SÜDZUCKER

SÜDZUCKER AKTIENGESELLSCHAFT MANNHEIM/OCHSENFURT

ANNUAL REPORT FOR 2005/06
1. MARCH 2005 TO 28. FEBRUARY 2006

Key Figueres

Employees											
Employees (avarage during the year)		19.903	17.494	17.973	14.855	23.638	28.415	29.579	25.619	20.394	19.239
Profit											
Revenues	Mio. Euro	5.347	4.827	4.575	4.384	4.776	4.664	4.517	4.504	4.187	3.885
of which sugar	Mio. Euro	3.575	3.518	3.395	3.359	2.758	2.500	2.405	2.439	2.268	2.267
of which special products	Mio. Euro	1.772	1.309	1.180	1.025	2.018	2.164	2.112	2.065	1.919	1.618
Personnel expense	Mio. Euro	657	589	565	526	684	728	720	711	654	620
Operating profit	Mio. Euro	450	523	479	520	465	392	329	308	279	259
as % of revenues	%	8,4	10,8	10,5	11,9	9,7	8,4	7,3	6,8	6,7	6,7
Net earnings for the year	Mio. Euro	305	358	307	315	280	209	174	140	167	146
as % of revenues	%	5,7	7,4	6,7	7,2	5,9	4,5	3,8	3,1	4,0	3,8
Earnings per share adjusted	Euro	1,36	1,67	1,48	1,52	1,45	1,30	1,04	0,89	1,02	0,89
Cash flow and capital expanditures											
Gross cash flow from operating activities	Mio. Euro	527	550	522	580	551	498	472	464	480	437
as % of revenues	%	9,9	11,4	11,4	13,2	11,5	10,7	10,5	10,3	11,5	11,3
Capital expanditures in tangible assets	Mio. Euro	426	500	307	207	219	215	233	238	209	213
Investments in financial assets	Mio. Euro	216	590	181	46	1.671	37	87	209	184	209
Total capital expenditures	Mio. Euro	642	1.090	488	253	1.890	252	320	447	393	422
Balance											
Total assets	Mio. Euro	7.926	7.195	6.038	5.826	5.843	4.947	4.677	4.588	3.597	3.622
Non-current assets	Mio. Euro	4.478	4.112	3.359	3.237	3.303	2.387	2.450	2.436	1.662	1.741
Shareholders´equitiy	Mio. Euro	3.733	2.738	2.386	2.221	2.010	1.703	1.619	1.553	904	1.016
as % of total liabilities and shareholders´ equitiy	%	47,1	38,0	39,5	38,1	34,4	34,4	34,6	33,8	25,1	28,1
Long-current liabilities	Mio. Euro	2.343	2.163	2.039	1.813	1.928	1.598	1.502	1.523	1.123	1.094
Shareholders´equitiy and long-current liabilities	Mio. Euro	6.076	4.901	4.425	4.034	3.938	3.301	3.121	3.076	2.028	2.110
as % of non-current assets	%	135,7	119,2	131,7	124,6	119,2	138,3	127,4	126,3	122,0	121,1
current assets less current liabilities	Mio. Euro	1.598	789	1.066	797	635	914	671	640	366	369
Dividend											
Dividend per € 1 ordinary share	Euro	0,55 3)	0,55	0,50	0,50	0,47	1,34	0,87	0,33	0,33	0,33
Dividend per € 1 preference share	Euro						1,38	0,91	0,37	0,37	0,37
Total dividend distribution	Mio. Euro	104	96	87	87	82	193	120	47	46	43
Sugar production											
Beet processing	1000 t	30.892	31.053	26.717	29.744	25.030	22.251	23.432	21.224	20.294	19.718
Beet processing capacity	1000 t / Tag	344	341	359	336	342	290	279	245	245	233
Sugar production	1000 t	5.210	5.132	4.442	4.707	4.010	3.491	3.596	3.078	3.169	3.103
Sugar sales volumes	1000 t	5.565	4.690	4.746	4.514	4.694	3.617	3.414	3.282	3.149	2.816

1) Until 1997/98 adjusted income from ordinary operating activities per German accounting principles (HGB)
2) including intangible assets
3) Proposed

SÜDZUCKER GROUP WITH ITS SEGMENTS

Group 2005/06	
Revenues	€ 5,346.5 million
Operating profit	€ 450.0 million
Restructuring costs and special items	€ -52.6 million
Income from operations	€ 397.4 million
Operating margin	8.4 %
ROCE	8.6 %
Capital expenditures in tangible assets	€ 425.6 million
Investments in financial assets	€ 216.3 million
Total capital expenditures	€ 641.9 million
Employees	19,903

Sugar segment		Special products segment	
Revenues	€ 3,574.4 million	Revenues	€ 1,772.1 million
Operating profit	€ 309.6 million	Operating profit	€ 140.4 million
Restructuring costs and special items	€ -39.1 million	Restructuring costs and special items	€ -13.5 million
Income from operations	€ 270.5 million	Income from operations	€ 126.9 million
Operating margin	8.7 %	Operating margin	7.9 %
ROCE	9.0 %	ROCE	7.9 %
Capital expenditures in tangible assets	€ 174.1 million	Capital expenditures in tangible assets	€ 251.5 million
Investments in financial assets	€ 19.1 million	Investments in financial assets	€ 197.2 million
Total capital expenditures	€ 193.2 million	Total capital expenditures	€ 448.7 million
Employees	11,294	Employees	8,609
Beet processed	30.9 million t		
Sugar production	5.21 million t		

Germany
- 11 Sugar factories
- Sugar production: 1,706,000 t

Belgium
- 3 Sugar factories
- Sugar production: 627,000 t

France
- 5 Sugar factories und 1 refinery
- Sugar production: 1,130,000 t

Austria
- 3 Sugar factories
- Sugar production: 489,000 t

Poland
- 11 Sugar factories
- Sugar production: 540,000 t

Slovakia
- 2 Sugar factories
- Sugar production: 72,000 t

The Czech republic
- 2 Sugar factories
- Sugar production: 117,000 t

Hungary
- 2 Sugar factories
- Sugar production: 206,000 t

Moldova
- 3 Sugar factories
- Sugar production: 76,000 t

Romania
- 2 Sugar factories (of which 1 refinery)
- Sugar production: 248,000 t

Bioethanol
- Development, production and marketing of Bioethanol for the energy sector
- 3 Production locations

Freiberger
- Development, production and marketing of deep-frozen pizzas, pastas and baguettes as well as chilled pizzas
- 5 Production locations

Fruit
- Development, production and marketing of fruit preparations and fruit juice concentrates
- 37 Production locations word-wide (of which 14 outside Europe)

Functional Food (ORAFTI/Palatinit)
- Development, production and marketing of Food Ingredients e. g. Inulin, Oligofructose, Isomalt and rice-based starch products

PortionPack Europe
- Production and marketing of Portionsartikeln

Starch
- Development, production and marketing of starch for use in food and nonfood sectors
- 2 Production locations in Austria, 1 Hungary and 1 in Romania

Surafti
- Production and marketing of sugar based Food Ingredients

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-resident 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
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**
from 3 August 2005
Hamburg
Divisional officer of the Food and Catering Union

Dr. Jochen Fenner
from 11 May 2005
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

Paul Freitag
✝ 9 April 2005
Oberickelsheim-Rodheim
Former chairman of the Association of
Fränkische Zuckerrübenbauer e. V.

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.

Jörg Lindner**
to 28 July 2005
Malterdingen
Former divisional officer of the
Food and Catering Union

Ulrich Müller
Illsitz
Chairman of the Association of Sächsisch-Thüringischer
Zuckerrübenanbauer 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 ....
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

Albert Dardenne
to 31 January 2006
Melin, Belgium

Former administrateur délégué der
Raffinerie Tirlemontoise S.A.
ORAFTI
Surafti
PortionPack

Dr. Christoph Kirsch
Weinheim/Bergstraße

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

Thomas Kölbl
Mannheim

Prof. Dr. Markwart Kunz
Worms

Production/technical
Research/development/services
Procurement of capital goods/maintenance
materials and services
Palatinit
Bioethanol

Johann Marihart
Limberg, Austria

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

Dr. Rudolf Müller
Ochsenfurt

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

Frédéric Rostand
Paris, France

Chairman of the executive board of
Saint Louis Sucre S.A.
Ethanol/cane sugar

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

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

The work of the supervisory board in 2005/06 was particularly affected by the pending reform of the EU sugar market regulation and its effects on Südzucker Group. A further significant discussion point was expansion of the special products segment, particularly the fruit and bioethanol divisions.

The supervisory board has continuously and closely advised the executive board's management of operations and has fulfilled its duties as set out in law and in the company's by-laws. At four meetings in 2005/06, the supervisory board intensively discussed all matters relevant for the company relating to the group's strategic development, its traditional and new operating activities, the pending reform of the EU sugar market regulation and its effects on the group. Furthermore, the supervisory board has kept itself closely informed about the group's activities in Chile and Brazil and intensively reviewed the opportunities and risks of investing in Brazil with the executive board. The supervisory board has come to the conclusion that Südzucker has successfully entered new markets and product groups. The basis for further growth within the framework of the group's corporate strategy has been established.

In addition, based on regular written reports, the supervisory board discussed all significant transactions with the executive board and advised them on their management of operations, strategic development of the group and significant individual matters. The chairman of the supervisory board also 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 mainly included the position and development of the company and group, corporate policy, profitability and corporate, treasury, capital expenditure, research and personnel 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 24 November 2005. A regular group-wide 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 of the code to show 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.

At two meetings, the audit committee discussed questions relating to accounting matters and the possible effects of the change in the EU sugar market regulation on the assets and liabilities, financial position and results of operations of the Südzucker Group. Furthermore, it discussed financing measures and controlled the independence of the external auditors.

The audit committee received a declaration of independence from PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Frankfurt/Main, reviewed this declaration and appointed PwC to audit the financial statements for 2005/06, in accordance with the resolution of the annual shareholders' meeting.

The audit committee checked documentation relating to the annual financial statements and consolidated financial statements and discussed the long-form audit report intensively with the executive board and the external auditors. The report of the audit committee to the supervisory board formed the basis for the subsequent decision by the supervisory board to approve the annual financial statements and the consolidated financial statements.

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.

As at the end of the annual shareholders' meeting on 28 July 2005, Jörg Lindner, former divisional officer of the Food and Catering Union, retired from the supervisory board of our company due to his age. Effective 3 August 2005 Wolfgang Endling, divisional officer of the Food and Catering Union, was appointed as supervisory board in his stead. The supervisory board thanks Mr. Lindner for his many years of constructive membership of this board. Effective 31 January 2006 Albert Dardenne, a member of Südzucker's executive board since 31 January 2002, retired. The supervisory board thanks Albert Dardenne for his work to the benefit of the company. As part of a reallocation of responsibilities, his tasks have been divided amongst members of Südzucker AG's executive board. The supervisory board appointed the former deputy executive board member, Thomas Kölbl, as full executive board member effective 1 January 2006.

The financial statements of Südzucker AG and the management report for 2005/06, 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 which would lead to any reservations.

At its meeting on 30 May 2006, the supervisory board approved the financial statements of Südzucker AG and the consolidated financial statements for 2005/06 and thus adopted the financial statements of Südzucker AG. They also agreed the executive board's recommendation on appropriation of earnings, with a proposed distribution of a dividend 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, 30 May 2006
THE SUPERVISORY BOARD
Dr. Hans-Jörg Gebhard
Chairman

CORPORATE GOVERNANCE

Sound and transparent corporate governance ensures that the management and control of a company is directed towards responsible and lasting value added. This fundamental idea, which already formed the basis of the past year's declaration on corporate governance, remains of unrestricted validity for Südzucker, is the basis of our daily work and ensures the trust of national and international investors, financial markets, our business partners, and employees as well as the public in the management and monitoring of our company.

Südzucker has traditionally placed high value on close and constructive co-operation between the executive board and supervisory board. We believe that this is a significant success factor, coupled with the open communication with our shareholders, based on mutual trust.

A regular and group-wide review and further development of our own corporate governance is thus an important task for the executive board and supervisory board. Südzucker considers the German corporate governance code in its current version to be substantially balanced and practical. For this reason, and as in previous years, we have waived preparation of additional principles for the company itself.

The remuneration system of Südzucker AG's executive board includes fixed and variable, earnings-related components. Variable remuneration of a long-term nature, such as share options and similar structures, are not foreseen. Total remuneration of the executive board for 2005/06 amounted to € 3.5 million. Variable remuneration made up 43 % of fixed remuneration and is calculated based on the dividend contribution to be approved by the annual general meeting. The executive boards of subsidiaries received remuneration totalling € 2.2 million.

The remuneration of the supervisory board includes fixed and variable components as set out in the company's by-laws and, in line with the executive board's remuneration, is also based on the dividend to be resolved by the annual general meeting. Remuneration of the supervisory board for 2005/06 totalled € 1.5 million.

We do not follow the recommendation to present remuneration of individual members of the executive board and supervisory board set out in the Code. In our opinion, the resulting interference in the private sphere of individuals bears no relation to the use of such disclosure.

Südzucker AG Mannheim/Ochsenfurt publishes all reportable transactions of management on its homepage and reports these to the Federal Financial Services Regulatory Authorities (Bafin). Over the past year Dr. Christoph Kirsch, executive board member, acquired 20,000 shares at a price of € 15.30 on 25 May 2005. Furthermore, Dr. Kirsch took part in the capital increase and acquired 4,334 and 3,666 shares on 6 and 12 September 2005 respectively for € 14.00 each and 43,992 pre-emptive rights for € 0.29 each on 12 September 2005. Klaus Kohler, member of the supervisory board, also acquired 448 shares at € 14.00 each on 12 September 2005. Ronny Schreiber sold 498 shares at € 18.74 per share on 12 October 2005 and Ernst Wechsler sold 1,000 shares for € 21.06 each on 1 February 2006.

Total shareholdings (including financial instruments relating to the shares) held by members of the executive board and supervisory board were less than 1 % of all shares issued by the company, so that publication of their shareholdings was waived.

With publication of this corporate governance report, Südzucker has taken due account of the new regulations set out in the corporate governance code dated 2 June 2005.

The executive board and supervisory board submitted a declaration of compliance with the German corporate governance code on 24 November 2005. This can be viewed on our website under http://www.suedzucker.de/investorrelations/de/governance/

SÜDZUCKER SHARE AND CAPITAL MARKET

Capital market | Following a quiet beginning to the year, prices on German equities markets rose strongly in 2005. Hope of political reforms and a positive development in corporate profits from German industrials resulting from measures to improve cost structures led to price rises. Furthermore, export business was positive, favoured by the marked devaluation of the euro against the US dollar and satisfactory growth in economies in the USA and Asia. Based on this, the DAX showed an increase of 33 % to 5,796 points.

Südzucker share price movement | With a price of € 22.15 at 28 February 2006, the Südzucker share also showed a satisfactory increase of 37 %, or 42 % including a dividend payment of € 0.55 and a pre-emptive rights discount of € 0.25. Hence, the Südzucker share improved in line with the MDAX, which increased by 45 % to 8357 points, and was again better than the "Food & Beverage" industry index within the Dow Jones STOXX 600, which rose by only 23.9 % over the same period.

Long-term increase in value | Long-term investors could profit over the past years from the sound development of the Südzucker share. An investor acquiring Südzucker shares for the equivalent of € 10,000 on 1 March 1988 (beginning of the financial year in which the merger with Zuckerfabrik Franken took place), using cash dividends to re-invest in new shares and taking up pre-emptive rights to participate in capital increases, would have had a portfolio with a value of € 96,967 on 28 February 2006. With an annual average return of 13.4 %, the Südzucker share outperformed both the DAX and the MDAX, which increased annually by 9.8 % and 12.1 % respectively over the same period.

Strengthening shareholders' equity | In view of the extensive capital expenditures to increase the special products business, particularly in the functional food, bioethanol and fruit divisions, we considerably expanded our shareholders' equity in 2005/06. This will also have a positive effect on financial flexibility when extending out market position in the sugar segment.

In June 2005, Südzucker was the first German industrial concern to issue a hybrid bond that, due to its characteristics, was primarily treated as shareholders' equity by the rating agencies. In accordance with IAS, the bond is included fully as shareholders' equity. Due to excellent market take-up by domestic and foreign investors, the original € 500 million bonds issued in August 2005 could be increased by a further € 200 million to a total of € 700 million. The major characteristics of the bonds are no fixed maturity and a coupon of 5.25 % p. a. fixed for the first 10 years. If Südzucker does not exercise its cancellation option after 10 years in 2015, the coupon will changed to a floating rate of EURIBOR plus 3.1 % p. a.. Further characteristics of the hybrid bond are subordination and opportunities to delay or cancel interest payments.

In September 2005 Südzucker carried out a capital increase and offered its shareholders new shares by way of a 12:1 rights issue for a price of € 14.00. This issue was also extremely successful on capital markets. As a result of the successful placement of all 14.6 million new shares, shareholders' equity rose by a further € 200 million.

Both steps to increase equity have given Südzucker a sound basis for further dynamic value-added growth. Use of the innovative hybrid bond not only led to a strengthening of our equity capital, but also to a sustained reduction in average cost of capital and thus to an improvement in return on equity.

Market capitalisation and indices | The market capitalisation of our shares increased, mainly due to the sharp price rise, to € 4,194 million (€ 2,828 million) at 28 February 2006. Südzucker share's weighting in the German MDAX is now 1.7 %. As well as the MDAX, the Südzucker share is included in other international indices. These include MSCI in Germany, the Dow Jones STOXX 600 and the FTSE Euromid index.

Liquidity of the Südzucker share further increased in the past year and achieved an average of 876,000 (479,000) shares per trading day[1]. As a result, the annual stock exchange turnover of Südzucker shares doubled to € 4.0 billion (€ 1.9 billion)[1].

Shareholder structure | 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. Other investors include our Austrian shareholders, via ZSG, with 10 %. Hence, 35% of Südzucker shares are widely held (free float).

Employee share ownership program | With the offer to be able to acquire employee shares annually, Südzucker AG continued in 2005 a tradition of almost 40 years for employees to invest in "their" company. At 79 %, a repeated high number of employees took advantage of the possibility of acquiring 30 shares each for € 10.80, or a total 63,000 Südzucker shares.

Annual general meeting 2005 | With an increase of some 400 to 3,100 participants, attendance at our annual general meeting in Mannheim, Congress Center Rosengarten on 28 July 2005 hit a new record. At the same time, the presence of shareholders' equity entitled to vote for resolutions fell by 3.6 percentage points to 77.9 %, a trend which can be observed throughout Germany.

A review of business developments was followed by an exchange of opinions between the shareholders and management, with many contributions to the discussion. The resulting resolutions on the items on the agenda were passed with majorities of over 98 %, including the entitlement to issue new shares. As reported, this entitled was used in 2005/06 by issuing 14.6 million shares with a value of some € 200 million.

Investor relations | The major objective of our investor relations activities in the past year remained providing timely and reliable information to analysts, institutional investors, rating agencies and private shareholders about the current situation and strategic objectives of the group. The number of hits to our website, www.suedzucker.de, demonstrates the attractiveness of this instant information medium. In addition to ongoing current explanations of Südzucker and links to subsidiaries, current and previous quarterly and annual reports are also available on the website.

---

[1] Source: Clearstream Banking statistics.

We provided an overview of the business activities at many road shows in Germany and abroad, as well as at many individual meetings with institutional investors and analysts. Our capital market communication was supplemented by participation at investor conferences in Frankfurt, Munich and Mannheim as well as the annual analyst conference in Frankfurt.

Bond rating | Südzucker bonds are rated by both leading rating agencies, Moody´s Investor Service (Moody´s) and Standard & Poor´s (S&P). The bonds issued in 2000, 2002 and 2003 are rated A3 by Moody´s and A– by S&P (as at April 2006). The subordinated, undated hybrid bonds of € 700 million issued in 2005 have a rating of Baa2 (Moody´s) and BBB- (S&P). The outlook is rated by Moody´s as "negative" and by S&P as "stable".

Dividend for 2005/06 | The board of directors and supervisory board will recommend to the annual general meeting on 27 July 2006 that a dividend of € 0.55 (€ 0.55) per share should again be distributed. Considering the new shares entitled at dividends from 1 March 2005 arising from the capital increase in 2005, the amount distributed will increase from € 96.1 million to € 104.1 million. Based on the dividend recommendation of € 0.55 per share, the Südzucker share's dividend yield is 2.5 % (3.4 %).

Südzucker AG securities		
	ISIN	Stock exchange
Südzucker ordinary shares	DE 000 729 700 4	XETRA, Frankfurt, Stuttgart, Munich, Hamburg, Berlin, Düsseldorf, Hanover (OTC)
6.25 % bond 2000/2010	DE 000 178 080 7	Frankfurt (official), Stuttgart and Berlin (OTC)
5.75 % bond 2002/2012	DE 000 846 102 1	Frankfurt (official), Stuttgart and Düsseldorf (OTC)
3.0 % convertible bond 2003/2008	DE 000A0 AABH 1	Frankfurt (official), Stuttgart (OTC)
5.25 % hybrid bond 2005 Perpetual NC 10	XS 0222524372	Luxembourg (official), Frankfurt, Stuttgart, Munich, Berlin (OTC)

Südzucker share			
		2005/06	2004/05
Dividend	€	0.55*	0.55
Dividend yield	%	2.5	3.4
Price at end of financial year**	€	22.15	16.18
Market capitalisation at end of financial year	€ million	4,194	2,828
Number of issued shares of € 1 each		189,353,608	174,787,946
Key ratios			
Earnings per share adjusted	€	1.36	1.67
Cash flow per share	€	2.96	3.15
Price-earnings ratio		16.3	9.7
Price-cash flow ratio		7.5	5.1
ROCE	%	8.6	11.3

* Recommended. ** Closing price Frankfurt stock exchange.

Diary dates	
Report 1st. quarter 2006/07	13 July 2006
Annual general meeting 2005/06	27 July 2006
Report 2nd. quarter 2006/07	12 October 2006
Report 3rd. quarter 2006/07	11 January 2007
Press and analysts conference 2006/07	23 May 2007
Report 1st. quarter 2007/08	12 July 2007
Annual general meeting 2006/07	24 July 2007

Management Report

Foreword by the Executive Board

Through its capital expenditures, products and market offensive in 2005/06, Südzucker Group laid the foundations for further successful growth. Although the extremely positive results achieved in 2004/05 could not be repeated, the results for the year can be seen as satisfactory in view of turbulence in the sugar segment and the early stages of development of some of our new activities. Hence, due to the lack of declassification in the fall of 2004 combined with turbulence on the sugar market caused by the EU's expansion, unrepeatable growth of the functional food division in 2004/05 due to special factors, the start-up of bioethanol production, and the fruit division which is still in formation, it was not possible to reach the record levels achieved in the previous year. However, seen for itself, 2005/06 was certainly successful and underlines the fact that the corporate strategy implemented by Südzucker leads to success even in an unfavourable economic environment.

Group revenues in 2005/06 exceeded the previous year's amount by 10,8 %, reaching € 5.3 billion (€ 4.8 billion), thus setting a new record. Group operating profit could not match the increase in revenues and amounted to € 450 million (€ 523 million).

Südzucker Group believes in sustainability as its key objective, meeting the needs of today's generation and safeguarding opportunities for succeeding generations. Sustainability is by no means a passing fashion for Südzucker, but is rather a significant basis for the group's prosperity, which is grounded on a holistic view of economic, ecological and social needs. Experience has shown that, particularly in an agriculturally-oriented company such as Südzucker, economic success is dependent on, but also stems from, ecological and social standards. From a practical point of view, particular importance is placed on high standards relating to quality, environmental protection, safety and future-oriented technologies. We thus aim our strategy at long-term value-added growth with the aim of achieving a sustainable increase in the group's value. The structure of the corporate portfolio combines new growth opportunities with existing profitable businesses.

Südzucker Group mainly operates in the food industry, and the sugar division, with more than 80 % of its revenues coming from companies in the processing industry, is substantially dependent on the economic success of these companies. The food industry finds itself in an economically difficult market environment throughout the EU, in which it has nevertheless held up very well. Fundamentally, the food industry is only exposed to economic fluctuations to a small extent, but intensive competition in the retail food industry has led to strong price pressures on producers. Furthermore, food industry profits and hence capital expenditures and the ability to innovate, are directly affected in particular by higher raw material costs and energy prices for production and logistics. Campaigns against overweight in specific countries, sponsored by governments and non-government organisations, are treated constructively by the food industry, also with the aim of achieving objectivity. The one-sided focus of these campaigns on food marketing does not accomplish their objectives. Successful prevention of overweight cannot be achieved by attributing the blame to certain categories of food, or even by dividing food into "good" and "bad". The only reasonable approach is to take a holistic view, including lifestyles and, in particular, physical exercise.

Consumer behaviour throughout the EU has continued the trend to consumption of processed products, so that the share of sugar sales volumes reaching consumers via retail stores continues to decline, whereby overall sugar consumption per head has remained stable for several years. However, as export opportunities for the EU on world markets have been sharply restricted, overall EU production volumes will reduce by some 7 million tonnes to approximately 13 million tonnes. Südzucker Group production will not decline to this extent, as the new sugar market regulation (SMR) provides for former C-sugar to be partly converted to quotas, of which Südzucker will take full advantage with a purchase of some 0.3 million tonnes. Furthermore, all opportunities will be taken to produce and market sugar for non-food purposes (industrial sugar) outside the EU quota system. Following a sharp increase in the global market price of sugar in the past year, it is to be expected that import pressures from the world market will also be limited. This is because it is estimated that there will be a slight supply deficit on the world market for sugar in 2005/06, and more bioethanol is currently produced from sugar cane in Brazil, the major producer country. Finally, as from mid-2006, world market supplies will reduce, as there will be no more sugar exports from the EU. We remain of the opinion that the objective of the SMR reform, to give competitive producers a long-term perspective, will be achieved and that Südzucker Group can strengthen its market position as a result.

Sales volumes of the functional food division profit from consumer interest in food with additional heath benefits. This market can be subject to short-term fluctuations, but the trend generally continues to be upwards.

The economic conditions for biological fuels have improved rapidly throughout the world over the past few months. Experts assume that the starting flag has come down for tapping into a new, additional energy source globally. A new era has been ushered in. Expected demand considerably exceeds today's supply. Many new plant constructions have been announced world wide. The foundations have also been laid for a broad use of bioethanol in the EU. The framework set out by the EU is currently being implemented in the form of national solutions.

Growth on the European markets for frozen foods and the unsatisfactory profitability of this food industry sector has led to restructuring of this business, which is still in progress. Deep-frozen pizzas, which Südzucker did not dispose of when setting its new strategy in 2001, are the exception to the overall sector's development.

AGRANA's fruit division is also a global growth market, comparatively independent of the economy, using the market success of milk-based products containing high-quality fruit preparations.

Price movements and the supply of raw materials played a particularly important role for procurement at Südzucker Group in 2005/06, whereby market price fluctuations for gas, heavy oil, coking coal and calcium were the main factors. In order to be better able to meet these challenges, the international procurement network was further expanded and new suppliers were added.

Our research and development activities are aimed at updating our product range, using innovation in all areas, thus expanding and conquering new markets. In the functional food division (ORAFTI/Palatinit), Südzucker concentrates on fully utilising the potential of promising product applications in new areas. A special product development for the pharmaceutical industry and Palatinose will both provide for further growth in the short- and medium-term. There are also new applications for inulin products, such as in animal feed, sales of which have been supported by scientific research. It has also been possible to open up new market segments through new products and applications in the starch division, as well as reducing production costs. Research work has concentrated on applications such as thickenings for colours, improving glass-fibre wallpaper and glues for the construction and cardboard industries. In the fruit division, existing research and development know-how within the group ease measures to improve quality and the development of customer-specific products.

In order to strengthen our shareholders' equity base, following approval by the annual general meeting there was a capital increase in September 2005 to finance the further expansion of the special products business and to strengthen our market position in the sugar segment, adding some € 200 million to the company's funds. In addition, Südzucker was the first German company to issue a hybrid bond in two steps for a total of some € 700 million, which is included fully as shareholders' equity in accordance with International Financial Reporting Standards, and which thus increased by € 995 million to € 3,733 million (€ 2,738 million) at 28 February 2006. Hence, the already satisfactory ratio of shareholders' equity to total liabilities and shareholders' equity improved from 38.0 % to 47.1 %, and the ratio of net financial debt to shareholders' equity fell to 32.2 % (61.1 %).

Südzucker Group will continue its successful course in 2006/07 and again demonstrate its performance ability. Südzucker Group will continue to expand its presence in new and traditional markets. In particular, with its new developed strategic business activities, Südzucker could establish the conditions enabling it to generate profitable growth. The close strategic, technological and financial links of the group's activities provide many opportunities. Südzucker Group will suffer in the current year from unchanged price pressures and sharply increased energy costs.

But Südzucker Group is well prepared. As part of our program to integrate the group, we have reviewed operating processes and organisational structures, identified productivity improvements and cost savings in several areas, and then achieved them. However, best-practice concepts must always be viewed in the light of specific circumstances, such as the differing cost structures in the regions of Europe in which Südzucker Group operates. Our aim is to continue our value-oriented growth strategy to further develop existing divisions and also enter new business sectors in future, thus sustainably growing the value of Südzucker as a company.

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, who have contributed to the success of the group with all their power.

Sincerely,

Südzucker AG Mannheim/Ochsenfurt

The executive board

Group Financial Statements, Results of Operations, Financial Position and Net Assets

Group results		
	2005/06	2004/05
Revenues	€ 5,346.5 million	€ 4,826.6 million
Operating profit	€ 450.0 million	€ 522.8 million
Restructuring costs and special items	(€ 52.6 million)	(€ 31.6 million)
Income from operations	€ 397.4 million	€ 491.2 million
Operating margin	8.4 %	10.8 %
ROCE	8.6 %	11.3 %
Capital expenditures in tangible assets	€ 425.6 million	€ 499.8 million
Investments in financial assets	€ 216.3 million	€ 590,0 million
Total capital expenditures	€ 641.9 million	€ 1,089,8 million
Employees	19,903	17,494

Südzucker Group could not repeat the record results of the previous year in 2005/06, a year marked by the reform of the EU sugar market regulation.

In our core segment, sugar, 2005/06 results reflected an unfavourable market environment and charges arising from the old sugar market regulation. The EU Commission's decision, in contrast to our demands, not to make a temporary reduction in production quotas (declassification) during the 2004 campaign, led to excess quantities on the European sugar markets at the beginning of the year which could not be exported. As expected, prices came under pressure on the EU internal market. The quantity imbalance could not completely eliminated following the very high declassification of 1.9 million tonnes in September 2005. Furthermore, extremely high EU levies were charged, also caused by the lack of declassification in 2004. Operating profit was again affected by restructuring charges, this time resulting from the new sugar market regulation effective from 1 July 2006.

The special products segment showed strong revenue increases in 2005/06, above all as a result of the expansion of the fruit division. However, higher profitability in this segment was not achieved, due to start-up losses in bioethanol, a new business activity, and a changed market environment for functional food activities.

Group revenues and profits

Group revenues | Group revenues increased by 10.8 %, or € 520 million, to € 5,347 million in 2005/06 (€ 4,827 million), whereby the rise was mainly attributable to the special products segment.

In the sugar segment, revenues increased from € 3,518 million to € 3,575 million. This development was marked by two contrasting trends. On the one hand, quota sugar sales decreased mainly due to the delay in declassification, which was only introduced by the EU in September 2005. On the other hand, C-sugar sales volumes increased sharply, due both to high inventory levels from the 2004 campaign which were available at the beginning of 2005/06, as well as to the 1.4 million tonnes of C-sugar production from the 2005 campaign, again a very high level.

Special products segment revenues rose by 35.4 %, from € 1,309 million to € 1,772 million. The major factor for this increase was the fruit division, with its first-time fully consolidated companies making up the Atys and Wink Groups that were included in segment revenues for the year for nine (Atys) and twelve (Wink) months respectively. Furthermore, the Steirerobst Group was only included for nine months in the previous year's figures. In addition, a contribution to revenues was made by the start-up of bioethanol production in Zeitz. The other divisions in the segment, such as functional food and Freiberger, could overall almost maintain previous year's revenues in a partly difficult market environment, with the starch division again achieving growth.

Group operating profit | Group operating profit decreased in 2005/06 by 13.9 % to € 450 million (€ 523 million).

The sugar segment's operating profit decreased from € 360 million to € 310 million. The decline in profit is mainly due to there being no declassification for the 2004 campaign, which led to price pressures on quota sugar and an extremely high supplementary levy in addition to the production levy. Declassification carried out throughout Europe of 1.9 million tonnes sugar in September 2005 will only end the present excess quantities in the EU during the course of the sugar year 2005/06, ending in July 2006. Operating profit for the segment was further reduced by a sharp increase in energy and coking coal prices. These negative effects could only be partly offset by the strong C-sugar export business, helped by increased world market prices. The eastern European sugar companies could not repeat the unusually successful previous year's results achieved as part of EU accession by their countries.

Operating profit in the special products segment decreased to € 140 million (€ 163 million), whereby the bioethanol, fruit and functional food divisions contributed differently to results as they were either in a start-up or expansion phase. Profits were dampened by the bioethanol plant in Zeitz, which built up its capacity slower than planned due to technical start-up difficulties. The functional food division could not repeat the outstanding results of the previous year due to higher competitive pressure and ebbing of the low-carb craze in North America. Further successful profitability for starch and an increase in profits in the fruit division could not fully offset these effects.

ROCE | ROCE (return on capital employed = operating profit : capital employed), used for internal monitoring of the divisions, reached 8.6 % (11.3 %). Hence, ROCE exceeded weighted average cost of capital (WACC) for the Südzucker Group of some 7.3 %, although operating profits do not currently reflect the future potential of the group and capital employed has risen sharply following the capital expenditures incurred since 2003/04.

Income from operations/restructuring costs | Income from operations decreased from € 491 million to € 397 million. The over-proportional decrease compared with the decline in operating profit is due to restructuring costs of € 53 million (€ 32 million), mainly reflecting efforts to increase the competitiveness of the sugar segment in connection with the sugar market reform. Exceptional costs in the sugar segment occurred as a result of optimising works structures by closing the sugar factories in Hohenau, Austria, Rimavska Sobota, Slovakia and Maloszyn, Poland. In addition, exceptional charges were incurred for harmonising IT systems and processes within Südzucker Group's German, Belgian and French companies. In the special products segment, one-time effects on profit arose from bioethanol production start-up losses and from launching the ORAFTI works in Chile. Although they had a considerably negative effect on profit for the year, these measures nevertheless represent an unavoidable step in securing the earnings capacity of the sugar segment, further expanding earnings capacity at the special products segment and improving processes in the interest of maintaining the future earnings potential of the Südzucker Group.

Income from associated companies | Income from associated companies of € 11.4 million (€ 11.0 million) are mainly from Eastern Sugar.

Financial expense, net | Net financial expense deteriorated from € 45 million in 2004/05 to € 81 million in 2005/06. The reason for the decrease is the special effects in the previous year from placing shares in KWS Saat AG and Fresenius AG. Net interest expense could be improved due to the additional capital increase and issue of hybrid capital, thus reducing average financial debt.

Earnings before income taxes/net earnings for the year | Earnings before income taxes decreased from € 457 million to € 328 million. Due to low income tax charges on foreign profits, taxes on income decreased sharply, from € 100 million in 2004/05 to € 24 million in 2005/06. The effective tax rate, which fell to 7.2 % (21.8 %), also included a considerable amount of tax-free income. Net earnings for the year after taxes on income amounted to € 305 million, 14.8 % lower than the € 358 million achieved in 2004/05. After dividends on the hybrid capital of € 14 million and a reduction in amounts attributable to other minority interest to € 48 million (€ 60 million), € 242 million (€ 297 million) is attributable to Südzucker shareholders. Earnings per share amounted to € 1.36 per share following € 1.67 per share (adjusted) in 2004/05.

Financial position

2005/06 was marked by a continuation of the capital expenditure offensive started in 2003/04 to establish new sources of profits in the special products segment. We also invested in maintaining the earnings power of sugar, our core segment.

Capital expenditures in tangible assets | Capital expenditures for property, plant and equipment in 2005/06 were concentrated on the special products segment, in which € 252 million (€ 356 million) was invested, again more than for the sugar segment, with capital expenditures of € 174 million (€ 144 million), mainly falling on optimising production structures. In the special products segment, the focus was on the growing functional food, fruit and bioethanol divisions. The largest single project was the construction of an ORAFTI factory in Chile. The fruit additives division opened two new works in the prospering markets of Russia and the USA, one in Serpuchov, near Moscow and one in Tennessee. The bioethanol plant in Zeitz was completed in early 2005. With a background of increasing energy prices and international treaties on climate protection, we see significant growth and value added potential from a further expansion in our involvement in this environmentally-friendly technology, to which we are already committed by starting construction of a factory in Pischelsdorf, Austria. We also intend to construct a further plant in Belgium.

Investments in financial assets | The main area of investments in financial assets of € 216 million (€ 590 million) in 2005/06 was in expansion of the fruit division operated by AGRANA, a group subsidiary. Most of this expenditure related to increasing the shareholding in Atys Group, the worldmarket leader for fruit preparations for the dairy industry with revenues of over € 400 million. Furthermore, our position on the important German market was considerably improved by the acquisition of Deutsch-Schweizerischen Früchteverarbeitung GmbH (DSF). Expenditure on this area of operations through acquisitions will be followed by organic integration of the fruit preparations and fruit-juice concentrates activities, each of which will have a management holding company. This will release synergies and improve market and customer contacts.

Cash flow | Total capital expenditures of € 642 million (€ 1,090 million) were mainly financed from cash flow from operating activities amounting to € 527 million (€ 550 million). The group's financial position was considerably strengthened by a financing package of some € 900 million in the summer of 2005. In June and August 2005, due to historically low interest rate levels, two tranches of hybrid capital with an overall volume of € 700 million were placed on the market. This beneficial form of financing, with nominal interest rates of 5.25 % p. a., is included in shareholders' equity. A further advantage of this form of financing is that interest payments are fully tax deductible. In addition to the hybrid capital, Südzucker AG carried out a capital increase for cash in September 2005 and issued 14.6 million new shares, resulting in an increase of some € 200 million in liquid funds flowing to the group. This gave our shareholders the opportunity to take part in the growth potential of the group at an attractive issue price of € 14 /per share. The strong demand following the issue in the summer of 2005 underlines the trust capital markets place in our strategy and Südzucker's sustainable perspective.

The strengthened position of the group as a result of cash inflows from the equity capital increases was also reflected in a decrease in net financial debt to € 1,204 million (€ 1,672 million) at the end of the financial year. By decreasing its debt, the group has laid the foundations for continuing its expansion strategy in the special products segment. Furthermore, we can strengthen our competitive position in our core sugar business in connection with the reform of the sugar market regulation and take advantage of investment opportunities, also outside the European Union.

Balance sheet

The increase of € 731 million, or 10.2 %, in total assets to € 7,926 million (€ 7,195 million) is mainly due to capital expenditures in the special products segment carried out during the year, particular the first-time full consolidation of Atys Group. Furthermore, cash and cash equivalents increased by € 234 million to € 506 million as a result of cash inflows from the financing package.

Due to the financing measures taken, group shareholders' equity rose by € 995 million, from € 2,738 million on 28 February 2005 to € 3,733 million on 28 February 2006. The increase as a result of the net earnings for the year of € 305 million (€ 358 million) was partly offset by dividend payments of € 118 million and decreased amounts attributable to minority interest of € 74 million. The sound financial position of the group can be expressed by the increase to 47.1 % (38.0 %) in the ratio of shareholders' equity to total liabilities and shareholders' equity compared with the previous year, and the improved ratio of net financial debt to shareholders' equity of 32.2 % (61.1 %). Liabilities included in net financial debt are made up entirely of non-current third-party financial debt.

Recommendation on appropriation of profits

The executive board and supervisory board will again recommend a dividend of € 0.55 per share to the annual general meeting on 27 July 2006. With a share capital of € 189.4 million entitled to dividends, the amount distributed will be € 104.1 million (€ 96.1 million). The dividend will be paid on 28 July 2006. The dividend recommendation expresses the conviction of the boards that the company has emerged from the reform of the sugar market regulation strengthened in its core business.

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 which have their roots in Südzucker's specific operating activities which could have a significant negative effect on the financial position and results of operations.

Market regulatory risks

The possible effects of international and national trade agreements 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), resolved by the council of agricultural ministers of the EU on 24 November 2005, is of particular importance to the Südzucker Group and will have an effect on the activities of the Südzucker Group particularly from the financial year ending 28 February 2007. The new market regulation is valid through 30 September 2015.

The reform of the SMR was, amongst other things, necessary due to a case lost by the EU before the Panel of the World Trade Organisation in early 2005 and introduces considerable changes. The aims of the reform are, on the one hand, to reflect the consequences arising from the lost WTO Panel case and, on the other hand, to increase the competitiveness of efficient producers within the EU and provide them with a long-term perspective.

With entry into force of the new market regulation, sugar quantities produced in the EU will be considerably restricted. Due to the lost WTO Panel case, exports of C-sugar on the world market are only permitted until 22 May 2006. Furthermore, the opportunity to export quota sugar has been considerably limited by the lapse of ACP re-exports. From 1 July 2006, customs duties charged on imports from Least Developed Countries (LDCs) will be completely lifted in four steps. Unlimited market access from 1 July 2009 will be restricted by protective clauses. The effects of the lost Panel case and the expanded market access to the European sugar market granted to LDCs will lead to a considerable limitation of domestic beet sugar production.

In order to purchase excess quotas, the EU has established a restructuring fund which enables sugar producers to voluntarily sell their quotas for the period from 2006/07 through 2009/10. Regions in which sugar production will be substantially ceased will be compensated for closing sugar factories and for abandoning sugar crops by receiving 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. Both the reference price for sugar as well as the minimum price for beet will be lowered on a step-by-step basis by 36 % and 39 % respectively in the period between 2006/07 and 2009/10. Loss of income for beet farmers due to the reduction in the minimum price of beet will be offset by some 60 %. Overall, the measures agreed should establish market equilibrium on the EU sugar market. If, in contrast to this expectation, the fund cannot acquire sufficient quotas, the new rules of the sugar market regulation carries the risk of an overall quota reduction as from 2010/11, which will also effect the remaining sugar producers. In this case, measures are expected to be taken by the EU Commission that will offer efficient producers a perspective in order to reflect the overall aims of the reform, namely to retain beet and sugar production in the most competitive farming regions within Europe.

Südzucker welcomes the fact that the reform offers a reliable framework and long-term planning security through 30 September 2015. As a consequence of the necessary restructuring process, sustainable market equilibrium will be provided within the EU sugar market. With its restructuring premiums, the fund will offer an incentive to leave the market and the sugar price reduction of 36 % will provide sufficient pressure on sugar producers operating in areas that are less climatically beneficial for producing beet to take up the offer to leave the industry. However, the reduction in sugar price of 36 % will also lead to considerable pressures on profitability for efficient producers such as Südzucker. On the other hand, this will be partly offset by abandonment of the production levy, which was over-proportionately borne by the particularly competitive countries in which Südzucker operates.

For 2006/07, the EU has agreed on preventative market repurchases of 2.5 million tonnes of sugar in order to establish equilibrium on the sugar market. This will result in a restriction in marketable quotas of sugar producers for the 2006 campaign, which will lead to a drop in profit contribution. At the same time, the restructuring levy, which is to be paid by sugar producers over three years to finance the fund, will also be charged on the non-marketable part of the quota and will thus lead to considerable additional costs. Quotas that have already been sold to the fund in 2006/07 can be offset against the quota reduction. It is thus estimated that more than 1 million tonnes of quota sugar will be sold to the fund in 2006/07, thereby providing the market with appropriate relief.

Südzucker Group has concentrated strategically on those regions of Europe having the best sugar yields and already is one of the most competitive producers in Europe. Nevertheless, the reform will also lead to costs for Südzucker. In order to counter these, we have agreed on an extensive group-wide package of measures. The opportunity to acquire new quotas will be taken up in full. This will enable Südzucker to extend its market position in the EU. In addition, Südzucker will take advantage of the newly-established industrial sugar segment established by the SMR. This segment represents sales to bioethanol producers and to the chemical, pharmaceutical and fermentation industries, which will be supplied with sugar outside the quota system in future. This growing market will be reserved for the particularly competitive producers.

This market offensive will be flanked by extensive cost reduction measures, which will be reviewed, evaluated and agreed timely for their efficiency and sustainability. These include programs in the areas of beet deliveries and logistics, with which costs in the next few years will be substantially lowered, in line with the reduction in the EU beet minimum price by some 40 %. Supplier contracts and industry agreements between Südzucker

Group and beet farmers have been adapted to meet the changed requirements of the market regulation, in particular quantity restrictions and foreseen price reductions resulting from export restrictions. In addition to works closures in Belgium and Poland already carried out over the past two years, Südzucker Group's factory structure will again be optimised by closure of the Hohenau (Austria), Rimavska Sobota (Slovakia) and Lubna (Poland) factories, further locations are under review. Furthermore, cost structures in the remaining factories and administration expenses are being improved. Südzucker thus assumes overall that the measures to lower costs already introduced and the market offensive will strengthen the earnings potential of the sugar segment.

WTO-II negotiations could not be completed, as originally planned, at the ministerial conference in Hong Kong in December 2005, with only a ministerial declaration being approved. The resulting measures, such as a parallel reduction of all export subsidies through 2013, will only become valid 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 in negotiation with its WTO trading partners with the aim of arriving at a conclusion by the end of 2006.

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 which cannot to be completely passed on to our customers. These risks mainly affect the special products segment, 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 food 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 segment, 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 begun to standardise information systems and processes within the Südzucker Group. The group harmonisation project could be successfully completed by 28 February 2006. 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 payment 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 entering into 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 marking 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 separation 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

The group's overall risk position has significantly improved compared with the previous year, due to the planning security through 2015 agreed in November 2005 and arising from the reforms made to the SMR.

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 market | The new SMR regulations provide opportunities for increasing our competitive position in 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 position due to its concentration on the best agricultural regions, and will thus extend its market position.

Due to the world-wide increase in sugar demand, coupled with a reduction in sugar supply, the world sugar market price has been increasing strongly over a longer period of time. We thus see expansion opportunities in our sugar activities, which we will also be taken advantage of through acquisitions outside the European Union, giving significant growth and value-added potential.

Bioethanol | Particular importance is attributed to the opportunity of refining alcohol from sugar for use as a fuel. This permits dependency on fossil fuels, as well as carbon dioxide emissions, to be reduced. 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 preparations to normal oil-based fuels, with a new law to be passed shortly. 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.

Fruit | Acquisitions by AGRANA, a group subsidiary, over the past few years have resulted in a newly-formed fruit division, which also shows significant growth. Südzucker Group is already a world market leader in fruit preparations for the dairy industry. Furthermore, the fruit division 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 USA), or increasing income levels (MEEC, Russia). The group has taken account of this trend by strengthening its competitive position in the fruit preparations division in these regions, investing in locations close to customers. Examples of this are newly-established factories by Atys USA in Tennessee and Steirerobst in Serpuchov, near Moscow.

Functional food | In addition, Südzucker has an outstanding position on a number of growth markets through expansion of 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.

Events after the Balance Sheet Date

In order to further increase the competitive capability of our sugar segment, it was agreed in March 2006 to cease processing at the Lubna, Poland, sugar factory with immediate effect.

In May 2006, as part of the European expansion of our bioethanol activities, the outstanding shares in Ryssen Group, in which Saint Louis Sucre already had an investment of nearly 50 %, were acquired. Ryssen operates a modern plant to dehydrate and rectify raw ethanol with an annual capacity of 100,000 m³ in a logistically advantageous position in Dunkirk harbour.

Forecast

Overall, the results for 2005/06 are within our expectations at the beginning of the year. In the sugar segment, the declassification not carried out by the EU had a negative effect on results. In the special products segment, results were affected by rapid expansion in new business fields, with charges above all due to start-up losses in the bioethanol division. On the other hand, the group's capital base and liquidity position were considerably strengthened by the financial package in summer 2005. Thus, with the newly-established long-term planning security for our core sugar business, the foundation was laid for us to be able to further follow our group strategy, aimed at value-oriented growth.

In the course of 2006/07 capital expenditures will be concentrated on expanding our bioethanol activities and fully taking advantage of opportunities of acquiring sugar quotas from the restructuring fund.

For the sugar segment, 2006/07 is the first year within the framework of the new sugar market regulation. The first-time payments of restructuring levies will lead to a considerable cost burden which, however, will be compensated by the cancellation of production levies and acquisition of additional sugar quotas. In order to avoid surpluses, the EU Commission carried out a temporary reduction in marketable quotas in the EU totalling 2.5 million tonnes before sugar beet was sown for the 2006 campaign. Südzucker Group's production will therefore be limited to 479,000 tonnes, whereby the full restructuring levy will be charged on these quantities.

Together with the full effect on relieving the market from the middle of 2006 by reducing quotas for the 2005/06 campaign, the repeated considerable production restrictions will contribute to rapid market equilibrium and will reduce price pressures during 2006/07, which had a negative effect on results for 2005/06. Production restrictions will also increase the pressure to sell quotas to the restructuring fund. We assume that already in the first year the new market regulation will lead to sales of more than one million tonnes of quotas to the fund. The resulting market clean-out and acquisition of additional quotas will considerably strengthen Südzucker's market position. As a result of restructuring measures already taken and use of opportunities established in the new market regulation to produce sugar for applications outside the food sector, Südzucker must emerge strengthened from the first year of the new sugar market regulation, despite again sharply higher energy costs.

There will be a strong improvement in profitability in the fruit division within the special products segment. A positive contribution by the bioethanol division will lead to a considerable improvement in segment results in 2006/07. The further expansion of this division will form the basis for medium-term and long-term growth in profitability of the segment. We plan to establish a bioethanol factory with an annual capacity of 250,000 m^3/p. a. at Wanze in Belgium, using wheat and sugar beet. As part of our functional food activities we have produced fructose in Belgium to date. The inulin quota used for this purpose will be sold to the restructuring fund by Südzucker in 2006/07 and we will concentrate on producing oligo-fructose. Despite the resulting loss in contribution to profitability from this area and the not yet fully utilised new production facilities in Chile, operating profits in the special products segment will grow considerably in 2006/07.

Group operating profit will exceed profits for 2005/06. Furthermore, overall we expect a positive result from special items, so that operating profit after special items will considerably improve over 2005/06.

In the medium-term, based on a massively strengthened capital structure, the already considerable capital expenditures in the growth markets of bioethanol, fruit and functional food, as well as a strengthened market position in the sugar segment after market cleansing, we expect to continue our sustained growth in group operating profit.

Research and Development

Major projects/overview

Research and development with the Südzucker Group concentrates on new products and product variances, optimising production processes and supporting marketing, business development and procurement activities. The range of work covers agricultural production, developments relating to the sugar, fruit preparations, starch, inulin and ethanol divisions and their end-products (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 consulting, nutritional science and patents. This applies equally to market products, product varieties and new products. These tasks are carried out by some 250 staff at five group locations. Co-ordination is carried out by group-wide, topic-related working groups. The total budget for research and development amounted to some € 30 million (€ 28 million) in 2005/06.

A major effort has been made to expanding patent registrations for all products, particularly in the special products division and for sugar-related technological processes. A total of 20 new patents were registered. Südzucker believes that an active patent policy is an important part of its corporate strategy, and hence of its research and development strategy. Existing product safety systems at the sugar, special varieties, product development and animal feed divisions are being further developed.

Sugar and special products

Sugar

Südzucker Group's research activities in the sugar technology area are co-ordinated by the "Centre of Competence Sugar Technology". This group-wide committee controls joint projects such as, for example, the successful project to use anthracite as an alternative fuel for firing calcium ovens. Services are also offered to factories throughout the group.

Electroporation | Electroporation is a process to ease the extraction of sugar from beet. Tests on electroporation of sugar beet and, subsequently, alkaline extraction have been continued with the aim of developing a real size reactor which can be used in operations. Current technological tests confirm significant savings in primary energy for steam production and pulp drying. A further advantage is the increase in extraction capacity, whereby existing extraction plants could be operated without any new capital expenditures at a sharply higher level of efficiency. Further patents have been registered to protect our rights.

Calcium savings | A protein-rich substance can be won from altering the beet-juice flow and using additional sediment equipment, thereby saving calcium. This beet-juice cleansing process was tested on a large scale, with promising results, at a Polish sugar factory in the 2005 campaign. It demonstrated that separation of the protein-rich substance was possible with the help of conventional separation technology.

The resulting product, a filter cake, can be further processed to carbo-calcium using existing methods and marketed as a fertiliser.

Sugar special products/special packs

Bee feed | Südzucker has successfully launched a particularly high-value biological product named bio-Apiinvert on the market using an innovative technology to feed bees.

Fondant | Activities in the fondant sector were marked by a merger of the individual companies to form a Eurofondant Group and a resulting harmonisation of recipes. A further major project was the development of coloured and aroma-based glazings which led to successful product developments in the form of tailored solutions, often together with customers.

Aroma-based sugar | Two new aroma-based castor sugars, vanilla and cinnamon, were developed and launched on the market for the 2005 Christmas season.

Vitamin-based sugar | Sugar for export to Nigeria has had to contain vitamin A as an additive since December 2002. Following laboratory tests, as well as pilot and technical plant tests to check the effects of moisture, temperature, light, abrasion, warehousing and grinding on the stability of vitamin A, a patented process was developed which ensures an even distribution and minimal loss of effectiveness during production, warehousing and transport. A plant has been constructed at Nassandres and entered into operations in September 2005.

Product safety

The major task of the product safety working group is assessing raw materials and supplies, products and processes in close co-operation with procurement, production, product development and marketing. Current safety standards are reflected in the group's work. In addition to a large number of different specific reviews, overall, systematic guidelines on documentation were further developed in line with both our duty of due diligence and to meet customer expectations.

Functional carbohydrates

Nutritional science

Isomalt/Palatinose™ | A major project within the nutritional science research area was in supporting claims of the low glycemic effects of Isomalt and, following its market launch, particularly of Palatinose™. The studies include, amongst other matters, diabetes-related diseases and their early stages, overweight, nutrition for athletes and overall performance.

This work is also supported by further measurements of the glycemic and insulin-related properties of Isomalt and Palatinose™.

For Palatinose™ it was also shown that, compared with other sugars, it is re-absorbed at a much slower rate, so that there is no undesired rapid rise in glucose or insulin levels in the blood on carbohydrate intake. In addition, it was proven for patients with intestinal disease that Palatinose™ is completely digested in the small intestine and hence no laxative effects are expected.

Other tests indicate that use of Palatinose™ in drinks can improve the desirable burning of fat in endurance sporting activities compared with carbohydrates. These results are also very promising.

Isomalt and Palatinose™ could therefore make a significant contribution to nutrition as well as to an improvement in clinical symptoms of diabetics and persons inclined to diabetes. First indications show that Palatinose™ is also of advantage to nutrition for athletes, due to its glycemic effects combined with longer maintenance of blood sugar levels and complete break-down in the small intestine.

Inulin | A breakthrough was achieved in nutritional science research to improve calcium re-absorption and bone mineralisation through a major study with growing adolescents, in which the excellent properties of Beneo™Synergy1 were proven.

The results of a study on the effect of Beneo™Synergy1 on infectious intestinal diseases confirmed the beneficial effects noted in earlier observations.

A pilot study using oligo-fructose, based on animal testing, confirmed a possible increase in loss of appetite and reduced food intake. The objectives of various other animal studies using inulin products include fat conversion, arterial disease and blood pressure together with overall well-being, physical and physiological symptoms and prolongation of life. We are also involved in the "EARNEST" EU-subsidised program on the importance of nutrition for babies and small children for their later health.

A major project within the research area is animal feed using products based on inulin and chicory. Major animal testing is currently being carried out with pigs, chickens and egg-laying hens. Positive results also related to fish farming, particularly feed efficiency.

Application technology/product and process development

Isomalt/Palatinose™ | Many service activities were carried out for customers for the Isomalt product, particularly use in tablets and hard caramels. Customers were able to launch a new, sugar-free product on the market with the help of a soft-caramel recipe based on Isomalt.

Extensive developments with Palatinose™ in the drinks industry resulted in product launches, and patent registrations have already been made.

galenIQ™ | An expanded and newly-development range of products based on raw materials for production of pharmaceutical recipes with tablets, coated pills and capsules have been made available under the galenIQ™ name, developed specially for the pharmaceutical sector.

Inulin | The agricultural tests on planting chicory in Chile, commenced three years ago, are leading to extremely good results. The wide-area planting in April 2005 confirm previous research work.

New inulin developments include a product with a low content of fructose, glucose and saccharose, together with a newly-developed syrup for the fermentation industry. In the application technology area, progress could be made on use of inulin and oligo-fructose in various nutrients. For example, newly-developed, highly-dissolvable inulin varieties achieved improved application properties for fruit preparations and ice creams. Further major projects included the possible use of long-chain inulin products, particularly in the milk sector, together with use of inulin for breakfast cereals, cereal bars, cake fillings, low-fat sauces and meat products. In the non-food area, marketing opportunities for inulin were expanded through product developments in the health, personal care, colours, inks and coatings sectors.

New carbohydrates

The process for producing neo-amylose, the new resistant starch, could be considerably improved, above all relating the fermentation-based enzyme recovery.

Further products produced using bio-conversion are under development as part of subsidised projects. These developments are being pushed with close co-operation with European and non-European research institutions. The aim is to achieve sustained fermentative and enzyme-based production of special sugar products which can be used as functional nutrients or animal feed as well as in the non-food sector.

Production processes with high-developed micro-organisms should, in future, permit an improved production of carbohydrates already on the market and find new products using specialised enzymes.

Starch

Starch is primarily produced by the Südzucker Group for the food and non-food sectors based on corn and potatoes. Südzucker Group is also the market leader in the rice-starch sector. Research projects are concentrated on the non-food areas of thickeners for colours, glass-fibre wall coverings, applications in the construction sector as well as glues in the packaging industry. Overall, we have been able to open up new market segments for starch products through launching new products and providing application technological support for customers, as well as improving the economic use of existing processes.

Through the combined input of high-viscose starch derivatives and cellulose ether as a thickener in colour systems, particularly in dispersion colours, a new application area for starch products could be established. Supported by intensive application technology in a dispersion colour laboratory specifically constructed for this purpose, this newly-developed product is currently being launched on the market with potential customers. Patents have already been registered.

In close co-operation with leading companies in the glass-fibre wallpaper sector, a newly-modified starch is being developed which is considerably better than former products.

Starch products play a decisive role in the construction sector. For example, a newly-developed modified starch meets modern requirements for optimally gluing larger and heavier tiles. Development of innovative starch products for this sector will remain a major project.

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 has now been developed with the help of extrusion technology that, in addition to excellent gluing qualities, shows outstandingly low spraying properties. The new product will be launched on the market following a successful test phase.

By combining corn and rice-starch, it has proved possible to develop an optimal product for sticking cardboard paper, leaving former products in the shade. Through a combination of properties of both starches, which are produced within the group, a cardboard glue has been developed which, in addition to having outstanding gluing qualities, also permits particular rapid gluing. Hence, the cardboard industry can not only reduce the quantity of glue used, but above all can sharply increase production speed and save drying energy.

CAPITAL EXPENDITURES

The group invested € 426 million (€ 500 million) in property, plant and equipment in 2005/06, of which € 174 million (€ 144 million), or 40.8 %, related to the sugar segment and € 252 million (€ 356 million), or 59.2 %, to the special products segment. We set out below the significant capital expenditures by segment.

Sugar segment

Germany | All capital expenditures were successfully included in the 2005 campaign at Südzucker AG. The main area of the capital expenditures was optimising plant and the further modernisation of automation systems.

Larger replacement investments included the construction of beet pulp presses at the Offenau and Ochsenfurt works.

The new identification systems in beet yards at the Offstein and Groß-Gerau factories have operated trouble-free since being commissioned. This change to the identification system, beet yard and factory yard counters will be continued in Ochsenfurt in 2006.

The new high-bay warehouse for 15,500 pallets and installation of new filling lines for 1 kilo packages, tubular packs and collapsible boxes entered operations at the Offenau factory.

Belgium | At Raffinerie Tirlemontoise the energy savings program, which has been running for three years, was continued with the renovation of the steam station in Tienen and installation of a gas turbine in Wanze. These plants started operations and achieved their forecast savings objectives.

The group-wide program to optimise production of end-consumer packages (best-pack program) is running to plan. In Tienen, two new production lines for the production of 3 g and 1.4 g cube sugar will start operations in 2006.

France | By far the largest single project at Saint Louis Sucre, construction of the beet pulp dryer in Eppeville, and all other capital expenditure projects were put into operation in time for the campaign. Major projects included construction of the loading station at Etrepagny and renewal of sugar delivery and shipment equipment at Guignicourt.

An overall concept for future capital expenditures in the silo sugar production and graded sugar production areas is currently being developed. The objective is to achieve a sustained improvement in plant structures at sugar factories and optimise capacity for production of products for the retail consumer by means of targeted capital expenditures.

Austria | At AGRANA, the warehouse for pallets in Tulln, destroyed by fire in the summer, was completed in the record time of only three months, and commenced operations in time for the start of the campaign.

Special products segment

Bioethanol | Production at the bioethanol plant in Zeitz improved considerably following optimisation of parts of the plant, in particular in the drying, pelleting and automation systems areas. In order to achieve maximum performance, capacity of the waste water regeneration plant was enlarged and further improvements were made in the distillation, rectification and drying areas.

At Hungrana, the main area of investment was in expanding the existing bioethanol plant. When completed, this plant will have a capacity of 150,000 m^3 per annum.

Zoning approval proceedings for the bioethanol plant for AGRANA at Pischelsdorf are progressing, with production due to begin in the fall of 2007.

Fruit | Capital expenditures in the fruit division mainly related to the construction of production facilities for fruit preparations in Serpuchov, Russia and Tennessee, USA as well as completion of the Innovation Competence Centre for fruit preparations in Gleisdorf. Further capital expenditures served to optimise production, raw material goods inwards controls, cold-storage plant and delivery and unloading stations. In the fruit juice concentrates division, capital expenditures in connection with merging the Hungarian Steirerobst locations in Hajdusamson, eastern Hungary, were completed before the apple campaign.

Functional food (ORAFTI/Palatinit) | Capital expenditures at Offstein to increase capacity of Isomalt production are almost complete, and related investments are being made in infrastructure such as water supply and waste water regeneration. At ORAFTI, construction of Raftiline and Raftilose production in San Pedro, Chile remains within its time and cost budgets. Test runs and extensive pre-production runs for production plant with Belgium raw inulin have been completed, and production started successfully in mid-April 2006.

Starch | Expansion of corn-starch capacity to 1,000 t/d at the Aschach works is nearing completion.

PERSONNEL

Südzucker Group employed an average of 19,903 (17,494) staff world-wide during 2005/06. The increase is mainly due to expansion in the AGRANA fruit division and to the Atys and Wink Groups. The decrease in the sugar segment was mainly due to the results of restructuring in eastern Europe. Fluctuation within the group is traditionally low.

Average number of employees in the group	2005/06	2004/05
Sugar segment	11,294	12,001
Special products segment	8,609	5,493
Total	19,903	17,494

European works council | The European works council, expanded to include representatives from the eastern European companies, met on 7 and 8 July 2005. Major matters discussed at the meeting included the position and development of the group and activities of AGRANA in eastern Europe. With the establishment and expansion of this information and consultation body an efficient network of employee representatives from all group companies in Europe has arisen.

"Building-the-Group" program | Growth of the Südzucker Group and increased globalisation and diversification places high demands on integration within the group. Programs and processes with the aim of "Building-the-Group" have been developed to encourage co-operation and raise awareness of group-wide challenges emerging from changes in business conditions. These measures were started in 2005/06 with an International On-Boarding program (IOP) for employees who have been with the group for between two and five years, have a university degree or similar background and show interest in cross-border co-operation and communication. As part of this program, interrelationships and strategies within the group are discussed with participants

Activities for managers, experts and project managers with a longer period of service and for top management and candidates for top management positions are additional components of our overall concept.

Whereas the harmonisation project is aimed at streamlining IT systems, business processes and data structures, management development measures are aimed at continually improving and encouraging the idea of thinking and acting as a group. Open communication and feedback and stable network relationships, as well as understanding intercultural differences, strengthen the group's overall power and the efficiency of strategic and operational processes.

Personnel development/training | Südzucker's philosophy is to open up opportunities and paths for the further development of staff within companies and in the group. Both parallel qualification measures and encouragement in the form of training-on-the-job initiatives help to achieve this. Part of the foundations are already laid in basic professional training, so that classical professional training remains of considerable importance at Südzucker AG, which currently has 250 apprentices learning various technical, scientific and commercial trades. Hence, the number of apprentices at Südzucker AG continues to be over 10 %.

Furthermore, Südzucker offers projects and practical work to school children and students, to enable them to prepare for their working lives during their schooling.

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

Safety-at-work | Safety-at-work and health protection have a high status in all Südzucker Group's companies. As an integral part of the quality management system, safety-at-work and health protection made a significant contribution to the success of our group and to the personal health of our employees. Emphasis on the area of preventative measures lies in carrying out risk analyses, checking working tools and training employees. Both the number of accidents as well as working days lost due to accidents are 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 2005/06. We also thank the members of the works council for their co-operation and fairness.

INFORMATION ON THE SEGMENTS

SUGAR SEGMENT: MARKET DEVELOPMENTS

Global market

Global market prices | The global market price of sugar increased by US $ 190 per tonne, or 73 %, from some US $ 260 per tonne at the beginning of March 2005 to US $ 450 per tonne at the end of February 2006. This positive price trend was mainly due to supply and demand equilibrium. As the US dollar exchange rate rose slightly against the euro over the same period of time, the increase in euro terms was even greater.

A deficit of between 1 and 2 million tonnes of sugar is forecast for 2005/06. Production will probably be 148.8 million tonnes, lower than estimated consumption of 150.1 million tonnes. Hence, for the fourth time in a row, global sugar volumes will decline and will amount to some 40 % of annual consumption.

In addition to this quantity equilibrium, there are two further reasons for the price increase. High oil prices make ethanol production interesting and hence Brazil has increased ethanol production at the cost of sugar production. Second, the approaching end of EU sugar exports to world markets has led to expectations of a shortage from 2007, in particular of white sugar, which has triggered market speculation.

Pension funds and hedge funds began to purchase a historically long position of 7.5 million tonnes of sugar in summer 2005, earlier than many market participants expected, and this led to the first price increase of up to US $ 300 per tonne by the end of 2005.

A rise from US $ 300 to US $ 450 US per tonne occurred in January and February 2006. This period was marked by nervousness of sugar processors who had not sufficiently covered their positions. Sugar producers also repurchased sugar they had already sold, in order to participate in further price increases. Both factors led to increased volumes traded on futures markets.

Quantities | 2005/06 is the last major export year for the EU. Exports to countries outside the EU will reach some 7 million tonnes of sugar, of which 1.9 million tonnes stem from EU declassification in the fall of 2005. In evaluating this quantity it should be reflected that, in the last four years, Brazil has continually increased its exports, by almost 10 million tonnes to over 19 million tonnes today, amounting to an average increase per year of some 2.5 million tonnes, far higher than EU exports.

Other export countries must fill the gap in future which the EU will leave on world markets. Brazil has fought against EU sugar exports together with the WTO panel with all its powers but appears not prepared to fill this gap in supply as Brazilian energy policy has been given priority.

European Union

Reform of the sugar market regulation | The EU's agricultural ministers have agreed on an extensive reform of the European sugar market regulation. With the new regulation, which enters into force on 1 July

2006, a proven system over almost 40 years will be included in the overall reform of the EU's entire agricultural policy. This will ensure a long-term future perspective for sugar production in the EU, boost its competitiveness and market orientation and strengthen the EU's position in on-going world trade negotiations. The reform offers the sugar industry long-term security through September 2015.

The core points of the reform are a 36 % reduction in the guaranteed minimum price of sugar, a 39 % reduction in the guaranteed minimum price of sugar beet, compensation payments to farmers and a restructuring fund to act as an incentive for less competitive sugar manufacturers to abandon their production.

The EU's sugar production will probably decrease by 6 to 7 million tonnes, and internal market consumption demand will be met by European production and imports from ACP countries and least developed countries. In this connection, the EU has resolved to open its market for imports from the 49 poorest countries of the world as from 2009.

In order to start the new market regulation period with a clean sheet of sugar quantities, the EU Commission has ordered a temporary quota reduction for the sugar year 2006/07 of 2.5 million tonnes.

The restructuring fund established within the framework of the new sugar market regulation, which is intended to concentrate sugar production on competitive areas, has already received approaches from Finland, Italy, Ireland, Latvia, Portugal, Sweden and Spain.

Intervention | Declassification not made in 2004, together with the Commission's restrictive policy on quota sugar exports and market movements in anticipation of reform of the sugar market regulation, led to the market being affected by excess sugar supply this year, so that intervention was used as a market regulatory instrument for the first time for decades.

Starting with initial offers and acceptances in France at the end of February 2005, a total of 1,699,871 tonnes of sugar (as at 17 March 2006) were offered and accepted for purchase by the intervention points. Purchase offers for a total of 212,600 tonnes were accepted within the framework of the standing offer for resale of white sugar to the internal market from intervention point inventories.

In the meantime, the EU has made the rules for purchases and sales of sugar by intervention points more restrictive. Changes mainly relate to warehousing of the sugar, package sizes and, in particular, intervention point payment terms.

Declassification | As declassification was not carried out in 2004 and there was a resulting increase in inventories, the EU Commission resolved a sugar declassification of 10.35 %, or 1,805,961 tonnes, in September 2005. Due to the high B-quota share, this amounted to a declassification of 14.3 % for Germany.

Production levy | The EU Commission resolved to charge a supplementary levy in addition to the maximum production levy for the 2004/05 sugar year. This amounted to almost 16 % of the production levy for the old member states whereas the supplementary levy was 27 % for the new member states.

EU import limits | Sugar is mixed with various materials in order to avoid existing import restrictions. New decisions were made by the administration committee on a case-by-case basis covering various mixtures with high sugar content. As a result, part of these mixtures will normally no longer be given preference on imports into the EU, and they will be charged a high agricultural duty. This is not applicable to fruit juices and fruit-juice concentrates with high sugar content, primarily imported from Switzerland, as these are not part of the free-trade agreement that entered into force in 2005.

Eastern Europe import limits | In addition to existing import limits of a total of 200,000 tonnes of sugar into the EU from Macedonia, Serbia-Montenegro, Bosnia-Herzegovina and Albania, there will probably be a further 180,000 tonnes for Croatia effective 1 January 2007.

ACP imports | The European Commission has fixed a special customs-free preference quota for raw sugar imports from ACP countries of 1.316 million tonnes of white sugar equivalent for the 2005/06 sugar year. These imports are normally allocated to the four major refinery areas in the EU, namely France, Portugal, Great Britain and Finland.

NA-I goods recovery budget | Sugar processors receive the price difference between the EU and world market price of sugar for products which they market outside the EU in order not to limit their export opportunities. Calculations by the Commission show that the recovery budget for 2005/06 is 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. 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 25, non-EU countries and country entities.

Key figures for the sugar segment		
	2005/06	2004/05
Revenues	€ 3,574.4 million	€ 3,517.6 million
Operating profit	€ 309.6 million	€ 359.9 million
Restructuring costs and special items	(€ 39.1 million)	(€ 12.4 million)
Income from operations	€ 270.5 million	€ 347.5 million
Operating margin	8.6 %	10.2 %
ROCE	9.0 %	10.3 %
Capital expenditures in tangible assets	€ 174.1 million	€ 143.9 million
Investments in financial assets	€ 19.1 million	€ 473.3 million
Total capital expenditures	€ 193.2 million	€ 617.2 million
Employees	11,294	12,001
Beet processed	30.9 million tonnes	31.1 million tonnes
Sugar production	5.2 million tonnes	5.1 million tonnes

Sugar production from beet and refining

Group

The geographic area on which sugar beet is planted for the Südzucker Group decreased in 2005/06 to 483,900 hectares (495,200 hectares). With an average theoretical sugar yield of 11.2 tonnes per hectare (10.9 tonnes per hectare), a total of 4.82 million tonnes of sugar (4.80 million tonnes of sugar) was yielded from 30.9 million tonnes of beet (31.1 million tonnes of beet). Hence, sugar production from beet remained at almost the same level as in the previous year. A sharp increase in sugar yields could be noted, particularly in Hungary, Slovakia and Moldova, where the previous year's yields were exceeded by up to 29 % and 5-year average yields by up to 70 %. The campaign at the 43 (43) factories lasted an average of 90 days (91 days). If raw sugar refinery is included, sugar production within the group rose to 5.21 million tonnes (5.13 million tonnes).

EU 25

The area of sugar beet under cultivation for Südzucker companies in the EU 25 was 465,300 hectares (479,600 hectares). Beet volumes harvested, at 30.3 million tonnes (30.6 million tonnes), as well as sugar processed, at 4.73 million tonnes (4.74 million tonnes), remained almost unchanged from 2004/05, as a slight decline in area under cultivation could be offset by a higher theoretical sugar yield 11.4 tonnes per hectare (11.1 tonnes per hectare). Including raw sugar refinery 4.89 million tonnes (4.89 million tonnes) were produced.

Germany | The area of sugar beet under cultivation for Südzucker AG in Germany decreased slightly in 2005, to 169,400 hectares (174,400 hectares). The sugar beet was sown under good conditions with only some plants damaged by frost at Zeitz and Brottewitz. As in the previous year, the level of concentration achieved an average of almost 90,000 plants per hectare, a good amount, and weather conditions were generally calm, whereby August was too cool and too dry in certain regions. Heavy rainfall in mid-September then refilled water levels. There was a low level of lea disease in all the regions, so that beet plants remained healthy up to harvest.

There were optimal harvesting and transportation conditions during the entire campaign and accordingly wastage levels were satisfactorily low, at an average of 6.4 % (8.1 %).

Beet deliveries to the factories proceeded smoothly. The identification system, initially introduced at Rain for the 2004 campaign, by which farmer- and field-related data is transferred by transponder, was also introduced at Offstein and partly at Groß-Gerau for the 2005 campaign.

The dry and sunny fall weather led to an increase in average polarisation to 18.3 % (18.1 %) during the course of the campaign. The theoretical sugar yield remained only slightly below that of the previous year, at 11.6 tonnes per hectare (11.9 tonnes per hectare), so that sugar production was 1.71 million tonnes (1.81 million tonnes) from 10.8 million tonnes (11.5 million tonnes) of beet.

Apart from the Brottewitz and Zeitz works, the campaign could be completed in all the sugar factories before Christmas. The average campaign lasted 86 days (92 days).

Südzucker AG: New payment system for sugar beet from 2006

As a reaction to the new conditions arising from the reform of the EU sugar market regulation, Südzucker and the South-German beet farmers associations agreed on a new payment system for sugar beet as from the 2006 campaign. Significant key elements such as quality-based payment have been maintained, but necessary changes have been made with respect to quantity and price.

Due to the lapse of export opportunities for sugar, a closer orientation on sugar quantity has been agreed. Each and every beet farmer enters into a beet delivery contract setting out contractually-fixed beet quantities as well as an individual sugar quota. In addition, farmers can supply a maximum of 10 % of this quota sugar as industrial sugar, for Isomalt or bioethanol production, in 2006. Additional quantities delivered are received as excess beet to be used in the best possible manner.

The new payment system also ensures financial effectiveness for sugar beet farmers and reliable raw material supplies to sugar factories in future. The new payment system will assist in ensuring the sustainability of sugar beet farming and sugar production in south-Germany.

Privileged partnership: Südzucker AG with QS

In order to improve transparency of sugar beet farming, Südzucker had already developed sugar beet origination documentation in co-operation with the sugar beet farmers associations many years ago. The sugar beet supply contract has included a requirement for each beet farmer to maintain this origination documentation or to record the relevant data in an origination register since 2004.

In a further step towards quality control in sugar beet farming, Südzucker has entered into a privileged partnership with QS Qualität und Sicherheit GmbH. As part of this partnership, Südzucker has given each beet farmer the QS planting guidelines together with the annual seed distribution in 2006, in which all relevant criteria for planting quality control are listed. Farmers can voluntarily use the guidelines to check whether they fulfil all the criteria listed, or where further work is required.

Südzucker supports compliance with QS requirements at farms and aims at achieving a step-by-step implementation of QS planting with the help of its privileged partnership with QS.

Together with the guidelines, each beet farmer also received a separate check-list for sugar beet as a self-checking mechanism in 2006. This check-list is an extract from the QS planting check-list and includes significant criteria that must be adhered to by sugar beet farmers.

Belgium | Sugar beet planting at Raffinerie Tirlemontoise in Belgium mainly showed a high and consistent concentration, with the area under cultivation reduced to 56,700 hectares (58,700 hectares). The campaign was also marked by a very dry and sunny fall in Belgium. Hence, the low polarisation at the beginning of the campaign rose on average to 17.6 % (17.1 %). Total wastage was 16.4 %, a low level for Belgian conditions. The theoretical sugar yield amounted to 12.1 tonnes per hectare (12.2 tonnes per hectare), with good beet quality. 0.63 million tonnes (0.66 million tonnes) of sugar were produced from 3.9 million tonnes of beet (4.2 million tonnes). Beet processing ended on 29 December 2005 after 98 (101) campaign days.

France | The area under cultivation for Saint Louis Sucre in France decreased to 81,800 hectares (83,500 hectares). Following a dry spring, there was sufficient rainfall in the summer to meet expectations of a good harvest. Due to the extremely good harvest and transportation conditions, as well as a high proportion of pre-cleaned beet on loading, the average soil cling was lower than 10 %. The campaign, marked by sunshine, also led to polarisation achieving top rates, so that the theoretical sugar yield of 12.6 tonnes per hectare (12.4 tonnes per hectare) was a record high. 0.97 million tonnes (0.96 million tonnes) of sugar were processed from 6.7 million tonnes (6.6 million tonnes) of beet and the campaign lasted an average of 101 (100) days, whereby the Guignicourt works had the longest campaign, of 115 days. Sugar production, including refining, amounted to 1.13 million tonnes (1.11 million tonnes).

Austria | At AGRANA in Austria the area under cultivation fell to 44,200 hectares (44,700 hectares). Good seeding and growing conditions led to concentrations averaging 90,000 plants per hectare, although some

1,500 hectares, or 3 %, had to be re-sown following frost damage. Cool weather in spring held back beet growth somewhat, but also hindered damage by weevils which had negatively affected plants in the previous year. Overall, there was a low level of disease and pest damage. Whereas sugar yields at the first test harvest at the end of August were extremely low due to the lack of sunshine in summer, sunny weather in the fall led to an increase in polarisation to 17.1 % (17.3 %) on average during the campaign. The main harvesting period remained substantially rain-free so that earth cling was low and harvest and transport conditions were optimal during the entire campaign. An extremely good beet quality was the basis for a new top performance for processing. The theoretical sugar yield rose to 12.1 tonnes per hectare (11.2 tonnes per hectare). The three sugar factories in Austria could process a total of 3.1 million tonnes (2.9 million tonnes) of beet in an average 78 (76) campaign days to 0.49 million tonnes (0.46) million tonnes of sugar.

Poland | In Poland the area under cultivation for Südzucker Polska fell to 67,300 hectares (70,000 hectares). The beet plants were overall good to extremely good, with sufficient rainfall in summer positively influencing beet growth. Dryness in the fall led to harvesting difficulties in certain instances, but factory deliveries proceeded smoothly. The theoretical sugar yield reached 8.9 tonnes per hectare (8.3 tonnes per hectare) and a comparison of sugar yields by region shows that Südzucker Group is located in Poland's best planting areas. 3.1 million tonnes (3.2 million tonnes) of beet could be processed to 0.54 million tonnes (0.52 million tonnes) of sugar in 95 (84) campaign days.

The second year following admission to the EU was marked by many restructuring activities.

Slovakia | The area under cultivation for beet at AGRANA International in Slovakia decreased considerably to 9,400 hectares (10,700 hectares). Thanks to extremely good soil and beneficial weather conditions, the beet plants developed well and a dry fall enabled the beet harvest to proceed without disturbance. With a theoretical sugar yield of 8.6 tonnes per hectare (6.9 tonnes per hectare), 0.07 million tonnes (0.06 million tonnes) of sugar were produced from 0.5 million tonnes (0.5 million tonnes) of beet. The average campaign lasted 94 (102) days.

The Czech Republic | The area under cultivation at AGRANA International in The Czech Republic again decreased compared with the previous year, to 13,200 hectares (14,000 hectares). Adequate rainfall in the summer enabled beet plants to develop well and, despite a lack of sunshine, the theoretical sugar yield rose to 9.8 tonnes per hectare (8.9 tonnes per hectare), so that 0.12 million tonnes (0.11 million tonnes) of sugar could be processed from 0.7 million tonnes (0.7 million tonnes) of beet in an average of 87 (84) campaign days.

Hungary | 23,300 hectares (23,500 hectares) of land were planted with sugar beet for AGRANA International in Hungary. Weather conditions were extremely beneficial during the entire growth period for development of the beet plants so that, at 9.7 tonnes per hectare (7.7 tonnes per hectare), the theoretical sugar yield was the highest ever recorded in Hungary. Harvesting and transportation also benefited from magnificent weather conditions. 1.5 million tonnes (1.1 million tonnes) of beet yielded 0.21 million tonnes (0.16 million tonnes) of sugar in an average of 99 (95) campaign days.

Non-EU countries

In the countries outside the EU the area under cultivation rose to 18,700 hectares (15,600 hectares). 0.09 million tonnes (0.06 million tonnes) of sugar were processed from 0.6 million tonnes (0.5 million tonnes) of beet. Including raw sugar refining, 0.32 million tonnes (0.24 million tonnes) of sugar were produced.

Moldova | The area under cultivation for Südzucker International in Moldova again declined compared with the previous year, to 14,900 hectares (15,600 hectares). Beneficial weather conditions with sufficient rainfall over the entire vegetation period ensured good beet growth. Harvesting and delivery of beet to the factories proceeded smoothly. The theoretical sugar yield rose to 6.2 tonnes per hectare (4.9 tonnes per hectare) and 0.08 million tonnes (0.06 million tonnes) of sugar were produced from 0.5 million tonnes (0.5 million tonnes) of beet. The average campaign lasted 64 (57) days. The extensive program to develop beet cultivation introduced since the beginning of our operations in Moldova is reflected in these figures.

Romania | After a year in which there was no planting of beet for AGRANA International in Romania in 2004, 3,800 hectares were planted in 2005. This was made possible by providing up-front financing for seed, fertiliser and also partly for harvesting costs. High rainfall in the summer made weeding difficult. Those areas which could not be freed of weeds caused problems at harvest. The theoretical sugar yield was 3.3 tonnes per hectare and 0.01 million tonnes of sugar were processed from 0.08 million tonnes of beet in 28 campaign days. Including raw sugar refining, 0.25 million tonnes (0.18 million tonnes) of sugar were produced.

Sugar sales quantities

Group

The consolidated overall sales quantities of all group companies rose in 2005/06 by almost 19 % to 5,564,600 tonnes (4,689,600 tonnes). This increase was due to 71 % higher exports, whereby there was a decrease in domestic sales volumes of 2.9 %.

EU 25

The total consolidated sales quantities of all EU group companies was 18 % higher than for the previous year at 5,226,700 tonnes (4,430,200 tonnes), mainly due to an increase of almost 72 % in exports.

Sales by companies located in countries which joined the EU on 1 May 2004 were particularly positive. At 951,700 tonnes (610,500 tonnes) of sugar, they achieved consolidated sales quantities of almost 56 % more than the previous year in 2005/06, whereby exports quadrupled.

The new sugar market regulation lays down the framework for conditions in the EU through 2015 and thus provides the market with a degree of certainty to enable it make longer-term investment decisions. Nevertheless, the market situation remains tense, primarily due to the still incomplete integration of the new EU member states and price differences between the old and new member states. Quality and service, which are included in the price at Südzucker and other entities in old EU countries, have to compete with low prices excluding these services. Whereas quality and service offered by the new EU member states continue to improve, their price levels are only being adjusted slowly.

Companies which intend to cease sugar production can be found particularly in southern and northern countries. Pure refineries will also be faced with a difficult decision. The struggle to achieve pole position in these markets has already started, although as yet there have been only a few clear decisions to leave the market. Hence, currently there is an production overhang and low prices on these markets.

In order to be able to offer solutions tailored to the market, the range of products and services offered by the Südzucker Group is subject to a permanent process of review and amendment. The group-wide management and organisational structures introduced in the marketing area have been justified. They are essential to be able to rapidly and flexibly meet changing market requirements arising from EU expansion, globalisation and a modified sugar market regulation.

Südzucker Group's marketing organisation is soundly based. We already began to establish a strong position in future EU deficit markets many years ago. We assume that we will be able to strengthen our European market leadership.

Germany | Südzucker AG achieved 12.7 % higher sugar sales volumes of 1,763,700 tonnes (1,564,600 tonnes). Domestic sales were lower than for the previous year, mainly due to negative market conditions and the same applies to sales volumes in other EU countries. On the other hand, exports rose to record levels.

Domestic sales volumes fell considerably compared with the previous year and recorded a minus of 12.2 %. Analysis shows clearly that both the commercial and the sugar processing industries, primarily the confectionery, preserved foods, dairy and ice cream sectors, contributed to the downturn in quantities sold.

This development was significantly affected by overall market weakness, particularly reflected in sugar sales by retailers to private consumers. This is confirmed by an analysis by two leading market research institutions, showing that there was a decrease of 9 % in sugar sales by retailers to end-users in 2005. Südzucker has done better than the overall market in this important sector.

The declining level of sales quantities in the retail trade was underscored by a poorer preserving sugar season in 2005 than in the previous year and a continuing trend to ready-made products.

In addition to the 1 kilogram standard package, commercial businesses have also extended use of their own brands to other sugar-based products, whereby these low-priced items are increasingly being procured internationally. Concentration in the retail food industry and bundling of purchasing volumes to cover a number of different countries is countered by Südzucker through even closer co-operation by individual country entities with retailers.

Overall buying reticence has also led to declining requirements for sugar quantities by the processing industry, which uses sugar as a raw material.

The expected steadying of markets and price recoveries as a result of the declassification for the 2005/06 campaign year in September 2005 has not yet occurred. Sugar remains available in sufficiently quantities and competitive offers from eastern Europe, France and Italy continue to exercise pressure on prices.

Belgium | The entire sales quantities of Raffinerie Tirlemontoise rose by 10.5 % to 888,800 tonnes (804,400 tonnes) of sugar, solely due to the increase of exports to countries outside the EU. Domestic deliveries were 16.3 % lower than for the previous year, primarily due to a decrease in sales quantities to the sugar processing industry. On the other hand, sales to the retail industry remained stable, reaching the previous year's level. Whereas sales quantities to the EU were 10.7 % below those for the previous year, exports rose by 38.3 %.

France | Total sales quantities at Saint Louis Sucre rose by 8.2 % to 1,150,800 tonnes (1,063,200 tonnes) of sugar. Domestic sales were slightly higher than in the previous year, whereby deliveries to the sugar processing industry were at previous year's levels and, on the other hand, supplies to the retail industry were down by 3.2 %. Exports could be increased by 15.1 %.

Austria | Total sales quantities for AGRANA sugar were 21.7 % higher than for the previous year at 471,700 tonnes (387,500 tonnes) of sugar. It has been possible to maintain domestic sales quantities despite a difficult market environment. This applies both to the retail trade as well as for the sugar processing industry. On the other hand, exports rose sharply and more than doubled.

Poland | Total sales volumes of Südzucker Polska were 69.2 % up at 583,600 tonnes (344,900 tonnes) of sugar. Domestic sales quantities were 2.8 % lower than for the previous year, not least due to the new sugar market regulation, entering into force on 1 July 2006. On the other hand, exports developed positively, with a more than five-fold increase.

Slovakia | AGRANA Slowakei achieved total sales volumes of 76,000 tonnes (45,400 tonnes) of sugar and thus an increase of 67.4 %. This positive result was primarily due to an 82.5 % rise in domestic sales quantities. Exports doubled over the previous year's amounts, whereby supplies to the EU decreased.

The Czech Republic | AGRANA Tschechien achieved sales quantities of 110,100 tonnes (97,500 tonnes) of sugar, 12.9 % higher than for the previous year. This development was based on higher domestic quantities and more than double the amount of exports, whereby sales quantities to the EU decreased.

Hungary | AGRANA Ungarn increased its sales quantities by 48.3 % over the previous year, to 182,000 tonnes (122,700 tonnes) of sugar. Domestic sales quantities rose by 4 % and exports more than doubled compared with the previous year.

Non-EU countries

Total sales quantities for the eastern European companies outside the EU developed very positively compared with the previous year and achieved 337,900 tonnes (259,400 tonnes) of sugar, a plus of 30.3 %, solely due to domestic sales. Exports declined, but quantities remained insignificant.

Moldova | The Moldovan sugar market continued to develop positively. Domestic sales quantities achieved a growth of almost 54 % and, including exports, total sales quantities rose by 44.2 % to 71,100 tonnes (49,300 tonnes).

Romania | The positive growth on the Romanian market, of particular importance to the Südzucker Group with its 22 million consumers, continued. Domestic sales quantities of 266,800 tonnes (208,600 tonnes) were 27.9 % higher than for the previous year, whereas exports continue to be insignificant.

Agriculture

The traditional agriculture division also concentrated in 2005/06 on farm management and research and testing.

Due to the extremely varying weather conditions regionally, cereal and sugar beet harvests were only average 2005/06. The quality of cereals was partly not very satisfactory, whereas extremely good quality was achieved for sugar beet, with high sugar content.

In co-operation with the institute for sugar beet research in Göttingen, the long-term testing program for soil processing was successfully continued. Knowledge of soil life and the content of soil structures could be extended by means of many supplementary tests carried out in connection with soil processing tests. It is intended to concentrate more on questions relating to good farming practice when carrying out soil processing tests.

As part of quality control measures, capital expenditures have been made in the biological turkey area, also including one of our own animal feed plants.

Animal feed

Molasses pulp and molasses pulp pellets

The market was extremely weak during the entire financial year. The main reason was low prices for cereals, the main competitive product, and 6 % lower sales volumes for beef feed, the major market for molasses pulp pellets, the reason here being a decline in animal numbers. In contrast to weak domestic demand, Südzucker AG increased its molasses pulp exports.

Poor overall conditions led to sharply lower revenues in Germany and Austria whereas, in other countries in which the group operates, revenues were only slightly lower than for the previous year, except for Moldova.

Beet molasses

The molasses market in 2005 was again influenced by good cane molasses prices due to lower sugar cane harvests in some countries in the Far East and an increase in ethanol production in Pakistan. Due to good market conditions, sharply higher revenues could be achieved compared with the previous year in Germany, Belgium, France and Poland. Competitive and sales structures have further stabilised and led to better revenues in other eastern European countries within the group.

In western Europe, the main customers for molasses are the fermentation and mixed-feed industries, whereby use of molasses in mixed feed is increasingly being replaced by cheaper components, such as vinasse.

ProtiGrain

With commencement of operations at the bioethanol plant in Zeitz, ProtiGrain (dried grain mash), a new protein-based animal feed is being produced as a by-product. QS, ISO and GMP certificates required for marketing purposes were awarded timely.

The successful market launch of ProtiGrain is being accompanied by scientific feed testing. As a protein-based animal feed with a high raw protein content (some 35 % in the dry cake), ProtiGrain replaces rape seed and soja pulp in feed. Due to its outstanding quality, ProtiGrain has commanded a higher price than rape seed.

ProtiGrain is marketed via commercial partners, with 70 % sold in Germany and 30 % in neighbouring countries. Sales volumes are made equally to the mixed-feed industry and to farmers producing their own feed mixtures.

Bodengesundheitsdienst GmbH

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 official potato ordinance.

The importance of proper fertilisation has been particularly emphasised by the new fertilisation ordinance, whereby the successful EUF fertilisation advisory system has also made an important contribution. Correct use of fertilisation improves the quality of the beet as a raw material and contributes to sustainable cultivation. In view of the change in framework conditions triggered by the new sugar market regulation, a focused use of fertilisers has become even more important in optimising production.

Bodengesundheitsdienst has expanded its testing range to include virus analysis of vines. In co-operation with the Bavarian state office for vines and domestic gardens, the virus-free stock of Bavarian vines is to be tested for viruses. The EU vine ordinance requires that only virus-free vines may be sold.

REKO Erdenvertrieb GmbH

REKO Erdenvertrieb GmbH produces high-value compost and substrate soil at Regensburg and Plattling for a wide range of applications for domestic gardens and landscape gardeners. The process naturally recycles foliage and beet soil using a composting process which is constantly being updated. The extensive range of services and advice permits an extremely high degree of customer contact in the commercial and private areas. In particular, development of special tree substrates for trees planted in cities and roads had a positive effect on sales quantities.

Eastern Sugar

Eastern Sugar B.V., in which Südzucker has an investment of almost 50 % via Saint Louis Sucre and which is included in the consolidated financial statements at equity, has a maximum quota of some 281,000 tonnes of sugar. In the 2005 campaign, Eastern Sugar produced some 324,000 tonnes of sugar at five sugar factories located in Hungary, The Czech Republic and Slovakia; these production numbers are not included in those for the group.

SPECIAL PRODUCTS SEGMENT: DEVELOPMENT IN THE DIVISIONS

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

Key figures for the special products segment		
	2005/06	2004/05
Revenues	€ 1,772.1 million	€ 1,309.0 million
Operating profit	€ 140.4 million	€ 162.9 million
Restructuring costs and special items	(€ 13.5 million)	(€ 19.2 million)
Income from operations	€ 126.9 million	€ 143.7 million
Operating margin	7.9 %	12.4 %
ROCE	7.9 %	14.3 %
Capital expenditures in tangible assets	€ 251.5 million	€ 355.9 million
Investments in financial assets	€ 197.2 million	€ 116.7 million
Total capital expenditures	€ 448.7 million	€ 472.6 million
Employees	8,609	5,493

Bioethanol

In making its decision at the end of 2003 to build Europe's largest bioethanol factory in Zeitz, Saxony-Anhalt, Südzucker was an early entrant to the biological fuels segment.

The correctness of this strategy is also underlined by the renewed and increased determination of the EU to support renewable energy sources. The EU Commission published an "Organic substances action plan" in December 2005 and an "EU strategy for biological fuels" in February 2006, setting out clear pointers for the construction and development of a European biological energy industry, with which the EU's objectives in the areas of energy, climate and agriculture can be met.

In order to meet EU requirements, a majority of EU member states have introduced or implemented programs to support the use of biological fuels over the past few months. It can thus be assumed that there will be dynamic market growth within Europe. The EU objectives of achieving 5.75 % biological fuels of overall fuel consumption amounts to an EU market volume for bioethanol of 8 to 10 million m^3.

Due to the pressure of high oil prices, demand for biological fuels is also rising outside Europe, and particularly for bioethanol, with an appropriate effect on prices. Flexible fuel vehicles (FFVs) are steadily increasing in importance in the USA and in Brazil. These vehicles can operate in Europe with fuel consisting of petrol and up to 85 % bioethanol. Such vehicles meantime have reached a market share of 80 % of new registrations in Brazil. The USA has also spoken out clearly for an increased use of biological fuels. Particularly for strategic energy reasons, the US government wants to almost double current production and use of bioethanol, from some 15 million m^3 per year to some 27 million m^3 in the next few years.

Südzucker Group has substantially strengthened its position on this dynamic growth market for biological fuels, with projects which are already complete or are currently in progress, and has established a base for further profitable growth in this forward-looking business. The outstanding perspectives for bioethanol are a good reason to intensively review further projects in Europe.

Germany | The market for bioethanol has developed very satisfactorily. Bioethanol remains primarily for use in ETBE production. However, the bioethanol (E-5) additive to petrol is increasing in importance and has progressed significantly, particularly at independent oil companies.

German car manufactures, such as the car industry association (VDA) informed the IAA in 2005, support the use of bioethanol and are intensively reviewing the opportunity of using an additive of 10 % in petrol (E-10). We expect an appropriate amendment to the European fuel quality directive in 2006.

The federal government declared its intention of introducing an additive requirement for biological fuels in its coalition contract. We welcome this documented intention to expressly continue supporting biological fuels and assume that implementation of these plans into law will also further offer a sound and sustainable basis for domestic ethanol production.

Südzucker Bioethanol GmbH commenced bioethanol production in Zeitz as planned in April 2005. After solving technical start-up difficulties, the plant has meanwhile almost achieved full daily capacity. 260,000 m^3 bioethanol will be produced annually from 700,000 tonnes of wheat. Smaller capital expenditures are currently being made to enable processing of a larger share of beet syrup, a by-product of sugar production, from the neighbouring sugar factory.

Since the beginning of February 2006, Südzucker Bioethanol GmbH has produced a quality fuel for FFVs under the "CropPower85" brand which, in a first step, is being offered at OIL! filling stations. This so-called E85 is made up of some 85 % bioethanol and some 15 % additional oil-based fuel. At a price currently some 35 % lower than high-octane petrol, CropPower85 is an attractive alternative for users of FFVs. It is intended to further extend the offer of E85 by OIL! filling stations. With the market launch of CropPower85, Südzucker Bioethanol GmbH and OIL! filling stations have laid the foundations for an extremely successful E85 throughout Germany as is already the case in Sweden, for example.

Belgium | We are planning to construct a bioethanol factory based on wheat and sugar beet with an annual capacity of 250,000 m^3/p. a. at Wanze in Belgium.

France | The outstanding shares in Ryssen Group were acquired in May 2006, in which Saint Louis Sucre already had an investment of almost 50 %. Ryssen operates a modern plant to dehydrate and rectify raw ethanol with an annual capacity of 100,000 m^3 in the logistically advantageous location of Dunkirk harbour. Ryssen processes and markets raw alcohol produced at the Eppeville (SLS) sugar factory. The ethanol produced by Ryssen, with its high quality and purity, is used by well-known distillers as well as by the pharmaceutical, cosmetic and chemical industries. In addition, Ryssen has a joint venture in Dunkirk to operate a plant for drying ethanol for the fuel sector, with a current annual capacity of some 30,000 m^3. In view of expected market growth, it is planned to considerably increase this drying capacity. Use of bioethanol in France is supported by issuing production licenses for tax-free deliveries.

Austria | In May 2005, AGRANA decided to build a bioethanol plant. This followed changes to the Austrian fuel ordinance and petrol tax law at the end 2004, setting out the requirements for production of bioethanol. A plant with an annual capacity of 240,000 m^3 bioethanol is currently being constructed in Pischelsdorf, Lower Austria. Pischelsdorf has direct access to the Danube and is only 10 kilometres from the Tulln AGRANA sugar factory. Wheat will be the main raw material, with corn and beet syrup also being processed. It is intended that the factory will start operations in the fall of 2007.

Hungary | The Hungarian government has meanwhile expanded national implementation of the EU directive on bioethanol and thus, in addition to use for producing ETBE, has also permitted bioethanol to be used as a direct additive to petrol. The Hungarian HUNGRANA delivers some 60 % of ethanol requirements to the Hungarian oil industry. We have begun to expand existing bioethanol production in order to be able to provide such quantities. The expansion of capacity to some 52,000 m^3 annually will be completed by the beginning of May 2006. A further capacity increase to some 150,000 m^3 is currently being considered.

Freiberger

With its corporate and product policies aimed over the past 30 years at quality, high performance, innovation and reliability, the Freiberger Group has grown to be the largest deep-frozen pizza producer in the EU. Its successful product range also includes deep-frozen pastas and baguettes as well as refrigerated pizzas.

Maximum efficiency and a strategy aimed particularly at customers in the commercial, catering and community catering sectors are the basis for the success of the group. It has achieved differentiation from its competitors through its wide range of classical recipes, specialities for seasonal, regional and ethnical markets as well as a large number of customer-related services.

This market orientation has again led to successful growth in the past year. Despite a difficult market environment, Freiberger could maintain its position in Germany. The modern production facilities at the group's headquarters in Berlin, in Muggensturm, Baden, in Austria and Great Britain as well as marketing companies in France and Poland, put Freiberger in a sound position for further growth throughout Europe.

Fruit

The fruit activities begun by AGRANA in 2003 include fruit preparations and fruit-juice concentrates. AGRANA processes agricultural raw materials in this area to high-quality products for the food industry and already achieved revenues of € 541 million (€ 125 million) in 2005/06, above all through inclusion of Atys Group in the consolidated financial statements (for 9 months). In less than three years and as a result of the acquisition of Atys, Dirafrost, Steirerobst, Valløsaft and Wink, a new business division has been established with 37 production locations around the world and thus market leadership in Europe has been achieved in fruit-juice concentrates and market leadership on the world market in fruit preparations. This enables the division to be a competent and reliable partner for global customers on all continents. The markets for fruit preparations and fruit-juice concentrates are growing globally in parallel with higher nutritional awareness and per capita income.

At the same time, it has been possible to carry out an extensive integration of the fruit companies acquired in a short space of time. Steirerobst was completely acquired in 2005/06 and Atys Group was already completely acquired one year earlier than originally foreseen. The investments in Atys Turkey and Atys Austria were increased from 50 % to 100 %. Thus, all the conditions for a new organisation of the fruit group were established with the aim of combining the fruit-juice concentrates and fruit preparations activities in separate divisions within the AGRANA fruit division, and thus establish more efficient organisational forms and make a joint appearance on the market.

With approval of the acquisition of Deutsch-Schweizerischen Früchteverarbeitung GmbH DSF by the federal anti-trust authorities, the German market can be served from the group's own regional production facilities in Konstanz.

Fruit preparations | A factory with production capacity of 15,000 tonnes per year, above all for customers from the dairy industry, commenced operations near Moscow for the promising Russian market. A fourth fruit preparations factory, for the dynamically-growing North American market, started operations in Tennessee. The USA, with a volume of some 30 % of sales of fruit preparations, is the second most important market after Europe. In total, AGRANA's world market share of fruit preparations is 34 %. Growth in this division is sustained by the high quality of our products and a sustained innovation strategy. Our products reflect local country-specific tastes and eating habits.

Fruit-juice concentrates | AGRANA is market leader in Europe for apple-juice concentrates, with a market share of currently some 15 %. In the area of berry-juice concentrates the company, with its production facilities in Denmark, Hungary, Poland, Romania and the Ukraine, is also a leading European supplier. Fruit-juice concentrates are a growth segment world-wide, for which annual double-digit growth rates are forecast, particularly in eastern Europe and Asia, but which can also grow substantially with the help of a broad product range in high-consumer countries, riding the wellness and health trend. This is particularly valid for berry juices, for which sales growth is also expected in countries with an already high level of fruit-juice consumption (USA, western Europe).

Functional food (ORAFTI/Palatinit)

Palatinit

Palatinit GmbH concentrated on the development of promising applications for further areas of use in 2005/06. Production of Palatinose™, a low glycolic sugar, was successfully started and a transmitter medium, galenIQ™ was developed for the pharmaceutical industry.

Capacity expansion of the Isomalt plant, now completed, enables us to ensure steady delivery capacity for our new product range and for new product varieties launched. Palatinit GmbH's results were dampened by increased raw material and energy costs which could not be fully offset by a significant increase in productivity.

Isomalt | Despite a significantly increased competitive environment, Palatinit GmbH has been able to maintain its world-wide market leadership with Isomalt. A number of producers have introduced sugar-free products in the past few years, but there was a consolidation on this market segment in 2005. The overheated low-carb trend to reduce weight in the USA completely collapsed. In the meantime, the confectionery industry has returned to its growth pattern for sugar-free confectionery using classical Isomalt applications, and particularly sugar-free chewing gum achieved a continually growing market share.

Palatinose™ | 2005 was marked by the commencement of marketing activities for Palatinose™, an enzyme-converted saccharose. Palatinose™ received novel-food authorisation in the EU, in other words it was allocated as a foodstuff. It can be marketed under Gras status in the USA. As the sole low-glycolic sugar with a long-lasting energy additive in the form of glucose, Palatinose™ is a forward-looking alternative and supplement to previous forms of sugar in drinks and foodstuffs. It is aimed at the wellness, functional food and athletic nutrition segments.

galenIQ™ | The transmitter medium for pharmaceuticals, galenIQ™, was introduced at international trade fairs at the end of 2005. Initial reactions from the pharmaceutical industry show strong interest in testing this additive, in particular for direct pressing (tablet production). Establishment of production standards in accordance with international accepted pharmaceutical standards, which has begun, and continuing product innovation are decisive success factors for a successful market launch and long-term success in global competition.

ORAFTI Group

The ORAFTI Group successfully operates in the food ingredients division, with nutritional-specific and functional products prepared on a chicory basis, as well as rice ingredients and syrups on a fructose basis (to 2006/07).

Inulin and oligo-fructose | ORAFTI Group continued to achieve strong growth in the inulin and oligo-fructose areas. Sales of these products were marked by hesitant development of new products launched by our customers following the brief life of the low-carb trend.

The ORAFTI product names of Raftiline® and Raftilose® were changed to Beneo™ in order to strengthen its market presence. Beneo™ has already been launched on the market in connection with ORAFTI products. In a path-breaking study, the lead product, Beneo™Synergy1, could prove its ability to strengthen mineralisation in bones. These results led to an increased interest by customers in the entire product line. The number of customer-specific products to be developed is extremely promising.

The factory constructed in Chile to process inulin started production on time in April 2006. Although chicory is being planted to this extent in Chile for the first time, the harvest outlook is promising.

Fructose | Fructose activities by ORAFTI are marked by increased energy prices and falling market prices. Due to the reform of the EU sugar market regulation and compensation from the restructuring fund, it was resolved to cease fructose production in 2006/07 and commence an investment program for a purely functional food factory in Oreye. The area under cultivation for chicory in 2006 was reduced by 6,000 hectares and thus almost halved.

Bio-based chemicals | The bio-based chemicals division grew further, based on the outstanding surface activity product characteristics of inulin derivatives. The Inutec® product line was used for cosmetics, cleaning fluids and service coatings.

Rice derivates | Remy, the Belgium company, which celebrated its 150th. anniversary in March 2005, further expanded its market position. A new rice-flour factory started operations in Italy as planned in August 2005 in order to lay the foundations for strong growth in this area. With investments in a product line for sterile baby food, Remy intends to expand its position in this market niche.

A first patent for a special rice starch, which improves the product properties of cardboard glue, was issued in December 2005. This product development offers Remy interesting opportunities in the starch area.

PortionPack Europe

PortionPack Europe Group is a specialist in the production and marketing of high-quality portion packs for the food and non-food sectors. Sales channels include the catering and retail food industries as well as the advertising/promotion and industrial (contract packing) sectors. PortionPack Europe Group is the European market leader and has maintained its position overall in a highly-competitive market environment.

Starch

Corn-based and potato-based starch activities of Südzucker Group are carried out by AGRANA.

Austria | Developments in the starch division were again marked by growth in 2005/06. Sales volumes of starch products, both food and non-food, grew by a total of 19 % to 395,500 tonnes (331,700 tonnes) and reflects the successful expansion of capacity and consequential adaptation of the product mix to high-value specialities. Sales volumes to the paper industry could be sharply increased in the non-food starch area.

The concentration of corn-based starch production on the Aschach works, together with an expansion of processing capacity to 1,000 tonnes per day to be completed in June 2006, contributed to an increase in sales volumes to 193,700 tonnes (187,100 tonnes). The production of potato-based starch, at 52,595 tonnes (47,905 tonnes), was considerably higher than the EU quota of 47,691 tonnes. Thus, sales volumes of potato-based starch products reached 57,800 tonnes (40,200 tonnes). Production of potato-based long-life products could also be increased sharply. A total of 14,600 tonnes (12,400 tonnes) of potatoes, including biologically-produced potatoes, were processed in the 2005 campaign.

Hungary | Hungrana, 50 % owned by AGRANA, expanded its corn processing capacity from 1,200 tonnes per day to 1,500 tonnes per day and production of bioethanol by two and a half times to 150 m^3 per day. Production of crystalline dextrose was also expanded. In connection with the change to the SMR, Hungrana's isoglucose quota is currently been expanded in two steps, from 137,000 tonnes to 219,000 tonnes. This increased isoglucose production, as well as a further increase in bioethanol production to 150,000 m^3/p. a., leads to an expansion of the factory to 3,000 tonnes of corn processing per day. HUNGRANA is one of the largest corn processing factories in Europe, with 1 million tonnes of corn processed annually.

Romania | The Tandarei corn-based starch factory increased its corn processing to a total of 20,400 tonnes (16,000 tonnes) in 2005/06. Capital expenditures carried out at this factory serve to further improve flexibility in capacity of production and optimise storage of finished goods.

Surafti

Surafti Group companies produce and sell special products based on sugar, mainly sold to bakeries and cáfes. In addition to fondants, the main product, various niche products are offered.

Measures introduced to ensure competitiveness by optimising structures are working and will be continued.

Balance sheet
28 February 2006

ASSETS

€ million	Note	28.02.2006	28.02.2005
Intangible assets	(6)	1.794,7	1.687,6
Property, plant and equipment	(7)	2.319,4	2.076,7
Shares in associated companies	(8)	77,2	163,0
Other investments, securities and loans	(8)	205,9	166,6
Receivables and other assets		5,1	4,8
Deferred tax assets	(31)	75,5	13,0
Non-current assets		**4.477,8**	**4.111,7**
Inventories	(9)	2.000,8	1.954,4
Trade receivables and other assets	(10)	894,7	798,0
Current tax receivables		46,2	58,8
Cash and cash equivalents	(15)	506,1	272,0
Current assets		**3.447,8**	**3.083,2**
Total assets		**7.925,6**	**7.194,9**

LIABILITIES AND SHAREHOLDERS' EQUITY

€ million	Note	28.02.2006	28.02.2005
Subscribed capital		189,4	174,8
Capital reserves		1.137,6	951,3
Revenue reserves		1.249,7	1.065,3
Equity attributable to shareholders of Südzucker AG		*2.576,7*	*2.191,4*
Hybrid equity capital		683,9	0,0
Other minority interest		472,2	546,2
Shareholders' equity	(11)	**3.732,8**	**2.737,6**
Provision for pensions and similar obligations	(12)	395,6	393,0
Other provisions	(13)	142,2	200,3
Non-current financial liabilities	(15)	1.429,4	1.215,7
Other liabilities	(14)	26,7	23,5
Deferred tax liabilities	(29)	349,3	330,2
Non-current liabilities		**2.343,2**	**2.162,7**
Other provisions	(13)	208,1	340,1
Current financial liabilities	(15)	280,3	728,7
Trade and other payables	(14)	1.304,2	1.146,0
Current tax liabilities		57,0	79,8
Current liabilities		**1.849,6**	**2.294,6**
Total liabilities and shareholders' equity		**7.925,6**	**7.194,9**

Income statement
1 March 2005 to 28 February 2006

€ million	Note	2005/06	2004/05
Revenues	(19)	**5.346,5**	**4.826,6**
Change in work in progress and finished goods inventories and internal costs capitalised	(20)	-45,5	175,7
Other operating income	(21)	80,3	61,9
Cost of materials	(22)	-3.318,9	-3.053,5
Personnel expenses	(23)	-656,5	-589,3
Depreciation	(24)	-237,1	-204,6
Other operating expenses	(25)	-771,4	-725,6
Income from operations	(26)	**397,4**	**491,2**
Income from associated companies	(27)	11,4	11,0
Financial income	(28)	53,4	91,4
Financial expense	(28)	-134,0	-136,2
Earnings before income taxes		**328,2**	**457,4**
Taxes on income	(29)	-23,7	-99,9
Net earnings for the year		**304,5**	**357,5**
of which attributable to Südzucker AG shareholders		242,2	297,4
of which attributable to hybrid equity capital		14,4	0,0
of which attributable to other minority interest		47,9	60,1

Earnings per share (€ / share), adjusted		**1,36**	**1,67**
Earnings per share (€ / share)		**1,36**	**1,73**

Statement of cash flows

1 March 2005 to 28 February 2006

€ million	Note	2005/06	2004/05
Net earnings for the year		304,5	357,5
Depreciation and amortisation of intangible assets, property, plant and equipment and other investments	(24)	236,9	205,2
Decrease in non-current provisions and deferred tax liabilities		-2,6	-1,1
Other income not affecting cash		-11,6	-11,4
Gross cash flow from operating activities		**527,2**	**550,2**
Gain on disposals of items included in non-current assets and of securities		-22,7	-39,9
Decrease (-) / increase (+) in current provisions		-137,8	12,7
Increase (-) in inventories, receivables and other current assets		-1,6	-316,5
Increase (-) / decrease in liabilities (excluding financial liabilities)		-51,8	193,7
Increase (-) in working capital		-191,2	-110,1
I. Net cash flow from operating activities		**313,3**	**400,2**
Capital expenditures in property, plant and equipment and intangible assets	(6), (7)	-425,6	-499,8
Acquisitions of, and investments in, non-curent financial assets	(8)	-216,3	-590,0
Capital expenditures		**-641,9**	**-1.089,8**
Cash received on disposals of non-current assets		79,8	79,5
Cash received (+) / paid (-) on the sale / purchase of securities in current assets		158,3	-55,7
II. Cash flow from investing activities		**-403,8**	**-1.066,0**
Proceeds from issue of hybrid equity capital	(11)	683,9	0,0
Capital increases	(11)	205,1	248,0
Dividends paid		-117,9	-102,3
Receipt (+) / repayment (-) of financial liabilities		-353,7	414,7
III. Cash flow from financing activities		**417,4**	**560,4**
IV. Change in cash and cash equivalents (total of I, II and III)		**326,9**	**-105,4**
Change in cash and cash equivalents			
due to exchange rate changes		1,1	3,7
due to changes in entities included in consolidation		20,4	11,1
Increase (+) / decrease (-) in cash and cash equivalents in the balance sheet		**348,4**	**-90,6**
Cash and cash equivalents at the beginning of the year		110,5	201,1
Cash and cash equivalents at the end of the year		**458,9**	**110,5**

The balance sheet item is made up of:

Cash	458,9	110,5
Securities (current assets)	47,2	161,5
Securities and cash	**506,1**	**272,0**

Changes in shareholders' equity
1 March 2005 to 28 February 2006

€ million	Subscribed capital	Capital reserves	Other revenue reserves	Fair value reserve	Accumulated foreign currency ransl. difference	Total revenue reserves	Equity of Südzucker shareholders	Hybrid equity capital	Other minority interest	Total equity
1 March 2004	**174,8**	**951,3**	**861,9**	**6,3**	**-17,2**	**851,0**	**1.977,1**	**0,0**	**408,8**	**2.385,9**
Net earnings for the year			297,4			297,4	297,4		60,1	357,5
Distributions			-87,4			-87,4	-87,4		-14,9	-102,3
Capital increase						0,0	0,0		248,0	248,0
Exchange rate changes					26,1	26,1	26,1		7,9	34,0
Other changes			-10,1	-11,7		-21,8	-21,8		-163,7	-185,5
28 February 2005 / 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	0,0	12,5	12,5		-114,4	-101,9
28 February 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**

Further disclosures on shareholders‘ equity are included in note (11) of the notes to the consolidated financial statements.

Notes to the consolidated financial statements for the financial year from 1 March 2005 to 28 February 2006

Segment reporting

1. Business segments

€ million	2005/06			2004/05		
	Group	Sugar	Special products	**Group**	Sugar	Special products
Third-party revenues	**5.346,5**	3.574,4	1.772,1	**4.826,6**	3.517,6	1.309,0
Operating profit	**450,0**	309,6	140,4	**522,8**	359,9	162,9
Operating margin	*8,4%*	*8,7%*	*7,9%*	*10,8%*	*10,2%*	*12,4%*
Restructuring costs and special items	-52,6	-39,1	-13,5	-31,6	-12,4	-19,2
Income from operations	**397,4**	270,5	126,9	**491,2**	347,5	143,7
Segment assets	**6.985,2**	4.695,9	2.289,3	**6.496,2**	4.782,1	1.714,1
Segment liabilities	**2.076,8**	1.799,0	277,8	**2.103,0**	1.844,8	258,2
Capital employed	**5.221,3**	3.441,9	1.779,4	**4.645,8**	3.507,1	1138,7
Return on capital employed	*8,6%*	*9,0%*	*7,9%*	*11,3%*	*10,3%*	*14,3%*
Capital expenditures on property, plant and equipment and intangible assets	425,6	174,1	251,5	499,8	143,9	355,9
Acquisitions of, and investments in, non-current financial assets	216,3	19,1	197,2	590,0	473,3	116,7
Capital expenditures	**641,9**	193,2	448,7	**1089,8**	617,2	472,6
Depreciation and amortisation of property, plant and equipment and intangible assets	-215,9	-125,2	-90,7	-198,1	-139,0	-59,1
Employees	**19.903**	11.294	8.609	**17.494**	12.001	5.493

Reconciliation of segment assets and liabilities

€ million	28.02.2006	28.02.2005
Total assets	7.925,6	7.194,9
Shares in associated companies	-77,2	-163,0
Other investments, securities and loans	-205,9	-166,6
Securities and cash	-506,1	-272,0
Deferred tax assets	-75,5	-13,0
Current income tax receivables	-46,2	-58,8
Other assets	-29,5	-25,3
Segment assets	**6.985,2**	**6.496,2**
Total liabilities	7.925,6	7.194,9
Equity	-3.732,8	-2.737,6
Financial liabilities	-1.709,7	-1.944,4
Deferred tax liabilities	-349,3	-330,2
Current income tax liabilities	-57,0	-79,8
Segment liabilities	**2.076,8**	**2.102,9**

2. Geographic segments

€ million	2005/06	2004/05
Third-party revenues		
Germany	1.283,8	1.331,3
Other EU-25	3.639,2	3.315,8
Other countries	423,5	179,5
	5.346,5	**4.826,6**
Segment assets		
Europe	6.657,4	6.423,6
Other countries	327,8	72,6
	6.985,2	**6.496,2**
Expenditures on property, plant and equipment and intangible assets		
Europe	300,2	448,3
Other countries	125,4	51,5
	425,6	**499,8**

General

(1) Principles of preparation of the consolidated financial statements

The consolidated financial statements of Südzucker AG for 2005/06 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 par. 1 of the German Commercial Code (HGB). The financial statements include the balance sheet, income statement, statement of cash flows 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).

All the Standards revised as part of the IASB's improvements project have been completely applied in the year ended 28 February 2006. We have amended items on the face of the balance sheet and income statements to reflect the changes to IAS 1 (Presentation of Financial Statements) as part of the improvements project. Operating profit includes the former operating profit and elements of restructuring costs and special items, previously disclosed separately, which have now been allocated to individual line items. Income from associated companies, last year included in income from investments, is shown as a separate item on the face of the income statement. Interest expense, net and the remaining part of income from investments, line items shown in last year's income statement, have now been divided into financial income and financial expense. These items include interest income and interest expense as well as other financial income and expense. Certain items previously included in restructuring costs and special items were reclassified to other financial income and expense. Foreign currency gains and losses arising from operations have been offset to the extent they arose from similar groups of transactions. Foreign currency gains and losses are included in other operating income and expenses. Releases of provisions are offset against those expense items charged when the provision was recognised, and hence are no longer included in other operating income. All prior year amounts have been adjusted accordingly.

Current tax receivables and current tax liabilities have been shown separately on the face of the balance sheet as from 28 February 2006. These items were included in trade and other receivables and in trade and other payables in previous years. Due to their characteristics as liabilities, current tax provisions have also been reclassified from provisions to current tax liabilities. Furthermore, the financial assets line item in last year's balance sheet has been separated in this year's balance sheet between shares in associated companies and other investments, securities and loans. All prior year amounts have been adjusted accordingly.

Those standards also to be applied for the first time this year include IFRS 2 (Share-based Payment), IFRS 4 (Insurance Contracts), IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) and IAS 39 (Financial Instruments: Recognition and Measurement), addressing matters which either do not affect the Südzucker Group, or the effects of which are insignificant. This also applies to IFRS 6 (Exploration for and Evaluation of Mineral Resources) as well as the revision to IAS 19 (Employee Benefits), to be applied for the first time in 2006/07. The effects of IFRS 7 (Financial Instruments: Disclosures) which replace the requirements for disclosures in the notes to the consolidated financial statements formerly set out in IAS 32 (Financial Instruments: Disclosures and Presentation) and which is to be applied for the first time in 2007/08, and the effects on accounting of IFRIC 4 (Determining whether an Arrangement contains a Lease), to be applied for the first time in 2006/07, are currently being evaluated. IFRIC 6 (Liabilities from Participating in a Specific Market), to be applied for the first time in this financial year, and IFRIC 5 (Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds), to be applied for the first time from 2006/07, 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 fist time in 2006/07 and 2007/08 respectively.

(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. 177 companies (2004/2005: 150) were included in the consolidated financial statements for the year ended 28 February 2006. 31 companies have been included in the consolidated financial statements for the first time. Three companies were merged in 2005/06 and one company is no longer part of the Group.

AGRANA increased its investment in Atys Group from 50% to 100% on 3 March 2005 for a total purchase price of € 219.6 million, of which € 93.6 million was paid in the previous year. Hence, the Atys Group could be integrated a year earlier than originally planned. With 27 companies and a production volume of 300,000 tonnes of fruit preparations, Atys is the world's market leader in business with the dairy industry. Including Dirafrost, acquired in October 2004, Atys (excluding DSF) now has an annual turnover of € 238.9 million. The Atys Group was included in the 2005/06 consolidated financial statements for nine months (April 2005 through December 2005), contributing revenues for this period of € 334.1 million.

Furthermore, AGRANA acquired 100% of DSF Deutsch-Schweizerische Früchteverarbeitung GmbH at the end of the fourth quarter for € 37.4 million, but with no amounts included in the consolidated income statement for the year ended 28 February 2006.

AGRANA also lifted its holding in Steirischen Agrarbeteiligungs GmbH (Steirerobst Group) from 55.7% to 100% for a purchase price of € 22.0 million in the fourth quarter of 2005/06.

The 100% acquisition of the shares in Atys Group and Steirerobst-AG have led to extensive restructuring measures, so that the financial year of the fruit division's entities will only be changed from the calendar year to the Südzucker Group's year to the end of February in 2006/07. Significant transactions to 28 February 2006 were reflected as set out in IAS 27.

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

€ million	First-time consolidated companies	
28 February	2006	2005
Non-current assets	139,4	109,2
Inventories	*65,9*	*63,2*
Receivables and other assets	*102,8*	*56,2*
Cash and cash equivalents and securities	*34,3*	*11,2*
Current assets	203,0	130,6
Total assets	**342,4**	**239,8**
Shareholders' equity	116,8	83,2
Non-current liabilities	126,7	32,3
Current liabilities	98,9	124,3
Total liabilities and equity	**342,4**	**239,8**
Revenues	334,1	95,1
Earnings for the year	17,1	5,0

The effects of de-consolidations were insignificant.

The proportionate consolidation method was used for two (2004/05: two) joint ventures.

€ million	Proportionately consolidated companies	
28 February	2006	2005
Non-current assets	21,5	16,6
Inventories	*6,0*	*6,1*
Receivables and other assets	*8,2*	*8,9*
Cash and cash equivalents and securities	*1,8*	*8,3*
Current assets	16,0	23,3
Total assets	**37,5**	**39,9**
Shareholders' equity	22,6	19,2
Non-current liabilities	0,8	0,6
Current liabilities	14,1	20,1
Total liabilities and equity	**37,5**	**39,9**
Revenues	67,4	62,1
Earnings for the year	18,4	14,5

The equity method was used for 9 (34) companies. Atys Group, included in last year's financial statements at equity, was fully consolidated in the 2005/06 financial statements for nine months commencing 1 June 2005. Revenues and earnings for the year of companies included at equity have decreased accordingly compared with the previous year. The main contributors to this year's earnings are the Eastern Sugar compnies.

€ million	Companies included at equity	
28 February	2006	2005
Non-current assets	106,9	207,6
Inventories	*108,4*	*190,8*
Receivables and other assets	*60,7*	*141,8*
Cash and cash equivalents and securities	*18,3*	*48,1*
Current assets	187,4	380,7
Total assets	**294,3**	**588,3**
Shareholders' equity	143,5	194,9
Non-current liabilities	8,4	90,0
Current liabilities	142,4	303,4
Total liabilities and equity	**294,3**	**588,3**
Revenues	467,7	694,6
Earnings for the year	22,7	25,9

(3) Consolidation methods

The equity consolidation has been made using the purchase method, under 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 no longer 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 their 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 € 2.9 million (€ 0.4 million) in 2005/06. 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 financial 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.

Results of the companies making up the AGRANA Fruit Group have been included in the consolidated financial statements for the calendar year ended 31 December 2005, with significant transactions through 28 February 2006 (increase in shares in Atys Austria from 50 % to 100 %) appropriately reflected, as set out in IAS 27 (Consolidated and Separate Financial Statements).

(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):

Country		Year-end rate		Average rate	
		28.02.2006	28.02.2005	2005/2006	2004/2005
	1 € =	Local currency			
Australia	AUD	1,6052	1,6124	1,6195	1,7027
Chile	CLP	614,9000	763,2423	670,6692	700,4240
Denmark	DKK	7,4610	7,4385	7,4553	7,4399
Great Britain	GBP	0,6798	0,6894	0,6824	0,6803
Mexico	MXN	12,4300	14,6900	13,2456	14,1511
Moldova	MDL	15,3751	16,5155	15,5078	15,3604
Poland	PLN	3,7873	3,9115	3,9944	4,4169
Romania	RON	3,4959	3,6445	3,6969	3,9960
Russia	RUB	33,3680	36,6500	34,7327	32,8458
Singapore	SGD	1,9295	2,1546	2,0414	2,1020
Slovakia	SKK	37,0800	37,8700	38,4438	39,6589
Czech Republic	CZK	28,2600	29,7000	29,5032	31,4485
Ukraine	UAH	6,0080	7,0294	6,2206	6,6492
Hungary	HUF	252,8250	241,7251	249,0788	248,6851
USA	USD	1,1877	1,3254	1,2276	1,2500

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 2005/06 was to increase non-current assets by € 26.1 million and shareholders' equity by € 35.9 million, primarily due to the rise of 19.4 % in the Chilean peso (year-end rate) against the euro, as well as continuing firmness of certain East European currencies.

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 intangibles 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.

Goodwill and intangible assets with indefinite useful lives are no longer being amortised annually, 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. State subsidies and grants of € 56.6 million for constructing the bioethanol plant in Zeitz are deducted from acquisition cost. Production cost of internally-constructed equipment includes the cost of production materials, production wages and an appropriate share of overheads; third-party borrowing costs relating to the production are not included. Maintenance expenses are recorded in the income statement when they are incurred.

Scheduled depreciation of property, plant and equipment and of intangible assets with finite useful lives is charged based on the following useful lives:

Intangible assets, excluding goodwill	2 to 5 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 finite 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 the asset's fair value less costs to sell and the present value of expected cash flows from use of the asset (value in use).

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. As set out in IAS 2 (Inventories), the production cost of work in progress and finished goods includes direct costs and a reasonable proportion of material and production overheads, including depreciation of production machinery assuming normal levels of production capacity, and a proportion of administrative expenses. Write-downs are made to net realisable value where necessary. Specific write-downs are charged against slow-moving items and against items for which net realisable value is lower than cost.

Receivables in current assets are stated at nominal value, which is the same as their fair value. Adequate allowances are made for bad debts and other risks in receivables.

Securities in current assets include securities classified as available for sale which 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.

Cash and cash equivalents are included at nominal value.

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

In July 2005, the IASB withdrew IFRIC 3 on accounting for emission rights, issued in December 2004 and originally effective for years beginning on or after 1 March 2005. Until a new standard or a new interpretation is issued, accounting should be in accordance with the general provisions set out in 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 reflects 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 cover all discernible risks and uncertain obligations. The amount of each provision is the probable or expected amount, based on the facts in each case.

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. Deferred taxes 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 the 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 approximated 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 (16) and (17) 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 risks and rewards of ownership have been transferred. Rebates and price reductions are also included at the time revenues are recognised.

Research and development expenses are charged entirely to the income statement in the period in which they are incurred. Development costs for new products are not recognised as intangible assets, as future economic benefit can only be proven once the products have been brought to market.

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 balance sheet

(6) Intangible assets

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 the consolidation / currency translation / other charges	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 write-downs			
1 March 2005	-8,5	-82,4	-90,9
Change in companies incl. in the consolidation / currency translation / other charges	0,0	-6,7	-6,7
Amortisation for the year	0,0	-8,7	-8,7
Impairment write-downs	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**

2004/05 € million	Goodwill	Concessions, industrial and similar rights	Total
Acquisition costs			
1 March 2004	1.412,0	89,1	1.501,1
Change in companies incl. in the consolidation / currency translation / other changes	267,7	5,0	272,6
Additions	0,4	6,3	6,7
Transfers	0,0	-0,1	-0,1
Disposals	-0,8	-1,1	-1,9
28 February 2005	1.679,3	99,2	1.778,5
Amortisation and impairment write-downs			
1 March 2004	0,0	-74,6	-74,6
Change in companies incl. in the consolidation / currency translation / other changes	0,0	-2,6	-2,6
Amortisation for the year	0,0	-5,8	-5,8
Impairment write-downs	-8,5	0,0	-8,5
Transfers	0,0	-0,1	-0,1
Disposals	0,0	0,7	0,7
28 February 2005	-8,5	-82,4	-90,9
Net book value at 28 February 2005	**1.670,8**	**16,8**	**1.687,6**

Intangible assets consist mainly of goodwill arising on business combinations, recognised as set out in IFRS 3 (Business Combinations). Intangible assets also include acquired EDP software and trademarks and similar rights with limited useful lives. Of the carrying value of the goodwill at 28 February 2006 of € 1,746.4 million, the amount relating to the sugar segment was € 1,285.7 million and the remaining € 460.7 million related to the special products segment. The increase in goodwill in 2005/06 is primarily attributable to the acquisition of the entire share capital of the Atys Group. Goodwill is attributable to the acquired group’s good position on the world market, its global customers, its worldwide raw materials sourcing abilities, strategically-drive synergy potential and opportunities arising from vertical integration.

In order to comply with IFRS 3 in connection with IAS 36 and in order to determine any impairment losses on goodwill, Südzucker identified its cash generating units based on its internal reporting system. In the Südzucker Group, these consist of the sugar segment, Freiberger Group, Surafti, Portion Pack, starch and fruit. Palatinit and Orafti, viewed last year as independent cash generating units, have been combined into a single Functional Food division in line with the uniform management structure.

The carrying value of each cash generating unit was determined by allocating the assets and liabilities, including the related goodwill and intangible assets, to the respective cash generating units. An impairment write-down is to be charged if the recoverable amount of a cash generating unit is lower than its carrying value. The recoverable amount is defined as the higher of the net selling price and value in use.

In carrying out the impairment tests, Südzucker used a discounted cash flow approach, based on future cash flows. Future cash flows were determined based on budgets with a specific forecast period of five years. We have assumed a growth rate of 1.5 % (1.5 %) p. a. after the five-year specific forecast period, including inflation. The discount rate used, based on Südzucker Group's cost of capital, was 7.3 % (6.5 %) p. a..

The carrying value of all goodwill recognised in the consolidated balance sheet and included in the cash generating units identified was exceed by its recoverable amount, so that no impairment write-downs were required.

The forecast for the sugar segment included assumptions relating to the effects on income arising from the change to the sugar market regulation resolved by the Council of Agricultural Ministers on 24 November 2005. These particularly included the following core points of the reform:

- A step-by-step lowering of the sugar reference price by 36 % and of the beet price by 39 % in the period from 2006/07 through 2009/10;
- Cessation of all former exports of C sugar coupled with conversion of up to 1.1 million tonnes of C sugar to quota sugar;
- Establishment of a restructuring fund to enable the EU to buy up excess production quotas ;
- Limitation of quantities of sugar imports from countries outside the EU by using protection clauses.

Südzucker assumes that price reductions and quantity restrictions foreseen will lead to extensive structural changes within the European sugar industry. Particularly producers in less geographically suitable growing areas within the European Union will take up the opportunities offered by the restructuring fund to sell their quotas. Hence, existing production capacity within the EU will decrease sufficiently, on the one hand to satisfy the EU's import obligations and on the other hand to offset future limited export opportunities. Based on the Commission's intention to establish market equilibrium and concentration of Südzucker's locations on Europe's best planting areas, we will be able to further extend our excellent competitive position and initiate a sustained increase in the value of the sugar segment, by carrying out the structural and cost reduction measures already resolved and introduced and by expanding our quota and industrial sugar activities.

(7) Property, plant and equipment

2005/06 € million	rights and buildings including buildings on	Technical equipment 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 the 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 write-downs					
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 write-downs	-9,5	-11,0	-0,6	-0,3	-21,4
Transfers	-3,9	3,9	0,0	0,0	0,0
Disposals	24,9	215,1	24,6	0,0	264,6
Write-ups	0,0	0,2	0,0	0,0	0,2
28 February 2006	-700,0	-2.516,8	-242,8	-2,2	-3.461,7
Net book value at 28 February 2006	**813,1**	**1.193,0**	**89,2**	**224,1**	**2.319,5**

Due to first-time consolidations, acquisition costs of property, plant and equipment have increased by € 261.0 million and depreciation and impairment write-downs by € 154.1 million. The impairment write-downs of property, plant and equipment of € 21.4 million in 2005/06 mainly relate to closure of the Hohenau (Austria), Rimavska Sobota (Slovakia) and Maloszyn (Poland) sugar factories as part of the overall improvements to our group-wide works structure. Carrying values were written down to sales values less costs to sell.

2004/05 € million	rights and buildings including buildings on	Technical equipment and machinery	Other equipment, factory and office equipment	Assets under construction	Total
Acquisition costs					
1 March 2004	1.245,5	3.357,2	237,0	46,1	4.885,8
Change in companies incl. in the consolidation / currency translation / other changes	91,7	100,9	28,3	3,4	224,3
Additions	86,3	304,1	25,2	77,5	493,1
Transfers	12,7	33,9	2,1	-48,6	0,1
Disposals	-44,1	-130,4	-20,6	-4,3	-199,4
28 February 2005	1.392,1	3.665,7	272,0	74,1	5.403,9
Depreciation and impairment write-downs					
1 March 2004	-611,9	-2.427,6	-179,9	-1,8	-3.221,2
Change in companies incl. in the consolidation / currency translation / other changes	-33,8	-50,2	-15,6	-0,2	-99,8
Depreciation for the year	-34,8	-137,1	-20,4	0,0	-192,3
Impairment write-downs	-1,8	-1,6	0,0	0,0	-3,4
Transfers	0,1	-0,1	0,1	0,0	0,1
Disposals	38,6	126,9	18,4	0,0	183,9
Write-ups	1,7	3,9	-0,1	0,0	5,5
28 February 2005	-641,9	-2.485,8	-197,5	-2,0	-3.327,2
Net book value at 28 February 2005	**750,2**	**1.179,9**	**74,5**	**72,1**	**2.076,7**

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

2005/06 € million	Shares in associated companies	Other investments	Securities	Loans to associated companies	Total
1 March 2005	163,0	130,2	24,9	11,5	166,6
Change in companies incl. in the consolidation / currency translation / other changes	-97,3	36,8	2,4	0,1	39,3
Additions	0,1	7,4	0,2	0,2	7,8
Share of profits	11,4	0,0	0,0	0,0	0,0
Transfers	0,0	0,0	0,0	0,0	0,0
Disposals	0,0	-0,9	-0,6	-6,4	-7,9
Impairment write-downs	0,0	-0,2	-0,1	0,0	-0,3
Write-ups	0,0	0,1	0,0	0,3	0,4
28 February 2006	**77,2**	**173,4**	**26,8**	**5,7**	**205,9**

2004/05 € million	Shares in associated companies	Other investments	Securities	Loans in associated companies	Total
1 March 2004	54,4	178,4	23,1	11,9	213,4
Change in companies incl. in the consolidation / currency translation / other changes	31,3	-37,0	2,2	0,1	-34,7
Additions	66,6	31,4	0,3	0,0	31,7
Share of profits	11,0	0,0	0,0	0,0	0,0
Transfers	0,0	0,0	0,0	0,0	0,0
Disposals	-0,3	-42,0	-0,7	-0,4	-43,1
Impairment write-downs	0,0	-0,6	0,0	-0,1	-0,7
Write-ups	0,0	0,0	0,0	0,0	0,0
28 February 2005	**163,0**	**130,2**	**24,9**	**11,5**	**166,6**

The changes in companies included in consolidation for shares in associated companies are primarily due to the full consolidation of the Atys Group from the second quarter of 2005/06.

(9) Inventories

€ million	28 February	2006	2005
Raw materials and supplies		236,1	170,6
Work in progress		465,0	510,6
Finished goods and merchandise		1.299,7	1.273,3
		2.000,8	**1.954,4**

Of Südzucker Group's total inventories of € 2,000.8 million (€ 1,954.4 million), sugar makes up € 1,403.1 million (€ 1,478.2 million). The strong rise of € 65.5 million in raw materials and supplies, to € 236.1 million, is due to the first-time consolidation of the Atys Group. Write-downs of production cost to net realisable value amounted to € 0.7 million (€ 3.4 million).

(10) Trade receivables and other assets

€ million	28 February	2006	2005
Trade receivables		570,4	446,7
Receivables from export recoveries		93,4	146,8
Other assets		98,0	115,5
Other taxes recoverable		132,9	89,0
		894,7	**798,0**

The increase of € 123.7 million in trade receivables to € 570.4 million includes € 67.1 million relating to the addition of Atys Group to the consolidated financial statements.

(11) 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 2,922,400 shares held by the company for its own account in 2004/05 were taken up by the subscriber in February 2006.

A resolution of the annual shareholders' meeting on 28 July 2005 entitled the executive board, subject to approval by the supervisory board, to increase the share capital of Südzucker AG by up to € 17.5 million in one or more tranches up to 30 June 2010 by the issue of new bearer no-par-value shares for cash. The executive board used this entitlement and resolved to increase the share capital by € 14,565,662, issuing 14,565,662 shares at a ratio of 12:1. The issue price was € 14 per share. The resulting share premium of € 184.3 million, net of issue costs, was transferred to capital reserves. The capital increase was entered in the commercial register on 29 August 2005. A total of € 201.0 million was received by the company on 15 September 2005 as a result of the capital increase. The subscribed capital amounted to € 189.4 million on 28 February 2006 and is divided into 189,353,608 no-par-value shares with an imputed proportion of the share capital of € 1.00 each. The new shares are fully entitled to receive dividends for the year ended 28 February 2006.

In addition, the share capital cab 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. Conversion conditions were not in effect during 2005/06, so no shares were issued meet the conversion obligation.

In order to take advantage of current historically low interest rates and a high level of market liquidity to finance the ongoing major capital expenditure program and, at the same time, optimise Südzucker Group's capital structure, a hybrid bond with a total volume of € 700 million was issued in 2005/06. 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 and substantially allocate it as equity capital for the rating agencies. The coupon of 5.25% p.a. for the first ten years underlines the success of the placing on capital markets. Overall, as well as diversifying and strengthening the company's capital base, this innovative financial instrument has led to a long-term lowering of weighted average cost of capital and hence to an improvement in return on equity.

The fair value reserve attributable to shareholders of Südzucker AG increased by € 16.2 million during the year due to changes in the fair value of available for sale securities, net of tax, recorded direct to equity. This amount is made up of fair value changes of € 20.2 million less deferred taxes of € 4.0 million. On the other hand, the fair value reserve decreased by € 5.5 million due to fair value changes, net of tax, to the effective portion of cash flow hedges mainly related to sugar export business. This amount is made up of a decrease in fair value of € 8.8 million less deferred taxes of € 3.3 million.

(12) 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).

A discount rate of 4.5 % (4.75 %) was used for the pension plans of domestic companies.

An expected annual increase of between 2.0 % and 3.0 % (2.0 % and 3.0 %) in remuneration and an increase of 1.3 % to 2.0 % (1.3 % to 1.8 %) in pensions has been assumed for the companies. Expected future yields on plan assets are assumed to be 4.5 % (4.75 %) p.a.. 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	2005/06	2004/05
Current service cost	8,2	7,7
Interest cost	20,1	21,3
Actuarial losses (+) and gains (-) expensed in the current year	-1,1	2,5
	27,2	**31,5**

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 € 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 actuaril 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	2006	2005
Defined benefit obligations for direct pension benefits		546,7	530,5
Unamortised actuarial gains and losses		-56,8	-49,7
Fair value of plan assets		-94,3	-87,8
Provision for pensions		**395,6**	**393,0**

The amount of unamortised actuarial gains and losses includes losses on plan assets of € 8.6 million (€ 6.0 million).

Movements in the provisions were as follows:

€ million	2005/06	2004/05
Provision at 1 March	**393,0**	**379,1**
Change in companies consolidated	4,1	9,5
Pension expense	27,2	31,5
Contributions to fund assets	-0,4	-0,3
Pension payments during the period	-28,3	-26,8
Provision at 28 February	**395,6**	**393,0**

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

(13) Movements in other provisions

2005/06 € million	EU sugar market levy	Personnel expenses	Uncertain obligations	Total
1 March 2005	**190,5**	**137,4**	**212,5**	**540,4**
Change in companies incl. in the consolidation / currency translation / other changes	0,0	2,0	-4,4	-2,4
Additions	48,1	84,3	45,0	177,4
Use	-189,9	-69,8	-81,7	-341,4
Release	-0,1	-2,4	-21,2	-23,7
28 February 2006	**48,6**	**151,4**	**150,2**	**350,3**

The provision of € 48.6 million (€ 190.5 million) for the EU sugar market levy was considerably lower due to the declassification for the 2005/06 sugar year made by the EU in September 2005. The provision will be completely used in 2006/07.

The provisions for personnel expenses are primarily made up of provisions for long-service awards, for part-time early retirement, and other personnel expenses for redundancies, bonuses and premiums, vacation pay and overtime. Of the total € 151.5 million, some € 108.6 million will be used in 2006/07 and € 42.9 million in subsequent years.

Other provisions include amounts relating to re-cultivation obligations, waste water charges and other environmental obligations. € 50.9 million of these provisions are expected to be used in 2006/07 and a further € 99.3 million in subsequent years.

No significant expenses will occur over and above those included in the balance sheet at 28 February 2006.

(14) Trade and other payables

€ million	28 February	2006	Remaining term to 1 year	Remaining term over 1 year	2005	Remaining term to 1 year	Remaining term over 1 year
Trade payables		**1.000,7**	1.000,3	0,4	**861,2**	860,7	0,5
Other liabilities		**323,5**	297,2	26,3	**300,9**	277,9	23,0
On-account payments received on orders		**6,7**	6,7	0,0	**7,4**	7,4	0,0
		1.330,9	**1.304,2**	**26,7**	**1.169,5**	**1.146,0**	**23,5**

Trade payables included amounts due to beet farmers of € 641.4 million (€ 580.2 million) relating to final payments for beet delivered during the 2005 campaign.

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

€ million	28 February	2006	Remaining term to 1 year	Remaining term over 1 year	2005	Remaining term to 1 year	Remaining term over 1 year
Bonds		**1.080,1**	10,0	1.070,1	**1.386,8**	309,5	1.077,3
(of which convertible)		**264,2**	9,8	254,4	**257,2**	0,0	257,2
Liabilities to banks		**626,5**	268,6	357,9	**557,6**	419,2	138,4
Liabilities from finance leasing		**3,1**	1,7	1,4	**0,0**	0,0	0,0
Finance liabilities		**1.709,7**	**280,3**	**1.429,4**	**1.944,4**	**728,7**	**1.215,7**
Securities (current assets)		**-47,2**			**-161,5**		
Cash and cash equivalents		**-458,9**			**-110,5**		
Securities and cash and cash equivalents		**-506,1**			**-272,0**		
Net financial debt		**1.203,6**			**1.672,4**		

Net financial debt decreased by € 468.8 million, or 28.0 %, compared with the end of the previous year, from € 1,672.4 million to € 1,203.6 million, primarily due to cash inflows in 2005/06 from raising capital.

Bonds include convertible bonds, corporate bonds and commercial papers. No commercial papers were in circulation at 28 February 2006.

Further disclosures relating to financial liabilities are included in note (16) lending and borrowing activities.

Liabilities to banks of € 22.4 million (€ 31.6 million) were secured by real estate mortgages, and of € 2.6 million (€ 5.7 million) by other collateral pledged at 28 February 2006.

(16) Lending and borrowing activities (financial instruments)

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 € 45.3 million and bearing interest at an average of 3.19 % were issued by Raffinerie Tirlemontoise S.A., Brussels, Belgium, and Steirerobst AG, Gleisdorf, Austria, and mature in 2007 through 2012. In total, the face value of all bonds at 28 February 2006 was € 1,095.3 million (€ 1,092.0 million) and their fair value as € 1,221.1 million (€ 1,196.1 million).

28 February 2006	Due date	Coupon	Book value € million
Südzucker Finance B.V. convertible bond	08.12.2008	3,00%	239,1
Südzucker Finance B.V. bond	08.06.2010	6,25%	297,6
Südzucker Finance B.V. bond	27.02.2012	5,75%	498,1
Other bonds			45,3
Bonds			**1.080,1**

Of the total bonds with book values of € 1,080.1 million (€ 1,077.3 million), bonds for a total of € 1,044.6 million (€ 1,045.0 million) are fixed-interest bearing and bonds for a total of € 35.5 million (€ 32.3 million) are floating rate securities.

In addition to issuing bonds, Südzucker Group’s treasury management controls seasonal fluctuations in liquidity on a daily basis by placing funds through market channels (normal market overnight money, term deposits and securities) and raising funds by drawing down overnight and short-term funds, fixed-interest rate loans or issuing commercial paper. The CP program has a volume of € 600 million and enables Südzucker AG, either directly or for its own account via Südzucker International Finance B.V., a Dutch group financing company, to issue short-term bonds and debentures as the need arises and when market conditions are suitable.

Liabilities to banks at 28 February 2006 were € 626.5 million (€ 557.6 million) with an average interest of 3.64 % (4.82 %). Of these liabilities to banks, € 256.1 million (€ 166.5 million) were fixed-interest. The carrying values of liabilities to banks are the same as their fair values.

Of the liabilities from finance leases of € 3.1 million, € 1.7 million are due within one year and € 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 € 3.1 million. The nominal value of minimum lease payments totals € 3.5 million.

The increase in cash and cash equivalents and securities to € 506.1 million (€ 272.0 million) is attributable to the temporary investment of funds received from the capital increase and the issue of hybrid capital. The investments in securities of € 47.2 million are all available for sale and mainly include investment fund certificates and equities.

The lending and borrowing activities (financial instruments) are typically subject to interest rate change, 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.

(17) 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. The 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 which can primarily arise from sales of sugar on the world market in US dollars and from payment obligations in foreign currencies.

Product price change risk which can arise from price fluctuations on the global sugar market as well as in the energy sector.

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	2006	2005	2006	2005	2006	2005
Interest rate hedges	255,9	916,7	-9,2	-61,2	0,0	0,0
Currency hedges	245,1	111,0	-1,9	1,8	0,7	2,1
Product price hedges	107,2	55,2	-11,5	0,3	0,2	0,7
	608,2	**1.082,9**	**-22,6**	**-59,1**	**0,9**	**2,8**

The currency and product price derivatives hedge cash flows for up to one year and the interest rate hedges are for between one and four 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 2006 totalled a negative € 22.6 million (€ 15.6 million).

(18) Contingent liabilities and other financial commitments

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

€ million	28 February	2006	2005
Guarantees		19,8	38,5
Warranty commitments		2,1	2,2
Purchase order commitments for property, plant and equipment		69,5	101,8

The guarantees and letters of comfort 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 expanding

Palatinit and ORAFTI production facilities, together with expenditures required at sugar factories in preparation for the next campaign. The decrease compared with the previous year is due to outstanding orders at the end of last year for the bioethanol plant in Zeitz.

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.

Notes to the statement of income

(19) Revenues

Revenues are detailed in the note on segment reporting. Companies consolidated for the first time in 2005/05 contributed € 334.1 million to the increase in revenues.

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

€ million	2005/06	2004/05
Change in work in progress and finished goods inventories	-51,9	169,8
Internal costs capitalised	6,4	5,9
	-45,5	**175,7**

(21) Other operating income

€ million	2005/06	2004/05
Gain on sales of current and non-current assets	7,6	8,2
Foreign exchange and currency translation gains	1,2	1,6
Other income	71,4	52,1
	80,3	**61,9**

(22) Cost of materials

€ million	2005/06	2004/05
Cost of raw materials, consumables and supplies and of purchased merchandise	3.117,5	2.871,1
Cost of purchased services	201,4	182,4
	3.318,9	**3.053,5**

(23) Personnel expenses

€ million	2005/06	2004/05
Wages and salaries	510,9	460,6
Social security, pension and welfare expenses	145,6	128,7
	656,5	**589,3**

Average number of employees during the year

	2005/06	2004/05
By segment		
Sugar	11.294	12.001
Special products	8.609	5.493
	19.903	**17.494**
By geographic area		
Germany	4.113	4.100
Other EU countries	11.406	10.117
Eastern Europe	2.275	3.222
Other countries	2.109	55
	19.903	**17.494**

The average number of employees compared with the previous year rose by 2,409 to 19,903. This increase includes 2,837 employees arising from the addition of the Atys Group to the AGRANA fruit division. The decrease in staff in the sugar segment is primarily attributable to restructuring in Eastern Europe.

(24) Depreciation and impairment write-downs

€ million	2005/06	2004/05
Intangible assets	8,7	5,8
Property, plant and equipment	207,2	192,3
Depreciation	**215,9**	**198,1**
Intangible assets	0,0	8,6
Property, plant and equipment	21,4	3,4
Impairment write-downs	**21,4**	**12,0**
Income from write-ups (reversal of write-downs)	**-0,2**	**-5,5**
	237,1	**204,6**

Impairment write-downs of property, plant and equipment of € 21.4 million in 2005/06 mainly related to the closure of the sugar factories at Hohenau (Austria), Rimavska Sobota (Slovakia) and Maloszyn (Poland) as part of the improvement to our group-wide factory structure. Carrying values of property, plant and equipment were reduced to their probable fair values less costs to sell.

The increase in depreciation expense was primarily due to the start-up of the bioethanol plant in Zeitz, as well as to the first-time consolidation of the Atys Group.

(25) Other operating expenses

€ million	2005/06	2004/05
Selling and advertising expenses	339,0	300,4
Operating and administrative expenses	210,1	189,1
Production and supplementary levies	61,5	104,4
Leasing and rental expenses	36,1	29,6
Losses on disposals of current and non-current assets	4,8	5,8
Other expenses	119,9	96,3
	771,4	**725,6**

(26) Operating profit

€ million	2005/06	2004/05
Income from operations	**397,4**	**491,2**
of which operating profit	450,0	522,8
of which restructuring costs and special items	-52,6	-31,6

Of the operating profit before restructuring costs and special items of € 450.0 million, the sugar segment contributed € 309.6 million (68.8 %) and the special products segment € 140.4 million (31.2 %).

The increase in expense from restructuring and special items from € 31.6 million to € 52.6 million is mainly due to measures taken to increase the competitiveness of the sugar segment in connection with the reform of the sugar market regulation (SMR). Expenses for restructuring costs and special items for the sugar segment amounted to € 39.1 million (€12.4 million) and include impairment write-downs and termination costs arising from closure of the sugar factories in Hohenau (Austria), Rimavska Sobota (Slovakia) and Maloszyn (Poland). These steps taken to optimise the group-wide works structure will serve to increase capacity utilisation at the remaining sugar factories, assuming retention of existing quota volumes, and hence strengthen the sugar segment's earnings power. In addition, costs were incurred for the successfully completed project to harmonise processes and IT systems at the German, Belgian and French companies within the Südzucker Group. Expenses for restructuring costs and special items for the special products segment were €13.5 million (€19.2 million), mainly made up of start-up losses at the bioethanol production plant in Zeitz and at the Orafti works in Chile.

(27) Income from associated companies

€ million	2005/06	2004/05
Income from associated companies	**11,4**	**11,0**

Of the total income from associated companies, € 9.8 million (€ 8.4 million) relates to the sugar segment and € 1.6 million (€ 2.6 million) to the special products segment.

(28) Financial income and expense

€ million	2005/06	2004/05
Interest income	37,9	22,1
Other financial income	15,5	69,3
Financial income	**53,4**	**91,4**
Interest expense	-127,5	-116,5
Other financial expense	-6,5	-19,7
Financial expense	**-134,0**	**-136,2**
Financial expense, net	**-80,6**	**-44,8**

Net financial expense deteriorated by € 35.8 million, from € 44.8 million to € 80.6 million. This was mainly due to the one-time effects of successfully placing a package of Fresenius shares and selling the remaining 10 % holding in KWS Saat AG. Net interest expense (the balance of interest income and interest expense) could be improved due to lower average interest rates resulting from the capital increase and the issue of hybrid capital.

(29) Taxes on income

Income tax expense decreased to € 23.7 million in 2005/06, after € 99.9 million in the previous year. The effective tax rate for the Group thus fell to 7.2 % (21.8 %). Starting from a theoretical tax rate of 37.9 %, the decrease in tax expense arose as follows:

€ million	2005/06	2004/05
Earnings before taxes on income	328,2	457,4
Theoretical tax rate	*37,9%*	*37,9%*
Theoretical tax expense	**124,3**	**173,2**
Change in theoretical tax expense as a result of:		
Difference tax rate	-30,7	-32,2
Tax reduction for tax-free income	-75,6	-47,1
Tax increase for non-deductible expenses	8,4	6,0
Deferred tax income due to change in Austrian tax rate (prior year)	0,0	-6,3
Other	-2,7	6,3
Taxes on income	**23,7**	**99,9**
Effective tax rate	**7,2%**	**21,8%**

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 € 30.7 million as a result of profits earned by foreign subsidiaries in countries with lower income tax rates. Further tax benefits of € 75.6 million resulted from tax-free income.

The tax expense of € 23.7 million is made up of current taxes paid or payable of € 85.6 million (€ 107.5 million) and € 61.9 million (€ 7.6 million) deferred tax income. Tax loss carry forwards which can be realised in future led to deferred tax income of € 57.6 million.

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 € 349.3 million mainly arise due to measurement differences of property, plant and equipment and inventories.

Deferred tax assets of € 3.9 million and deferred tax liabilities of € 22.4 million were recorded directly in equity in 2005/06.

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	2006	2005	2006	2005
Property, plant and equipment	17,5	1,3	194,1	211,2
Inventories	1,5	3,2	89,9	114,1
Other assets	5,3	0,0	2,6	0,3
Tax-free reserves	0,0	0,0	30,0	7,6
Provisions	25,7	24,4	85,9	36,1
Liabilities	9,7	7,0	5,2	0,8
Tax loss carry forwards	74,2	17,0	0,0	0,0
	133,9	52,9	407,7	370,1
Offsets	-58,4	-39,9	-58,4	-39,9
Balance sheet	**75,5**	**13,0**	**349,3**	**330,2**

(30) 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 263 staff at five group locations. Research and development expenses amounted to € 30.2 million (€ 27.6 million).

Other notes

(31) Earnings per share

	2005/06	2004/05
Consolidated earnings in € million	304,5	357,5
of which attributable to hybrid capital in € million	14,4	0,0
of which attributable to other minority interest in € million	47,9	60,1
of which attributable to shareholders of Südzucker AG in € million	242,2	297,4
Earnings in € per share adjusted	**1,36**	**1,67**
Earnings in € per share	**1,36**	**1,73**

Of the consolidated earnings fort he year of € 304.5 million (€ 357.5 million), € 14.4 million (€ 0.0 million) is attributable to holders of the hybrid capital. Other minority interests, consisting mainly of minority shareholders of AGRANA Group, have a share of earnings of € 47.9 million (€ 60.1 million). Earnings fort he year of € 242.2 million (€ 297.4 million) are thus attributable to shareholders of Südzucker AG. Based on weighted average shares outstanding of 178.5 million in 2005/06, earnings per share calculated as set out in IAS 33 (Earnings per Share) amount to € 1.36 per share. The adjusted earnings per share for 2004/05, previously reported at € 1.73 per share, amounts to € 1.67 per share.

(32) 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 2005/06 amounted to € 527.2 million (€ 550.2 million). Income taxes paid were € 70.0 million (€ 104.2 million) and have been allocated to operating activities. Interest payments amounted to € 107.3 million (€ 88.5 million) and interest receipts were € 37.7 million (€ 22.6 million). Capital expenditures of € 425.6 million (€ 499.8 million) for property, plant and equipment (including intangible assets) related to the sugar segment and, particularly, to the special products segment. Expenditures for non-current financial assets of € 216.3 million (€ 590.0 million) mostly related to acquisitions of consolidated subsidiaries in the fruit division.

Dividends from associated companies and other investments amounted to € 6.8 million (€ 7.6 million). Profit distributions throughout the group totalled € 117.9 million (€ 102.3 million) and included € 96.1 million (€ 87.4 million) paid out to Südzucker AG's shareholders and € 21.8 million (€ 14.9 million) dividend distributions to minority interest in consolidated subsidiaries.

(33) Segment reporting

As set out in IAS 14 (Segment Reporting), segment information has been presented in accordance with internal reporting within the Südzucker Group, with operations divided into the sugar and special products segments. The sugar segment includes the core sugar business in Europe. The special products segment consists of fruit, Freiberger, functional food, starch, bioethanol divisions and of Portion Pack and Surafti.

Segment results are measured by their operating profit, i.e. profits before restructuring costs and exceptional items and interest and investment income and expense. Operating margin is calculated as the percentage of operating profit to sales. Transactions between segments (sales of € 185.1 million (€ 122.4 million)) are made unchanged compared with the previous year 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 account liabilities, 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.

(34) Fees for services of the group external auditors

Fees in 2005/06 for services provided by the group's external auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, were made up of audit fees of € 0.6 million for audits of the consolidated financial statements, of the financial statements of Südzucker AG and of its domestic subsidiaries. Other reporting and advisory fees of € 0.2 million represent fess for reviews carried out during the year.

(35) 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 24 November 2005. It can be downloaded by shareholders on the Internet at our homepage: http://www.suedzucker.de/investorrelations/de/governance/

(36) 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 2005/06 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 € 31.9 million and to SUW of € 7.1 million at 28 February 2006.

The remuneration system for members of Südzucker AG's executive board has fixed and variable, profit-related components. There are no long-term variable benefit components, such as share options or similar arrangements. The total compensation granted to members of the executive board by Südzucker AG for 2005/06 amounted to € 3.5 million. The variable component made up of 43 % 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 € 2.2 million.

Provisions for pensions of € 14.0 million relate to former members of Südzucker AG's executive board and their dependent relatives, and € 18.2 million relates to current executive board members. Payments to former members of Südzucker AG's executive board and their dependent relatives amounted to € 1.4 million in 2005/06.

Total compensation to members of Südzucker AG's supervisory board for 2005/06 was € 1.5 million.

(37) 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[4]
Deputy chairman
Rellingen
Chairman of the Food and Catering Union

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

---

[1] Board memberships other than within the Südzucker Group.

[2] Board memberships other than within the Südzucker Group and Raffeisen-Holding Niederösterreich Group, Vienna.

[3] Board memberships other than with the Südzucker Group and the DZ BANK Group.

[4] Employee representative.

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

Board memberships
Landwirtschaftliche Rentenbank, Frankfurt/Main
LBH Steuerberatungsgesellschaft mbH, Friedrichsdorf
Vereinigte Hagelversicherung VVaG, Gießen

Gerlinde Baumgartner[4]
Osterhofen
Member of the works council of the Plattling works of Südzucker AG Mannheim/Ochsenfurt

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

Board memberships[3]
Banco Cooperativo Español S.A., Madrid, Spain (Deputy chairman)
Kreditanstalt für Wiederaufbau, Frankfurt/Main
Landwirtschaftliche Rentenbank, Frankfurt/Main
Liquiditäts-Konsortialbank GmbH, Frankfurt/Main
SZVG Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG, Ochsenfurt

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[4]
from 3 August 2005
Hamburg
Divisional officer of the Food and Catering Union

Board memberships
Reemtsma Cigarettenfabriken GmbH, Hamburg

Dr. Jochen Fenner
from 11 May 2005
Gelchsheim
Chairman of the Association of Fränkische Zuckerrübenbauer e.V.

Egon Fischer[4]
Offstein
Deputy chairman of the works council of ZAFES Offstein der Südzucker AG Mannheim/Ochsenfurt

Manfred Fischer[4]
Feldheim
Chairman of the works council of Südzucker AG Mannheim/Ochsenfurt

Paul Freitag
✝ 9 April 2005
Oberickelsheim-Rodheim
Chairman of the Association of Fränkische Zuckerrübenbauer e.V.

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

Board memberships[2]
Flughafen Wien AG, Vienna, Austria
"Health Care Company" KRANKENHAUS BETRIEBSFÜHRUNGS-AKTIENGESELLSCHAFT, Vienna, Austria
VK Mühlen AG, Hamburg

Hans Hartl[4]
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[4]
Bad Friedrichshall
Chairman of the works council of the Offenau works Südzucker AG Mannheim/Ochsenfurt

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

Jörg Lindner[4]
to 28 July 2005
Malterdingen
Former divisional officer of the Food and Catering Union

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

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

Dr. Arnd Reinefeld[4]
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[4]
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[4]
Saxdorf
Chairman of the works council of the Brottewitz woks of Südzucker AG Mannheim/Ochsenfurt

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

Albert Dardenne
to 31 January 2006
Melin, Belgium

Dr. Christoph Kirsch
Weinheim/Bergstraße

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

Thomas Kölbl
Mannheim

Prof. Dr. Markwart Kunz
Worms

Mag. 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]
Bayerische Landesanstalt für Landwirtschaft, Freising-Weihenstephan
K+S Aktiengesellschaft, Kassel

Frédéric Rostand
Paris, France

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

(38) 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		
PALATINIT GmbH [1)]	Mannheim	Germany	100,0	
Südzucker Bioethanol GmbH [1)]	Zeitz	Germany	100,0	
Wolteritzer Agrar GmbH	Schkeuditz	Germany		74,8
Agrar- und Umwelt AG Loberaue	Rackwitz	Germany	99,7	
Südzucker Moldova S.A.	Drochia	Moldowa	78,0	
BGD Bodengesundheitsdienst Gesellschaft mbH [1)]	Mannheim	Germany	100,0	
REKO Erdenvertrieb GmbH [1)]	Regensburg	Germany	100,0	
Mönnich GmbH [1)]	Kassel	Germany	100,0	-
AHG Agrar-Holding GmbH [1)]	Mannheim	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 S.A.	Berchem	Belgium		62,6
Candico S.A.	Merksem	Belgium		75,5
ORAFTI Oreye S.A.	Oreye	Belgium		99,9
ORAFTI Chile S.A.	Santiago	Chile		100,0
Remy Industries NV	Wijgmaal	Belgium		100,0
Portion Pack Belgium	Herentals	Belgium		100,0
Suikers G. Lebbe S.A.	Oostkamp	Belgium		99,9
Portion Pack European 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.	Newbridge	Scotland		100,0
Sugarfayre Limited	Ashington	Great Britain		100,0
W.T. Mather Ltd.	Ashton	Great Britain		100,0
Groupe Nougat Chabert & Guillot	Montélimar	France		100,0
Groupe Nougats Delavant	Upie	France		100,0
Saint Louis Sucre S.A.	Paris	France	98,8	
Saint Louis Sucre S.N.C.	Paris	France		100,0
Saint Louis Sucre International	Paris	France		100,0
Sucreries de Bourgogne	Chalon-sur-Sâone	France		50,0
Sucrerie et Distillerie de Souppes-Ouvré Fils S.A.	Paris	France		44,5
Eastern Sugar B.V.	Deurne	The Netherlands		49,5

	Location	Country	SZ-share (%)	Indirect holding (%)
Südzucker Polska Sp. z o.o.	Wrocław	Poland	100,0	
Cukier Malopolski S.A.	Kazimierza Wielka	Poland	95,5	
Cukrownia Ropczyce S.A.	Ropczyce	Poland	53,5	
Cukrownia Stryzow S.A.	Stryzow	Poland	83,0	
Slaska Spolska Cukrowa S.A.	Wrocław	Poland	98,8	
Cukrownia Cerekiew S.A.	Cerekiew	Poland		99,1
Cukrownia Chybie S.A.	Chybie	Poland		83,1
Cukrownia Otmuchów S.A.	Otmuchów	Poland		89,2
Cukrownia Racibórz S.A.	Racibórz	Poland		87,2
Cukrownia Strzelin S.A.	Strzelin	Poland		93,6
Cukrwnia Świdnica S.A.	Pszenno	Poland		86,1
Cukrownia Wrocław S.A.	Wrocław	Poland		84,6
Cukrownia Wróblin S.A.	Lewin Brzeski	Poland		86,6
AGRANA Beteiligungs-Aktiengesellschaft 2)	Vienna	Austria	37,8	
AGRANA Zucker GmbH	Vienna	Austria		100,0
Magyar Cukogyártó és Forgalmazó Rt.	Budapest	Hungary		87,3
Moravskoslezské Cukrovary a.s.	Hrusovany	The Czech Republic		97,7
S.C. Agrana Romania S.A.	Buzau	Romania		91,3
Slovenske Cukrovary a.s.	Rimavska Sobota	Slovakia		100,0
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
Atys S.A.	Paris	France		100,0
Atys France S.A.	Paris	France		100,0
Atys Midi S.A.S.	Paris	France		100,0
Atys US Inc.	Ohio	USA		100,0
Atys México, S.A. de C.V.	Michoacan	Mexico		100,0
Atys Australia Pty Ltd	Central Mangrove	Australia		100,0
Dirafrost FFI	Herk-de-Stad	Belgium		100,0
DSF Deutsch-Schweizerische Früchteverarbeitung GmbH	Konstanz	Germany		100,0
Vallo Saft Holding A/S	Koge	Denmark		100,0
Wink Service & Logistik GmbH	Bingen	Germany		100,0
Steirische Agrarbeteiligungsgesellschaft m.b.H.	Raaba	Austria		100,0
Steirerobst AG	Gleisdorf	Austria		100,0
Podilljaobst TOF	Winniza	Ukraine		99,6
Steirerobst o.o.o.	Serpuchov	Russia		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. mbH	Oberhofen	Austria		100,0
Stateside Foods Ltd.	Westhoughton	Great Britain		100,0

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

A complete list of investments as required by § 313 para. 4 HGB is filed with the commercial register in Mannheim.

(39) Events after the balance sheet date

In order to increase the competitiveness of the sugar segment, it was decided in March 2006 to close the sugar factory in Lubna (Poland).

In May 2006 and as part of the European expansion of our bioethanol activities, we acquired the outstanding shares in Ryssen Group, in which Saint Louis Sucre already held nearly 50%. Ryssen operates a modern raw ethanol distillation and rectification plant, with annual capacity of 100,000 m³, in the logistically well-placed harbour of Dunkirk. There is no requirement to disclose financial effects of these events as set out in IAS 10.

(40) Proposed appropriation of earnings

Retained earnings of Südzucker AG Mannheim/Ochsenfurt amount to € 104,195,400.13. 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	50.915,73
Unappropriated earnings	104.195.400,13

The dividend will be paid on 28 July 2006.

Mannheim, 12 May 2006

T H E E X E C U T I V E B O A R D

Dr. Spettmann Dr. Kirsch

Kölbl Prof. Dr. Kunz

Marihart Dr. Müller

Rostand

The financial statements of Südzucker AG, prepared in accordance with German accounting principles and upon which PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungs-gesellschaft, Frankfurt am Main, has issued an unqualified auditors' report, will be published in the Federal Gazette and will be filed with the commercial register of the district court of

Mannheim. 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 2005 to 28 February 2006. 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, 15 May 2006

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Frings)	(Wegener)
Wirtschaftsprüfer	Wirtschaftsprüfer