REPORT
ON THE
FIRST
QUARTER

# Q1_2004|05

AGRANA
BETEILIGUNGS-
AG

SUGAR. STARCH. FRUIT.

## DEAR SHAREHOLDER, DEAR SIR OR MADAM,

The General Meeting of Shareholders held on 2 July 2004 declared a distribution of € 1.80 per no-par share for the 2003|04 financial year. That was the same dividend as had been declared for the previous financial year.

AGRANA's revenues during the first quarter of the current financial year (1 March through 31 May 2004) were 18 per cent up on the year, and profit from operating activities grew by 14 per cent. First-quarter consolidated earnings were 21.5 per cent up on the year, giving per-share earnings of € 1.27, or € 0.23 more than in the first quarter of 2003|04.

The European Union was enlarged by the addition of ten new member-states on 1 May 2004. That political act gave added significance to AGRANA's investments in its core sugar and starch segments in Central and Eastern Europe since 1990—undertaken in anticipation of EU accession by the countries in the region—as well as confirming the economic soundness of those investments.

In May 2004, AGRANA acquired the stake in *Steirische Agrarbeteiligungsgesellschaft m.b.H.* held by *Milchverarbeitung "Desserta" reg. Gen.m.b.H.*, giving it a 54 per cent stake in the company, which is the majority shareholder of *Steirerobst AG*.

## THE CURRENT FINANCIAL YEAR

### *AGRANA Zucker und Stärke Ges.m.b.H.*

As part of the AGRANA Group's restructuring, the Supervisory Board of *AGRANA Zucker und Stärke AG* resolved at its meeting on 11 May 2004 to transform the company into a *Gesellschaft mit beschränkter Haftung* (limited company) and then to split it into *AGRANA Stärke Ges.m.b.H.* (starch) and *AGRANA Zucker Ges.m.b.H.* (sugar). That was done with retrospective effect as of 1 March 2004.

The EU Commission is expected to publish a proposal for reform of the European Union's sugar CMO in mid-July. The proposal will advocate a cut in sugar quotas and an increase in isoglucose quotas combined with a reduction in the intervention price and its simultaneous transformation into a reference price as well as a cut in the beet price in conjunction with the abolition of production refunds. It is not yet possible to gauge the proposal's probable effect on market prices. However, AGRANA's position is solid thanks to diversification (sugar, starch, fruit) and its strength in regional markets.

During the first quarter of 2004|05, the world market price of white sugar rose from US$ 210 per metric ton (monthly average in February 2004) to US$ 237 per metric ton (monthly average in May 2004). The dollar strengthened slightly over the same period. As a result, the price of white sugar in euros rose by € 31 to € 197).

The preferential arrangement giving sugar from Serbia and Montenegro duty-free access within the scope of the Western Balkans Agreement will remain suspended until August 2004.

The reform of the European Union's Common Agricultural Policy (CAP) decided in June 2003 will also affect the starch sector. It is to include the retention of a minimum price of € 178.31 per metric ton of potato starch. Forty per cent of the direct payment to growers of € 110.54 per metric ton of starch potatoes will be integrated into the single farm payment, and 60 per cent will remain coupled to starch potato production.

### The Austrian Sugar Division

We concluded beet contracts with 9,500 growers for an area under beet of 44,750 hectares for the 2004 harvest. That is 3 per cent more than last year's total area of 43,400 hectares. Thanks to wet weather conditions, the crop is growing very well, so we can look forward to a good beet harvest.

We have set aside roughly € 11 million for capital investments and major repairs at our three sugar factories in Austria this year (Hohenau, Leopoldsdorf and Tulln). That outlay will focus primarily on process control systems, pallet storage and backup control of the high-rack warehouse as well as on food and beverage security (traceability).

Domestic sugar sales during the period under review were 23 per cent up on the previous year's figure of 73,900 metric tons at 90,900 metric tons. First-quarter sales by volume in both the soft drinks segment and the other food industries segment were over 30 per cent up on 2003|04. Sales to the confectionery industry and sales of household sugar were static on the year. First-quarter sales in the preserving sugar segment were already 5.7 per cent up on the year, and a very good apricot harvest could lead to a further advance in sales by volume. Because of the poor 2003 harvest, sugar exports (quota and "C" sugar) were cut to 12,900 metric tons.

### The Austrian Starch Division

Further improvements in the terms offered to starch potato growers (truckage costs paid by AGRANA) successfully generated an increase of nearly 10 per cent in volumes contracted for the 2004 harvest. Contracts were signed with 1,943 growers for a total of 229,000 metric tons of starch potatoes (previous year: 209,000 metric tons).
If weather conditions remain favourable and given a good starch content, we expect the resulting output of potato starch to match our EU quota of 47,691 metric tons.
We were able to increase contracted volumes of potatoes in the food industry segment by 8 per cent to 12,700 metric tons. Contracted volumes of organic potatoes are static on the year at 7,500 metric tons. The potato crop was planted relatively late but is growing very well.

The Aschach maize starch factory is being operated at full capacity this financial year. We expect it to have a total maize processing capacity of 270,000 metric tons a year.

First-quarter starch revenues were nearly 10 per cent up on the year thanks to optimization of the product mix and higher prices, albeit combined with a small drop in volumes.

Capital investments by the Starch Division will total € 23 million during the 2004|05 financial year. They will mainly focus on the second stage of the ongoing enlargement of the capacity of the Aschach maize starch factory, which will take it up to 1,000 metric tons a day.

### *AGRANA International*

We signed beet-growing contracts for a total of 2.2 million metric tons of beet for the 2004 harvest in Hungary, the Czech Republic and Slovakia (2003: 2.3 million metric tons). The beet will be processed in the six AGRANA sugar factories in those countries. If the beet has an average sugar content, the harvest should yield 300,000 metric tons of sugar. Given AGRANA's present market shares, that total will ensure our ability to meet domestic demand in those markets. No beet contracts for the 2004|05 financial year have been concluded in Romania because it proved impossible to achieve the minimum volume of contracts needed for a beet campaign. Consequently, we will only be refining imported unrefined sugar in Romania during the 2004|05 financial year. The European Union has already negotiated quotas in anticipation of Romania's accession in the future, namely 110,000 metric tons of beet and 325,000 metric tons of sugar refined from imported unrefined sugar.

Measures affecting the countries that joined the EU on 1 May 2004 as decided by the European Union's Management Committee for Sugar are currently being implemented.

First-quarter sugar sales in new EU member-states Hungary, the Czech Republic and Slovakia were up on last year in both volume and value terms. First-quarter sugar sales by volume in Romania rose significantly.

First-quarter revenues reported by the Tandarei starch factory were 17 per cent up on 2003|04. Both volumes and prices contributed to the increase.

A total of € 19 million has been allocated for capital investments and major repairs in *AGRANA International*'s sugar and starch divisions during the current financial year. Outlay will focus primarily on energy consumption, environmental protection and the optimization of costs.

### The AGRANA Fruit Division

In May 2004, AGRANA purchased the stake in *Steirische Agrarbeteiligungsgesellschaft m.b.H.* held by *Milchverarbeitung "Desserta" reg. Gen.m.b.H.* As a result, AGRANA now holds a 54 per cent stake in this majority shareholder of *Steirerobst AG*, which will thus become a fully consolidated member of the AGRANA Group as of the second quarter of this financial year. *Steirerobst AG* developed better this year than last in volume terms, but margins were slightly depressed. Construction of its factory in Serpuchov, south of Moscow, has begun.

As for AGRANA's takeover of *Atys*, we lodged an appeal against the prohibition by Germany's *Bundeskartellamt* (federal office of fair trading) and also submitted a new modified application (excluding German *Atys* subsidiary *Atys-DSF*). We believe that the contract of sale with *Atys S.A.* will become legally effective by the beginning of August 2004.

*Vallø Saft A/S* hopes to boost sales by opening up new regional markets.

## BUSINESS PERFORMANCE

AGRANA's revenues increased by 18 per cent to € 228.5 million during the first quarter of the current financial year (1 March through 31 May 2004). Profit from operating activities advanced by 14 per cent to € 19.25 million. Profit before income tax came to € 17.2 million (previous year: € 16.1 million). Consolidated earnings were 21.5 per cent up on the previous year's figure of € 11.5 million at € 14.0 million. First-quarter per-share earnings came to € 1.27 million, which was € 0.23 up on the comparable figure for the previous year.

Consolidation took place in conformity with *IFRS*. Figures for the first quarter of the previous year have been adjusted accordingly.

## OUTLOOK

In the light both of EU enlargement and the inclusion of *Steirerobst AG* in the consolidated AGRANA Group as of the second quarter of 2004|05, we are targeting an increase in full-year revenues to € 980 million during the 2004|05 financial year. In view of competitive pressures in all our markets, we will be prioritizing the enhancement of efficiency at every level. We should be able to increase profit from operating activities by about 10 per cent this financial year.

Vienna, July 2004

The Board of Management of
*AGRANA Beteiligungs-AG*

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## CONSOLIDATED INCOME STATEMENT FOR THE FIRST QUARTER FROM 1 MAR – 31 MAY

| | 2004\|05 €000 | Previous year €000 |
|---|---|---|
| 1. Sales revenues | 228,460 | 193,648 |
| 2. Changes in stocks of finished and unfinished products | (77,860) | (54,843) |
| 3. Other capitalized self-produced items | 129 | 247 |
| 4. Other operating income | 3,892 | 4,005 |
| 5. Expenditure on materials and purchased services | (85,086) | (80,348) |
| 6. Expenditure on staff | (17,991) | (19,020) |
| 7. Depreciation/amortization/write-downs of intangible non-current assets (without goodwill) and tangible non-current assets | (5,306) | (5,190) |
| 8. Other operating expenses | (26,991) | (21,620) |
| **9. Profit (loss) from operating activities (items 1 – 8)** | **19,247** | **16,879** |
| 10. Amortization/write-downs of goodwill | 0 | 0 |
| 11. Net income from restructuring | 0 | 0 |
| **12. Profit (loss) from ordinary activities (items 1 – 11)** | **19,247** | **16,879** |
| 13. Net interest income | (1,051) | (931) |
| 14. Net income from interests held as investments | (406) | 0 |
| 15. Other profit (loss) from investing and financial activities | (583) | 104 |
| **16. Profit (loss) from investing and financial activities (items 13 – 15)** | **(2,040)** | **(827)** |
| **17. Profit before income tax** | **17,207** | **16,052** |
| 18. Income tax expense | (2,487) | (4,272) |
| **19. Profit after income tax** | **14,720** | **11,780** |
| 20. Minority interests in consolidated earnings | (767) | (296) |
| **21. Consolidated earnings** | **13,953** | **11,484** |
| Earnings per share | € 1.27 | € 1.04 |

## CONSOLIDATED CASH FLOW STATEMENT FOR THE FIRST QUARTER FROM 1 MAR – 31 MAY

| | 2004\|05 €000 | Previous year €000 |
|---|---|---|
| Net cash from operating activities | 25,051 | 16,690 |
| Net cash used in investing activities | (44,774) | (10,222) |
| Net cash from financing activities | 780 | 3,724 |
| **Net increase (decrease) in cash and cash equivalents in period** | **(18,943)** | **10,192** |
| Cash and cash equivalents at beginning of period | 96,928 | 156,527 |
| Cash and cash equivalents at end of period | 77,985 | 166,719 |

## CONSOLIDATED BALANCE SHEET AS AT 31 MAY

| | 2004\|05 €000 | Previous year €000 |
|---|---|---|
| **ASSETS** | | |
| **A. Non-current assets** | | |
| I. Intangible non-current assets | 29,405 | 22,171 |
| II. Tangible non-current assets | 267,316 | 265,056 |
| III. Financial investments | 160,237 | 63,786 |
| | **456,958** | **351,013** |
| **B. Current assets** | | |
| I. Inventories | 200,900 | 204,292 |
| II. Accounts receivable and other assets | 136,162 | 139,303 |
| III. Deferred tax assets | 3,719 | 2,701 |
| IV. Shares and other securities | 57,818 | 121,357 |
| V. Cash, cheques, bank balances | 20,167 | 45,362 |
| | **418,766** | **513,015** |
| **Total assets** | **875,724** | **864,028** |
| **LIABILITIES** | | |
| **A. Equity** | | |
| I. Share capital | 80,137 | 80,137 |
| II. Capital reserves | 213,463 | 213,463 |
| III. Retained earnings reserves | 214,934 | 171,256 |
| IV. Consolidated earnings | 13,953 | 11,484 |
| | **522,487** | **476,340** |
| **B. Minorities** | **10,315** | **9,434** |
| **C. Provisions** | | |
| I. Provisions for retirement benefits, severance payments and anniversary bonuses | 55,593 | 57,552 |
| II. Provisions for deferred taxes | 21,816 | 24,051 |
| III. Tax provisions and other provisions | 76,078 | 73,543 |
| | **153,487** | **155,146** |
| **D. Accounts payable** | | |
| I. Financial obligations | 121,160 | 144,109 |
| II. Other accounts payable | 68,275 | 78,999 |
| | **189,435** | **223,108** |
| **Total equity and liabilities** | **875,724** | **864,028** |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (WITHOUT MINORITIES) AS AT 31 MAY

| | 2004\|05 €000 | Previous year €000 |
|---|---|---|
| **Balance at beginning of period** | **506,448** | **465,732** |
| Change in equity due to revaluations of available-for-sale securities | (24) | (5) |
| Change in equity due to currency translations differences | 2,115 | (836) |
| Other changes not recognized in the Income Statement | (5) | (35) |
| Net profit for the period | 13,953 | 11,484 |
| **Balance at end of period** | **522,487** | **476,340** |

## OTHER DISCLOSURES

| | 2004\|05 €000 | Previous year €000 |
|---|---|---|
| Capital expenditure on tangible non-current assets (during Q1) | 4,960 | 5,007 |
| Capital expenditure on tangible non-current assets (during year) | 62,900* | 28,800 |
| Working capital | 209,622 | 198,067 |
| Staff | 3,464 | 3,519 |

* planned