

# INTERIM REPORT

Financial Year 2006/07

1st Quarter

1 March to 31 May 2006



SÜDZUCKER

## Dear Shareholders,

This interim report informs you about the development of business in the first three months of the current 2006/07 financial year (March to May 2006).

### Reform of the European Sugar Market Regulation

The European Council of Agricultural Ministers adopted the new single market regulation for sugar on 20 February 2006. Despite the severe price reductions the new market regulation gives us a long-term perspective. Südzucker is positioned in the best beet-growing regions of Europe and is therefore competitive. Based on our good reference volumes we can capture over one-fourth of the new additional quota of 1 million tonnes and increase our quota from 3.8 to 4.1 million tonnes. We will also fully exploit the new possibilities for industrial sugar business for chemical and pharmaceutical applications and for bioethanol production outside quota production. All in all, we anticipate a higher production volume for the Südzucker Group than at present, although, as things stand at present, export potential will largely fall away as a result of the negative WTO panel decision. With industrial sugar production, the volatile C sugar business will be replaced by stable EU business.

The rising quota proportion provided for in the new market regulation and higher stable intra-European sales of quota and industrial sugar instead of world market exports will enable Südzucker to offset the negative impact of the price reduction by its own efforts through the cost-cutting measures that have been initiated. Südzucker will therefore emerge strengthened from the reform process.

The necessary transitional arrangements have been adopted meanwhile. To achieve market adjustments and ensure a good start to the new market regulation era, the Commission temporarily reduced the EU quota for the 2006/07 sugar industry year by 2.5 million tonnes in good time before the seed sowing in 2006. Less sugar will therefore be produced, which will take pressure off the market. At the same time, we expect quotas in the region of 1.5 million tonnes to be sold to the Restructuring Fund already in the first year of the reform. We assume that the market balance

that was restored by the high declassification in 2005/06 will be further stabilised and strengthened. In these circumstances, we expect the price level to pick up again.

No progress was achieved again in the WTO negotiations at the end of June 2006. No further concessions have been made on opening the European agricultural markets. The aim is to reach an agreement by the end of July, as otherwise the conclusion of the world trade round as a whole is threatened.

## **New Fruit segment**

A separate Fruit segment has been created in response to the growing importance of the fruit business in the strategic focus of the Südzucker Group. The reporting now comprises the segments Sugar, Special Products (bioethanol, Freiberger, functional food, PortionPack, starch and Surafti) and Fruit (fruit preparations and fruit juice concentrates).

### **Integration of fruit business proceeding according to plan**

At the beginning of July 2006 AGRANA completed the sweeping restructuring of the fruit business. The fruit companies Atys, DSF Deutsch-Schweizerische Früchteverarbeitung GmbH (DSF), Steirerobst, Vallø Saft and Wink, which had previously operated independently in the market, transferred their operating activities to AGRANA Fruit S.A., based in Paris/France, on the fruit preparations side and to AGRANA Juice GmbH, based in Gleisdorf/Austria, on the fruit juice concentrates side. The companies in the fruit business acquired in the last three years have therefore been absorbed into these two holding companies. The restructuring creates two powerful, market-oriented organisations, streamlines internal processes, cuts costs and further improves customer service. Research and product development capacities are also expanded by this integration. The new organisation is also designed so that further operations, as a result of acquisitions or organic growth, can be integrated into AGRANA. Finally, the "AGRANA" brand will now be internationally positioned in the fruit business. The concept of a global raw material sourcing strategy was also developed further in the first quarter of 2006.

## Revenues

**Group revenues** rose by € 216.2 million, or 17.3 %, to € 1,468.5 (1,252.3)\* million in the first quarter of the 2006/07 financial year, with growth witnessed in all three segments.

Revenues in the **Sugar segment** in the first quarter of 2006/07 were up by € 49.2 million, or 5.4 %, to € 961.0 (911.8) million. This growth was on the back of the positive market development in the East European EU markets, which was reinforced by intervention sales in Hungary and the Czech Republic. Exports grew again versus 2005/06 but, owing to a strong shift from quota to C sugar exports, this was not reflected in higher export revenues.

Revenues in the **Special Products segment** were up by 10.4 %, or € 30.6 million, to € 324.6 (294.0) million mainly due to the first-time contribution from the bioethanol plant in Zeitz.

The **Fruit segment** posted revenues of € 182.9 (46.5) million in the first quarter of the calendar year 2006 (1 January to 31 March), whereby the Atys Group and DSF, Konstanz, were not yet consolidated in the year-earlier period.

## Earnings

In the first quarter of the 2006/07 financial year **Group** operating profit rose to € 127.6 (126.0) million in an again difficult environment. The operating margin came to 8.7 %.

Operating profit in the **Sugar segment** was just short of the year-earlier level at € 94.4 (96.0) million. The again higher exports had a positive impact on the segment result. Despite the high declassification in autumn 2005 the consolidation of the European sugar markets has made only slow progress to date. While market adjustments are clearly taking effect in Eastern Europe, the situation in Western Europe remained difficult in the first quarter.

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\* Figures in brackets are for the year-earlier period.

As expected, operating profit in the **Special Products segment** fell to € 28.1 (29.8) million. The bioethanol business achieved first significant profits after start-up losses the year before. In the functional food business operating profit was well below the year-earlier level as expected. In the Isomalt/Palatinose, Inulin and Oligofructose core product lines the past growth trend was sustained. However, the earnings contributions from Inulinfructose, which is produced from chicory under the EU quota, declined. With the reform of the Sugar Market Regulation Südzucker has decided to discontinue these business activities at the end of the year and to sell the quota to the Restructuring Fund.

Operating profit in the **Fruit segment** came to € 5.1 (0.2) million. The sharp rise is mostly due to the full consolidation of the Atys Group and DSF for the first time.

**Group income from operations**, amounting to € 120.2 (122.2) million, consists of **operating profit** of € 127.6 (126.0) million and **restructuring costs and special items** of minus € 7.4 (-3.8) million. The restructuring costs and special items relate in the Sugar segment to the closure of the Lubna plant in Poland which was resolved in the first quarter of 2006/07. In the Special Products segment start-up losses were incurred in the Orafti product line on the functional food side in both the reporting period and the year-earlier period.

**Group net earnings for the year** rose from € 69.7 million in the year-earlier period to € 75.4 million.

**Cash flow** rose strongly by 27.8 %, or € 25.3 million, to € 116.2 (90.9) million.

## Outlook

For the full year 2006/07 we expect **Group revenues** to rise by 5 % from € 5.3 to 5.6 billion due to a double-digit increase in the Special Products and Fruit segments despite a slight decrease in Sugar segments revenues.

Revenues in the **Special Products segment** will grow by over € 100 million on the back of strong growth in bioethanol sales. In the **Fruit segment** we expect revenues to be up by about € 300 million as a result of the Atys Group now being consolidated for the full year, the first-time consolidation of DSF and the switch in the fruit companies' financial year from the calendar year to the Südzucker Group's financial year. Additionally, in light of past experience the consumption of fruit yoghurts is higher in the warmer months than in the first quarter, which should have a positive impact on both revenues and operating profit in the further course of the year. The campaign in fruit juice concentrate production in Europe runs from September to December, so the large industrial customer replenished their stocks in the last quarter of 2005. It is expected that the markets will pick up and there will be stronger restocking from the second quarter of 2006.

We expect an improvement in **Group operating profit**. We thereby assume that the **Sugar segment** will post at least an operating result at the previous year level already in the first year of the new market regulation – despite the burdens from the intervention price reductions, despite the first-time impact of the restructuring levy and despite the high temporary quota reduction for the 2006/07 sugar industry year. Given a more stable market balance market prices, which fell last year, will rise again. The result in the Sugar segment will also benefit from the cost-cutting measures initiated and earnings contributions from the sale of the large C sugar harvest in 2006 at rising world market prices. In the **Special Products segment** the positive result from the bioethanol business will improve still further on a full year basis. In the functional food business the gratifying development of sales in the core product lines will not be able to compensate

for the burdens from production in Chile not yet running at full capacity and the effect of the earnings contributions from Inulinfructose falling away following the sale of the quota. All in all, operating profit in this segment will be slightly lower than last year. The **Fruit segment** will see significant earnings growth as a result of the improved earnings quality on a full year basis, the consolidation of the Aty's Group now for the full year and the change of financial year.

Judged from today's vantage point, there will be a positive swing in **restructuring costs and special items**, which showed a high negative amount last year. **Income from operations** will therefore see a significant improvement.

Yours faithfully,  
Südzucker Aktiengesellschaft  
Mannheim/Ochsenfurt  
The Executive Board

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

The interim financial statements of the Südzucker Group as of 31 May 2006 have been prepared according to the rules for interim financial reporting of IAS 34 in compliance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and their interpretation by the International Financial Reporting Interpretations Committee (IFRIC).

The same accounting and valuation methods as applied in the preparation of the consolidated financial statements as of 28 February 2006 have been applied unchanged. The explanatory notes to the financial statements in the Annual Report for 2005/06 therefore apply accordingly. Income taxes have been calculated on the basis of the local rates of income tax taking account of the income planning for the full financial year.

As from the beginning of the 2006/07 financial year the segment reporting has been extended to include the Fruit segment. This takes account of the growing importance of this business. The Südzucker Group now reports figures for the three segments Sugar, Special Products and Fruit. The year-earlier figures have been restated accordingly.

In the year-earlier period the AtyS Group was still consolidated at equity and DSF Deutsch-Schweizerische Fruchteverarbeitung GmbH was not yet consolidated.

All companies in the Fruit segment are included in the first quarter with their figures for the months January to March. Following completion of the restructuring in the Fruit segment, the reporting will be changed from the calendar year to the Südzucker Group's financial year. In the current financial year the Fruit companies will therefore be included for a total of fourteen months.

## GROUP BALANCE SHEET

€ million	31.05.2006	31.05.2005	change	28.02.2006
<b>ASSETS</b>				
Intangible assets	1,794.9	1,688.7	106.2	1,794.7
Property, plant and equipment	2,319.8	2,131.5	188.3	2,319.4
Shares in associated companies	82.5	165.0	-82.5	77.2
Other investments, securities and loans	179.4	170.4	9.0	205.9
Receivables and other assets	8.7	3.2	5.5	5.1
Deferred tax assets	72.0	14.6	57.4	75.5
<b>Non-current assets</b>	<b>4,457.3</b>	<b>4,173.4</b>	<b>283.9</b>	<b>4,477.8</b>
Inventories	1,384.5	1,369.0	15.5	2,000.8
Trade receivables and other assets	1,017.1	933.9	83.2	894.7
Current tax receivables	58.2	53.9	4.3	46.2
Securities and cash and cash equivalents	403.1	321.3	81.8	506.1
<b>Current assets</b>	<b>2,862.9</b>	<b>2,678.1</b>	<b>184.8</b>	<b>3,447.8</b>
<b>Total assets</b>	<b>7,320.2</b>	<b>6,851.5</b>	<b>468.7</b>	<b>7,925.6</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Subscribed capital	189.4	174.9	14.5	189.4
Capital reserves	1,137.6	951.3	186.3	1,137.6
Revenue reserves	1,278.0	1,121.3	156.7	1,249.7
<i>Equity attributable to shareholders of Südzucker AG</i>	<i>2,605.0</i>	<i>2,247.5</i>	<i>357.5</i>	<i>2,576.7</i>
Hybrid capital	683.9	0.0	683.9	683.9
Other minority interest	468.6	554.9	-86.3	472.2
<b>Shareholders' equity</b>	<b>3,757.5</b>	<b>2,802.4</b>	<b>955.1</b>	<b>3,732.8</b>
Provisions for pensions and similar obligations	396.6	394.4	2.2	395.6
Other provisions	143.2	129.4	13.8	142.2
Non-current financial liabilities	1,467.3	1,214.1	253.2	1,429.4
Other liabilities	30.0	83.5	-53.5	26.7
Deferred tax liabilities	347.4	325.7	21.7	349.3
<b>Non-current liabilities</b>	<b>2,384.5</b>	<b>2,147.1</b>	<b>237.4</b>	<b>2,343.2</b>
Other provisions	169.8	231.5	-61.7	208.1
Current financial liabilities	258.2	961.2	-703.0	280.3
Trade and other payables	698.1	612.9	85.2	1,304.2
Current tax liabilities	52.1	96.4	-44.3	57.0
<b>Current liabilities</b>	<b>1,178.2</b>	<b>1,902.0</b>	<b>-723.8</b>	<b>1,849.6</b>
<b>Total liabilities and shareholders' equity</b>	<b>7,320.2</b>	<b>6,851.5</b>	<b>468.7</b>	<b>7,925.6</b>
Net financial debt	1,322.4	1,854.0	-531.6	1,203.6
Equity ratio	51.3 %	40.9 %		47.1 %

The decline in the total assets of the Südzucker Group by € 605.4 million versus 28 February 2006 to € 7,320.2 million as of 31 May 2006 is due in the main to the sale of sugar stocks. The decline in investments in associated companies versus 31 May 2005 results from the first full consolidation of the Atys Group, which had still been reported under this item in the year-earlier period.

Trade and other payables fell by € 606.1 million from € 1,304.2 million to € 698.1 million as of 31 May 2006 mainly due to the payment of the remaining instalments due to beet growers in the first quarter. Other current provisions declined following payment of the EU levies for financing the Sugar Market Regulation.

## INCOME STATEMENT

€ million	1 st quarter *	
	2006/07	2005/06
<b>Revenues</b>	<b>1,468.5</b>	<b>1,252.3</b>
<b>Income from operations</b>	<b>120.2</b>	<b>122.2</b>
Income from associated companies	5.8	1.9
Financial result	-34.3	-33.2
<b>Earnings before income taxes</b>	<b>91.7</b>	<b>90.9</b>
Taxes on income	-16.3	-21.2
<b>Net earnings for the year</b>	<b>75.4</b>	<b>69.7</b>
of which attributable to Südzucker AG shareholders	53.4	58.2
of which attributable to hybrid capital	5.7	0.0
of which attributable to minority interest	16.3	11.5
<b>Earnings per share (€)</b>	<b>0.28</b>	<b>0.34</b>

As regards the analysis of the development of revenues and income from operations we refer to the general comments at the beginning of this interim report. Income from associated companies mainly represents the income from Eastern Sugar. Net interest expense benefited from the lower average net financial debt in the first quarter. On the other hand, there were exchange losses on East European currencies, which caused the financial result to deteriorate overall to minus € 34.3 million.

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\* 1 March to 31 May

Other minority interests in Group net earnings for the year mostly relate to the outside shareholders of the AGRANA Group.

For the period 1 March to 31 May 2006 the relevant basis for calculating earnings per share (IAS 33) was 189.4 million shares. The year-earlier figure was based on 171.9 million shares. Thanks to the gratifying performance of the Südzucker share the conditions for conversion of the convertible bond issued on 8 December 2003 were met in the reporting period. On the assumption that the conversion rights are exercised the diluted earnings per share come to € 0.27.

## CASH FLOW STATEMENT

€ million	1 st quarter *	
	2006/07	2005/06
Gross cash flow	116.2	90.9
Change in net current assets	-152.8	-199.9
<b>Net cash flow from operating activities</b>	<b>-36.6</b>	<b>-109.0</b>
Cash flow from investing activities	-86.6	-128.6
Cash flow from financing activities	21.0	242.3
<b>Change in cash and cash equivalents</b>	<b>-102.2</b>	<b>4.7</b>
Cash and cash equivalents at the beginning of the period	458.9	110.5
Cash and cash equivalents at the end of the period	356.7	115.2

The balance sheet item is made up of:

Cash	356.7	115.2
Securities (current assets)	46.4	206.1
<b>Securities and cash and cash equivalents</b>	<b>403.1</b>	<b>321.3</b>

The strong growth in cash flow by 27.8 %, or € 25.3 million, from € 90.9 million to € 116.2 million reflects both the successful integration of the Fruit segment and the positive market development in the sugar business in Eastern Europe.

\* 1 March to 31 May

## STATEMENT OF MOVEMENTS IN SHAREHOLDERS' EQUITY

€ million	Equity of Südzucker Shareholders	Hybrid capital	Other minority interest	Shareholders' equity
<b>Balance at 1 March 2006</b>	<b>2,576.7</b>	<b>683.9</b>	<b>472.2</b>	<b>3,732.8</b>
Profit after tax	53.4	5.7	16.3	75.4
Dividends	0.0	-5.7	0.0	-5.7
Other changes	0.0	0.0	0.0	0.0
Sonstige Veränderungen	-25.1	0.0	-19.9	-45.0
<b>Balance at 30 November 2006</b>	<b>2,605.0</b>	<b>683.9</b>	<b>468.6</b>	<b>3,757.5</b>
<b>Balance at 1 March 2005</b>	<b>2,191.4</b>	<b>0.0</b>	<b>546.0</b>	<b>2,737.4</b>
Profit after tax	58.2	0.0	11.5	69.7
Dividends	0.0	0.0	0.0	0.0
Other changes	-2.1	0.0	-2.6	-4.7
<b>Balance at 30 November 2005</b>	<b>2,247.5</b>	<b>0.0</b>	<b>554.9</b>	<b>2,802.4</b>

The higher equity of Südzucker shareholders versus the year-earlier period is due to the capital increase completed in September 2005, which increased subscribed capital by € 14.6 million to € 189.4 million and capital reserves by € 186.3 million to € 1,137.6 million. The hybrid bond issued in the second quarter of 2005/06 increased shareholders' equity by € 683.9 million. The significant reduction in other minority interests versus the year-earlier period to € 468.6 million is largely due to AGRANA's acquisition of the remaining shares in the Aty's Group and the Steirerobst Group in December 2005.

## SEGMENT REPORTING

€ million	1 st quarter *	
	2006/07	2005/06
<b>Third-party revenues</b>	<b>1,468.5</b>	<b>1,252.3</b>
Sugar	961.0	911.8
Special products	324.6	294.0
Fruit	182.9	46.5
<b>Operating profit</b>	<b>127.6</b>	<b>126.0</b>
Sugar	94.4	96.0
Special products	28.1	29.8
Fruit	5.1	0.2
<b>Operating margin</b>	<b>8.7 %</b>	<b>10.1 %</b>
Sugar	9.8 %	10.5 %
Special products	8.7 %	10.1 %
Fruit	2.8 %	0.4 %
<b>Restructuring costs and special items</b>	<b>-7.4</b>	<b>-3.8</b>
Sugar	-4.6	-2.3
Special products	-2.8	-1.5
Fruit	0.0	0.0
<b>Income from operations</b>	<b>120.2</b>	<b>122.2</b>
Sugar	89.8	93.7
Special products	25.3	28.3
Fruit	5.1	0.2
<b>Capital expenditures</b>	<b>70.5</b>	<b>91.2</b>
Sugar	22.1	26.8
Special products	42.3	58.0
Fruit	6.1	6.4
<b>Average number of employees</b>	<b>18.963</b>	<b>15.985</b>
Sugar	10.194	10.652
Special products	4.293	4.064
Fruit	4.476	1.269

Restructuring costs and special items relate in the main to the closure of the Lubna sugar refinery in Poland. In the year-earlier period there had been expenditures in the Sugar segment in connection with the closure of the Maloszyn sugar refinery in Poland. In the Special Products segment there were start-up costs at ORAFIT both in the reporting period and in the year-earlier period.

\* 1 March to 31 May

## Capital expenditure

€ 70.5 million was invested in property, plant and equipment in the Group in the period from 1 March to 31 May 2006 as compared with € 91.2 million in the year-earlier period. € 42.3 (58.0) million was invested in the Special Products segment, with the focus on the completion of the ORAFI production plant in Chile.

## Employees

The average number of employees in the first three months of the 2006/07 financial year rose to 18,963 (15,985), an increase of 2,978 versus the comparable pre-year period. This net increase includes 3,207 employees from the enlargement of the Fruit segment by the addition of the Atys Group and DSF. The decrease in the number of employees in the Sugar segment is mostly due to the restructuring in Eastern Europe.

## Events after the interim reporting period

In June 2006 the fruit group acquired 50 % of Xianyang Andre Juice Co. Ltd, a subsidiary of Yantai North Andre Juice Company Ltd, a leading Chinese producer of apple juice concentrates. The factory is located in the Shaanxi province in the heart of China's biggest apple growing region. The present capacity of 30,000 tonnes per year is to be doubled in 2007, with revenues rising to € 24 million. The joint venture still requires approval from the relevant authorities.

AGRANA and Südzucker are setting up a raw sugar refinery in Brcko/Bosnia-Herzegovina as a 50:50 joint venture with their longstanding distribution partner SCO Studen & Co. Holding of Vienna/Austria. Construction is due to start in 2006 and the sugar refinery is scheduled to come on stream already in 2007. The production capacity of 150,000 tonnes of sugar corresponds to the volume which the Südzucker Group already distributes in the region through SCO Studen in the form of EU export sugar.

## FINANCIAL CALENDAR

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**Annual shareholders' meeting in Mannheim for 2005/06**

27 July 2006

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**Dividend payment**

28 July 2006

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**Report 2nd Quarter 2006/07**

12 October 2006

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**Report 3rd Quarter 2006/07**

11 January 2007

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**Press and analysts conference 2006/07**

23 May 2007

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**Report 1st Quarter 2007/08**

12 July 2007

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**Annual shareholders' meeting in Mannheim for 2006/07**

24 July 2007

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# SÜDZUCKER AG

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13 July 2006



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