

# Sardus Interim Report

## January-June 2005

the light meal



Eliassons



Sardus  
FOODPARTNER

Pastejököket

Geas



Lindbergs  
HusmorsPastej

Norrboda



chark  
HÄLSÖKÄRSEN

Lönneberga



# AB Sardus (publ.)

Corporate registration no.: 556131-6711

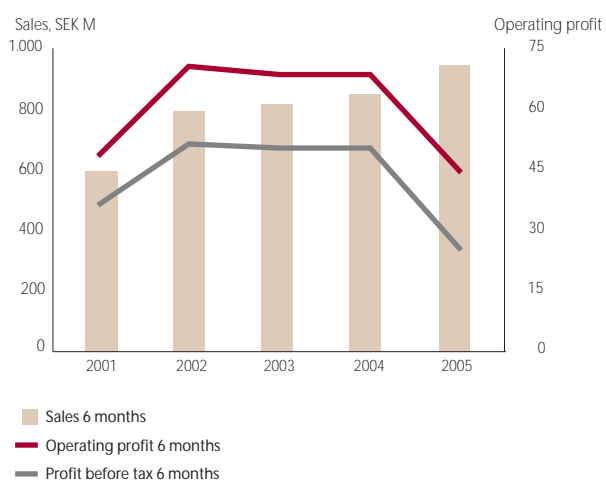
Listed on the A-List of the Stockholm Stock Exchange

The financial statements in this report have been prepared in accordance with the International Financial Reporting Standards (IFRS). All data pertaining to preceding years has been recalculated in line with the new accounting principles (except for IAS 39).

## Six months, January–June 2005

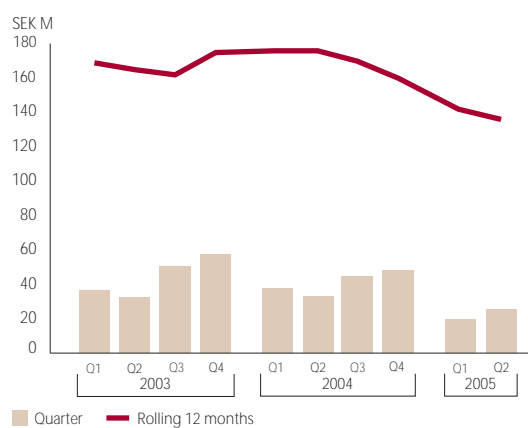
- Net sales rose 11% and amounted to SEK 944 M (852)
- Pre-tax profit amounted to SEK 25 M (50)
- Profit after tax totaled SEK 18 M (36)
- Earnings per share were SEK 1.75 (3.66)
- Unchanged full-year forecast: earnings of SEK 115 – 125 M (123)

Sales, operating profit and profit before tax



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

Operating profit



### **Trend during the second quarter**

May and June were positive months for Sardus, whereas April was flat. Earnings declined SEK 7 M for the quarter. Moreover, in the prevailing competitive climate, retail players did not accept price hikes, and thus it was impossible to offset higher raw material prices and so forth. The newly acquired companies – Allt Smörgås and Smörgåsfabriken – reported a highly favorable trend during the quarter.

Sales in the second quarter totaled SEK 489 M (425). The increase is attributable to Sardus Lätta Måltider (light meals), with the recently acquired companies, Allt Smörgås and Smörgåsfabriken, were included in results for the second quarter, contributing SEK 55 M to the sales increase. Sardus' pre-tax profit for the second quarter totaled SEK 15 M (22) and profit after tax was SEK 11 M (16).

### **Trend during January – June 2005**

The food industry is undergoing a process of change, involving a focus on price and other factors, which require restructuring measures in the supplier chain as part of efforts to reduce costs for manufacturing, sales and administrative. Sardus has implemented a number of programs to adjust its structure. In addition to rationalization programs in 2004, a merger of Patejkköket and Charkdelikatesser to form Sardus Chark & Deli was conducted in 2005. This proves the potential for continuing cost cutting.

In addition to structural programs, Sardus is working with new business models in Sardus Lätta Måltider, in which innovation represents a significant feature of efforts to capitalize on the potential in this product area.

Convenience goods sales were sluggish in early 2005. Consequently, the first period was a weak one for Sardus, while the second quarter shows more positive progress. Earnings were down SEK 25 M for the first six months. In view of the current competitive conditions, retail players were unwilling to accept price increases and thus it proved impossible to offset higher raw material prices.

Sales for the first six months totaled SEK 944 M (852). Higher sales were attributable to Sardus Lätta Måltider, with the recently acquired companies Allt Smörgås and Smörgåsfabriken included in the first half of 2005, and contributing SEK 94 M to higher sales. Sardus' pre-tax profit for the first six months totaled SEK 25 M (50), while profit after tax was SEK 18 M (36). Most of the fall in earnings pertains to the first quarter.

### **Acquisition of Allt Smörgås and Smörgåsfabriken**

The acquisitions of the sandwich companies Allt Smörgås in Stockholm and Smörgåsfabriken in Norr-

köping were completed in early 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 reported nation-wide sales in 2004 of some 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 the 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. However, SEK 104 per share issued for accounting purposes, which was the price on the transaction date. Of the total purchase price of SEK 80 M, which includes acquisition costs of SEK 1 M, SEK 74 M pertained to surplus value. The surplus value is distributed among identifiable assets of SEK 27 M for customer relations (estimated economic life of 6 years) and the remaining SEK 47 M among goodwill, primarily pertaining to synergism. The acquired assets totaled SEK 31 M on the acquisition date, with acquired liabilities totaling SEK 25 M. The newly acquired companies were consolidated in the Sardus Group as of January 1, 2005.

During the second quarter, the newly established business unit Sardus Lätta Måltider acquired all the shares in the distribution company Odenmacken in Östersund. Following the acquisition of Allt Smörgås and Smörgåsfabriken Sardus Lätta Måltider held 50% of the shares in the company. Odenmacken has sales of approximately SEK 15 M annually and handles the distribution in the central and northern regions of the province of Norrland of the sandwiches and salads produced by Allt Smörgås and Smörgåsfabriken. The company is a key link in the distribution network for all of Sweden for sandwiches and salads. The purchase price for the acquisition was SEK 3 M.

### **Sardus Lätta Måltider (Light Meals) – a new business unit**

The recently acquired companies, Allt Smörgås and Smörgåsfabriken, have been coordinated and jointly make up the foundation for the new business unit Sardus Lätta Måltider. The business unit plans to acquire and develop additional operations that produce ready-to-eat meals, easy to prepare, easy to consume and low calorie products. Patejkköket's former president, Mats Johansson, is head of the business unit.

### **Merger of Charkdelikatesser and Pastejköket**

In January 2005, plans were announced for the merger of the Pastejköket and Charkdelikatesser business unit. 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 annual sales of about SEK 900 M. The factors underlying the merger plans are that convenience goods chains are increasingly seeking larger, 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 completed during the first quarter. Charkdelikatesser's former president, Pelle Hjalmarsson, is the manager of the new business operation.

### **Application of IAS/IFRS as of 2005**

As of 2005, new accounting rules (IAS/IFRS) apply, which, in Sardus' case, 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 (Pastejköket & Charkdelikatesser)***

*(Comparable units in 2004 shown in parenthesis)*

Sales in the first quarter amounted to SEK 430 M (437), with operating profit totaling SEK 24 M (38). Stiffer price competition and increased private label sales impacted on development. In addition, higher raw material prices were not offset by higher prices in subsequent trading channels. The new, sliced packaging type "Wallet packaging" showed its positive trend during the six months. Long-term savings potential in the business unit through the merger of Pastejköket & Charkdelikatesser is estimated at SEK 5 -10 M annually but is unlikely to have any substantial impact on earnings in 2005.

#### ***3- Stjernet***

Sales for the first six months totaled SEK 143 M (130), with operating profit amounting to SEK 12 M (19). Sales in the home market rose during the first quarter and exports increased during the second quarter. The decline in earnings is primarily attributable to higher raw material prices during the first six months that proved impossible to offset in subsequent trading channels, combined with lower export sales during the first half of the year. An action program has been commenced to cut costs dur-

ing 2005. In 2004, a decision was made to invest SEK 34 M to enhance production efficiency, which means that all cutting and packaging lines will be concentrated to a single production site. The investments are being carried out in 2005.

#### ***Sardus Foodpartner – Institutional market***

Sales for the first six months totaled SEK 98 M (105), with operating profit amounting to SEK 7 M (9). Lower sales for Sardus Foodpartner and higher costs for Gourmet Service impacted on earnings. Sales of Falbygdens Ost's products via Sardus Foodpartner to Ikea commenced during the period.

#### ***Falbygdens Ost***

Sales for the first quarter were SEK 196 M (193), with an operating loss of SEK 2 M (profit: 2). The lower earnings are due primarily to a rise in the share of contract packaging and higher raw material prices. Earnings were also affected by higher costs.

#### ***Sardus Lätta Måltider***

Sales for the new business unit for the first six months totaled SEK 94 M, with operating profit amounting to SEK 3 M. The recently acquired companies, Allt Smörgås and Smörgåsfabriken, which are seasonally dependent, enjoyed solid sales growth during the second quarter, which contributed to positive earnings. The companies are experiencing a sharp growth phase.

### **New market ventures**

The acquisition of Allt Smörgås, Smörgåsfabriken and Gourmet Service represent part of Sardus' growth strategy, involving a broadening in the sandwich-related products area and light meals segments. In an increasingly stiffer competitive environment, light meals are part of Sardus' focus on organic growth with the potential to deliver semi-finished products from other Sardus units. Moreover, the success achieved with various low-fat, organic products and new packaging concepts supports our confidence in future potential. Efforts are in progress with a number of concepts, primarily in the area of light meals, which will reach the market in 2005 and 2006.

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

At June 30, 2005, the Group's liquid funds amounted to SEK 38 M (69), over and above which the company has initialized credit facilities of SEK 224 M (280). Cash flow from ongoing operations amounted to SEK 30 M (95) during the first six months. Net financial expense was SEK 19 M (expense: 9).

### Capital expenditures

Capital expenditure in the first six months totaled SEK 50 M (29).

### Number of shares outstanding

At the beginning of January 2005, all 197,696 shares bought back have been utilized in conjunction with the acquisitions of Allt Smörgås and Smörgåsfabriken. Employee stock options were exercised during the period and 87,000 new shares were issued. The number of shares outstanding thus amounts to 10,098,500.

### 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 shall, as of 2005, apply the International Financial Reporting Standards (IFRS) in their consolidated accounting. Thus, this interim report is the company's second financial report prepared in accordance with Standards, IFRS, as adopted by the EU. In accordance with the transition rules, the comparative year, 2004, has been reported applying the new accounting principles.

### *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 indeterminable 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 year of comparison. The main effect for Sardus is that all derivatives are reported in the balance sheet at

their fair value. Valued 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. Hedging of social security expenses on employee stock option program is applied in accordance with previous accounting principles (Swedish GAAP) through 2004, but ceases on the application of IAS 39 on January 1, 2005. In hedge accounting in accordance with the 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 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. The change-over to this recommendation has debit equity with SEK 4 M after considering tax.

### Parent Company

The parent Company's operations focus primarily on Group-wide administration. Net sale totaled SEK 6 M. The loss after net financial items was SEK 2 M. Liquid assets totaled SEK 28 M (68 at the beginning of the year) and borrowing amounted to SEK 709 M (620 at the beginning of the year).

### Outlook, 2005

Given the current market conditions in terms of raw material prices and the response of the trading bloc in the form of price-focused competition in the retail trade, pre-tax profit for 2005 is anticipated to amount to SEK 115–125 M, that is, SEK 8-9 per share. The fact that a large share of annual profit arises during the second half of the year has been taken into consideration.

Helsingborg, July 15, 2005

AB Sardus (publ)  
Board of Directors  
Ragnar Bringert, President and CEO

Further information 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	Second quarter		6 months		Rolling 12 months	2004 full year
	2005	2004	2005	2004		
Net sales	489	425	944	852	1,879	1,787
Cost of sold products	-364	-306	-700	-610	-1,368	-1,278
<b>Gross operating profit</b>	<b>125</b>	<b>119</b>	<b>244</b>	<b>242</b>	<b>511</b>	<b>509</b>
Selling expenses	-78	-66	-156	-133	-290	-267
Administrative costs	-26	-24	-49	-45	-94	-90
Other operating income	4	2	5	4	9	8
<b>Operating profit</b>	<b>25</b>	<b>31</b>	<b>44</b>	<b>68</b>	<b>136</b>	<b>160</b>
Net financial items	-10	-9	-19	-18	-38	-37
<b>Profit before tax</b>	<b>15</b>	<b>22</b>	<b>25</b>	<b>50</b>	<b>98</b>	<b>123</b>
Tax charge	-4	-6	-7	-14	-29	-36
<b>Net profit for the period</b>	<b>11</b>	<b>16</b>	<b>18</b>	<b>36</b>	<b>69</b>	<b>87</b>

## Earnings per share

SEK M	Second quarter		6 months		Rolling 12 months	2004 full year
	2005	2004	2005	2004		
Number of shares (million)	10.0	9.8	10.0	9.8	10.0	9.8
Number of shares after dilution (million)	10.2	10.0	10.2	10.0	10.2	10.0
Earnings per share, SEK	1.06	1.56	1.75	3.66	6.88	8.92
Ditto after dilution	1.04	1.53	1.73	3.59	6.80	8.76

## Consolidated balance sheet

SEK M	June 30, 05	Dec. 31, 04	June 30, 04
<b>Assets</b>			
Intangible fixed assets	422	342	344
Tangible fixed assets	508	466	471
Financial fixed assets	5	3	4
<b>Fixed assets</b>	<b>935</b>	<b>811</b>	<b>819</b>
Inventories	242	221	218
Receivables	229	207	185
Cash and bank	38	71	69
<b>Current assets</b>	<b>509</b>	<b>499</b>	<b>472</b>
<b>Total assets</b>	<b>1,444</b>	<b>1,310</b>	<b>1,291</b>
<b>Equity and liabilities</b>			
Equity	350	353	303
Subordinated loan	150	150	150
Long-term interest-bearing liabilities	596	496	540
Other long-term liabilities	97	100	95
Other short-term liabilities	251	211	203
<b>Total equity and liabilities</b>	<b>1,444</b>	<b>1,310</b>	<b>1,291</b>



## Change in equity

SEK M	June 30,05	Dec. 31,04	June 30,04
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	–23	–48	–49
Translation differences	8	–1	1
Change in security reserve	–2	—	—
Net profit for the period	18	87	36
Closing equity	350	353	303

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

## Net sales by business unit

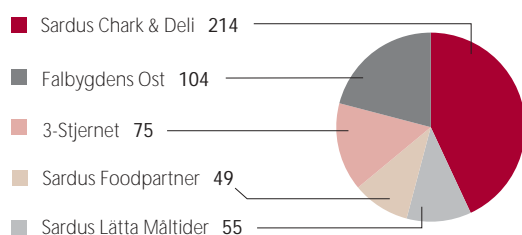
SEK M	Second quarter		6 months		Rolling 12 months	2004 full year
	2005	2004	2005	2004		
Sardus Chark & Deli	214	219	430	437	889	896
Sardus Lätta Måltider	55	—	94	—	94	—
Sardus Foodpartner	49	49	98	105	204	211
3-Stjernet	75	63	143	130	288	275
Falbygdens Ost	104	100	196	193	440	437
Central Group	–8	–6	–17	–13	–36	–32
Group	489	425	944	852	1,879	1,787

## Operating profit by business unit

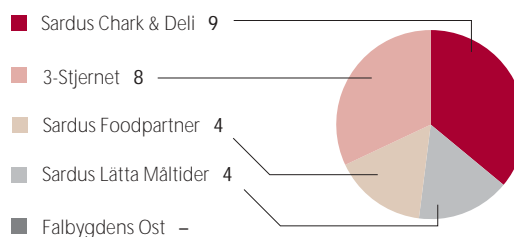
SEK M	Second quarter		6 months		Rolling 12 months	2004 full year
	2005	2004	2005	2004		
Sardus Chark & Deli	9	17	24	38	77	91
Sardus Lätta Måltider	4	—	3	—	3	—
Sardus Foodpartner	4	3	7	9	16	18
3-Stjernet	8	9	12	19	28	35
Falbygdens Ost	—	2	–2	2	12	16
Group	25	31	44	68	136	160

Central Group costs are distributed among the comparative figures.

### Net sales by business unit, SEK M



### Operating profit by business unit, SEK M



## Cash-flow statement

SEK M	6 months		2004 full year
	2005	2004	
Profit before tax	25	50	123
Depreciation and write-downs	34	30	60
Other items not affecting liquidity	-2	—	-2
Tax paid	-19	-25	-32
Change in working capital	-8	40	15
<b>Cash flow from current operations</b>	<b>30</b>	<b>95</b>	<b>164</b>
Investments in fixed assets	-50	-29	-57
Sale of fixed assets	2	2	3
Acquisition of subsidiaries	-57	—	—
<b>Cash flow from investment operations</b>	<b>-105</b>	<b>-27</b>	<b>-54</b>
Loans raised/amortizations	85	-28	-69
Dividends/share issues	-43	-49	-48
<b>Cash flow from financing operations</b>	<b>42</b>	<b>-77</b>	<b>-117</b>
<b>Change in liquid funds</b>	<b>-33</b>	<b>-9</b>	<b>-7</b>
Opening liquid funds	71	78	78
<b>Closing liquid funds</b>	<b>38</b>	<b>69</b>	<b>71</b>

## Key figures

SEK M	Second quarter		6 months		Rolling 12 months	2004 * full year
	2005	2004 *	2005	2004 *		
Sales, SEK M	489	425	944	852	1,879	1,787
Operating profit, SEK M	25	31	44	68	136	160
Operating margin, %	5.1	7.3	4.7	8.0	7.2	9.0
Average operating capital, SEK M	1,052	941	993	952	991	954
Return on operating capital, %	9.5	13.2	8.9	14.3	13.7	16.8
Average equity, SEK M	368	321	352	322	327	347
Return on equity, %	12.0	19.9	10.2	22.4	21.1	25.1
Equity ratio, %	24	23	24	23	24	27
Debt/equity ratio, times	2.0	2.0	2.0	2.0	2.0	1.6
Interest cover, times	2.5	3.4	2.3	3.8	3.6	4.3
Number of shares outstanding (million)	10.1	9.8	10.1	9.8	10.1	9.8
Number of Sardus-owned shares (million)	—	0.2	—	0.2	—	0.2
Average number of Sardus-owned shares (million)	—	0.2	—	0.2	—	0.2
Average number of shares (million)	10.0	9.8	10.0	9.8	10.0	9.8
Number of shares after dilution (million)	10.2	10.0	10.2	10.0	10.2	10.0
Earnings per share, SEK	1.06	1.56	1.75	3.66	6.88	8.92
Ditto after dilution	1.04	1.53	1.73	3.59	6.80	8.76
Net worth per share	34.7	31.0	34.7	31.0	34.7	36.0
Gross capital expenditure, excl. acquisitions, SEK M	27	16	50	29	78	57
Depreciation of tangible fixed assets, SEK M	14	15	29	28	57	56
Amortization of intangible fixed assets, SEK M	3	1	5	2	7	4
Number of employees	833	754	833	754	833	750

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



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

	Jan. 1, 04	June 30, 04	Dec. 31, 04	Jan. 1, 05
Equity in accordance with Swedish GAAP	315	289	324	324
Reversal of goodwill amortization	—	16	33	33
Adoption of IAS 39	—	—	—	–6
Deferred tax	—	–2	–4	–2
Equity in accordance with IFRS	315	303	353	349

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

	Second quarter 2004			6 months 2004			2004 Full year		
	Sw GAAP	Adjustment IFRS	IFRS	Sw GAAP	Adjustment IFRS	IFRS	Sw GAAP	Adjustment IFRS	IFRS
Operating profit	23	8	31	52	16	68	127	33	160
Financial net	–9	—	–9	–18	—	–18	–37	—	–37
Pre-tax profit	14	—	22	34	—	50	90	33	123
Tax expenses	–5	–1	–6	–12	–2	–14	–32	–4	–36
Net profit	9	7	16	22	14	36	58	29	87

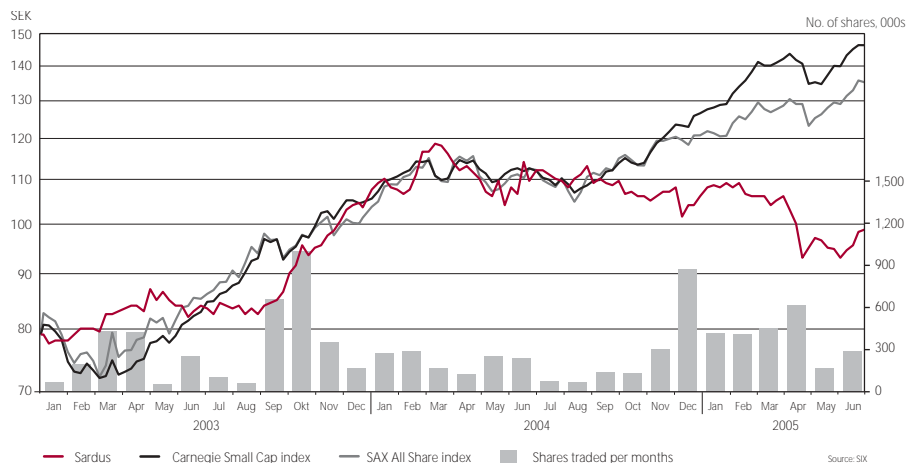
*Adjustment in operating profit pertains to selling expenses.*

	June 30, 04			Dec. 31, 04		
	Sw GAAP	Adjustment IFRS	IFRS	Sw GAAP	Adjustment IFRS	IFRS
Fixed assets	803	16	819	778	33	811
Current assets	472	—	472	499	—	499
Total assets	1,275	16	1,291	1,277	33	1,310
Shareholders' equity	289	14	303	324	29	353
Long-term interest-bearing liabilities	690	—	690	646	—	646
Other long-term liabilities	93	2	95	96	4	100
Current liabilities	203	—	203	211	—	211
Total liabilities and shareholders' equity	1,275	16	1,291	1,277	33	1,310

	2005 01 01		
	IFRS	Adjustment IFRS* incl IAS 39	IFRS
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 – June 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 Pastejköket 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 Pastejköket. 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 shell-fish 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 30% 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

October 18, 2005  
January 31, 2006  
April 4, 2006

Interim report, third quarter  
Year-end report, 2005  
Annual General Meeting

# Sardus

Billeplatsen 1 • SE-252 23 Helsingborg • Tel: +46 42-37 02 50 • Fax: +46 42-13 60 09  
info@sardus.se • www.sardus.se