43.59	46.30
Shareholders' equity per share after conversion and utilisation of warrants, SEK	33.10	36.77	38.83	36.91	40.13	42.81	44.70
Dividend per share, SEK ²⁾	3.50	3.50	3.50	3.50	3.50	3.50	3.50³⁾

1) Before proposed dividend. The dividend for 2002, paid out in May 2003, was SEK 73.5 million or SEK 3.50 per share

2) Decided dividend

3) Proposed dividend

Definitions

Key figures

Capital employed

Non interest-bearing current assets, less non interest-bearing liabilities and excluding deferred tax liabilities.

Capital turnover rate

Net sales divided by average capital employed.

Dividend ratio

Dividend per share as a percentage of earnings per share.

Earnings per share (EPS)

Profit for the year divided by the average number of shares on closing date.

Equity/assets ratio

Shareholders' equity including minority shares as a percentage of the balance sheet total.

Gross contribution

Operating income less cost of raw materials.

Interest cover ratio

Operating profit/loss, plus financial income divided by financial expenses.

Liquid funds

Cash and bank balances plus short-term investments with a duration shorter than three months.

Market value/Shareholders' equity

Market value divided by shareholders' equity per share.

Net borrowings

Total interest-bearing liabilities less interest-bearing assets.

Net debt/equity ratio

Net borrowings divided by shareholders' equity including minority shares.

Operating capital

Total assets less liquid funds, interest-bearing assets and non-interest-bearing liabilities, excluding deferred tax liabilities.

P/E ratio

Market value divided by earnings per share.

Proportion of risk-bearing capital

Shareholders' equity, minority share of equity and deferred tax, divided by the balance sheet total.

Return on capital employed

Operating profit/loss divided by average capital employed.

Return on shareholders' equity

Profit/loss for the year as a percentage of average shareholders' equity.

Shareholders' equity per share

Shareholders' equity divided by the average number of shares on closing date.

Yield

Dividend per share as a percentage of the market price per share.



Corporate Governance

In their information to the company's shareholders, one aim of Karlshamns' Board and Management is to make it easier for the individual investor to understand and follow the company's decision-making process; another is to describe Karlshamns' general assignment of responsibilities and delineation of authorities.

Annual General Meeting

The Annual General Meeting of Karlshamns AB is the Group's supreme decision-making body, and also the forum for shareholders to exert their influence. The duties of the AGM are specified by the Swedish Companies Act as well as in the company's articles of association.

In 2003, the Annual General Meeting was held on 24 April in the Karlshamn Town Hall. The meeting was attended by 126 shareholders who represented 63.7 percent of the total number of shares and votes. The AGM re-elected the Board in its entirety, consisting of Directors Mikael Ekdahl, Claes Eriksson, Jerker Hartwall, Håkan Hellmo, Melker Schörling and Gösta Wiking. The AGM confirmed the Board's dividend proposal of SEK 3.50 per share.

Board of Directors

In the period from its election and up to the next Annual General Meeting the Board of Directors is responsible for the management of the company, and thus acts as the company's supreme decision-making body.

The responsibilities of the Board of Directors are specified in the Swedish Companies Act as well as in the Articles of Association, and are also regulated by the so-called Rules of Procedure adopted each year by the statutory meeting following the AGM. These rules also specify the distribution of responsibilities between the Board, its Chairman and the President, as well as the President's financial reporting schedule.

It is the Board's responsibility to lay down strategies, business plans and budgets; to issue interim reports and summarised financial statements and to ascertain continuous evaluation and follow-ups. The Board shall also supervise the President's performance, appoint and dismiss the President and decide on material changes in Karlshamns' organisation and operations. The Board is also responsible for the Group's external financial reporting.

Karlshamns' Board of Directors consists of six members appointed by the AGM, and four members (two ordinary members, two alternates) appointed by Karlshamns employees. In 2003, these latter were Irene Friberg-Johansson (PTK), Leif Håkansson (Industrifacket), Ann Magnusson (PTK) and Christer Svantesson (Industrifacket).

A statutory Board Meeting always follows the election by the AGM. During this meeting the Directors confirm their distribution of responsibilities, the Rules of Procedure, their instructions to the President and the Compensation Committee as well as the Authorization manual.

In addition to the board meeting following their election, Karlshamns' Board of Directors met five times in the period between the AGM of 2003 and the adoption of these annual accounts. The main items on the agendas have been:

- February** Summary financial statements, audit report
- April** Interim report for the first quarter of the year, investments
- August** Interim report for the second quarter, investments



October Interim report for the third quarter, investments

December Strategic review, budget
Stefan Sjölin, CFO, acted as Secretary of the Board throughout 2003.

Chairman

The Board meeting following the election on 24 April 2003 re-elected Melker Schörling as its Chairman. The Chairman actively supervises the development of business operations, and is responsible for continuously informing all other Board members to ascertain that the Board may carry out its responsibilities in the very best way and in accordance with the Companies Act.

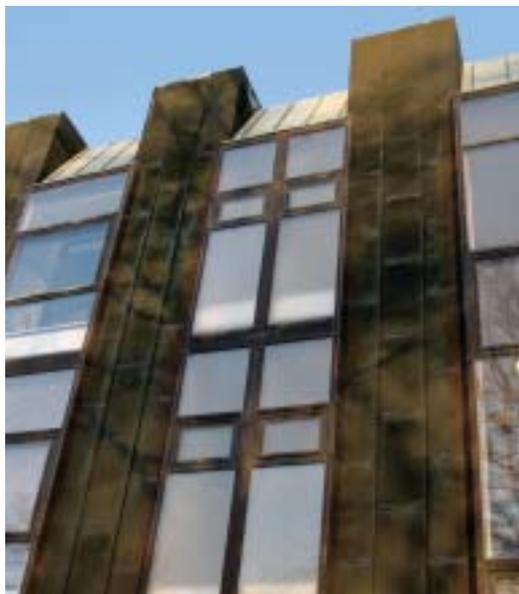
Committees

As of February 2003, all matters connected with audit and remuneration are handled by separate, appointed committees. Their task is to prepare current matters and submit proposals for the Board to vote on. The AGM held in 2003 also voted to set up a Nominating Committee, the task of which is to nominate board members, propose the level of directors' fees and similar issues. Prior to the Annual General Meeting in April 2004, Melker Schörling, Håkan Hellmo and Tor Marthin (AMF Pension) were appointed to the Nominating Committee.

The President

The President is in charge of the day-to-day management of the company in accordance with instructions and orders issued by the Board of Directors. The President shall supply all necessary information to the Board of Directors, and shall report to the Board at each of its meetings. The President shall provide the Board and its Chairman with continuous information about the company's and the Group's financial position and development.

In 2003 the Management Group was reorganised to comprise 12 members. During the year, the Management Group convened for 20 formal and numerous informal meetings. These meetings are chaired by the President, who then decides in accordance with the recommendations of the Group members.



Organisation

The Karlshamns Group consists of the parent company Karlshamns AB, subsidiaries and associated companies, all of which are specified in the Notes on page 55. All subsidiaries report directly to the President, on a monthly basis.

Major policies

Karlshamns' operations are guided by a number of policies aiming at operational efficiency along with correct external and internal conduct. Karlshamns' most central policies include:

- Financial Policy
- Environmental Policy
- Raw Material Sourcing Policy
- Purchasing Policy
- Credit Policy
- Staff Policies
- Health Policy
- Insider Policy

Audit

Karlshamns' auditors are appointed by the Annual General Meeting for a four-year term. The current period comprises the years 2000 – 2003, and the next election is thus scheduled for the AGM held in 2004.

The company's auditors are Öhrlings PricewaterhouseCoopers AB (Authorised Public Accountants), with Åke Christiansson as the principal auditor. Öhrlings Pricewaterhouse Coopers AB have been Karlshamns' auditors since 1992.

Audits are conducted in accordance with Generally Accepted Auditing Standards in Sweden and comprise the annual accounts, the consolidated financial statements, the accounts and the administration of the Board of Directors and the President. Separate meetings have been convened for the purpose of submitting audit reports to the Board of Directors and Group Management. In addition to their audit assignments, Öhrlings PricewaterhouseCoopers AB also provide Karlshamns with advisory and other professional services. All services commissioned outside the range of ordinary audit assignments are given due consideration to ascertain that no conflicts may arise with respect to independence or lawful disqualification.

Agreements with related parties

Karlshamns has no agreements with related parties.

Board of Directors



Melker Schörling



Clas Eriksson

Board members appointed by the Annual General Meeting

Melker Schörling

Born 1947.
Chairman of the Board.
Board member since 2001.
Other Board positions: Chairman of Securitas, Hexagon, Attendo Senior Care. Deputy Chairman of Assa Abloy. Board member of H&M.
Shareholding: 6,512,823 shares (via own company)
Warrants: 0
melker.schorling@securitasgroup.com

Clas Eriksson

Born 1949.
President of Lantmännen Invest AB.
Board member since 1994.
Other Board positions: Board member of AnalyCen Nordic AB, Lantmännen Invest AB, Svalöf Weibull AB, Melacure Therapeutics AB, Swecon Anläggningsmaskiner HB, SweLog Skogsmaskiner HB.
Shareholding: 0
Warrants: 0
clas.eriksson@lantmannen.se



Håkan Hellmo



Mikael Ekdahl

Håkan Hellmo

Born 1941.
President of Svenska Lantmännen.
Board member since 1997.
Other Board positions: Chairman of Lantmännen Invest AB, Lantmännens Maskinimport AB, Lactamin AB, AnalyCen AB, Doggy AB. Board member of Svenska Lantmännen, Cerealia AB, Svalöf Weibull AB, Spintab, Solanum AB.
Shareholding: 2,000 shares
Warrants: 0
hakan.hellmo@lantmannen.se

Mikael Ekdahl

Born 1951.
Attorney and partner of Mannheimer Swartling Advokatbyrå AB.
Board member since 2001.
Other Board positions: Chairman of Bong Ljungdahl AB and Marco AB. Board member of Konstruktionsbakelit AB and Börje Jönsson Åkeri AB.
Shareholding: 8,000 shares
Warrants: 0
mek@msa.se



Gösta Wiking



Jerker Hartwall

Gösta Wiking

Born 1937.
Board member since 1997.
Other Board positions: Chairman of Mölnlycke Health Care AB, Tribon Solutions AB and Angiogenetics AB. Deputy Chairman of S E B. Board member of Bong Ljungdahl AB and XCounter AB.
Shareholding: 300 shares
Warrants: 0
g.wiking@telia.com

Jerker Hartwall

Born 1952.
President and CEO of Karlshamns AB.
Board member since 2001.
Other Board positions: Board member of Novozymes A/S.
Shareholding: 30,300 shares
Convertible debt instruments corresponding to 63,500 shares.
Warrants: 0
jerker.hartwall@karlshamns.se



Irene Friberg-Johansson



Leif Håkansson

Board members appointed by the employees

Irene Friberg-Johansson

Born 1945.
Karlshamns AB
Appointed by PTK.
Board member since 1993.
Shareholding: 0
Convertible debt instruments corresponding to 650 shares.
Warrants: 200
irene.friberg@karlshamns.se

Leif Håkansson

Born 1957.
Karlshamns AB
Appointed by Industrifacket.
Board member since 2001.
Shareholding: 0
Convertible debt instruments corresponding to 650 shares.
Warrants: 0
leif.hakansson@karlshamns.se

Deputies

Christer Svantesson

Born 1951.
Karlshamns AB
Appointed by Industrifacket.
Deputy since 2002.
Shareholding: 0.
Convertible debt instruments corresponding to 650 shares.
Warrants: 0.
christer.svantesson@karlshamns.se

Ann Magnusson

Born 1962.
Karlshamns AB.
Appointed by PTK.
Deputy since 1999.
Shareholding: 0.
Convertible debt instruments corresponding to 3,000 shares.
Warrants: 0.
ann.magnusson@karlshamns.se

Auditor

Öhrlings PricewaterhouseCoopers AB

Åke Christiansson

Born 1954.
Auktoriserad revisor
(Authorized public accountant)
Company auditor since 1999.
(not in picture)

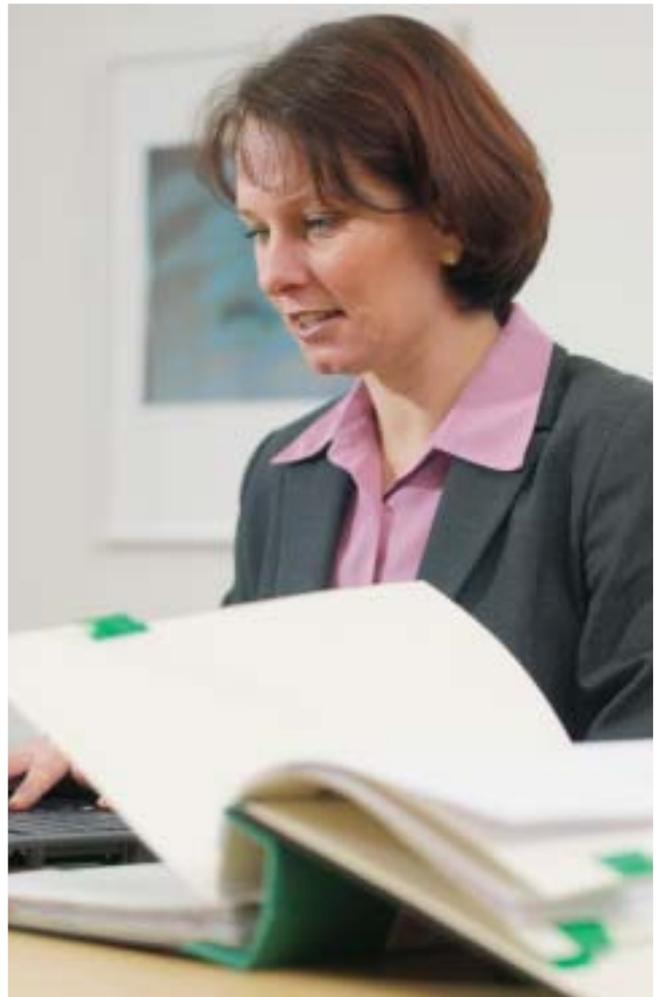


Christer Svantesson



Ann Magnusson





Senior executives

Jerker Hartwall

Born 1952.
President and CEO.
Employed since 2000.
Shareholding: 30,300 shares.
Convertible debt instruments corresponding to 63,500 shares.
Warrants: 0.
jerker.hartwall@karlshamns.se

Gunnar Bystedt

Born 1955.
Supply Chain Director.
Employed since 2003.
Shareholding: 0.
Convertible debt instruments corresponding to 0 shares.
Warrants: 0.
gunnar.bystedt@karlshamns.se

Håkan Christensson

Born 1962.
President Business Sector Edible Oils.
Employed since 1986.
Shareholding: 0.
Convertible debt instruments corresponding to 26,500 shares.
Warrants: 2,000.
hakan.christensson@karlshamns.se

Jan Gunnerdal

Born 1946.
President Business Sector Lipids for Care.
Employed since 1970.
Shareholding: 35,700.
Convertible debt instruments corresponding to 4,250 shares.
Warrants: 0.
jan.gunnerdal@karlshamns.se

Ulf Hansson

Born 1963.
Global R&D and Quality Manager.
Employed since 1988.
Shareholding: 200 shares.
Convertible debt instruments corresponding to 26,500 shares.
Warrants: 0.
ulf.hansson@karlshamns.se

Tommie Holmberg

Born 1945.
President Tefac AB.
Employed since 1970.
Shareholding: 72,000 shares.
Convertible debt instruments corresponding to 5,750 shares.
Warrants: 0.
tommie.holmberg@karlshamns.se

Magnus Jörsmo

Born 1965.
President Binol AB.
Employed since 1986.
Shareholding: 0.
Convertible debt instruments corresponding to 26,500 shares.
Warrants: 2,000.
magnus.jorsmo@karlshamns.se

Hans Nilsson

Born 1950.
Vice President, Strategic Raw Material Sourcing.
President Feed Materials.
Employed since 1986.
Shareholding: 29,800 shares.
Convertible debt instruments corresponding to 4,250 shares.
Warrants: 0.
hans.nilsson@karlshamns.se

Helen Olsson

Born 1965.
Vice President, Human Resources & Organisation Development.
Employed since 1989.
Shareholding: 300 shares.
Convertible debt instruments corresponding to 26,500 shares.
Warrants: 0.
helen.olsson@karlshamns.se

Björn Samuelsson

Born 1956.
President Business Sector Chocolate & Confectionery Fats.
Employed since 1977.
Shareholding: 1,300 shares.
Convertible debt instruments corresponding to 26,500 shares.
Warrants: 2,000.
bjorn.samuelsson@karlshamns.se

Stefan Sjölin

Born 1955.
Vice President and CFO.
Employed since 2001.
Shareholding: 200 shares.
Convertible debt instruments corresponding to 26,500 shares.
Warrants: 0.
stefan.sjolin@karlshamns.se

Bo Svensson

Born 1951.
Vice President and CIO.
Employed since 1974.
Shareholding: 300 shares.
Convertible debt instruments corresponding to 26,500 shares.
Warrants: 2,000.
bo.svensson@karlshamns.se



Jerker Hartwall



Gunnar Bystedt



Håkan Christensson



Jan Gunnerdal



Ulf Hansson



Tommie Holmberg



Magnus Jörsmo



Hans Nilsson



Helen Olsson



Björn Samuelsson



Stefan Sjölin



Bo Svensson

Financial information

Karlshamns will be publishing the following financial information in 2004:

The interim report for the period to 31 March will be released at the Annual General Meeting on 21 April 2004.

The interim report for the first six months of 2004 will be released on 18 August.

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

The summarised financial statements for 2004 will be released in February 2005.

All financial reports and press releases are also published in English, and may be ordered from Karlshamns AB, Corporate Communication, SE-374 82 Karlshamn, Sweden.

Phone +46 - 454 820 00, fax +46 - 454 828 20.

E-mail: info@karlshamns.se

Additional information about Karlshamns is available on the company's website: www.karlshamns.com

The Annual General Meeting

The AGM of Karlshamns AB will be held on Wednesday 21 April 2004 at 2.00 p.m. in "Rio-grande", Blekinge Institute of Technology in Karlshamn. The premises will open for registration at 1 p.m. Registration must be made by 2 p.m., at which time the list of voters will be approved.

Right of participation

Any shareholder who is registered in the shareholders register kept by VPC AB (the Swedish Securities Center) on Monday 12 April 2004 and has given notice of his/her intention to attend the meeting no later than 4 p.m., 15 April 2004, has the right to participate.

Registration

The company is a VPC-registered company, which means that shareholders wishing to attend the AGM must be registered in the shareholders register kept by VPC AB no later than 8 April 2004. Shareholders whose shares are held in trust by a bank or private broker must temporarily register their shares in their own names in the shareholders register to be able to

attend the AGM. Such registration should be completed well in advance of 8 April.

Notification

Shareholders intending to attend the AGM must notify the company as soon as possible but no later than 4.00 p.m. on 15 April 2004, in any of the following ways:

By ordinary mail to Karlshamns AB, Kerstin Wemby, SE-374 82 Karlshamn, Sweden, or by telephone to +46 - 454 823 12/825 38, by fax to +46 - 454 828 20 or by e-mail to kem@karlshamns.se. The notification shall contain information of name, address, day-time telephone number, social security number or company registration number and the number of shares held.

Invitation to attend the AGM

Notice of the AGM will be published in the Swedish Official Gazette, Svenska Dagbladet, Blekinge Läns Tidning and Sydöstra Sveriges Dagblad together with the Meeting's agenda.

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Oils & Fats

Karlshamns AB

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Fax +46 – 454 828 88
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Fax +46 – 454 75 20 05
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binol@karlshamns.se

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Fax +37 052 70 04 40
karlshamns.baltic@takas.lt

Karlshamns' business concept

It is Karlshamns' ambition to achieve leading global positions in defined niche areas based on our specialist know-how of vegetable oils and fats.

We also aim for the development of new business areas related to this unique expertise. Innovation, customer-orientation and high overall efficiency are our critical success factors.



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