

# Interim Report

1st. quarter 2003/04

March 1 through May 31, 2003



SÜDZUCKER

## Dear shareholders,

These quarterly accounts provide information on the development of business in the first three months of the current 2003/04 financial year (March through May 2003).

In the sugar segment, the development in the first quarter was characterised by the approval granted by the Polish State Treasury Ministry at the end of March regarding the takeover of the Silesian sugar group Slaska Spólka Cukrowa (SSC) by Saint Louis Sucre (SLS), the French company belonging to the Südzucker Group<sup>1</sup>. Thus our longstanding, rigorously pursued strategic efforts were crowned by success, and Südzucker raised its market share in Poland from 8 % to 25 %, thus achieving its goals. After France and Germany, Poland is the third largest sugar producer in Europe and, with a population of approx. 40 million, it is the most important market in Central and Eastern Europe. Südzucker thus succeeded in generating a co-operation in Poland prior to its entry into the EU on May 1, 2004, which will form the second largest Polish sugar group with an EU maximum quota of 422,000 t and sales of approx. € 300 million. The new co-operation thus formed alleviates the necessary restructuring of the nearby Silesian and south-east Polish sugar factories, required under EU conditions, and opens up synergies in procurement, production, administration and sales.

Furthermore, we have successfully rounded off the existing EU sugar sector. In the context of the takeover of the French sugar producer Béghin-Say by a consortium of French co-operatives and the previous sugar beet suppliers of Béghin-Say, SLS succeeded in acquiring a total of 67,000 t of maximum sugar quota with the beet supply contracts of Béghin-Say, with effect from the 2003/04 crop season. This additional maximum quota is processed using the existing capacity of the SLS factories. This will avoid an increase of fixed costs and further improve the previous factory structure in France.

Annual production of the sugar segment will be approx. 5 million t following these two takeovers.

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<sup>1</sup> The figures for the first quarter do not include the purchase of SSC.

## Development of sales

Group sales remained stable in the first quarter of the 2003/04 financial year, at € 1,125 (1,158)<sup>2</sup> million.

In the sugar segment, sales dropped by € 78 million to € 811 (889) million, primarily due to lower sales of the companies in Eastern Europe. Here the changes on the market in the run-up to EU membership negatively impacted prices. Furthermore, the negative developments of the world market price for sugar and the US dollar led to a reduction of sales year-on-year.

In the specialties segment, sales rose by € 45 million to € 314 (269) million. This rise of 16.8 % year-on-year is primarily characterised by the further growth in functional food and the sustained boom in discount own-brand business at Freiberger. In addition, Freiberger has been included for five months due to the change from the calendar year to the Südzucker consolidated financial year in the past quarter.

## Operating result

The consolidated operating result remained stable at € 114 (114) million.

In the sugar segment, the market adjustment occurring mainly in the Eastern European EU acceding countries during the current transitional period until EU membership has led to considerable price declines. In addition, the weak US dollar, in conjunction with low prices on the global sugar market, negatively impacted the sugar export business. This was not compensated by the progressive realisation of additional synergy effects within the group. Consequently, the operating result of the segment was down considerably year-on-year, at € 75 (85) million.

The rise of the operating result in the specialties segment to € 39 (29) million primarily reflects additional growth in functional food and the good situation in the discount sector of German retail, in conjunction with the fact that the inclusion period of Freiberger is two months longer. Unimpeded by this effect, the operating margin of 12.3 (10.6) % achieved proves that the profitability of the specialties segment of the Südzucker Group is now excellent.

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<sup>2</sup> The amounts in brackets relate to the same period for the previous year.

## Outlook

The consolidated operating result for the 2003/04 financial year is to benefit from the high volume of sugar produced in the past 2002 crop season and from further synergy effects deriving from the Südzucker Group. In addition, the acquisition of the 67,000 t maximum quota of Béghin-Say will have a positive impact, even though the full effect of this will only show in 2004/05. We also expect a continuation of the pleasing development in the specialties segment, both at Freiburger and in functional food. In contrast, we expect a drag on earnings in the transitional year of the Eastern European acceding countries. The decline of the global sugar market price, compounded by the weak US dollar, will also lead to a drop in earnings. Overall, we anticipate that the positive developments will not fully offset these effects. Against this background, we do not expect to be able to match the excellent operating result of 2002/03.

However, in respect of the net income for the year and earnings per share, we anticipate an increase on 2002/03, in view of a better restructuring result and an expected reduction in goodwill writedowns, although the tax rate is set to normalise again due to the absence of favourable non-recurring effects.

Sincerely,  
Südzucker Aktiengesellschaft  
Mannheim/Ochsenfurt  
The Executive Board

## Financial position

The interim financial statements for the first three months of 2003/04 ending May 31, 2003 have been prepared using International Accounting Standards (IAS). The consolidation methods and accounting policies are the same as those used for preparing the annual financial statements. We refer to the consolidated financial statements for the year ended February 28, 2003 for further details.

### GROUP BALANCE SHEET

<b>ASSETS</b>		
(in € millions)	May 31, 2003	Feb. 28, 2003
Intangible assets	1,324.3	1,271.4
Tangible assets	1,607.0	1,607.4
Financial assets	420.7	357.9
<b>Non-current assets</b>	<b>3,352.0</b>	<b>3,236.7</b>
Inventories	1,090.9	1,557.6
Receivables and other assets	764.5	592.4
Securities and cash	408.6	427.5
<b>Current assets</b>	<b>2,264.0</b>	<b>2,577.6</b>
Deffered tax assets	11.2	11.4
<b>Total ASSETS</b>	<b>5,627.2</b>	<b>5,825.7</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
(in € millions)	May 31, 2003	Feb. 28, 2003
Group share in equity	1,864.1	1,825.2
Minority interests	405.2	395.8
<b>Shareholders' equity</b>	<b>2,269.3</b>	<b>2,221.0</b>
Provision for pensions	370.0	369.1
Deferred tax liabilities	333.6	342.7
Other accrued expenses	560.8	607.0
<b>Total provisions and accruals</b>	<b>1,264.4</b>	<b>1,318.8</b>
<b>Financial liabilities</b>	<b>1,530.5</b>	<b>1,435.7</b>
<b>Other liabilities</b>	<b>563.0</b>	<b>850.2</b>
<b>Total LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>5,627.2</b>	<b>5,825.7</b>
<b>Net financial debt</b>	<b>1,121.9</b>	<b>1,008.2</b>

## GROUP STATEMENT OF INCOME

(in € millions)	1st. quarter 2003/04*	1st. quarter 2002/03*	Change in %
<b>Sales</b>	<b>1,124.6</b>	<b>1,157.8</b>	<b>-2.9</b>
<b>Operating profit</b>	<b>114.0</b>	<b>113.7</b>	<b>+0.3</b>
Expenses relating to restructuring costs and other items	-4.1	4.9	
Amortisation of goodwill	-17.4	-16.7	
<b>Income from ordinary operating activities</b>	<b>92.5</b>	<b>101.9</b>	<b>-9.3</b>
Financial expense, net	-21.4	-7.4	
<b>Earnings before income taxes</b>	<b>71.1</b>	<b>94.5</b>	<b>-24.8</b>
Taxes on income	-15.4	-25.1	
<b>Net group earnings for the period</b>	<b>55.7</b>	<b>69.4</b>	<b>-19.8</b>
Minority share of net group earnings	-12.0	-16.5	
<b>Net group earnings for the period after minority interests</b>	<b>43.7</b>	<b>52.9</b>	<b>-17.4</b>
<b>Earnings per share</b>	<b>0.25</b>	<b>0.31</b>	<b>-19.4</b>

\* March 1 - May 31

## STATEMENT OF CASH FLOWS

(in € millions)	March 1 - May 31, 2003	March 1 - May 31, 2002
<b>Gross cash flow</b>	<b>104.8</b>	<b>117.0</b>
Change in net current assets	-53.3	-28.0
Net cash flow from operating activities	51.5	89.0
Cash flow from investing activities	-164.9	-49.0
Cash flow from financing activities	94.5	-126.7
<b>Change in cash and cash equivalents</b>	<b>-18.9</b>	<b>-86.7</b>
Cash and cash equivalents at the beginning of the period	427.5	428.9
<b>Cash and cash equivalents at the end of the period</b>	<b>408.6</b>	<b>342.2</b>

## STATEMENT OF MOVEMENTS IN SHAREHOLDERS' EQUITY

including minority interests (in € millions)	Group share	Minority interests	Total
<b>Balance at 1.3.2003</b>	<b>1,825.2</b>	<b>395.8</b>	<b>2,221.0</b>
Profit after tax	43.7	12.0	55.7
Dividends	-	-1.1	-1.1
Other changes	-4.8	-1.5	-6.3
<b>Balance at 31.5.2003</b>	<b>1,864.1</b>	<b>405.2</b>	<b>2,269.3</b>
<b>Balance at 1.3.2002</b>	<b>1,642.5</b>	<b>367.4</b>	<b>2,009.9</b>
Profit after tax	52.9	16.5	69.4
Dividends	-	-2.9	-2.9
Other changes	3.9	0.6	4.5
<b>Balance at 31.5.2002</b>	<b>1,699.3</b>	<b>381.6</b>	<b>2,080.9</b>

## SEGMENT REPORTING

(in € millions)	1. quarter 2003/04*	1. quarter 2002/03*	Change +/- in %	
<b>Sales</b>	<b>1,124.6</b>	<b>1,157.8</b>	<b>-33.2</b>	<b>-2.9</b>
Sugar	810.6	888.9	-78.3	-8.8
Specialties	314.0	268.9	+45.1	+16.8
<b>Operating profit</b>	<b>114.0</b>	<b>113.7</b>	<b>+0.3</b>	<b>+0.3</b>
Sugar	75.3	85.2	-9.9	-11.6
Specialties	38.7	28.5	+10.2	+35.8
<b>Operating margin</b>	<b>10.2 %</b>	<b>9.8 %</b>		
Sugar	9.1 %	9.6 %		
Specialties	12.3 %	10.6 %		
<b>Capital expenditures</b>	<b>100.8</b>	<b>38.5</b>	<b>+62.3</b>	<b>+161.8</b>
Sugar	89.3	24.0	+65.3	+272.1
Specialties	11.5	14.5	-3.0	-20.7
<b>Average number of employees</b>	<b>13,573</b>	<b>13,358</b>	<b>+215</b>	<b>+1.6</b>
Sugar	10,229	10,219	+10	+0.1
Specialties	3,344	3,139	+205	+6.5

\* March 1 - May 31

Capital expenditure from March to May of financial year 2003/04 amounted to 100.8 (38.5) mn €. The increase of capital expenditure in the sugar segment relates mainly to the acquisition of 67,000 t maximum quota in France.

## 2003 diary dates

Annual general meeting, Mannheim	July 31, 2003
Dividend distribution	August 1, 2003
Interim report on 2nd. quarter of 2003/04	October 15, 2003

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July 2003



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