



AarhusKarlshamns report January – September 2005

- Higher profit than last year.
- Strong growth in speciality fats.
- Stabilised margins.
- Productivity programs on track.
- Strong balance sheet.
- New Group structure and top management in place.
- Integration process on schedule.

The President's comments **Focus on growth and productivity** **in the new Group**

The speciality fats segment continued to grow in the third quarter of 2005, at the same time as contribution margins stabilised. Energy costs have been accelerating throughout the year, and a number of projects are now targeting a streamlining of the Group's energy consumption. To increase overall productivity, the new group are also pursuing cost-efficiency projects. These projects are progressing as planned, and are in no way linked to the synergies communicated in connection with the merger between Aarhus United and Karlshamns. The integration process has now reached a phase of intensive work aiming at the speediest possible development of high operational efficiency, strategic transparency and well-defined synergy projects. These efforts are progressing according to plan.

The merger between Aarhus United and Karlshamns

The integration of Aarhus United with Karlshamns is proceeding as planned. The new company will have total sales of approximately SEK 10 billion, production operations in seven countries and some 2,500 employees.

Organisation and management

On 5 October, the Board of Directors of AarhusKarlshamn laid down the company's global organisation and management structure.

Business Area Structure*

- **Chocolate & Confectionery Fats**
- global sales
- **Cosmetics & Pharmaceutical**
- global sales
- **Food Ingredients Continental Europe**
- local/regional sales
- **Food Ingredients UK**
- local/regional sales
- **Food Ingredients Nafta (the US, Canada)**
- local/regional sales
- **Food Ingredients Nafta (Mexico)**
- local/regional sales

- **Technical Products & Feed Materials**

- local/regional sales

** A more detailed organisation chart is available on the website www.aarhuskarlshamn.com*

The Group Management consists of twelve persons, with Jerker Hartwall the Group's President and C.E.O. Listed on the "Nya Marknaden" exchange from 29 September, AarhusKarlshamn will apply for a listing on the Stockholm Stock Exchange in the course of 2006, the intention also being to apply for a secondary listing on the Copenhagen Stock Exchange later on.

Headquarters will be established in Copenhagen, to serve as the base for the Group's C.E.O. plus an additional 3-5 persons. These headquarters will also serve as a meeting centre for the entire organisation.

Business trends

The main trends in the speciality fats industry may be summarised as follows:

Health breeds growth

In the past few years, the growth of vegetable oils and fats in general and of speciality fats in particular has been prompted by consumer demand and, to a growing extent, by public regulations. Consumer focus on nutritious products has resulted in a growing substitution of vegetable fats for animal ones. In line with this trend, interest is also growing in food from cultures in which vegetable fats have long held a dominating position. In addition to the growing consumer demand, a stronger focus on food safety among public authorities – in the wake of the BSE scandal – has acted in favour of the vegetable oils and fats industry.

Consolidation.

In the past decade, excess capacity on the world market and the ensuing hardening competition have prompted a number of changes in the vegetable oils and fats industry. One of the consequences of this process is a continuous and far-reaching consolidation trend throughout the industry.

Post-merger financial objectives and planned dividend policy

Financial objectives

AarhusKarlshamn's financial goals will be formalised in the course of the integration process, on the basis of the current goals of both Karlshamns and Aarhus United: to achieve a growth rate higher than the underlying market, and to generate a strong cash flow.

One of the factors affecting future capital requirements will be the capital expenditure level resulting from the growth potentials identified in various markets.

Planned dividend policy

When deciding on dividend payments, AarhusKarlshamn will take current business conditions and future capital requirements into due consideration. Among the factors determining whether or not dividends will be paid, and, if so, the size of such payments, are:

The amount of distributable earnings and non-restricted equity in the parent company;

AarhusKarlshamn's investment needs;

Earnings and profitability;

Debt/equity ratio;

In the longer term, AarhusKarlshamn will aim at distributing 30-50 percent of net profits to its shareholders, through dividend payments.

Currency policy

To a considerable extent, AarhusKarlshamn will be exposed to fluctuations in currency rates. An important part of the merged company's sales as well as purchases are made in foreign currencies, the major ones being EUR, USD and GBP.

The merged company's currency policy will be laid down in detail within the framework of the integration process, but is unlikely to deviate much from the current policies of Karlshamns and Aarhus United.

The financial reports of the merged company will be in SEK.

Synergy potentials

The merger between Karlshamns and Aarhus United is expected to have positive effects on both income and profits, as a result of synergies in the areas of costs as well as earnings.

A preliminary analysis has identified several areas in which synergy effects may be expected. The aggregate, pre-tax cost synergies have been estimated to approximately SEK 100 million per year. The saving potentials thus identified are expected to be fully realised within two to three years after the merger.

There are potential synergies throughout the value chain; from raw material sourcing to sales. These synergies will be gradually capitalised on as the integration process moves along.

The total merger costs will be communicated as soon as a detailed integration plan has been laid down. The major part of restructuring costs is related to the elimination of overlapping functions and to reorganisation measures. As the integration proceeds, the basis for a more detailed analysis will be available.

Nomination Committee

A Nomination Committee has been approved to prepare election of two independent board members. The Nomination Committee will consist in five members; Melker Schörling (chairman), Carl Bek-Nielsen, Erik Højsholt, Henrik Didner, Didner & Gerge Mutal Fond, Jan-Erik Erenius, AMF Pension.

Financial information

The financial information for the third quarter of 2005 consists of pro forma accounts for AarhusKarlshamn, page 4-9. Also enclosed are interim reports for Aarhus United (page 10 - 17) and Karlshamns (page 18-27), both of them prepared in line with the reports previously submitted to the Stock Exchange by each respective company. This financial information has not been audited.

PRO FORMA ACCOUNTS

The following consolidated pro forma accounts have been prepared to illustrate the anticipated effects of the merger between Karlshamns and Aarhus United, had the merger taken place at an earlier point of time. The pro forma accounts have been prepared for a purely illustrative purpose, and do not purport to present what financial position or profitability level the operations could actually have achieved, had the merger been completed at the pro forma reporting dates; nor do they purport to indicate the financial position or operating profit for any future point of time or period. The pro forma financial reports for the third quarter of 2004 and for the third quarter of 2005 are based on unaudited accounts prepared by Karlshamns AB in accordance with IFRS, and by Aarhus United in accordance with Danish GAAP (differences accounted for in the following).

Principles and assumptions

The pro forma income statements have been prepared as had the two entities merged on 1 January 2004, whereas the corresponding pro forma balance sheets have been prepared as had the merger been completed on 30 September 2004 and 30 September 2005, respectively.

Consolidation

The pro forma accounts for the merged entity have been prepared on the basis of a preliminary acquisition analysis, in its turn based on the financial accounts as of 30 September 2005. The preliminary acquisition analysis was made in accordance with IFRS 3, the assumption being that Karlshamns is the identified acquirer. The final acquisition value analysis and the value of the capital contributed in kind will be based on the market value of the identifiable assets and liabilities of Aarhus United at the time of the transaction. These market values are currently being identified. As a consequence, a difference may arise between the final goodwill amount, other balance sheet items and the reported pro forma accounts. Such differences may also impact on certain items of the pro forma income statements, such as the depreciation of assets, income taxes and key financial ratios.

The pro forma accounts are stated in the Swedish currency, SEK. Income statements and balance sheets for Aarhus United have been translated at the average exchange rate for the period 1 January – 30 September 2004 as well as for the period 1 January – 30 September 2005, and at the closing day rate on 30 September 2004 and 30 September 2005 respectively.

Translation rates

SEK/DKK	Q3 2004	Q3 2005
Average exchange rate	1.2296	1.2364
Closing-day rate	1.2176	1.2485

No adjustments have been made in the pro forma accounts to illuminate potential synergies that may arise from the merger between the business operations of Karlshamns and Aarhus United. Nor have any adjustments been made with respect to costs arising from restructuring measures, integration or coordination activities.

The pro forma accounts are prepared on the basis of the acquisition value established on the basis of the actual result of the issue in kind and cash payments up to 30 September 2005.

The remaining, i.e. not acquired shares in Karlshamns and Aarhus United are reported separately as minority share under the heading "Minority share of equity". These remaining shares are subject to compulsory purchase.

The interest cost on the acquisition loan has been calculated for the respective reporting periods in accordance with current terms of lending.

15 percent of the surplus value, i.e. the difference between the transaction value and reported equity, is assumed to be related to appreciation of intangible assets less the deferred tax liability, and 15 percent to an appreciation of tangible assets less the deferred tax liability. The remaining part, after the deduction of minority interest, is related to goodwill reported by Aarhus United.

The depreciation period for intangible assets has been estimated to 10 years, and for tangible assets to 12.5 years. As the acquisition analysis was prepared in accordance with IFRS 3, goodwill is not amortised but will be subjected to an annual appraisal.

Aarhus United's holding (23.4 percent of all issued shares) in United Plantations Berhard was divested as of 30 September 2005, the sales value amounting to DKK 465 million (appr. SEK 580 million). The settlement for these shares is reported under "Liquid funds" by Aarhus United. The pro forma accounts are based on the assumption that the settlement will be allocated to the redemption of debts. A corresponding reduction of interest costs has been taken into account. The pro forma cash flow for 2005 has been adjusted for the cash settlement.

Differences between IFRS and the Danish GAAP

There are differences between IFRS – and the choices made by Karlshamns under IFRS – and the Danish GAAP according to the principles stated in the annual report submitted by Aarhus United.

To evaluate the effects of the adoption of IAS/IFRS by Aarhus United, a project has been initiated to identify the impact on the accounts in connection.

Among the principles applied by Aarhus United and differing from the IFRS are the following:

- Financial instruments used for hedging purposes are not valued at fair value.
- Goodwill is amortised.
- In acquisition value analyses prepared for acquired entities it is possible to make provisions for restructuring reserves, even in cases where the subsidiary itself had no legal undertakings at the time of acquisition.
- The Danish GAAP allow for the reporting of negative goodwill.

- The method applied for the translation of net assets in foreign subsidiaries is based on the degree of independence of the subsidiary in question. According to IAS, such translation shall be based on the functional currency of the subsidiary.

- IAS 19, Employee Benefits, has not been adopted by the Danish GAAP. As a consequence, pension liabilities in foreign subsidiaries are reported in accordance with local accounting standards.

- IFRS 2, Share-based payments, has not been adopted by the Danish GAAP. As a consequence, differences between market value and the price of potential option rights or other equity-related payments are not reported in the income statement.

- Interest costs referable to inventories are capitalised under inventories.

Reporting schedule

The summarised financial statement for the year 2005 will be released on 28 February 2006.

The interim report for the period to 31 March 2006 will be released on 23 May 2006.

The interim report for the period to 30 June 2006 will be release on 17 August 2006.

The interim report for the period to 30 September 2006 will be released on 10 November 2006.

Karlshamn, 9 November 2005



Jerker Hartwall
President and CEO

Pro forma Income Statement 1 Jan – 30 Sep 2005

(SEK million)	Karlshamns	Aarhus United	Adjustments	The combined company
Net sales	2,816	4,767		7,583
Other operating income	2	-		2
Total operating income	2,818	4,767		7,585
Raw materials, consumables and goods for resale	-1,973	-3,374		-5,347
Other external costs	-246	-559		-805
Personnel costs	-320	-478		-798
Depreciation	-76	-127	-15	-218
Total operating costs	-2,615	-4,538	-15	-7,168
EBIT	203	229	-15	417
Financial net	-5	-65	9	-61
Income associated companies		45	-45	-
EBT	198	209	-51	356
Tax	-54	-53	15	-92
Minority share of profit		-2	-13	-15
Net income	144	154	-49	249

Pro forma Income Statement 1 Jan – 30 Sep 2004

(SEK million)	Karlshamns	Aarhus United	Adjustments	The combined company
Net sales	2,663	4,400		7,063
Other operating income	9	36		45
Total operating income	2,672	4,436		7,108
Raw materials, consumables and goods for resale	-1,918	-3,201		-5,119
Other external costs	-243	-485		-780
Personnel costs	-295	-412		-655
Depreciation	-73	-119	-15	-207
Total operating costs	-2,529	-4,217	-15	-6,761
EBIT	143	219	-15	347
Financial net	-7	-56	9	-54
Income associated companies		41	-41	-
EBT	136	204	-47	293
Tax	-38	-50	14	-74
Minority share of profit		-7	-11	-18
Net income	98	147	-44	201

Pro forma Balance Sheet 30.9.2005

(SEK million)	Karlshamns	Aarhus United	Adjustments	The combined company
ASSETS				
Non-current assets				
Goodwill	14	5	688	707
Other intangible assets	10	28	109	147
Tangible assets	782	1,545	109	2,436
Financial assets	19	82		101
Total non-current assets	825	1,660	906	3,391
Current assets				
Inventories	433	972		1,405
Current receivables	650	1,112		1,762
Cash and cash equivalents	61	609		670
Total current assets	1,144	2,693		3,837
TOTAL ASSETS	1,969	4,353	906	7,228
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity and liabilities	1,006	1,932	595	3,533
Minority share of equity		47	157	204
Non-current liabilities				
Provisions	151	105	66	322
Long-term debt	354	1,097	88	1,539
Total non-current liabilities	505	1,202	154	1,861
Current liabilities				
Short term debt		766		766
Short term liabilities	458	406		864
Total current liabilities	458	1,172		1,630
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,969	4,353	906	7,228

Pro forma Cash Flows 1 Jan – 30 Sep 2005

(SEK million)	Karlshamns	Aarhus United	Adjustments	The combined company
Operating activities				
Cash flow from operating activities before changes in net operating assets	245	271	-13	503
Change in net operating assets	-109	-487		-596
Cash flow from operating activities	136	-216	-13	-93
Investment activities				
Cash flow from investment activities	-109	382	-580	-307
Financing activities				
Cash flow from financing activities	-99	199		100
Cash flow for the period	-72	365	-593	-300

Pro forma Balance Sheet 30.9.2004

(SEK million)	Karlshamns	Aarhus United	Adjustments	The combined company
ASSETS				
Non-current assets				
Goodwill	14	5	688	707
Other intangible assets		25	109	134
Tangible assets	746	1,413	109	2,268
Financial assets	11	88		99
Total non-current assets	771	1,531	906	3,208
Current assets				
Inventories	437	864		1,301
Current receivables	549	1,175		1,724
Cash and cash equivalents	110	170		280
Total current assets	1,096	2,209		3,305
TOTAL ASSETS	1,867	3,740	906	6,513
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity	996	1,713	595	3,304
Minority share of equity		52	157	209
Non-current liabilities				
Provisions	124	116	66	306
Long-term debt	361	522	88	971
Total non-current liabilities	485	638	154	1,277
Current liabilities				
Short term debt		724		724
Short term liabilities	386	613		999
Total current liabilities	386	1,337		1,723
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,867	3,740	906	6,513

Pro forma Cash Flows 1 Jan – 30 Sep 2004

(SEK million)	Karlshamns	Aarhus United	Adjustments	The combined company
Operating activities				
Cash flow from operating activities before changes in net operating assets	205	285	-12	478
Change in net operating assets	-87	-229		-316
Cash flow from operating activities	118	56	-12	162
Investment activities				
Cash flow from investment activities	-83	-124		-207
Financing activities				
Cash flow from financing activities	-69	48		-21
Cash flow for the period	-34	-20	-12	-66

Pro forma Key Ratios and Definitions

(SEK million)	1 Jan – 30 Sep 2005	1 Jan – 30 Sep 2004
Gross contribution	2,218	1,917
Operating profit before depreciation (EBITDA)	635	554
Operating profit before appreciation of assets	432	362
Operating profit after appreciation of assets	417	347
Capital expenditures (investments)	318	195
Total shareholders' equity	3,533	3,304
Net debt	1,635	1,415
Equity/assets ratio	52%	54%
Net debt/equity ratio, multiple	0.46	0.43
Interest cover ratio, multiple	10.4	10.3
Capital employed	5,593	5,135
Return on capital employed	7.5%	6.8%
Return on shareholders' equity	7.5%	6.6%
Earnings before appreciation of assets	279	234
Earnings after appreciation of assets	264	219
EPS before appreciation of assets, SEK	6.83	5.73
EPS after appreciation of assets, SEK	6.47	5.36
Total number of shares, closing balance	40,829,534	40,829,534
Average number of employees	2,522	2,503

Capital employed

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

Earnings per share (EPS)

Profit/loss 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

EBITDA divided by net financial items.

Net borrowings

Total interest-bearing liabilities less interest-bearing assets.

Net debt/equity ratio

Net borrowings divided by shareholders' equity including minority interest.

Return on capital employed

Operating profit/loss divided by average capital employed.

Return on shareholders' equity

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

Shareholders' equity per share

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

Aarhus United A/S

1 January – 30 September 2005

Comments on Q3 2005

- Consolidated profits amounting to DKK 125 million, compared with DKK 119 million last year. This, in fact, represents a significant improvement as consolidated profits for the same period last year included non-recurring income from the sale of silos and land and an adjustment for deferred tax in the associated company – approximately DKK 29 million in total.
- The improvement is primarily due to a significantly better result from Aarhus United Denmark – deriving mainly from chocolate confectionery vegetable fats.

The Q3 results achieved by the other production companies within the group were as anticipated. Compared with the same period last year, the results of the individual companies were at the same level or marginally below.

- Aarhus United's share of profit, after tax, in United Plantations Berhad, Malaysia, amounted to DKK 51 million for the first 3 quarters of 2005, which was DKK 10 million better than for the same period last year. In comparing the two periods, a positive adjustment of deferred tax of DKK 6 million in 2004 should be considered.
- The Ceylon Trading group in Sri Lanka did not sustain the result achieved in the first 3 quarters of 2004.
- The other subsidiaries performed as anticipated.
- Total net margin amounted to DKK 835 million for the first 3 quarters of 2005, compared with DKK 720 million for the same period last year
- In the strategic focus area – chocolate confectionery vegetable fats – sales volume and net margin improved during 2005, compared with the same period last year.
- Bulk vegetable oil sales volume and net margin improved during the first 3 quarters of 2005. The improvement derived mainly from Aarhus United UK and Aarhus United Mexico.
- During the first 3 quarters of 2005, foodservice sales volume, mainly within Aarhus United UK, continued to improve and total net margin was DKK 22 million or more than 25 % above the net margin achieved in the same period last year.
- Operating income amounted to DKK 185 million for the first 3 quarters of 2005, compared with DKK 178 million for the same period in 2004, which included non-recurring income in the region of DKK 29 million from the sale of silos and land. The actual improvement in the region of DKK 36 million derives mainly from Aarhus United Denmark.
- Return on invested capital amounted to 11.0% for the period, compared with 11.1% in the same period in 2004. If the non-recurring income from the sale of silos and land were disregarded, return on invested capital would have amounted to approx. 8% for the first three quarters of 2004.

**Consolidated key figures
and ratios**

DKK million	January-September		3rd quarter		Full year
	2005	2004	2005	2004	2004
Revenue	3,855.6	3,578.2	1,432.6	1,272.5	4,971.7
Net margin	835.4	719.9	330.6	256.3	999.9
Operating income before depreciation (EBITDA)	286.6	274.7	107.4	92.6	365.9
Operating income (EBIT)	184.9	178.2	71.5	59.7	233.5
Pre-tax profits from investments in associates	51.4	40.5	19.9	17.8	59.1
Net interest expenses	-53.1	-45.8	-28.1	-16.0	-64.2
Profit on ordinary activities, before tax and minority interests	183.3	172.9	63.3	61.5	228.5
Profit for the period	124.5	119.4	44.7	39.2	175.1
Total assets	3,486.5	3,489.3	3,486.5	3,489.3	3,271.0
Capital and reserves, end of period	1,547.2	1,358.7	1,547.2	1,358.7	1,327.1
Capital investments	158.8	99.2	82.4	35.0	132.3
Depreciation	101.7	96.5	35.9	32.9	132.4
Profit margin ratio	4.8%	5.0%	5.0%	4.7%	4.7%
Equity ratio	44.4%	38.9%	44.4%	38.9%	40.6%
Return on invested capital	11.0%	11.1%	11.9%	10.7%	11,5%
Average no. of shares (1,000 shares)	4,000	4,000	4,000	4,000	4,000
End-of-period market price	549	437	549	437	556
Equity value per share	387	340	387	340	332
Earnings per share	31.12	29.86	11.17	9.81	43.77
Movements in capital and reserves:					
Capital and reserves as at 1 January	1,327.1	1,274.2	1,494.8	1,343.2	1,274.2
Profit for the period	124.5	119.4	44.7	39.2	175.1
Dividends paid	-50.4	-48.0	-2.4		-48.0
Exchange adjustments in subsidiaries and associates	137.8	8,5	6.0	-23.9	-75.6
Dividend on treasury shares and acquisition/allocation of employee shares	6.6	5.8			5.8
Adjustment of financial instruments	1.6	-1.2	4.2	0.1	-4.4
Total movements	220.1	84.5	52.4	15.5	52.9
Capital and reserves, end of period	1,547.24	1,358.7	1,547.2	1,358.7	1,327.1

Group income statement						
	1 Jan.-30 Sep.		1 July-30 Sep.		1 Jan.-31 Dec.	
DKK million	2005	2004	2005	2004	2004	2003
Revenue	3,855.6	3,578.2	1,432.6	1,272.5	4,971.7	4,485.1
Raw materials	-2,729.0	-2,603.1	-993.8	-927.4	-3,603.9	-3,200.3
Value added	1,126.6	975.1	438.8	345.1	1,367.8	1,284.8
Direct production overheads	-291.2	-255.3	-108.3	-88.8	-367.8	-362.0
Net margin	835.4	719.9	330.6	256.3	999.9	922.7
Indirect production overheads	-413.9	-370.3	-154.2	-130.9	-514.2	-494.5
Distribution costs	-88.7	-91.9	-33.8	-30.1	-127.4	-126.6
Administrative expenses	-147.6	-109.1	-69.1	-36.5	-148.9	-133.5
Other operating income	-0.3	29.5	-2.0	0.9	24.1	-15.1
Operating income	184.9	178.2	71.5	59.7	233.5	153.1
Pre-tax profits from investments in subsidiaries and associates	51.5	40.6	19.9	17.8	59.2	53.9
Net interest expenses	-53.1	-45.8	-28.1	-16.0	-64.2	-64.6
Pre-tax profit on ordinary activities	183.3	172.9	63.3	61.5	228.5	142.4
Tax on profit for the year	-42.6	-41.0	-12.8	-14.3	-36.7	-33.8
Tax on profits from investments in subsidiaries and associates	-14.8	-7.1	-5.8	-6.5	-11.7	-17.4
Profit on ordinary activities	125.8	124.9	44.8	40.8	180.1	91.2
Minority shareholders' proportion of the profit	-1.4	-5.4	-0.1	-1.5	-5.0	-3.5
Profit for the period	124.5	119.4	44.7	39.2	175.1	87.8

Group balance sheet

ASSETS	September	December	September	December
DKK million	2005	2004	2004	2003
Intangible assets	26.7	24.0	24.7	22.4
Property, plant and equipment	1,237.4	1,128.2	1,160.4	1,150.6
Investments in associates	0.2	394.1	417.6	398.6
Other securities	20.4	19.4	20.2	21.7
Tax asset	44.7	58.6	52.1	45.6
Investments and other assets	65.3	472.1	489.9	465.9
TOTAL NONCURRENT ASSETS	1,329.4	1,624.3	1,674.9	1,638.9
Total inventories	778.7	695.0	709.9	723.6
Trade receivables and other receivables	890.1	758.6	964.8	740.2
Listed securities	0.8	6.8	8.4	9.6
Cash at bank and in hand	487.4	186.3	131.3	145.6
TOTAL CURRENT ASSETS	2,157.1	1,646.7	1,814.4	1,619.0
TOTAL ASSETS	3,486.5	3,271.0	3,489.3	3,257.9

LIABILITIES	September	December	September	December
DKK million	2005	2004	2004	2003
Capital and reserves	1,547.2	1,327.1	1,358.7	1,274.2
Minority shareholders	37.2	32.4	42.7	38.7
Deferred tax and pension obligations	84.4	87.8	95.8	62.8
Provisions	84.4	87.8	95.8	62.8
Long-term bank loans and mortgage debt	878.5	830.7	894.3	798.4
Short-term bank loans and mortgage debt	613.7	486.2	594.4	616.7
Trade payables	291.2	479.9	493.4	467.2
Other loans	34.2	26.9	10.1	
Total current liabilities	939.0	993.1	1,097.9	1,083.8
TOTAL LIABILITIES	3,486.5	3,271.0	3,489.3	3,258.0

Cash flow statement

	1 Jan- 30 Sep	3rd Q	1 Jan- 30 Sep	3rd Q
DKK million	2005	2005	2004	2004
Cash flows from operating activities				
Operating income	184.9	71.5	178.2	59.7
Depreciation	102.4	36.6	96.5	32.9
Decrease (Increase) in inventories	-83.7	45.2	13.7	51.3
Decrease (Increase) in receivables	-131.6	-52.7	-224.6	-25.3
Increase (Decrease) in payables	-181.4	-119.5	27.5	-38.0
Increase (Decrease) in hedging instruments value	1.6	4.2	-1.2	0.1
Interest income (expenses), net	-53.1	-28.1	-45.8	-16.0
Dividends received	17.3	8.8	16.6	8.2
Tax paid	-32.1	-16.1	-14.5	-0.8
Net cash from operating activities	-175.6	-50.1	46.4	72.2
Cash flow from investing activities				
Investments in intangible assets	-3.7	-1.6	-3.1	-0.3
Investments in property, plant and equipment	-158.7	-82.5	-99.2	-35.1
Investments in subsidiaries, associates and other financial assets	471.6	471.2	1.5	2.4
Net cash used in investing activities	309.2	387.1	-100.8	-32.9
Net cash flows from operating and investing activities	133.5	337.0	-54.5	39.2
Cash flows from financing activities etc.				
Increase (Decrease) in minority shareholders' share	4.9	1.6	4.0	1.0
Increase (Decrease) in long-term loans	47.9	8.2	95.9	-19.8
Dividends to shareholders in parent company	-50.4	-2.4	-48.1	-0.1
Treasury shares	67		5.8	
Minority shareholders' share of losses (profits)	-1.4	-0.1	-5.4	-1.5
Exchange adjustments	26.8	2.0	0.1	-4.0
Net cash provided by financing activities etc.	34.4	9.2	52.3	-24.4
Net increase (decrease) in cash	167.9	346.3	-2.2	14.8
Net cash and cash equivalents at year-start	-293.1	-471.4	-452.6	-469.6
Net cash and cash equivalents at year-end	-125.2	-125.2	-454.8	-454.8

Net cash and cash equivalents comprise listed securities and cash at bank and in hand less short-term bank loans and mortgage debt.

Key figures and ratios for the production companies

Aarhus United Denmark

DKK million	January-September		3rd quarter		Full year 2004
	2005	2004	2005	2004	
Revenue	1,224.8	1,192.8	426.2	431.5	1,599.1
Net margin	381.8	305.0	130.4	111.6	420.3
Operating income before depreciation (EBITDA)	146.6	109.2	42.9	33.5	142.7
Operating income (EBIT)	102.1	64.1	29.2	18.1	81.9
Pre-tax profit on ordinary activities	87.5	43.4	22.2	9.6	56.9
Profit for the period	60.3	33.9	15.4	7.2	53.0
Capital investments	111.2	51.3	64.7	22.1	62.3
Capital and reserves at year-end	524.3	492.3	524.3	492.3	529.0
Total assets at year-end	1,233.6	1,166.6	1,233.6	1,166.6	1,167.7
Profit margin ratio	8.3%	5.4%	6.8%	4.2%	5.1%
Return on invested capital	14.0%	9.9%	11.2%	12.9%	9.9%
Total business volume (tonnes)	157,722	149,354	55,940	53,506	198,782

Aarhus United UK

DKK million	January-September		3rd quarter		Full year 2004
	2005	2004	2005	2004	
Revenue	1,425.2	1,255.0	556.8	429.9	1,878.2
Net margin	250.2	198.0	121.5	66.2	303.4
Operating income before depreciation (EBITDA)	105.6	85.3	58.0	27.8	132.6
Operating income (EBIT)	69.3	54.4	42.7	17.2	87.9
Pre-tax profit on ordinary activities	62.2	46.4	40.0	14.2	75.7
Profit for the period	42.9	32.9	27.2	10.2	54.8
Capital investments	17.6	16.9	5.1	6.1	23.3
Capital and reserves at year-end	443.2	374.2	443.2	374.2	383.8
Total assets at year-end	776.1	898.8	776.1	898.8	787.8
Profit margin ratio	4.9%	4.3%	7.7%	4.0%	4.7%
Return on invested capital	15.9%	11.9%	28.6%	11.2%	15.1%
Total business volume (tonnes)	286,154	242,371	115,483	82,954	365,141

Aarhus United USA

DKK million	January-September		3rd quarter		Full year
	2005	2004	2005	2004	2004
Revenue	538.1	460.5	210.3	177.9	620.2
Net margin	79.2	84.9	29.5	32.7	111.4
Operating income before depreciation (EBITDA)	16.6	36.5	3.3	16.5	42.9
Operating income (EBIT)	9.4	29.2	0.8	14.0	33.3
Pre-tax profit on ordinary activities	6.7	27.5	-0.6	13.3	31.4
Profit for the period	3.9	16.5	-0.5	8.0	19.3
Capital investments	17.0	21.4	5.6	3.1	27.1
Capital and reserves at year-end	224.8	210.6	224.8	210.6	194.8
Total assets at year-end	446.3	363.3	446.3	363.3	307.8
Profit margin ratio	1.8%	6.3%	0.4%	7.8%	5.4%
Return on invested capital	4.4%	15.0%	0.7%	21.0%	14.0%
Total business volume (tonnes)	102,052	92,329	39,228	33,061	123,398

Aarhus United Mexico

DKK million	January-September		3rd quarter		Full year
	2005	2004	2005	2004	2004
Revenue	522.4	501.3	185.2	179.0	687.8
Net margin	72.7	73.6	29.7	26.4	99.7
Operating income before depreciation (EBITDA)	34.8	42.8	13.2	15.4	53.5
Operating income (EBIT)	26.8	34.8	10.6	12.7	43.0
Pre-tax profit on ordinary activities	15.1	25.2	6.5	9.3	29.8
Profit for the period, before minorities	9.1	15.1	3.9	5.6	24.7
Aarhus United's proportion of profit	9.1	13.3	4.3	4.9	22.9
Capital investments	7.1	6.9	3.3	2.6	9.0
Capital and reserves at year-end	156.6	132.3	156.6	132.3	125.8
Aarhus United's proportion of capital and reserves at year-end	147.4	116.3	147.4	116.3	116.6
Total assets at year-end	415.7	363.0	415.7	363.0	374.9
Profit margin ratio	5.1%	6.9%	5.7%	7.1%	6.3%
Return on invested capital	11.3%	17.0%	13.1%	18.0%	15.4%
Total business volume (tonnes)	117,897	113,969	40,458	40,366	155,916



January – September 2005

- The Group's net sales increased by 6 percent, to the total of SEK 2,816 million (2,663).
 - Earnings after net financial items amounted to SEK 198 million (137).
 - New accounting principles (IFRS) had a positive profit effect of SEK 40 million, attributable to raw material and currency derivatives.
 - Adjusted for this profit effect of raw material and currency derivatives, the Group's profit after net financial items increased by 15 percent, to SEK 158 million (137).
 - Earnings after tax were SEK 144 million (99).
 - Earnings per share were SEK 6,61 (4,66).
- Volumes in the business area Oils & Fats grew by 18 percent. The speciality fats segment alone achieved a growth of 26 percent.

THE KARLSHAMNS GROUP

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 - Earnings per share were SEK 6,61 (4,66).
- Volumes in the business area Oils & Fats grew by 18 percent. The speciality fats segment alone achieved a growth of 26 percent.

The slower growth rate in total sales is due to lower raw material prices.

In the first three quarters of the year, Group profits were impacted by high energy prices, the total effect of which amounted to SEK 12 million compared to 2004. One-off costs for expanding the proportion of higher value-added speciality fats remained on last year's level, or approximately SEK 7 million.

Speciality products

Sales of high value-added speciality products continue to increase, the growth rate 26 percent in the first nine months of 2005. Particularly satisfactory is the progress of low-trans filling fats and CBE (Cocoa Butter Equivalents) developed for the chocolate industry, and the speciality fats for infant food and dairy products.

Productivity

To upgrade productivity even further, a productivity improvement programme was initiated in the autumn of 2004, designed to generate full profit effects from 2006 onwards to the amount of SEK 100 million p.a. Individual development projects are mainly targeting the areas of energy, processing, logistics and measures to eliminate bottlenecks in the production of high value-added speciality products. This SEK 100 million programme is proceeding according to plan, and is in no way linked to the synergies communicated in connection with the merger between Aarhus United and Karlshamns.

Priority is given to investments with limited pay-back periods, which will thus provide maximum leverage in the SEK 100 million programme by 2006.

MARKET

Oils & Fats

Chocolate & Confectionery Fats

In the business sector Chocolate & Confectionery Fats, volumes of high value-added speciality fats continued to grow through the third quarter as well. In all, volumes were 14 percent up on the third quarter of 2004 – a development largely due to the growing demand for CBE (Cocoa Butter Equivalents) and low-trans fats*, the latter a product segment in which Karlshamns has launched several new products in the past twelve months. Geographically, the major sales progress was achieved in Central and Eastern Europe.

* What is "trans"?

By "trans" we mean unsaturated fats in a particular form: trans fatty acids. Trans fatty acids are naturally present in milk and meat from ruminants, but may also be produced when vegetable fats are hardened. Several scientific studies have demonstrated a clear connection between trans fatty acids and the risk of cardiovascular diseases. This is also one of the main reasons why the National Food Administration in Sweden as well as in other Scandinavian countries is striving for a limitation of the intake of trans fatty acids.

Food Ingredients

The trend in the business sector Food Ingredients remains on the up, with sales volumes growing by 13 percent in the third quarter of the year. Progress is made on a broad geographical front, although the highest growth rate was achieved in Scandinavia and Western Europe. In combination with an optimised product mix, the current high capacity utilisation in this sector is now having a stabilising effect on contribution margins. The nutritional/infant food segment continues to make strong progress.

Lipids for Care

The business sector Lipids for Care keeps up its positive trend, with strong growth in the high value-added product segment. In the first nine months of 2005, sales increased by 7 percent. In the third quarter, sales remained in line with the corresponding period last year. Particular progress has been made on the European, US and Asian markets. Demand for raw materials of vegetable origin continues to grow in the cosmetics market.

Technical Products

Tefac

On an aggregate level, the European fatty acids market is estimated to have remained on last year's third-quarter level. As production capacity was limited in connection with the coming-on-stream of a new processing facility, Tefac could not pursue its positive volume development, but volumes remained on last year's third-quarter level. A growing pressure on prices is now prevailing on the fatty acids market. The glycerine segment remains weak, with no improvement in sight. This situation is the result of the steadily increasing biodiesel production, which keeps on adding to the overall supply of crude glycerine.

Binol

In the third quarter of 2005, Binol consolidated its Scandinavian market position even further. A certain slackness was noted in the Metalworking segment, however, which limited the third-quarter volume growth to 9 percent compared to the same period in 2004.

Feed Materials

The growth of European biodiesel production has prompted demand for rapeseed oil, the result of which has been a positive effect on gross contribution. On the other hand, pressure on feed raw material prices has hardened – the effect of a growing production of rapeseed oil and rapeseed meal throughout Europe.

OPERATIONS

Operating profit

The Group's operating profit for the first nine months of 2005 was SEK 203 million (144), of which SEK 40 million attributable to fair value movements in raw material and currency derivatives reported at market value in accordance with the IFRS. Profit in the business area Oils & Fats increased by SEK 54 million to SEK 151 million, of which SEK 40 million generated by fair value movements in raw material and currency derivatives. Profit in the business area Technical Products decreased by SEK 1 million to SEK 19 million, with glycerine prices below last year's level reducing earnings by around SEK 2 million. In the business area Feed Materials, operating profit improved by SEK 7 million to SEK 33 million. The Group's net sales were up 6 percent on the previous year, to SEK 2,816 million.

Business Area Oils & Fats

(SEK million)	3 months Jul-Sep 2005	3 months Jul-Sep 2004 ¹⁾	9 months Jan-Sep 2005	9 months Jan-Sep 2004 ¹⁾	Full year Jan-Dec 2004 ¹⁾
Net sales	675	652	2,123	1,895	2,616
Gross contribution	187	167	591	499	683
Operating profit	50	40	151	97	92
Of which fair value movem. in raw mat. and FX derivatives	13		40		

Operating profit in the business area Oils & Fats was SEK 151 million (97). Of this profit, fair value movements in raw material and currency derivatives accounted for SEK 40 million. Reduced credit risks in Eastern Europe have limited the need for provisions for future bad debt losses, to the effect of SEK 12 million. One-off expenses related to the merger with Aarhus United and streamlining human resources had a SEK 6 million impact on earnings. In all, volumes in this business area increased by 18 percent, with sales making good progress on all markets.

Business Area Technical Products

(SEK million)	3 months Jul-Sep 2005	3 months Jul-Sep 2004 ¹⁾	9 months Jan-Sep 2005	9 months Jan-Sep 2004 ¹⁾	Full year Jan-Dec 2004 ¹⁾
Net sales	131	135	404	389	523
Gross contribution	36	36	118	119	156
Operating profit	4	3	19	20	24

Operating profit in the business area Technical Products amounted to SEK 19 million (20). Earnings in the technical oils segment continued to rise, whereas profits generated by fatty acids and glycerine declined. Glycerine prices began their downward trend in the first quarter of 2004, and have impacted on earnings ever since. In our estimation, glycerine prices will remain under pressure in the next few years as a result of the growing biodiesel production. Through organic growth and strategic acquisitions, Binol has consolidated its market position. As a result, earnings continued to improve through the third quarter of 2005.

Business Area Feed Materials

(SEK million)	3 months Jul-Sep 2005	3 months Jul-Sep 2004 ¹⁾	9 months Jan-Sep 2005	9 months Jan-Sep 2004 ¹⁾	Full year Jan-Dec 2004 ¹⁾
Net sales	87	119	289	379	490
Gross contribution	42	35	116	100	134
Operating profit	15	10	33	26	34

In the business area Feed Materials, operating profit improved to SEK 33 million (26). Sales volumes and contribution margins have been negatively affected by the European biodiesel industry's growing consumption of rapeseed oil.

Margins on biodiesel are currently on a record-high level, which means that producers with access to their own crushing and extraction facilities are less concerned about meal prices. The supply of rapeseed meal has grown accordingly, which has impacted on the business area Feed Materials' sales volumes and prices of ExPro™ meal. High contribution margins on rapeseed crushing have compensated for the declining feed materials volumes and decreasing margins, however.

¹⁾ Translated in accordance with IFRS but exclusive of IAS39. Further information on page 25.

THE KARLSHAMNS GROUP**Profit after net financial items**

The Group's profit after net financial items totalled SEK 198 million (137), of which SEK 40 million attributable to fair value movements in currency and raw material derivatives. Net financial items amounted to SEK -5 million (-7).

Capital expenditure

The Group's direct investments in fixed assets amounted to SEK 120 million (74) for the first nine months of 2005. In the financial year 2004, direct investments totalled SEK 97 million.

Working capital

The Karlshamns Group's working capital amounted to SEK 625 million (594) as of 30 September 2005.

Cash flow

Cash flow generated by operating activities amounted to SEK 135 million (118).

Financial position

The Group's shareholders' equity as of 30 September 2005 was SEK 1,006 million (996). Total assets amounted to SEK 1,969 million (1,867), the equity/assets ratio to 51 percent (53).

On 30 September, the Group's net borrowings amounted to SEK 291 million (242).

Personnel

The Group's average number of employees in the period was 789 (780).

Key ratios

Return on equity in the preceding twelve-month period was 16 percent (14). In the financial year 2004, return on equity was 11 percent. Return on net operating assets in the preceding twelve-month period was 15 percent (14). Equity per share decreased to SEK 46.01 (47.24).

Accounting and valuation principles

As of 1 January 2005, Karlshamns prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). The interim report for the period to 30 September 2005 has thus been prepared in accordance with IFRS, and in line with IAS 34. More detailed information about the transition to IFRS from the Annual Accounts Act and the recommendations of the Swedish Financial Accounting Standards Council is provided on page 25.

SUMMARY INCOME STATEMENT FOR THE GROUP

(SEK million)	3 months Jul-Sep 2005	3 months Jul-Sep ¹⁾ 2004	9 months Jan-Sep 2005	9 months Jan-Sep ¹⁾ 2004	Full year Jan-Dec 2004 ¹⁾
Net sales	893	906	2,816	2,663	3,629
Raw material costs	-628	-668	1,991	-1,945	-2,656
Gross contribution	265	238	825	718	973
Personnel and other external costs	-170	-160	-546	-502	-727
Depreciation	-26	-24	-76	-72	-96
Operating profit	69	54	203	144	150
Net financial items	-1	-2	-5	-7	4
Profit after net financial items	68	52	198	137	154
Tax	-18	-14	-54	-38	-42
Net profit	50	38	144	99	112

SHARE DATA

Number of shares (000)	21,861	21,092	21,092
Outstanding convertible debt instruments (000)	10	746	746
Earnings per share before conversion, SEK	6.61	4.66	5.33
Earnings per share after conversion, SEK	6.61	4.55	5.21
Equity per share before conversion, SEK	46.01	47.24	48.09
Equity per share after conversion, SEK	46.01	45.67	46.51

PROFIT AFTER NET FINANCIAL ITEMS, QUARTERLY

(SEK million)	2003 ²⁾				2004 ¹⁾				2005		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Net sales	853	803	813	848	869	888	906	966	955	968	893
Gross contribution	236	242	229	237	242	238	238	255	285	275	265
Operating profit	47	52	58	40	49	41	54	6	76	58	69
Net financial items	-2	-4	-4	-2	-2	-3	-2	11	-2	-2	-1
Profit after net financial items	45	48	54	38	47	38	52	17	74	56	68
- of which fair value movements in raw material and currency derivatives									17	10	13

2) Translated in accordance with IFRS but exclusive of IAS39. Further information on page 25.

3) In accordance with the Annual Accounts Act and the recommendations issued by the Swedish Financial Accounting Standards Council.

SUMMARY BALANCE SHEET FOR THE GROUP

(SEK million)	30.9.2005	30.9.2004 ¹⁾	31.12.2004 ¹⁾
ASSETS			
Intangible fixed assets	24	14	26
Tangible fixed assets	782	747	728
Financial fixed assets	19	11	18
Total fixed assets	825	772	772
Inventories	433	436	439
Current receivables	650	549	593
Cash and cash equivalents	61	110	131
Total current assets	1,144	1,095	1,163
TOTAL ASSETS	1,969	1,867	1,935
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	1,006	996	1,014
Long-term liabilities	505	485	483
Accounts payable - trade	277	187	242
Other current liabilities	33	53	51
Accrued expenses and prepaid income	148	146	145
Total current liabilities	458	386	438
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,969	1,867	1,935

CHANGE IN SHAREHOLDERS' EQUITY

(SEK million)	30.9.2005	30.9.2004 ¹⁾	31.12.2004 ¹⁾
Shareholders' equity, opening balance	1,014	972	972
Adoption of new accounting standard	-37	-9	
Redemption of warrants	74	6	5
Dividend	-200	-74	-74
Translation differences	11	2	-1
Net profit	144	99	112
Shareholders' equity, closing balance	1,006	996	1,014

SUMMARY CASH FLOW STATEMENT FOR THE GROUP

(SEK million)	Jan-Sep 2005	Jan-Sep 2004 ¹⁾	Full year 2004 ¹⁾
Operating activities			
Cash flow from operating activities before changes in net operating assets	245	205	234
Changes in net operating assets	-110	-87	-47
Cash flow from operating activities	135	118	187
Investing activities			
Cash flow from investing activities	-109	-83	-90
Financing activities			
Cash flow from financing activities	-99	-69	-110
Cash flow for the year	-72	-34	-13
Liquid funds, opening balance	131	144	144
Translation difference	2	0	0
Liquid funds, closing balance	61	110	131

¹⁾ Translated in accordance with IFRS but exclusive of IAS 39. Further information on page 25.

KEY FIGURES	Jan-Sep 2005	Jan-Sep 2004¹⁾	Full year 2004¹⁾
(SEK million unless otherwise stated)			
Income statement			
Net sales	2,816	2,663	3,629
Gross contribution	825	718	973
Operating profit	203	144	150
Profit after net financial items	198	137	154
Net profit	144	99	112
Balance sheet			
Fixed assets	825	772	772
Current assets	1,144	1,095	1,163
Shareholders' equity	1,006	996	1,014
Long-term liabilities	505	485	483
Current liabilities	458	386	438
Net operating assets	1,448	1,363	1,359
Net borrowings	291	242	182
Key ratios			
Return on net operating assets, %	15	14	11
Return on shareholders equity, %	16	14	11
Equity/assets ratio, %	51	53	52
Debt/equity ratio, multiple	0.29	0.24	0.18
Proportion of risk-bearing capital, %	58	59	60
Capital turnover rate, multiple	2.7	2.6	2.7
Direct investments in fixed assets	120	74	97
Average number of employees	789	780	787
of whom in Sweden	641	635	640

¹⁾ Translated in accordance with IFRS but exclusive of IAS 39. Further information on page 25.

New accounting principles adopted on 1 January 2005

As of 1 January 2005, Karlshamns prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). Up to 31 December 2004, Karlshamns applied the Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendations and statements.

The Swedish Financial Accounting Standards Council has gradually adjusted its recommendations to the IFRS/IAS standards. As a consequence, many of the standards published prior to 2004 have already been adopted in Sweden – partly or in their entirety. There are certain standards, however, along with a number of additions to, and upgradings of, current standards that are to be adopted for the first time in 2005. The effects of the first-time adoption of IFRS are preliminary, and based on interpretations of the standards currently in force. IFRS may be subject to changes in the course of 2005 due to additional IFRIC (International Financial Reporting Interpretations Committee) pronouncements. There will also be a possibility to implement new standards prior to the scheduled effective date of 1 January 2006. These developments have thus not been taken into account in the following.

For Karlshamns, the first-time adoption of IFRS mainly affected the Group's reporting of financial instruments (IAS 32 and IAS 39). The effects on consolidated profits and shareholders' equity are accounted for below. We also describe the preliminary impact of IFRS on Karlshamns' financial reporting.

The adoption of IFRS is reported in accordance with IFRS 1 – "First-Time Adoption of International Financial Reporting Standards" – and transitional effects, if any, are reported as a translation of retained profits as of 1 January 2004, which is the date set for Karlshamns first-time adoption of IFRS. This interim report, for the period to 30 September 2005, is the third report prepared in accordance with IFRS. Comparative figures for 2004 have been translated accordingly. IFRS 1 provides the option of a number of exceptions from IFRS standards, of which Karlshamns has opted for the following:

- IFRS 3 has not been applied retroactively on acquisitions of shares and participations, neither have these figures been translated.
- Tangible fixed assets have not been reported at fair value in connection with the first-time adoption of IFRS, i.e. the carrying amounts according to Swedish accounting principles are still reported.
- All actuarial gains and losses were reported when IFRS were first adopted. IAS 19 (on Employee benefits) was adopted on 1 January 2004 by means of RR 29, and is thus not affected by the first-time adoption of IFRS. Its effects are nevertheless accounted for here, for the sake of completeness.
- Cumulative translation differences for all foreign operations were reversed when IFRS were adopted.
- Comparative figures in view of IAS 39, "Financial instruments: Recognition and Measurement" have not been adjusted. As a consequence, cumulative adjustments due to the adoption of IAS 39 are reported as an adjustment of shareholders' equity, opening balance 2005. This adjustment amounts to SEK 37 million.

Reclassification

Provisions were previously reported as a separate balance sheet disclosure, in accordance with the Swedish Annual Accounts Act. These items are now reported under "Long-term liabilities" according to IFRS, and the comparative figures for 2004 have been adjusted accordingly.

Intangible assets

According to IFRS 3, goodwill shall not be amortized, but instead be valued at cost less amortizations. Amortization requirements are to be assessed at least once a year. Amortization of goodwill is thus no longer reported, and the comparative figures for 2004 have been translated accordingly. The tables below show Karlshamns' financial reporting for the period to 30 September 2004 according to Swedish accounting principles, according to IFRS and the bridge between the two accounting standards.

Preliminary effects of the first-time adoption of IFRS, on Karlshamns' income statement for the period to 30 September 2004
SEK million

	Reported on 30 Sept. 2004	IFRS 3 Goodwill	IFRS 30 Sept 2004
Net sales	2,663		2,663
Raw material costs	-1,945		-1,945
Gross contribution	718		718
Personnel and other external costs	-502		-502
Depreciation	-74	1.8	-72
Operating profit	142	1.8	144
Net financial items	-7		-7
Profit after net financial items	135	1.8	137
Tax	-38	-0.5	-38
Net profit	97	1,3	99

Preliminary effects of the first-time adoption of IFRS on Karlshamns' balance sheet, closing balance
31.12.2004
SEK million

	Reported on 31.12.2004	IFRS 3 Goodwill	IFRS 31.12.2004
Intangible fixed assets	23	2.5	26
Tangible fixed assets	728		728
Financial assets	19	-0.3	18
Inventories	439		439
Current receivables	593		593
Cash, cash equivalents and short-term investments	131		131
Total assets	1,933	2.2	1,935
Shareholders' equity	1,013	1.8	1,014
Long-term liabilities	483	0.4	483
Accounts payable - trade	241		242
Other current liabilities	51		51
Accrued expenses and prepaid income	145		145
Total shareholders' equity and liabilities	1,933	2.2	1,935

Financial instruments

On 1 January 2005, Karlshamns implemented the first-time adoption of the new international accounting standard IAS 39 "Financial Instruments: Recognition and Measurement". IAS 39 was adopted in accordance with IFRS 1, i.e. without adjusting historical comparative figures. As a consequence, cumulated adjustments ensuing from the adoption of IAS 39 are reported as an adjustment of shareholders' equity, opening balance 2005. This adjustment amounts to SEK 37 million.

The reporting standards applicable to financial instruments, IAS 39, stipulate that financial assets and liabilities, inclusive of derivative instruments, are to be reported at fair value or amortised cost, depending on the classification of assets and liabilities.

Profits or losses on fair value movements in financial assets or liabilities are to be recognised in profit or loss on a current basis, or in equity directly. According to IAS 39, hedge accounting may be applied under certain conditions. When hedge accounting is applied, a certain hedging instrument must be attributable to a specified balance sheet item. Karlshamns has chosen not to apply the hedge accounting method.

Karlshamns' derivative instruments are reported at their fair value. Profits or losses on fair value movements are recognised in profit or loss, under gross contribution. The entire fair value movement has been assigned to the business area Oils & Fats.

The adoption of IAS 39 has entailed the following effects from 1 January 2005:

- All raw material derivatives are recognised at fair value in the balance sheet, the fair value movements on the hedging instrument recognised in profit or loss on a current basis. Raw material futures that result in actual raw material deliveries are handled as purchasing contracts; i.e. are recognised as the physical delivery is made.

- Currency derivatives are recognised at fair value in the balance sheet, the fair value movements recognised in profit and loss on a current basis.

- According to IAS 39, sales contracts in 3rd-party currencies contain embedded derivatives. IAS 39 requires such embedded derivatives to be accounted for separately at fair value in the balance sheet, their fair value movements through profit or loss.

Preliminary effects of the first-time adoption of IFRS on Karlshamns' balance sheet, opening balance
1.1.2005
SEK million

	Closing balance 31.12.2004 IFRS	IAS 39	Opening balance 1.1.2005 IFRS
Intangible fixed assets	26		26
Tangible fixed assets	728		728
Financial assets	18		18
Inventories	439		439
Current receivables	593	-25.7	567
Cash, cash equivalents and short-term investments	131		131
Total assets	1,935	-25.7	1,909
Shareholders' equity	1,014	-37.0	977
Long-term liabilities	483	-15.1	467
Accounts payable - trade	242		242
Other current liabilities	51	26.4	78
Accrued expenses and prepaid income	145		145
Total shareholders' equity and liabilities	1,935	-25.7	1,909

Karlshamns and IFRS

Karlshamns has not altered its approach to raw material and currency exposure, but we remain firm in our strategy to hedge all such operational risks – i.e. all sales and purchase contracts are hedged on a current basis. A normal sales contract usually covers the next 12-month period, with physical deliveries implemented on a current basis throughout this period.

To hedge the Group's contribution margin on such a sales contract, both the currency rate and the raw material cost are hedged when sales occur. The currency risk is hedged by means of a currency future with a bank, and the exposure related to raw material prices is hedged by means of raw material purchases or raw material derivatives. In brief, the new reporting standards mean that external raw material and currency derivatives are recognised at fair value at the end of each reporting period, whereas fair value movements are recognised as profit or loss. In our operating reports, the corresponding fair value movements in the underlying sales and purchase contracts are taken into account as well.

In our estimation, the consolidated profit/loss reported after the adoption of IAS 39 will display a larger volatility due to changes in currency rates and raw material prices. Neither cash flow nor the underlying operating profitability will be affected, however. Other IFRS have only a limited impact on the Karlshamns Group.

The following example illustrates how Karlshamns hedges its contribution margins.

Sales – an example

Karlshamns sells 100 tonnes of rapeseed oil for delivery to a customer in June 2005. The sales price is EUR 3,000/tonne = EUR 300,000 at a currency exchange rate of 9.20 SEK/EUR. This corresponds to a sales value of SEK 2,760,000.

The sales contract is hedged immediately, as Karlshamns sells EUR 300,000 to a bank at the exchange rate 9.20 SEK/EUR, by means of a forward exchange agreement. Karlshamns thereby guarantees an inflow of SEK 2,760,000 in June 2005, from the sales contract in question.

The valuation in the month-end accounts, at a month-end rate of 9.10 SEK/EUR, has the following effects:

Fair value movement $\text{EUR } 300,000 \times (9.20 - 9.10) = 30,000 \text{ SEK}$.

- The market value of the currency hedge with a bank results in a fair value movement of + SEK 30,000.
- The value of the sales contract has decreased by SEK 30,000 from the moment it was signed.

Impact on the accounts

The profit/loss reported in accordance with IFRS comprises the fair value movement in the forward exchange agreement made with a bank, which is thus + SEK 30,000, the forward exchange agreement being classified as a financial instrument and the fair value movement thus to be recognised in profit or loss.

Operating accounts

In our internal, operating reports we take the fair value movements in the sales contract into account as well. In this case, there is thus no effect on operating profits.