



CSM

HALF-YEAR REPORT 2004



COMPANY PROFILE

CSM is an internationally operating company engaged in the development, production, sale and distribution of food ingredients and confectionery.

CSM's main product groups are bakery ingredients and products, confectionery, sugar and lactic acid.

CSM operates in the business-to-business market (bakery ingredients and products, sugar and lactic acid) and the consumer market (confectionery, sugar).

CSM is committed to realizing profitable growth through autonomous growth and acquisitions while maintaining a solid financial position.

CSM operates mainly in Europe and North America but is also based in South America and Asia.

On 30 June 2004, the total CSM workforce numbered more than 13,700 with around 11,900 employed outside the Netherlands.

CSM is listed on Euronext Amsterdam N.V.



CSM

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PREFACE

CSM has chosen a new course. The company intends to focus on its business-to-business activities (bakery products and food ingredients) and is exploring possibilities for selling CSM Sugar Confectionery. In the past five years CSM has attained first or second position in all its markets, mainly because of acquisitions. Now, further growth is also necessary in terms of new products, customers, and geographical markets. At the same time, profitability must continue to increase. This challenge will put heavy pressure on the financial resources and require a huge effort from all the employees. Meantime, many opportunities are arising in all divisions which cannot all be utilized at once.

After the sale of the food division in 2001 the company focus moved to business-to-business in particular (Bakery Supplies, Biochemicals and Sugar) and, to a lesser extent, the consumer market. The changing character of the company led to the decision to explore the possibilities of finding a new owner for the Sugar Confectionery Division, which division specializes in the consumer market. With this focus we will be able to accelerate the growth of Biochemicals and substantially improve the profitability of Bakery Supplies. CSM Sugar is also facing some important challenges in the years to come.

Assuming that a good buyer will be found, we are certain that the realization of the growth potential of Sugar Confectionery will be better safeguarded outside CSM than in combination with the other, strongly business-to-business-oriented divisions in the company.

The market for bakery ingredients and products in Germany and France in particular faced a heavy setback in the first half of 2004. We are confident, however, that we can deal with the changing market circumstances by introducing various measures. The first steps have already been taken. Before the end of 2004 we shall make further announcements about farther-reaching production rationalizations and/or the sale of non-strategic or non-profitable operations.

Our internal improvement program, *Operational Excellence*, is running well and has led to a considerable reduction in working capital and investment expenditure. The central purchase of goods is also paying off and considerable efficiency improvements have been achieved in our expenditure on advertising and promotion. Our personnel have succeeded in realizing improvements at all levels in the company. This inspires trust in the future of CSM.

Jaap Vink

Chairman of the Board of Management

KEY FIGURES

		As at 30-06-2004 1st half-year 2004	As at 30-06-2003 1st half-year 2003
	<i>millions of euros</i>		
	Net turnover	1,681.7	1,696.3
	Operating result before goodwill amortization (EBITA)	114.4	142.1
	Net turnover result (EBIT)	93.3	122.8
	Net profit from ordinary activities before goodwill amortization	67.3	85.8
	Result after taxes (net profit)	46.2	66.5
	Cash flow from operating activities	145.8	124.1
	Shareholders' equity	797.2	686.4
	Market capitalization	1,571	1,520
	<i>in euros</i>		
	Per ordinary share after deduction of dividend on cumulative financing preference shares		
	Earnings from ordinary activities before goodwill amortization	0.84	1.10
	Earnings	0.56	0.84
	Per ordinary share		
	Cash flow from operating activities	1.90	1.64
	Shareholders' equity ¹	10.27	9.16
	Share price as at 30 June	19.43	19.19
	Highest price in half-year	21.38	21.24
	Lowest price in half-year	16.97	16.92
	Ratios		
	ROS % ²	6.8	8.4
	Net profit from ordinary activities before goodwill amortization / net turnover %	4.0	5.1
	Result after taxes (net profit) / net turnover %	2.7	3.9
	ROCE excluding goodwill % ³	19.1	23.0
	ROCE including goodwill % ⁴	8.1	10.3
	Interest cover ⁵	3.9	4.7
	Balance sheet total : shareholders' equity	1:0.30	1:0.25
	Net debt position : shareholders' equity ⁶	1:0.80	1:0.56
	Net debt position / EBITDA ⁷	3.0	3.0
	Number of employees	13,714	13,857
	Number of issued ordinary shares	80,866,886	79,184,301
	Number of outstanding ordinary shares ⁸	77,612,910	74,974,331
	Number of ordinary shares with dividend rights	77,612,910	74,974,331
	Weighted average number of outstanding ordinary shares	76,627,827	75,457,045
	¹ Shareholders' equity per share is the shareholders' equity divided by the number of ordinary shares with dividend rights. ² ROS is the operating result before goodwill amortization (EBITA) divided by the net turnover x 100. ³ ROCE excluding goodwill is EBITA on an annual basis divided by the average capital employed excluding goodwill x 100. ⁴ ROCE including goodwill is EBITA on an annual basis divided by the average capital employed including goodwill x 100. This takes into account all acquisitions since 1978, the year in which CSM's diversification process commenced. ⁵ Interest cover is EBITA divided by the balance of financial income and charges. ⁶ Net debt position consists of the interest-bearing debts less the cash and cash equivalents. ⁷ EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization, or the operating result before depreciation of fixed assets calculated on an annual basis. The net debt position is calculated using a weighted average for the period. ⁸ Number of outstanding shares is the number of issued shares less the repurchased shares.		

MAIN DEVELOPMENTS IN FIRST HALF-YEAR OF 2004

- Net profit* amounted to € 67.3 million (first half-year 2003: € 85.8 million).
- Earnings per share** € 0.84 (first half-year 2003: € 1.10).
- The reduction in earnings per share compared with the first half of 2003 is mainly attributable to the absence of the one-off income of € 13.6 million that was recorded for CSM Biochemicals in the first half of 2003, the low exchange rate of the US dollar (€=USD 1.23 compared with €=USD 1.11 in the first half of 2003), and the very disappointing results of CSM Bakery Supplies Europe.
- The results of CSM Biochemicals and CSM Sugar are reported separately for the first time.
- Sharply higher raw material prices and the rapid decline of the artisan segment in Germany led to very disappointing results for CSM Bakery Supplies Europe.
- CSM Bakery Supplies North America improved its results through the successful introduction of low-carb ingredients by Caravan and BakeMark West.
- CSM Sugar Confectionery realized a further improvement in its results despite tough market conditions.
- CSM Biochemicals achieved a 26% volume increase in the sales of lactic acid and lactic acid derivatives but is experiencing price pressure on the US market.
- The results of CSM Sugar are more or less the same as for the first half of 2003. The European Commission has announced proposals for radical reforms to the EU Sugar Regulation.
- Cash flow from operating activities increased to € 145.8 million (first half-year 2003: € 124.1 million) and the net debt position fell to € 991.2 million (31 December 2003: € 1,052.1 million).

* Net profit = result after taxes plus goodwill amortization

** Earnings per share = result after taxes (minus the dividend on the financing preference shares) plus goodwill amortization divided by the average number of ordinary shares with dividend rights

MANAGEMENT AGENDA AND PROSPECTS FOR 2004

- CSM intends to look into the possibilities of selling the Sugar Confectionery Division. Focus on business-to-business activities: bakery ingredients and products (Bakery Supplies) and food ingredients (Biochemicals and Sugar).
- CSM Bakery Supplies North America will coordinate the marketing and sales efforts of Brill, Baker&Baker and Henry&Henry and will further rationalize the distribution operations of BakeMark East.
- CSM Bakery Supplies Europe is working on an accelerated growth and cost-reduction program which will include investments for multi-year growth projects. Furthermore, farther-reaching production rationalizations and/or disposal of non-strategic or low-profit operations are being considered. More information will be provided before the end of 2004.
- CSM Bakery Supplies Europe has reached agreement respectively agreement in principle on the sale of the less strategic business Dreidoppel (Germany, turnover € 22 million, approx. 100 employees) to Ireks GmbH and the sale of loss-making Lachaise (France, turnover € 23 million, approx. 265 employees) to its management. An extraordinary net income of around € 10 million (cash value: € 24 million) is expected from the divestment of Dreidoppel and Lachaise in 2004.
- Given the disappointing results of CSM Bakery Supplies Europe and the continuously low exchange rate of the US dollar, we now anticipate a fall of 10-15% in earnings per share for 2004 as a whole.

FINANCIAL NOTES TO FIRST HALF-YEAR OF 2004

Results

Net profit from ordinary activities before goodwill amortization fell by 21.6% in the first half of 2004 to € 67.3 million (first half-year 2003: € 85.8 million). At unchanged exchange rates (€=USD 1.23 compared with €=USD 1.11 in the first half-year of 2003) net profit from ordinary activities before goodwill amortization would have been € 69.5 million, 19% down on last year.

After goodwill amortization net profit was € 46.2 million (first half-year 2003: € 66.5 million).

Net earnings per share before goodwill amortization dropped by € 0.26 (23.6%) to € 0.84 compared with the same period in 2003 (€ 1.10). At unchanged exchange rates, earnings per share before goodwill amortization would have dropped by 20.9% to € 0.87. After goodwill amortization earnings per share were € 0.56.

Net turnover showed a limited decrease to € 1,681.7 million (first half-year 2003: € 1,696.3 million). At unchanged exchange rates turnover would have been € 1,739.9 million, an increase of € 43.6 million or 2.6% compared with the first half of 2003. The contribution of acquisitions was € 59.5 million. At unchanged exchange rates autonomous turnover would have fallen by € 15.9 million.

The operating result before goodwill amortization (EBITA) fell by 19.5% to € 114.4 million (first half-year 2003: € 142.1 million), specifically because of the gap left by the one-off income of € 13.6 million at CSM Biochemicals which was received in the first half of 2003 and because of the poor results of CSM Bakery Supplies Europe. At unchanged exchange rates the operating result would have fallen by 16.8% to € 118.2 million. The operating result fell autonomously by 21.0%.

Financial income and charges, on balance, fell in the first half of 2004 by € 1.5 million compared with the first half of 2003. This decrease was caused primarily by lower interest charges from a lower net debt position.

The tax burden rose slightly to 28.1% (first half-year 2003: 28.0%).

Balance sheet

The balance sheet total fell slightly to € 2,643.2 million (first half-year 2003: € 2,711.4 million).

Equity prior to profit appropriation increased by € 19.1 million to € 797.2 million. The main movements in the first half of 2004 were:

- the deduction of € 61.0 million on account of the dividend for 2003;
- the addition of € 36.3 million on account of the stock dividend for 2003;
- the write-off of € 6.6 million for the repurchase of depositary receipts of shares for the stock dividend;
- the addition of the net result of € 46.2 million for the first half of 2004.

As at 30 June 2004 the ratio of the balance sheet total to shareholders' equity was 1 : 0.30 (30 June 2003: 1 : 0.25).

Cash flow

Cash flow from operating activities was € 145.8 million (first half-year 2003: € 124.1 million).

Net capital expenditure on tangible fixed assets fell by € 27.9 million to € 49.8 million compared with the first half of 2003 (first half-year 2003: € 77.7 million).

Cash flow from financing activities was € 109.5 million (negative), mainly because of the lower net debt position and the payment of the dividend for 2003.

Financing

The net debt position decreased by € 60.9 million to € 991.2 million compared with 31 December 2003, primarily – on balance – as a result of:

- a positive cash flow of € 145.8 million from operating activities;
- net capital expenditure of € 49.8 million on tangible fixed assets;
- payment of a total of € 30.7 million in dividends for calendar year 2003;
- the repurchase of depositary receipts of shares for the sum of € 6.6 million; this has already neutralized 20% of the dilution caused by the stock dividend for 2003.

The interest-bearing long-term debts amounted to € 930.9 million as at 30 June 2004. The average effective interest rate on outstanding long-term debts was 5.12% as at 30 June 2004 and the average remaining term was 6.3 years (30 June 2003: average interest rate: 5.4% and average remaining term: 5.3 years).

The ratio of net debt position divided by the EBITDA was 3.0 as at 30 June 2004 (30 June 2003: 3.0).

IFRS

The implications of the introduction of the IFRS on 1 January 2005 for CSM's financial statements have been determined. The most important changes will relate to pensions and other personnel commitments and to the reclassification of the cumulative financing preference shares from shareholders' equity to debt funding.

Prospects 2004

We do not anticipate any significant changes in the market conditions in the second half of 2004. Though the American economy is showing signs of recovery and the main economies in the euro zone are stabilizing, no clear improvements have appeared in consumer spending so far. Hence, we do not expect any turnover stimuli for the two Bakery Supplies Divisions or Sugar Confectionery.

The impact of the US dollar on the results of CSM is substantial. Each change of one eurocent against the dollar affects net profit to the extent of € 0.8 million. As there is, at present, no reason to expect a fundamental improvement in the exchange rate of the US dollar in the short term, currency translation and transactions will probably have a negative effect on our results in the second half of 2004 compared with the same period in 2003.

We expect a marked decline in the operating result of CSM Bakery Supplies Europe in the second half of 2004 compared with the same period last year. However, we are expecting that the results for the second half of 2004 will sharply improve compared with the first half. The results of CSM Bakery Supplies Europe for the whole of 2004 will be significantly lower than for 2003.

The operating result for CSM Bakery Supplies North America for the second half of this year is expected to show a significant improvement compared with the second half of 2003. Accordingly, we expect a marked improvement in the results for the full year compared with 2003, despite the weak US dollar. Sugar Confectionery will be able to continue the positive trend in its performance and realize a markedly higher result for the second half of 2004 than for the second half of 2003. The result for 2004 as a whole is expected to show a limited increase as compared with 2003.

The considerable volume increase in the sale of lactic acid and lactic acid derivatives for use as preservatives in meat products is expected to continue in the second half of this year. This positive trend is, however, accompanied by price pressure, especially in the US. The operating result of CSM Biochemicals is expected to be markedly lower in the second half of 2004 than in the same period of 2003. The expected annual result for 2004 will show a strong decrease compared with 2003 due to the absence of the one-off income of € 13.6 million which was received from Cargill in 2003 and the low exchange rate of the US dollar.

The operating result of CSM Sugar will be marginally higher in the second half of 2004 than in the same period last year, but it will remain more or less unchanged for the whole year. All in all, we expect a decrease of 10-15% in earnings per share for 2004 as a whole.



CSM BAKERY SUPPLIES EUROPE

CSM Bakery Supplies Europe consists of 22 operating companies and is active in 16 European countries. The division develops, produces and sells a wide selection of bakery-ingredients and frozen (dough) products to professional bakers and bake-off businesses.



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Bakery Supplies Europe

CSM Bakery Supplies Europe

Half-year ending 30 June	2004	2003
millions of euros		
Net turnover	554.0	542.9
EBITA	24.3	37.0
ROS %	4.4	6.8
ROCE including goodwill %	5.6	8.9

Market and strategy

The difficult market conditions which developed in mid-2003 did not ease off in the first half of 2004. The growth of bakery product 'discounters' (supermarkets and bakery chains), above all, precipitated the decline in the number of artisan bakeries. Though the impact of this development was strongest in Germany, it also hit the other European countries where CSM Bakery Supplies Europe holds an important position in the artisan segment. The consumption of bakery products in restaurants, fast food chains, and coffee and sandwich shops (OOH channel) increased, despite the mediocre economic climate. In the artisan segment the demand for traditional bakery ingredients declined. This could, however, be partly offset by increased sales of frozen products to this customer group. Continuing consolidation in the European bakery ingredients and products market is increasing the number of large-scale customers, thereby intensifying competition and the pressure on suppliers. This development and the battle to retain market share led to considerable price reductions during the report period.

Research & Development

During the first half of 2004 € 7.5 million was spent on R&D (first half-year 2003: € 7.0 million), equaling 1.4% of the divisional turnover. A number of new products were successfully launched in the first half of 2004. 'Low trans fatty acid' margarines were introduced and some products that were clearly recognizable to the consumers were launched in the supermarket, OOH and artisan sales channels. The introduction of these and other new products generated € 29 million of new turnover in the report period.

Investments

Investments in the first half of 2004 amounted to € 10.0 million (first half-year 2003: € 11.5 million). The main investments included the expansion of the Carels factory in Goes and the replacement of unintegrated IT systems.

Business developments

Net turnover of CSM Bakery Supplies Europe rose in the first half of 2004 to € 554.0 million (first half-year 2003: € 542.9 million). This was largely due to the effect of acquisitions (€ 21.3 million). Net autonomous growth was slightly negative (-2.1%). Tight competition and lower sales in the artisan segment in Germany and in the in-store segment in France had a negative influence on turnover.

The share of high-quality patisserie ingredients and frozen products in the product mix increased at the expense of bread ingredients. This increase compensated somewhat for the margin loss in the latter category.

The EBITA fell by 34% to € 24.3 million in the first half of 2004 (first half-year 2003: € 37.0 million). Excluding the contribution from businesses acquired in 2003 the EBITA fell by 41%. Collectively, the above-mentioned market developments, tighter competition, and the high costs of raw materials had a dramatic effect on the margin of CSM Bakery Supplies Europe. The development of the EBITA in Germany and France gave particular cause for concern in the early months of 2004. It has recovered somewhat since then, but not enough to compensate for the loss of margin.

Prospects

Partly because of the rather disappointing results in the early months of 2004 CSM Bakery Supplies Europe is working on an accelerated growth and cost-reduction program which may include investments for multi-year growth projects. Farther-reaching production rationalizations and/or disposal of non-strategic or low-profit operations, and adjustment of the sales organization to suit the smaller group of artisan customers are also being considered. The results of this program will first become visible in the course of 2005. In the second half of 2004 we expect a markedly lower EBITA compared with the second half of 2003. We do however assume that the results will show a sharp improvement in the second half of 2004 compared with the first half year of this year. We expect a significant fall in the EBITA for 2004 as a whole.



CSM BAKERY SUPPLIES NORTH AMERICA

CSM Bakery Supplies North America consists of 9 operating companies and is active in the United States, Canada, and Central and South America. It holds second place in the North American market for bakery ingredients and products.



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Bakery Supplies North America

CSM Bakery Supplies North America

Half-year ending 30 June	2004	2003
<i>millions of euros</i>		
Net turnover	509.8	524.7
EBITA	27.2	26.5
ROS %	5.3	5.1
ROCE including goodwill %	7.2	7.4

Market and strategy

The market developments in the first half of 2004 followed a pattern similar to those in previous years. The number of independent artisan bakers fell steadily while the trend towards consolidation in the other segments (in-store bakeries, wholesalers, and food service/OOH) continued unabated. On the other hand, there was strong growth in in-store bakery chains, large-scale wholesalers, and in restaurant chains with their own bakery facilities. The low-carb trend has caused a decline in the demand for traditional bread and patisserie products and triggered a subsequent 10% fall in the turnover of the artisan bakeries in particular. On the other hand, a strong increase has occurred in the demand for new low-carb products.

During the report period there was again further concentration of providers of bakery ingredients and products in the American market, resulting in fiercer competition and limiting the scope for price increases.

The marketing and sales activities of Brill, Baker&Baker, and Henry&Henry will be coordinated in order to establish a dedicated food service/OOH organization. This combined approach will also lead to adjustments in the current production capacity, including reductions in complexity.

Research & Development

Expenditure on R&D in the first half of 2004 amounted to € 2.8 million, equaling 0.5% of the divisional turnover (first half-year 2003: € 2.6 million).

Almost all operating companies launched new products (mostly low-carb) in the report period. These new products contributed around € 8 million to the divisional turnover in the first half of 2004.

Investments and divestments

Investments

In the first half of 2004 CSM Bakery Supplies North America invested € 7.1 million (first half-year 2003: € 24.3 million). The principal investment was the new mix factory of American Ingredients Company in Kansas City.

Divestments and integration

The distribution network of BakeMark East was further rationalized during the report period. The distribution center in Auburn was sold while the distribution centers in Detroit and Atlanta were integrated in the Youngstown and Cincinnati centers respectively. This had a negative effect of USD 11.7 million on turnover. The operational costs fell, mainly as a result of better route planning and lower overheads.

Business developments

Net turnover of CSM Bakery Supplies North America in the first half of 2004 was € 509.8 million (first half-year 2003: € 524.7 million). At unchanged exchange rates (first half-year 2004 €=USD 1.23 compared with €=USD 1.11 in the first half-year 2003) net turnover would have risen by 6.3% to € 557.6 million.

The EBITA increased to € 27.2 million (first half-year 2003: € 26.5 million). The weaker US dollar had a negative effect of approximately 7.9%, or € 2.1 million on the EBITA. Excluding this effect, the EBITA would have been € 29.3 million, a rise of 10.6% compared with the first half of 2003.

Much attention was paid to the reorganization of BakeMark East during the report period. The sale and consolidation of distribution centers with an insufficient scale, improved route planning, and lower overheads brought about a reduction in operational losses. The results of BakeMark East are expected to break even for 2004 as a whole.

The loss of two important customers at Baker&Baker had a significantly negative effect on the EBITA during the first half of 2004 and could only be partly offset by winning new customers. The tough competition allowed no scope for necessary price rises, with the result that pressure on the operational margin continued.

Brill, Caravan, and BakeMark West realized considerable increases in volume but were forced to lower their prices because of the continuing price war between the in-store customers. The new market approach based on key account sales management at these three companies is causing a considerable rise in turnover in this segment.

Caravan and BakeMark West, in particular, managed to make a considerable contribution to the EBITA by responding promptly to the low-carb trend via the development and sale of low-carb ingredients and products.

As expected, the results of American Ingredients Company improved thanks to, amongst others, the good hedge for this year's soya oil requirements.

Prospects

The closer cooperation between the American operating companies and the reorganization of BakeMark East will have a positive effect on turnover and costs.

We therefore expect a significant improvement in the EBITA in the second half of 2004 compared with the same period in 2003. Despite the lower US dollar we expect a marked improvement in the EBITA for 2004 compared with 2003.



CSM SUGAR CONFECTIONERY

CSM Sugar Confectionery occupies a leading position in the European sugar confectionery market with number-one positions in Scandinavia, Finland and the Benelux. The market represents a consumer value of around € 7.7 billion.



CSM

Sugar Confectionery

CSM Sugar Confectionery

Half-year ending 30 June	2004	2003
<i>millions of euros</i>		
Net turnover	348.5	364.1
EBITA	25.9	25.0
ROS %	7.4	6.9
ROCE including goodwill %	6.2	6.0

Market and strategy

The European confectionery market remained stable in the report period. There was modest growth in the retail channel, but a limited decline in OOH.

The top three players in the European confectionery market – including CSM Sugar Confectionery – collectively account for a market share of 35%.

Smaller, non-brand providers are still losing market share to the ‘big three’.

The ‘retail war’ also affects the confectionery market in Europe. Price pressure was considerable in the retail channels of virtually all the European countries where CSM Sugar Confectionery operates.

In the various product categories the price of basic candy, in particular, was exposed to pressure as opposed to functional and sugar-free confectionery. Concentration on further growth in the strategic brands delivered good results in spite of the difficult market conditions. Thanks to ongoing innovation CSM Sugar Confectionery has managed to build a solid foundation for organic growth in the strategic brands.

In the first half of 2004 good progress was made with the introduction of Dietorelle in some of the European countries where the division is represented. CSM Sugar Confectionery also wants to strengthen its role as ‘category captain’ in confectionery for large national or even European customers.

Research & Development

In the first half of 2004 CSM Sugar Confectionery spent € 3 million on R&D (first half-year 2003: € 2.5 million). During the report period successful product launches included Dietorelle Next, Läkerol Giants, Sportlife Red Cinnamon, and Galatine Soft. Product launches contributed € 5 million to the divisional turnover in the first half of 2004 (first half-year 2003: € 4 million).

The international R&D organization, which is steered directly by the division, is functioning according to expectations. One of its main tasks is to provide the ‘innovation pipeline’ with enough new launches under the existing strategic brands for at least the coming three years.

Investments

In the first half of 2004 CSM Sugar Confectionery invested € 8.3 million (first half-year 2003: € 23.2 million). The most important project was the upgrade of the Läkerol production facility at MalacoLeaf in Gävle, Sweden.

Business developments

CSM Sugar Confectionery realized a net turnover of € 348.5 million in the first half of 2004 (first half-year 2003: € 364.1 million). The reduction in turnover

from strategic brands was limited to 1.4% compared with the same period in 2003. The price pressure in basic candy in particular could not be offset by higher sales of pastilles and chewing gum in Scandinavia and the Benelux.

The EBITA amounted to € 25.9 million and was slightly higher than last year (first half-year 2003: € 25.0 million) thanks to an improved advertising and promotion (A&P) approach by all the operating companies in the division and the disposal of insufficiently profitable turnover. The strategy is also geared to limiting the growth in the number of products in our portfolio and leveraging openings for the international harmonization of various brands (such as the introduction of the Red Band image in Scandinavia). There are plenty of opportunities for streamlining the current production system, thus realizing considerable savings in operational costs. In the years ahead surveys will be conducted to determine how and to what extent production efficiency can be further improved.

Prospects

The difficult conditions in the European confectionery market are not expected to change in the second half of 2004. The dominant trends in 2004 will continue to be limited consumer spending, and hence scarcely any growth in the European confectionery market, and price pressure in the retail channel.

Our efforts to realize strong improvements in A&P and production efficiency will have a positive effect on the EBITA. We therefore anticipate a marked improvement in the EBITA for the second half of 2004 compared with the second half of 2003, resulting in a limited rise in the EBITA for 2004 as a whole.



CSM BIOCHEMICALS

CSM Biochemicals operates in the market under the name of PURAC. As the global market leader in lactic acid and lactic acid derivatives, PURAC produces natural lactic acid biochemically by means of fermentation.

CSM Biochemicals

Half-year ending 30 June	2004	2003
<i>millions of euros</i>		
Net turnover	138.9	139.0
EBITA	24.2	39.5
ROS %	17.4	28.4
ROCE including goodwill %	20.2	32.7

Market and strategy

New applications and an increase in existing applications are leading to growth of over 10% per year in the market for lactic acid and lactic acid derivatives. The main area of application is the food market. Other important segments include pharmaceuticals, cosmetics, technology, and animal feed. The use of lactic acid and lactic acid derivatives in food production serves various essential functions, such as longer shelf-lives, acidity regulation, improved taste profiles, and mineral enrichment. The increase in the number of applications is due largely to the fact that governments, businesses and consumers are paying more attention to health, (food) safety, and the environment.

The recovering economies in the USA and Asia had a strong positive influence on the demand for lactic acid and lactic acid derivatives. However, the demand did not yet recover in Europe.

Increased competition, particularly from American and Chinese producers, partly as a consequence of the low exchange rate of the US dollar pushed down the margins. At the same time, so-called 'secondary producers' put pressure on prices in the successful derivatives segment (Opti.Form™) in the USA. The use of polylactic acid (PLA), a biologically degradable plastic based on lactic acid, is developing steadily. Interest in this product is still increasing among future users (mainly the packaging sector) and in the chemicals industry. It is our conviction that this trend will have a positive influence on the demand for lactic acid as a basic raw material for PLA.

Research & Development

High priority has again been assigned to lowering the production costs of lactic acid. During the report period much attention was paid to the further development of Next Generation Technology. R&D expenditure in the first half of 2004 amounted to € 4.8 million (first half-year 2003: € 3.8 million).

Investments

Investments in the first half of 2004 amounted to € 22.6 million (first half-year 2003: € 14.9 million), amply exceeding the depreciation level in this year's first half (€ 9.6 million).

In Spain a new factory for powder products was operationalized. It will serve the food and pharmaceutical industries, in particular, with a new and improved product range. A start was also made on the construction of a powder production plant in the Netherlands. The search for the most suitable location in Asia for a fifth production site is in full swing.

Business developments

In the first half of 2004 CSM Biochemicals realized a turnover of € 138.9 million (first half-year 2003: € 139.0 million).

If the one-off income of € 13.6 million from Cargill is excluded from the turnover for the first half of 2003 and the negative effect of € 9 million from the weaker US dollar is excluded from the turnover for the first half of 2004, the autonomous rise in turnover for the first half of 2004 would have been over € 22 million (approximately 18%).

Volume growth – which benefited significantly from the sales of the Opti.Form™ preservative to the American meat-processing industry – showed an even stronger trend with an increase of 26% compared with the same period in 2003.

The EBITA amounted to € 24.2 million and hence fell considerably compared with the same period in 2003 (€ 39.5 million). It was strongly influenced by the absence of the one-off income from Cargill (€ 13.6 million) and the lower exchange rate of the US dollar. At constant exchange rates (first half-year 2003 €=USD 1) the negative currency effect on the EBITA would have been € 6 million. Excluding these effects, the autonomous increase in the EBITA would have been 18%.

Prospects

We foresee a further considerable rise of around 14% in the volume of lactic acid and lactic acid derivatives for the second half of 2004. The effect of this rise will, however, be canceled out by lower prices and the anticipated lower exchange rate of the US dollar compared with 2003 (an effect of approximately € 6 million).

We therefore expect the EBITA for the second half of 2004 to be markedly lower than the EBITA for the second half of 2003. In line with earlier statements we anticipate a strong fall in the EBITA for 2004 as a whole.



CSM SUGAR

CSM Sugar manufactures sugar from beet and markets sugar and sugar specialties for the industrial and consumer markets.

The division sells most of its sugar to industrial customers in the Netherlands.

CSM Sugar

Half-year ending 30 June	2004	2003
<i>millions of euros</i>		
Net turnover	130.5	125.6
EBITA	21.5	22.7
ROS %	16.5	18.1
ROCE including goodwill %	33.1	29.5

Market and strategy

The workings of the EU sugar market are determined largely by the Sugar Market Regulation which was introduced in 1968 and has been regularly amended ever since. The Regulation, in principle, expires on 30 June 2006. In 2002 the European Commission decided to review the current Regulation with a view to reforms. It published its proposals on 14 July 2004. These proposals will lead to a drastic reduction in the price of sugar (-33%) and sugar beet (-37%), and in the sugar quota (-16%). To partially compensate for loss of future income the beet growers will be granted a so-called 'hectare subsidy'. In addition, EU member states and sugar producers will be allowed to trade sugar quotas. The proposals are still to be debated and approved by the Council of Agriculture Ministers and the European Parliament. According to the proposals, the new regulation will be introduced in 2005. However, given the complexity of the decision-making process we do not expect it to be introduced before 2006.

The price of sugar on the world market fell by 8-10% during the first few months of 2004 compared with the first half of 2003.

Investments

In the first half of 2004 CSM Sugar invested € 4.2 million (first half-year 2003: € 4.8 million). A large part of this sum was used for improvements to the waste-water processing facilities at the production site in Vierverlaten, the Netherlands. The division also invested in a production and packaging installation for sour apple syrup at the production site in Breda, the Netherlands.

Business developments

Net turnover of CSM Sugar in the first half of 2004 amounted to € 130.5 million (first half-year 2003: € 125.6 million). The EBITA showed a limited decrease in the first half of 2004 to € 21.5 million (first half-year 2003: € 22.7 million) largely because of higher operating costs and pension charges. The sales of quota sugar in the EU showed a limited increase compared with the same period in 2003. This increase was realized almost entirely in the industrial sector. There was a healthy development in the delivery of sugar to sister companies. Exports of quota and non-quota sugar outside the EU rose by 10,000 and 24,000 tons respectively compared with the same period in 2003.

Product innovations and packaging concepts play crucial roles in strengthening the position of CSM Sugar in the retail segment. Several new products were developed in collaboration with sister compa-

nies in the Netherlands and elsewhere (i.a. fruit syrups and sweeteners), intended for sale on the Dutch market.

The results of Nedalco (39% participation) were negative, as in the same period last year. The decline in the price of industrial alcohol continued in the first half of 2004.

Nedalco has reached agreement with the Dutch Municipality of Bergen op Zoom on the sale of its business premises. Nedalco is required to vacate the premises by 1 January 2012.

Prospects

Assuming the sugar campaign runs normally and taking into account that the current Sugar Regulation is still in force, we expect the EBITA for calendar year 2004 to reach virtually the same level as the EBITA for calendar year 2003 (€ 40 million).

Diemen, the Netherlands,
26 August 2004

Board of Management

J.A.J. Vink, *Chairman*
R.R. Hendriks
F.J. Olieman

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Half-year ending 30-06-2004	Half-year ending 30-06-2003	Difference in %
<i>millions of euros</i>			
Net turnover	1,681.7	1,696.3	
Costs of raw materials and consumables	-881.1	-866.6	
Production costs	-271.9	-265.7	
Warehousing and distribution costs	-100.9	-104.5	
General and administrative expenses	-116.7	-112.3	
Gross turnover result	311.1	347.2	-10.4
Selling expenses	-188.0	-197.0	
Corporate costs	-8.7	-8.1	
Goodwill amortization	-21.1	-19.3	
Net turnover result	93.3	122.8	-24.0
Financial income	5.3	5.4	
Financial charges	-34.3	-35.9	
Result from ordinary activities before taxes	64.3	92.3	-30.3
Tax on result from ordinary activities	-18.1	-25.8	
Result after taxes (net profit)	46.2	66.5	-30.5

Operating result before goodwill amortization (EBITA) ¹	114.4	142.1	-19.5
Net profit from ordinary activities before goodwill amortization ²	67.3	85.8	-21.6
<i>in euros</i>			
Per ordinary share in euros after deduction of dividend on cumulative financing preference shares			
Earnings from ordinary activities before goodwill amortization	0.84	1.10	-23.6
Diluted earnings from ordinary activities before goodwill amortization	0.84	1.09	
Earnings	0.56	0.84	-33.3
Diluted earnings	0.57	0.84	

¹ Operating result before goodwill amortization (EBITA) is the net turnover result plus goodwill amortization.

² Net profit from ordinary activities before goodwill amortization is the result after taxes plus goodwill amortization.

CONSOLIDATED BALANCE SHEET

	As at 30-06-2004	As at 31-12-2003	As at 30-06-2003
<i>before profit appropriation, millions of euros</i>			
Assets			
Intangible fixed assets	721.7	739.4	735.8
Tangible fixed assets	852.7	844.7	849.4
Financial fixed assets	64.6	69.5	63.3
Total fixed assets	1,639.0	1,653.6	1,648.5
Stocks	419.2	501.0	447.7
Receivables	510.2	522.9	573.7
Cash and cash equivalents	74.8	87.9	41.5
Total current assets	1,004.2	1,111.8	1,062.9
Total	2,643.2	2,765.4	2,711.4
Liabilities			
Shareholders' equity	797.2	778.1	686.4
Provisions	201.6	216.5	253.6
Long-term debts	930.9	750.0	1,118.1
Interest-bearing short-term debts	135.1	390.0	147.1
Non-interest-bearing short-term debts	578.4	630.8	506.2
Total	2,643.2	2,765.4	2,711.4

MOVEMENTS IN SHAREHOLDERS' EQUITY

	1st half-year 2004		2nd half-year 2003		1st half-year 2003	
<i>before profit appropriation, millions of euros</i>						
As at	01-01-2004	778.1	01-07-2003	686.4	01-01-2003	739.1
Dividend	-61.0		-		-76.9	
Stock dividend	36.3		-		30.4	
Retained earnings in half-year	46.2		70.3		66.5	
Exchange rate differences foreign group companies	4.2		-11.3		-28.5	
Repurchase/sale company shares	-6.6		22.2		-44.2	
Revaluation deferred tax assets	-		16.5		-	
Dividend on cumulative financing preference shares	-		-6.0		-	
As at	30-06-2004	797.2	31-12-2003	778.1	30-06-2003	686.4

SEGMENT INFORMATION PER BUSINESS AREA

	CSM Bakery Supplies Europe		CSM Bakery Supplies North America		CSM Sugar Confectionery	
<i>millions of euros</i>						
Half-year ending 30 June	2004	2003	2004	2003	2004	2003
Net turnover	554.0	542.9	509.8	524.7	348.5	364.1
Operating result before goodwill amortization (EBITA)	24.3	37.0	27.2	26.5	25.9	25.0
Goodwill amortization	-14.4	-13.3	-3.6	-2.9	-2.8	-2.8
Net turnover result (EBIT)	9.9	23.7	23.6	23.6	23.1	22.2
ROS % ¹	4.4	6.8	5.3	5.1	7.4	6.9
Average capital employed excluding goodwill	277.3	279.0	262.0	269.7	328.4	330.9
Average capital employed including goodwill ²	866.2	830.4	756.5	712.1	829.0	833.4
ROCE excluding goodwill % ³	17.5	26.5	20.8	19.7	15.8	15.1
ROCE including goodwill % ⁴	5.6	8.9	7.2	7.4	6.2	6.0

	CSM Biochemicals		CSM Sugar		Holding companies		CSM consolidated	
Half-year ending 30 June	2004	2003	2004	2003	2004	2003	2004	2003
Net turnover	138.9	139.0	130.5	125.6			1,681.7	1,696.3
Operating result before goodwill amortization (EBITA)	24.2	39.5	21.5	22.7	-8.7	-8.6	114.4	142.1
Goodwill amortization	-0.3	-0.3	0.0	0.0			-21.1	-19.3
Net turnover result (EBIT)	23.9	39.2	21.5	22.7	-8.7	-8.6	93.3	122.8
ROS % ¹	17.4	28.4	16.5	18.1			6.8	8.4
Average capital employed excluding goodwill	207.3	210.2	126.8	151.1	-4.7	-6.0	1,197.1	1,234.9
Average capital employed including goodwill ²	239.2	241.5	129.8	154.1	-4.7	-6.0	2,816.0	2,765.5
ROCE excluding goodwill % ³	23.3	37.6	33.9	30.0			19.1	23.0
ROCE including goodwill % ⁴	20.2	32.7	33.1	29.5			8.1	10.3

¹ ROS is the operating result before goodwill amortization (EBITA) divided by the net turnover x 100.

² Average capital employed including goodwill is calculated before annual goodwill amortization.

³ ROCE excluding goodwill is the annual operating result before goodwill amortization (EBITA) divided by the average capital employed excluding goodwill x 100.

⁴ ROCE including goodwill is the annual operating result before goodwill amortization (EBITA) divided by the average capital employed including goodwill x 100. This takes account of all acquisitions since 1978, the year when CSM started the diversification process.

NOTES

Principles governing the valuation of assets and liabilities and the determination of results

The accounting principles used in this report for the valuation of assets and liabilities and for the determination of the results are the same as those used in the 2003 financial statements of CSM nv.

The figures in this report are unaudited.

Acquisitions and divestments

In the first half-year of 2004 CSM made no acquisitions or divestments.

Contingent commitments

Third party guarantees amounted to € 45.3 million as at 30 June 2004 (as at 30 June 2003: € 45.3 million).

LEXICON

Bakery Supplies

Collective name for bakery ingredients and bakery products.

Confectionery market

The market for candy, chocolate and chewing gum.

Foodservice/OOH

Food service/Out-of-home. Providers of prepared food such as ready-made meals, snacks etc. for out-of-home consumption.

Goodwill

The difference between the acquisition price and the net asset value of the acquired company.

Industrial bakeries

Bakeries at one or more central locations which produce bakery and patisserie products for large numbers of customers or points of sale (including bread factories).

In-store

Bakery/bake-off points in super/hypermarkets and chain stores.

Key account management

Building/maintenance of relationships with major customers whereby all the relevant disciplines, departments and levels of the company are deployed in coordination, often supported by special systems.

Next Generation Technology

New technology supporting lower-cost production of lactic acid.

Quota sugar

The quantity of sugar produced within the set production quota.

*This half-year report is also available in Dutch. In the event of textual inconsistencies between the English and the Dutch version the latter shall prevail.
Dit halfjaarbericht is ook verkrijgbaar in het Nederlands. In geval van tekstuele afwijkingen tussen de Engelse en de Nederlandse versie prevaleert laatstgenoemde.*

Colofon

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CSM nv

Nienoord 13, 1112 XE Diemen; P.O. Box 349, 1000 AH Amsterdam, The Netherlands
T +31(0)20 590 69 11, F +31(0)20 695 19 42, E communications@csm.nl, I www.csm.nl
Registered office Amsterdam, Registered Amsterdam no. 33006580