

# Sardus Interim Report

## January-March 2005

the light meal



# AB Sardus (publ.)

Corporate registration no. 556131-6711

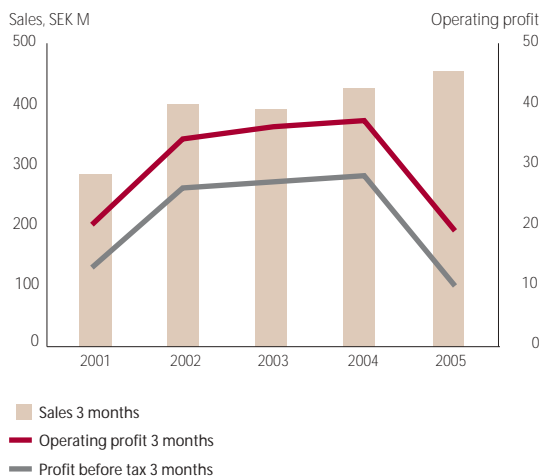
Listed on the A-List of the Stockholm Stock Exchange

The accounting in this report has been prepared in accordance with the International Financial Reporting Standards. All affected information regarding the preceding year is restated in accordance with the new accounting principles.

## First quarter, January-March 2005

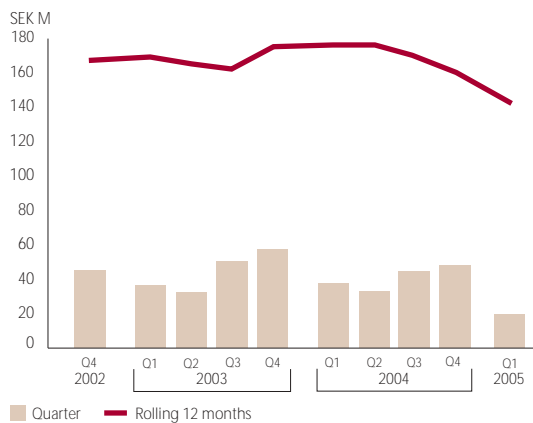
- Net sales rose 7% and amounted to SEK 455 M (427)
- Profit before tax totaled SEK 10 M (28)
- Profit after tax was SEK 7 M (20)
- Earnings per share amounted to SEK 0.70 (2.08)
- Profit for the full year is estimated at SEK 115-125 M (123)

Sales, operating profit and profit before tax



2001-2003 is restated in accordance with the new accounting principles.

Operating profit



### Trend during the first quarter

The convenience goods trade posted weak sales in the beginning of the first quarter of 2005. January 2005 was a particularly weak month for Sardus, while the trend in March was positive. An earnings decline of SEK 18 M was reported for the quarter. The foremost reason for the earnings deviation is lower sales in comparable units. Additionally, in the prevailing competitive climate, the retail trade's players did not accept price increases, which meant the compensation was not received for higher raw material prices. The newly acquired companies Allt Smörgås and Smörgåsfabriken, which are seasonally dependent, with a low season in the first months of the year, affected the earnings deviation in the amount of SEK 2 M.

Sales in the first quarter totaled SEK 455 M (427). The higher sales is attributable to Sardus Lätta Måltider, with the newly acquired companies Allt Smörgås and Smörgåsfabriken, which are included in the first quarter of 2005 and contributed SEK 39 M to the sales increase. Sardus' profit before tax for the first quarter amounted to SEK 10 (28) and profit after tax was SEK 7 (20).

### Acquisition of Allt Smörgås and Smörgåsfabriken

The acquisitions of the sandwich companies Allt Smörgås in Stockholm and Smörgåsfabriken in Norrköping were completed at the beginning of January 2005. The acquired companies produce and sell ready-to-eat sandwiches and salads primarily to the convenience goods trade and filling stations. Both companies, which are almost equal in size, are profitable and are experiencing a sharp growth phase. Combined, the companies conducted nationwide sales in 2004 of about SEK 120 M. The companies have approximately 125 employees. The acquisitions are part of Sardus' strategy of broadening operations, with a focus on light meals. Part of the payment consists of 197,696 Sardus shares, corresponding to slightly less than 2% of the number of shares in the company. This was permitted as a result of Sardus' share buyback program. The settlement price, which was set at SEK 102 per share, was based on the listed share price on December 17, 2004. SEK 75 M of the purchase price of SEK 80 M is goodwill and other intangible assets. The final acquisition price in accordance with IFRS is expected to be published in the interim report for the second quarter. The newly acquired companies have been consolidated in the Sardus Group with effect from January 1, 2005.

### Sardus Light Meals—a new business unit in a growth market

The recently acquired companies Allt Smörgås and Smörgåsfabriken have been integrated and combined constitute the basis for the new business unit – Sardus Lätta Måltider. The business unit will acquire and develop additional operations involved in the production of ready-to-eat meals that are easy to prepare and easy to consume. Patejököket's former president, Mats Johansson, is the head of the business unit.

### Merger of Patejököket and Charkdelikatesser

In January 2005 plans were announced regarding the merger of the Patejököket and Charkdelikatesser business units. The merger will permit the formation of a stronger and more powerful supplier of cured products for the convenience goods trade. The new unit is named Sardus Chark & Deli and will have sales of about SEK 900 M. The factors underlying the merger plans are that convenience goods chains are increasingly seeking larger and more comprehensive suppliers and that price competition has become stiffer with the appearance of a number of discount players in the trade. Negotiations with the trade unions affected as a result of the merger – pursuant to the Swedish Co-Determination Act – were carried out during the quarter. Charkdelikatesser's former president, Pelle Hjalmarsson, is the manager of the new business operations.

### Application of IAS/IFRS as of 2005

As of 2005, new accounting rules (IAS/IFRS) are being applied, which primarily means that goodwill amortization according to plan is not applied. However, as in the past, goodwill items will be reviewed annually. For more information, refer below under the heading: Changes in accounting principles.

### Business units

#### *Sardus Chark & Deli (Patejököket and Charkdelikatesser)* (Comparable units in 2004 shown in parentheses)

Sales in the first quarter amounted to SEK 216 M (218) and operating profit to SEK 15 M (21). Increased price competition and higher private label sales affected performance. In addition, increased raw material prices were not offset by higher prices in the subsequent trade channel. The new sliced packaging type, "Wallet packaging" posted

continued positive development during the quarter. The long-term savings potential within the business unit through the merger of Patejkköket and Charkdelikatesser is estimated at SEK 5-10 M annually, but will probably not have any significant earnings effect in 2005.

### **3-Stjernet**

Sales in the first quarter were SEK 68 M (67) and operating profit SEK 4 M (10). Sales in the home market rose during the quarter, while exports declined. The earnings decline is due primarily to increased raw material prices in the first quarter, which could not be offset in the next retail channel and lower export sales compared with the budget. Measures have been taken to reduce costs in 2005. A decision was taken in 2004 to invest SEK 34 M to enhance the efficiency of production, which means that all slicing and packaging lines are being concentrated to one production location. The investments are being carried out in 2005.

### **Sardus Foodpartner - Institutional market**

Sales in the first quarter amounted to SEK 49 M (56) and operating profit to SEK 3 M (6). The lower sales in Sardus Foodpartner and higher costs in Gourmet Service affected earnings. Sales of Falbygdens Ost's products via Sardus Foodpartner to Ikea were initiated during the period.

### **Falbygdens Ost**

First quarter sales totaled SEK 92 M (93) and the operating loss was SEK 2 M (0). The lower earnings were due primarily to a higher share of contract packaging and higher raw material prices. Earnings were also affected by higher costs.

### **Sardus Lätta Måltider**

Sales of the new business unit in the first quarter amounted to SEK 39 M, with an operating loss of SEK 1 M. The newly acquired seasonally dependent companies Allt Smörgås and Smörgåsfabriken have their low season in the first months of the year. The companies are in a strong growth phase.

### **New market focus**

The acquisitions of Allt Smörgås, Smörgåsfabriken and Gourmet Service represent a feature of Sardus growth strategy, entailing a broadening of operations in the sandwich-related products and light meals segments. In an

ever-increasingly competitive environment, light meals are part of Sardus' focus on organic growth based on the potential to supply semi-finished products from other Sardus units. The success attained with various low-fat, ecological products and the new packaging concept confirms our confidence in future growth potential. Work is in progress on a number of concepts, primarily in the light meals segment, which will reach the market in 2005 and 2006.

### **Liquidity, cash flow and net financial items**

At March 31, 2005, the Group's liquid funds amounted to SEK 37 M (26), over and above which the company has unutilized credit facilities of SEK 282 M (326). Cash flow from current operations totaled SEK 0 M (37) in the first quarter. Net financial expense was SEK 9 (expense: 9).

### **Capital expenditures**

Total capital expenditure in the first quarter amounted to SEK 23 M (13).

### **Number of shares outstanding**

In the beginning of January, all 197,696 repurchased shares were used in connection with the acquisition of Allt Smörgås and Smörgåsfabriken. Accordingly, the number of shares outstanding was 10,011,500.

### **Changes in accounting principles**

This interim report for the Group was prepared in accordance with IAS 34, Interim Financial Reporting. The accounting principles applied in the most recent annual report have been changed as a result of the application of the IAS directive. In accordance with the IAS directive, which was adopted by the European Commission in 2002, it is prescribed that exchange-listed companies in the EU as of 2005 shall apply the International Financial Reporting Standards (IFRS) in their consolidated accounting. In accordance with the transition rules, the comparative year 2004 has been reported applying the new accounting principles.

IAS 39, Financial Instruments, is applied from January 1, 2005, and is an exception from the requirement to restate the comparative year. The transition to the new recommendation resulting in a charge against Shareholders' equity of SEK 4 M after taking taxes into account.

### Significant differences compared with previous accounting principles

- The provisions covering accounting for corporate acquisitions and mergers (IFRS 3: Business Combinations) entail changes in accounting for company acquisitions. A more detailed payment breakdown must be conducted, for which values must also be attributed to a number of intangible assets acquired, such as customer relations, brands, patents, etc. Assets with an indefinite service life, such as goodwill and brands, may not be written off but should instead be regularly tested for any write-down requirements. An impairment test must be conducted annually and also when any indication of a write-down requirement arises. For Sardus, this has primarily meant that amortization of goodwill was reversed as of 2004. Amortization of goodwill in asset and liability acquisitions has been reversed with the tax effect taken into account.
- IAS 39, which covers financial instruments, is applied as of January 1, 2005, without any requirement to restate the comparison year. The main effect for Sardus is that all derivatives are reported in the balance sheet at their fair value. Value changes in derivatives are reported in the income statement, except in such cases in which the derivative is a hedging instrument that fulfills the requirements for hedge accounting. Sardus has chosen not to apply hedge accounting except for currency risks in foreign operations. Hedging of social security expenses on the employee stock option program is applied in accordance with previous accounting principles (Swedish GAAP) to and including 2004, but ceases at application of IAS 39 on January 1, 2005. In hedge accounting in accordance with previous accounting principles, the liability for social security expenses was offset against the value of the hedge instrument. As of 2005, this hedge accounting ceases as a result of which the liability for social security expenses is reported continuously at the incurred value. At the same time, the derivative instrument, which is intended to cover payment of social expenses on the options program on a continuous basis, is reported at fair value. The value changes in liabilities for social security expenses and derivative instruments are reported in the consolidated income statement.

### Annual General Meeting 2005

A dividend of SEK 5.00 (5.00) per share was approved at the Annual General Meeting on April 5, 2005. Raoul Hasselgren was re-elected Chairman, as well as Ulf Brasen, who was elected Vice Chairman. In addition, Board members Elisabet Annell, Göran Havander, Rolf Lydahl, Bo Petersson and Lisbeth Sachs were re-elected. Andreas Falkenmark, President of Observer Sweden and Fredrik Svensson, President of Arvid Svensson Invest, which is Sardus' largest single owner, were elected new Board members. President Ragnar Bringert resigned as a Board member elected by the Meeting, but will be co-opted as well as a reporter to the Board. The Meeting resolved to continue the repurchase program comprising a maximum of 10 percent of the company's shares until the Annual General Meeting in 2006.

### Outlook 2005

Considering the prevailing market conditions on raw material prices and the industry's actions in a price-focused competition in the retail trade, profit before tax for 2005 is estimated to amount to SEK 115-125 M, or SEK 8.00-9.00 per share.

Helsingborg, April 19, 2005

AB Sardus (publ.)  
Board of Directors

Further details may be obtained from the company's President and CEO, Ragnar Bringert, phone: +46 (0) 42-37 02 50 or +46 (0) 70-593 62 73.

All comparison figures are restated in accordance with currently prevailing IFRS as adopted by the European Commission, with the exception of IAS 39, which is applied from January 1, 2005.

## Consolidated income statement

SEK M	First quarter 2005	First quarter 2004	Rolling 12 months	2004 Full year
Net sales	455	427	1,815	1,787
Cost of sold products	-336	-304	-1,310	-1,278
<b>Gross operating profit</b>	<b>119</b>	<b>123</b>	<b>505</b>	<b>509</b>
Selling expenses	-78	-67	-278	-267
Administrative costs	-23	-21	-92	-90
Other operating income	1	2	7	8
<b>Operating profit</b>	<b>19</b>	<b>37</b>	<b>142</b>	<b>160</b>
Net financial items	-9	-9	-37	-37
<b>Profit before tax</b>	<b>10</b>	<b>28</b>	<b>105</b>	<b>123</b>
Tax charge	-3	-8	-31	-36
<b>Net profit for the period</b>	<b>7</b>	<b>20</b>	<b>74</b>	<b>87</b>

## Earnings per share

	First quarter 2005	First quarter 2004	Rolling 12 months	2004 Full year
Number of shares (million)	10.0	9.8	10.0	9.8
Number of shares after dilution (million)	10.1	10.0	10.1	10.0
Earnings per share, SEK	0.70	2.08	7.40	8.92
Ditto, after dilution	0.69	2.04	7.30	8.76

## Consolidated balance sheet

SEK M	Mar. 31, 05	Dec. 31, 04	Mar. 31, 04
<b>Assets</b>			
Intangible fixed assets	417	342	340
Tangible fixed assets	490	466	480
Financial fixed assets	4	3	5
<b>Fixed assets</b>	<b>911</b>	<b>811</b>	<b>825</b>
Inventories	235	221	218
Receivables	229	207	185
Cash and bank	37	71	26
<b>Current assets</b>	<b>501</b>	<b>499</b>	<b>429</b>
<b>Total assets</b>	<b>1,412</b>	<b>1,310</b>	<b>1,254</b>
<b>Equity and liabilities</b>			
Equity	385	353	339
Subordinated loan	150	150	150
Long-term interest-bearing liabilities	547	496	494
Other long-term liabilities	99	100	93
Other current liabilities	231	211	178
<b>Total equity and liabilities</b>	<b>1,412</b>	<b>1,310</b>	<b>1,254</b>

## Change in shareholders' equity

SEK M	Mar. 31, 05	Dec. 31, 04	Mar. 31, 04
Opening equity according to approved balance sheet	324	315	315
Effect of change in accounting principles	25	—	—
Adjusted opening balance	349	315	315
Dividends/share buybacks/issues	27	–48	—
Translation differences	2	–1	4
Net profit for the period	7	87	20
Closing equity	385	353	339

Effect of new accounting principles did not arise at opening of 2004, but first during 2004 in conjunction with the reversal of goodwill amortization.

## Net sales by business unit

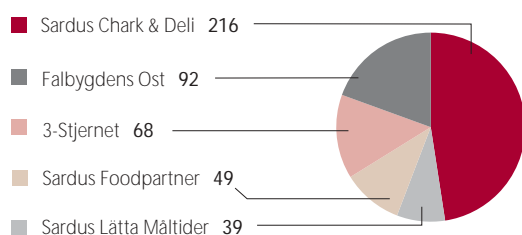
SEK M	First quarter 2005	2004	Rolling 12 months	2004 Full year
Sardus Chark & Deli	216	218	894	896
Sardus Lätta Måltider	39	—	39	—
Sardus Foodpartner	49	56	204	211
3-Stjernet	68	67	276	275
Falbygdens Ost	92	93	436	437
Central Group costs	–9	–7	–34	–32
Group	455	427	1,815	1,787

## Operating profit by business unit

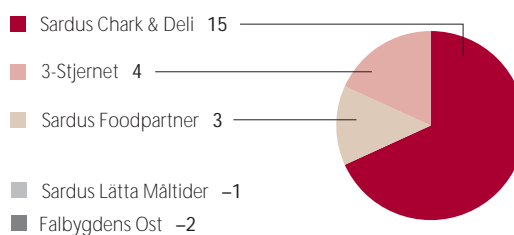
SEK M	First quarter 2005	2004	Rolling 12 months	2004 Full year
Sardus Chark & Deli	15	21	85	91
Sardus Lätta Måltider	–1	—	–1	—
Sardus Foodpartner	3	6	15	18
3-Stjernet	4	10	29	35
Falbygdens Ost	–2	—	14	16
Group	19	37	142	160

Central Group costs are distributed in the comparative figures.

Net sales by business unit, SEK M



Operating profit by business unit, SEK M





## Cash-flow statement

SEK M	First quarter		2004 Full year
	2005	2004	
Profit before tax	10	28	123
Depreciation and write-downs	17	14	60
Tax paid	-12	-10	-32
Other items not affecting liquidity	—	1	-2
Change in working capital	-15	4	15
<b>Cash flow from current operations</b>	<b>—</b>	<b>37</b>	<b>164</b>
Fixed capital expenditure	-23	-13	-57
Sales of fixed assets	—	1	3
Acquisition of subsidiaries	-57	—	—
Loans raised/amortizations	39	-77	-69
Dividends/share buybacks/issues	7	—	-48
<b>Change in liquid funds</b>	<b>-34</b>	<b>-52</b>	<b>-7</b>
Opening liquid funds	71	78	78
<b>Closing liquid funds</b>	<b>37</b>	<b>26</b>	<b>71</b>

## Key figures

	First quarter		Rolling 12 months	2004* Full year
	2005	2004*		
Sales, SEK M	455	427	1,815	1,787
Operating profit, SEK M	19	37	142	160
Operating margin, %	4.2	8.7	7.8	9.0
Average operating capital, SEK M	986	969	1,001	954
Return on operating capital, %	7.7	15.3	14.2	16.8
Average equity, SEK M	369	340	362	347
Return on equity, %	7.6	23.5	20.4	25.1
Equity ratio, %	27	27	27	27
Debt/equity ratio, times	1.7	1.8	1.7	1.6
Interest cover, times	2.1	4.1	3.8	4.3
Number of shares outstanding (million)	10.0	9.8	10.0	9.8
Number of Sardus-owned shares (million)	0.0	0.2	0.0	0.2
Average number of Sardus-owned shares (million)	0.0	0.2	0.0	0.2
Average number of shares (million)	10.0	9.8	10.0	9.8
Number of shares after dilution (million)	10.1	10.0	10.1	10.0
Earnings per share, SEK	0.70	2.08	7.40	8.92
Ditto, after dilution	0.69	2.04	7.30	8.76
Net worth per share	38.5	34.6	38.5	36.0
Gross capital expenditure, excl. acquisitions, SEK M	23	13	67	57
Depreciation of fixed assets, SEK M	15	13	58	56
Amortization of intangible assets	2	1	5	4
Number of employees	779	765	779	750

\* In accordance with prevailing transition rules, IAS 39 is not applied in the quarter or the full year.



## Reconciliation of equity in accordance with previous accounting principles compared with equity in accordance with IFRS

	Jan. 1, 04	Mar. 31, 04	Dec. 31, 04	Jan. 1, 05
Equity in accordance with Swedish GAAP	315	332	324	324
Reversal of goodwill amortization	—	8	33	33
Adoption of IAS 39	—	—	—	–6
Deferred tax	—	–1	–4	–2
Equity in accordance with IFRS	315	339	353	349

## Income statements and balance sheets in accordance with previous accounting principles compared with IFRS

	Mar. 31, 04			Dec. 31, 04		
	Sw GAAP	Adjustment IFRS	IFRS	Sw GAAP	Adjustment IFRS	IFRS
Operating profit	29	8	37	127	33	160
Financial net	–9	—	–9	–37	—	–37
Profit before tax	20	8	28	90	33	123
Tax expenses	–7	–1	–8	–32	–4	–36
Net profit	13	7	20	58	29	87

	Mar. 31, 04			Dec. 31, 04		
	Sw GAAP	Adjustment IFRS	IFRS	Sw GAAP	Adjustment IFRS	IFRS
Fixed assets	817	8	825	778	33	811
Current assets	429	—	429	499	—	499
Total assets	1,246	8	1,254	1,277	33	1,310
Shareholders' equity	332	7	339	324	29	353
Long-term interest-bearing liabilities	644	—	644	646	—	646
Other long-term liabilities	92	1	93	96	4	100
Current liabilities	178	—	178	211	—	211
Total liabilities and shareholders' equity	1,246	8	1,254	1,277	33	1,310

	Jan. 1, 05		
	Sw GAAP	Adjustment IFRS*	IFRS incl IAS 39
Fixed assets	811	2	813
Current assets	499	—	499
Total assets	1,310	2	1,312
Shareholders' equity	353	–4	349
Long-term interest-bearing liabilities	646	—	646
Other long-term liabilities	100	–2	98
Current liabilities	211	8	219
Total liabilities and shareholders' equity	1,310	2	1,312

\* Adjustment pertains to IAS 39. Financial assets rose SEK 2 M related to derivatives and current liabilities by SEK 8 M pertaining to derivatives and provisions for social security contributions.

## Sardus' share price trend, January 2003 – March 2005



**Sardus** is one Sweden's leading producers of sandwich toppings and suppliers of frozen foods for catering and commercial kitchens. The products are marketed under strong, well-known brands.

**Sardus Chark & Deli** - the name of the new business unit after the merger of *Pastejkköket* and *Charkdelikatesser*. **Sardus Chark & Deli** is the largest player in its segment with such well-known products as *Arboga liver paste*, *Lönneberga ham*, *Onsala sausage*, *Norrboda sausage*, *Charkdelikatesser*, *Gea's black pudding*, *Eliassons smoked pork* and *Pastejkköket*. **Sardus Chark & Deli** is market leading in liver paste, smoked sausage toppings, jellied veal, course-ground smoked sausage and black pudding.

**Sardus Lätta Måltider** is a newly started business unit with the focus on the "short customer cycle." Our goal is to offer a broad range of light, ready-to-eat meals and accessories in the convenience goods trade, local stores and service stations. Today, the business unit comprises the sandwich and salads producers *Allt Smörgås* and *Smörgåsfabriken*.

**Sardus Foodpartner** is one of the leading suppliers of frozen foods to the catering market. *Gourmet Service* produces sandwich salads, sauces, salad dressings as well as salmon and shellfish pâtés. **Sardus Foodpartner** was established in 1984.

**3-STJERNET** is one of Denmark's leading producers of meat-based sandwich toppings products, such as salami. Exports account for about 20% of operations. The company was established in 1950.

**Falbygdens Ost** is a leading cheese processor in Sweden. The company specialises in high-quality, extra-matured cheese sold under well-established brands, such as *Morfars Brännvinsost*, *St. Olofs Herrgårds*, *Birger Jarl* and "1878." The company was established in 1878.

This interim report is unaudited.

### Financial information 2005/06

July 15, 2005  
October 18, 2005  
January 31, 2006

Interim report, second quarter  
Interim report, third quarter  
Year-end report 2005

# Sardus

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