

# Interim Report

Financial Year 2004/05

1st-3rd Quarter

1 March to 30 November 2004



SÜDZUCKER

## Dear Shareholders,

With this interim report we wish to inform you about the way business has developed in the first nine months of the current 2004/05 financial year (March to November 2004).

### General

The reform of the European sugar market regulation remains controversial. The debate within the Council of Agricultural Ministers has made it clear that the Commission will not secure a majority for its proposal submitted to the Council in July 2004. Ten EU member states from Southern, Northern and Eastern Europe, whose sugar industry is threatened by the reform, have informed Mrs. Else Mariann Fischer Boel, the new EU Commissioner for Agriculture in office since 23 November 2004, that they reject the proposal.

The concrete mechanisms for the reform of the agricultural sector are currently being negotiated in the present Doha Round. The aim is to reach a consensus before the next WTO Summit in December 2005 in Hong Kong.

The WTO panel's ruling against the European Union's sugar policy was published in October 2004. This would have far-reaching consequences for sugar production in the EU. The EU has announced its intention to appeal against the decision.

In Germany, the Sugar Beet Growers Federation (ADR), the German Farmers' Federation (DBV), the Food, Beverages and Catering Industry Trade Union (NGG) and the Sugar Industry Association (WVZ) have, in close cooperation, launched the "Existenzfrage Zucker" initiative to draw attention to the dangers of an exaggerated reform of the European sugar market regulation for production in Germany.

In principle, we recognize the need to discuss a reform of the sugar market regulation. The Commission's proposals and the political discussions in the past months have demonstrated that there is the political resolve to strengthen the competitiveness of beet sugar production in the EU and to provide efficient producers with a long-term perspective for the future. This confirms us in our strategy of focusing on the best beet-growing regions. However, we call on the EU Commission to formulate its legislative proposals and to pursue the negotiations at the international level in a way that will enable the declared goals to be achieved.

The EU Commission has announced that it intends to table these proposals in the summer of 2005 when the sugar panel's ruling on the appeal is known.

## Sugar production in 2004

After a good growing season with sufficient rainfall Südzucker Group's beet growers harvested 31.0 million tonnes of sugar beet, an increase of 16.1 % versus the 26.7 million tonnes harvested in the previous year. In an efficient campaign beet sugar production was increased to 4.8 (PY: 4.2) million tonnes. Energy consumption per tonne of sugar produced was reduced once again. Including the refining of cane sugar at the refineries in Marseille, France, and Buzau, Romania, Südzucker Group's total output came to 5.1 (PY: 4.4) million tonnes of sugar, with the subsidiaries in Eastern Europe accounting for 21.5 %.

## 2004 CAMPAIGN

	Number of production sites		Sugar production in 1,000 t		Change
	2004	2003	2004	2003	in %
Südzucker AG	11	11	1,806	1,436	25.8
RT Belgium	3	4	660	675	(2.2)
SLS France	6	6	1,111	1,039	6.9
AGRANA Austria	3	3	434	386	12.4
<b>Total</b>	<b>23</b>	<b>24</b>	<b>4,011</b>	<b>3,536</b>	<b>13.4</b>
Eastern Europe	22	28	1,098	907	21.1
<b>Total</b>	<b>45</b>	<b>52</b>	<b>5,109</b>	<b>4,443</b>	<b>15.0</b>

Refining capacities could be utilized over a longer period, with the campaign lasting an average of 91 days as compared with 75 days in the previous year. At the same time the number of production sites was reduced to 45 compared to 52 in the 2003 campaign. In the past campaign Südzucker therefore demonstrated that its concentration on Europe's best beet-growing regions is the right strategy. In the course of the forthcoming reforms Südzucker will exploit the competitive advantages afforded by its locations and will take further steps to defend the profitability of its sugar business.

## Investments in functional food, bioethanol and fruit

With the investments launched in the functional food, bio-ethanol and fruit additives/fruit juice concentrates businesses we are also expanding our growing specialities segment.

In the functional food business the expansion of capacities at Palatinit in Offstein and the construction of a new ORAFIT production facility in Chile are proceeding according to plan. This will enable us to meet the continued strong growth in demand.

The bioethanol plant in Zeitz will be coming on stream in spring 2005 with a capacity of 260,000 m<sup>3</sup>. The market for energy from renewable sources will witness substantial growth in the coming years. In the Kyoto Protocol the EU has pledged to reduce carbon dioxide emissions. In order to deliver on this commitment it intends to boost the share of biofuels in total fuel consumption to 5.75 % by the year 2010. This corresponds to an EU market volume of between 8 and 10 million m<sup>3</sup> for bioethanol as a fuel component.

Following approval by the antitrust authorities AGRANA acquired the Bingen-based Wink Group on 3 January 2005. With sales of approximately € 44 million and 200 employees, Wink is one of the leading fruit juice concentrate producers in Europe and operates four plants, with two in Hungary and one each in Poland and Romania. The head office, with the administration and central logistics operations, is in Bingen. Following the acquisition of Vallø Saft of Denmark the year before, this latest acquisition makes the company the market leader for fruit juice concentrates in Europe.

The recent takeovers in the European pizza and baguette business highlight the attractiveness of this market segment. These deals are focused on the branded products segment. Freiburger, whose business concentrates on private-label products, continues to hold a leading position in Europe unaffected by these developments.

After divesting with 15 % of the original 25 % stake in KWS Saat AG two years ago, the remaining 10 % were sold in December 2004 mainly to institutional investors in a placement managed on a bookbuilding basis. With this divestment, Südzucker is continuing to focus on investments over which strategic influence can be exercised. The Federal Cartel Office had refused to sanction a stronger equity and corporate interest in KWS. The divestment will not affect the traditionally good and fruitful cooperation between Südzucker and KWS.

## Sales

In the first nine months of the 2004/05 financial year Group sales were up by € 137 million, or 4.0 %, to € 3,608 (PY: 3,471) million.

Sales in the Sugar segment were up by € 32 million to € 2,612 (PY: 2,580) million. A decline of € 68 million in the West European sugar business was due to the low level of sugar production in the 2003 campaign, with the result that less sugar was available for export. A different picture was presented by our sugar operations in Eastern Europe, where the accession to the EU as of 1 May 2004 brought the expected strong boost to sales. With growth of € 100 million, this more than offset the sales decline in the West European region.

The sales growth of 11.8 % to € 996 (PY: 891) million reported for our Special Products segment was influenced as well by two counteracting special effects. On the one hand, Freiberger had been included in the year-earlier figure for eleven instead of nine months owing to the adjustment of its financial year. On the other hand, sales have been boosted in the current year as Steirerobst in the fruit business and Stateside in the pizza business were fully consolidated for the first time.

## Operating profit

Group operating profit in the first nine months was up by 10.6 % to € 408 (PY: 369) million; the operating margin rose to 11.3 (PY: 10.6) %. In the Sugar segment profits were up by 11.9 % to € 288 (PY: 258) million, boosted by the entry of the East European sugar companies into the EU. Earnings performance in Western Europe was held back by lower exports and poorer conditions for export refunds.

The Special Products segment, where operating profit was up by 7.5 % to € 120 (PY: 111) million, outperformed the Sugar segment with an operating margin of 12.0 %. This development was driven primarily by the continued fast-growing functional food business, but also by the starch business, which profited from declining corn prices.

## Outlook

The overall growth of 10.6% in operating profit in the first nine months was mainly influenced in the Sugar segment by the East European countries' entry into the EU. Set against this, there are burdens from rising commodity prices, especially for oil, coal and coke, and the weakness of the US dollar, which affects our revenues from sugar exports.

In the Special Products segment the growth trend in the functional food and starch businesses looks set to continue. Combined with the positive effects from the first-time consolidation of Steirer-obst and Stateside, we expect the growth in sales and operating profit to be in the double digits. The growth in sales and profits from our investments in the functional food, bioethanol and fruit businesses will continue at an even faster pace in the coming financial year.

At the Südzucker Group level we expect sales growth of approximately 7% for the 2004/05 financial year and a similar increase in operating profit.

Yours sincerely,  
Südzucker Aktiengesellschaft  
Mannheim/Ochsenfurt  
The Executive Board

## **Assets and liabilities, financial position and results of operations**

The interim results of the Südzucker Group have been prepared in accordance with the rules of IAS 34. The same accounting and valuation methods as applied in the preparation of the Group's consolidated annual financial statements as of 29 February 2004 have been applied unchanged. Income taxes have been calculated on the basis of the local rates of income tax in the respective countries taking account of the planning for the full financial year.

The International Financial Reporting Standard (IFRS) 3 adopted in March 2004 was already applied by Südzucker in the 2003/04 financial year. As from 1 March 2003 goodwill is no longer amortised on a regular basis but is tested for impairment. The goodwill amortisation of € 53.8 million still included in the year-earlier quarterly results has therefore been adjusted in the interest of comparability. Without this adjustment, net profit is up by € 56.7 million, or 27.0%, from € 209.7 million a year earlier to € 266.4 million in the current financial year. On the one hand, the British Stateside Group had not been fully consolidated in the year-earlier period while, on the other, the Steirerobst Group has been included as a fully consolidated subsidiary of the Südzucker Group from June 2004 after AGRANA increased indirectly its shareholding in Steirerobst AG to 51%.

The acquisition of the Wink Group effected in January 2005 and the sale of the KWS shares in December 2004 are not included in the quarterly results as of 30 November 2004.

## GROUP BALANCE SHEET

€ million	30 November 2004	29 February 2004
<b>Assets</b>		
Intangible assets	1,684.7	1,426.5
Tangible assets	1,938.8	1,664.6
Financial assets	291.7	267.8
Receivables and other assets	2.9	5.5
Deferred tax assets	13.9	18.2
<b>Non-current assets</b>	<b>3,932.0</b>	<b>3,382.6</b>
Inventories	2,190.3	1,645.3
Receivables and other assets	906.5	704.2
Cash and cash equivalents	238.3	305.6
<b>Current assets</b>	<b>3,335.1</b>	<b>2,655.1</b>
<b>Total assets</b>	<b>7,267.1</b>	<b>6,037.7</b>
<b>Liabilities and shareholders' equity</b>		
Subscribed capital	174.8	174.8
Capital reserves	951.3	951.3
Revenue reserves	1,000.1	851.0
Equity attributable to shareholders of Südzucker AG	2,126.2	1,977.1
Minorities interests	355.6	408.8
<b>Shareholders' equity</b>	<b>2,481.8</b>	<b>2,385.9</b>
Provision for pensions	385.0	379.1
Deferred tax liabilities	330.7	333.0
Other provisions and accrued liabilities	208.3	222.6
Non-current financial liabilities	1,211.9	1,079.6
Other liabilities	24.5	24.9
<b>Total non-current provisions and liabilities</b>	<b>2,160.4</b>	<b>2,039.2</b>
Other provisions and accrued liabilities	448.0	415.4
Current financial liabilities	372.6	325.9
Other liabilities	1,804.3	871.3
<b>Total current provisions and liabilities</b>	<b>2,624.9</b>	<b>1,612.6</b>
<b>Total liabilities and shareholders' equity</b>	<b>7,267.1</b>	<b>6,037.7</b>

Intangible assets increased mainly as a result of the goodwill arising from the acquisition of the minority interests in Raffinerie Tirlémontoise and Saint Louis Sucre. The growth in tangible fixed assets is mainly due to the construction of the bioethanol plant in Zeitz, the expansion of production capacities at ORAFI and Palatinit, and the full consolidation of Steirerobst for the first time. The increase in inventories is due to sugar production in

the months September through 30 November 2004. The rise in short-term receivables and other assets is mainly due to higher trade receivables and export refunds as a result of the campaign-related higher sugar sales tonnage in the third quarter. Short-term other liabilities rose as a result of payment obligations to sugar beet growers. Owing to this seasonal inflation of the balance sheet the equity ratio decreased to 34.2 % as of 30 November 2004 versus 39.5 % as of 29 February 2004. Net financial debt amounted to € 1,346 million as of 30 November 2004 as compared with € 1,100 million as of 29 February 2004.

## GROUP STATEMENT OF INCOME

€ million	3rd quarter*		1st – 3rd quarter**		
	2004/05	2003/04	2004/05	2003/04	Change
<b>Sales</b>	<b>1,334.7</b>	<b>1,231.6</b>	<b>3,607.9</b>	<b>3,470.5</b>	<b>4.0 %</b>
<b>Operating profit</b>	<b>141.8</b>	<b>137.0</b>	<b>408.4</b>	<b>369.4</b>	<b>10.6 %</b>
Restructuring costs and other items	(1.7)	(5.2)	(9.9)	4.6	
Financial expense, net	(17.9)	(22.5)	(65.0)	(52.1)	
<b>Earnings before income taxes</b>	<b>122.2</b>	<b>109.3</b>	<b>333.5</b>	<b>321.9</b>	<b>3.6 %</b>
Taxes on income	(16.4)	(12.5)	(67.1)	(58.4)	
<b>Net earnings for the year</b>	<b>105.8</b>	<b>96.8</b>	<b>266.4</b>	<b>263.5</b>	<b>1.1 %</b>
of which attributable to Südzucker shareholders	75.7	83.6	211.7	222.3	(4.8 %)
of which attributable to minority interests	30.1	13.2	54.7	41.2	32.8 %
<b>Earnings per share (€)</b>	<b>0.44</b>	<b>0.49</b>	<b>1.23</b>	<b>1.29</b>	<b>(4.7 %)</b>

\* 1 September to 30 November

\*\* 1 March to 30 November

For details of the development of sales and operating profit please refer to the first part of this interim report. The rise in net financial expense is due to the falling away of the investment income from the Spanish affiliate Ebro Puleva S.A. that was still included in the year-earlier figure and higher interest charges. Taxes on income represent the figure calculated by applying the effective tax rate budgeted for the full financial year to pretax profit in the reporting period. Minority interests also participated in the positive earnings performance of the subsidiaries in Eastern Europe, in which Südzucker's interest averages 80 %. These minority interests and the minority interest in AGRANA represent an aggregate share in profits of € 54.7 million.

The calculation of earnings per share (IAS 33) in the 2003/04 financial year was based on an unchanged number of 171,865,546 shares. The number of shares has been reduced by 2,922,400 shares in accordance with Section 160 (1) Aktiengesetz (German Stock Corporation Act).

## STATEMENT OF CASH FLOWS

€ million	1st - 3rd quarter**	
	2004/05	2003/04
<b>Gross cash flow</b>	<b>441.2</b>	<b>435.0</b>
Change in net current assets	274.3	322.1
<b>Net cash flow from operating activities</b>	<b>715.5</b>	<b>757.1</b>
Cash flow from investing activities	(766.0)	(359.6)
Cash flow from financing activities	(16.8)	(459.4)
<b>Change in cash and cash equivalents</b>	<b>(67.3)</b>	<b>(61.9)</b>
Cash and cash equivalents at the beginning of the period	305.6	427.5
Cash and cash equivalents at the end of the period	238.3	365.6

The net cash outflow of € 766.0 million from investing activities includes investments of € 375.9 million in tangible fixed assets and € 413.8 million in financial assets, which mainly relate to the acquisition of the minority interests in RT and the expansion of the AGRANA fruit group.

\* 1 March to 30 November

## STATEMENT OF MOVEMENTS IN SHAREHOLDERS' EQUITY

including minority interests € million	Group share	Minority share	Total
<b>Balance at 1 March 2004</b>	<b>1,977.1</b>	<b>408.8</b>	<b>2,385.9</b>
Profit after tax	211.7	54.7	266.4
Dividends	(87.4)	(13.7)	(101.1)
Other changes	24.8	(94.2)	(69.4)
<b>Balance at 30 November 2004</b>	<b>2,126.2</b>	<b>355.6</b>	<b>2,481.8</b>
<b>Balance at 1 March 2003</b>	<b>1,825.2</b>	<b>395.8</b>	<b>2,221.0</b>
Profit after tax	168.5	41.2	209.7
Dividends	(87.4)	(14.0)	(101.4)
Other changes	7.8	(26.7)	(18.9)
<b>Balance at 30 November 2003</b>	<b>1,914.1</b>	<b>396.3</b>	<b>2,310.4</b>

The dividend of € 0.50 per share approved at the Annual General Meeting of Südzucker AG on 29 July 2004 was paid on 30 July 2004. The total dividend payment amounted to € 87.4 million.

The profit distributions to minority interests relate in the main to the dividend paid by AGRANA in July 2004.

The decline in minority interests in equity by a total of € 53.2 million from € 408.8 million to € 355.6 million mostly reflects the acquisition of the minority interests in Raffinerie Tirlémontoise and Saint Louis Sucre.

## SEGMENT REPORTING

€ million	3rd quarter*		1st – 3rd quarter**		
	2004/05	2003/04	2004/05	2003/04	Change
<b>Sales</b>	<b>1,334.7</b>	<b>1,231.6</b>	<b>3,607.9</b>	<b>3,470.5</b>	<b>4.0 %</b>
Sugar	988.0	924.7	2,612.2	2,579.8	1.3 %
Special products	346.7	306.9	995.7	890.7	11.8 %
<b>Operating profit</b>	<b>141.8</b>	<b>137.0</b>	<b>408.4</b>	<b>369.4</b>	<b>10.6 %</b>
Sugar	99.6	90.4	288.5	257.9	11.9 %
Special products	42.2	46.6	119.9	111.5	7.5 %
<b>Operating margin</b>	<b>10.6 %</b>	<b>11.1 %</b>	<b>11.3 %</b>	<b>10.6 %</b>	
Sugar	10.1 %	9.8 %	11.0 %	10.0 %	
Special products	12.2 %	15.2 %	12.0 %	12.5 %	
<b>Capital expenditure</b>	<b>159.6</b>	<b>85.2</b>	<b>375.9</b>	<b>253.5</b>	<b>48.3 %</b>
Sugar	46.4	63.9	112.2	193.1	(41.9 %)
Special products	113.2	21.3	263.7	60.4	336.6 %
<b>Average number of employees</b>			<b>17,582</b>	<b>18,377</b>	<b>(4.3 %)</b>
Sugar			12,097	14,178	(14.7 %)
Special products			5,485	4,199	30.6 %

### Capital expenditure

€ 375.9 million were invested in tangible fixed assets in the period from 1 March through 30 November 2004 as compared with € 253.5 million a year earlier. The decline in capital expenditure in the Sugar segment to € 112.2 (PY: 193.1) million is largely due to the fact that the pre-year figure had included the acquisition of the 67,000 tonnes maximum quota from Béghin Say. By contrast, capital spending in the Special Products segment rose to € 263.7 (PY: 60.4) million as a result of the construction of the bioethanol plant in Zeitz and the further expansion of capacities at Isomalt and ORAFTI.

### Employees

The average number of employees in the first nine months of the 2004/05 financial year fell to 17,582, a decline of 795 versus the comparable year-earlier period. In the Sugar segment the number of employees was reduced by 2,211 to 12,097 above all as a result of the restructuring measures, including plant closures, initiated in Eastern Europe. In the Special Products segment, on the other hand, there was an increase of 1,416 to 5,485 employees on the back of the fruit business.

\* 1 September to 30 November

\*\* 1 March to 30 November

## IMPORTANT DATES

**Press conference and analyst  
conference financial year 2004/05**

25 May 2005

**Report 1st quarter 2005/06**

15 July 2005

**Annual General Meeting in Mannheim  
financial year 2004/05**

28 July 2005

**Report 2nd quarter 2005/06**

14 October 2005

**Report 3rd quarter 2005/06**

13 January 2006

# SÜDZUCKER AG

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14 January 2005



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