



Sugar segment

At a glance

€ **4,162** million
Revenues

€ **558** million
Operating result

€ **3,347** million
Capital employed

16.7 %
ROCE

Strategy

While global demand for sugar continues to grow, the trend to consume more sugar is generally not reflected in Western Europe's markets, but there is increasing demand for specialty sugars, clean label and local products. Competitive pressure remains high in the EU. The strategic goals are therefore:

- Focus on the EU sugar market and take advantage of any growth opportunities
- Offer a product portfolio consisting of sugar and reduced sugar products, supplemented by starch-based sweeteners
- Offer sustainable non-food applications based on products and byproducts made from sugar beets



Production and Distribution

23 sugar factories: Germany (7), Belgium (2), France (2), Poland (4), Moldova (1), Austria (2), Romania (1), Slovakia (1), Czech Republic (2), Hungary (1)
1 wheat starch plant (Germany)
2 refineries (Bosnia-Herzegovina, Romania)
4 distribution locations (Greece, Italy, Spain, UK)



Raw materials

Sugar beets, cane raw sugar, wheat



Products

Sugar, sugar specialties, glucose syrup, animal feed



Markets

Europe (European market leader) and world market



Customers

Food industry, retailers, agriculture



Brands

Südzucker, Cukier Królewski, Saint Louis, Tiense Suiker, Wiener Zucker

Markets

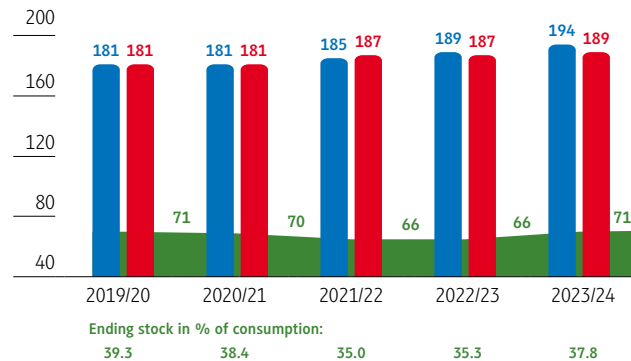
World sugar market

In its latest estimate of the global sugar balance from March 2024, market analyst S&P Global Commodity Insights reports a surplus of 0.7 million tonnes of sugar for the past 2022/23 sugar marketing year (SMY: 1 October to 30 September) after three deficit years in a row. A significant increase in sugar production in Brazil and Thailand contrasts with lower production in Mexico, China, the EU, India and Pakistan as well as almost stable consumption. The ratio of inventories to consumption remained at a very low level of around 35 %.

In the current 2023/24 sugar marketing year, S&P Global Commodity Insights now expects a surplus of 5.2 million tonnes of sugar alongside a further increase in production, particularly in Brazil,

Global sugar balance

Million of tonnes raw value



Source: S&P Global Commodity Insights, March 2024

DIAGRAM 012

Pakistan, China and Europe, a decline in production in Thailand and Mexico and higher consumption. The ratio of inventories to consumption is expected to remain at a low level of just under 38 %.

Global market sugar prices

1 March 2021 to 31 March 2024, London, nearest forward trading month

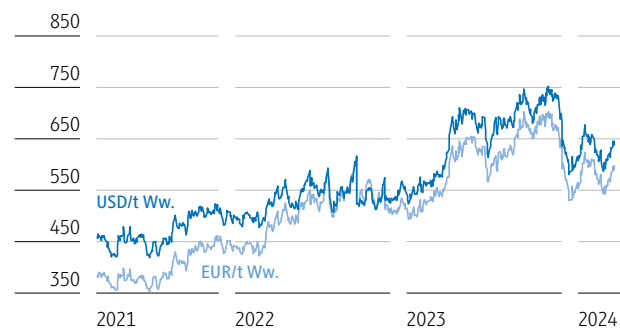


DIAGRAM 013

The world market price for white sugar continued to climb over the course of fiscal 2023/24 from around 540 €/t at the beginning of the financial year with high volatility over the course of the year, and reached a high of around 710 €/t of white sugar in November 2023. The global market price then initially fell again to around 530 €/t, but subsequently recovered and has since ranged between around 550 and 630 €/t. At the end of the reporting period, it was 568 €/t.

EU sugar market

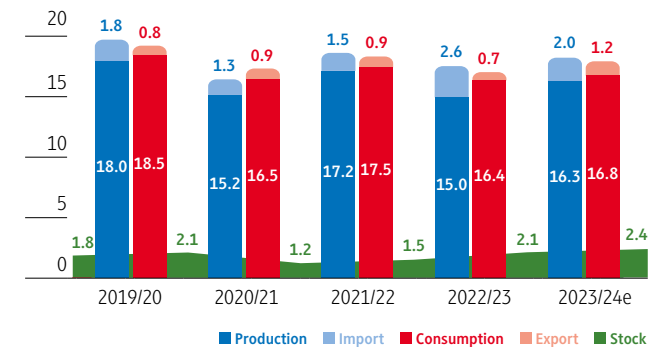
During the past 2022/23 sugar marketing year, sugar production (EU 27; including isoglucose) fell considerably to 15.0 (17.2) million tonnes with a further slight reduction in cultivation area and below-average yields due to the drought in summer 2022; the EU therefore remained a net importer of sugar.

For the current 2023/24 sugar marketing year, the EU Commission expects high beet yields but low sugar content with a slight increase in cultivation area. Production is therefore expected to increase to 16.3 (15.0) million tonnes. This would mean that the EU would remain a net importer of sugar despite rising exports and inventories.

For the upcoming 2024/25 sugar marketing year, market observers are forecasting slightly increasing cultivation areas in the EU 27.

EU sugar balance

Million of tonnes white sugar value



Source: EU Commission, AGRI C4, EU sugar balance estimate, December 2023; from 2020/21 EU-27 excl. UK.

DIAGRAM 014

The price for sugar (food and non-food, ex-factory) published by the EU Commission rose continuously at the beginning of the financial year 2023/24 from 804 €/t to 856 €/t by December 2023. Until the last available publication in February 2024, the price dropped to a level of 837 €/t. There are significant regional price differences between the deficit and surplus regions within the EU.

Sugar markets

The largest markets for sugar continue to be the beverage industry (soft drinks and alcoholic beverages), followed by confectionery and baked goods manufacturers.

After the demand for sugar in the EU recovered to 13.2 million tonnes in the 2021/22 sugar marketing year following the coronavirus pandemic, it fell to 12.4 million tonnes in the 2022/23 sugar marketing year, according to data from the EU Commission. The healthy eating trend thus continues and is even accelerating in some areas. In this context, the societal and political focus on sugar reduction and the associated consumer topics has sharpened further and is weighing on the sugar business. Consumers' purchasing power was also generally lower in 2023. Particularly in Eastern and Southern Europe, business is therefore extremely price-sensitive; due to lower wages, consumers now have to spend an even larger share of their income on food than before. The EU Commission expects consumption to recover to 12.7 million tonnes in the 2023/24 sugar marketing year. Falling inflation and the associated increase in purchasing power may have a supporting effect here.

Target markets for sugary byproducts

In the 2023/24 fiscal year, the markets for sugary byproducts were shaped by the continuing effects of the war in Ukraine and a certain degree of skepticism with regard to the development of demand.

Global molasses production¹ in the 2023/24 sugar marketing year is estimated at 67.4 (64.2) million tonnes. Forecasts predict an increase in production of around 10 % to 3.3 (3.0) million tonnes for the EU 27¹; this had a negative impact on prices from August 2023.

Within the EU, the production of dried and molasses pulp is expected to decline again. Reasons for this include the continued appeal of utilizing fresh beet pulp in biogas plants and as silage, as well as the infestation of beets with Stolbur, which resulted in significantly lower quantities of beet pulp and beet pellets in some cases. As a result, the prices for dried beet pulp were sometimes significantly higher than those of feed wheat or feed barley.

Legal and political environment

Free trade agreements

The EU is negotiating potential free trade agreements with various countries and communities of states. In the event sugar and sugary products are not classified as sensitive products – contrary to current trade practice – additional sugar volumes could be imported into the EU at preferential tariff rates in future. Details on this topic can be found in the → Risk report.

EU sugar market international competitive position

The EU has one of the world's least regulated sugar markets. In contrast to other major sugar producing countries, sugar exports are not subsidized by the state. Unless the EU Commission takes action against these different competitive conditions, makes further import concessions or allows imports to circumvent the rules of origin, it can be assumed that this will have a negative impact on Südzucker.

Restrictions on duty-free sugar imports from Ukraine to the EU

The temporary suspension of customs duties and import quotas for sugar approved by the EU Parliament and the 27 EU member states in June 2022 due to the Ukraine crisis was extended in spring 2023 until June 2024. This temporary trade liberalization is subject to various conditions, including compliance with the rules of origin and a safeguard clause in particular. In the original agreement, which was concluded in 2014, Ukraine had duty-free access to the EU market for just 20,070 tonnes; in the 2022/23 sugar marketing year, duty-free sugar imports from Ukraine climbed to around 415,000 tonnes.

Ukrainian beet growers have significantly expanded their cultivation area for the 2023/24 season, meaning that sugar imports from Ukraine are currently expected to be higher than in 2022/23. In the first five months of the new sugar marketing year 2023/24, around 270,000 tonnes of sugar have already been imported from Ukraine to the EU. Market observers expect a total of up to 650,000 tonnes of sugar imports from Ukraine to the EU.

In April 2024, the special arrangement for the duty-free import of agricultural products from Ukraine to the EU was extended for the second time; this regulation applies from 6 June 2024 to 5 June 2025. However, an automatic safeguard mechanism has now been introduced to limit imports of sensitive products, including sugar. As a result, duty-free imports from Ukraine to the EU are to be limited to the average import level of the 2022 and 2023 calendar years and the second half of 2021. In the sugar sector, this means that the upper limit for duty-free exports from Ukraine to the EU in calendar year 2024 will be around 265,000 tonnes from 5 June 2024. A new duty-free import quota will be introduced for the period from 1 January to 5 June 2025. This should then correspond to five twelfths of the average import volume for the 2022 and

¹ Food & Agricultural Commodities Economics World Molasses & Feed Ingredients Report 18 October 2023 | Vol.22, No. 4 | ISSN 2515-8805.

2023 calendar years and the second half of 2021, i.e. around 110,000 tonnes. Quantities in excess of this will then be subject to the normal customs duty rate of 419 €/t when imported into the EU.

Continued coupled direct payments in the European domestic sugar market

Coupled premiums for sugar beets are still paid in 11 out of 19 beet-growing EU countries. As a result, these different competitive conditions continue to exist within the domestic European sugar market. This was the result of a study by Wageningen University in the Netherlands, for example. Coupled support for sugar beet is to be continued in the new funding period of the European Agricultural Policy until 2027.

Business performance

Revenues and operating result

The sugar segment's revenues rose significantly to € 4,162 (3,216) million in fiscal 2023/24. The higher sugar revenues were achieved despite declining sales volumes thanks to significantly higher average prices during the financial year. The price level in the EU in the 2023/24 sugar marketing year, which has been running since October 2023, is on a par with the 2022/23 sugar marketing year.

The operating result more than doubled to € 558 (230) million in the 2023/24 financial year. The sharp rise in costs in the 2022 campaign, particularly for raw materials and energy, was offset by higher prices since the end of the last financial year. In particular, the further significant increase in production costs with the new 2023 campaign led to a result in the fourth quarter that was significantly below the previous year.

Result from restructuring and special items

The result of restructuring and special items totaled € –6 (55) million and predominantly related to restoration obligations for locations closed in previous years.

Earnings in the previous year resulted from a provision that was formed as part of fine proceedings initiated by the Austrian competition authority in 2010, but was reversed to a considerable extent after the Supreme Court of Vienna found that the accusation

had been significantly reduced. In addition, income was generated from the write-up of the wheat starch plant in Zeitz, Germany.

Result from companies consolidated at equity

The result from companies consolidated at equity amounted to € 0 (19) million. In the previous year, it related primarily to currency gains of around € 10 million. This was due to the discontinuation of the at equity consolidation of ED&F Man Holdings Limited, London, UK, which has been accounted for as other investments since 1 March 2022.

Business performance – Sugar segment

		2023/24	2022/23	+/- in %
Revenues	€ million	4,162	3,216	29.4
EBITDA	€ million	714	381	87.4
EBITDA margin	%	17.2	11.8	
Depreciation	€ million	–156	–151	3.3
Operating result	€ million	558	230	> 100
Operating margin	%	13.4	7.2	
Result from restructuring/special items	€ million	–6	55	–
Result from companies consolidated at equity	€ million	0	19	–100.0
Result from operations	€ million	552	304	81.6
Investments in fixed assets and intangible assets	€ million	257	144	78.5
Investments in financial assets/acquisitions	€ million	0	3	–100.0
Total investments	€ million	257	147	74.8
Shares in companies consolidated at equity	€ million	30	29	3.4
Capital employed	€ million	3,347	3,201	4.6
Return on capital employed	%	16.7	7.2	
Working capital	€ million	1,727	1,687	2.4
Employees		6,458	6,206	4.1

TABLE 035

Capital employed und return on capital employed (ROCE)

Based on an operating result that more than doubled to € 558 (230) million and a moderate increase in capital employed by € 146 million to € 3,347 (3,201) million, ROCE amounted to 16.7 (7.2) % in the 2023/24 financial year.

Investments in fixed assets

The sugar segment’s investments amounted to € 257 (144) million. In addition to replacement investments, the focus was on process optimization, infrastructure improvements, measures to make energy supply and sugar production more flexible and secure, as well as investments to protect the environment and meet regulatory requirements. These efforts also include energy reduction measures and the reduction of greenhouse gas emissions at all locations. Implemented and ongoing projects include, for example, the replacement of extraction towers, investment in heat pumps and the optimization of energy processes.

Raw materials and production

Cultivation area

At around 354,000 (325,000) ha, Südzucker Group’s beet cultivation area in 2023 was 9.2 % larger than in the previous year. The main reason for this increase in beet cultivation area is the positive outlook for the sugar market.

Planting and beet development

Cool and wet weather in spring meant that sowing did not take place until mid-March 2023 to early May 2023, i. e. around three to five weeks later than in the previous year; this led to negative conditions for yield expectations. As the season progressed, the dry

and wet periods alternated again and again – rainfall in August ultimately favored beet growth. The sugar content, on the other hand, remained at a low level. At the same time, symptoms of Syndrome Basses Richesses (SBR) appeared, particularly in the catchment areas of the Offenau, Offstein and Ochsenfurt plants in Germany. For the first time, a new form of SBR, Stolbur, appeared on a large scale, leading to rubbery beets.

2023 campaign

The average campaign length went up from 107 to 128 processing days and was therefore significantly longer than in the previous year. Nevertheless, the average processing capacity fell by around 3 % due to technical difficulties and poor beet quality in some cases.

Persistent rainfall prevented harvesting from being completed on time. In addition, this was compounded by frost events followed by warm weather. This combination led to a deterioration in beet quality, particularly in Germany and Belgium.

Yields

Südzucker Group’s beet yield rose to 76.7 (71.7) t/ha in the 2023 cultivation year. The total beet volume available for processing was thus 27.2 (23.3) million tonnes. An extremely below-average sugar content of 16.3 (16.8) % resulted in a theoretical sugar yield of 12.5 (12.1) t/ha.

Production of sugar and sugary byproducts

The group’s total sugar production including cane sugar refining rose to 4.1 (3.7) million tonnes. The total volume of organic sugar produced at the Rain and Tulln plants also increased thanks to the higher beet yield. The volume of sugary byproducts produced also rose to 4.1 (3.8) million tonnes.

Volumes

Sugar

Consolidated sugar volumes in the group dropped by 8.3 % to 3.9 (4.2) million tonnes in fiscal 2023/24. Volumes at the companies in the EU fell by 13.2 %. Lower beet harvests and sugar production in the 2022/2023 campaign were the reasons for the decline, as was lower demand in the EU, which was reflected in a drop in volumes to both retail and industry. Sales to countries outside the EU were significantly higher due to lower sales volumes within the EU; volumes at the companies based in the Republic of Moldova and the Western Balkans were up on the previous year.

Sugary byproducts

Sales of sugary byproducts rose by around 3 % to 3.3 (3.2) million tonnes in the 2023/24 fiscal year – especially due to the higher production volume of pressed pulp in the 2023/24 campaign. Demand from the various customer segments was heterogeneous. On average, sales in fiscal 2023/24 were made at prices higher than in the previous year overall. However, a downward trend was observable beginning from the middle of the fiscal year.

Cultivation and production

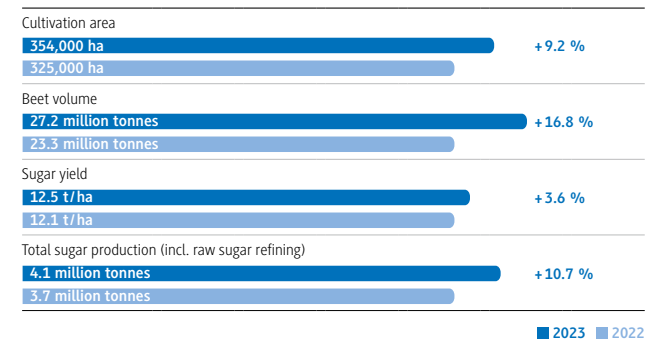


DIAGRAM 015