

# 1<sup>st</sup> Quarter Report

of the AGRANA Group for the period ended 31 May 2003



*Dear Shareholder,  
Dear Sir or Madam,*

The General Meeting of Shareholders on 10 July 2003 declared a distribution of € 1.80 per no-par share for the 2002/03 financial year. That represents an increase versus the previous year following the addition of a shareholders bonus of € 0.50 per no-par share.

At the beginning of April 2003, AGRANA acquired a 99 per cent stake in Danish fruit juice concentrates manufacturer *Vallø Saft A/S*. Furthermore, the acquisition of a 25 per cent stake in *Steirische Agrarbeteiligungsgesellschaft m.b.H.* with effect from 3 June 2003 increased the Group's overall stake in *Steirerobst AG* to approximately 33 per cent (whereby that acquisition is still subject to approval by the competition regulators).

The accession agreements with the ten candidates for EU membership were signed in Athens on 16 April 2003. As a result, most of the strategic investments undertaken by AGRANA in its core sugar and starch markets in the CEECs since 1990 will now become investments within the EU Single Market. The acceding CEECs' national parliaments still need to ratify the agreements in time for their official entry into the Union on 1 May 2004, but until then, the ten countries concerned will have "observer" status, which means that they will be entitled to participate in all deliberations within the EU as non-voting participants but with the right to submit proposals.

AGRANA's revenues during the first quarter of the current financial year (1 March through 31 May 2003) were € 52 million down on 2002/03. Most of the reduction was due to the fact that two months (January and February) were added to the 2002/03 financial years of the *AGRANA International* companies as their balance-sheet dates were also brought into line with the Consolidated Group's balance-sheet date (the last day of February). They thus had first quarters of five months last year and three months this year. Based on genuinely comparable periods, the fall-off in revenues came to € 12.3 million or 6 per cent and was largely attributable to a drop in sales by the Group's Sugar Division in Austria. Profit from operating activities fell by € 9.7 million in the first accounting quarter and by € 1.8 million based on comparable periods (March through May). The decline took place within the *AGRANA International* companies, whose markets suffered year-on-year setbacks in both volumes and prices.

## **The current financial year**

### **AGRANA Zucker und Stärke AG**

During the first quarter of 2003/04, the world market price of sugar retreated from US\$ 232 per metric ton (monthly average in March 2003) to US\$ 219 per metric ton (monthly average in May 2003). At the same time, the US dollar weakened.

Because it had proven impossible to verify the origin of sugar exported by Serbia, the EU Commission suspended the preferential (zero) tariff on sugar imported into the EU from Serbia for three months from 8 May 2003.

The reform of CAP finalized at the end of June 2003 will also affect the starch sector. The cereals intervention price, the minimum starch potato price and the production refund for starch have been retained. In contrast to direct payments for cereals, 60 per cent of direct payments for starch potatoes will remain coupled to production.

The duty-free allowance for maize imports from Hungary to the EU within the scope of the double-zero agreements was increased from 450,000 to 495,000 metric tons on 1 July 2003.

### **The Austrian Sugar Division**

We concluded beet contracts with 9,700 growers for an area under beet of 43,400 hectares for the 2003 harvest. That was 3 per cent less than the previous year's total area of 44,600 hectares. Despite dry weather in early summer, the crop is growing very well, so we are expecting a good beet harvest of 2.7 million metric tons.

We have set aside roughly € 13 million for capital investments and major repairs at our three Austrian sugar factories (Hohenau, Leopoldsdorf and Tulln) this year. That outlay will focus primarily on replacing equipment and on energy and hygiene optimization in sugar-making processes.

Domestic sugar sales during the first quarter of 2003/04 were 3.7 per cent down on the previous year's figure of 76,800 metric tons at 73,900 metric tons. The fall-off was primarily apparent in the soft drinks segment as well as in the confectionery segment in the wake of extremely hot weather in May. In the beverages sector, people increasingly consume bottled water rather than carbonated drinks once the temperature goes above about 28°C. By the end of June the 7 per cent drop in household sugar sales still being reported up to the end of May had been balanced out by a very good fruit harvest (for example, the apricot harvest exceeded the long-term average).

#### **The Austrian Starch Division**

The Starch Division concluded growing contracts for 209,000 metric tons of starch potatoes (2002/03: 213,500 metric tons) with 1,942 growers. Given a good starch yield, we expect the resulting output of potato starch to match our EU quota of 47,691 metric tons. It proved possible to increase contracted volumes of potatoes for the food industry by 6.5 per cent to 11,900 metric tons, and we increased contracted volumes of organic potatoes from 6,600 metric tons in 2002 to 7,500 metric tons this year. The potatoes were planted under ideal conditions. The crop is growing well in the *Waldviertel* region and Upper Austria, and its development is average in the *Weinviertel* region.

The Aschach maize starch factory is being operated at full capacity this financial year. We estimate its current total annual maize processing capacity to be 270,000 metric tons.

First-quarter starch sales were up on the year in both volume and value terms.

Capital investments by the Starch Division this financial year will focus primarily on the first stage of the next increase in capacities at the Aschach maize starch factory, the installation of a drum drying plant in Gmünd, and the requisite investments in waste water processing, steep liquor concentration and hygiene at the maize starch factory in Hörbranz. A total of € 24 million has been earmarked for capital investments.

#### **AGRANA International**

We signed beet-growing contracts for a total of 2.3 million metric tons of beet in Hungary, the Czech Republic, Slovakia and Romania for the 2003 harvest (previous year: 2.2 million metric tons). If the beet has the usual sugar content, that harvest will yield 310,000 metric tons of sugar, and approximately another 120,000 metric tons of white sugar will be refined from imported unrefined sugar in Romania. Given AGRANA's present market shares, the resulting total will ensure our ability to meet domestic demand in those countries. The beet will be processed in seven sugar factories. Every country's market weakened in both volume and price terms during the first few months of this financial year.

The starch factory at Tandarei has been processing an average of 86 metric tons of starch a day, exceeding its projected daily output of 72 metric tons. Development of the domestic market in Romania is proceeding to plan, but exports to the Ukraine have not taken place. Our goal is to make full all-year-round use of the factory's capacities.

A total of € 27 million has been allocated for capital investments and major repairs in AGRANA International's sugar and starch divisions during the 2003/04 financial year. Outlay will focus primarily on energy use, environmental protection and the optimization of costs.

#### **AGRANA Fruit Division**

At the beginning of April 2003, AGRANA acquired 99 per cent of Danish fruit juice and fruit juice concentrates manufacturer *Vallø Saft A/S*, and the Group's stake in Styrian fruit juice concentrates and fruit preparations manufacturer *Steirerobst AG* was increased to a total of 33 per cent as of 3 June 2003 (whereby the increase in the stake in *Steirerobst AG* is still subject to approval by the competition regulators). Those acquisitions were a continuation of AGRANA's strategic development of a third business segment, namely the processing of agricultural raw materials at the primary stage.

## Business performance

### Consolidated Income Statement

for the First Quarter of the 2003/04 Financial Year

	Q1 2003/04 €000	Q1 2002/03 €000
1. Sales revenues	193,648	245,886
2. Changes in stocks of finished and unfinished products	(54,843)	(91,809)
3. Other capitalized self-produced items	247	232
4. Other operating income	4,005	6,042
5. Expenditure on materials and purchased services	(80,348)	(76,972)
6. Expenditure on staff	(19,020)	(21,147)
7. Depreciation/amortization/write-downs of intangible non-current assets (without goodwill) and tangible non-current assets	(5,190)	(6,887)
8. Other operating expenses	(21,620)	(28,838)
<b>9. Profit (loss) from operating activities (subtotal of items 1 – 8)</b>	<b>16,879</b>	<b>26,507</b>
10. Amortization/write-downs of goodwill	(336)	(398)
<b>11. Profit (loss) from ordinary activities (subtotal of items 1 – 10)</b>	<b>16,543</b>	<b>26,109</b>
12. Net interest income	(931)	(2,847)
13. Net income from interests held as investments	48	1,933
14. Other profit (loss) from investing and financial activities	104	1,639
<b>15. Profit (loss) from investing and financial activities (subtotal of items 12 – 14)</b>	<b>(779)</b>	<b>725</b>
<b>16. Profit before income tax</b>	<b>15,764</b>	<b>26,834</b>
17. Income tax expense	(4,272)	(8,378)
<b>18. Profit after income tax</b>	<b>11,492</b>	<b>18,456</b>
19. Minority interests in consolidated earnings for the year	(296)	(676)
<b>20. Consolidated earnings for the year</b>	<b>11,196</b>	<b>17,780</b>
Earnings per share	€ 1.02	€ 1.61

### Consolidated Cash Flow Statement

for the First Quarter of the 2003/04 Financial Year

	Q1 2003/04 €000	Q1 2002/03 €000
Net cash from operating activities	16,690	43,821
Net cash used in investing activities	(10,222)	(17,905)
Net cash from (used in) financing activities	3,724	(16,264)
<b>Net increase in cash and cash equivalents in period</b>	<b>10,192</b>	<b>9,652</b>
Cash and cash equivalents at beginning of period	156,527	97,115
Cash and cash equivalents at end of period	166,719	106,767

**Consolidated Balance Sheet**

for the First Quarter of the 2003/04 Financial Year

	As at 31 May 2003 €000	As at 31 May 2002 €000
<b>ASSETS</b>		
<b>A. Non-current assets</b>		
I. Intangible non-current assets	21,835	26,856
II. Tangible non-current assets	265,056	273,179
III. Financial investments	63,786	79,700
	<u>350,677</u>	<u>379,735</u>
<b>B. Current assets</b>		
I. Inventories	204,292	188,384
II. Accounts receivable and other assets	129,977	97,192
III. Deferred tax assets	2,701	2,442
IV. Shares and other securities	121,357	13,553
V. Cash, cheques, bank balances	45,362	93,214
	<u>503,689</u>	<u>394,785</u>
<b>C. Deferred items</b>	9,326	6,175
<b>Total assets</b>	<u>863,692</u>	<u>780,695</u>
 <b>EQUITY AND LIABILITIES</b>		
<b>A. Equity</b>		
I. Share capital	80,137	80,137
II. Capital reserves	213,463	213,463
III. Retained earnings reserves	171,208	121,228
IV. Consolidated earnings for the year	11,196	17,780
	<u>476,004</u>	<u>432,608</u>
<b>B. Minorities</b>	9,434	9,498
<b>C. Provisions</b>	155,146	142,771
<b>D. Accounts payable</b>	216,707	188,583
<b>E. Deferred items</b>	6,401	7,235
<b>Total equity and liabilities</b>	<u>863,692</u>	<u>780,695</u>

**Consolidated Statement of Changes in Equity**

for the First Quarter of the 2003/04 Financial Year

	Q1 2003/04 €000	Q1 2002/03 €000
<b>Balance at beginning of period</b>	465,732	414,182
Deficit on revaluations of		
non-current and current assets	(5)	(15)
Currency translation differences	(836)	1,251
Other net losses not recognized		
in the Income Statement	(82)	(590)
Net profit for the period	11,196	17,780
<b>Balance at end of period</b>	<u>476,005</u>	<u>432,608</u>

### Other disclosures

for the First Quarter of the 2003/04 Financial Year	Q1 2003/04 €000	Q1 2002/03 €000
Capital expenditure on tangible non-current assets		
– during Q1	5,007	8,010
– during year (planned)	51,800	49,700
Working capital	198,067	169,533
Staff	3,519	3,672

### Outlook

As the 2003/04 financial year of the *AGRANA International* companies will be of normal length (12 months, as against 14 months in 2002/03) and given the low world market price of export sugar, we are projecting a 5 per cent fall-off in full-year revenues (without the Fruit Division). However, the drop in revenues will be counterbalanced by *Vallø Saft's* integration into the consolidated group. If our markets remain weak and in view of the likelihood of a fall in revenues from sales of C sugar (caused by a combination of the low world market price of sugar and a weak US dollar), our profit from operating activities might be as much as 15 per cent down on 2002/03.

The Board of Management of *AGRANA Beteiligungs-AG*

Vienna  
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