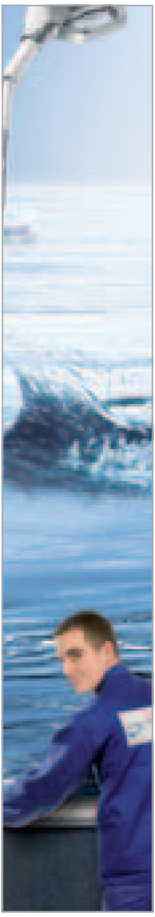
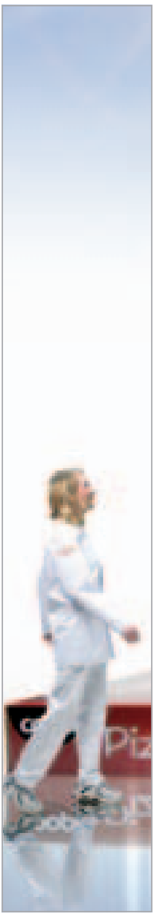
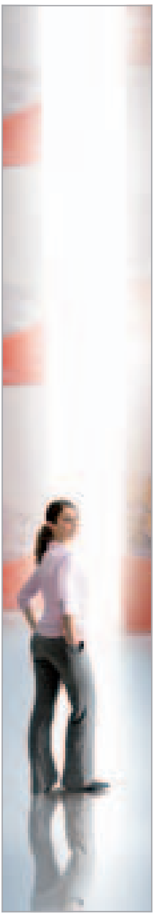
Annual Report Südzucker AG 2006/07

SÜDZUCKER

- Overview of 2006/07
- Key figures



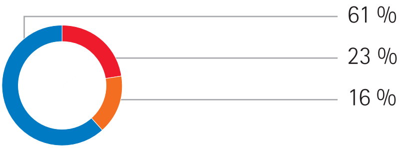



People are the primary factors contributing to a company's sustained success. Four of our divisions are presented by young employees – from their perspective.

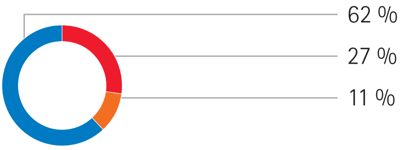
Overview of 2006/07

- Revenues up by 8 % to € 5.8 billion (5.3 billion).
- Bioethanol division's growth in revenues and profits exceed expectations, operating profit at the special products segment rise to € 115 million (109 million).
- New fruit segment successfully integrated, with € 915 million revenues and € 46 million operating profit.
- Sugar segment's profits decline in the first year of the new sugar market regulation due to restrictive EU export policies. Quota returns to the restructuring fund far lower than expected.
- Strong increase in gross cash flow from operating activities to € 554 million compared with € 527 million in 2005/06; capital expenditures totalling € 537 million in expanding the bioethanol, functional food and starch divisions, the fruit segment as well as for buying additional sugar quotas.
- Decrease in net financial debt from € 1,177 million at the end of 2005/06 to € 811 million at 28 February 2007; further sound balance sheet ratios, with gearing of 42 % (47 %) despite impairment losses totalling € 580 million.
- Successful CropEnergies AG IPO in September 2006, with gross issue proceeds of € 200 million; financial basis assured for further expansion in Europe.

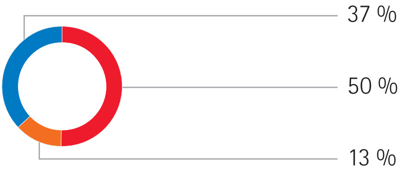
Group revenues:
€ 5,764.9 million



Group
operating profit:
€ 419.4 million



Capital expenditures
on property, plant and
equipment (excluding
additional quotas):
€ 377.6 million



SUGAR SEGMENT

SPECIAL PRODUCTS SEGMENT

FRUIT SEGMENT

Key figures

		2006/07	2005/06	2004/05	2003/04	2002/03
Revenues and earnings						
Revenues	€ million	5,765	5,347	4,827	4,575	4,384
EBITDA	€ million	682	669	724	677	709
as % of revenues	%	11.8	12.5	15.0	14.8	16.2
Operating profit	€ million	419	450	523	479	520
as % of revenues	%	7.3	8.4	10.8	10.5	11.9
Net earnings (loss) for the year	€ million	(246)	305	358	307	315
Cash flow and capital expenditures						
Cash flow	€ million	554	527	550	522	580
Capital expenditures on property, plant and equipment[1]	€ million	537	426	500	307	207
Capital expenditures on financial assets	€ million	62	216	590	181	46
Total capital expenditures	€ million	599	642	1,090	488	253
Performance						
Property, plant and equipment[1]	€ million	2,574	2,368	2,094	1,679	1,620
Goodwill	€ million	1,109	1,746	1,671	1,412	1,259
Working capital	€ million	965	1,107	882	1,000	906
Capital employed	€ million	4,649	5,221	4,646	4,091	3,785
ROCE	%	9.0	8.6	11.3	11.7	11.8
Capital structure						
Shareholders' equity	€ million	3,362	3,733	2,738	2,386	2,221
Gearing ratio	%	42.4	47.1	38.0	39.5	38.1
Asset cover	%	144.9	135.7	119.2	131.7	124.6
Net financial debt	€ million	811	1,177	1,672	1,100	1,008
Earnings (loss) per share	€	(1.72)	1.36	1.67	1.48	1.52
Dividend per € 1 share	€	0.55[2]	0.55	0.55	0.50	0.50
Employees		19,575	19,903	17,494	17,973	14,855
Employees sugar segment		10,885	11,678	12,001	13,812	11,543
Sugar production	1,000 t	4,602	5,210	5,132	4,442	4,707
Sugar factories		40	43	44	50	54

[1] Including intangible assets/additional quotas.
[2] Proposed.

Südzucker Aktiengesellschaft Mannheim/Ochsenfurt

Group Annual Report
for 2006/07
1 March 2006
to 28 February 2007

The annual report is also available in German. This translation is provided for convenience only and should not be relied upon exclusively. The German version of the annual report is definitive and takes precedence over this translation. The annual report (in German and English) and the Südzucker AG financial statements can be downloaded from our homepage at www.suedzucker.de/downloads.

Strategic guidelines, profile and vision

"Reflect and act upon the tasks for today and tomorrow to protect the interests and legitimate concerns of our shareholders, customers, suppliers, staff and future generations."

Consistently use our strengths

Sustainably-produced products, particularly if they originate from agricultural raw materials, are subject to increasing world-wide demand. The core competencies and activities of the Südzucker Group are ideally suited to meet these growing markets. Significant strengths of the group include a close connection to agriculture, know-how in processing and marketing agricultural raw materials, together with innovative strength supported by the group's internal research and infrastructure. Our core competencies cover the entire value-added chain and stretch from planting agricultural products through to development and market launching of special products for industry and consumers. All the existing activities of the Südzucker Group are aimed in this direction. New business activities are compatible or have a high affinity with our existing businesses. This applies to the traditional sugar segment as well as to the special products segment, with functional food (Palatinit/ORAFTI/Remy), starch, portion packs, deep-frozen and chilled products (pizza) and bioethanol, and to the fruit segment, with fruit preparations and fruit-juice concentrates.

Performance as a success factor

Our value-oriented growth strategy is also aimed at entering new business segments and establishing a successful market position. We have a clear vision of our future and our power to react creatively and timely to changes. This is one of the significant strengths of our group. This acknowledgement of performance and responsibility is the major basis for Südzucker's leading position in its markets and sustained protection of the interests of our shareholders, customers, suppliers, business partners and employees. This is the path we wish to take to grow profitably and raise the value of the company. We set particular store in doing business, with all its aspects, based on reasonable human values and principles.

Staying successful with sugar

With production of 4.6 million tonnes, Südzucker Group is the market leader in the sugar segment. Sugar factories of the group's companies in Europe reach from France in the west via Belgium, Germany and Austria to Poland, The Czech Republic, Slovakia, Romania, Hungary and Moldova in the east. The sustainable financial success of this segment depends on optimal positioning of Südzucker Group's production facilities, both in view of raw material supplies and from a marketing perspective. The aim is to further strengthen the market position we have achieved and rigorously use opportunities as they arise.

Further advance the fruit and special products markets

Existing know-how in large-technology processing of agricultural raw materials into innovative and qualitatively high-value products for nutrition, technical use and fuel is an ideal platform for the broadly-based special products segment, in which new business areas are rapidly established and successfully expanded as part of our growth strategy. The international fruit segment, with its local and close-to-customer production units, is showing interesting growth rates on global markets, boosted by heightened nutritional awareness. The existing portfolio is already a sound basis for a broad spectrum of product varieties and new developments for further application areas and markets. Activities in the business-to-business market are even more strongly established in the special products segment and fruit than in the sugar segment.

Our vision

Our vision is to be the best in our current and future markets. We intend to achieve this by working responsibly on shaping our future based on a will to perform. We will tread new paths with our business partners and sustainably increase the values set by us.

Contents

The numbers in brackets in this annual report relate to the previous year.

SÜDZUCKER

SUGAR SEGMENT

	2006/07
Revenues	€ 3,542.8 million
EBITDA	412.5 million
Depreciation of property, plant and equipment and intangible assets	(€ 153.2 million)
Operating profit	€ 259.3 million
Restructuring/special items	(€ 108.7 million)
Goodwill impairment loss	(€ 482.4 million)
Operating profit (loss) net of restructuring	(€ 331.8 million)
EBITDA margin	11.6 %
Operating margin	7.3 %
ROCE	9.6 %
Capital expenditures on property, plant and equipment	€ 139.4 million
Capital expenditures on additional quotas	€ 158.8 million
Capital expenditures on financial assets	€ 5.3 million
Total capital expenditures	€ 303.5 million
Employees	10,885

SPECIAL PRODUCTS SEGMENT

Revenues
EBITDA
Depreciation of property, plant and equipment and intangible assets
Operating profit
Restructuring/special items
Goodwill impairment loss
Operating profit (loss) net of restructuring
EBITDA margin
Operating margin
ROCE
Capital expenditures on property, plant and equipment
Capital expenditures on financial assets
Total capital expenditures
Employees

GROUP
- Beet processed 27.5 million t
- Sugar production (incl. raw sugar refining) 4.6 million t

GERMANY
- 11 sugar factories
- Sugar production: 1,454,000 t

BELGIUM
- 3 sugar factories
- Sugar production: 588,000 t

FRANCE
- 5 sugar factories and 1 refinery
- Sugar production: 1,056,000 t

AUSTRIA
- 2 sugar factories
- Sugar production: 408,000 t

POLAND
- 10 sugar factories
- Sugar production: 450,000 t

ROMANIA
- 1 sugar factory and 1 refinery
- Sugar production: 260,000 t

SLOVAKIA
- 1 sugar factory
- Sugar production: 46,000 t

THE CZECH REPUBLIC
- 2 sugar factories
- Sugar production: 107,000 t

HUNGARY
- 2 sugar factories
- Sugar production: 150,000 t

MOLDOVA
- 3 sugar factories
- Sugar production: 83,000 t

BIOETHANOL
- Development, production and sale of bioethanol predominantly for the fuel sector
- Germany: CropEnergies, 1 production location
- Belgium: CropEnergies, 1 production location (under construction)
- France: CropEnergies, Warehousing and trading SLS, 2 production locations
- Austria: AGRANA, 1 production location (under construction)
- Hungary: HUNGRANA, 1 production location

FREIBERGER
- Development, production and sale of deep-frozen pizzas, pasta, baguettes and chilled pizzas
- 5 production locations

	2006/07
	€ 1,307.5 million
	180.8 million
	(€ 66.3 million)
	€ 114.5 million
	€ 140.8 million
	(€ 98.0 million)
	€ 157.3 million
	13.8 %
	8.8 %
	8.4 %
	€ 190.4 million
	€ 27.8 million
	€ 218.2 million
	3,966

FRUIT SEGMENT	2006/07
Revenues	€ 914.6 million
EBITDA	88.5 million
Depreciation of property, plant and equipment and intangible assets	(€ 42.9 million)
Operating profit	€ 45.6 million
Restructuring/special items	–
Goodwill impairment loss	–
Operating profit (loss) net of restructuring	€ 45.6 million
EBITDA margin	9.7 %
Operating margin	5.0 %
ROCE	8.0 %
Capital expenditures on property, plant and equipment	€ 47.8 million
Capital expenditures on financial assets	€ 29.3 million
Total capital expenditures	€ 77.1 million
Employees	4,724

FUNCTIONAL FOOD (ORAFTI/PALATINIT/REMY)

- Development, production and sale of food ingredients such as inulin, oligofructose, Isomalt, Palatinose™, galenIQ™ and rice derivates
- 5 production locations

PORTIONPACK EUROPE

- Production and sale of portion packs
- 7 production locations

STARCH

- Development, production and sale of starch to the food and non-food sectors
- 2 production locations in Austria, 1 each in Hungary and Romania

FRUIT PREPARATIONS

- Global market leader
- Development, production and sale of high-quality and customer-specific fruit preparations for international fruit companies (such as the dairy products, ice cream and bakeries industries)
- 26 production locations world-wide

FRUIT-JUICE CONCENTRATES

- Leading producer of fruit-juice concentrates in Europe
- Production and sale of high-value apple-juice and berry-juice concentrates
- 10 concentrates factories and a joint venture with a Chinese apple-juice concentrate producer

Supervisory board and executive board*

Supervisory board

Dr. Hans–Jörg Gebhard
Chairman
Eppingen
Chairman of the Association of Süddeutsche Zuckerrübenanbauer e.V.

Dr. Christian Konrad
Deputy chairman
Vienna, Austria
Chairman of the supervisory board of AGRANA Beteiligungs-AG, Vienna

Franz–Josef Möllenberg**
Deputy chairman
Rellingen
Chairman of the Food and Catering Union

Heinz Christian Bär
Karben – Burg Gräfenrode
Vice-president of the Deutsche Bauernverband e.V.

Gerlinde Baumgartner**
Osterhofen
Member of the works council of the Plattling works of Südzucker AG Mannheim/Ochsenfurt

Dr. Ulrich Brixner
Dreieich
Former chairman of the executive board of DZ BANK AG

Ludwig Eidmann
Groß–Umstadt
Chairman of the Association of Hessen-Nassauischen Zuckerrübenanbauer e. V.

Wolfgang Endling**
Hamburg
Divisional officer of the Food and Catering Union

Dr. Jochen Fenner
Gelchsheim
Chairman of the Association of Fränkische Zuckerrübenbauer e.V.

Egon Fischer**
Offstein
Deputy chairman of the works council of ZAFES Offstein Südzucker AG Mannheim/Ochsenfurt

Manfred Fischer**
Feldheim
Chairman of the central works council of Südzucker AG Mannheim/Ochsenfurt

Erwin Hameseder
Mühldorf, Austria
Managing director of Raiffeisen-Holding Niederösterreich-Wien reg. Gen.m.b.H.

Hans Hartl**
Ergolding
State area chairman of the Food and Catering Union in Bavaria

Klaus Kohler**
Bad Friedrichshall
Chairman of the works council of the Offenau works of Südzucker AG Mannheim/Ochsenfurt

Erhard Landes
Donauwörth
Chairman of the Association of bayerische Zuckerrübenanbauer e.V.

Ulrich Müller
Illsitz
Chairman of the Association of Sächsisch-Thüringischer Zucker-rübenanbauer e. V.

Dr. Arnd Reinefeld**
Offstein
Manager of the Südzucker AG Mannheim/Ochsenfurt Groß-Gerau, Offenau and Offstein works

Ronny Schreiber**
Einhausen
Chairman of the works council Mannheim main office Südzucker AG Mannheim/Ochsenfurt

Ernst Wechsler
Westhofen
Chairman of the Association of Hess.-Pfälzische Zuckerrübenanbauer e.V.

Roland Werner**
Saxdorf
Chairman of the works council of the Brottewitz works of Südzucker AG Mannheim/Ochsenfurt

* A listing of other board memberships is set out on page 108 of the annual report.
** Employee representative.

Executive board*

Dr. Theo Spettmann
(Spokesman)
Ludwigshafen

Sugar sales
Strategic corporate planning/ group development/investments
Public relations
Organisation/IT
Food law/consumer policy/ quality control
Personnel and social matters
Marketing

Dr. Christoph Kirsch
to 27 July 2006
Weinheim/Bergstraße

Thomas Kölbl
Mannheim

Finance, accounting
Investor relations
Financial management/controlling
Operational corporate policy
Taxation
Legal matters
Property/insurance
Procurement of supplies and consumables

Prof. Dr. Markwart Kunz
Worms

Production/technical research/ development/services
Procurement of capital goods/maintenance materials and services
Functional food
Bioethanol

Dipl.-Ing. Johann Marihart
Limberg, Austria

Chairman of the executive board of AGRANA Beteiligungs-AG
Raw material crops/starch
Fruit

Dr. Rudolf Müller
Ochsenfurt

Agricultural policies
Beet/animal feed and by-products
Farms
Research and development in the agricultural area
Audit

Frédéric Rostand
to 3 April 2007
Paris, France

Members of the executive board (from left).
Thomas Kölbl, Prof. Dr. Markwart Kunz, Dr. Theo Spettmann, Dr. Rudolf Müller, Johann Marihart.

Report of the supervisory board

Dear shareholders,

2006 was a particularly challenging year for Südzucker Group. With entry into force of the new sugar market regulation on 1 July 2006, we have to operate under substantially changed agricultural and economic conditions in our traditional sugar operations. At the same time, we have been able to successfully establish ourselves on the ethanol market due to our timely decision to invest in bioethanol operations, taking advantage of beneficial agricultural-related political conditions. This topic was a significant theme for intensive consultation within the supervisory board. In the forefront of deliberations was the need to establish the conditions for a sustained successful future for Südzucker Group.

The supervisory board has continuously and closely advised the executive board in its management of operations and has fulfilled its duties as set out in law and in the company's by-laws. At four meetings in 2006/07, the supervisory board intensively discussed matters relevant to the group with the executive board. Particular attention was paid to the strategic direction of the group, in particular relating to the new conditions established by the EU sugar market regulation and the direction of bioethanol activities. The successful IPO considerably strengthened the financial basis for further growth in this area. The supervisory board shares the executive board's view that the EU is willing to take appropriate steps to clear delays caused in implementing the market regulation and that the concept of strengthening competitive producers in the EU will remain unchanged. This means that Südzucker Group will continue its sustained growth within the framework of agricultural policy set by the EU.

In addition, based on regular written reports, the supervisory board discussed all significant transactions with the executive board and advised them on their management and operations, strategic development of the group and significant individual matters. The executive board reported orally and in writing between meetings of matters of major importance to the company, whereby the supervisory board was involved in all significant decisions. Furthermore, the chairman of the supervisory board attended executive board meetings and was kept informed by the spokesman of the executive board of all significant events at many working meetings, thus ensuring a timely and extensive exchange of views between the supervisory board and executive board. Regular oral and written reports by the executive board included the position and development of the company and group, corporate policy, profitability as well as corporate, treasury, capital expenditure and research and development budgets related to Südzucker AG and the group.

Südzucker considers the German corporate governance code in its current form as substantially balanced and practical. As a result, and as in previous years, Südzucker has waived preparation of an individual, company-specific code. The declaration of compliance was submitted in its current format on 23 November 2006. A regular groupwide review and further development of the group's own corporate governance is carried out as a part of the open and trustworthy co-operation between the executive board and supervisory board and communication with shareholders.

The recommendation set out in the code to disclose individual remuneration of members of the executive board and supervisory board has not been followed. In our view, the resulting intrusion into the private sphere bears no reasonable relation to the usefulness of such practice. Südzucker has disclosed the remuneration of the executive board and supervisory board divided between fixed and results-based components. There is no share option program. The shareholders' annual general meeting on 27 July 2006 passed a resolution on not publishing the individual remuneration of members of the executive board by a large majority. Waiver of individual publication of supervisory board fees as well as the executive board remuneration was reflected in the declaration of compliance.

The audit committee met twice during the year. At its May meeting it discussed in detail and in the presence of the external auditors matters relating to the annual financial statements of Südzucker AG and the consolidated financial statements. Based on the report of the audit committee and its recommendation, the supervisory board approved the annual financial statements and the consolidated financial statements. At its meeting following the annual general meeting, the audit committee appointed the external auditors and set out the main areas for the external audit for 2006/07. All committee members attended the audit committee meetings.

In accordance with the recommendations of the German corporate governance code, the chairman of the audit committee is not the same person as the chairman of the supervisory board.

At the end of the annual shareholders' meeting on 27 July 2006, Dr. Christoph Kirsch, who has been a member of Südzucker's executive board since 19 November 1980, retired. The supervisory board thanks Dr. Christoph Kirsch for his work to the benefit of the company. Effective 3 April 2007 Frédéric Rostand, member of the executive board of Südzucker AG and the Südzucker subsidiary, Saint Louis Sucre, resigned from these boards. The supervisory board thanks Frédéric Rostand for his activities.

The financial statements of Südzucker AG and the management report for 2006/07, including the bookkeeping, were audited by PwC, Frankfurt/Main, and they issued an unqualified audit report. This also applies to the consolidated financial statements, prepared using IFRS, and to the group management report. As set out in § 315a of the German Commercial Code, the attached IFRS consolidated financial statements exempt the group from preparing consolidated financial statements in accordance with German accounting rules. The supervisory board has had sight of all documentation relating to the financial statements and the recommendation by the executive board on the appropriation of earnings, including the long-form audit report issued by the auditors. They have been examined by the audit committee and the supervisory board and discussed in the presence of the auditors. The supervisory board agrees with the results of the audit carried out by the external auditors and, as a result of its own examination, determined no matters that would lead to any reservations.

At its meeting on 22 May 2007 the supervisory board approved the financial statements of Südzucker AG and the consolidated financial statements for 2006/07 and thus adopted the financial statements of Südzucker AG. They also agreed the dividend proposal by the executive board of € 0.55 per share.

In view of the information provided by Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG (SZVG), Stuttgart, the executive board has prepared a report on related party transactions in accordance with § 312 Stock Corporation Law. The external auditors have audited this report, reported in writing on the results of their audit and issued the following opinion:

"As a result of our audit, which we carried out in accordance with professional standards, we confirm that:
1. the facts set out in the report are correct,
2. charges to the company for business transactions listed in the report were not unreasonably high,
3. with respect to the matters listed in the report, there were no reasons for a materially different conclusion than that taken by the executive board."

The supervisory board reviewed and approved the results of the audit by the external auditors. Following its own audit, the supervisory board found no reasons to contradict the declaration of the executive board at the end of the report.

Together with the executive board, the members of the supervisory board would like to pay their respects to those active and former employees of the group who passed away during the year. The supervisory board thanks the executive board and all employees of Südzucker AG and its affiliated companies for their performance during the year.

Mannheim, 22 May 2007
The supervisory board
Dr. Hans-Jörg Gebhard
Chairman

Südzucker share and capital market

Südzucker share data

		2006/07	2005/06
Dividend per share	€	0.55[1]	0.55
Dividend yield	%	3.4	2.5
Closing XETRA price	€	15.97	22.21
Market capitalisation at the end of the financial year	€ million	3,024	4,206
Number of issued shares of € 1 each		189,353,608	189,353,608
Key ratios			
Earnings per share	€	(1.72)	1.36
Cash flow per share	€	2.93	2.95
Price-earnings ratio		–	16.3
Price-cash flow ratio		5.5	7.5

[1] Proposed.

Capital market | A strongly expanding export market and improved domestic demand based on increasing gross capital expenditures caused the Germany economy to grow in 2006/07 and hence record a rise in the DAX and MDAX as from the beginning of 2006.

Growing inflation and interest fears stemming from oil price-related increases in inflation rates in Europe and the USA together with interest rate hikes by central banks caused a sharp price correction on German and European stock exchanges at the beginning of May 2006, with prices partly falling below those recorded at the end of 2005.

Leading German and European indices recovered as from the second half of 2006, particularly as the oil price decrease from US$ 80 to US$ 60 per barrel contributed considerably to calming inflation and interest rate fears.

Supported by robust growth in the economy and positive corporate forecasts, the DAX and MDAX both increased by 16 % in the year from 1 March 2006 to 28 February 2007.

Südzucker share price movement | Movements in the Südzucker share over the past year were affected by the EU sugar market reform, which will have a considerable effect on the entire European sugar industry over the next few years, as well as by the wider adjustment to prices on European and US stock exchanges.

Our share reached an all-time high of € 22.21 (closing XETRA price) at the end of the previous year (2005/06) and maintained this level to May 2006. The global market correction in May also affected our share price and, in line with international capital markets generally, we saw a recovery in the share price to € 20.42 in September 2006, supported by expected good Südzucker results.

Application of the restrictive EU policy and the announcement by the EU commission of further market reductions for the 2007/08 sugar year due to the lack of quota returns to the restructuring fund led to a share price adjustment as from November 2006. Due to the announcement of future charges in the sugar segment announced in our third quarter 2006/07 report coupled with the uncertainty of developments in the restructuring fund and further measures taken by the EU commission to settle the market, this share price adjustment lasted until the end of the financial year.

The closing price of the Südzucker share at 28 February 2007 was € 15.97 (XETRA) and thus was 26 % below the comparable price for the previous year.

Long-term increase in value | Despite the decline in price in the past financial year, long-term investors could continue to profit overall from the stable increase in the value of our share. An investor acquiring 1,589 Südzucker shares at a price of the equivalent of € 6.29 per share, or the equivalent of € 10,000, on 1 March 1988 (beginning of the financial year in which the merger with Südzucker Franken took place), using cash dividends to re-invest in new shares and take up pre-emptive rights to participate in capital increases, would have had a portfolio with a value € 72,448 on 28 February 2006, a rise of 625 %.

This growth represents an average annual return of 11 %, slightly below the comparable amount for the MDAX. With a comparable percentage of 10.1 % p.a. for the DAX as a whole, the Südzucker share nevertheless continues to show a higher long-term performance.

CropEnergies AG IPO | To finance strong growth in the bioethanol business, Südzucker listed its subsidiary, CropEnergies AG, on the prime standard index of Frankfurt's stock exchange on 29 September 2006, with a capital increase of some € 200 million. Private investors, institutional investors and Südzucker shareholders and employees subscribed for the new shares in order to participate in growth of an interesting and forward-looking market in Europe.

The cash received from the IPO will be invested to expand production capacity from 260,000 m³ to 750,000 m³ by 2010. Südzucker Group will also profit from high growth rates from this business in future, retaining an investment share of 70.6 %.

Market capitalisation and indices | The number of Südzucker shares at the end of the financial year on 28 February 2007 was 189.4 million and, with a year-end price of € 15.97 (XETRA), its market capitalisation was € 3.024 billion. This amounts to an MDAX weighting of 1.1 % for the Südzucker share at the end of the financial year. Our share continues to be represented internationally on indices observed by international investors. These include the Dow Jones Euro Stoxx TMI, FTSE Euromid and MSCI Europe. Our share is the only German foodstuffs industry share in the MSCI Germany selected index.

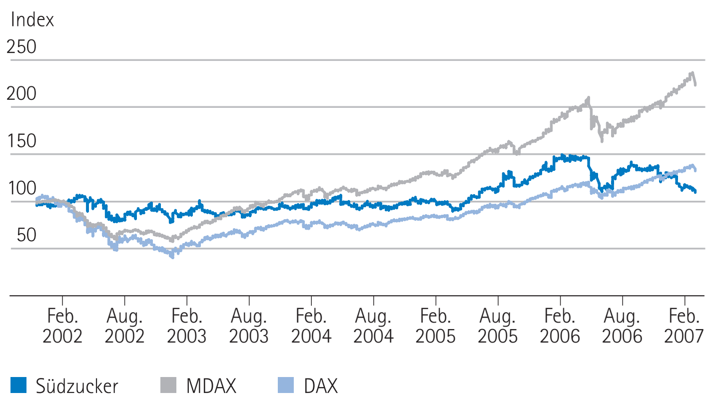
On the trading side, the trend to greater liquidity of the Südzucker share continued on all stock exchanges. Average daily turnover increased sharply compared with the previous year, by 39 % from 0.9 to 1.2 million shares per trading day[1]. Annual stock exchange turnover rose by 46 % to € 5.8 billion (€ 4.0 billion).

Shareholder structure | Südzucker AG has a long-term, mature and stable structure of owners, reflecting close co-operation with our raw material suppliers. Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG (SZVG) continues to hold a majority of 55 % with its own shares and those shares held by them on trust for their own shareholders. A further 10 % is held by ZSG, which bundles the shareholdings of our Austrian shareholders. An unchanged 35 % of the total of 189.4 million shares issued are widely held (free float).

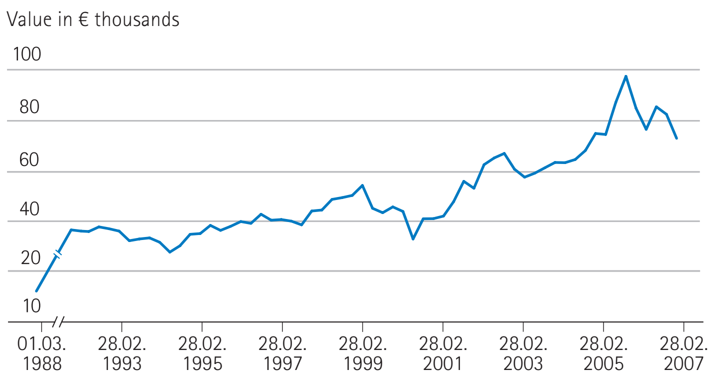
[1] Source: Clearstream Banking statistics.

Südzucker share price movement
From March 2006 to February 2007

Südzucker share price movement compared with the DAX/MDAX
(Indexed)



Long-term increase in Südzucker share value
assuming re-investment of dividends (excluding tax credit) and rights

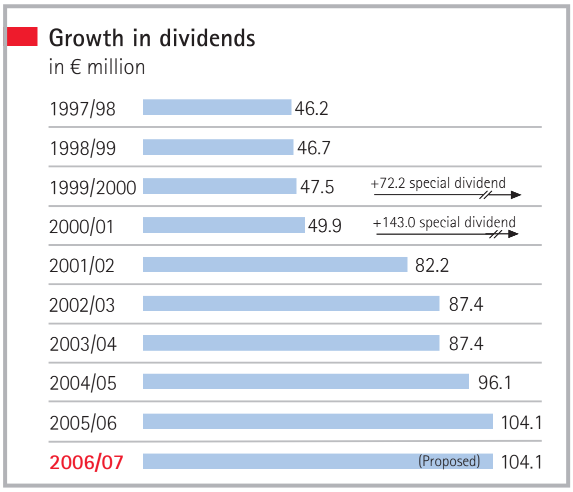


2006 annual general meeting | With some 2,800 participants, our annual general meeting on 27 July 2006 at the Mannheim Congress Center Rosengarten again showed strong visitor interest. The presence of voting share capital for resolution purposes of 78 % was again considerably higher than the German average of some 50 %[2]. All resolutions on the items on the agenda were passed with majorities of 95 % to 99 %.

Investor relations | Südzucker sees a transparent, balanced and timely communication policy to shareholders and the capital markets as a strategic corporate objective. The investor relations team maintained an intensive dialogue with institutional and private investors, analysts and rating agencies over the past year by means of timely and reliable information disseminated in many individual discussions and telephone conversations, reporting on the group's current position and future strategic development. We have supplemented our communication to the capital markets by participating in an investor conference as well as our annual financial statement press conference and analysts' conference in Frankfurt am Main. The main topics of our communication to the capital markets were the IPO of our subsidiary, CropEnergies AG, and the EU sugar market reform.

The intensive capital market dialogue has resulted in our company now being followed and analysed by many well-known investment banks.

Finally, greater investor interest is evidenced by a repeated increase in hits to our website www.suedzucker.de compared with the previous year. Using a separate investor relations section, we provide timely information of changes to our share and bond prices, current corporate news and significant financial diary dates. We also make available the latest quarterly and annual reports for viewing and downloading as from their publication date. Furthermore, investors and interested parties have the opportunity to put questions to the company using a contact page, and these are answered timely by investor relations.



Rating | A close dialogue is maintained with Moody's Investor Service (Moody's) and Standard & Poor's (S&P), the leading rating agencies, in order to give bond investors ongoing transparency on relevant key figures. The long-term rating evaluates the overall creditworthiness of the group as well as all outstanding corporate bonds. The 6.25 % coupon bond (volume € 300 million, term 2010), the 5.75 % coupon bond (volume € 500 million, term 2012) and the 3 % convertible bond (volume € 250 million, term 2008) are included as well as the subordinated hybrid bond of € 700 million with a coupon of 5.25 %.

The agencies issued a corporate and bond rating, including the convertible bond, of A3 (Moody's) and A– (S&P) as at 28 February 2007. The agencies issued an unchanged rating for the hybrid bond compared with the previous year of Baa2 for Moody's and BBB- for S&P. Moody's give the hybrid bond an equity portion of 75 %, S&P allot an equity portion of 50 %.

On 20 March 2007 S&P issued a corporate and bond rating of BBB+ (hybrid bond BB+). On 25 April 2007 Moody's issued a corporate and bond rating of Baa1 (hybrid bond Baa3). S&P and Moody's thus reflected the current position of the reform of the EU sugar market regulation and the ongoing restructuring process, with the related burden on earnings for 2007/08.

[2] 2006 reporting season for the 30 DAX companies.

Dividends for 2006/07 | The board of directors and supervisory board will recommend to the annual general meeting on 24 July 2007 that an unchanged dividend of € 0.55 per share be distributed. Based on the number of shares of 189.4 million issued, this will result in an unchanged dividend distribution of € 104.1 million compared with the previous year.

Based on the dividend recommendation of € 0.55 per share, the Südzucker share's dividend yield at 28 February 2007 is 3.4 % and is thus considerably higher than the comparable average dividend yield for the MDAX of 1.8 %[3].

Südzucker AG bonds

Bond 6.25 % 2000/2010 | € 300 million	
DE 000 178 080 7	**Exchange:** Frankfurt (official), Stuttgart and Berlin (OTC)
Bond 5.75 % 2002/2012 | € 500 million	
DE 000 846 102 1	**Exchange:** Frankfurt (official), Stuttgart and Düsseldorf (OTC)
Convertible bond 3.00 % 2003/2008 | € 250 million	
DE 000A0 AABH 1	**Exchange:** Frankfurt (official), Stuttgart (OTC)
Hybrid bond 5.25 % 2005 Perpetual NC 10 | € 700 million	
XS 0222524372	**Exchange:** Luxemburg (official), Frankfurt, Stuttgart, Munich, Berlin (OTC)

Südzucker share exchange data

ISIN	DE 000 729 700 4
WKN	729 700
Stock exchanges	XETRA, Frankfurt, Stuttgart, Munich, Hamburg, Berlin, Düsseldorf, Hanover (OTC)
Stock exchange symbol	SZU
Ticker symbol Reuters	SZUG.DE (XETRA), SZUG.F (floor trading Frankfurt)
Ticker symbol Bloomberg	SZU GY (XETRA)

[3] Source: The Deutsche Bank German Equities Universe.


Simon Schmitt
"I've got the **e n e r g y,** to shape the future sustainably!"

Producing energy from renewable materials – that's the future. Prospects are good for the company, for the environment, and for me. With its European-wide bioethanol business and an annual capacity of a million cubic metres, Südzucker Group is aiming at market leadership.

Dear shareholders,

Südzucker Group is experiencing a time of much change to its core business, in which fundamental financial, ecological and political reappraisals are setting us significant challenges as an agriculturally-based business. Production opportunities were restricted in some sectors of our operations, but at the same time sustainable opportunities were opened up in other divisions. At a European level, we stand at a crossroads for the coming years. We prepared ourselves early for this situation, planned appropriate alternative strategies and have already implemented some projects. As a strong market leader in the sugar industry, Südzucker has the chance to be actively involved in the market restructuring process set by the EU and withstand a temporary downturn for the benefit of strategic opportunities.

Developments in 2006/07 were affected by massive changes in the regulatory environment and, in addition, by the effects of the delayed implementation of the sugar market regulation effective from 1 July 2006. For instance, sales opportunities outside the EU have already been extensively capped, the EU market has been opened up to imports, but production capacity within the EU has not yet been sufficiently adjusted to meet reduced marketing opportunities. In particular, our French subsidiary Saint Louis Sucre, for which exports have to date made up a high proportion of overall sales quantities, was negatively affected by these development. This has led to goodwill impairment losses of € 0.5 billion in the sugar segment, overshadowing the otherwise stable level of profitability in 2006/07 and leading to an overall group loss of some € 0.2 billion.

However, 2006 also saw the successful IPO of Südzucker's bioethanol activities. CropEnergies AG, in which Südzucker is a majority shareholder with 70.6 % after the IPO, grew satisfactorily and distanced itself from market disruptions in the bio-diesel sector thanks to its correct concentration on bioethanol. With the production of bioethanol for fuel, we have placed our foot in a market which to date mainly had only been occupied by international groups. Based on our profound knowledge of the agricultural market we have taken the opportunity of launching a new business division with a excellent ecological status by offering individually- tailored solutions based on sustainable, CO_2-neutral bioethanol production.

We were once again able to increase group revenues in 2006/07. They grew by some 8 % to € 5.8 billion (€ 5.3 billion). This increase originated in the special products and fruit segments, whereby the sugar segment was already affected by restrictions arising from the new EU sugar market regulation. Nevertheless, the group's operating profit amounted to € 419 million (€ 450 million) and gross cash flow from operations increased to € 554 million (€ 527 million).

Südzucker Group meets those criteria set for a company staking a claim to sustainability in an exemplary fashion. We understand sustainability to be a holistic view of financial, ecological and social requirements, meeting the needs of today's generation whilst protecting the opportunities for subsequent generations. For Südzucker Group, which processes agricultural raw materials, the principle of sustainability has traditionally been one of our significant success factors. We have come up with many intelligent solutions evidencing that ecology, maintaining social standards and achieving financial success are not necessarily in conflict. Nevertheless, it cannot be denied that in an international competitive environment, where price is the final determinant, a badge of "sustainability" is not yet being given its due. We are proud of the fact that, in our group, we set high standards of quality, environmental protection, safety and state-of-the-art technology. Through our strong engagement in the sustainable energy sector, we have been able to make a major step forward along this path. Politics has clearly taken up the principle of sustainability in the energy sector and has established appropriate conditions which also benefit our group.

The major part of Südzucker Group's business is in the food industry. This sector could look back on a successful 2006 throughout the EU, but 2007 will be more difficult.

It can be observed over a number of years that, with total sugar sales remaining flat, supplies to the food processing industry, already making up over 80 % of total sales volumes, are increasing throughout Europe as the trend to consumption of processed products remains unchecked. On the other hand, major changes in the sugar sector for Südzucker Group have arisen from the new sugar market regulation, requiring a reduction of some 5 to 6 million tonnes in production volumes, to some 12 to 13 million tonnes of sugar for the EU as a whole.

The German EU council presidency announced its intention to push measures to encourage healthy nutrition and physical exercise for children and adolescents. Experience gathered in Germany using the platform “nutrition and exercise” should give impetus to countering the problem of overweight, providing multi-causal solutions for society as a whole. It uses prevention to hinder overweight and encourages parents and children to use their own abilities and self-responsibility to adopt a healthy lifestyle. The food industry sees this at the only correct way, requiring considerable patience but promising success in the long term.

The continuing satisfactory growth of the functional food division reflects continuing interest by the food industry and consumers in foodstuffs with an additional healthy application. We are well placed on this market, the growth of which is also naturally encouraging new market entrants, with a broad range of forward-looking products with which our customers can manufacture products to match the latest nutritional trends. Growth over the next few years will come primarily from the EU, USA and Latin America. The key to further market penetration by Südzucker Group is constant innovation.

The market for bio-fuels, in particular for bioethanol, shows above-average strong global growth and above all in the EU, as bioethanol is produced from local renewable raw materials. Many European countries have implemented EU requirements to encourage bio-fuels in their national laws. In Germany, for example, there has been a binding requirement since January 2007 to include bioethanol as an additive to petrol, increasing annually to 2010. The EU continues to aim for bio-fuels to have a 10 % share of the total fuel market by 2020. The high-value animal feed ProtiGrain® is a by-product of the bioethanol production process, and is successfully marketed on a strongly deficient protein animal feed market.

Starch products manufactured by AGRANA are used in almost all sectors of the nutritional, chemical and pharmaceutical industries as well as in the animal feed industry. Starch is produced on a large-scale from agricultural products, whereby AGRANA has been able to develop innovative new products for special markets through intensive research and so reduce dependency on the volatile starch market.

The market for deep-frozen products, in which Südzucker's subsidiary Freiberger is a player with its range of pizza, pasta and baguette products, continues to show growth. The own-brand segment, in which Freiberger Group mainly specialises, concentrates on high-quality products specially tailored to meet customer needs. In order to meet these criteria, the production plant is extremely flexibly designed and product safety is ensured by strong quality controls and a high degree of internal production. The most significant growth rates are currently being achieved by Freiberger in the new EU member states.

The fruit segment, in which AGRANA operates in fruit preparations and fruit-juice concentrates, is growing globally and benefits both from heightened nutritional awareness and also from higher income per head, particularly in emerging markets. Fluctuations in harvests can be well covered by AGRANA due to its global presence and this ensures the provision of qualitatively high-value raw materials close to the customer.

The future development of our group is encouraged in many areas by successful research and development activities within the group. The global success of functional food products should be mentioned in this connection, together with interesting innovations in the starch sector, new and gentler processes for producing fruit preparations and an optimised process technology for manufacturing bioethanol, increasing our competitive advantage over our competitors. Research and development activities are very broad in scope and are thus in a position to obtain synergies for the group's entire product range.

The current picture of Südzucker Group is influenced to a great extent by uneasy times in the sugar area. Nevertheless, it should be noted that, especially due to the dramatic effects of the new sugar market regulation on many EU sugar companies, new opportunities can arise for Südzucker Group as market leader. We also continue to believe that, following a reduction of capacity in the EU and a fair treatment of sugar imports by the EU, price pressures will retreat again and lead to market stability. Apart from the resulting production restrictions, we also see an opportunity to optimise efficiency and structure in the sugar beet farming and sugar production sectors more rapidly and encourage market stature and profitability through international co-operation. Inclusion in the European agricultural market remains of major importance to the strategic objectives of the sugar segment, which nevertheless restricts use of a uniform group-wide policy due to country-specific conditions. However, our primary aim remains to rigorously optimise the conditions for achieving further synergy potential throughout the group.

The successes achieved in the special products and fruit segments show that we are making great strides to meeting our aim of finding new dynamically-growing business activities for our group. We have been able to establish ourselves as a strong and popular business partner and capture significant market positions in many business areas. This applies not only to our position in the renewable raw materials area, which we wish to further extend and for which we review many projects for their chances of success. With the fruit segment, the group has entered an expanding global market and is extending its presence in new emerging markets. The rapid growth in demand for chilled and deep-frozen pizzas, in which we are European market leader, shows the correctness of our assessment of the growth potential of this market. Success factors here are particularly our uncompromising quality and customer focus.

Based on the above, it is clear that Südzucker Group is broadly based and, following a difficult transitional phase, it is expected that earnings potential will improve. This also gives us the necessary freedom of decision when recommending a dividend distribution.

We should like to thank you, our shareholders, for the trust placed in us and we will continue to do everything to justify your trust in us. Our thanks also go to all our staff, whose efforts have contributed to the success of the group.

Sincerely,

Südzucker AG Mannheim/Ochsenfurt
The executive board

Group financial statements 2006/07: results of operations, financial position and net assets

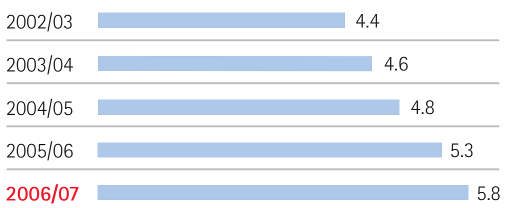
Group results

		2006/07	2005/06
Revenues	€ million	5,764.9	5,346.5
EBITDA	€ million	681.8	668.7
Depreciation of property, plant and equipment and intangible assets	€ million	(262.4)	(218.7)
Operating profit	€ million	419.4	450.0
Restructuring/ special items	€ million	32.1	(52.6)
Goodwill impairment loss	€ million	580.4	–
Operating profit (loss) net of restructuring	€ million	(128.9)	397.4
EBITDA margin	%	11.8	12.5
Operating margin	%	7.3	8.4
ROCE	%	9.0	8.6
Capital expenditures on property, plant and equipment	€ million	377.6	425.6
Capital expenditures on additional quotas	€ million	158.8	–
Capital expenditures on financial assets	€ million	62.4	216.3
Total capital expenditures	€ million	598.8	641.9
Employees		19,575	19,903

Revenues

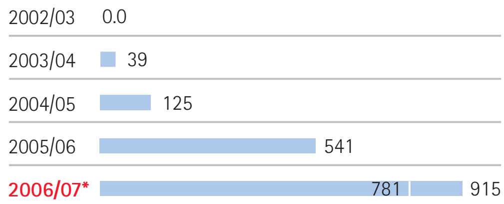
Group | Group revenues increased by 7.8 %, or € 418 million, to € 5,765 million (€ 5,347 million) in 2006/07.

Group revenues
€ billion



Fruit segment | This increase was mainly borne by the new fruit segment, which has expanded rapidly over the past few years and which already contributes 16 % or, € 915 million (€ 541 million), to group revenues. The companies making up the fruit segment were newly organised into the fruit preparations and fruit-juice concentrates divisions in the past financial year. We have thus established a close-to-market structure enabling procurement and

Fruit segment revenues
€ million

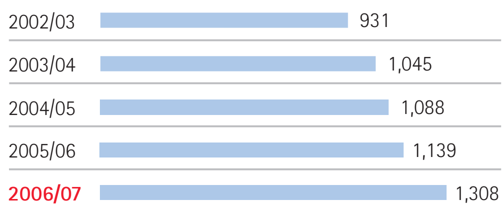


* 14 months, 12 months: € 781 million.

marketing activities as well as specific marketing initiatives to be combined and optimised. Excluding growth in revenues caused by consolidation and the change in financial year, the fruit preparations division showed strong organic revenue growth.

Special products segment | Revenues from the special products segment increased by 14.8 %, or € 169 million, to € 1,308 million (€ 1,139 million) and thus already makes up 23 % of group revenues. In the bioethanol division, CropEnergies group could more than double revenues to € 147 million (€ 60 million). The functional food division attained double-digit growth in sales quantities with Palatinit and ORAFTI products based on sugar and chicory together with rice ingredients. However, total sales were only slightly above those for the previous year due to closure of inulin fructose production at Oreye. The Freiberger, starch

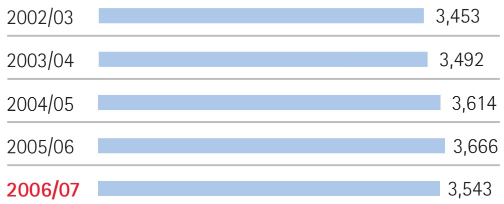
Special products segment revenues
€ million



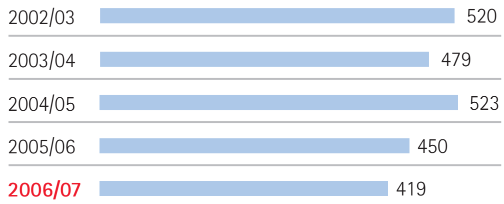
and PortionPack divisions were able to maintain or expand their positions in highly competitive markets.

Sugar segment | 39 % of group sales thus arise from the special products and fruit segments, with the main sales generator being the sugar segment with € 3,543 million (€ 3,666 million), a share of 61 %. Turnover in the sugar segment decreased by 3.4 %, particularly due to the dras-

Sugar segment revenues
€ million



Group operating profit
€ million



tic reduction in quota sugar exports caused by the extremely restrictive export policies of the EU commission since autumn 2006. Following the lost WTO panel case in 2006/07, the last possible C-sugar exports were again at the previous year's high levels following the record 2005 harvest. The new industrial sugar business, introduced by the changed sugar market regulations in mid-2006, made a satisfactory contribution to sugar revenues. The eastern European sugar companies could expand their domestic sales and, together with the establishment of new sales structures, were thus in a position to underline Südzucker Group's market position also in Romania and Bulgaria, the new EU member states.

Operating profit, net of restructuring costs

Group | Group operating profit decreased in 2006/07 by 6.8 % to € 419 million (€ 450 million), whereby results varied for the individual segments. It should be considered that, due to the high level of capital expenditures in all three segments, depreciation charges increased which, due to rising capacity utilisation, particularly in the special products and fruit segments, will lead to higher operating profits in future. EBITDA, or operating profit before depreciation, increased to € 682 million (€ 669 million).

Sugar segment | For the sugar segment, 2006/07 was the first year of the new sugar market regulation. Developments were marked by deterioration in overall conditions as the year progressed. Whereas at the beginning of the financial year there was a recovery of prices on the market, this development suffered particularly in western Europe since autumn under the EU's restrictive export practice, with sharply lower quota sugar exports. Together with a repeated rise in energy prices and charges arising from the first-time restructuring levy, also charged on quotas not produced due to market reductions, there were high charges to be borne, offset as expected by considerable benefits from the lack of a production levy. The cost savings initiated following the announcement of the market regulation reform and contributions to profits from the new industrial sugar business had a positive effect on profitability. Overall, operating profit for the sugar segment decreased by € 54 million from € 313 million in 2005/06 to € 259 million in 2006/07.

Special products segment | On the other hand, operating profits of the special products segment exceeded the previous year to reach € 115 million (€ 109 million) due to a good fourth quarter.

The bioethanol business could achieve a clear improvement in profitability due to increased capacity utilisation at the production plant in Zeitz to 229,000 m^3 (104,000 m^3). Compared with start-up losses in the previous year, an operating margin of 14 % was achieved.

The operating profit of the functional food division was considerably below that of the previous year, as expected. This is due on the one hand to the lack of contribution to profits arising from closure of inulin fructose production, whereby Südzucker decided to close these activities and sell the quotas to the restructuring fund as part of the reform of the sugar market regulation and, on the other hand, to the fact that the sharp growth in sales volumes for the functional food division's core products could not offset cost increases and, in particular, the burden of lack of full production capacity in Chile.

For starch, operating profits remained below the good previous year's level due to unsatisfactory pricing of isoglucose and a sharp increase in purchase costs for corn from the 2006 harvest.

Fruit segment | Operating profits in the fruit segment rose by € 19 million to € 46 million (€ 27 million). In addition to the inclusion of ATYS Group for the entire year and the change to the group's financial year, contributions included growth particularly in Russia and the USA, countries in which new production locations were established in the previous year. Increased raw materials and energy costs could passed on to customers by the end of the year.

Restructuring and special items/goodwill impairment loss

Group | Restructuring costs and special items and goodwill impairment loss amounted to € 548 million (€ 53 million) and were affected by additional operating and accounting-related measures.

Sugar segment | The sugar market reform and the ongoing restructuring process of adjusting production capacities remained unavoidable in the sugar segment. There were charges of € 109 million in 2006/07, mainly from the agreed closure of cane sugar refining in Marseilles, closure of Łubna, the Polish factory, and impairment losses of other sugar production plant. The French sugar market, whose quota sugar production was sharply above domestic consumption, was particularly negatively affected by reform of the sugar market regulation, with extremely limited opportunities for exports on world markets. The structural production excess led to dramatic and ruinous price competition with negative effects on neighbouring EU countries. We have reflected this by goodwill impairment losses in the sugar segment of € 482 million.

Special products segment | An overall positive result of € 42.8 million from special items and goodwill impairment losses could be achieved in the special products segment. The closure of inulin production and the cost situation of chicory production in Chile in the functional food division were reflected by a one-time impairment loss on goodwill. Disposals of technical plant and termination benefits for Oreye, Belgium arose as a result of closure of inulin fructose production. These charges could be more than offset by contributions to income from the sale of inulin quotas to the restructuring fund and the CropEnergies AG IPO.

Income from associated companies/financial result/loss for the year

Income from associated companies | Income from associated companies decreased to € 1 million (€ 11 million). This includes a contribution to income from the Eastern Sugar investment which sold its quotas in Slovakia, The Czech Republic and Hungary to the restructuring fund following the 2006 campaign. Negative contributions to income, which did not lead to any cash outflows, arose from the investment in Sucrerie Bourgogne, France.

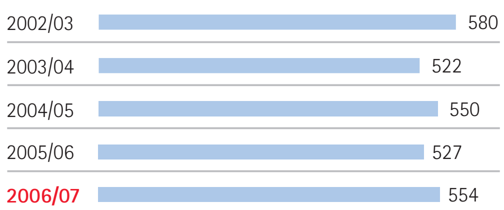
Financial result | Net financial expense deteriorated by € 18 million to € 99 million. This is particularly due to foreign currency losses from financing eastern European companies with low-interest euro loans as well as special income from securities received in the previous year. Net interest expense improved sharply due to lower average debt.

Loss for the year | After income tax expense of € 19 million, group net loss for the year was € 246 million compared with group net earnings for 2005/06 of € 305 million.

Minority interest in results for the year was € 81 million compared with € 62 million in 2005/06. The increase is due to improved AGRANA results and interest on the hybrid bond which was recognised for a full financial year for the first time.

Cash flow statement

Cash flow | Despite the high level of restructuring expenses and with no effects from goodwill impairment losses, gross cash flow from operating activities increased to € 554 million after € 527 million in 2005/06. A further considerable share of financing came from the reduction in working capital as at 28 February 2007, amongst other things due to cash received from collecting receivables from export recoveries in the previous year and due to reduced minimum beet price payments resulting from the sugar market reform. Cash inflows of € 865 million (2005/06: € 313 million) could be achieved from gross cash flow from operating activities and the reduction in working capital.



Gross cash flow from operating activities
€ million

Capital expenditures | At € 599 million (€ 642 million), significant capital expenditures were made in the new strategic direction of the Südzucker Group in 2006/07. Expenditures on property, plant and equipment of € 537 million included € 226 million for the expansion of the bioethanol, functional food and starch divisions and the fruit segment. In the sugar segment, Südzucker took the opportunity of acquiring an additional 0.3 million tonnes of quotas with an investment volume of € 159 million. Expenditures on sugar factories were € 140 million (€ 174 million). Investments in financial assets of € 62 million (€ 216 million) mainly related to the further expansion of the fruit segment.

Gross cash receipts of € 200 million were achieved from the CropEnergies AG IPO, a sustained financial basis for further expansion of the bioethanol division in Europe. After considering dividend distributions of € 163 million, net financial debt could be decreased by € 366 million from € 1,177 million to € 811 million at 28 February 2007.

Balance sheet

Even after considering goodwill impairment losses of € 580 million, balance sheet ratios show a sound gearing ratio of 42 % compared with 47 % at the end of the previous year.

The decrease in intangible assets is mainly due to goodwill impairment losses of € 482 million in the sugar segment and of € 98 million in the special products segment. The share of goodwill as a percentage of shareholders' equity thus decreased from 47 % in 2005/06 to 33 % in 2006/07. On the other hand, intangible assets increased by € 159 million due to the acquisition of additional quotas.

The increase of € 371 million in cash and cash equivalents to € 830 million (€ 459 million) was used in March 2007 to pay the restructuring levy and make sugar beet payments.

The increase in current trade accounts payable and other liabilities from € 1,304 million to € 1,768 million results mainly from levies of € 507 million payable to the restructuring fund. On the other hand, liabilities to beet farmers decreased by € 135 million to € 507 million due to beet price reductions caused by the sugar market regulation.

Recommendation on appropriation of profits

The executive board and supervisory board will recommend an unchanged dividend of € 0.55 per share to the annual general meeting on 24 July 2007. With share capital of € 189.4 million entitled to dividends the amount distributed will be € 104.1 million. The dividend will be paid on 25 July 2007. The dividend recommendation reflects an operating profit only slightly lower than for the previous year, higher cash flow and belief in a return to higher profitability by the sugar segment over the medium term.

Quality is of the greatest importance for all areas of our business: careful selection of top-quality raw materials, production located where the fruit ripens, considerate production processes as well as safe and reliable transport to our customers.

I'm proud to be involved. We're the global number one in fruit preparations for dairy products, and number one in Europe for apple-juice concentrates.

"I see **quality** as the key to success!"

Marius Novak

Risk report

Risk management within the Südzucker Group

Südzucker implements an integrated system for the early identification and monitoring of specific risks for the group. The successful treatment of risks is based on achieving an appropriate balance between opportunities and risks. The company's risk culture is marked by encouraging risk-awareness, clear responsibilities, independence in risk controlling and implementing internal controls.

Südzucker believes a responsible attitude to risks and opportunities is a major part of a sustainable, value-oriented management system. The risk management system is thus an integrated part of the entire budgeting, monitoring and reporting process and is determined by the executive board. The group and all its subsidiaries use risk management systems tailored to each specific operating business. They are based on the systematic identification, evaluation, control and documentation of risks.

Südzucker Group's risk management system is based on risk controlling at operating level, on strategic controlling of investments and an internal monitoring system used by the group's internal audit department.

The above is supported by the timely identification, analysis and constant review within the risk management system of developments which could lead to characteristics endangering the Südzucker Group.

Strategic controlling of investments and risk controlling at operating level

The main thrust of strategic controlling of investments is strategic planning of segments and business divisions. Significant developments influencing the business are recorded and assessed. Opportunities and risks are considered based on market and competitive analyses, and these form the basis for management decisions.

Investment controlling also monitors the achievement of business objectives and controls group companies by using uniform key ratios. It evaluates the investment portfolio with the aim of optimising the investment structure and provides assistance with acquisitions and disposals.

Operating risk controlling is implemented by the operating controlling department. The executive board is kept continuously informed via an extensive reporting system and, if relevant, by ad hoc reports.

Internal monitoring/internal audit

The group's internal audit department carries out its control functions at the parent company and group companies and reports to the executive board. It checks and evaluates the security, financial viability and correctness of business processes, together with the effectiveness of the internal control system.

Risks related to the business

As a production company in the agricultural industry, Südzucker is exposed to individual operating risks that have their roots in Südzucker's specific operating activities and which could have a significant negative effect on the financial position and results of operations.

Market regulatory risks for sugar

The possible effects of international and national trade agreements and market regulations are already analysed at an early stage and incorporated as part of the risk management system.

The reform of the EU sugar market regulation (SMR), effective from 1 July 2006 and valid through 30 September 2015, is of particular importance to the Südzucker Group. Significant elements include a drastic drop in EU sugar prices and a reduction in EU sugar production by restricting export quantities to world markets. The sugar reference price will be cut by 36 %, from € 632 per tonne to € 404 per tonne, with the minimum price for beet reduced from € 43 per tonne to € 26 per tonne. The loss of income for beet farmers will be partly offset by subsidies. Sugar production capacity in Europe is to be reduced to 12 million to 13 million tonnes, a decrease of 5 million to 6 million tonnes.

The new market regulation has considerably restricted world-market exports of EU quota sugar. Due to the case lost by the EU before the World Trade Organisation Panel, exports of C-sugar on world markets were only permitted until 22 May 2006.

Customs duties on imports from Least Developed Countries (LDCs) were initially reduced by 20 % from 1 July 2006. Imports of sugar from LDCs and ACP countries did not increase significantly. Customs duties are to be completely abolished in four stages. Unlimited market access from 1 July 2009 will be limited with the help of protective clauses.

The reform of the SMR has already led to a significant reduction in overall EU beet sugar production from 20.2 million tonnes to 17.6 million tonnes, particularly due to the sharp reduction in export opportunities. Of this production quantity, 15.4 million tonnes related to quota sugar and 2.2 million tonnes to non-quota sugar. Südzucker Group's beet sugar production fell from 4.8 million tonnes in the previous year to 4.2 million tones, a drop of 12 %. The 4.2 million tonnes production in the 2007 campaign was divided between 3.6 million tonnes of quota sugar and 0.6 million tonnes of non-quota sugar.

As part of the reform, the EU aims to abandon unprofitable production capacity in the region, with a restructuring plan limited to the period up to sugar year 2009/10, and hence to strengthen the sector's future competitiveness. Sugar quotas are to be reduced by offering restructuring assistance to sugar factories and beet farmers, with funding provided by levying a restructuring charge on the sugar sector. Regions in which sugar production is substantially stopped will be compensated for the closure of sugar factories and no longer planting sugar beet by the provision of additional regional aid. At the same time, producers in the most efficient regions will be offered additional quotas in the same amount as the loss of C-sugar production, a total of 1.1 million tonnes at a price of €730 per tonne of sugar. 0.9 million tonnes were acquired from EU sugar producers in 2006/07, of which 0.3 million tonnes by Südzucker.

Overall, the above measures should establish market equilibrium on the EU sugar market, If, in contrast to expectations, the restructuring fund cannot acquire sufficient quotas, the new rules of the sugar market regulation carry the risk of an overall quota reduction as from 2010/11, which would also effect the remaining sugar producers.

The restructuring fund commenced in 2006/07 with a quota return of 1.5 million tonnes as forecast. However, the return of quotas for 2007/08 was only 0.7 million tonnes, substantially below the EU commission's expectations, with an estimated return of 3.5 million tonnes of quotas for this year. Hence, the commission announced on 22 February 2007 that it would improve the offer of restructuring aid for unprofitable companies. The EU has ample funds available from levying the restructuring charge. The risk of an overall quota reduction would be reduced also for the most competitive growing areas by a pre-determined and improved restructuring subsidy for sugar factories and beet farmers.

In order to remove the excess quotas for the 2007/08 sugar year, the EU commission has preliminarily resolved upon a temporary withdrawal of sugar quotas, depending on the quantity of quota returns submitted. As a result, market withdrawals for member states which have not yet returned quotas to the restructuring fund amount to 13.5 %. If the required market stabilisation has not materialised by October 2007, the EU commission has announced further quantity reductions for the 2007/08 sugar year.

New market opportunities encourage production of industrial sugar outside the quotas to supply bioethanol producers as well as the chemicals, pharmaceuticals and fermentation industries. This market is only open to particularly competitive producers.

WTO-II negotiations, which have been in progress since 2001, could not be completed. Only a ministerial declaration could be approved at the conference in Hong Kong in December 2005. The resulting measures, such as a parallel reduction of all export subsidies through 2013, will only enter into force once members have agreed on all aspects of the WTO-II negotiations. The offer presented by the EU on 28 October 2005 for external protection is in line with the price reductions agreed in connection with the EU sugar market reform. The EU continues to negotiate with its WTO trading partners, but an end is not yet in sight.

Procurement risks

As a processor of agricultural products, Südzucker is exposed to procurement risks which can be affected by weather conditions. As a result, and despite their geographic distribution, agricultural raw materials can, under certain circumstances, only be available in small quantities. On the other hand, these raw materials are subject to price fluctuations, particularly for grain, which cannot to be completely passed on to our customers. These risks mainly affect the special products - in particular bioethanol - and fruit segments, whereas procurement risks in the sugar segment are only of minor importance due to the sugar market regulation, as planning by beet farmers is aimed at meeting their delivery rights. Südzucker limits procurement risks by entering into supplier contracts with many suppliers. Südzucker counters energy price risks by designing its production plant so as to ensure that various energy sources can be used, depending on the current situation, with the aim of optimising costs. In addition, continuous improvement in plant energy efficiency is actively encouraged throughout the group.

Competitive risks

Sales markets are marked by a comparatively stable demand for products produced by the Südzucker Group. Indications of possible changes in consumer behaviour are recorded timely by Südzucker's risk management system. Effects on Südzucker's market position are evaluated and are also reflected in modifications to corporate strategy. Fluctuations in sales prices resulting, particularly in the special products and fruit segments, from competitive pressures are countered by Südzucker through continuous optimisation of its cost structures with the aim of obtaining cost leadership.

Product quality

Maximum quality of our products in the interest of our customers is one of the objectives which we set ourselves. Compliance with all relevant legal standards for food is thus a given for us. Risks arising from poor quality, such as due to unclean raw materials or caused by processing errors, are countered by Südzucker through the highest internal quality standards, compliance with which is regularly controlled throughout the group.

Other operating risks

Additional operating risks arising in the production, logistics, research and development areas and through use of information technology (IT) are of comparatively minor importance. Südzucker counters such risks through constant monitoring and continuous improvement to processes. As a result, Südzucker has standardised its information systems and processes within the Südzucker Group. Since the beginning of 2006/07 sugar operations in Germany, France and Belgium as well as in the ORAFTI, Palatinit and bioethanol divisions were included in a uniform SAP system, with the integration of further divisions planned. Hence, the existing matrix organisation introduced in 2003/04 has been further strengthened.

Our specialists and management staff are of particular importance to us, and they are well equipped to meet change by receiving extensive training and attractive social and remuneration systems, thus binding them long-term to the group.

Legal risks

There are no law suits against Südzucker AG or its group companies which could have a significant effect on the group's financial position. Südzucker is subject to possible changes in the legal environment, particularly in food and environmental laws. Südzucker already notes such risks at an early phase, evaluates their influence on the group's activities and, if necessary, introduces appropriate measures.

Risks from derivative financial instruments

Südzucker is subject to risks arising from changes in foreign exchange rates, interest rates and equities prices and uses derivative instruments to a limited extent to hedge risks arising from operating and financing activities. The following risks are primarily hedged:

Interest rate change risks | For fixed-interest investments or bonds issued, there is a risk that a change in market interest rates will lead to a change in market value (interest-rate induced price risk). On the other hand, floating rate investments or bonds issued are not subject to price risks, as the interest rate is adjusted timely to market interest rates. On the other hand, if there are fluctuations in short-term interest rates there is a risk relating to future interest payments (interest-rate induced cash flow risks).

Currency risks | Currency risks mainly relate to sugar sales on the world market in US dollars and payment obligations in foreign currencies.

Product price risks | Product price risks arise from price fluctuations on the world sugar market and on the energy market.

Hedging transactions entered into before commiting to the underlying transaction (forecast hedging) has been made for US dollar payments for C-sugar deliveries. Interest rate swaps, interest caps, interest futures and foreign currency futures are used to hedge the above-mentioned risks, using normal market instruments. The use of these instruments is regulated by group guidelines within the risk management system, setting limits based on the underlying transactions concerned, defining approval procedures, excluding using derivative instruments for speculative purposes, minimising credit risks and detailing internal reporting requirements and segregation of duties. Compliance with these guidelines and proper processing and valuing transactions are regularly checked by employees not personally carrying out the transactions.

Overall risk

In summary, the group's overall risk position has deteriorated compared with the previous year, above all due to insufficient voluntary quota returns by uncompetitive sugar producers.

Opportunities for further development

By means of our rigorous pursuit of a sustainable corporate strategy aimed at value added growth, Südzucker Group is also presented with many opportunities.

Sugar segment | In addition to the risks described above, the new SMR regulations provide opportunities for a sustained improvement in our competitive position for sugar production in Europe, our core business competence. The structural changes imposed on the European sugar industry caused by price decreases will lead to competitors leaving the field, particularly in the climatically less favourable areas of Europe. Südzucker is in an excellent competitive position due to its concentration on the best agricultural regions and will also extend its market position for industrial sugar with logistical advantages stemming from closeness to industrial sugar customers.

Special products segment – bioethanol | Particular importance is attributed to the opportunity of refining alcohol from agricultural raw materials for use as a fuel, thereby reducing dependency on fossil fuels as well as being able to cut carbon dioxide emissions. These opportunities are already used to a considerable extent in some countries, such as Brazil. In accordance with the Kyoto protocol, the action plan on organic substances and the EU's strategy for biological fuels, the EU is also committed to using regenerative energy sources, details of which are currently being specified and implemented. The German government has agreed to commit to biological fuel additives to normal oil-based fuels. By expanding its bioethanol business, Südzucker has already set the stage for playing a major role as a supplier on the dynamically growing market for biological fuels.

Special products segment – functional food | In addition, Südzucker has an outstanding position on a number of growth markets through expansion of the other divisions within its special products segment. With the background of long-term trends towards healthier nutritional behaviour, our involvement in the functional food division is above all of central importance. Südzucker is thus a world-wide leading supplier of pre-biotic additives and, with its Palatinit product line, is the world-wide leading producer of sugar substitutes based on sugar. In order to take advantage of growth opportunities for the group, an expansion of product lines is currently being undertaken by adding new applications for use in the pharmaceuticals industry and in the wellness/sports nutrition areas.

Fruit segment | Acquisitions by AGRANA, a group subsidiary, over the past few years have resulted in a newly-formed fruit segment, which also shows significant growth. Südzucker Group is already a world market leader in fruit additives for the dairy industry. Furthermore, the fruit segment is a major supplier of apple-juice concentrates on the European market. Major importance is attributed to regions with relatively low market penetration (such as the USA), or rising income levels (MEEC, Russia, China and Brazil). The group has taken account of this trend by strengthening its competitive position in the fruit additives division in these regions, investing in locations close to customers.

Corporate governance

The term corporate governance stands for management and control of a company directed towards responsible and lasting value added. An efficient co-operation between the executive board and supervisory board forms the basis for transparency and the need to keep shareholders and the public timely and extensively informed. With publication of this corporate governance report, Südzucker AG acknowledges the rules set out in the German corporate governance code dated 12 June 2006.

Effective corporate governance is part of Südzucker's corporate philosophy and has been put into practice for many years. It is closely based on the recommendations of the German corporate governance code and is an important task for the executive board and supervisory board.

Südzucker considers the German corporate governance code in it current version to be substantially balanced and practical and sets a high standard, also by international comparison. For this reason, and as in previous years, we have waived preparation of additional policies for the company itself.

Disclosures per § 315 para. 2 no. 4 German Commercial Code | At 28 February 2007 the subscribed capital amounted to € 189.4 million and is divided into 189,353,608 shares with an imputed amount of € 1 per share. The company held no treasury shares at 28 February 2007.

Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG (SZVG), Ochsenfurt, holds a majority of 55 % of the subscribed capital through its own shares and those held on trust for its owners. A further 10 % of the subscribed capital is held by ZSG BRD Vermögensverwaltungs GmbH, Mannheim.

The appointment and dismissal of members of the executive board is made by the supervisory board in accordance with the conditions set out in § 84 and § 85 German Stock Corporation Law. In accordance with § 5 no. 2 of Südzucker AG Mannheim/Ochsenfurt's by-laws in the version dated 1 December 2005, the supervisory board also determines the number of executive board members and the supervisory board is also entitled to appoint deputy members of the executive board. The requirements to change the by-laws are set out in § 137 and § 179 German Stock Corporation Law.

The nominal capital is conditionally increased by up to € 13,000,000. The conditional capital increase may only be carried out by issuing up to 13,000,000 new shares if required to meet the conversion rights arising from the convertible bond issued on 8 December 2003. The conditions for conversion arose for the first time in 2006/07, but no conversion rights were exercised.

The executive board is empowered to increase the company's nominal capital up to 30 June 2010 with the approval of the supervisory board in one or more tranches of up to a total of € 2,934,338 by issuing new bearer shares for cash of up to € 1,080,732. The new shares are to be offered as pre-emptive rights to existing shareholders.

The convertible bond with a term through 8 December 2008 has a coupon of 3 % p. a. and can be converted into Südzucker shares at a price of € 20.23 per share.

Remuneration of the executive board and supervisory board | The remuneration system of Südzucker AG's executive board includes a fixed annual salary, variable remuneration, a company pension plan based on a share of annual fixed remuneration and benefits-in-kind. No share-based compensation or comparable long-term remuneration components are foreseen. Remuneration of the executive board is determined by the supervisory board in committee and is reviewed at regular intervals. The overall remuneration granted to members of the executive board of Südzucker AG amounted to € 3.3 million in 2006/07. The variable remuneration amounted to 42 % of cash benefits and is calculated based on the dividend to be resolved by the annual general meeting. Remuneration of members of the executive boards of subsidiaries amounted to € 1.7 million. The increase in pension provisions for members of the executive board was € 0.6 million.

The remuneration of the supervisory board is set out in Südzucker AG's by-laws. In addition to recovery of his/her cash expenditures and value added tax arising as a result of his supervisory board activities, each member of the supervisory board receives cash remuneration of € 1,000 after the end of each financial year together with a variable remuneration of € 1,000 for each € 0.01 of distributed dividend on ordinary shares exceeding € 0.04. The chairman of the supervisory board receives double, his deputy and the chairmen of the supervisory board committees receive 1.5 times this remuneration. Committee members receive 1.25 times the regular remuneration, assuming the committee concerned has met during the financial year. Remuneration for the entire activities of members of Südzucker AG's supervisory board amounted to € 1.5 million in 2006/07.

Südzucker AG has always waived presentation of the remuneration of individual members of the executive board and supervisory board due to the lack of proportion of the use of such disclosures compared with interference in the private sphere of individuals. The annual general meeting on 27 July 2006 approved the resolution on non-publication of remuneration of individual members of the executive board by a large majority. Waiver of the individual publication of supervisory board remuneration and remuneration of individual members of the executive board was reflected in the declaration of compliance.

Asset loss liability insurance | The company has entered into asset loss liability insurance with a reasonable retention amount, including coverage of the activities of members of the executive board and supervisory board (D&O insurance).

Shares held by members of the executive board and supervisory board | The shares held by individual members of the executive board and supervisory board, including financial instruments related to shares, is less than 1 % of shares issued by the company. Furthermore, the entire holdings of all members of the executive board and supervisory board are less than 1 % of the shares issued by the company.

Share transactions by members of the executive board and supervisory board (reporting requirement for securities transactions in accordance with § 15a Securities Trading Law) | There were no reportable securities transactions in accordance with § 15a Securities Trading Law during the year ended 28 February 2007.

Declaration of compliance | The executive board and supervisory board submitted a declaration of compliance with the German corporate governance code for 2006 on 23 November 2006 which, as for the declarations of compliance for previous years, is published on Südzucker's homepage at (http://www.suedzucker.de/investorrelations/de/governance/).

Events after the balance sheet date

Despite additional market potential from industrial sugar production and the acquisition of additional quotas, when considering the EU commission's expected quota returns being expanded to include the efficient regions, existing production capacities of the Südzucker Group are higher than long-term marketing and production opportunities. The executive board of Südzucker is resolutely continuing its review of production structures within the group and has recommended to the supervisory board that production be ceased at Groß-Gerau and Regensburg after the 2007/08 campaign.

Outlook

Sugar segment

The expected rapid reduction of long-term unprofitable sugar production capacities in the EU has not yet occurred and the restructuring process is delayed. Thus, charges stemming from the restructuring process will increase during the transitional phase in 2007/08. This is partly due to increased quota reductions, set at 13.5 % in a first step made by the commission on 22 February 2007. If the quantity reduction required is not achieved by October 2007, the EU commission has announced further quantity reductions for the 2007/08 sugar year, with resulting negative effects on profit contribution.

If the EU commission continues to charge restructuring levies on quotas not produced and continues their restrictive export policies, results will be further negatively affected, above all over the next two years. The 2007/08 sugar year, in which the restructuring levy of € 173.80 per tonne will be almost 40 % higher than for the previous year, will be particularly hard hit. The burden of a higher restructuring levy will be exacerbated by the higher quantity of quotas withdrawn from the market in 2007/08. Even if the EU commission continues to stand by their restrictive export policies, they nevertheless plan for the first time since the beginning of the reform to charge a production levy of € 12 per tonne of quota sugar. These (partly one-off) negative effects, with continuing high energy prices and the disappearance of C-sugar business, will not be avoided by Südzucker Group, despite the large number of measures it has already taken and introduced. With this background, coupled with the expectation of a repeated high quota withdrawal in October 2007, we expect the sugar segment will only be able to achieve a breakeven operating result in 2007/08.

The restructuring levy will be charged for the last time in the 2008/09 sugar year at a sharply reduced amount of € 113.30 per tonne, which will contribute a major benefit to operating results.

Südzucker has taken advantage of the opportunity to strengthen its market position arising from reform of the sugar market regulation. The opportunity to acquire additional quotas was fully taken-up in 2006/07 with the acquisition of 0.3 million tonnes. We also contributed to quota reductions with the return of ORAFTI's inulin quotas in Belgium and Eastern Sugar's sugar quotas in Slovakia, The Czech Republic and Hungary.

We could further expand our market position in Italy and Spain, EU neighbouring countries. We have a presence in the new EU member state of Romania with a production and trading company and in Bulgaria with a trading company. We have begun construction of a sugar refinery with an annual capacity of 150,000 tonnes in Brcko, Bosnia Herzegovina as part of a joint venture. We will further expand in the new market segment of industrial sugar for bioethanol production and for chemical and pharmaceutical applications.

Our group-wide review of production structures in the sugar segment and related extensive cost reduction programs will be resolutely continued in 2007/08.

The preventative market withdrawals of up to 13.5 % announced by the EU commission in February for the 2007/08 sugar year was again above the previous year's level for Südzucker Group and formed the basis for planting plans. Planting was partly expanded due to additional marketing opportunities, in particular for industrial sugar, whereby planting was restricted in regions with surpluses from the 2006 campaign. Thus, at 442,000 hectares (444,900 hectares), we expect an only slightly lower area under cultivation than for the previous year.

Special products and fruit segments

On the other hand, we expect dynamic growth for the special products segment, in particular borne by the bioethanol and functional food divisions, with growing operating profit. The fruit segment included 14 months' trading in 2006/07 due to the change in financial year and for this segment we expect strong growth in operating profit on a comparative basis.

Capital expenditures

Following exceptionally high overall capital expenditures in the sugar segment despite reduced investments in property, plant and equipment but due to quota purchases in 2006/07, overall capital expenditures in this segment for 2007/08 are expected to be some € 140 million, at the same level of expenditures on property, plant and equipment in 2006/07.

Capital expenditures will again increase sharply in the special products segment, linked to major capacity expansion in the bioethanol division with new construction of production plant at Pischelsdorf, Austria, and Wanze, Belgium, as well as expansion of production at Zeitz. Overall, we expect capital expenditures of some € 330 million in the special products segment.

The fruit segment will have some € 40 million capital expenditures, lower than for 2006/07.

Medium-term prospects

Due to capital expenditures in the growth markets of bioethanol, functional food and fruit, we expect a sustained growth in group operating profit in the medium term following conclusion of the restructuring phase in the EU sugar market.

Susanne Gose

"I'll grow with **innovation!**"

Without innovation we would still have only five types of pizza, rather than over 40 different bases and some 1,000 recipes. We've got the flexibility to meet the wishes of our demanding customers and have grown to be market leader in Europe with our new production processes, retaining high standards of quality and taste.

Nearly 2 million packages daily leave our factories in Germany, Austria and Great Britain – the number is growing. And I can contribute.

Research and development, environment, quality management

Major projects/overview

Research and development activities within the Südzucker Group concentrate on new products and product variaties, optimising production processes and supporting sales and marketing, business development and purchasing. The range of work covers agricultural production, developments relating to sugar, fruit preparations/fruit-juice concentrates, starch, inulin and ethanol divisions and products derived thereof (such as special sugar varieties and products, sugar substitutes and other functional carbohydrates), through to applications in the food, feed and non-food areas. They include product and process development, process optimisation, product safety, application technology, analytical services, nutritional science and patenting own intellectual property. This applies equally to market products, product modifications and new products.

A major effort has remained expanding patent registrations for all products, particularly in the special products division and for sugar-related technological processes. A total of 13 new patents were registered. An active patent policy is an important part of corporate strategy, and hence of research and development strategy. Existing product protection systems for sugar, special varieties, product development and animal feed divisions are being further developed.

Research and development tasks are carried out by some 390 employees. Co-ordination is made in group-wide, topic-related centres of competence. The total budget for research, development & services in 2006/07 was some € 40 million.

Sugar products

Saving of processing aids and energy | By changing juice flow and using additional precipitation, a protein-containing fraction can be separated as part of the juice purification and later re-entered to the production process. This method was successfully tested in a sugar factory in the 2006 campaign with promising results. In addition to calcium savings in the juice purification it leads to a significant saving in primary energy and thus a related reduction of emissions in the pellet drying process. The process has meanwhile been optimized and is ready for industrial scale use.

Fondant | Industrial sugar processing businesses are increasingly interested in tailored product solutions delivered in large packs and ready for use. Further customer-specific solutions were developed in this area, in particular for the glazings sector. All activities in fondant development are closely co-ordinated as part of the Euro-fondant organisation.

Compri sugar | Further developments for customers led to new product varieties which, due to their special texture and colour, are suitable for production of homogenous coloured comprimates.

Retail products | Arometti, the product line successfully launched in the retail food sector, was expanded to include the catering area and extended by two new varieties, hazelnut and caramel. Lemon- and vanilla-flavoured crystallised sugar, particularly for bakeries, was launched on the Belgian market. A cane sugar-based, sweetened icing sugar was also introduced on the Belgian market as a light product.

Functional food

Nutritional science

Isomalt/Palatinose™ | Focus of the nutritional research for Isomalt and Palatinose™ was in substantiating claims of low glycemic and insulin-related properties.

A long-term study with type 2 diabetics showed that the use of Isomalt instead of conventional sugar in sugar-based foods considerably improved the metabolic condition from a medical point of view without administration of insulin.

Other studies with Palatinose™ in drinks for athletes showed that, in contrast to regular sport drinks, these maintain body-fat oxidation in endurance sports, a promising development both from a training point of view as well as in view of the global overweight problem. The suitability of Palatinose™ for the athletes' drinks market were again confirmed.

Drinks containing Palatinose™ had a positive effect on mental performance and delayed tiredness. This opens up many opportunities for food and drinks for situations in which attentiveness, concentration and mental performance play a role.

Use of low glycemic carbohydrates is also promising for their effects on delaying feelings of hunger, enhancing fat burning and increasing satiety with a view of overweight prevention, body weight maintenance or reducing body fat. Further work is being carried out in this area.

Inulin | New breakthroughs were achieved in nutritional science research on the effects of inulin with added oligo-fructose with respect to repletion and food intake for adults as well as weight control for adolescents.

Results of the EU research project Crownalife on intake of Beneo™Synergy1 in connection with a probiotic showed improved digestive function, intestinal wellness and well-being for older persons.

Animal tests showed that inulin products (Beneo™Synergy1 and Beneo™HP) can arrest the arteriosclerosis process and have significant effects on lowering blood pressure. Animals fed for their whole lives with Beneo™Synergy1 supplement showed improved cognitive performance and behaviour as well as prolonged lives.

Studies with anaemic animals showed that inulin products can improve iron intake and digestion.

Animal research with inulin products was made with pigs, chickens and egg-laying hens. Positive results were also obtained for fish farming (such as salmon) through improved feeding efficiency and greater resistance to disease.

It was shown that dog food and cat food with added inulin and oligo-fructose improved digestion and intestinal flora. These additives have the potential to prevent chronic disease and improve the quality of life of animals.

Application technology/product and process development

Isomalt | Isomalt research and development activities were marked in the past year by many customer-specific developments, with hard caramels and tablets once again being the prime applications. Qualitatively high-value products could be produced with the help of Isomalt ST and Isomalt GS, specially-optimised raw materials.

New studies show that Isomalt GS is particularly appropriate for use in soft-caramel recipes due to its crystallisation properties and crystallised structure. Good processing properties and improved storage stability of the initial market products promise the successful development of Isomalt GS in this application.

galenIQ™ | Marketing of the Isomalt-based product line galenIQ™ is being carried out for pharmaceutical applications worldwide. With an optimised pharmaceutical product range, monographed raw materials are available for manufacturing tablets, coated pills and capsules. Initial basic recipes show the excellent processing properties of this product line. Sample activities carried out confirm the high level of attraction of galenIQ™ for new pharmaceutical products.

Palatinose™ | The market launch of Palatinose™ was linked to expanding an application-oriented patent family to protect the major areas in which this functional carbohydrate will be used. Due to its physiochemical properties, Palatinose™ is appropriate for manufacturing instant mixes of various different drinks as well as for bakeries and confectionery. Its good chemical and microbiological stability permits its use in sour and fermented drinks, whereby carbonated soft drinks, milk-based recipes and mixed beer drinks are only some of the special areas to be noted. Based on its physiological application profile, products using Palatinose™ could be interesting in the area of so-called functional nutritional products, such as athletes' drinks. By means of product developments and targeted technical support, the first Palatinose™-based products could be successfully launched on the market.

Inulin | New product developments are concentrated on inulin and oligo-fructose products with an extremely low sugar content, a coarse-grained crystallised oligo-fructose and an improved soluble inulin. Another process for production of oligo-fructose with low sugar content and fewer by-products was developed. The technological application work with which we actively support our customers is concentrated particularly on new inulin products for milk products, fruit preparations, bakeries, grain-based products and cereal bars.

The properties and opportunities for using inulin-based coatings (Inutec®SP1) in the health and personal care areas were also further researched and developed in technical applications (such as colours and coatings).

New technologies to produce carbohydrates and their derivatives

Catalytic oxidation of carbohydrates | Oxidised carbohydrates are used in large quantities in the technology and food industries. They are used primarily for their properties as a complex former or acid regulator.

The development of a new process using patented gold catalysts shows that a number of carbohydrates can be easily converted to corresponding oxidised forms in the watery phase at high concentrations and levels of purity. Following completion of the laboratory phase and initial positive experience from the pilot phase, this concept will be further extensively tested for cost-effectiveness and implementation at production level.

White biotechnology | In view of decreasing resources and a related increase in raw material and energy prices together with a stricter environmental regulatory framework, sustainable processes and products are increasing in importance. So-called industrial white biotechnology is one of the key future technologies for the 21st. century. Well-known entities in the chemical, pharmaceuticals and food industries have combined to form the "micro-genome research" association to bundle and coordinate industrial activities in this area. Südzucker is a founding member of this initiative. Efficiency in use of micro-organisms in technical processes is to be improved by joint efforts and products arising from, or with the help of, micro-organisms will be developed with new properties.

Bioethanol

Research and development activities in the bioethanol area are concentrated on production-related optimisation of existing processes and developing concepts for new plants. Above all the extension of raw materials and their effects were tested for the CropEnergies AG bioethanol plant at Zeitz. In this connection, various technological steps (such as, for example, variation of enzyme use) were tested and implemented at the production plant.

In connection with development of the design of the annex plant at Zeitz for processing beet syrup, various processes were tested with a view to their technological implementation and cost-effectiveness in the laboratory and at technical level.

A number of research activities were launched to assess the economic use of by-products from the bioethanol process.

Furthermore, research and development was involved with new processes to produce biogas, bioethanol by-products and alternative application opportunities for using bioethanol as an energy source.

Starch

Starch is primarily produced by the Südzucker Group for the food and non-food sectors based on corn, wax corn and potatoes. Südzucker Group is also market leader in the rice-starch sector. Research projects are concentrated on the non-food areas of thickeners for paints, applications in the construction sector, supplies for processing fibreglass wallpaper, glues in the packaging industry as well as additives for the cosmetic industry. Intensifying activities in the food area enabled synergies to be used within the group, leading to development of a number of new products, particularly for use as thickener in fruit preparations. Overall, it was possible to reach new market sectors for starch products through new products, application technology support for customers as well as more economically designed existing processes.

Functional carbohydrates with low blood-sugar response

Traditional nutritional recommendations promote an intake of digestible carbohydrates of more than 50 % of daily energy. The recommended intake of indigestible carbohydrates (fibres) is some 30 g/per day. In addition to these overall recommendations, carbohydrates are nowadays also characterised nutritional-physiologically based on their glycemic properties, i.e. on their effects on blood-sugar levels. This is closely related to the insulin response which they elicitate, and in turn lowers the blood-sugar level. For diabetics and persons predisposed to diabetes this interplay is disturbed when ingesting high glycemic foodstuffs and can lead to well-known symptoms.

Low-glycemic carbohydrates are gaining in public health importance, as the proportion of the population with mild to significant blood sugar and fat metabolism disorders and related risks of cardiovascular diseases in western societies is meanwhile estimated to be one quarter. Furthermore, nutritional scientists are increasingly of the opinion that low-glycemic carbohydrates show preventive physiological effects for the metabolism of healthy people, too. With respect to the current regulatory debate on health claims, low-glycemic effects are thus subject of intensive discussion.

Low-glycemic properties of foodstuffs by maintaining a high proportion of carbohydrates in foods can be achieved in many ways. One possibility is replacing glycemic carbohydrates such as sucrose and starch syrup through slower digestible carbohydrates such as Palatinose™. The full energy in Palatinose™ is released evenly and over a longer period of time, and at the same time less insulin is needed and emitted, which in turn has a beneficial effect on fat-burn.

Further opportunities to reduce glycemic blood reaction are by increasing the share of poorly-digestible carbohydrates such as Isomalt at the expense of rapidly digestible mono- and di-saccharides. This leads also to a reduction in the energy content of foodstuffs, which is desirable in light of the overweight debate. In this case the energy-providing aspects for other body performance are of lesser importance.

There are other approaches in which as applicationably feasible, digestible carbohydrates are replaced by indigestible carbohydrates (inulin products) or carbohydrates for which the intake of glucose is modulated by their viscosity. Also in this case energy-rich ingredients are partly exchangeable. Südzucker Group is investigating here with further research and development projects.

Particularly for Palatinose™ there are opportunities of delayed special effects for physical and mental performance as it is low glycemic and available over a longer period of time. Following Palatinose™ intake the blood-sugar level does not fall substantially below base line, which is typical for glycemic carbohydrates and is reflected in known lower performances. The glycemic and insulinemic properties of Palatinose™ were confirmed and ensured in several studies with different doses. Promising for low-glycemic carbohydrates is also their effects against hunger, promoting of fat-burn and increasing satiety in view of prevention of overweight, body weight control or reducing body-fat. Further human studies with Palatinose™ are being carried out.

The combined use of high-viscosity starch derivatives and cellulose ether as a thickener in paint systems, particularly in dispersion paints, established a new application area for starch products. Intensive application technology in a dispersion paints laboratory specifically constructed for this purpose provides support for the market launch of this newly-developed product; patents have been registered.

Starch products play a decisive role in the construction sector. For example, special starch ether can be used as a processing additive in cement-related systems such as mortar and in various plaster systems (cement, gypsum and synthetic resin), as a fixer in tile glue through to use as an additive for processing cement. Development of innovative starch products for this area - up to now a major part of development activities - will continue to be strengthened, amongst other things also by establishing a specially expanded testing and application laboratory.

Labels are mainly stuck to glass packaging with casein. From an ecological point of view, the packaging industry has been trying for many years to find alternatives based on renewable raw materials. A new type of starch is now being developed with the help of extrusion technology that shows substantially better properties (gluing quality, rheology, stability, etc.) than products currently on the market. The new product was successfully launched on the market.

In addition to developing special starch derivatives for use as setters in fruit preparations, a further emphasis on development work in the fruit area is on bio-starches for specific applications. These new types of starch with bio-quality show special setting and gelling properties which could only be achieved by chemically-modified processes to date.

Product safety

Major task of food safety is the safety assessment of raw materials, processing aids, food contact materials, products and processes in close co-operation with purchasing, production, product development, sales and marketing. It ensures that up-to-date safety standards are taken into account. In addition to a large number of specific assessments, general guidelines on evaluation and documentation for the Südzucker Group are being developed - for the benefit of customer expectations and in view of corporate due diligence. In particular, overall standards for goods of European and non-European origin of and within the Südzucker Group were further developed.

Environment

The rejection of the national german allocation plan by the EU commission and the related risks for reallocation of future emission quantities has triggered a number of additional efforts and discussions in the emission trading area. The aim is to limit the planned reduction of emission rights and save the freedom of decisions in the new allocation by means of a benchmarking process.

A plant was developed by Südzucker to reduce ammonia emissions from carbonation combining reduction of emissions with energy recovery.

Quality management

Südzucker (Südzucker AG, Südzucker Bioethanol GmbH and PALATINIT GmbH) has been a participant in the Qualität und Sicherheit GmbH (QS) system as animal feed producer since 2004. All locations achieved 100 % of maximum possible points.

Due to the requirements of the retail sector and increasingly also of industrial customers, IFS audits have been carried out for several years at specific production locations (Ochsenfurt, Offenau, Offstein, Plattling, Rain and Zeitz) and at PALATINIT GmbH. All locations achieved “high level” at audits in the period from October through December 2006. 20 customer audits were also carried out in the past year, all of which were successful.

Capital expenditures

The group invested € 377.6 million (€ 425.6 million) in property, plant and equipment in 2006/07 as well as € 158.8 million on acquiring additional quotas, of which €139.4 million (€ 176.3 million) related to the sugar segment (excluding additional quotas), € 190.4 million (€ 206.4 million) to the special products segment and € 47.8 million (€ 42.9 million) to the fruit segment. We describe below the significant capital expenditure projects by segment.

Sugar segment

Germany | Capital expenditures for Südzucker AG's 11 factories in the silo sugar production division were one-third lower in 2006/07 compared with the previous year. Major areas were concentrated on optimising plant for sugar production and replacing old plant; capital expenditures were in line with budget.

The improvement in energy use and changes to the vacuum systems for beet-syrup processing in 2006 at the Offenau and Offstein works led to a reduction in energy consumption of 12 %.

The new centrifugal control at the Offenau works and the new pellet press station at the Plattling works improved peak production coverage, thus contributing to smoother operations.

The program of renewing the identification system at beet yards and updating computers at beet and factory yards, started in 2004/05, was continued. Installations at Ochsenfurt (beet yard) and Offstein (factory yard), installed for the first time for the 2006 campaign, worked without problems and improved the flow of information and availability of the system considerably.

In the special sugar products production division a new fondant plant successfully started operations at Ochsenfurt in July 2006. The further refined production technology permits better product adaptation to meet individual customer needs and increases production capacity by 20 %.

Belgium | The main area of capital expenditures at Raffinerie Tirlemontoise related to energy savings and, at the same time, improvement of product quality. The renovated sugar plant at the Tienen works, with its new product cascade, successfully entered operations. The program to optimise end-user product packaging (best-pack program), started in 2003, was continued.

France | At Saint Louis Sucre, two new pellet presses as well as a new coal transportation plant at Guignicourt started operations with expected results.

Plans for optimising and renewing sugar production plant and producing end-user products are far advanced and could be commenced timely.

Poland | Significant capital expenditure projects for Südzucker Polska were completion of the sight and packaging plant, construction of waste-water cleaning plant and modernising the steam house with the installation of an additional generator at Cerekiew. A new 50,000 tonne silo for white sugar has significantly improved warehousing and shipping opportunities.

Austria | At AGRANA, capital expenditures in the sugar area were concentrated on energy saving measures, quality and cost optimisation, increasing operating safety and hygiene standards, as well as improving sugar logistics.

In order to be able to continue to supply traditional markets in eastern Europe after the end of EU sugar exports, AGRANA is currently establishing a raw sugar refinery in Brcko in Bosnia-Herzegovina with SCO Studen & CO Holding, its long-standing sales partner. Construction work is running on time and the sugar refinery will already start operations by the end of 2007.

Special products segment

Bioethanol | The CropEnergies bioethanol plant at Zeitz in Germany is operating within the performance levels expected after the new waste-water plant entered operations. Plans for capacity increases of existing plant to produce alcohol and for the new plant using sugar beet are in line with plan. Construction of a production plant with an annual capacity of up to 300,000 m³ of bioethanol has begun at Wanze, Belgium.

The construction of AGRANA's bioethanol plant at Pischelsdorf, Lower Austria, is running to plan. The larger isoglucose quota under the new sugar market regulation at HUNGRANA, AGRANA's subsidiary in Hungary, enables production to be increased. The expansion of ethanol production from some 50,000 m³ to 160,000 m³ is also in line with plan.

Functional food (ORAFTI/Palatinit/Remy) | The new factory at ORAFTI in Chile entered operations in April 2006 and optimisation of raw material supplies is currently a major area of activity.

Starch | Expansion of the Aschach works to daily processing of 1,000 tonnes of corn has been successfully completed in the AGRANA starch division. A production unit for modified starch (technological products) is currently being built at Gmünd.

Fruit segment

2006/07 was marked by two key capital expenditures in the fruit segment. In the fruit-juice concentrates division a 50 % share was acquired in the Chinese apple-juice concentrates producer Xianyang Andre. Due to full capacity utilisation at the factory, an extension of annual capacity by some 20,000 tonnes of apple-juice concentrate is planned for 2007. In the fruit preparations division construction of a new production facility in Brazil near Sao Paulo was completed, with operations starting in spring 2007.

Personnel

Südzucker Group employed an average of 19,575 (19,903) staff world-wide during 2006/07. These numbers include growth in the special products and fruit segments, whereby the number of employees declined sharply in the sugar segment in view of the reform of the EU sugar market regulation entering into effect in mid-2006, leading to factory closures in Poland, Slovakia and Austria. These measures became necessary in order to maintain our competitive ability under changed overall conditions. The increase in the special products segment is above all due to start of production at the ORAFTI works in Chile and of the bioethanol plant at Zeitz. Inclusion of the joint venture in China and the former DSF Deutsch Schweizerische Früchteverarbeitung GmbH in the fruit segment led to an increase in numbers of employees.

European works council | The European works council, made up of 15 members from eight countries, met in June 2006. Major topics discussed at the meeting included operational and strategic matters with the executive board and an exchange of information amongst each other.

"Building-the-Group" program | A condition for successful development of our group is having involved and highly-qualified staff. The aim of personnel development is thus to establish a corporate culture which, in addition to service-oriented thinking, places value on interdisciplinary co-operation crossing national, segment and corporate borders. A main focus was again placed on measures to integrate staff from individual companies and divisions within the Südzucker Group by means of international programs. A major aspect is to establish an intercultural understanding, strengthen management skills and encourage cross-border networking. Adequate opportunity was also provided to enable members of management to intensively discuss topics from a participant's view. In addition to the international on-boarding program already introduced last year and aimed at staff who have been with the group for up to five years, a group networking program aimed at managers, project managers and experts with at least five years of experience with the group was newly-launched in 2006. Participants in this program also receive intensive insight into the activities of Südzucker Group's divisions as well as strategic group objectives. Internal group communication is also being further developed in order to involve staff more closely and thus also improve efficiency of work processes. A significant part of the Südzucker corporate culture is to appoint management positions from within the group to the extent possible and sensible.

Personnel development/training | Development and training remained a major focus of personnel work in 2006, with the number of traineeships remaining at a high level during 2006/07. There are 243 apprentices learning technical and commercial trades in 13 locations at Südzucker AG, an important contribution to gain talented young people for the company. At the same time, Südzucker sets an example for a high level of social responsibility.

Employee recommendation system | A total of 582 (568) improvement recommendations were submitted to Südzucker AG over the past year, of which 338 (350) received awards.

Safety-at-work | Safety-at-work and health protection remain of great importance at all Südzucker Group's companies. As an integral part of the quality management system, safety-at-work and health protection are part of the corporate culture, make a significant contribution to the personal health of employees and contribute to the group's success. Emphasis on the area of preventative measures lies in carrying out risk analyses, checking working tools and training employees. The success of this bundle of measures is shown in specific numbers, with the number of accidents as well as working days lost due to accidents at an extremely satisfactory low level within the Südzucker Group.

Our thanks | We should like to thank all our staff for their efforts and involvement in 2006/07. The co-operation with works councils at national and international level again demonstrated a high measure of trust and constructive co-operation, for which we should like to thank the members of the work councils.

"I know millions of building blocks for **growth!**"
Isabel Mattern

Your first thought is probably only of those gleaming white sugar cubes. But Südzucker Group has many more building blocks for growth.

We are successfully expanding new divisions in addition to our sugar business – growth is the foundation for success in business, and I want to do my bit.

Sugar segment
Market developments

Global market

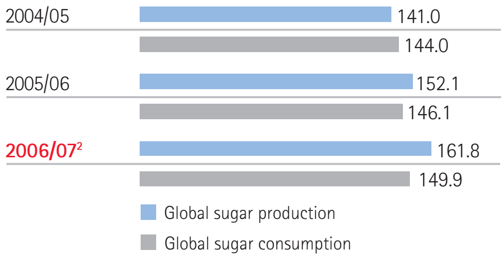
Global market prices | The global market price for white sugar started at US $ 450 per tonne at the beginning of March 2006, rose to almost US $ 500 per tonne in May 2006, but then declined to US $ 340 per tonne by the end of Südzucker's financial year (28 February 2007).

Quantities | During the summer of 2006 it was revealed that global sugar production in the sugar year 2005/06 (1 July 2005 to 30 June 2006) would be some 3 million tonnes higher than originally expected, at 152 million tonnes. At the same time, high global market prices meant that the global increase in consumption remained considerably lower than the expected 2 %, so that world-wide inventories grew by 2 million tonnes to 64 million tonnes.

A further increase of almost 10 million tonnes in global sugar production to 162 million tonnes is expected for the 2006/07 sugar year (1 July 2006 to 30 September 2007; see glossary). With an estimated consumption of 150 million tonnes, a sharp increase in sugar inventories to some 73 million tonnes is expected, almost half of an entire year's consumption.

2005/06 was the last opportunity for the EU to export considerable quantities. Since October 2006 the lost WTO panel case has limited EU exports to a maximum of 1.375 million tonnes per year, whereby the commission decides to what extent this potential export volume can be used by EU sugar producers.

Global sugar production and consumption[1]
1,000 t raw value



[1] F. O. Licht's Europäisches Zuckerjournal No. 8 dated 06.03.07 "Second Estimate of Global Sugar Levels 2006/07".
[2] Estimate.

The gap in supply which the EU has left on the world market was more than offset by increased production from other countries; there was a plus of 10 million tonnes in Asia alone. There is currently only a lack of high-value white sugar, but an increase in capacity at refineries in countries in the Middle East and North Africa will also offset this deficit in the short term.

Global market sugar prices
March 2004 to February 2007

London, white sugar, in US $/tonne, nearest forward trading month

European Union

2005/06 production levy | The production levy for sugar, isoglucose and inulin syrup charged under the old sugar market regulation was fixed for the last time in February 2007. Due to the declassification of 1.8 million tonnes of sugar the final production levy for the 2005/06 sugar year led to a maximum quota of 1.0022 % per tonne, the equivalent of € 6.333 per tonne of A- and B-quota.

EU sugar production for 2006/07 | Based on current estimates, the sugar production from beet in the EU-25 during 2006/07 is 17.6 million tonnes, of which 16.8 million tonnes is from production of 2006 campaign beet and 0.8 million tonnes from amounts brought forward from the 2005/06 sugar year. This represents a decrease of 3.5 million tonnes compared with the previous year, mainly due to cessation of C-sugar exports.

Global markets: Key figures[1]

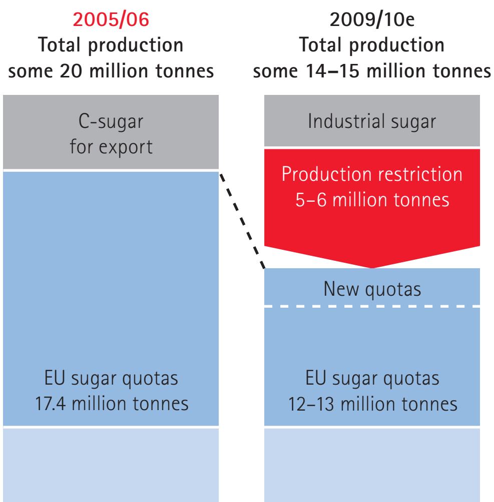
	2006/07[2]	2005/06	2004/05
Beet sugar as a percentage of total production (%)	22.5	26.2	26.4
Inventories at 31 August as a percentage of consumtion (%)	48.8	43.9	42.5

[1] F.O. Licht's Europäisches Zuckerjournal No. 6/8 dated 13.02.07 06.03.07, "Second Estimate of Global Sugar Production/ Levels 2006/07".
[2] Estimate.

Sugar market regulation | The new sugar market regulation, valid until September 2015, entered into force on 1 July 2006. The political objective is to meet the requirements of the WTO and of bilateral agreements such as the "everything-but-arms" initiative and, at the same time, strengthen the competitiveness of the EU sugar sector. A decrease in quota production of 5 to 6 million tonnes of sugar is needed to meet this objective. Significant elements of achieving this are seen by the EU as a reduction in EU sugar and beet prices and the establishment of a restructuring fund for a limited period of time. The restructuring fund is intended to encourage a decrease in EU quota production through voluntary decisions made by individual companies, by which inefficient sugar producers are given the opportunity to return their quotas in exchange for an attractive price.

Sugar market regulation from 2006/07

Quantity changes



Quota return/restructuring fund | The restructuring fund started the 2006/07 sugar year with a return of quotas of 1.5 million tonnes and hence within expectations. The return of quotas for the 2007/08 sugar year (1 October 2007 to 30 September 2008) was 0.7 million tonnes, giving a total 2.2 million tonnes for the first two restructuring years and hence below the EU commission's expectations. The commission's aim is to withdraw a total of 5 to 6 million tonnes of quotas from the market via the fund over the total restructuring phase of four years. Südzucker Group used the fund by returning some 131,000 tonnes of inulin quotas of ORAFTI, the Belgium subsidiary, in 2006/07. Furthermore, Eastern Sugar has returned a total of some 281,000 tonnes of sugar quotas in the 2007/08 sugar year. Saint Louis Sucre, the French subsidiary, has a 49.5 % share in Eastern Sugar.

Quotas | The companies making up the Südzucker Group were allocated unchanged quotas from the old market regulation as from the 2006/07 sugar year. Member states which produced C-sugar in 2004/05 were given the opportunity to acquire a total of up to 1.1 million tonnes of sugar for € 730 per tonne as part of the market regulation reform. Südzucker Group has taken full advantage of this with the acquisition of 0.3 million tonnes.

Preventative market withdrawals 2006/07 | The possibility of preventative market withdrawals as a transitional measure in implementing the sugar market reform was foreseen in order to achieve market stability. That part of a company's production quantities within the quota system exceeding a certain amount is deemed to be withdrawn from the market. This led to 2.5 million tonnes of quotas being temporarily withdrawn from the EU market by the EU in the 2006/07 sugar year. Quotas returned to the fund were considered for the purposes of this preventative market withdrawal measure.

Market withdrawals for 2007/08 | Due to the insufficient return of quotas to the restructuring fund, it is again necessary to reduce production of sugar, iso-glucose and inulin syrup for the 2007/08 sugar year, to relieve the market from the burden of excess quantities. The EU commission reacted with an anticipated market withdrawal in February 2007, before planting began. Quotas already returned to the fund were offset against the withdrawal quantities. The withdrawal percentage will be increased by the commission in autumn 2007 if this reduction proves insufficient.

Industrial sugar | The term industrial sugar has been newly-introduced in the market regulation. This is the quantity of sugar produced and allocated to a specific sugar year which exceeds the quota sugar production and is earmarked for the manufacture of specific items. These include, for example, bioethanol, alcohol, rum and products for the chemical and pharmaceutical industries. This welcome opportunity to produce industrial sugar will be negatively affected in the 2006/07 sugar year by the EU's decision to agree customs-free imports of up to 200,000 tonnes of industrial sugar. Südzucker has some 550,000 tonnes of industrial sugar available from the 2006 campaign. This new market segment will be further used for bioethanol production as well as for chemical and pharmaceutical applications.

EU accession of Romania and Bulgaria | Romania and Bulgaria joined the EU on 1 January 2007. Romania has been allocated a production quota of 109,164 tonnes of white sugar and 13,913 tonnes of iso-glucose from the 2007/08 financial year. The production quota for Bulgaria is 4,752 tonnes of white sugar and 78,153 tonnes of iso-glucose. In addition, Romania has received a refinery quantity of 329,636 tonnes and Bulgaria of 198,748 tonnes of white sugar.

Customs allocations granted to the western Balkan states | As part of the European Community's stabilisation and association treaty, an annual customs-free quantity of 200,000 tonnes of sugar has been agreed with some countries in the western Balkans. This quantity has been divided amongst Albania, Bosnia-Herzegovina, Serbia and Montenegro, and the former Yugoslav Republic of Macedonia. Negotiations with Croatia for an annual customs quantity of 180,000 tonnes of sugar for the 2006/07 financial year were completed in November 2006.

Imports from ACP countries and India | The European commission specified a special customs-free preference quota of raw sugar imports from ACP countries and India of the equivalent of 1.291 million tonnes of white sugar for the 2006/07 sugar year. These imports are normally foreseen for France, Portugal, Great Britain and Finland, the EU's four major refinery countries. The Cotonou agreement of June 2000, in which the EU granted ACP countries preference imports of some 1.3 million tonnes of sugar, expires on 31 December 2007. The EU has committed to having a new basis for its trading relationships in conformity with WTO rules as from 1 January 2008. The aim of the agreement being negotiated is to establish a free-trade zone between the EU and ACP countries and eliminate trading restrictions by both sides on a step-by-step basis. The sugar protocol is also subject to review as part of these negotiations.

WTO-II negotiations | The WTO-II negotiations were officially delayed until further notice on 24 July 2006. At the close of the world economic forum in Davos at the end of January 2007, trade ministers of the world's leading economies called for a speedy and unconditional re-commencement of WTO-II negotiations. Since then, unofficial discussions have taken place at a technical level. The EU has not changed its negotiation position taken in October 2005.

Recovery budget NA-I goods | Sugar processors receive the price difference between the EU and global market price of sugar for products which they market outside the EU so as not to restrict their export opportunities. The EU commission's calculations show that the recovery budget for 2006/07 is entirely adequate.

Sugar segment
Performance of the Südzucker group

The figures for the sugar segment relate to Südzucker AG, Südzucker International, Raffinerie Tirlemontoise, Saint Louis Sucre, AGRANA and AGRANA International in Germany, Belgium, France, Austria, Slovakia, The Czech Republic, Hungary, Moldova and Romania.

Key figures for the sugar segment

		2006/07	2005/06
Revenues	€ million	3,542.8	3,666.0
EBITDA	€ million	412.5	444.3
Depreciation of property, plant and equipment and intangible assets	€ million	(153.2)	(130.9)
Operating profit	€ million	259.3	313.4
Restructuring/ special items	€ million	(108.7)	(39.7)
Goodwill impairment loss	€ million	(482.4)	–
Operating profit (loss) net of restructuring and goodwill impairment loss	€ million	(331.8)	273.7
EBITDA margin	%	11.6	12.1
Operating margin	%	7.3	8.5
ROCE	%	9.6	9.0
Capital expenditures on property, plant and equipment	€ million	139.4	176.3
Capital expenditures on additional quotas	€ million	158.8	–
Capital expenditures on financial assets	€ million	5.3	19.1
Total capital expenditures	€ million	303.5	195.4
Employees		10,885	11,678

The Surafti division, previously assigned to the special products segment, has been newly-positioned and allocated to the sugar segment.

The previous year's figures have been adjusted to improve comparability. As in previous years, the segment also includes the agriculture and animal feed divisions.

For ease of comparison, the campaign figures and sales quantities for the past financial year are divided into those for the group, EU, non-EU countries and country entities.

Sugar production from beet and refining

Group

The geographic area on which sugar beet was planted for the Südzucker Group totalled 444,900 hectares in 2006/07 (483,900 hectares). With an average theoretical sugar yield of 10.6 tonnes per hectare (11.2 tonnes per hectare), a total of 4.24 million tonnes of sugar (4.82 million tonnes of sugar) were processed from 27.5 million tonnes of beet (30.9 million tonnes of beet). Total sugar production, including refining, amounted to some 4.60 million tonnes (5.21 million tonnes). The average campaign period for the group was 86 (90) days.

The changed overall conditions of the sugar market regulation required a decrease in geographic area planted. When combined with the somewhat lower yield per hectare compared with the previous year, production by the EU 27 factories amounted to 116 % of quotas compared with 172 % in 2005/06. The production cuts required led to closure of three factories in 2006/07: Hohenau in Austria, Rimavska Sobota in Slovakia and Łubna in Poland. It was also necessary to resolve in February 2007 on closing the refinery in Marseilles effective 1 October 2008.

Higher energy prices led to increased overall costs. Factories using heavy heating oil or gas were particularly affected, compared with those factories with boiler houses using lignite or coal as their primary energy source.

EU 27

Germany | For Südzucker AG the 2006 campaign year was marked by a decrease of 14.4 % in the area of sugar beet under cultivation to 145,000 hectares (169,400 hectares) and considerable turbulence in weather conditions. Planting was partly delayed and led to an average concentration of 88,000 plants per hectare. Following good weather conditions in the spring, beet growth slowed in almost all areas in July due to unusually dry conditions with high temperatures. Plants had to take advantage of the extensive rainfall in August to survive during a mainly dry autumn lasting through November. The incidence of leaf disease was slightly above average.

Harvesting and transport conditions remained ideal throughout the entire 2006 campaign. Wastage levels were satisfactorily low, at an average of 6.7 % (6.4 %). There was a 24-hour delivery of beet to the Offstein and Ochsenfurt factories during the entire campaign, whereas this round-the-clock concept was tested for deliveries to the Offenau, Plattling, Rain and Regensburg works, limited to only a few weeks. The system introduced for identification using transponders for beet deliveries to Rain, Offstein and Groß-Gerau was also used at the Ochsenfurt works for the 2006 campaign.

The dry autumn limited yields and led to an increase in sugar content as the campaign progressed, with beet yields once again at 63.5 tonnes per hectare (63.5 tonnes per hectare) and sugar content of 17.9 % (18.3 %), with a theoretical sugar yield of 11.3 tonnes per hectare (11.6 tonnes per hectare), so the harvest was average overall. The average campaign at Südzucker AG's 11 factories lasted 76 days (86 days), during which 9.2 million tonnes (10.8 million tonnes) of beet were processed to produce 1.45 million tonnes (1.71 million tonnes) of sugar.

Belgium | The area under cultivation at Raffinerie Tirlemontoise declined only slightly to 56,100 hectares (56,700 hectares). Following good progress in spring, beet plants were negatively affected by the extremely dry summer. Rainfall in August, a higher level of leaf disease and new leaf shoots depressed polarisation to 16.9 % (17.6 %) and led to a theoretical sugar yield of 11.3 tonnes per hectare (12.1 tonnes per hectare), sharply lower than for the previous year. Processing lasted an average 94 days (98 days) and led to sugar production of 0.59 million tonnes (0.63 million tonnes).

France | The area under cultivation at Saint Louis Sucre decreased by 2.2 % to 80,000 hectares (81,800 hectares). Following good beet development in the spring, growth was negatively affected by the dry summer conditions and the high level of rainfall in August depressed polarisation. Following beneficial autumn weather conditions the theoretical sugar yield reached 12.7 tonnes per hectare (13.1 tonnes per hectare). 0.92 million tonnes (0.98 million tonnes) of sugar were produced from 6.3 million tonnes (6.7 million tonnes) of beet with an average campaign lasting 104 (101) days due

Report on 24-hour deliveries

Due to the generally positive experience at the Groß-Gerau, Wabern, Warburg and Zeitz factories, round-the-clock beet deliveries were carried out in 2006 during the entire campaign at the Ochsenfurt and Offstein works and, over a limited test period, at the Offenau, Rain, Regensburg and Plattling works. This was accompanied by active communication and discussions with district authorities and local residents.

Noise-reducing measures were taken at the beet yards such as, for example, the erection of straw barriers and laying down rubber matting on grids. There are advantages for the transport companies as well as for Südzucker. Processing at the beet yard was smoother and inventories can be minimised. In line with the

QS – Ihr Prüfsystem für Lebensmittel

Südzucker's privileged partnership with QS

The partnership between Südzucker AG and QS Qualität und Sicherheit GmbH, established in 2006 to control the quality of sugar beet planting, has been successful.

Südzucker supports compliance with all QS planting guidelines. The QS planting guidelines were sent, with the distribution of sugar beet seed, to every beet farmer, together with a checklist for self-assessment. The checklist also includes requirements set

Ethanol beet

Südzucker is building a further bioethanol plant at the Zeitz sugar factory which will process only beet syrup from an annual 600,000 tonnes of beet. This decision was made under the condition that, before construction begins, raw materials supplies are ensured and fixed delivery supply contracts for a term of five years could be signed to cover at least 80 % of the annual 600,000 tonnes of beet required. Some 9,200 farmers with a total quantity of 1.6 million tonnes of ethanol beet have submitted applications for ethanol beet planting. Due to the excess collective bargaining system, freight rates were adjusted to the prolonged yard opening times. Fixed costs are reduced, half the number of vehicles previously used could be saved, above all due to the absence of non-delivery days, and light articulated vehicles can be used more. These not only have greater capacity and lower fuel consumption, but are also significantly quieter than steel-framed articulated vehicles. Transport quantities are adapted to optimise vehicle capacity. 24-hour deliveries also contribute significantly to easing traffic in the sugar factories' surroundings.

The advantages were so convincing that applications have been made for round-the-clock deliveries to the Ochsenfurt and Rain works in 2007. Approval has already been received for Offstein and Offenau.

out in the sugar beet delivery contract which must be complied with.

For the first time, 80 randomly selected beet farmers in Südzucker's entire geographic area were checked by independent audit institutions during the 2006 campaign. These farmers entirely met requirements for all controls without any objections.

Südzucker's partnership with QS is an important addition to the beet origination documentation launched in 2004 in co-operation with beet farmers associations.

applications, applications are limited to a maximum of 14.4 % of the beet quantities applied for.

In agreement with the association of Süddeutscher Zuckerrübenanbauer e. V. and its state associations, opportunities and risks are divided between farmers and Südzucker. As a result, the price for ethanol beet will vary depending on ethanol revenues. Ethanol beet farmers have a supply commitment to Südzucker from 2007 to 2011. As the new plant will probably start operations in early 2008, only half the annual production of ethanol beet will be required for the 2007 harvest year.

to supply problems. Production, including refining, amounted to 1.06 million tonnes (1.13 million tonnes) of sugar.

Austria | At AGRANA in Austria the area under cultivation fell by 11.8 % to 39,000 hectares (44,200 hectares). Beet growth suffered under the summer heat but benefited regionally in August from extensive rainfall. Dry conditions lasting throughout the autumn resulted in a decrease of beet yields to 63.9 tonnes per hectare (70.9 tonnes per hectare) and above-average polarisation of 17.9 % (17.1 %). The theoretical sugar yield was 11.4 tonnes per hectare (12.1 tonnes per hectare). A total of 0.41 million tonnes (0.49 million tonnes) of sugar was produced from 2.5 million tonnes (3.1 million tonnes) of beet. Following closure of the Hohenau works due to the market regulation, beet was processed at the two remaining factories in a campaign lasting 99 (78) days.

Poland | The area under cultivation for beet at Südzucker Polska fell by 11.4 % to 59,600 hectares (67,300 hectares). Cool May conditions and six weeks of extreme summer dryness, with average temperatures exceeding 30 °C, had a negative effect on plant development. Yields were improved in August by partly extensive rainfall, and a benign autumn followed. Beet deliveries were again optimised with problem-free harvesting, warehousing and transportation of beet under good conditions. The increase in polarisation was permanently dampened by new plant shoots and was considerably lower than for the previous year at 17.4 % (19.2 %). Theoretical sugar yields nevertheless reached 8.5 tonnes per hectare (8.9 tonnes per hectare) and, with an average 84 (95) campaign days, 0.45 million tonnes (0.54 million tonnes) of sugar were produced from 2.9 million tonnes (3.1 million tonnes) of beet. The Łubna factory no longer operated in the 2006 campaign.

Romania| After beet planting was once again started in the previous year at AGRANA International in Romania, the area under cultivation could be considerably expanded in 2006 to 10,000 hectares (3,800 hectares). A July with low levels of rainfall and mild temperatures and a wet August and mild autumn resulted in a theoretical sugar yield of 4.6 tonnes per hectare (3.3 tonnes per hectare) and 0.04 million tonnes (0.01 million tonnes) of sugar was produced from 0.3 million tonnes (0.08 million tonnes) of beet.

The beet campaign lasted 75 (28) days with sugar production, including refining, of 0.26 million tonnes (0.25 million tonnes).

Slovakia | After the closure of the Rimavska Sobota works, the area under cultivation at AGRANA International in Slovakia fell by 25.4 % to 7,000 hectares (9,400 hectares). Following a mild spring with good rainfall, July was unusually hot and dry and was followed by a wet August. The unusually dry autumn weather depressed beet yields to an average of 47.8 tonnes per hectare (55.2 tonnes per hectare). With polarisation at 16.3 % (15.5 %), a theoretical sugar yield of 7.8 tonnes per hectare (8.6 tonnes per hectare) was achieved and 0.05 million tonnes (0.07 million tonnes) of sugar was produced from 0.34 million tonnes (0.52 million tonnes) of beet. The campaign lasted 111 (94) days.

Czech Republic | The area of beet under cultivation at AGRANA International in The Czech Republic decreased by 4.0 % to 12,700 hectares (13,200 hectares). A dry summer with high temperatures depressed beet development, above all in the southern areas. Rainfall in August and September and overall beneficial autumn weather conditions led to average beet yields of 49.1 tonnes per hectare (54.0 tonnes per hectare) and an above-average polarisation of 18.4 % (18.1 %). The theoretical sugar yield was 9.0 tonnes per hectare (9.8 tonnes per hectare). 0.11 million tonnes (0.12 million tonnes) of sugar were produced from 0.62 million tonnes (0.71 million tonnes) of beet. The campaign lasted an average of 77 (87) days.

Hungary | The area of beet under cultivation at AGRANA International in Hungary decreased by 16.8 % to 19,300 hectares (23,300 hectares). There were beneficial weather conditions over the entire growing period, but an above-average dry autumn led to sugar yields stagnating at 51.3 tonnes per hectare (62.4 tonnes per hectare) and polarisation was only slightly increased to an average of 16.7 % (15.6 %) due to new plant shoots and increased cercospora damage. The theoretical sugar yield was 8.5 tonnes per hectare (9.7 tonnes per hectare) and some 0.15 million tonnes (0.21 million tonnes) of sugar were produced from 0.99 million tonnes (1.45 million tonnes) of beet in 70 (99) campaign days.

Non-EU countries

Moldova | The area under cultivation for Südzucker International in Moldova was extended by 7.6 % compared with the previous year to 16,100 hectares (14,900 hectares). After a beneficial spring, beet plant growth was negatively affected by a dry summer. Only at the end of August could extensive rainfall improve the yield situation. A dry autumn, with generally healthy foliage, led to beet weight increasing only slightly and polarisation up to 17.3 % (17.1 %). The theoretical sugar yield was 6.4 tonnes per hectare (6.2 tonnes per hectare) and some 0.08 million tonnes (0.08 million tonnes) of sugar was produced from 0.6 million tonnes (0.5 million tonnes) of beet. The campaign lasted for an average of 73 (64) days.

Sugar sales quantities

Group

Consolidated overall sales quantities of all group companies decreased by 12.7 % to 4,859,900 tonnes (5,564,600 tonnes) of sugar solely due to EU export restrictions in 2006/07. The increase in domestic sales quantities of 5.8 % was more than offset by a reduction in exports of 40 % due to the change in EU conditions.

EU 27

Total consolidated sales quantities of all EU group companies, including industrial sugar, were 12.7 % lower than for the previous year at 4,798,300 tonnes (5,493,500 tonnes) of sugar. The positive growth in quantities sold within the EU was more than offset by a 41 % decrease in exports.

The introduction of the new sugar market regulation also led to a change in the competitive environment and thus caused increased uncertainty rather than providing a clear basis for decision-making for less competitive companies. This was demonstrated by the restrained use of the restructuring fund and sharply increased aggressiveness of individual competitors in their struggle to survive.

This was exacerbated by political considerations in some EU countries, as use of the restructuring fund is linked to factory closures and abandonment of part of agricultural production, with some companies being wholly or partly state-controlled. These factors led to price pressures.

Plans by the EU commission to improve the reform published at the beginning of 2007 provide clear signals which are expected to lead to considerable improvements in the decision-making process in the short term and will clear the market.

Südzucker is prepared for the change in the EU market and is represented in all major markets with its own structures or through efficient sales partners.

A strength which gives us a competitive edge is our special focus on service. We have established or prepared an appropriate infrastructure to be able to also offer our new customers service and security of supply at levels which existing customers have enjoyed for many years. Logistics costs are increasingly gaining in importance as transport distances are lengthening significantly. Water, rail and road transport are in constant competition. The Südzucker sales organisation was expanded by adding an EU-wide distribution team which will in future co-ordinate the increasing stream of goods and control cost optimisation.

The price situation in eastern Europe has recovered well compared with previous years. The announcement of the return of quotas by Eastern Sugar contributed to a calming on the market in the Czech Republic, Slovakia and Hungary. The most competitive markets are currently Italy and Spain. The low-price phase of past years was ended in Italy and the expected partial return of quotas did not materialise in Spain. Many suppliers are nevertheless trying to establish a foothold on the Spanish market, with appropriate consequences for prices.

Germany | Despite satisfactory growth in Germany, total sales volumes at Südzucker AG declined by 16.3 % to 1,476,400 tonnes (1,763,700 tonnes) due to the decrease in exports as a result of the market regulation. Domestic sales volumes could be increased despite the difficult market environment and, including supplies of industrial sugar, grew by 5.4 %. Furthermore, EU sales quantities could be increased by 15.8 %. Exports fell by 52.5 %, as expected.

The growth in sales volumes was achieved by deliveries to the retail and sugar processing industries, above all for alcohol-free drinks, chocolate and ice cream. On the other hand, sales to producers of milk and dairy products and also sugar-based goods were down. Overall, it was possible to place higher quantities on the market compared with the previous year.

The level of sales quantities of liquid sugar, fondant, fructose and other special products could be retained despite difficult market conditions.

Market research institutions confirmed a moderate growth in sugar sales in the retail food and food sector. Südzucker figures followed this trend, particularly for quantities of preserving sugar. However, the increase in value added tax to 19 % at the beginning of 2007 has held back this growth trend.

The continuing concentration process on the customer side led to greater buying power. Hence, the retail sector is further encouraging polarisation between premium and entry-price categories, which in turn explains the increased number of retail brands and premium products offered in the German retail food industry. The noticeable trend of discounters in the previous year of increasingly offering branded products in addition to cheaper no-name and entry-price brands was confirmed in 2006/07. Südzucker's strategy of competently occupying, and expanding in, both segments with sensible concepts has worked well.

The negative trend for traditional home baking has continued, with classical bakery products being increasingly replaced by convenience foods. Sales quantities of cane sugar and brown sugar again continued to grow successfully. Due to the bio-boom in the German retail industry, the demand for bio-sugar was sharply higher than the quantities available. Südzucker has expanded its position as market leader in this segment and is attempting to attract further farmers for planting bio-sugar beet.

New opportunities arising from the sugar market regulation to produce so-called industrial sugar outside the quota system has caused much market debate. In the first year of this new system, pricing of industrial sugar has been very difficult and was not helped by fluctuating world-market prices, which have always been used as a benchmark for this product's raw material costs. Furthermore, some industrial sugar customers are considering abandonment of their European production sites to the benefit of production in the Far East, which would cause the market for industrial sugar to decrease. Südzucker is thus attempting to expand its sales of industrial sugar beyond traditional crystallised sugar and to enter new market segments for sugar products such as for beet syrup.

Internationalisation is also increasing price pressures with our processing industry customers. They sometimes use regional turbulence on sugar markets to achieve European-wide price discounts. However, opportunities also arise from internationalisation, which Südzucker uses with its extended EU-wide presence and a well-organised key-account management system.

Belgium | Total sales volumes for Raffinerie Tirlemontoise were 18.5 % lower than for the previous year at 724,300 tonnes (888,800 tonnes) of sugar. This decrease results from the sharp reduction in exports, with domestic sales increasing by 15.9 %. Whereas supplies to the retail food industry were at previous year's levels, sales volumes to the sugar processing industry, including industrial sugar, were 19,1 % up on the previous year, although these were lower than average. Growth in sales volumes could be achieved in the chocolate industry. Increased sales within the EU of 54 % were offset by a decrease in exports of almost 45 %.

France | Total sales volumes at Saint Louis Sucre were 8.8 % lower than for the previous year, at 1,049,900 tonnes (1,150,800 tonnes) of sugar. Domestic sales were 0.6 % higher, whereby sales to the processing industry including industrial sugar increased by 1.2 % and sales to the retail food industry/food service sector were unchanged from the previous year. Sales volumes to EU customers were up by 15.4 % in 2006/07, with exports sharply down, as is the case for other group companies.

Austria | Total sales volumes at AGRANA sugar decreased by 2.7 % to 459,100 tonnes (471,700 tonnes) of sugar compared with the previous year. Domestic sales increased sharply by 18.2 %, with the sugar processing industry, in particular industrial sugar, up by 27.2 %, and the retail food industry showing a decrease of 5.3 %. Sales within the EU decreased by some 29 % compared with the previous year and exports were substantially below the previous year's level.

Poland | Total sales volumes at Südzucker Polska were 23.9 % down at 444,300 tonnes (583,600 tonnes) of sugar. Domestic sales volumes showed a plus of 7.6 %, with supplies to the sugar processing industry, including industrial sugar, contributing growth of 17 %, but with sales volumes to the retail food industry declining. EU sales and exports also fell.

Romania | Total sales volumes at AGRANA Romania increased by 9.4 % to 291,900 tonnes (266,800 tonnes) of sugar. This growth is solely due to exports arising for the first time again in this year. Domestic sales stabilised at a high level.

Slovakia | AGRANA Slovakia showed sales volumes of 54,700 tonnes (76,000 tonnes) of sugar, 28 % lower than for the previous year. Due to higher sales volumes to the retail trade, domestic quantities increased by 3.6 %, with EU and export deliveries down.

The Czech Republic | AGRANA Tschechien increased sales volumes by 3.5 % to 114,000 tonnes (110,100 tonnes) of sugar compared with the previous year. Due to the decrease in supplies to the sugar processing industry, domestic sales fell by 12.6 %. With a decrease in EU sales volumes, exports rose by 48.5 %.

Hungary | AGRANA Hungary achieved sales volumes of 183,700 tonnes (182,000 tonnes) of sugar, almost 1 % above the previous year's sales. Increased domestic sales volumes of 14.1 % and EU sales volumes of 7,3 % were partly offset by a decline of 13 % in exports.

Non-EU countries

Moldova | Total sales volumes for Südzucker Moldova declined by 13.4 % to 61,600 tonnes (71,100 tonnes) due to the temporary loss of an important sales source. The growth in domestic sales in the previous year could not be continued, but exports rose sharply.

Agriculture

The traditional agriculture division concentrated in 2006 on soil processing, raw materials for ethanol production and technical innovations in planting. The restructuring of Agrar und Umwelt AG, Loberaue following the abandonment of dairy herds was completed by expanding bio-turkey production. Animal feed production achieved its planned results in the first year of operations. Demand for biological animal feed remains high and it is expected that production quantities will increase over the next few years.

Farms suffered from unfavourable weather conditions for crops in 2006. The long period of dry conditions in June and heavy rainfall in August negatively affected grain harvests and growth in sugar beet. Overall, only a below-average grain and sugar beet harvest could be achieved. Lower income from harvest yields could be partly offset by higher prices due to sharp fluctuations in harvest yields throughout the EU.

REKO Erdenvertrieb GmbH

REKO Erdenvertrieb GmbH, founded in 1989, markets high-quality compost and substrate soil for professional and private gardeners at its locations in Regensburg and Plattling.

2006/07 was marked by changed conditions at Regensburg due to the expiry of contracts with Regensburg city. This required restructuring and a new strategic direction for operations. The Plattling operations worked at full capacity due to the increase in foliage delivered. REKO will concentrate more on production of high-quality special soil and offer additional services in order to establish new markets.

Animal feed

Molasses pulp and molasses pulp pellets | Following an extremely weak 2005/06, the market for dried pulp could be stabilised at the beginning of the past year in the expectation of increased market prices and lower molasses pulp pellets production in 2006 due to the market regulation. The market continued to firm up to the summer, whereby the long period of dry weather conditions and subsequent rainfall led to a continued increase in the price of grain. Profiting from this, the entire new harvest production of molasses pulp pellets at Südzucker AG could already be sold by October last year at sharply higher prices than for the previous year. However, production of pellets in the 2006 campaign was almost 20 % lower than for the previous year due to lower production quantities and extremely low beet pulp content.

Sales had also been completed before the end of the financial year in other countries within the group, whereby revenue was at the previous year's level in Moldova and otherwise considerably above that of the previous year.

Beet molasses | Overall, the molasses market tended firmer up to the end of the financial year, whereby the price of cane molasses, the competitive product, fell by more than 10 % since the summer of last year. The main reason is increased availability of cane molasses in export countries such as, for example, Pakistan as bioethanol prices are slightly down in these countries. Further price reductions are to be expected, as extremely good sugar cane harvests are forecast in the Far East.

Despite the somewhat worsened conditions, sales for the 2006 campaign year were extremely good with Südzucker AG's net revenues again substantially above those for the previous year. Sharply higher revenues were achieved compared with the previous year in France, Belgium and Poland, with slightly higher sales in Austria and Moldova. The greatest growth in revenues was in Hungary, The Czech Republic and Slovakia where, in the meantime, it has been possible to raise prices to levels achieved by other countries within the group due to stable market structures.

Bodengesundheitsdienst GmbH (BGD)

BGD carries out soil testing, fertilisation advice for all major plant nutrients, humus testing and analyses of organic fertilisers as well as nutrient comparisons in accordance with the fertilisation ordinance and potato testing in accordance with the official potato ordinance.

25 years of EUF soil testing and fertilisation advice | The aim 25 years ago was to improve the quality of harvest products and protect the environment. This was to be accomplished by adapting fertilisation of sugar beet to meet local conditions.

After testing various fertilisation advisory systems, the process of electro-ultrafiltration (EUF) was launched in agricultural practice in 1982. Südzucker AG's Justus-Liebig laboratory in Rain tested soils for all important plant nutrients. The results form the basis for environmentally-friendly fertilisation. Of particular importance is the quantity of nitrates used, in order to avoid undesired seepage from root-invested soil. Due to the advantages of the process with respect to reliability, practicability and costs, a high level of acceptance was achieved with farmers. Fertilisation costs for sugar beet were lowered, with increased yields and better quality. As a result, the remaining post-harvest nitrate content in the soil is also lower, contributing to saving resources and to environmental protection.

Today, EUF soil examination and fertilisation advice is used for many farming cultures, including wineries and fruit farming. It has proved to be a sustainable instrument for agriculture and the environment.

Micro-nutrients | Within the EUF working group, which is the joint research establishment for soil testing and the environment set up by Südzucker, AGRANA and Raffinerie Tirlemontoise, a new process has been developed which records and measures micro-nutrients such as iron, manganese, zinc and copper. The process was published in the well-known scientific magazine "Journal of Plant Nutrition and Soil Science". Farmers can have their soil tested for micro-nutrients to identify areas with a lack of such nutrients.

Testing for vine viruses | Bodengesundheitsdienst has expanded its testing range to include virus analysis of vines. Only virus-free stock may be used in accordance with the EU vine-stock ordinance. In co-operation with the Bavarian state office for vines and domestic gardens, the virus-free stock of Bavarian vines is tested for viruses.

Eastern Sugar

Südzucker has an investment of almost 50 % in Eastern Sugar BV via Saint Louis Sucre as a joint venture with Tate & Lyle PLC.

Eastern Sugar produced 255,000 tonnes of sugar at five sugar factories in Hungary, The Czech Republic and Slovakia in the past campaign, which are not included in Südzucker Group's production figures. Due to anti-trust regulations, Eastern Sugar could not be included in Südzucker Group's eastern European concept in the past.

Considering the overall conditions under the new market regulation, Eastern Sugar has stopped sugar production and will sell its quota of some 281,000 tonnes to the restructuring fund and thus make a major contribution to market stability in eastern Europe.

Special products segment Development in the divisions

The special products segment includes activities of the bioethanol, Freiberger, functional food (ORAFTI/Palatinit/Remy), PortionPack and starch divisions.

Key figures for the special products segment

		2006/07	2005/06
Revenues	€ million	1,307.5	1,139.3
EBITDA	€ million	180.8	166.7
Depreciation of property plant and equipment and intangible assets	€ million	(66.3)	(57.3)
Operating profit	€ million	114.5	109.4
Restructuring/ special items	€ million	140.8	(12.9)
Goodwill impairment loss	€ million	(98.0)	–
Operating profit net of restructuring	€ million	157.3	96.5
EBITDA margin	%	13.8	14.6
Operating margin	%	8.8	9.6
ROCE	%	8.4	8.7
Capital expenditures on property, plant and equipment	€ million	190.4	206.4
Capital expenditures on financial assets	€ million	27.8	–
Total capital expenditures	€ million	218.2	206.4
Employees		3,966	3,738

Bioethanol

IPO in 2006 | Südzucker has bundled the bioethanol activities of Südzucker Bioethanol GmbH, Zeitz, Germany, BioWanze S.A., Brussels, Belgium, and Bioenergy Loon-Plage S.A.S, Paris, France, into CropEnergies AG, Mannheim. On 28 September 2006 CropEnergies AG placed 25 million new shares from a capital increase as a public offering. With an issue price of € 8.00 per share, CropEnergies achieved gross issue income of € 200 million, giving it a sustained financial basis for further expansion in Europe. The shares were authorised for trading on the prime standard market on the Frankfurt stock exchange on 29 September 2006.

The public offering, excluding pre-emptive rights, saw some 78 % placed with institutional investors and approximately 22 % with private investors in Germany. Südzucker shareholders were granted pre-emptive rights to some 3 million shares. Südzucker remains the majority shareholder in CropEnergies AG following the IPO, with 70.6 % of the shares.

Developments on the world market for ethanol | Worldwide production of ethanol rose by 12.5 % to 50.5 million m^3 (44.9 million m^3) in 2006. 76.7 % of this is used for fuel.

The USA has confirmed its role as largest global producer with an expansion from 16.2 million m^3 to almost 20 million m^3. In contrast, the increase in production in Brazil from 16.1 million m^3 to 16.5 million m^3 is substantially lower.

The increase of 21.6 % in ethanol production in the European Union to 3.4 million m^3 (2.8 million m^3) is mainly due to Germany.

Brazil plays a dominant role in ethanol price movements. The market became less strained during the course of the year, with the price of one-month ethanol declining from some BRL 1,300/m^3 at the beginning of March 2006 to some BRL 900/m^3 in February 2007.

In the USA, prices rose dramatically through July 2006. Due to start of operations of many bioethanol plants and the resulting relaxation of supply, the price of ethanol then fell back sharply in the USA.

Despite the decline in prices in Brazil, price levels in Europe remained stable up to autumn 2006, as almost no imports from Brazil were offered in European harbours due to the more attractive export destination of the USA during this period. Due to the improved supply position in the USA and a drop in the price of oil, the price of bioethanol in Rotterdam fell by the end of the financial year.

World grain market | Based on estimates issued by the U.S. agricultural ministry on 9 February 2007, world-wide grain production in 2006/07 (excluding rice) will be some 2.4 % lower than the previous year's harvest at 1.559 billion tonnes, as well as under the expected consumption of 1.632 billion tonnes, as a result of which there was a sharp increase in the price of grain world-wide in 2006. At the end of the year prices were again in decline, as exaggerated expectations of growth in demand for grain and oil seeds for producing biological fuels did not materialise due to the decline in the price of oil. Furthermore, in Europe, the release of intervention stocks for the European market and the decline in exports due to currency fluctuations dampened prices. Animal feed prices trended in line with grain prices.

Political environment | On 10 January 2007 the EU commission presented an extensive package of measures for a political strategy to combat climate change and improve the security of energy supply.

A core part of this strategy is a faster conversion to energy sources with low CO_2 emissions. The commission aims to require a share of renewable energy sources in total energy production of 20 % by 2020. In order to achieve this it has, amongst other matters, recommended that the use of biological fuels should have a fixed share of at least 10 % of the total fuel market by 2020.

This also requires a change in the EU's fuel quality directive. A recommendation prepared by the EU commission foresees an increase in the share of biological fuels from the current 5 % to 10 % by volume.

The Biological Fuel Quota Law passed in Germany and entering into force on 1 January 2007 includes a mixture requirement for bioethanol based on energy content of 1.2 % for automotive fuel usage, to be increased annually by 0.8 % to 3.6 % by 2010. In addition, the law sets an overall quota for biological fuels for 2009 and 2010 of 6.25 % and 6.75 % of automotive fuels respectively, which will be increased annually by 0.25 %, to 8 % by 2015. Whereas bioethanol used to meet the quotas will be fully subject to fuel tax, bioethanol remains tax-free for the production of E85 through 2015.

Due to these legally-required quotas, alone the need for bioethanol on the German fuel market to meet legally-specified quotas will increase to some 1.5 million m^3 by 2010. This is a five-fold increase over total sales volumes in the fuel sector in 2005.

In Belgium a package of measures to encourage biological fuels was passed on 10 June 2006. As a result, automotive fuels are given a tax break if they have a low content of sulphur and aromatic compounds and a bioethanol content in natural form of at least 7 % by volume. The tax break is only applicable to those energy sources whose biological fuel content originates from licensed entities.

In Austria the EU biological fuel directive was implemented with a mixture requirement, based on energy content, of 2.5 % from 1 October 2005, 4.3 % from 1 October 2007 and 5.75 % of 1 October 2008. This is connected to a tax break as from 1 October 2007 for fuel with a share of biological fuel of at least 4.4 % by volume. At the same time, the bioethanol mixture ordinance entered into force, giving tax breaks to high bioethanol content in fuel mixtures.

The Austrian federal government announced in March 2007 that it aims to achieve the EU recommendation of a 10 % substitution in 2010 and not just in 2020.

In Hungary, a requirement to have a biological fuel content of 4.4 % in fossil fuels is valid from 1 July 2007. An additional tax of 8 % will be levied if this level is not achieved. Currently some 1 % bioethanol is added to fuels in the form of ETBE. As ETBE capacities are limited, a direct addition of bioethanol in fuels is possible in order to achieve the foreseen additive requirements.

CropEnergies AG

CropEnergies AG include Südzucker Bioethanol GmbH, Bio-Wanze S.A. and Bioenergy Loon-Plage S.A.S.

Südzucker Bioethanol GmbH operates a production facility in Zeitz and has produced bioethanol, ProtiGrain® animal feed, steam and electricity since April 2005. BioWanze S.A., founded in 2006, is constructing a plant to produce bioethanol, gluten, protein-based animal feed and electricity at Wanze, Belgium, which will start production in 2008. Bioenergy Loon-Plage S.A.S operates a tank storage plant at Loon-Plage, near Dunkirk, France.

Production | In 2006/07 229,000 m^3 (104,000 m^3) of bioethanol and 218,000 tonnes (97,000 tonnes) of ProtiGrain®, the protein-based animal feed, were produced at Zeitz.

Due to systematic optimisation measures, average daily processing could be constantly improved. In addition to wheat, barley was also continuously processed. Tests to expand raw material input to include triticale, a cross between wheat and rye, and corn were successful. From spring 2007, sugar-based syrup could also be processed to bioethanol.

The sharp increase in raw material prices only had a minor effect on CropEnergies, as a large part of its raw material requirements had been purchased with long-term contracts signed before the price increases.

Quantities of bioethanol | CropEnergies AG almost doubled bioethanol sales quantities, to 238,000 m^3 (122,000 m^3) during the year. Nearly half of bioethanol sales quantities were achieved abroad, whereby sales were made in particular at the large European harbours of Rotterdam and Antwerp.

Production of ETBE, the octane improver, remains the major application of bioethanol in the European fuel sector, although the direct addition of bioethanol has further increased. In addition to producers of ETBE, the customer portfolio includes large oil companies and major medium-sized fuel dealers. CropEnergies has also marketed its own E85 under the CropPower85 brand name since February 2006.

Sales volumes of ProtiGrain® | Sales volumes rose by 154 % to 220,000 tonnes (87,000 tonnes) compared with the previous year due to higher production. ProtiGrain® has established itself as a fixture on the European animal feed market.

BioWanze | The Belgium government has issued production licenses for a total of some 1.5 million m^3 of bioethanol for the period from 1 October 2007 through 30 September 2013, a period of six years. CropEnergies AG received half of these production licenses, or a total of 750,000 m^3, 125,000 m^3 of bioethanol per year, via its Belgium subsidiary BioWanze S. A.

As a result of the tax breaks to which the licenses are linked and which provide a significant competitive advantage compared with non-license suppliers, CropEnergies Group will be the market leader in Belgium. Furthermore, exports can be achieved rapidly and cost effectively due to Wanze's logistically extremely good links to canals and seaways, by which international oil company refineries in Antwerp and Rotterdam can be supplied with bioethanol.

AGRANA bioethanol

Based on experience of bioethanol production in Hungary, AGRANA is building a plant with annual capacity of up to 240,000 m^3 at Pischelsdorf, Austria, which will start operations in autumn 2007. There will be a additive requirement for fuels in Austria as from this date. Capital expenditures amount to some € 125 million.

In order to meet increased demand, AGRANA raised bioethanol capacity of its HUNGRANA subsidiary from 60 m^3 to 150 m^3 per day in April 2006, or some 55,000 m^3 per year. A further increase in annual capacity to some 160,000 m^3 will follow.

Freiberger

Freiberger Group develops, produces and sells chilled and deep-frozen pizzas as well as deep-frozen pastas and baguettes. With a broad range of classical recipes, together with specialities for seasonal, regional and ethnic markets and a total annual production of over 450 million items, Freiberger is currently the largest producer of deep-frozen pizzas in Europe.

The basis for the success of the group is its corporate and production policy of quality, performance, innovation and reliability. With maximum efficiency and sustainable customer focus, such as in the areas of quality and product management, Freiberger offers product solutions based on the individual requirements of its business partners from the commercial, catering and community care sectors.

Freiberger could maintain its position well in 2006/07 despite more difficult market conditions and higher raw material prices. With its modern production facilities at its headquarters in Berlin, in Muggensturm, Baden, in Austria and Great Britain as well as marketing companies in France and Poland, Freiberger is well positioned to take advantage of its growth potential within the EU.

Functional food (ORAFTI/Palatinit/Remy)

World market trends

The growth in functional food demonstrates the interest of the food industry and users in foodstuffs with additional health applications. The Isomalt, inulin and rice derivative ingredients produced by the functional food division meet market requirements for natural foodstuffs, clean labelling, quality improvements and roughage with pre-biotic properties.

The need for these products is increasing continuously world-wide. Growth over the next few years is expected above all from Europe, USA and Latin America. The positive prospects for this market have been noted by other producers, with the result that increased competition can be observed in all regions.

Palatinit

The major thrust of activities in 2006/07 was the positioning of the two new products, Palatinose™ in the drinks market and galenIQ™ in the pharmaceutical industry, as well as maintaining market leadership for Isomalt in a significantly tougher international competitive environment.

Palatinose™ | We successfully launched Palatinose™ on the market. Just a few months after the launch of this new food additive, well-known national and international producers have started marketing innovative drinks containing Palatinose™. Based on the advantages of this new form of carbohydrate, these products are primarily fitness and wellness drinks as well as specific nutrients for athletes.

Palatinose™ is the only low-glycemic sugar with an additional energy booster in the form of glucose and is thus particularly interesting for athletes and active consumers. The results of scientific studies with athletes showed that Palatinose™ also improves body-fat burn. In view of an increasing number of overweight persons and a growing trend towards healthy sports, Palatinose™ catches the interest of a broad range of consumers. Producers can optimise the nutritional profile of their products with Palatinose™ and gain a competitive advantage by means of product differentiation.

Isomalt | Although, as in previous years, the chewing gum and confectionery market is subject to increased consolidation, Isomalt has achieved a slight but continuous growth. Furthermore, consumer questionnaires show a broad acceptance of sugar-free confectionery and further potential that we will take advantage of in future together with producers of sugar-free confectionery. Improved productivity could only partly offset the increase in raw material and energy prices.

We are securing the long-term market importance of Isomalt and Palatinose™ by launching products, particularly at European level. The current "EU Health Claims" debate contains risks as well as opportunities. Palatinit is thus increasing its investment in active positioning of its own products supported by further scientific studies, a process which has already been successful in the past and, in view of an increasingly regulated foodstuffs market, for which there is no realistic alternative.

galenIQ™ | For galenIQ™, the new pharmaceutical transmitter medium, all the conditions were met for attaining production standard in accordance with international measures (GMP-IPEC). This division, which we intend to expand over the long-term, also met with significant global customer interest with initial projects. In addition to further product developments and continuous expansion of pharmaceutical expertise, future activities will centre on expanded communication. The aim is to position galenIQ™ on the market as the standard optimal cost-beneficial transmitter medium of non-animal origination.

ORAFTI Group

The ORAFTI Group successfully operates in the food ingredients division with nutritional-specific and functional chicory-based products.

In connection with the reform of the EU sugar market regulation Südzucker decided to close its activities with inulin fructose prepared from chicory and to sell the production quota to the restructuring fund.

Inulin | ORAFTI Group achieved double-digit growth, whereby this expansion was mainly due to fruit preparations. Multinational companies show increased interest in the physiological advantages of Beneo™ and its product opportunities, particularly connected to increased intake of calcium in the body.

The range of products using Beneo™ as an additive was further increased. More than 200 products with our Beneo™ logo on the package are sold in more than 20 countries world-wide. Many producers have expanded their product range with items containing Beneo™, as it has been demonstrated that this product provides added value.

ORAFTI supports its customers globally through scientific studies, advisory competence in the area of food/health and supporting product PR. A new scientific breakthrough was the finding that Beneo™ controls appetite and food intake in adults as well as body-weight increase in adolescents. Further detailed disclosures about the specific properties and new applications of Beneo™ are explained in more detail in the research and development section of this annual report.

The opening of the ORAFTI factory in Chile demonstrates the success of our technological strategy, although the first ORAFTI campaign was negatively affected by raw materials and harvest problems, which were nevertheless resolved by remedial steps taken.

Bio-based chemicals | ORAFTI was able to successfully further develop its bio-based chemicals division with products based on the surface-based product properties of inulin derivatives. The major product is Inutec™ SP1; the entire product line is used in the cosmetics, cleaning fluids and surface coatings sectors.

Remy

Remy, the Belgium company, could achieve double-digit growth rates and improve its market position with its rice derivatives. The new factory in Italy already optimised capacity utilisation in its first year of operations. Also the new "high care" baby food line for the production of sterile rice-based starch and rice-flour was successfully tested by the large baby milk producers, with initial sales already being recorded.

Remy could achieve a market breakthrough with the production of gluten-free noodles with various rice-flour qualities. Mozzarella substitute products are also manufactured with an up to 30 % share of "clean label" rice-based starch instead of casein.

From a geographic point of view, the strongest growth was in Poland, USA and Italy.

In August 2006, rice was confronted with genetic technological problems. U.S. rice containing genetically modified rice which had not been released for import had been imported unnoticed for a number of months. This resulted in additional controls and measures imposed on the entire rice division throughout Europe, leading to unforeseen costs. In addition, a lack of raw rice on the European market and sharply lower imports from the USA increased raw material costs.

PortionPack Europe

PortionPack Europe group is a specialist in the development, production and marketing of high-quality portion packs for the food and non-food sectors. Sales channels include the out-of-home market (hotels, restaurants, catering), industrial (contract packing), the retail food industry and the advertising/promotion sectors. In a market environment marked by strong competitive pressures, PortionPack Europe group was able to maintain its position as European market leader well.

Starch

Südzucker Group's corn-based and potato-based starch activities are carried out by AGRANA. Rice-based starch products are allocated to the functional food division. The starch activities of AGRANA in Austria, Hungary and Romania are co-ordinated by AGRANA Stärke GmbH.

Austria | There is an EU quota system for potato-based starch which is to remain unchanged for 2007/08 and 2008/09. For total starch sales volumes (potato-based and corn-based) the growth achieved in the previous year could be continued, with an increase of 12 % to 441,000 tonnes (395,500 tonnes). This increase was possible due to the expansion of corn processing capacity as well as entering new markets and market niches. In addition, the product mix strategy was continued resolutely, above all by expanding sales of special starches with higher value-added.

In addition to the main business with starch for the food and non-food sectors, AGRANA has processed bio-starch, bio-sweetener products and bio-potato products from potato-based and corn-based starch from biological farms for more than ten years. AGRANA is deemed to be a pioneer in Europe for bio-starch products and GM-free starch products. With over 90 % of these products being exported, major markets are the EU, Switzerland, North America and south-east Asia.

Hungary | HUNGRANA in Hungary produces corn starch, isoglucose and bioethanol. It is jointly owned by AGRANA Stärke GmbH and Szabadegyházai Szolgáltató es Vagyonkezelö Kft, a subsidiary of Tate & Lyle and ADM.

Expansion of corn processing capacity to 1,500 tonnes per day (1,200 tonnes per day) and bioethanol production to 150 m^3 per day was completed in 2006/07. In connection with the reform of the EU sugar market regulation, the isoglucose quota was increased to some 180,000 tonnes in 2007/08. In order to take advantage of another increase in the isoglucose quota to 218,927 tonnes in 2008/09 and to raise alcohol production capacity to 450 m^3 per day, corn processing capacity will be expanded to 3,000 tonnes per day.

Romania | Tandarei, the corn-based starch factory, increased its corn-based starch sales quantities to some 16,000 tonnes (11,800 tonnes) in 2006/07 and successfully defended its substantial market share of starch and glucose. Capital expenditures served mainly to ensure the supply of raw materials and make savings in energy costs.

Fruit segment
Development in the divisions

AGRANA indirectly holds all investments in the fruit segment via AGRANA Juice & Fruit Holding GmbH. Co-ordination and operational management are carried out through both divisional holding companies, AGRANA Fruit S.A. (fruit preparations) and AGRANA Juice GmbH (fruit-juice concentrates).

Key figures for the fruit segment

		2006/07	2005/06
Revenues	€ million	914.6	541.2
EBITDA	€ million	88.5	57.7
Depreciation of property, plant and equipment and intangible assets	€ million	(42.9)	(30.5)
Operating profit	€ million	45.6	27.2
Restructuring/special items	€ million	–	–
Goodwill impairment loss	€ million	–	–
Operating profit net of restructuring	€ million	45.6	27.2
EBITDA margin	%	9.7	10.7
Operating margin	%	5.0	5.0
ROCE	%	8.0	5.8
Capital expenditures on property, plant and equipment	€ million	47.8	42.9
Capital expenditures on financial assets	€ million	29.3	197.2
Total capital expenditures	€ million	77.1	240.1
Employees		4,724	4,487

Restructuring of the fruit segment with Atys, DSF, Steirerobst, Vallø Saft and Wink, the fruit companies acquired since 2003, has been completed and all companies within the fruit segment have a uniform market image, jointly using the AGRANA brand name. In addition to improved customer focus, synergy effects are being achieved in the purchasing, administration, research and development and marketing areas.

The dynamic growth of fruit preparations and fruit-juice concentrates over the past few years could be resolutely continued. AGRANA acquired 50 % of the Chinese Xianyang Andre Juice Co. Ltd., which produces apple-juice concentrates, in June 2006. Construction of a new fruit preparations factory at Cabreuva, São Paulo, Brazil began in September 2006, with high-value fruit preparation products for the Brazilian dairy industry being produced there since spring 2007.

AGRANA has further improved internal quality management and supplier certification in order to optimise product quality and customer satisfaction. The main objective was to be able to track the fruit directly back to the producer.

AGRANA fruit (fruit preparations) | AGRANA is the leading global producer of fruit preparations for the dairy, bakeries and ice cream industries. Its leading position on world markets could be maintained through continuing organic growth. Production is carried out at 26 locations.

In addition to strategically important growth markets in central and eastern Europe, Asia and Latin America, AGRANA continues to be successful in highly-developed and high-volume dairy markets in western Europe and North America as well as being well positioned in Africa and Australia/Oceania. These markets require constant innovation and technological leadership.

AGRANA juice (fruit-juice concentrates) | AGRANA is Europe's leading producer of apple-juice concentrates. Some 7 % annual growth rates are expected for fruit-juices world-wide to 2008, led by eastern Europe (+12 %) and Asia (+31 %), both important growth markets. AGRANA has a presence in both these markets.

AGRANA supplies the highly-specialised western Europe fruit-juice industry and serves the growing demand for apple-juice and berry-juice concentrates in the CEEC markets with its ten fruit-juice concentrate factories in central and eastern Europe. AGRANA is the first European fruit-juice concentrates producer to enter the largest global raw materials market for processing apples with its joint venture in China.

The price of sour apple-juice concentrate has remained stable in comparison with the previous year, whereas sweet apple-juice concentrate showed a price increase, mainly due to increased demand from the fruit-juice processing industry, which uses new recipes and mixes, above all in the North American and Asian markets, prefering sweet concentrates and hence making up for shortages of orange-juice concentrate.

Income statement

1 March 2006 to 28 February 2007

€ million	Note	2006/07	2005/06
Revenues	(6)	**5,764.9**	**5,346.5**
Change in work in progress and finished goods inventories and internal costs capitalised	(7)	75.8	(45.5)
Other operating income	(8)	273.1	80.3
Cost of materials	(9)	(3,350.8)	(3,318.9)
Personnel expenses	(10)	(708.2)	(656.5)
Depreciation	(11)	(348.5)	(237.1)
Goodwill impairment loss	(12)	(580.4)	0.0
Other operating expenses	(13)	(1,254.8)	(771.4)
Income (loss) from operations	(14)	**(128.9)**	**397.4**
Income from associated companies	(15)	0.7	11.4
Financial income	(16)	47.8	53.4
Financial expense	(16)	(146.8)	(134.0)
Earnings (loss) before income taxes		**(227.2)**	**328.2**
Taxes on income	(17)	(18.8)	(23.7)
Net earnings (loss) for the year		**(246.0)**	**304.5**
of which attributable to Südzucker AG shareholders		(326.6)	242.2
of which attributable to hybrid equity capital		22.8	14.4
of which attributable to other minority interest		57.8	47.9
Earnings (loss) per share (€/share)	(19)	**(1.72)**	**1.36**

Cash flow statement

1 March 2006 to 28 February 2007

€ million	Note	2006/07	2005/06
Net earnings (loss) for the year		(246.0)	304.5
Depreciation and amortisation of intangible assets, property, plant and equipment and other investments	(11), (12)	943.5	236.9
Decrease (–) in non-current provisions and deferred tax liabilities		(16.2)	(2.6)
Other income not affecting cash		(127.3)	(11.6)
Gross cash flow from operating activities		**554.0**	**527.2**
Gain on disposals of items included in non-current assets and of securities		(12.4)	(22.7)
Decrease (–) in current provisions		(57.8)	(137.8)
Increase (–) in inventories, receivables and other current assets		(78.0)	(1.6)
Increase (+)/decrease (–) in liabilities (excluding financial liabilities)		459.8	(51.8)
Change in working capital		324.0	(191.2)
I. Net cash flow from operating activities		**865.6**	**313.3**
Capital expenditures on property, plant and equipment and intangible assets	(21), (22)	(536.4)	(425.6)
Acquisition of, and investments in, non-current financial assets	(23)	(62.4)	(216.3)
Capital expenditures		**(598.8)**	**(641.9)**
Cash received on disposals of non-current assets		45.2	79.8
Cash paid (–)/received (+) on the purchase/ sale of securities in current assets		(49.5)	158.3
II. Cash flow from investing activities		**(603.1)**	**(403.8)**
Proceeds from issue of hybrid capital	(26)	0.0	683.9
Capital increases	(26)	209.4	205.1
Dividends paid		(162.8)	(117.9)
Receipt (+)/repayment (–) of financial liabilities		59.9	(353.7)
III. Cash flow from financing activities		**106.5**	**417.4**
IV. Change in cash and cash equivalents (total of I., II. and III.)		**369.0**	**326.9**
Change in cash and cash equivalents			
due to exchange rate changes		(2.4)	1.1
due to changes in entities included in consolidation		4.8	20.4
Increase (+) in cash and cash equivalents on the balance sheet		**371.4**	**348.4**
Cash and cash equivalents at the beginning of the year		458.9	110.5
Cash and cash equivalents at the end of the year		**830.3**	**458.9**

Balance sheet

28 February 2007

Assets

€ million	Note	28.02.2007	28.02.2006
Intangible assets	(21)	1,340.3	1,794.7
Property, plant and equipment	(22)	2,343.5	2,319.4
Shares in associated companies	(23)	69.1	77.2
Other investments and loans	(23)	132.0	179.1
Securities	(23), (30)	27.9	26.8
Receivables and other assets		7.7	5.1
Deferred tax assets	(17)	30.4	75.5
Non-current assets		**3,950.9**	**4,477.8**
Inventories	(24)	2,088.7	2,000.8
Trade receivables and other assets	(25)	894.2	894.7
Current tax receivables		59.4	46.2
Securities	(30)	108.4	47.2
Cash and cash equivalents	(30)	830.3	458.9
Current assets		**3,981.0**	**3,447.8**
Total assets		**7,931.9**	**7,925.6**

Liabilities and shareholders' equity

€ million	Note	28.02.2007	28.02.2006
Subscribed capital		189.4	189.4
Capital reserves		1,137.6	1,137.6
Revenue reserves		779.6	1,249.7
Equity attributable to shareholders of Südzucker AG		*2,106.6*	*2,576.7*
Hybrid equity capital		683.9	683.9
Other minority interest		571.4	472.2
Shareholders' equity	(26)	**3,361.9**	**3,732.8**
Provisions for pensions and similar obligations	(27)	398.9	395.6
Other provisions	(28)	176.8	142.2
Non-current financial liabilities	(30)	1,518.8	1,429.4
Other liabilities	(29)	20.8	26.7
Deferred tax liabilities	(17)	249.4	349.3
Non-current liabilities		**2,364.7**	**2,343.2**
Other provisions	(28)	151.5	208.1
Current financial liabilities	(30)	258.8	280.3
Trade payables and other liabilities	(29)	1,767.9	1,304.2
Current tax liablilities		27.1	57.0
Current liabilities		**2,205.3**	**1,849.6**
Total liabilities and shareholders' equity		**7,931.9**	**7,925.6**

Changes in shareholders' equity

1 March 2006 to 28 February 2007

€ million	Subscribed capital	Capital reserves	Other revenue reserves	Fair value reserve	Accumulated foreign currency translation differences	Total revenue reserves	Equity of Südzucker shareholders	Hybrid capital	Other minority interest	Total shareholders' equity
1 March 2005	**174.8**	**951.3**	**1,061.8**	**(5.4)**	**8.9**	**1,065.3**	**2,191.4**	**0.0**	**546.2**	**2,737.6**
Net earnings for the year			242.2			242.2	242.2	14.4	47.9	304.5
Distributions			(96.1)			(96.1)	(96.1)	(14.4)	(21.8)	(132.3)
Capital increase	14.6	186.3				0.0	200.9	683.9	4.2	889.0
Exchange rate changes					25.8	25.8	25.8		10.1	35.9
Other changes			1.8	10.7		12.5	12.5		(114.4)	(101.9)
28 February 2006/ 1 March 2006	**189.4**	**1,137.6**	**1,209.7**	**5.3**	**34.7**	**1,249.7**	**2,576.7**	**683.9**	**472.2**	**3,732.8**
Net loss for the year			(326.6)			(326.6)	(326.6)	22.8	57.8	(246.0)
Distributions			(104.1)			(104.1)	(104.1)	(22.8)	(21.8)	(148.7)
Capital increase						0.0	0.0		209.4	209.4
Exchange rate changes					(42.4)	(42.4)	(42.4)		(6.4)	(48.8)
Other changes			(1.3)	4.3		3.0	3.0		(139.8)	(136.8)
28 February 2007	**189.4**	**1,137.6**	**777.7**	**9.6**	**(7.7)**	**779.6**	**2,106.6**	**683.9**	**571.4**	**3,361.9**

Further disclosures on shareholders' equity are included in note (26) of the notes to the consolidated financial statements.

Notes to the consolidated financial statements for the financial year from 1 March 2006 to 28 February 2007

Segment reporting

1. Business segments

€ million	2006/07				2005/06			
	Group	Sugar	Special products	Fruit	**Group**	Sugar	Special products	Fruit
Third-party revenues	**5,764.9**	3,542.8	1,307.5	914.6	**5,346.5**	3,666.0	1,139.3	541.2
EBITDA	**681.8**	412.5	180.8	88.5	**668.7**	444.3	166.7	57.7
Depreciation of property, plant and equipment and intangible assets	(262.4)	(153.2)	(66.3)	(42.9)	(218.7)	(130.9)	(57.3)	(30.5)
Operating profit	**419.4**	259.3	114.5	45.6	**450.0**	313.4	109.4	27.2
Restructuring costs and special items	32.1	(108.7)	140.8	0.0	(52.6)	(39.7)	(12.9)	0.0
Goodwill impairment loss	(580.4)	(482.4)	(98.0)	0.0	0.0	0.0	0.0	0.0
Income (loss) from operations after special items	**(128.9)**	(331.8)	157.3	45.6	**397.4**	273.7	96.5	27.2
Segment assets	**6,674.4**	4,217.7	1,744.1	712.6	**6,985.2**	4,657.1	1,662.1	666.0
Segment liabilities	**2,515.9**	2,081.0	317.2	117.7	**2,076.8**	1,739.5	219.8	117.5
Capital employed	**4,648.7**	2,709.1	1,369.4	570.2	**5,221.3**	3,491.3	1,258.0	472.0
EBITDA margin	**11.8 %**	11.6 %	13.8 %	9.7 %	**12.5 %**	12.1 %	14.6 %	10.7 %
Operating margin	**7.3 %**	7.3 %	8.8 %	5.0 %	**8.4 %**	8.5 %	9.6 %	5.0 %
Return on capital employed	**9.0 %**	9.6 %	8.4 %	8.0 %	**8.6 %**	9.0 %	8.7 %	5.8 %
Expenditures on property, plant and equipment and intangible assets excluding goodwill	377.6	139.4	190.4	47.8	425.6	176.3	206.4	42.9
Acquisition of additional quotas	158.8	158.8	0.0	0.0	0.0	0.0	0.0	0.0
Acquisition of, and investments in, non-current financial assets	62.4	5.3	27.8	29.3	216.3	19.1	0.0	197.2
Total capital expenditures	**598.8**	303.5	218.2	77.1	**641.9**	195.4	206.4	240.1
Employees	**19,575**	10,885	3,966	4,724	**19,903**	11,678	3,738	4,487

Reconciliation of segment assets and liabilities

€ million	28.02.2007	28.02.2006
Total assets	**7,931.9**	7,925.6
Shares in associated companies	(69.1)	(77.2)
Other investments and loans	(132.0)	(179.1)
Securities (non-current)	(27.9)	(26.8)
Securities (current)	(108.4)	(47.2)
Cash and cash equivalents	(830.3)	(458.9)
Deferred tax assets	(30.4)	(75.5)
Current income tax receivables	(59.4)	(46.2)
Other assets	0.0	(29.5)
Segment assets	**6,674.4**	6,985.2
Total liabilities	**7,931.9**	7,925.6
Shareholders' equity	(3,361.9)	(3,732.8)
Financial liabilities	(1,777.6)	(1,709.7)
Deferred tax liabilities	(249.4)	(349.3)
Current income tax liabilities	(27.1)	(57.0)
Segment liabilities	**2,515.9**	2,076.8

2. Geographic segments

€ million	2006/07	2005/06
Third-party revenues		
Germany	1,687.1	1,283.8
Other EU 27	3,604.1	3,761.6
Other countries	473.7	301.1
	5,764.9	**5,346.5**
Segment assets		
EU 27	6,182.5	6,768.0
Other countries	491.9	217.2
	6,674.4	**6,985.2**
Expenditures on property, plant and equipment and intangible assets excluding goodwill		
EU 27	319.0	302.5
Other countries	58.6	123.1
	377.6	**425.6**

General

(1) Principles of preparation of the consolidated financial statements

The consolidated financial statements of Südzucker AG for 2006/07 have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), London, and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC), as to be applied in the EU, as well as in accordance with statutory commercial requirements as set out in § 315a para. 1 of the German Commercial Code (HGB). The financial statements include the income statement, cash flow statement, balance sheet and statement of changes in shareholders' equity. The notes to the financial statements also include segment information. Certain items in the balance sheet and income statement have been combined in order to improve the clarity of presentation. These items are shown separately and described in the notes to the financial statements. The income statement has been classified using the nature of expense method. The consolidated financial statements have been prepared in euros and, unless otherwise indicated, all amounts are disclosed in millions of euros (€ X.X million).

Those standards to be applied for the first time this year being IFRS 6 (Exploration for and Evaluating of Mineral Resources), IAS 21 (Effects of Changes in Foreign Exchange Rates: Net Investment in a Foreign Operation), IFRIC 4 (Determining whether an Arrangement contains a Lease), IFRIC 6 (Liabilities from Participating in a Specific Market) and the changes to IAS 19 (Employee Benefits) and IAS 39 (Financial Instruments), have no, or only insignificant, effect on the consolidated financial statements. IFRS 7 (Financial Instruments: Disclosures) and IAS 1 (Presentation of Financial Statements: Shareholders' Equity Disclosures), which are to be considered for the first time in 2007/08, will lead to additional disclosures. IFRS 4 (Insurance Contracts) to be applied for the first time in 2006/07 and IFRIC 5 (Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds) relate to matters which are not relevant to the Südzucker Group. This also applies to IFRIC 7 (Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies) and IFRIC 8 (Scope of IFRS 2), to be applied for the first time in 2007/08 respectively. We do not expect any significant effects on the consolidated financial statements from the first-time application in 2007/08 of IFRIC 9 (Reassessment of Embedded Derivatives).

(2) Companies included in consolidation

In addition to Südzucker AG, all domestic and foreign subsidiaries in which Südzucker AG has direct or indirect financial control are **fully consolidated** in the consolidated financial statements. 179 (177) companies were included in the consolidated financial statements for the year ended 28 February 2007. 13 companies have been included in the consolidated financial statements for the first time. 9 companies were merged in 2006/07 and 2 companies are no longer part of the Group.

Südzucker has bundled the bioethanol activities of Südzucker Bioethanol GmbH, Zeitz, Germany, BioWanze S. A., Brussels, Belgium, and Bioenergy Loon-Plage S. A. S., Paris, France, into CropEnergies AG, Mannheim. On 28 September 2006 CropEnergies AG placed 25 million new shares from a capital increase as a public offering. With an issue price of € 8.00 per share, CropEnergies achieved gross issue receipts of € 200 million, giving it a sustained financial basis for further expansion in Europe. The shares were authorised for trading on the prime standard market on the Frankfurt stock exchange on 29 September 2006. The public offering, excluding pre-emptive rights, saw some 78 % placed with institutional investors and approximately 22 % with private investors in Germany. Südzucker shareholders were granted pre-emptive rights to some 3 million shares. Südzucker remains the majority shareholder in CropEnergies AG following the IPO, with 70.6 % of the shares.

Ryssen Group, Marconne-Hesdin, France, now a wholly-owned subsidiary of Saint Louis Sucre S.A., was fully consolidated for the first time as from the beginning of the second quarter of 2006/07; previously, the 50 % holding in Ryssen Group was included using the equity method. Acquisition costs incurred to purchase the remaining shares as part of the expansion of our bioethanol activities totalled € 14.8 million.

Following completion of restructuring in the fruit segment, the financial years of all entities in this segment were changed from the calendar year to the end of February, Südzucker Group's financial year-end. The fruit entities are thus included in these consolidated financial statements for fourteen months. In 2005/06, Atys Group was only included for 9 months (April 2005 through December 2005) and DSF Deutsch-Schweizerische Früchteverarbeitung GmbH was only included with its balance sheet at the end of the year; for the first 3 months Atys Group was included using the equity method.

The effects on the consolidated financial statements of the change in companies consolidated are as follows:

€ million	First-time companies	
28 February	**2007**	2006
Non-current assets	22.8	139.4
Inventories	*13.0*	*65.9*
Receivables and other assets	*21.3*	*102.8*
Cash and cash equivalents and securities	*15.6*	*34.3*
Current assets	49.9	203.0
Total assets	**72.7**	**342.4**
Shareholders' equity	21.2	116.8
Non-current liabilities	18.6	126.7
Current liablilities	32.9	98.9
Total liabilities and equity	**72.7**	**342.4**
Revenues	93.1	334.1
Earnings for the year	2.4	17.1

The effects of de-consolidations were insignificant.

The **proportionate consolidation** method is now used for 4 (2) joint ventures. Xianyang Andre Juice Co. Ltd., China, a 50 % joint venture, operating in the apple-juice concentrates production business, was acquired during 2006/07 and is included using the proportionate consolidation method.

€ million	Proportionately consolidated companies	
28 February	**2007**	2006
Non-current assets	47.4	21.5
Inventories	*17.5*	*6.0*
Receivables and other assets	*16.6*	*8.2*
Cash and cash equivalents and securities	*0.9*	*1.8*
Current assets	35.0	16.0
Total assets	**82.4**	**37.5**
Shareholders' equity	42.4	22.6
Non-current liabilities	1.0	0.8
Current liabilities	39.0	14.1
Total liabilities and equity	**82.4**	**37.5**
Revenues	72.8	67.4
Earnings for the year	16.3	18.4

The **equity method** was used for 8 (9) companies. Following an increase in the holding in Compagnie Financière de l'Artois S.A., France to 100 %, it has been fully consolidated since the second quarter of 2006/07 and hence is no longer included in the Südzucker consolidated financial statements using the equity method.

€ million	Companies included at equity	
28 February	**2007**	2006
Non-current assets	57.2	106.9
Inventories	*99.0*	*108.4*
Receivables and other assets	*204.0*	*60.7*
Cash and cash equivalents and securities	*3.3*	*18.3*
Current assets	306.3	187.4
Total assets	**363.5**	**294.3**
Shareholders' equity	154.8	143.5
Non-current liabilities	2.1	8.4
Current liabilities	206.6	142.4
Total liabilities and equity	**363.5**	**294.3**
Revenues	262.2	467.7
Income from associated companies	0.7	11.4

(3) Consolidation methods

The equity consolidation has been made using the purchase method, by which acquisition cost is set off against the relevant share of the subsidiary company's equity at the time of acquisition. Any difference has been allocated to assets insofar as their fair values differed from carrying values at that time. Any remaining difference (goodwill) is initially included in intangible assets. As set out in IFRS 3 (Business Combinations), goodwill is not subject to annual amortisation over its useful life, but is subject to an impairment test at least annually (impairment-only approach). Investments in associated companies are included in the consolidated financial statements using the equity method as from their date of acquisition or when IAS 28 (Investments in Associates) is to be applied. Upon acquisition of additional shares in fully-consolidated subsidiaries, any resulting goodwill arising for each block of shares acquired is also recognised in intangible assets. Negative goodwill arising from initial consolidation and from the acquisition of additional shares are recorded as financial income in the income statement. This amounted to € 0.1 million (€ 2.9 million) in 2006/07. Gains and losses arising from issuing new shares in subsidiaries to third parties and which reduce the group's percentage holding (dilution gains and losses) are recorded in the income statement within other operating income or expense.

Intercompany revenues, expenses and income and all receivables, liabilities and provisions between consolidated entities have been eliminated. Intercompany profits included in non-current assets and inventories and arising from intercompany transfers are eliminated.

(4) Foreign currency translation

As set out in IAS 21 (The Effects of Changes in Foreign Exchange Rates), the financial statements of group companies have been translated directly from local currency into the reporting currency (€), as the foreign entities carry out their financial, operating and organisational activities autonomously (the functional currency concept). Hence, non-current assets, other assets and liabilities have been translated using mid-market rates ruling at the end of the year (year-end rates). Income and expense items have been translated at average rates for the year.

Movements in exchange rates of the significant currencies used in preparing the consolidated financial statements were as follows (conversion rates to € 1):

		Year-end rate		Average rate	
Country	1 € =	Local currency			
		28.02.2007	28.02.2006	**2006/07**	2005/06
Australia	AUD	1.6761	1.6052	1.6755	1.6195
Chile	CLP	713.0400	614.9000	679.0174	670.6692
Denmark	DKK	7.4527	7.4610	7.4577	7.4553
Great Britain	GBP	0.6736	0.6798	0.6787	0.6824
Mexico	MXN	14.7416	12.4300	13.9831	13.2456
Moldova	MDL	16.9149	15.3751	16.7112	15.5078
Poland	PLN	3.9181	3.7873	3.9092	3.9944
Romania	RON	3.3975	3.4959	3.4902	3.6969
Russia	RUB	34.5260	33.3680	34.1789	34.7327
Singapore	SGD	2.0186	1.9295	2.0009	2.0414
Slovakia	SKK	34.4400	37.0800	36.7447	38.4438
Czech Republic	CZK	28.2950	28.2600	28.2479	29.5032
Ukraine	UAH	6.6716	6.0080	6.4219	6.2206
Hungary	HUF	254.7000	252.8250	264.5457	249.0788
USA	USD	1.3211	1.1877	1.2726	1.2276

Differences arising from translating assets and liabilities at year-end rates compared with rates ruling at the end of the previous year, together with differences between earnings for the year translated at average rates in the income statement and at year-end rates in the balance sheet, are charged or credited directly to reserves. The effect in 2006/07 was to decrease non-current assets by € 36.1 million and shareholders' equity by € 48.8 million, primarily due to the decline in the Chilean peso (year-end rate).

Foreign currency receivables and liabilities included in the financial statements of consolidated companies have been translated at year-end rates, with any resulting unrealised gains and losses recorded in the income statement.

(5) Accounting policies

Acquired goodwill is recognised in the balance sheet as part of intangible assets. Intangible assets acquired in business combinations are stated separately from goodwill if, as defined in IAS 38 (intangible assets), they are separable or arise from contractual or other legal rights and their fair value can be measured reliably. Other acquired intangible assets are included at acquisition cost less scheduled, straight-line amortisation over their expected useful lives. Internally-generated intangible assets are recognised to the extent the recognition criteria set out in IAS 38 are met.

Goodwill and intangible assets with indefinite useful lives are not amortised, but are subject to an impairment test at least annually. The procedure adopted in carrying out this impairment test is described more fully in the notes on balance sheet items below.

Items of property, plant and equipment are stated at acquisition or production cost less straight-line depreciation and impairment write-downs, where applicable. Items of property, plant and equipment are depreciated pro rata temporis in the year of their acquisition. State subsidies and grants are deducted from acquisition cost. Production cost of internally-constructed equipment includes directly attributable costs and a proportion of material and production overheads. Third-party borrowing costrs are not included in acquisition or production cost. Maintenance expenses are recorded in the income statement when they are incurred. Assets are only recognised when the general recognition criteria of expectation of future economic benefits and reliability of the related cost are met.

Depreciation of property, plant and equipment and of intangible assets with limited useful lives is charged based on the following useful lives:

Intangible assets	2 to 9 years
Buildings	15 to 50 years
Technical equipment and machinery	6 to 30 years
Other equipment, factory and office equipment	3 to 15 years

Impairment write-downs of property, plant and equipment and intangible assets with limited useful lives are charged as set out in IAS 36 (Impairment of Assets) when the recoverable amount of an asset falls below its carrying amount. The recoverable amount is the higher of fair value less costs to sell and the present value of expected cash flows from use of the asset (value in use). Non-current assets held for sale are measured at the lower of their carrying value and their fair value less costs to sell.

Shares in associated companies are initially stated at acquisition cost and, in accordance with the equity method, are subsequently recorded at adjusted acquisition cost, which increases or decreases annually by the investor's share of earnings or losses, dividend distributions and other changes in shareholders' equity. Goodwill is included in the carrying amount of the shares in associates and is subject to an annual impairment test as set out in IAS 36 (Impairment of Assets). Those investments are measured using the equity method over which the investor has the power to exercise significant influence as a result of ownership of between 20 and 50 % of the voting rights.

The measurement of other investments and securities depends on their classification as held to maturity or available for sale. Financial assets which are held to maturity are measured at amortised acquisition cost. Financial assets classified as available for sale are measured at fair value in the balance sheet, and any unrealised gains and losses are credited or charged direct to fair value reserve in shareholders' equity, net of any deferred taxes. Impairments are recorded directly in the income statement. Purchases and sales of securities are initially recorded at settlement date. Loans are measured at amortised cost.

Inventories are stated at acquisition or production cost using average cost or the first-in, first-out method for raw materials, as this represents actual usage. Production cost includes all production-related costs determined assuming normal levels of production capacity. Production cost includes directly attributable costs, fixed and variable production overheads including depreciation of production machinery. Write-downs are made to net realisable value where necessary.

Receivables and other assets are stated at nominal value less allowances. Adequate individual allowances are made for bad debts and other risks in receivables. Nominal value less allowances is the same as fair value.

Securities in current assets include securities classified as available for sale that are measured at fair value. Until realised, any resulting unrealised gains and losses are credited or charged direct to fair value reserve in shareholders' equity, net of deferred taxes. Unrealised gains and losses on held for trading securities are recorded in the income statement.

Cash and cash equivalents are included at nominal value.

Except for goodwill and equity instruments classified as available for sale, reversals of impairment losses of items included in non-current assets and current assets are recorded when the reason for charging the original impairment loss no longer exists.

Emission rights are recognised in accordance with IAS 38 (Intangible Assets), IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance) and IAS 37 (Provisions, Contingent Liabilities and Contingent Assets). Emission certificates issued for each calendar year are intangible assets as defined by IAS 38 (Intangible Assets), to be classified as current assets. They are initially measured at an acquisition cost of zero. If actual emissions exceed the certificates allocated, a provision for CO_2 emissions is recognised. The provision is measured reflecting the acquisition cost of additional certificates or the market value of emission certificates at the balance sheet date.

Provisions for pensions are included as set out in IAS 19 (Employee Benefits). Actuarial reports have been prepared for this purpose. Actuarial gains and losses arising from unexpected changes in the amount of the defined benefit obligation and from changes in actuarial assumptions, and which lie within a corridor of 10 % of the defined benefit obligation, are not recognised. Such actuarial gains and losses are only recognised over the expected average remaining working lives of the pension plan beneficiaries to the extent they exceed this corridor.

Other provisions are recognised if there is a present obligation arising from a past event, the probability that there will be an outflow of resources to meet these obligations is more likely than not and the amount can be reliably estimated. This means that the probability of occurrence must be greater than 50 %. Measurement is made based on the amount most likely to be incurred or, if no amount is more likely than any other, the expected amount to be paid. Provisions are only recognised for legal and constructive obligations to third parties. Non-current provisions with a remaining term of more than one year are discounted to their present value at the balance sheet date. Provisions are released to the item of expense in the income statement in which they were recognised.

Deferred taxes are recognised on temporary differences between the values of assets and liabilities in the IFRS balance sheet and the tax balance sheet, as well as on tax loss carry forwards, to the extent they can be offset against future taxable income. Deferred tax assets and deferred tax liabilities are recognised separately on the face of the balance sheet. Deferred tax assets have been offset against deferred tax liabilities to the extent the related taxes on income are imposed by the same tax authorities. Deferred taxes are measured as set out in IAS 12 (Income Taxes) based on the appropriate local corporate income tax rate.

Non-current liabilities are measured at amortised acquisition cost. Differences between acquisition cost and repayment amount are amortised using the effective interest method. Liabilities from finance lease contracts are measured at their present value. Current liabilities are stated at their repayment or fulfilment amounts, which approximate their fair values.

Financial liabilities for bonds issued are shown net of their issue discount and transaction costs. The discount is amortised using the effective interest method. We refer to notes (31) and (32) for details of the recognition and measurement of financial instruments.

Revenues from the sale of products and goods are recognised when the delivery or service has been rendered and significant opportunities and risks have been transferred. Rebates and price reductions are also included at the time revenues are recognised.

Development costs for new products are recognised at production cost to the extent a clear allocation of expenses is possible and to the extent the technical feasibility and marketability of these newly-developed products is demonstrated. Product development must also generate probable future economic benefits. Expenditure on research may not be recognised as set out in IAS 38 and is recognised as an expense when it is incurred.

All accounting policy-related estimates and assessments are constantly reviewed, are based on past experience and on expectations of the occurrence of future events to the extent it is considered reasonable to do so.

Notes to the income statement

(6) Revenues

Revenues are detailed in the note on segment reporting. Companies consolidated for the first time in 2006/07 contributed € 93.1 million to the increase in revenues.

(7) Change in work in progress and finished goods inventories and internal costs capitalised

€ million	2006/07	2005/06
Change in work in progress and finished goods inventories	66.9	(51.9)
Internal costs capitalised	8.9	6.4
	75.8	**(45,5)**

(8) Other operating income

€ million	2006/07	2005/06
Income from special items	179.4	0.0
Gain on sales of current and non-current assets	18.1	7.6
Foreign exchange and currency translation gains	0.0	1.2
Other income	75.6	71.5
	273.1	**80.3**

Income from special items includes income from reducing our share in CropEnergies AG. As a result of the CropEnergies AG IPO, 29.4 % of the shares were placed with institutional and private investors and Südzucker AG's investment was reduced from 100 % to 70.6 %. This item also includes income from the sale of inulinfructose quotas to the restructuring fund.

(9) Cost of materials

€ million	2006/07	2005/06
Cost of raw materials, consumables and supplies and of purchased merchandise	3,126.4	3,117.5
Cost of purchased services	224.4	201.4
	3,350.8	**3,318.9**

Cost of materials rose by € 31.9 million from € 3,318.9 million to € 3,350.8 million. The decrease in cost of materials in the sugar segment due to a fall in beet price as a result of the sugar market regulation reform was offset by an increase in cost of materials due to the full inclusion of fruit entities and increased bioethanol production.

(10) Personnel expenses

€ million	2006/07	2005/06
Wages and salaries	550.0	510.9
Social security, pension and welfare expenses	158.2	145.6
	708.2	**656.5**

Average number of employees during the year

By segment	2006/07	2005/06
Sugar	10,885	11,678
Special products	3,966	3,738
Fruit	4,724	4,487
	19,575	**19,903**

By geographic area	2006/07	2005/06
Germany	4,167	4,113
Other EU 27	10,895	11,540
Eastern Europe	1,842	2,141
Other countries	2,671	2,109
	19,575	**19,903**

The average number of employees compared with the previous year decreased by 328 to 19,575. In the sugar segment the number of employees deceased by 793 due to factory closures in Austria, Poland and Slovakia during the year. The increase in the special products segment results mainly from the start of ORAFTI production operations in Chile together with expansion in employee numbers as part of extending the bioethanol division. In the fruit segment the increase in number of employees resulted from the full-time inclusion of DSF Deutsch-Schweizerische Früchteverarbeitung GmbH, the first-time inclusion of Xianyang Andre Juice Co. Ltd., China and the start of operations of the new fruit preparations factory in Serpuchov, Russia.

(11) Depreciation

€ million	2006/07	2005/06
Intangible assets	34.8	8.7
Property, plant and equipment	225.1	207.2
Depreciation and amortisation	**259.9**	**215.9**
Intangible assets	20.4	0.0
Property, plant and equipment	68.7	21.4
Impairment losses	**89.1**	**21.4**
Income from reversals of impairment losses	**(0.5)**	**(0.2)**
	348.5	**237.1**

Amortisation and impairment losses of intangible assets were mainly due to sugar quotas. Impairment losses of € 68.7 million (€ 21.4 million) on items in property, plant and equipment mainly related to the closure of the Polish sugar factory at Łubna, Poland, the agreed closure of the cane sugar refinery at Marseilles, France, and technical plant which was measured at its probable sales price due to a reduction in sugar production capacities. The closure of technical plant no longer used for inulin fructose production at Oreye, Belgium, led to impairment losses on carrying values. The impairment losses of property, plant and equipment in the previous year mainly related to closure of sugar factories at Hohenau in Austria, Rimavska Sobota in Slovakia and Maloszyn in Poland.

(12) Goodwill impairment loss

€ million	**2006/07**	2005/06
Goodwill impairment loss	**580.4**	**0.0**

Goodwill impairment losses of € 580.4 million were required in 2006/07. This was made up of € 482.4 million for the sugar segment and € 98.0 million for the special products segment (see also disclosures in note (21) below).

(13) Other operating expenses

€ million	**2006/07**	2005/06
Restructuring fund levy	512.8	0.0
Selling and advertising expenses	337.5	339.0
Operating and administrative expenses	228.6	210.1
Production and supplementary levies	0.0	61.5
Leasing and rental expenses	37.0	36.1
Foreign exchange and currency translation losses	3.3	0.0
Losses on disposals of current and non-current assets	6.6	4.8
Other expenses	129.0	119.9
	1,254.8	**771.4**

The sharp increase of € 483.4 million in other operating expenses to € 1,254.8 million (€ 771.4 million) is mainly due to the first-time levy of € 512.8 million payable to the restructuring fund, charged as part of the reform of the sugar market regulation.

(14) Income (loss) from operations

€ million	2006/07	2005/06
Income (loss) from operations	**(128.9)**	**397.4**
of which operating profit before restructuring costs and special items	419.4	450.0
of which restructuring costs and special items	32.1	(52.6)
of which goodwill impairment loss	(580.4)	0.0

Of the operating profit before restructuring costs and special items of € 419.4 million (€ 450.0 million), the sugar segment contributed € 259.3 million (€ 313,4 million), or 61.8 % (69.6 %), the special products segment € 114.5 million (€ 109.4 million), or 27.3 % (24.3 %) and the fruit segment € 45.6 million (€ 27.2 million), or 10.9 % (6.0 %).

Income from restructuring of € 32.1 million (loss of € 52.6 million) contains charges relating to impairment losses on property, plant and equipment of € 55,8 million (€ 21.4 million) for the sugar segment together with termination benefits relating to the closure of the Łubna sugar factory in Poland and the agreed closure of the cane sugar refinery in Marseilles.

Restructuring costs and special items in the special products segment relates to impairment losses on technical plant and termination benefit costs arising in connection with the closure of inulin fructose production at Oreye, Belgium. In addition, start-up costs were incurred in the bioethanol division in Belgium. However, these charges could be more than offset by the contribution to income from the sale of inulin fructose quotas to the restructuring fund and from the CropEnergies AG IPO.

Goodwill impairment losses are made of € 482.4 million for the sugar segment and € 98.0 million for the special products segment.

(15) Income from associated companies

€ million	2006/07	2005/06
Income from associated companies	**0.7**	**11.4**

Income from associated companies, relating solely to the sugar segment in 2006/07, decreased from € 11.4 million in 2005/06 to € 0.7 million. This includes income from Eastern Sugar, which sold its sugar quotas in Slovakia, The Czech Republic and Hungary to the restructuring fund following the 2006 campaign. There was a loss from the investment in Sucreries de Bourgogne S.A., Aiserey, France. In 2005/06 income from associates was divided between € 9.8 million for the sugar segment and € 1.6 million for the special products segment.

(16) Financial income and expense

€ million	2006/07	2005/06
Interest income	30.2	37.9
Other financial income	17.6	15.5
Financial income	**47.8**	**53.4**
Interest expense	(116.7)	(127.5)
Other financial expense	(30.1)	(6.5)
Financial expense	**(146.8)**	**(134.0)**
Financial expense, net	**(99.0)**	**(80.6)**

Net financial expense deteriorated by € 18.4 million, from € 80.6 million to € 99.0 million. Net interest expense (the balance of interest income and interest expense) improved due to lower average financial debt resulting from the CropEnergies AG's IPO and the issue of hybrid capital. On the other hand, other financial expenses were negatively affected by foreign exchange losses arising from financing eastern European companies with loans in euros at lower interest rates. This compares with foreign exchange gains in 2005/06.

(17) Taxes on income

Income tax expense decreased to € 18.8 million in 2006/07, after € 23.7 million in the previous year. Starting from a theoretical tax rate of 37.9 %, the decrease in tax expense arose as follows:

€ million	2006/07	2005/06
Earnings (loss) before taxes on income	(227.2)	328.2
Theoretical tax rate	37.9 %	37.9 %
Theoretical tax expense (credit)	**(86.0)**	**124.3**
Change in theoretical tax expense as a result of:		
Different tax rates	(27.1)	(30.7)
Tax reduction for tax-free income	(125.7)	(75.6)
Tax increase for non-deductible expenses	255.6	8.4
Other	2.1	(2.7)
Taxes on income	**18.8**	**23.7**
Effective tax rate	**–**	**7.2 %**

The theoretical tax rate of 37.9 % is calculated by using the German corporation tax rate of 25.0 % plus a solidarity surcharge of 5.5 % of the corporation tax, and municipal trade tax on income. The reduction in tax charge included € 27.1 million (€ 30.7 million) as a result of profits earned by foreign subsidiaries in countries with lower income tax rates. Further tax reductions of € 125.7 million (€ 75.6 million) resulted from tax-free income together with tax-free gains on issuing new shares in subsidiaries to third parties. The tax increases due to non-deductible expenses mainly related to goodwill impairment losses.

The tax expense of € 18.8 million (€ 23.7 million) is made up of current taxes paid or payable of € 70.0 million (€ 85.6 million) and € 51.2 million (€ 61.9 million) deferred tax income. Deferred tax assets of € 110.2 million (€ 74.2 million) were recognised for tax loss carried forwards that are expected to be used against future taxable income.

Deferred taxes arise as a result of differences between the amounts recognised for assets and liabilities in the consolidated financial statements and the amounts included for those assets and liabilities in the tax balance sheets of the countries concerned. Deferred tax liabilities of € 249.4 million (€ 349.3 million) mainly arise due to measurement differences to property, plant and equipment and inventories.

Deferred tax asses and liabilities recognised directly in shareholders' equity amounted to € 3.6 million (€ 18.5 million) at 28 February 2007.

Deferred tax assets and liabilities relate to temporary differences in the following items in the balance sheet:

€ million	Deferred tax assets		Deferred tax liabilities	
28 February	2007	2006	2007	2006
Property, plant and equipment	29.2	17.5	200.8	194.1
Inventories	2.7	1.5	132.4	89.9
Other assets	46.9	5.3	1.0	2.6
Tax-free reserves	0.0	0.0	27.4	30.0
Provisions	29.0	25.7	67.4	85.9
Liabilities	4.4	9.7	12.4	5.2
Tax loss carry forwards	110.2	74.2	0.0	0.0
	222.4	133.9	441.4	407.7
Offsets	(192.0)	(58.4)	(192.0)	(58.4)
Balance sheet	**30.4**	**75.5**	**249.4**	**349.3**

(18) Research and development expenses

The main thrust of Südzucker Group's research and development activities are in developing new products and product variances, optimising production processes and supporting marketing and business development activities. The range of work covers agricultural production, developments relating to the sugar, sugar substitutes and their end-products, through to applications in the food and non-food areas. Research and development work is carried out by some 390 staff. Research and development expenses amounted to € 39.5 million (€ 30.2 million). The increase is due to the full inclusion of fruit entities and expanded research and development activities in the bioethanol area.

(19) Earnings (loss) per share

€ million	2006/07	2005/06
Net earnings (loss) for the year	(246.0)	304.5
of which attributable to hybrid equity capital	22.8	14.4
of which attributable to other minority interest	57.8	47.9
of which attributable to shareholders of Südzucker AG	(326.6)	242.2
Earnings (loss) in € per share	**(1.72)**	**1.36**

Of the group loss for the year of € 246.0 million (group earnings of € 304.5 million), € 22.8 million (€ 14.4 million) of earnings is attributable to holders of the hybrid capital. Other minority interest, consisting mainly of minority shareholders of AGRANA Group, have a share of earnings of € 57.8 million (€ 47.9 million). A loss for the year of € 326.6 million (earnings of € 242.2 million) is thus attributable to shareholders of Südzucker AG. Based on weighted average shares outstanding of 189.4 million in 2006/07, loss per share calculated as set out in IAS 33 (Earnings per Share) amount to € (1.72) per share. The previous year's amount is based on a weighted average number of issued shares of 178.5 million.

(20) Cash flow statement

The cash flow statement, prepared in accordance with requirements set out in IAS 7 (Cash Flow Statements), shows the change in cash and cash equivalents of the Südzucker Group from the three areas of operating, investing and financing activities.

Gross cash flow from operating activities in 2006/07 amounted to € 554.0 million (€ 527.2 million). Income taxes paid were € 58.4 million (€ 70.0 million) and have been allocated to operating activities. Interest payments amounted to € 97.1 million (€ 107.3 million) and interest receipts were € 30.3 million (€ 37.7 million). Capital expenditures of € 536.4 million (€ 425.6 million) for property, plant and equipment (including intangible assets) were particularly for expanding the special products segment and, in the sugar segment, were mainly for the acquisition of additional sugar quotas for € 158.8 million, enabling sugar quotas to be increased as part of the new sugar market regulation. Expenditures for non-current financial assets of € 62.4 million (€ 216.3 million) mostly related to acquisitions of consolidated subsidiaries in the special products and fruit segments.

Dividends from associated companies and other investments amounted to € 6.3 million (€ 6.8 million). Profit distributions throughout the group totalled € 162.8 million (€ 117.9 million) and included € 104.1 million (€ 96.1 million) paid out to Südzucker AG's shareholders and € 58.7 million (€ 21.8 million) dividend distributions to minority interest.

Notes to the balance sheet

(21) Intangible assets

2006/07 € million	Goodwill	Concessions, industrial and similar rights	Total
Acquisition costs			
1 March 2006	1,754.9	138.8	1,893.7
Change in companies incl. in consolidation/ currency translation/other changes	15.5	(0.3)	15.2
Additions	0.0	168.0	168.0
Transfers	(69.3)	70.0	0.7
Disposals	(2.7)	(2.1)	(4.8)
28 February 2007	1,698.4	374.4	2,072.8
Amortisation and impairment losses			
1 March 2006	(8.5)	(90.5)	(99.0)
Change in companies incl. in consolidation/ currency translation/other changes	0.0	(0.1)	(0.1)
Amortisation for the year	0.0	(34.8)	(34.8)
Impairment losses	(580.4)	(20.4)	(600.8)
Transfers	0.0	0.2	0.2
Disposals	0.0	2.0	2.0
28 February 2007	(588.9)	(143.6)	(732.5)
Net book value at 28 February 2007	**1,109.5**	**230.8**	**1,340.3**

2005/06 € million	Goodwill	Concessions, industrial and similar rights	Total
Acquisition costs			
1 March 2005	1,679.3	99.2	1,778.5
Change in companies incl. in consolidation/ currency translation/other changes	75.6	35.1	110.7
Additions	0.0	12.8	12.8
Transfers	0.0	0.3	0.3
Disposals	0.0	(8.6)	(8.6)
28 February 2006	1,754.9	138.8	1,893.7
Amortisation and impairment losses			
1 March 2005	(8.5)	(82.4)	(90.9)
Change in companies incl. in consolidation/ currency translation/other changes	0.0	(6.7)	(6.7)
Amortisation for the year	0.0	(8.7)	(8.7)
Impairment losses	0.0	0.0	0.0
Transfers	0.0	0.0	0.0
Disposals	0.0	7.3	7.3
28 February 2006	(8.5)	(90.5)	(99.0)
Net book value at 28 February 2006	**1,746.4**	**48.3**	**1,794.7**

Intangible assets consist of goodwill arising on business combinations and concessions, trademarks and similar rights.

As set out in IFRS 3 (Business Combinations), IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), goodwill and intangible assets with indefinite useful lives are not amortised but are subject to annual impairment tests.

Goodwill

Impairment tests are to be made annually or more often if events or changed situations arise which indicate a possible impairment. The carrying value of cash generating units (CGU) is compared with their recoverable amount, being the higher of net sales price less selling expenses and value in use. An impairment loss is charged if the recoverable amount of a CGU is lower than its carrying value.

When carrying out the impairment test, goodwill should be allocated to cash generated units at segment level or below. Südzucker has determined its CGUs based on its internal reporting structure. In the Südzucker Group these consist of the sugar segment, the bioethanol, Freiberger, functional food, PortionPack and starch divisions, and the fruit segment.

The carrying value of each cash generating unit is determined by allocating the assets and liabilities, including related goodwill and intangible assets, to the respective cash generating units.

The recoverable amount is the present value of future cash flows which can probably be generated by a cash generating unit. Value in use is determined based on a business valuation model (discounted cash flow). Future cash flows are determined based on budgets approved by the executive board and medium-term budgets for a period of 5 years at the time of carrying out the impairment test. These budgets are based on experience as well as expectations of future market developments.

The cost of capital is calculated as a weighted average cost of capital, using the proportions of debt and equity making up total liabilities and equity. Cost of equity is the return expected by Südzucker shareholders. Cost of debt is based on the company's actual funding conditions. The pre-tax weighted average cost of capital for the Südzucker Group was 8.5 % in August 2006 and 9.1% in February 2007 (7.3 % in August 2005).

We have assumed a growth rate to perpetuity after the five-year budget period of 1.5 % (1.5 %) for the CGUs those with groth rates. Growth rates are based on experience and expectations of future developments.

Movements in the carrying value of goodwill were as follows:

€ million	Total	Sugar	Special products	Frucht
1 March 2006	**1,746.4**	1,301.1	378.9	66.4
Impairment loss	(580.4)	(482.4)	(98.0)	0.0
Other changes	(56.5)	(70.0)	8.3	5.2
28 February 2007	**1,109.5**	748.7	289.2	71.6

Goodwill impairment losses of € 580.4 million were required in 2006/07. Of this amount, € 482.4 million related to the sugar segment and € 98.0 million to the special products segment.

Sugar CGU

The goodwill impairment loss on the sugar CGU is due to market reductions of 13.5 % agreed by the EU commission on 22 February 2007 for the 2007/08 sugar year and the announcement of further quantity reductions to October 2007, as well as to the completely inadequate results of the EU restructuring fund to 31 January 2007. At only 2.2 million tonnes up to the 2007/08 sugar year, the voluntary return of sugar quotas to the EU restructuring fund is considerably lower than expected by the EU commission (5 to 6 million tonnes). Due to these changed conditions, an adjustment of the medium-term budget for the sugar segment was required in February/March 2007.

We have not changed our assumptions of a step-by-step reduction in the sugar reference price of 36 % and the need to withdraw 5 to 6 million tonnes of quotas from the market. On the other hand, the disappointing results of the restructuring fund had to be reflected by Südzucker. Whereas, as the EU commission, we previously assumed that the required quantity reductions would almost be completely carried out in unprofitable regions within the EU, we must now assume that the restructuring fund will not be given the sugar quotas needed to cleanse the market. We now assume that, already as from 2007/08, there will also be a quota reduction in the efficient regions of the EU, also affecting Südzucker. We expect that this will be compensated by sufficient funds made available to the restructuring fund. For the 2007/08 sugar year, also in view of the EU commission's restrictive export policies, we expect further reductions in October 2007 over and above the market reductions of 13.5 % already resolved, so that 2007/08 production will be reduced by at least 20 % in order to achieve market stability.

The liquid sugar and fondant activities of the Surafti division were allocated to the sugar segment. We had to decrease our estimate of the contribution to profits of the peripheral nougat and bakery additives activities in the medium-term budget, resulting in an adjustment to goodwill.

Functional food CGU

The reform of the sugar market regulation made continuation of inulin fructose production from chicory in the EU uneconomical. Hence, Südzucker decided to close this production and sell its inulin quota to the restructuring fund. The contribution to profits achieved by this activity will thus no longer be available in future. We had to consider this situation as well as the cost situation of chicory production in Chile, where the start of chicory production is subject to a longer than planned start-up phase, by making a one-time impairment of goodwill in the functional food CGU.

The carrying value of goodwill decreased by reclassification of sugar quotas within intangible assets from goodwill to concessions, trademarks and similar rights. The increase in carrying value was mainly due to the acquisition of Ryssen Group (Compagnie Financière de l'Artois S.A., France) in the bioethanol CGU of € 10 million and Xianyang Andre Juice Co. Ltd., China, and further increases to investments in the fruit CGU totalling € 5.2 million.

Concessions, trademarks and similar rights

Additions to concessions, trademarks and similar rights included additional quotas purchased in the sugar segment in 2006/07 with a net value of € 158.8 million. These additional quotas were offered to producers in the efficient regions to offset the cancellation of C-sugar production. These additional quotas are being amortised over an estimated useful life of 9 years. Furthermore, IT software acquired and trademarks and similar rights with limited useful lives are included in this caption.

(22) Property, plant and equipment

2006/07 € million	Land, land rights and buildings including buildings on leased land	Technical equip-ment and machinery	Other equipment, factory and office equipment	Assets under construction	Total
Acquisition costs					
1 March 2006	1,513.1	3,709.8	332.0	226.3	5,781.2
Change in companies incl. in consolidation/ currency translation/other changes	(1.5)	2.8	1.8	(33.4)	(30.3)
Additions	62.6	134.4	26.1	145.3	368.4
Transfers	35.1	169.8	(0.5)	(205.0)	(0.6)
Disposals	(26.5)	(51.4)	(20.5)	(4.4)	(102.8)
28 February 2007	1,582.8	3,965.4	338.9	128.8	6,015.9
Depreciation and impairment losses					
1 March 2006	(700.0)	(2,516.8)	(242.8)	(2.2)	(3,461.8)
Change in companies incl. in consolidation/ currency translation/other changes	1.5	(3.3)	(0.9)	0.0	(2.7)
Depreciation for the year	(42.9)	(156.2)	(26.0)	0.0	(225.1)
Impairment losses	(8.7)	(59.9)	(0.1)	0.0	(68.7)
Transfers	(0.2)	(2.5)	2.5	0.0	(0.2)
Disposals	20.3	46.3	18.2	0.8	85.6
Reversals of impairment losses	0.1	0.4	0.0	0.0	0.5
28 February 2007	(729.9)	(2,692.0)	(249.1)	(1.4)	(3,672.4)
Net book value at 28 February 2007	**852.9**	**1,273.4**	**89.8**	**127.4**	**2,343.5**

2005/06 € million	Land, land rights and buildings including buildings on leased land	Technical equip-ment and machinery	Other equipment, factory and office equipment	Assets under construction	Total
Acquisition costs					
1 March 2005	1,392.1	3,665.7	272.0	74.1	5,403.9
Change in companies incl. in consolidation/currency translation/other changes	67.0	116.3	55.1	8.3	246.7
Additions	50.6	121.2	29.5	211.5	412.8
Transfers	33.2	25.4	2.2	(61.1)	(0.3)
Disposals	(29.8)	(218.8)	(26.8)	(6.5)	(281.9)
28 February 2006	1,513.1	3,709.8	332.0	226.3	5,781.2
Depreciation and impairment losses					
1 March 2005	(641.9)	(2,485.8)	(197.5)	(2.0)	(3,327.2)
Change in companies incl. in the consolidation/currency translation/other changes	(31.5)	(94.5)	(44.9)	0.1	(170.8)
Depreciation for the year	(38.1)	(144.7)	(24.4)	0.0	(207.2)
Impairment losses	(9.5)	(11.0)	(0.6)	(0.3)	(21.4)
Transfers	(3.9)	3.9	0.0	0.0	(0.1)
Disposals	24.9	215.1	24.6	0.0	264.6
Reversals of impairment losses	0.0	0.2	0.0	0.0	0.2
28 February 2007	(700.0)	(2,516.8)	(242.8)	(2.2)	(3,461.8)
Net book value at 28 February 2006	**813.1**	**1,193.0**	**89.2**	**224.1**	**2,319.4**

The carrying value of property, plant and equipment increased slightly from € 2,319.4 million to € 2,343.5 million. The changes due to foreign currency differences are mainly due to a decline in the Chilean Peso (year-end rate), leading to a reduction of € 36.1 million in property, plant and equipment; in 2005/06, the rise in the Chilean Peso and strengthening of certain east-European currencies increased property, plant and equipment by € 26.1 million.

Additions were € 44.4 million lower than for the previous year at € 368.4 million (€ 412.8 million), particularly due to lower capital expenditures in the sugar segment compared with the previous year and completion of the inulin production plant in Chile. This was partly offset by increased capital expenditures in the bioethanol division.

Deductions in carrying value (disposals at acquisition cost less depreciation and impairment losses) of € 17.2 million (€ 17.3 million) relate to disposals of items of property, plant and equipment from sugar factories which had been closed in the past year and previous years in addition to regular disposals of items in property, plant and equipment whose useful lives had expired.

Impairment losses on property, plant and equipment of € 68.7 million (€ 21.4 million) mainly related to the closure of the sugar factory at Łubna in Poland, the agreed closure of the cane sugar refinery at Marseilles in France, and technical plant which was measured at its probable sales price due to a reduction in sugar production capacities. The carrying value of these assets held for sale is € 37.3 million. The closure of technical plant no longer used for inulin fructose production at

Oreye, Belgium, led to impairment losses due to write-downs of carrying values. Impairment losses on property, plant and equipment in the previous year mainly related to closure of the sugar factories at Hohenau in Austria, Rimavska Sobota in Slovakia and Maloszyn in Poland.

(23) Shares in associated companies, other investments, securities and loans

2006/07 € million	Shares in associated companies	Securities	Other investments and loans
1 March 2006	77.2	26.8	179.1
Change in companies incl. in consolidation/ currency translation/other changes	(8.0)	1.4	(41.7)
Additions	0.1	1.9	3.3
Share of profits	12.2	0.0	0.0
Transfer	0.0	0.0	0.0
Disposals	(0.9)	(1.9)	(5.9)
Impairment losses	(11.5)	(0.3)	(2.8)
Reversals of impairment losses	0.0	0.0	0.0
28 February 2007	**69.1**	**27.9**	**132.0**

2005/06 € million	Shares in associated companies	Securities	Other investments and loans
1 March 2005	163.0	24.9	141.7
Change in companies incl. in consolidation/ currency translation/other changes	(97.3)	2.4	36.9
Additions	0.1	0.2	7.6
Share of profits	11.4	0.0	0.0
Transfer	0.0	0.0	0.0
Disposals	0.0	(0.6)	(7.3)
Impairment losses	0.0	(0.1)	(0.2)
Reversals of impairment losses	0.0	0.0	0.4
28 February 2006	**77.2**	**26.8**	**179.1**

The loans to associated companies of € 5.7 million included in other investments and loans in the previous year were completely repaid. The impairment loss under investments in associated companies relates to the 49.26 % holding in Sucreries de Bourgogne S.A., Aiserey, France, indirectly held via Saint Louis Sucre S.A., Paris, France, with no effect on cash flows, and was required due to the difficult sugar market environment in France.

(24) Inventories

€ million 28 February	2007	2006
Raw materials and supplies	256.0	236.1
Work in progress	436.6	465.0
Finished goods and merchandise	1,396.1	1,299.7
	2,088.7	**2,000.8**

Of Südzucker Group's total inventories of € 2,088.7 million (€ 2,000.8 million), sugar makes up € 1,511.2 million (€ 1,403.1 million). Reversals of impairment losses amounted to € 0.2 million (€ 0.0 million) and write-downs of production cost to net realisable value amounted to € 0.5 million (€ 0.7 million).

(25) Trade receivables and other assets

€ million 28 February	2007	2006
Trade receivables	629.7	570.4
Receivables from export recoveries	34.8	93.4
Other assets	121.2	98.0
Other taxes recoverable	108.5	132.9
	894.2	**894.7**

The increase of € 59.3 million in trade receivables to € 629.7 million is primarily due to the fruit segment as well as increased activity in the bioethanol division. The decrease of € 58.6 million in export recoveries to € 34.8 million (€ 93.4 million) results from the limitations to sugar exports due to the EU's restrictive export policies. The increase in other assets from € 98.0 million to € 121.2 million results, amongst other things, from receivables for recovery of the production and supplementary levy for the 2005/06 sugar year.

(26) Shareholders' equity

The subscribed capital of Südzucker AG is divided into 189,353,608 shares, each share having an imputed proportion of the share capital of € 1.00 each.

The share capital can be conditionally increased by up to € 13,000,000. The conditional increase will only be carried out by issuing up to 13,000,000 new shares to the extent required to meet the conversion rights arising from the convertible bonds issued on 8 December 2003. The conditions for conversion arose for the first time in 2006/07. No conversion rights have been exercised to date.

The executive board is entitled, subject to approval by the supervisory board, to increase the share capital of the company by up to € 2,934,338 in one or more tranches up to 30 June 2010 by the issue of new shares for cash by up to € 1,080,732. The new shares are to be offered to existing shareholders with pre-emptive rights.

In summer 2005 Südzucker issued a hybrid bond with a total volume of € 700 million and a 5.25 % coupon. The major features of this financial instrument are its indefinite maturity, a one-sided cancellation option by the issuer after ten years, a dividend-dependent coupon and the subordinated rights of the holders. If Südzucker does not exercise its cancellation rights, the hybrid bond will then have a floating rate coupon. Based on these characteristics, Südzucker can fully recognise the hybrid instrument as equity for IFRS purposes.

Südzucker has bundled the bioethanol activities of Südzucker Bioethanol GmbH, Zeitz, Germany, BioWanze S. A., Brussels, Belgium, and Bioenergy Loon-Plage S. A. S., Paris, France, into CropEnergies AG, Mannheim. On 28 September 2006 CropEnergies AG placed 25 million new shares from a capital increase as a public offering. With an issue price of € 8.00 per share, CropEnergies achieved gross issue receipts of € 200 million, giving it a sustained financial basis for further expansion in Europe. The shares were authorised for trading on the prime standard market on the Frankfurt stock exchange on 29 September 2006. The public offering, excluding pre-emptive rights, saw some 78 % placed with institutional investors and approximately 22 % with private investors in Germany. Südzucker shareholders were granted pre-emptive rights to some 3 million shares. Südzucker remains the majority shareholder in CropEnergies AG following the IPO, with 70.6 % of the shares.

The fair value reserve attributable to shareholders of Südzucker AG decreased by € 10.6 million during the year due to changes in the fair value of available for sale securities, net of tax, recorded directly in equity. This amount is mainly made up of a reduction of fair value changes of € 14.4 million less deferred taxes of € 3.8 million. On the other hand, the fair value reserve from the valuation of cash flow hedges increased by € 14.9 million compared with the previous year. This was due to recycling the negative fair values of hedge instruments of € 23.1 million at the end of the previous year to the income statement, less deferred taxes of € 8.2 million.

(27) Provisions for pensions and similar obligations

Pension plans within the Südzucker Group mainly consist of direct benefit plans. Pension benefits are normally granted based on years of service with the company and benefit-related remuneration.

The provisions for pensions have been calculated actuarially using the projected unit credit method and estimated future trends in accordance with IAS 19 (Employee Benefits).

The following actuarial assumptions were made in determining the defined benefit obligation and, in certain cases, related plan assets:

% 28 February	**2007**	2006
Discount rate	4.5	4.5
Expected increase in remuneration	2.0	2.0
Expected increase in pension	1.4	1.3
Expected return on plan assets	4.5	4.5

Most of the fund assets are invested in fixed-interest securities, whose risk structure ensures long-term fulfilment of the related obligations.

Pension expense is made up as follows:

€ million	2006/07	2005/06
Current service cost	9.9	8.2
Interest cost	20.1	20.1
Actuarial losses (+) and gains (–) expensed in the current year	2.7	(1.1)
	32.7	**27.2**

There were no expenses or income arising from changes in plan benefits.

For defined contribution plans, the company pays contributions, either based on statutory or contractual requirements or on a voluntary basis, to state or private insurers. Current contributions are included as personnel expenses in the income statement and amounted to € 49.9 million (€ 51.8 million) for the group. The company has no further obligation after paying the contributions.

Interest cost and expected returns on plan assets have been included in interest expense in the income statement. Service cost and actuarial gains and losses recognised in expense are included under personnel expense.

A reconciliation of the defined benefit obligation and the provision shown in the consolidated balance sheet is as follows:

€ million 28 February	2007	2006
Defined benefit obligations for direct pension benefits	549.9	550.6
Unamortised actuarial gains and losses	(55.3)	(57.0)
Fair value of plan assets	(95.7)	(98.0)
Provisions for pensions and similar obligations	**398.9**	**395.6**

The amount of unamortised actuarial gains and losses includes gains on plan assets of € 8.8 million (€ 8.6 million).

Movements in the provisions were as follows:

€ million	2006/07	2005/06
Provisions at 1 March	**395.6**	**393.0**
Change in companies consolidated	(0.8)	4.1
Pension expense	32.7	27.2
Contributions to fund assets	(0.9)	(0.4)
Pension payments during the period	(27.7)	(28.3)
Provisions at 28 February	**398.9**	**395.6**

There are similar obligations, particularly relating to foreign group companies, which are calculated actuarially, including estimates of future cost trends.

(28) Movements in other provisions

2006/07 € million	Production levy	Personnel expenses	Uncertain obligations	Total
1 March 2006	**48.6**	**151.5**	**150.2**	**350.3**
Change in companies incl. in consolidation/currency/translation/ other changes	(0.5)	1.2	18.5	19.2
Additions	0.0	75.6	99.4	175.0
Use	(41.9)	(65.0)	(89.7)	(196.6)
Release	(5.7)	(2.9)	(11.0)	(19.6)
28 February 2007	**0.5**	**160.4**	**167.4**	**328.3**

The provision for production levy of € 48.6 million on 1 March 2006 relates to the 2005/06 sugar year. The provision for production levy was determined by the EU commission on 19 February 2007 via EU-VO 169/2007 which led to a use of the provision of € 41.9 million. No production levy was imposed for the 2006/07 sugar year.

The provisions for personnel expenses are primarily made up of provisions for long-service awards, part-time early retirement and other personnel expenses for redundancies, bonuses and premiums, vacation pay and overtime. Of the total € 160.4 million, some € 96.7 million will be used in 2007/08 and € 63.7 million in subsequent years.

Other provisions include amounts relating to re-cultivation obligations, waste water charges and other environmental obligations. € 54.3 million of these provisions are expected to be used in 2007/08 and a further € 113.1 million in subsequent years.

No significant expenses will occur over and above those included in the balance sheet at 28 February 2007.

(29) Trade payables and other liabilities

		Remaining term			Remaining term	
€ million 28 February	**2007**	to 1 year	over 1 year	2006	to 1 year	over 1 year
Trade payables	**885.9**	885.9	0.0	1,000.7	1,000.3	0.4
Liabilities for restructuring levy	**506.5**	506.5	0.0	0.0	0.0	0.0
Liabilities for purchase of additional quotas	**158.8**	158.8	0.0	0.0	0.0	0.0
Other liabilities	**232.3**	211.5	20.8	323.5	297.2	26.3
On-account payments received on orders	**5.2**	5.2	0.0	6.7	6.7	0.0
	1,788.7	**1,767.9**	**20.8**	**1,330.9**	**1,304.2**	**26.7**

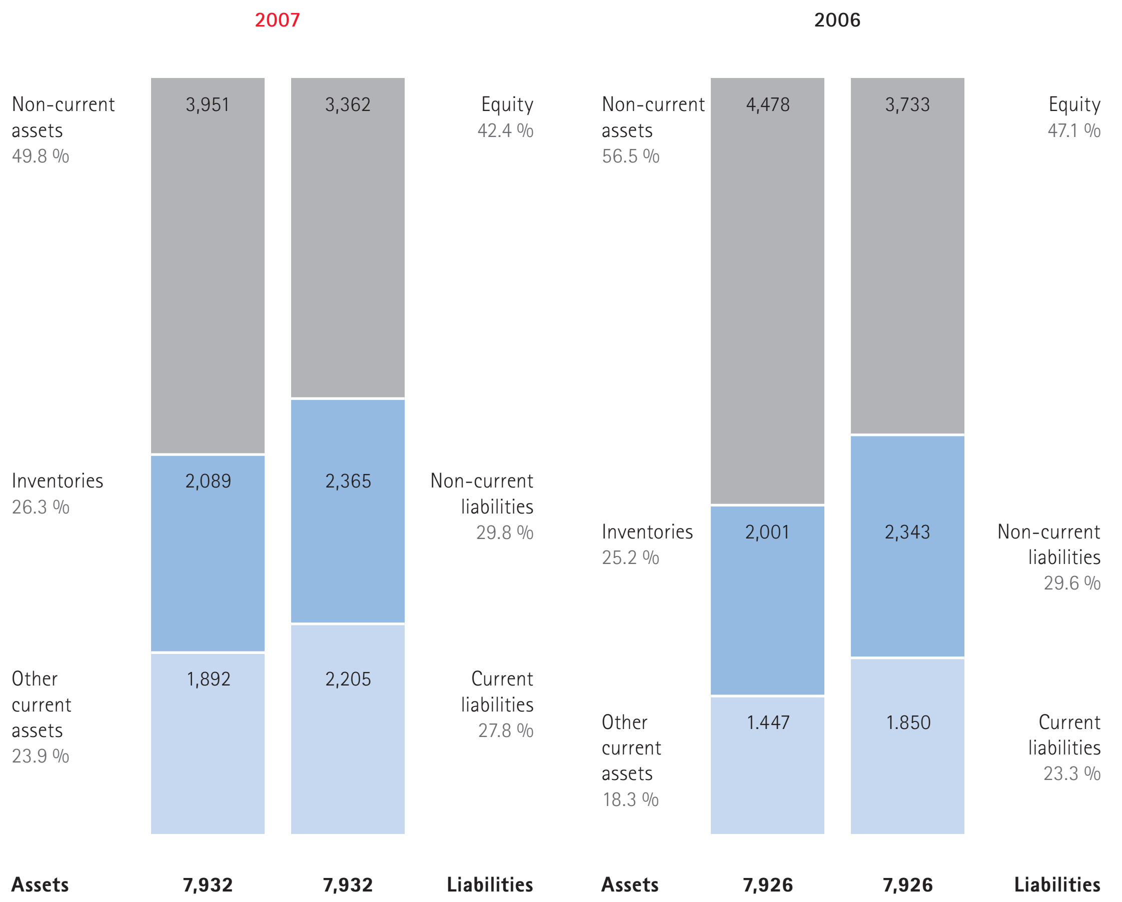
Trade payables include amounts due to beet farmers of € 506.7 million (€ 641.4 million) relating to final payments for beet delivered during the 2006 campaign. The decrease of this liability, which still amounted to € 641.4 million in the previous year, is due to the decrease in beet price arising from the reform of the sugar market regulation. The decline in other liabilities from € 323.5 million to € 232.3 million is, amongst other things, due to the decrease in interest-rate cap transactions, lower negative fair values of interest rate, foreign currency and product-related derivatives, as well as settlement of liabilities arising from financial investments.

(30) Financial liabilities, securities and cash and cash equivalents (net financial debt)

		Remaining term			Remaining term	
€ million 28 February	**2007**	to 1 year	over 1 year	2006	to 1 year	over 1 year
Bonds	**1,085.8**	9.8	1,076.0	1,080.1	10.0	1,070.1
(of which convertible	**268.1**	9.8	258.3	264.2	9.8	254.4
Liabilities to banks	**690.2**	247.9	442.3	626.5	268.6	357.9
Liabilities from finance leasing	**1.6**	1.1	0.5	3.1	1.7	1.4
Finance liabilities	**1,777.6**	**258.8**	**1,518.8**	**1,709.7**	**280.3**	**1,429.4**
Securities (non-current assets)	**(27.9)**			(26.8)		
Securities (current assets)	**(108.4)**			(47.2)		
Cash and cash equivalents	**(830.3)**			(458.9)		
Net financial debt	**810.9**			**1,176.8**		

With gross cash flow from operating activities increasing to € 554.0 million compared with € 527.2 million in 2005/06, financial debt could be repaid compared with the previous year, decreasing by € 365.9 million or 31.1 %, from € 1,176.8 million to € 810.9 million. Of total financial debt of € 1,777.6 million, € 1,518.8 million, or 85.5 %, is available to the Südzucker Group in the long-term. Shareholders' equity and non-current debt together amount to € 5,727 million and thus represent 145.0 % of non-current assets of € 3,951 million. Net financial debt on the balance sheet is 24.2 % of shareholders' equity, compared with 31.6 % in the previous year.

Balance sheet structure at 28 February (€ million)



(31) Lending and borrowing activities (financial instruments)

In addition to our ability to generate cash from operating activities, the Südzucker Group has the following financial instruments available to meet its overall funding requirements:

- Hybrid equity capital
- Bonds and convertible bonds
- Commercial paper (CP) program
- Syndicated lines of credit
- Bilateral bank credit lines

Financial instruments are normally acquired centrally and divided within the group. The major objectives of financing are to achieve a sustained increase in the value of the company, assuring the creditworthiness of the group, and liquidity.

Südzucker issued a hybrid bond with an total volume of € 700 million and a coupon of 5.25 % in summer 2005, which is shown fully as shareholders' equity in accordance with IFRS (see also disclosures in note (26) shareholders' equity).

€ million 28 February 2007	Due date	Coupon	Book value	Fair value	Nominal value
Südzucker Finance B. V. convertible bond	08.12.2008	3.00 %	243.0	266.2	250.0
Südzucker Finance B. V. bond	08.06.2010	6.25 %	298.1	317.6	300.0
Südzucker Finance B. V. bond	27.02.2012	5.75 %	498.4	531.2	500.0
Other bonds			46.3	46.3	46.3
Bonds			**1,085.8**	**1,161.3**	**1,096.3**

Südzucker has issued bonds with nominal values of € 300 million (6.25 %, due 8 June 2010) and € 500 million (5.75 %, due 27 February 2012) and a convertible bond of € 250 million (due 8 December 2008). The convertible bond has a 3 % coupon and can be converted into Südzucker shares at a price of € 20.23 per share. Other bonds having a nominal value of € 46.3 million (€ 45.3 million) and bearing interest at an average of 4.26 % were issued by Raffinerie Tirlemontoise S.A., Brussels, Belgium, and Steirerobst AG, Gleisdorf, Austria, and mature in 2007 through 2013. In total, the face value of all bonds at 28 February 2007 was € 1,096.3 million (€ 1,095.3 million) and their fair value as € 1,161.3 million (€ 1,221.1 million). Of the total bonds with book values of € 1,085.8 million (€ 1,080.1 million), bonds for a total of € 1,049.3 million (€ 1,044.6 million) are fixed-interest bearing and bonds for a total of € 36.5 million (€ 35.5 million) are floating rate securities.

In order to control seasonal fluctuations in liquidity as part of daily financial management, financing is raised by overnight and term deposits, fixed rate loans or by issuing commercial paper (CP). The CP program has a total line of € 600 million and enables Südzucker AG to issue short-term debt securities either directly or for its account via Südzucker International Finance B.V., the Dutch group financing company, based on requirements and the market situation. There were no CP's issued at 28 February 2007.

Liabilities to banks at 28 February 2007 were € 690.2 million (€ 626.5 million) with an average interest of 3.82 % (3.64 %). Of these liabilities to banks, € 371.9 million (€ 256.1 million) were fixed-interest. The carrying values of liabilities to banks are the same as their fair values. At 28 February 2007 liabilities to banks of € 19.5 million (€ 22.4 million) were secured by mortgage rights and € 11.3 million (€ 2.6 million) by other rights.

In June 2006 we took advantage of the prolongation option of the syndicated credit line. This credit line of € 600 million was agreed with a banking consortium in July 2005 and was prolonged to July 2011. Without exception, all syndicate banks agreed to this prolongation. CropEnergies AG, our subsidiary, joined this credit facility in August 2006 as an alternate borrower and can use this credit line up to an amount of € 100 million. This credit line drawn down at 28 February 2007.

Of the liabilities from finance leases of € 1.6 million (€ 3.1 million), € 1.1 million (€ 1.7 million) are due within one year and € 0.5 million (€ 1.4 million) are due between one and five years. The leased assets (buildings, technical equipment and machinery) are included in property, plant and equipment at carrying values totalling € 5.5 million (€ 6.8 million). The difference between carrying value and liabilities results from the longer useful life of the assets compared with the shorter repayment period of the lease terms. The nominal value of minimum lease payments totals € 1.8 million (€ 3.5 million).

As part of daily treasury management deposit activities (market-rate overnight money, term deposits and securities investments) are carried out. Cash and cash equivalents have increased by € 371.4 million, or 80.9 %, compared with the previous year from € 458.9 million to € 830.3 million. These funds were used in March 2007 to pay beet instalments and the restructuring levy. The investments in securities totalling € 136.3 million (€ 74.0 million) include mainly investment fund units and equities and are available for sale.

The lending and borrowing activities (financial instruments) are typically subject to interest rate change, foreign currency and credit risk:

Interest rate change risk:
For fixed-interest rate deposits or loans there is a risk that a change in market interest rates will lead to a change in market price (interest-related fair value risk). On the other hand, variable-interest rate deposits or loans are not subject to price risk, as the interest rate is adjusted timely to market interest rates. However, due to fluctuations in short-term interest rates there is a risk relating to future interest payments (interest-related cash flow risk).

Currency risk:
Foreign currency risk is the risk of changes in fair values of balance sheet items induced by changes in exchange rates.

Credit risk:
Credit risk is the risk that a counterparty will be unable to pay. Credit risks arising from deposits, securities and receivables from derivative hedge transactions are minimised by only doing business with counterparties with first-class creditworthiness.

(32) Derivative instruments

Südzucker Group uses derivative instruments to a limited extent to hedge part of the risks arising from its operating activities and planned funding needs for its capital expenditures. Südzucker Group mainly hedges the following risks:

Interest-rate change risk on money market interest rates mainly resulting from fluctuations in liquidity levels during the campaign season, or existing or planned floating rate debt.

Foreign currency change risk that can primarily arise from sales of Isomalt, Palatinose, Raftiline/Raftilose and sugar in US $ and east-European currencies and from payment obligations in foreign currencies.

Product price change risk results in particular from changes to the world sugar market price, energy and grain prices.

Only normal market instruments are used for hedging purposes, such as interest-rate swaps, caps and futures, and foreign currency futures. These instruments are used within the framework of Südzucker's risk management system as laid down in Group guidelines, which set limits based on underlying business volumes, define authorisation procedures, prohibit the use of derivative instruments for speculative purposes, minimise credit risks and determine the content of internal reporting and segregation of duties. Reviews are carried out regularly to ensure compliance with these guidelines and the correct processing and valuation of transactions, and adherence to segregation of duties.

The nominal and market values of derivative instruments and their credit risks within the Südzucker Group are as follows:

€ million	Nominal volume		Fair value		Credit risk	
28 February	**2007**	2006	**2007**	2006	**2007**	2006
Interest rate hedges	31.0	255.9	(0.4)	(9.2)	0.1	0.0
Currency hedges	58.8	245.1	(0.2)	(1.9)	0.1	0.7
Product price hedges	6.1	107.2	(0.1)	(11.5)	0.0	0.2
	95.9	**608.2**	**(0.7)**	**(22.6)**	**0.2**	**0.9**

The decrease in nominal volumes of interest rate derivatives in 2006/07 of € 224.9 million to € 31.0 million (€ 255.9 million) results mainly from the decrease in use of interest-rate caps. The reduction in the nominal volume of currency and production-related derivatives of € 186.3 million to € 58.8 million (€ 245.1 million) and € 101.1 million to € 6.1 million (€ 107.2 million) is due to the EU's restrictive export policies.

The currency and product price derivatives hedge cash flows for up to one year and the interest rate hedges are for between one and 6 years.

The **nominal volumes** of derivative hedge instruments are the imputed call amounts upon which the payments are calculated. The hedged transaction and risk is not the nominal value itself, but rather the related price or interest-rate change.

Fair value is the amount that the Südzucker Group would have had to pay or would have received assuming the hedge transaction were unwound at the end of the year. As the hedge transactions are only carried out using normal market tradable financial instruments, the fair values have been determined using quoted prices on exchanges without offsetting any possible value changes relating to the underlying transaction being hedged.

Credit risks arise from the positive fair values of derivatives. These credit risks are minimised by only making financial derivative transactions with banks with first-class credit rankings.

Changes in values of derivative transactions made to hedge future cash flows (cash flow hedges) are initially recorded directly to a fair value reserve in equity and are only subsequently recorded in the income statement when the cash flow occurs. Their fair values at 28 February 2007 totalled a negative € 0.7 million (€ 22.6 million).

(33) Contingent liabilities and other financial commitments

Contingent liabilities and other financial commitments not recognised in the balance sheet are as follows:

€ million 28 February	2007	2006
Guarantees	6.5	19.8
Warranty commitments	2.1	2.1
Purchase order commitments for property, plant and equipment	183.2	69.5

The guarantees relate to third parties. We do not expect to have to make any performance payments, either from the guarantees or from the warranty commitments. Purchase orders for property, plant and equipment are primarily for completion of the bioethanol plants at Pichelsdorf, Austria, and Wanze, Belgium, as well as expanding the bioethanol pant in Zeitz, together with expenditures required at sugar factories in preparation for the next campaign. The increase compared with the previous year is mainly due to outstanding orders for the bioethanol plants.

Südzucker is exposed to possible obligations arising from various claims or proceedings which are pending or which could be asserted. Any estimates of future costs arising in this area are of necessity subject to many uncertainties. Südzucker makes provisions for such risks to the extent a loss is deemed probable and the amount can be reliably estimated.

Other notes

(34) Segment reporting

As set out in IAS 14 (Segment Reporting), segment information has been presented in accordance with internal reporting. At the beginning of 2006/07, segment reporting was expanded to include the fruit segment. We thus reflect the increasing importance of these operations. Südzucker Group now reports in three segments, sugar, special products and fruit. The sugar segment includes the core sugar business in Europe. The special products segment includes the bioethanol, Freiberger, functional food, PortionPack and starch divisions. The fruit segment covers the fruit juice concentrates and fruit preparations divisions. Liquid sugar and fondant activities in the Surafti division were allocated to the sugar segment (2005/06: special products). The previous year's figures have been adjusted accordingly.

Segment results are measured by their operating profit, i.e. profits before restructuring costs and special items and interest and investment income and expense. Operating margin is calculated as the percentage of operating profit to revenues. As for the previous year, transactions between segments (sales of € 215.2 million (€ 185.1 million)) are made at normal market conditions.

Segment assets and liabilities are derived from total assets and liabilities, less financial assets and liabilities, reflecting the centralised control over financial activities of all group companies. Additionally, segment assets and liabilities exclude investments in associated companies which cannot be directly allocated to a segment, as well as other investments, securities and loans, and current and deferred tax assets and liabilities.

Capital employed reflects operating capital tied up in the group. It consists of property, plant and equipment, including intangible assets, and working capital of the segment (inventories, trade receivables and other assets less trade accounts payable, other short-term liabilities and short-term provisions and accrued liabilities). ROCE (Return on capital employed) measures operating profit as a percentage of capital employed.

(35) Fees for services by the group external auditors

Fees in 2006/07 for services provided by the group's external auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft were made up of fees of € 0.6 million (€ 0.6 million) for the audits of the consolidated financial statements, of the financial statements of Südzucker AG and of its domestic subsidiaries. Other reporting and advisory fees of € 1.2 million (€ 0.2 million) related almost entirely to the CropEnergies AG IPO.

(36) Declaration of compliance per § 161 AktG

The declaration of compliance relating to the German Corporate Governance Code per § 161 AktG was submitted by the executive board and supervisory board on 23 November 2006. It can be downloaded by shareholders on the Internet at our homepage: http://www.suedzucker.de/investorrelations/de/governance/

(37) Related parties

A related party, as defined in IAS 24 (Related Party Disclosures), is Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG, Stuttgart (SZVG), which holds a majority of the shares in Südzucker AG by means of its own holding of Südzucker shares, and those shares held by it on trust for its co-operative members. Südzucker Unterstützungswerk, Frankenthal, Palatinate, (SUW), whose assets are used to support Südzucker employees and pensioners in instances of particular difficulty as well as for social activities, is also a related party. Some of the trustees are also members of Südzucker AG's executive board. Items recorded on the accounts held for SZVG and SUW at Südzucker AG in 2006/07 were cash received from dividends and business transactions. There is an agreement to pay interest on the balances on these accounts at normal market rates. Südzucker AG had liabilities to SZVG of € 28.0 million and to SUW of € 6.8 million at 28 February 2007.

The total compensation granted to members of the executive board by Südzucker AG for 2006/07 amounted to € 3.3 million. The variable component made up of 42 % of their fixed remuneration, calculated based on the dividend to be approved by the annual general meeting. Compensation to members of the executive board granted by subsidiaries totalled € 1.7 million.

Provisions for pensions of € 16.6 million relate to former members of Südzucker AG's executive board and their dependent relatives. Provisions for pensions for current executive board members amount to € 14.3 million. Additions in 2006/07 amounted to € 0.6 million. Payments to former members of Südzucker AG's executive board and their dependent relatives amounted to € 1.6 million in 2006/07.

Total compensation to members of Südzucker AG's supervisory board for 2006/07 was € 1.5 million.

The description of the remuneration system of the executive board and supervisory board is set out in the corporate governance report in the management report.

(38) Supervisory board and executive board

Supervisory board

Dr. Hans-Jörg Gebhard
Chairman
Eppingen
Chairman of the Association of Süddeutsche Zuckerrübenanbauer e. V.

Board memberships[1]
SZVG Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG, Ochsenfurt (Chairman)
VK Mühlen AG, Hamburg

Dr. Christian Konrad
Deputy chairman
Vienna, Austria
Chairman of the supervisory board of AGRANA Beteiligungs-AG, Vienna

Board memberships[2]
BAYWA AG, Munich
RWA Raiffeisen Ware Austria AG, Vienna, Austria
RWA Raiffeisen Ware Austria Handel und Vermögensverwaltung reg. Gen.m.b.H., Vienna, Austria
Siemens Österreich AG, Vienna, Austria
SZVG Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG, Ochsenfurt

Franz-Josef Möllenberg[3]
Deputy chairman
Rellingen
Chairman of the Food and Catering Union

Board memberships
Kraft Foods Deutschland GmbH, Bremen (deputy chairman)
Kreditanstalt für Wiederaufbau, Frankfurt am Main

Heinz Christian Bär
Karben - Burg Gräfenrode
Vice president of the Deutscher Bauernverband e.V.

Board memberships
LBH Steuerberatungsgesellschaft mbH, Friedrichsdorf
Vereinigte Hagelversicherung VVaG, Gießen

Gerlinde Baumgartner[3]
Osterhofen
Member of the works council of the Plattling works of Südzucker AG Mannheim/Ochsenfurt

Dr. Ulrich Brixner
Dreieich
Former chairman of the executive board of DZ BANK AG

Board memberships
Banco Cooperativo Español S.A., Madrid, Spain
DZ BANK Ireland plc., Dublin, Ireland (Chairman)
Equens Nederlands B.V., LB Utrecht, The Netherlands
Equens N.V., LB Utrecht, The Netherlands
Landwirtschaftliche Rentenbank, Frankfurt am Main
Natixis S.A., Paris, France

[1] Board memberships other than within the Südzucker Group.
[2] Board memberships other than within the Südzucker Group and Raiffeisen-Holding Niederösterreich Group, Vienna.
[3] Employee representative

Ludwig Eidmann
Groß-Umstadt
Chairman of the executive board of SZVG Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG
Chairman of the Association of the Hessen-Nassauischen Zuckerrübenanbauer e.V.

Wolfgang Endling[3]
Hamburg
Divisional officer of the Food and Catering Union

Board memberships
Nestlé Deutschland AG, Frankfurt am Main
Reemtsma Cigarettenfabriken GmbH, Hamburg

Dr. Jochen Fenner
Gelchsheim
Chairman of the Association of Fränkische Zuckerrübenbauer e.V.

Egon Fischer[3]
Offstein
Deputy chairman of the works council of ZAFES Offstein of Südzucker AG Mannheim/Ochsenfurt

Manfred Fischer[3]
Feldheim
Chairman of the works council of Südzucker AG Mannheim/Ochsenfurt

Erwin Hameseder
Mühldorf, Austria
Managing director of Raiffeisen-Holding Niederösterreich-Wien reg. Gen.m.b.H.

Board memberships
Erste n.oe. Brandschaden Versicherungs Aktiengesellschaft, Vienna, Austria
Flughafen Wien AG, Vienna, Austria
„Health Care Company" KRANKENHAUS BETRIEBSFÜHRUNGS-AKTIENGESELLSCHAFT, Vienna, Austria
VK Mühlen AG, Hamburg

Hans Hartl[3]
Ergolding
State area chairman of the Food and Catering Union in Bavaria

Board memberships
Brau Holding International AG, Munich (Deputy chairman)
Südfleisch Holding AG, Munich (Deputy chairman)

Klaus Kohler[3]
Bad Friedrichshall
Chairman of the works council of the Offenau works Südzucker AG Mannheim/Ochsenfurt

Erhard Landes
Donauwörth
Chairman of the Association of bayerische Zuckerrübenanbauer e. V.

Ulrich Müller
Illsitz
Chairman of the Association of the Sächsisch-Thüringische Zuckerrübenanbauer e.V.

Board memberships
Raiffeisenwarengesellschaft mbH Gößnitz, Gößnitz
SZVG Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG, Ochsenfurt (Deputy chairman)

Dr. Arnd Reinefeld[3]
Offstein
Manager of the Groß-Gerau, Offenau and Offstein works of Südzucker AG Mannheim/Ochsenfurt

Board memberships
TÜV Rheinland Berlin Brandenburg Pfalz e.V. (Landesverwaltungsrat Rheinland-Pfalz), Cologne

Ronny Schreiber[3]
Einhausen
Chairman of the works council of the Mannheim head office of Südzucker AG Mannheim/Ochsenfurt

Ernst Wechsler
Westhofen
Chairman of the Association of Hessisch-Pfälzische Zuckerrübenanbauer e.V.

Roland Werner[3]
Saxdorf
Chairman of the works council of the Brottewitz works of Südzucker AG Mannheim/Ochsenfurt

[1] Board memberships other than within the Südzucker Group.
[2] Board memberships other than within the Südzucker Group and Raiffeisen-Holding Niederösterreich Group, Vienna.
[3] Employee representative

Executive board

Dr. Theo Spettmann (Spokesman)
Ludwigshafen

Board memberships[1]
Gerling Vertrieb Firmen und Privat AG, Cologne (deputy chairman)
Gerling Vertrieb Industrie AG, Cologne (deputy chairman)
Karlsruher Versicherung AG, Karlsruhe
Mannheimer AG Holding, Mannheim

Dr. Christoph Kirsch
Weinheim/Bergstraße
to 27 July 2006

Board memberships[1]
Baden-Württembergische Wertpapierbörse GmbH, Stuttgart
Vossloh AG, Werdohl

Thomas Kölbl
Mannheim

Board memberships[1]
Baden-Württembergische Wertpapierbörse GmbH, Stuttgart

Prof. Dr. Markwart Kunz
Worms

Dipl.Ing. Johann Marihart
Limberg, Austria

Board memberships[1]
BBG Bundesbeschaffungsges. m. b. H., Vienna, Austria
LEIPNIK-LUNDENBURGER INVEST Beteiligungs-AG, Vienna, Austria
Österreichische Forschungsförderungsgesellschaft mbH, Vienna, Austria
Österreichische Nationalbank AG, Vienna, Austria
Ottakringer Brauerei AG, Vienna, Austria
TÜV Österreich, Vienna, Austria (chairman)
Universität für Bodenkultur, Vienna, Austria

Dr. Rudolf Müller
Ochsenfurt

Board memberships[1]
K+S Aktiengesellschaft, Kassel

Frédéric Rostand
Paris, France
to 3 April 2007

Board memberships[1]
Société Bic S.A., Clichy, France

(39) Significant investments of the Südzucker Group

The significant investments are listed by sub-group.

	Location	Country	SZ share (%)	Indirect holding (%)
Südzucker AG	Mannheim/Ochsenfurt	Germany		
Wolteritzer Agrar GmbH	Rackwitz	Germany		74.8
Agrar und Umwelt AG Loberaue	Rackwitz	Germany	99.9	
Südzucker Moldova S.A.	Drochia	Moldova	78.0	
BGD Bodengesundheitsdienst GmbH[1]	Mannheim	Germany	100.0	
REKO Erdenvertrieb GmbH[1]	Regensburg	Germany	100.0	
Mönnich GmbH[1]	Kassel	Germany	100.0	
Südzucker International GmbH[1]	Ochsenfurt	Germany	100.0	
AGRANA Zucker, Stärke und Frucht Holding AG	Vienna	Austria	50.0	
Raffinerie Tirlemontoise S.A.	Brussels	Belgium	99.6	
Hottlett Sugar Trading N. V.	Berchem, Antwerp	Belgium		62.6
Candico N. V.	Merkesem	Belgium		75.5
PortionPack, Belgium N. V.	Herentals	Belgium		100.0
Suikers G. Lebbe S.A.	Oostkamp	Belgium		99.9
PortionPack Europe Holding B. V.	Oud-Beijerland	The Netherlands	33.0	67.0
Atlanta Dethmers Beheer B. V.	Groningen	The Netherlands		100.0
James Fleming & Co. Ltd.	Midlothian	Great Britain		100.0
Sugarfayre Ltd.	Northumberland	Great Britain		100.0
W. T. Mather Ltd.	Lancashire	Great Britain		100.0
NOUGAT CHABERT & GUILLOT S.A.	Montélimar	France		100.0
SAS NOUGATS DELAVANT	Montélimar	France		100.0
Saint Louis Sucre S.A.	Paris	France	98.5	
Saint Louis Sucre S. N. C.	Paris	France		100.0
Saint Louis Sucre International S.A.S	Paris	France		100.0
RYSSEN ALCOOLS SAS	Paris	France		100.0
Sucreries de Bourgogne S.A.	Aiserey	France		50.0
Sucrerie et Distillerie de Souppes-Ouvré Fils S.A.	Paris	France		44.5
Eastern Sugar B. V.	Breda	The Netherlands		49.5
Südzucker Polska Sp. z o.o.	Warszawa	Poland	100.0	
Cukier Malopolski S.A.	Kazimierza Wielka	Poland	96.3	
Cukrownia Ropczyce S.A.	Ropczyce	Poland	52.7	
Cukrownia Strzyzow S.A.	Strzyzow	Poland	83.0	
Slaska Spolka Cukrowa S.A.	Wroclaw	Poland	98.5	
Cukrownia Cerekiew S.A.	Cerekiew	Poland		99.1
Cukrownia i Rafineria Chybie S.A.	Chybie	Poland		83.6
Cukrownia Otmuchów S.A.	Otmuchów	Poland		89.7
Cukrownia Racibórz S.A.	Racibórz	Poland		87.7
Cukrownia Strzelin S.A.	Strzelin	Poland		93.7
Cukrownia Świdnica S.A.	Pszenno	Poland		86.3
Cukrownia Wroclaw S.A.	Wroclaw	Poland		84.9
Cokrownia Wróblin S.A.	Lewin Brzeski	Poland		86.9

[1] Exemption from publishing financial statements per § 264 para. 3 HGB
[2] Majority of voting share
[3] Exemption per § 264b HGB

	Location	Country	SZ share (%)	Indirect holding (%)
AGRANA Beteiligungs-AG[2]	Vienna	Austria	37.8	
Sugar				
AGRANA Zucker GmbH	Vienna	Austria		100.0
Magyar Cukogyárto és Forgalmazó Zrt	Budapest	Hungary		87.3
Moravskoslezské Cukrovary a.s.	Hrusovany nad Jevisovkou	The Czech Republic		97.7
S. C. Agrana Romania S.A.	Buzau	Romania		91.3
Slovenske Cukrovary a.s.	Rimavska Sobota	Slovakia		100.0
Starch				
AGRANA Stärke GmbH	Vienna	Austria		100.0
HUNGRANA Keményitö és Isocukorgyártó és Forgalmazó Kft.	Szabadegyhaza	Hungary		50.0
SC AGFD Tandarei S.r.l.	Tandarei	Romania		100.0
AGRANA Bioethanol GmbH	Vienna	Austria		100.0
Fruit				
AGRANA Fruit S.A.	Paris	France		100.0
AGRANA Fruit France S.A.	Paris	France		100.0
AGRANA Fruit Services S.A.S	Paris	France		100.0
AGRANA Fruit US Inc.	Brecksville	USA		100.0
AGRANA Fruit Mexico, S.A. de C.V.	Michoacan	Mexico		100.0
AGRANA Fruit Australia Pty Limited	Central Mangrove	Australia		100.0
AGRANA Fruit Germany GmbH	Konstanz	Germany		100.0
AGRANA Fruit Austria GmbH	Gleisdorf	Austria		100.0
AGRANA Fruit Ukraine TOF	Winniza	Ukraine		100.0
o.o.o. AGRANA Fruit Moscow Region	Moscow	Russia		100.0
Dirafrost FFI	Herk-de-Stad	Belgium		100.0
AGRANA Juice Service & Logistik GmbH	Bingen	Germany		100.0
AGRANA Juice GmbH	Gleisdorf	Austria		100.0
Südzucker Functional Food Holding GmbH	Mannheim	Germany	100.0	
Palatinit GmbH[1]	Mannheim	Germany	100.0	
ORAFTI Oreye S.A.	Oreye	Belgium		100.0
ORAFTI Chile S.A.	Santiago	Chile		100.0
Remy Industries N.V.	Wijgmaal	Belgium		100.0
CropEnergies AG	Mannheim	Germany	70.6	
Südzucker Bioethanol GmbH	Zeitz	Germany		100.0
BioWanze S.A.	Brussels	Belgium		100.0
BIOENERGY LOON-PLAGE S.A.S	Paris	France		100.0
Freiberger Holding GmbH[1]	Berlin	Germany	100.0	
Freiberger Lebensmittel GmbH & Co. Prod.-Vertr. KG[3]	Berlin	Germany		100.0
Freiberger Lebensmittel GmbH[1]	Berlin	Germany		100.0
Prim AS Tiefkühlprodukte Ges.m.b.H.	Oberhofen	Austria		100.0
Stateside Foods Ltd.	Westhoughton	Great Britain		100.0

A complete list of investments as required by § 313 para. 2 nos. 1 through 4 and para. 3 HGB is published in the electronic version of the Federal Gazette.

(40) Events after the balance sheet date

Despite additional market potential from industrial sugar production, existing production capacities of Südzucker Group are higher than long-term production possibilities. The executive board of Südzucker is resolutely continuing its review of production structures within the group and has recommended to the supervisory board that production at Groß-Gerau and Regensburg should cease after the 2007 campaign. The further financial effects of the sugar market reform on our structures are currently dependent on the effectiveness of the EU commission's recommendations on improving the attractiveness of the restructuring fund.

Frédéric Rostand, member of the executive board of Südzucker AG and the Südzucker subsidiary Saint Louis Sucre S.A., Paris, resigned in April 2007 in order to pursue new activities outside the Südzucker Group.

(41) Proposed appropriation of earnings

Retained earnings of Südzucker AG Mannheim/Ochsenfurt amount to € 104.145.241,81. It will be proposed to the annual general meeting that a dividend of € 0.55 per share be distributed and be appropriated as follows:

Distribution of a dividend of **€ 0.55 per share** on 189,353,608 ordinary shares	€ 104,144,484.40
Earnings carried forward	€ 757.41
Unappropriated earnings	**€ 104,145,241.81**

The dividend will be paid on 25 July 2007.

Mannheim, 8 May 2007
THE EXECUTIVE BOARD

Dr. Spettmann   Kölbl   Prof. Dr. Kunz   Marihart   Dr. Müller

The financial statements and the management report of Südzucker AG Mannheim/Ochsenfurt, prepared in accordance with German accounting principles and upon which PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, has issued an unqualified auditors' report, will be submitted to the operator of the electronic version of the Federal Gazette (Bundesanzeiger Verlagsgesellschaft mbH, Cologne) and published in the electronic version of the Federal Gazette. It can be received from the company on request.

Auditors' report

We have audited the consolidated financial statements prepared by Südzucker Aktiengesellschaft Mannheim/Ochsenfurt, Mannheim, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 March 2006 to 28 February 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a para. 1 are the responsibility of the executive board. Our responsibility is to express an opinion on he consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as in accordance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements, prepared in accordance with German principles of proper accounting, and in the group management report, are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the executive board, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a para. 1 HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 11 May 2007
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Frings)	(Wegener)
Wirtschaftsprüfer	Wirtschaftsprüfer

Glossary

ACP countries | African, Caribbean and Pacific countries.

Bond | Securitised, interest-bearing debt security be repaid at nominal value. Bonds are issued by many entities, including public bodies, banks and companies for long-term funding purposes and can be subsequently traded by bearers. Bonds can be issued with many variables including maturity, amount and type of interest (fixed or variable), repayment pattern, etc..

Beneo™ | Brand name for → inulin and → oligofructose.

Bioethanol | Alcohol produced from renewable raw materials. Raw materials include, at least theoretically, sugar, starch and cellulosed-based biological substances. Südzucker uses corn and sugar-based syrup as raw materials.

Capital employed | Capital employed is operating capital used in the group. It includes property, plant and equipment including intangible assets and working capital (inventories, receivables and other assets less trade accounts payable, other current, non-interest bearing liabilities and current provisions). Capital employed is disclosed by segment.

Cash flow | Amount used to evaluate the financing and earnings power of a company, showing the extent to which net earnings for the year lead to cash flows from operating activities. Südzucker calculates cash flow by adjusting net earnings for the year for items not producing or requiring cash. Hence, depreciation, impairment losses and reversals of impairment losses on property, plant and equipment, changes in long-term provisions and deferred tax liabilities and other items of income and expenditures not affecting cash are eliminated from group net earnings for the year. Cash flow from operating activities can be used to finance capital expenditures, repay liabilities or distribute dividends.

Corporate governance | Responsible corporate management and controls. The entire set of principles and rules relating to the organisation, behaviour and transparency, developed in the interests of shareholders and which, taking account of the decision-making ability and efficiency of management, is aimed at achieving a balanced relationship between management and control at the highest management level. The aim is to increase the transparency of corporate management, improve co-operation between the entity's management bodies and ensure efficient controls over corporate management. Compliance with the corporate governance principles is a significant means of strengthening the trust of shareholders, customers, employees and the public in the management and control of an entity.

Corporate governance code | Code introduced by legislation in 2002, mainly setting out legal requirements on management and control of listed German companies (management) and, furthermore, containing internationally- and nationally-recognised standards for sound and responsible corporate management. There is a legal requirement for all German listed companies to declare to what extent these recommendations have been, and will be, implemented.

CP | Commercial paper; marketable, unsecured bearer bonds, issued as short-term third-party debt. CPs are revolving, with a typical term of between one week and 12 months.

Consolidation | Consolidated financial statements are prepared as if all group companies make up a single entity. Consolidation is the accounting method of eliminating all internal group transactions. All expenses and income and intercompany profits from supplies and services between group companies are eliminated by offset (consolidation of income and expenses and elimination of intercompany profits). Investments in group companies are offset against shareholders' equity (equity consolidation) and all intercompany receivables and liabilities are eliminated (assets and liabilities consolidation), as such legal relationships cannot exist between one legal person. The consolidated balance sheet and consolidated income statement show the total of the remaining items in the financial statements.

Convertible bond | Bond which can be converted into equity shares of the issuer under pre-determined conversion conditions at a pre-determined conversion price.

CropEnergies AG | Subsidiary of Südzucker Group and one of the largest producers of bioethanol in Europe. CropEnergies produces bioethanol for the fuel market from bio-mass (grain and sugar-based syrup).

CropPower85 | Brand name for a fuel produced by CropEnergies AG for flexible fuel vehicles. CropPower85 is made up of 85 % bioethanol mixed with 15 % petrol.

DAX/MDAX | German equities index/mid-cap DAX; the German equities index, launched in 1998, combines the 30 largest German shares by market capitalisation and order book turnover. The DAX is thus the leading index for the German stock exchange (Deutsche Börse). The MDAX includes 50 further equities, primarily from classical sectors at the next size level below the entities included in the DAX, and thus reflect share price movements of medium-sized entities (mid caps).

Declassification | Reduction in EU sugar quotas for a limited period of time.

Derivatives | Derivative financial instruments; financial products whose fair value can either be determined based on classical underlying instruments such as equities or raw materials or from market prices such as interest rates or exchange rates. There are many forms of derivatives, including forwards, options or futures. Derivatives are used in Südzucker's financial risk management to limit risks.

Non-EU countries | Used in this report to describe countries which are not EU member states.

EBIT | Earnings before interest and taxes; ratio measuring the operating income potential of a company in which income tax expense and financial results are eliminated from net earnings for the year. EBIT is of major importance for comparing companies with different financial structures or subject to different tax systems. Operating profit as used by Südzucker is essentially the same as EBIT.

Emission | Issue of new securities, particularly equities and bonds.

Equity method | Measurement method for investments in entities in which the investor has a significant influence over the operating and financial policies. The carrying value of the investment is increased or decreased by the share of net earnings or losses, whereby distributions by the investee reduce the investment without affecting the income statement.

Earnings per share | Earnings after income taxes attributable to the shareholders of Südzucker AG relating to one share. Earnings per share are calculated based on the profit for the year after minority interest in proportion to the number of equity shares in circulation during the year.

ETBE | Environmentally-friendly octane improver made from bioethanol.

Excess sugar | Sugar which is produced over and above quota and industrial sugar. It can initially be transferred to the next sugar year, used for regions at the extreme edge of the EU, or exported as part of the world trade organisation's quantity limitation.

Flexible fuel vehicle | Vehicle equipped with an engine management system permitting the addition of up to 85 % bioethanol to normal petrol.

Food ingredients | Food additives mainly for the processing industry.

Fruit-juice concentrates | Supplied to the fruit-juice and drinks industry and forming the basis for fruit-juice drinks.

Fruit additives | Preparation of high-quality fruit in liquid or solid form, mainly supplied to the ice cream and dairy-processing industries.

Functional food | Food or food ingredients with health applications.

galenIQ™ | Product range of transmitter and additive materials for the pharmaceutical industry developed from isomalt.

Glycemic | Blood-sugar raising effect.

Gras status | Generally recognised as safe-status, safety certificate issued by the well-known American FDA (Food and Drug Administration).

Hybrid capital | Subordinated corporate bond which, due to its unlimited term, has characteristics similar to shareholders' equity. As cancellation is only possible by the issuer at predetermined dates, hybrid capital is treated as shareholders' equity in accordance with IFRS.

IAS | International Accounting Standards. International Accounting Standards set by the International Accounting Standards Board (IASB), an independent and privately-financed committee formed in London in 1973. The IAS continues to exist within IFRS, required standards in Europe since 2005.

IFRS | International Financial Reporting Standards, which have formed the basis for preparation of consolidated financial statements of all listed companies in Europe since 2005. This should lead to increased conformity of international accounting standards and improve comparability of financial statements of capital market-oriented entities. IFRS include and supplement International Accounting Standards already issued since 1973.

Income from associated companies | Consists of the investor's share of net earnings or losses of those entities included in the consolidated financial statements using the equity method.

Industrial sugar | Sugar produced outside the quota system, supplied to the chemical and pharmaceutical industries and used for producing bioethanol, starch, citronic acid and vitamins.

Intervention | Sale of sugar at intervention/reference price to state-owned bodies. This instrument remains as an additional measure through to 2009/10 in the SMR.

Inulin | Pre-biotic ballast substance from chicory root with proven healthy properties.

Inutec® | Inulin derivative for technical applications.

Isomalt® | The only sugar substitute produced from sugar and which tastes as natural as sugar. It is dental-friendly, reduces calories and has hardly any effects on blood-sugar levels. The most commonly used raw material in sugar-free candies worldwide, it is also used in chewing gum, chocolate and bakeries.

LDCs | Least developed countries.

Market reduction | With this instrument the EU intends to remove sugar quantities from the market in order to retain a structural market balance. The final reduction percentage of quota sugar is determined at the latest on 31 October of the related year.

Minimum beet price | Fixed price which sugar producers must pay to sugar farmers for quota beet delivered under the terms of the sugar market regulation.

Net financial debt | Generally deemed to be a comparison of financial liabilities with financial assets. Südzucker determines net financial debt as the sum of all financial liabilities, less cash and cash equivalents and securities.

Non-quota sugar | Industrial sugar and excess sugar.

Oligo-fructose | Pre-biotic ballast substance from chicory root with proven healthy properties.

Operating profit | Whereas EBIT is net earnings for the year adjusted for interest and income taxes in order to establish comparability between entities with different financial structures and subject to different income tax systems, operating profit adjusts income from operating activities to exclude special items not regularly affecting income. This permits comparison of operating results with other periods and serves as an instrument for internal control of the business.

Options | Derivatives by which the holder acquires the right to buy an asset, such as a share, in the future (call option) or the right to sell an asset in the future (put option). As the holder, in contrast to the writer, of an option enters into no obligation apart from paying the option premium, this is a contingent forward contract. Options can be entered into for assets as well as for market prices, such as foreign currency rates or interest rates or, for example, agricultural raw materials.

P:E ratio | Price earnings ratio. Important ratio for stock exchange values of equities, particularly used for comparing companies with similar business profiles within an industry (comparable companies). The stock market price is compared to earnings per share in order to determine the price earnings ratio. In the same way, the price earnings ratio is calculated as the relationship of market capitalisation and earnings for the year after deduction of minority interest. Generally, a share having a lower P:E ratio compared with the average comparable company is seen as favourable, whereas one with a higher P:E ratio is viewed as unfavourable.

Palatinit | 100 % subsidiary of Südzucker Group producing and marketing functional carbohydrates worldwide. These are used in the food, drink and pharmaceutical industries. The product portfolio includes (→) ISOMALT, (→) Palatinose™ and (→) galenIQ™.

Palatinose™ | The only low glycemic carbohydrate which supplies the body with long-lasting energy from glucose. Furthermore, Palatinose™ is dental-friendly and is solely produced from sugar. The main application areas are drinks in the functional food and wellness areas.

Production levy | The EU commission charged a production levy of € 12 per tonne of sugar for the 2007/08 sugar year.

ProtiGrain® | Brand name for high-value animal feed marketed by CropEnergies and arising from producing bioethanol from corn.

Quotas | The sugar market regulation determines a quantity of sugar and isoglucose for each member state, for which there is a sales and price guarantee. These quantities are in turn divided amongst the entities and are called quotas. Quotas serve to limit production and avoid excesses.

Quota beet | Sugar beet needed to produce the sugar quota allocated.

Quota sugar | Sugar allocated to a specific financial year in which quotas are produced and marketed.

Rating | Normal estimate of creditworthiness of a creditor on international capital markets and bonds issued by these creditors by rating agencies using standardised evaluation ratios such as, for example, cash flow and debt situation. The creditworthiness evaluation is made on a scale from, for example, AAA or Aaa (highest creditworthiness for long-term ratings) to D or C (lowest creditworthiness for long-term ratings). Ratings are aimed at assisting investors to evaluate the credit risk of the company itself as well as its current and non-current securities issued as third-party financing.

Raw sugar value | Based on unrefined raw sugar.

Reference price | Forecast of intended sugar price.

Restructuring levy | Levy to finance the restructuring fund. The sugar producers must pay this levy for each quota tonne from 2006/07 through 2008/09.

Restructuring assistance | Entities which return quotas to the restructuring fund on a voluntary basis and as a company-specific decision receive a restructuring assistance.

Restructuring fund | In order to achieve market stability on the EU sugar market by 2009/10, the fund should purchase quotas from EU member states. It is financed by the restructuring levy charged to sugar producers.

ROCE | Return on capital employed; used within Südzucker Group to measure the profitability of a segment. This is calculated by comparing operating profit with assets employed in the segment. This latter amount is the total of non-current assets (excluding financial assets) and working capital → Capital employed

Sugar exports | These are limited in the new sugar market regulation to the EU's world trade organisation obligations of a quantity of 1.374 million tonnes of sugar.

Theoretical sugar yield | Sugar content of beet in percentage multiplied by the quantity of beet harvested in tonnes and divided by the area under cultivation in hectares. This does not reflect the losses incurred in processing sugar.

Transfer | An entity can resolve to wholly or partly transfer the excess part of sugar production over its sugar quota to the following sugar year. This is then treated as the first quantity produced within the quota for the following sugar year.

World market prices | Prices for securities or goods which make up the balance of supply and demand. For tradable goods in highly-liquid markets the world market price is determined by daily market prices.

Working capital | The difference between current assets and current, non-interest bearing liabilities. Working capital includes inventories, receivables and other assets less trade accounts payable, other current non-interest bearing liabilities and current provisions. The amount demonstrates to what extent an entity has its capital tied up in the revenue-generating process. Positive working capital indicates that products used in the revenue-generating process are paid before cash is received from marketing the finished products.

WPA | Economic partner treaty. Replaces the Cotonou treaty of the EU with ACP countries valid up to the end of 2007. The aim of this WTO-related WPA is to establish a free-trade zone between the EU and ACP states.

WTO | World trade organisation.

White sugar value | Based on refined sugar, and is 10 % lower than the raw sugar value.

Sugar year | 2006/07 consisted of a one-time 15-month period of 1 July 2006 through 30 September 2007. As from 2007/08, the sugar year begins on 1 October and ends on 30 September.

Forward looking statements/forecasts

This annual report contains forward looking statements based on assumptions and estimates made by the executive board of Südzucker AG. Although the executive board may be convinced that these assumptions and estimates are reasonable, future actual developments and future actual results may vary considerably from the assumptions and estimates due to many external and internal factors. For example, matters to be mentioned in this connection include current negotiations relating to the world trade agreement (WTA), changes to the overall economic situation, changes to market regulations, consumer behaviour and state food and energy policies. Südzucker AG takes no responsibility and accepts no liability for future developments and future actual results achieved being the same as the assumptions and estimates included in this annual report.

Photographs: Adrian Bischoff, Frankfurt

Layout and design: trio-group, Mannheim
Printing and processing: Color Druck, Leimen

Financial calendar

1st quarter report 2007/08	12 July 2007
Annual general meeting 2006/07	24 July 2007
2nd quarter report 2007/08	11 October 2007
3rd quarter report 2007/08	15 January 2008
Press and analysts conference for 2007/08	28 May 2008
1st quarter report 2008/09	10 July 2008
Annual general meeting 2007/08	24 July 2008

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