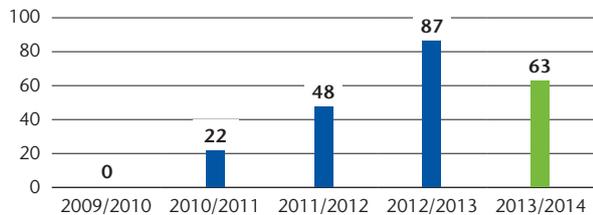


**Dividend**

**TOTAL DIVIDENDS, NORDZUCKER AG**

in EUR m



A proposal will be put forward at the Annual General Meeting of Nordzucker AG to distribute a dividend of EUR 1.30 per share of share capital for the reporting year. This corresponds to a total dividend distribution of EUR 62.8 million. A total of EUR 86.9 million (EUR 1.80 per share) was paid out in the previous year.

In a long-term comparison, this represents a substantial **dividend** and enables the shareholders to participate in the company's good result for the 2013/2014 financial year. At the same time, a substantial proportion of net income is retained in the company to finance future profitable growth.

**EMPLOYEES**

The Nordzucker Group had an average of 3,279 employees in the reporting year, slightly below the figure for the previous year (3,290 employees). Of the total, 1,247 were employed in Central Europe, 523 in Eastern Europe and 1,509 in Northern Europe.

**AVERAGE NUMBER OF EMPLOYEES IN THE NORDZUCKER GROUP FOR THE YEAR BY REGION**



**OPPORTUNITIES AND RISKS**

**Risk management**

Behaving entrepreneurially means seizing opportunities and accepting that they entail risks. To identify these risks at an early stage, to evaluate them and manage them consistently, Nordzucker has introduced an integrated system of risk identification and management for the entire Group. This ensures that risks which could jeopardise the company's business are identified and evaluated at regular intervals. Individual steps to avert, limit or transfer exposure to risks are defined for every risk that is identified. The risk management function discusses at regular intervals the progress made in implementing the defined steps with the managers responsible. Regular risk management reports are made to the Executive Board and Supervisory Board.

All operating and strategic decision-making always takes risk aspects into account. Scenario planning is used to examine the effects different market situations would have on the company's business, for example. Descriptions of opportunities and risks highlight alternative developments and identify areas where action needs to be taken. Over the course of the year, the Group reporting and controlling system provides all the decision-makers responsible with continuous information on the actual business performance.

Some of the risks are passed on to third parties, such as insurance companies. The scope and amount of insurance coverage is reviewed regularly and adjusted as necessary.

**Internal auditing**

Internal auditing examines and evaluates the business processes, organisational structure, risk management and internal control system (ICS) to ensure they are carried out correctly, are effective and offer value for money. The results of every audit are recorded in an audit report and the implementation of the agreed activities is monitored systematically and regularly. As well as audits carried out on the basis of annual risk-oriented audit planning, the internal audit department also carries out ad hoc checks. The internal audit department also offers advice, such as on drawing up internal guidelines, optimising business processes or improving the Group's internal control system.

It answers directly to the Chief Executive Officer and reports regularly to the Executive Board and to the Supervisory Board's Audit and Finance Committee. This reporting comprises the status of internal audits, the key findings of the audits and the implementation status of the agreed activities.

## Political and legal risks

### *Sugar market regime*

In June 2013, the member states of the EU, the European Parliament and the European Commission decided to extend the **sugar market regime** in its current form until the end of the sugar marketing year 2016/2017 on 30 September 2017. Up to this point, the **sugar market regime** remains the operating framework for the EU sugar industry. At the same time, the European Council, Parliament and Commission voted to let the **sugar market regime** in its current form expire thereafter. The quotas for sugar and **isoglucose** as well as the minimum price for sugar beet will therefore be abolished at the beginning of the sugar marketing year 2017/2018. The end of the quota system also means the end of the **WTO** export limit, presently set at 1.37 million tonnes. Finland is still allowed to pay its beet farmers a national subsidy of EUR 350 per hectare.

The abolition of quotas for sugar and **isoglucose** will have a considerable impact on the EU sugar market. It is to be expected that, without a quota system, the production of **isoglucose** in the EU will increase, resulting in sugar being crowded out. The European Commission and other market observers anticipate that between two and three million tonnes of **isoglucose** could be marketed in the EU in future, compared with around 700,000 tonnes today. Some sugar producers have also already announced their intention to expand production. Increased supplies of sugar will heighten competition even further.

In order to prepare for the changing environment as well as possible, Nordzucker is working continuously to improve its competitiveness. One important area is to increase the efficiency of sugar beet cultivation compared with alternative crops. Nordzucker is pooling all of its activities to boost farmers' productivity in the 20·20·20 project. The Profitability *plus* efficiency programme was completed successfully in 2013/2014, and other steps are to follow. In future, the activities will continue to focus on increasing energy efficiency. All areas of the company and all functions are preparing intensively for the end of the **sugar market regime** in 2017.

### *WTO negotiations*

The **Doha** round of **WTO** negotiations resulted in the first resolutions at the conference of ministers held in December 2013 in Bali. These resolutions have no effect on the EU sugar sector, however. They mainly relate to the administration of tariff quotas and stockpiling in developing countries. It was also agreed to abolish all export subsidies for agricultural products "in the foreseeable future". This also plays no role for the EU, because export subsidies have already been phased out.

By contrast, there was no discussion and no decision in Bali on a possible reduction of import duties in the agricultural sector. The intention is nonetheless to try and establish a timetable for discussing this matter in the course of 2014. No resolutions are generally expected before 2016, however.

Reducing protection against imports without taking the special interests of the sugar industry into account would make competition in the EU even more intense than is already the case following the abolition of the **sugar market regime**. Import duties protect the European sugar industry from imports from big sugar-exporting countries in excess of those volumes that enter the European market at reduced rates or duty-free via preferential agreements with **least developed countries (LDC)** or bilateral trade agreements. Without these safeguards, the imports to the EU would only be determined by global market prices. This global market price is often affected by sales of surplus produce and state programmes, making it a price influenced by state aid. At the same time, reducing import duties would make prices in the EU even more volatile. Nordzucker and its European competitors are campaigning for these external safeguards to be maintained in their current form. In parallel, the company is also using the measures described in the section above to prepare for the possibility that import duties are reduced even further.

### *EU free trade agreements*

Free trade agreements continue to become more and more important for the European Union. In 2013, the free trade agreements with Columbia, Peru and Central American states came into force. These allow the countries to export around 250,000 tonnes of sugar per year to the EU free of customs duties. Agreements have also been signed with Ukraine, Singapore, Armenia, Georgia and Moldova, but these have not yet come into effect. Additional regulations for existing trade agreements are also under discussion, with, for example, the Mediterranean countries or the Republic of South Africa.

Negotiations are taking place with 20 other states. This group includes sugar exporters such as Brazil, together with the other MERCOSUR states, the USA, Canada, India, Malaysia, Thailand and Vietnam as well as the Gulf states. The most important for the EU sugar market are the negotiations with the MERCOSUR states of the South American economic area, which are still not advancing. As one of the largest sugar exporters, Brazil, in particular, is pressing for an import quota for sugar and ethanol.

#### **Additional costs of CO<sub>2</sub> certificates**

As a company that emits **carbon dioxide (CO<sub>2</sub>)** from generating its own electricity and heat, Nordzucker requires corresponding certificates for its emissions. The company is allotted some of its certificates free of charge.

The third phase of the CO<sub>2</sub> emissions trading scheme that has been in place in the EU since 2005 began in 2013. All companies subject to emissions trading have to buy all the certificates needed for power generation at auction. Nordzucker receives certificates for heat generation based on natural gas, less a cross-sector discount, free of charge until 2015, as the European Commission has listed the entire industry as being at risk of carbon leakage. For the industries on this list, the assumption is that the additional costs of CO<sub>2</sub> certificates could result in production being outsourced to non-EU countries.

Rising prices for CO<sub>2</sub> certificates could increase the already high costs of environmental protection even further, since as the drying facilities and other equipment not previously taken into account are also subject to emissions trading as of 2013. To a certain extent, a further price increase is politically motivated, although the sugar industry has already had considerable success in reducing its **CO<sub>2</sub> emissions**. The carbon leakage list is to be reviewed in 2015, and Nordzucker currently anticipates that the sugar industry will stay on the list. Nordzucker is also working hard to cut its **CO<sub>2</sub> emissions** even further by means of investments to reduce its energy consumption. This is an important step to increase the sustainability of our business.

#### **Legal risks**

In February 2014, the German competition authority concluded its investigation into alleged breaches of competition law and the ongoing antitrust proceedings against Nordzucker and other sugar producers. Nordzucker AG accepted a fine of EUR 8.5 million. The risk of third-party claims for damages cannot be ruled out. However, Nordzucker AG is currently assuming that any such claims would only have a very slight chance of success.

The companies in the Nordzucker Group are also subject to various statutory regulations, which can give rise to liability risks. They include, in particular, the **sugar market regime** in connection with the relevant provisions of customs and licensing law as well as food and animal feed law. Further risks can also arise from tax regulations in the various countries in which the Nordzucker Group operates.

#### **Market risks**

##### **Sugar**

Since the reform of the **sugar market regime** in 2006, fluctuations in the world market price have had a considerable impact on markets in the EU. To cover its supply, the EU is dependent on imports from **ACP** and **LDC countries** and world markets. World market prices fell sharply again over the course of the past financial year. With world market prices being lower, there was a greater incentive for **ACP countries** and **LDCs** to export their sugar to the EU, and imports therefore picked up. This will ensure that market prices in the EU remain under pressure in future, which could diminish Nordzucker's profitability considerably. The steps to boost competitiveness described in the section on the sugar market regime are preparing Nordzucker to meet these challenges, too.

As a foodstuff, sugar has repeatedly been presented in the media as unhealthy or even harmful. Individual scientists believe that the rising number of certain diseases can be linked to higher sugar consumption. In its twelfth Nutrition Report published in December 2012, the German Nutrition Society (DGE) found that annual sugar sales in Germany have been constant for years. It is therefore the change towards a less active lifestyle that leads to excess weight and **obesity**. Public and media debates may affect consumers' eating habits and thus influence demand for sugar.

The German Sugar Trade Association (WVZ) has launched an information campaign (Forum Zucker; [www.mitzucker.de](http://www.mitzucker.de)) to present the relationship between sugar and health objectively, in order to provide a counterweight to the negative media reporting and the negative public perception. Nordzucker AG expressly supports these efforts, but at the same time also campaigns for more public information about exercise and healthy eating.

### **Securing raw materials**

For farmers, sugar beet competes with other arable crops. The decision whether to plant sugar beet or other crops depends to a large extent on relative price levels for different crops and on the yield that can be obtained regionally. Attractive conditions for growing other crops also increase the cost pressure for purchases of sugar beet. As competition becomes more intense, particularly after the **sugar market regime** expires, it is therefore all the more important that high levels of productivity enable farmers to supply beet at prices that are competitive and attractive for them the same time.

The most important long-term element of securing raw materials is the 20·20·20 yield improvement programme. Nordzucker has set itself the Group-wide target of achieving a sugar yield of 20 tonnes per hectare with 20 per cent of farmers in 2020. This programme is very important for safeguarding the relative attractiveness of sugar beet cultivation compared with other arable crops, especially given the volatility of agricultural markets. To reach this target Nordzucker is working closely with farmers, agricultural associations and other companies in the value chain.

Nordzucker signs supply contracts with the beet farmers well in advance in order to secure volumes in the short and medium term. The company buys some of its industrial beet on one-year contracts and some on multi-year contracts. All contracts offer attractive terms compared with alternative crops.

For the existing multi-year industrial beet contracts the company has agreed on a number of different pricing models. In Germany, farmers can choose between fixed beet prices and a variable price for industrial beet that is indexed to prices for wheat and rapeseed. Similar options for contracts are available in all the Group's regions, indexing the beet prices to those for wheat or sugar, for example, or to local company performance. These mechanisms ensure that the beet prices paid in each instance are competitive.

### **Energy prices**

The current liquidity of supplies and stable prices on energy markets enabled Nordzucker to reduce the cost of purchasing energy compared with the previous year. New sources of energy in the USA and their sustainable extraction resulted in a healthy market supply. Despite this, the unresolved problems in the Middle East require attention and could have an adverse effect on these developments.

Investments made to date in energy efficiency and the steps taken for energy management certification under **DIN ISO 50001** and **EMAS** are beginning to have an effect and also contribute to reducing expenses.

Variable purchasing contracts for energy also reduce the risk of price developments.

### **Dependence on individual suppliers**

The reduction of sugar production capacities in the course of the **sugar market reform** in 2006 led to a process of concentration among suppliers. This has often resulted in a monopoly among providers of equipment made especially for the sugar industry, with correspondingly high prices. In some cases, this problem is exacerbated by the fact that Nordzucker deliberately standardises technologies and concentrates its purchases on individual suppliers.

The limited number of suppliers entails the risk of increased dependence, if a supplier should become insolvent for example, and of price increases. To counter this trend, a global sourcing programme has been launched to identify potential alternative suppliers. A marketing campaign also aims to attract new engineering companies to sugar technology.

Nordzucker has been able to largely avoid price increases for the purchase of components by means of long-term framework agreements. The company will also achieve additional savings with its Profitability *plus* programme, by qualifying European competitors for selected products and by standardising aspects of maintenance and packaging.

## Operating risks

### *Longer campaigns*

The length of the campaign has been increased gradually in the plants to raise productivity. A campaign now lasts for an average of more than 120 days in some areas. This means that the production phase generally continues into January. Longer campaigns entail two risks. One is that the onset of winter weather can severely hamper beet harvesting, logistics and processing. The other is that longer campaigns make production downtime more likely.

Nordzucker has therefore taken wide-ranging precautions both in the field and in the plant to minimise these risks. They include covering beet clamps with a sheet of fleece to protect the beet from frost. New production processes help us to deal better with extreme changes in weather conditions and beet which has begun to thaw or decompose. One example is the optimisation of juice purification, which is vital for processing even frost-damaged beet.

Longer campaigns increase the risk of production downtime. In some regions the beet flows can be diverted to alternative sites, but this also leads to longer campaigns at those plants and much greater logistical expense. Risk-oriented maintenance has been introduced to reduce the risk of production downtime. All the essential machinery in a plant is examined closely and repaired or replaced as necessary in the phase between two campaigns. Nordzucker has also taken out production downtime insurance to reduce its exposure further.

### *Environment*

Environmental impacts cannot be avoided altogether when sugar is produced.

They include airborne **emissions** (odours, noise), waste disposal and wastewater treatment. Risks arise from the potential for exceeding limits, complaints from neighbours or new statutory regulations.

Nordzucker gives high priority to limiting detrimental environmental effects as far as possible. Investments to avoid noise and odours are an important part of capital expenditure every year. In recent years, for example, one key focus has been on improving wastewater treatment in order to minimise unpleasant odours. All Nordzucker plants are audited regularly in accordance with applicable national and international legislation and standards to verify the results of these activities. This includes certification in line with the **DIN EN ISO 14001** environmental management system and the EU Environmental Audit regulation (EC) 1221/2009 (**EMAS III**). Nordzucker not only submits to the statutory inspections, but also carries out additional voluntary audits.

An active dialogue with local residents is a matter of course for Nordzucker. Direct contact with neighbours enables plant managers to improve their understanding of how residents are affected and to explain processes at the plant.

### *Product safety*

As a food producer, Nordzucker is responsible for the quality and safety of its products. The company works consistently to keep improving its already very high safety standards by means of continuous improvements to production processes, targeted investments and strict internal guidelines. Regular inspections and product safety certifications are carried out to identify risks at an early stage. All sites comply with **DIN EN ISO 9001** and the **DIN EN ISO 22000** product safety standards in conjunction with **PAS 220 (FSSC 22000)**.

As a result of different local requirements, some sites are also certified under the following standards and norms: occupational health and safety management system **OHSAS 18001**, energy management system **DIN EN ISO 50001**, German biofuels sustainability by-law (Biokraft-NachV – the transposition of Directive 2009/28/EC to promote the use of energy from renewable sources), **IFS standards** (International Food Standard for food retailing) and the **GMP B2** standard for quality control in raw materials for animal feed. Organic and **fair trade** products are grown and inspected in line with the applicable legislation and standards.

### IT risks

The comprehensive use of IT systems gives rise to risks regarding unauthorised access to sensitive company data and the unavailability of these systems as a result of operating incidents or disasters.

Nordzucker addresses the risk of unauthorised access to company data by using virus scanners and firewalls. IT security is also increased by granting defined and restricted access to systems and information, and by backing up data. Proven, market-based technologies are used throughout the company on the basis of defined standards. Nordzucker hedges against the risks that would ensue in the event of operating incidents or disasters by means of redundant IT infrastructures.

### Financial risks

Financial risks relate to unrecoverable receivables, currency, raw materials and interest rate risks and liquidity risk. Risk exposure may also arise from the investment strategy and the availability of loan finance.

#### **Default on receivables**

Receivables from customers or other parties may become unrecoverable. This risk rises at times of economic crisis or when extreme swings in the price of raw materials put pressure on customers.

To address these risks, Nordzucker establishes a customer's credit standing before signing a contract and generally takes out trade insurance. The sales team maintains close contact with the customer and defaults are limited by active receivables management.

#### **Currency, raw materials and interest rate risks**

The increasing volatility of interest rates and exchange rates and fluctuations in the price of raw materials give rise to operating risks, which are pooled by the Group treasury department.

To limit these risks, they are analysed thoroughly before contracts are signed. Standard financial instruments available from banks and exchanges are used if Nordzucker has to assume risks. Financial derivatives such as forward contracts, **swaps** and **futures** are used to hedge the Group's open risk positions.

This exposes the Nordzucker Group to a normal measure of counterparty risk, in the sense that a partner to a contract may not perform their obligations. To minimise this counterparty risk, financial derivatives are only transacted with first-class international financial institutions, whose economic performance is monitored regularly, partly by analysing the financial ratings issued by international rating agencies. Dependence on individual institutions is also limited by spreading transactions over various counterparties.

All the financial derivatives used serve solely to hedge operating sales and purchase transactions and to hedge exchange rates for financial transactions.

The margins required for exchange-traded derivatives are also held exclusively on separate margin accounts with first-class international financial institutions.

As of 28 February 2014, the Nordzucker Group had exchange rate derivatives with a notional net volume of EUR 90.8 million. At the end of the financial year, derivative transactions with a notional net volume of EUR 18.2 million were open to hedge against price movements for raw materials, and derivatives with a notional net volume of EUR 2.2 million were open to hedge the price of **CO<sub>2</sub>** certificates.

These existing hedges generally run for less than one year (excluding hedges of **CO<sub>2</sub>** certificates) and match the maturity profile of the hedged transactions.

#### **Liquidity risk**

The seasonality of the Group's business means that its capital requirements vary widely over the course of a financial year. The quality of the harvest and developments in market prices also have a considerable effect on the company's funding requirements. If the company cannot draw on sufficient liquidity – either if there is a default on its investments or if borrowing is not available – its continued existence could be at risk.

Short and medium-term liquidity forecasts for the subsidiaries and the entire Group are therefore regularly drawn up on the basis of a standardised process. Financing strategies are then prepared and implemented on the basis of these forecasts.

**Availability of credit**

No negative effects on the Nordzucker Group's access to liquidity have been felt to date, despite the ongoing economic crisis in the EU and the evolving situation on lending markets due to the increasing regulation of banks. One important reason for this is the Group's good credit rating.

The Group's main source of financing is the **syndicated loan** originally maturing on 17 June 2016, which the company obtained from 14 banks in 2011. In March 2014, this loan was replaced by a new syndicated loan with a smaller group of banks on improved terms. This loan has a minimum term of five years, and thereby extends well beyond the end of the sugar market regime. All the syndicate banks have very good credit ratings and are very dependable. In the opinion of the company management, this medium-term **syndicated loan** to finance its operating business, together with its available liquidity, covers the company's capital needs. From a current perspective, its cash reserves and unused lines of credit enable Nordzucker to meet its payment obligations at all times. Based on current assessments, sufficient funds are also available to ensure the financing of solid growth. On the basis of existing corporate planning for the Group, the company assumes that the terms of the loan agreement will be met in subsequent years as well.

The guarantees needed for current operations can also be provided at any time as needed by means of the **syndicated loan** and bilateral lines of credit. The Group is not directly dependent on individual lenders.

**Investment policy**

Errors in investment strategy can result in the loss of financial assets. Nordzucker has a conservative investment policy. The Group's free liquidity is only invested in money-market products with first-class European financial institutions. Investment amounts are limited to ensure that the deposits are covered by the applicable deposit insurance mechanisms.

Potential default risks are also addressed by spreading the investment across various counterparties.

**SUPPLEMENTARY REPORT**

There have been no events of particular significance since the end of the financial year.

**FORECAST**

The financial year 2013/2014 was closed with a satisfying result. In line with the previous year's forecast, earnings fell sharply, however, particularly in the last two quarters of the reporting year. Revenues and earnings declined sharply, as world market prices were low and stock levels in the EU high. As in previous years, the steps taken to increase efficiency made a significant contribution to earnings. They were not able to make up for the fall in prices by a long way, however.

Pressure on prices will persist in the financial year ahead. Stocks of quota and non-quota sugar in the EU remain high, and world market prices are still very low in a long-term comparison, even though they have recovered slightly recently. The months ahead will show whether a further recovery materialises. Following the EU decision to let the current **sugar market regime** expire on 30 September 2017, all sugar companies have already begun intensive preparations for the new commercial environment. The battle for market share has intensified as a result. As in previous years, Nordzucker is working consistently to keep improving its competitiveness. In 2014/2015, the focus will be on realigning organisational structures and processes, which will be of great help to the company in pursuing its continued development in the years ahead.

Despite these steps, revenues and earnings will fall again sharply in the 2014/2015 financial year. In terms of the company's key performance indicators, **total operating profitability** is not expected to achieve the target of 15 per cent. The **return on sales** (target: five per cent) will be met, and the **equity ratio** (target: 30 per cent) will again be exceeded by a large margin.