

ECONOMIC ENVIRONMENT AND MARKET DEVELOPMENTS

Macroeconomic situation

The European debt and financial crisis continued to hold the EU and the eurozone firmly in its grip in 2013. Economic output (gross domestic product) was unchanged year on year in the EU as a whole, while the eurozone reported a slight decline of 0.3 per cent. Germany achieved economic growth of 0.4 per cent in 2013. Economic performance in France and other member states in the south of the EU again deteriorated.

Sector developments

World sugar market

Rising global stocks for the third year in a row caused further sharp falls in world market prices for sugar in the financial year 2013/2014. As in recent years, prices were subject to great volatility. At the beginning of the financial year in March 2013, the average sugar price on the London Futures Exchange (White sugar No. 5, free-on-board, earliest delivery) was USD 527 per tonne. It fell successively in subsequent months to reach a new low of USD 427 per tonne in January 2014.

The sugar market in the EU

In the past, the EU sugar market was largely decoupled from the global market by the European **sugar market regime**. As a result, it was characterised by very stable volumes and prices, with its surpluses being exported to the world market.

All this changed with the reform of the **sugar market regime** in 2006. The quotas for producing sugar for human consumption in the EU were reduced to around 80 to 85 per cent of market demand. Since then, it has been necessary to import sugar from **ACP** and **LDC countries**. The non-quota sugar produced in the EU in excess of the quotas is sold to customers outside the food industry in the EU or can be exported to non-EU markets up to a total volume of 1.37 million tonnes.

If the import volumes provided for by preferential agreements are not sufficient, the European Commission can respond to these market developments within the framework of the **sugar market regime** to guarantee a stable supply of sugar. To cover demand for sugar from the food industry, it can both approve non-quota sugar for human consumption and enable additional imports at reduced import duties. The European Commission takes these decisions on the basis of supply balances for each **sugar marketing year**, which in the EU runs from 1 October to 30 September of the following year. This means the financial year for Nordzucker AG straddles two **sugar marketing years**.

In the **sugar marketing year** 2012/2013, a good 3.5 million tonnes of sugar came into the EU under preferential agreements. The European Commission also allowed 1.2 million tonnes of sugar to be brought to the EU market from additional imports and allowances of non-quota sugar. Corresponding steps have been announced for the current marketing year 2013/2014, but not yet adopted. In the financial year to date (until 28 February 2014), a total of nearly 1.6 million tonnes of sugar has been imported under preferential agreements.

Market for animal feed and molasses

Supplies of animal feed were low in the past financial year. Although the two previous years' harvests had been good, there were hardly any stocks and the 2013/2014 harvest could not repeat the particularly strong performance of the last two years. Prices for **pellets** and **pressed pulp** went up as a result, although prices for grain were down.

Supplies of **molasses** were also limited in the reporting year. As in the previous year, the beet quality was good and so a lower quantity of molasses was produced. Nordzucker increasingly sells molasses to the fermentation industry instead of as animal feed. Here, too, prices trended upwards.

Market for sweeteners

The market for **stevia** and products sweetened with **stevia** has grown steadily since **stevia (steviol glycosides)** was approved by the EU for food and beverages in 2011. Numerous products are now on the market and many others are still in the development phase. These activities will successively boost market volumes, which are still low.

Market for bioethanol

The political circumstances for the future use of biofuels in Europe are still unclear and consumer demand remains subdued. E10 has a market share of 15 per cent in Germany and has remained flat at this low level.

At the same time, the good harvests mean that **bioethanol** can currently be produced cheaply from grain or maize. Imports from the USA, some of which have circumvented the anti-dumping duties, have expanded supplies. In the reporting year, the price of ethanol in Rotterdam fell as a result by 24 per cent to EUR 478 per tonne most recently.

Market developments in the sugar business

Market developments: Central Europe region

The Central Europe region mainly supplies customers in Germany. The long winter and rainy spring depressed sales and revenues for the German manufacturers of beverages, ice cream and grill sauces. Nordzucker AG's revenues from quota sugar were also below expectations in these areas as a result. The decline was more than offset by higher sales in other sectors, however, so that total sales of quota sugar went up year on year by around 24,000 tonnes.

The European Commission's steps to increase supply, higher stock levels in the EU and lower prices for imports meant that prices for quota sugar in Germany came under increasing pressure from October 2013.

Sales of non-quota sugar came to 98,000 tonnes in the reporting year, and were thereby well above the previous year.

Market developments: Northern Europe region

The Northern Europe region consists essentially of Sweden, Finland, Denmark, Norway, Ireland and the Baltic states. Sugar from internal production is supplemented by world market imports of **raw cane sugar** for **refining**.

Nordic Sugar maintained its strong position in the Northern Europe region and was even able to extend it in some markets, selling around 800,000 tonnes of quota sugar to industrial and retail customers. As in Germany, the prices in Northern Europe came under pressure at the beginning of the new **sugar marketing year**.

High yields in 2012/2013 again enabled Nordic Sugar to sell additional volumes of non-quota sugar in the reporting year, supplying customers from the chemical industry and markets outside the EU. Volumes declined slightly, however, from 320,000 to 280,000 tonnes.

Market developments: Eastern Europe region

The Eastern Europe region supplies customers in Poland and Slovakia from its own local production. Nordzucker also has a strong market position in a number of other countries in South-Eastern Europe. On all markets, Nordzucker mainly supplies large international customers as well as a multitude of national and regional customers. In order to meet demand in excess of the quota in Poland and Slovakia, the Eastern Europe region refines raw sugar at the plant in Chełmża, Poland. In addition, sugar from other regions of the Nordzucker Group is imported. As in the previous year, Nordzucker sold about 507,000 tonnes of quota sugar in Eastern Europe.

As in the two other regions, sales prices for quota and non-quota sugar declined over the course of the year. This price trend had a particularly rapid impact in Eastern Europe, because some customers here traditionally buy sugar on short-term contracts.

The previous year's high level of non-quota sugar sales could not be repeated. Total sales fell by around 34,000 tonnes.

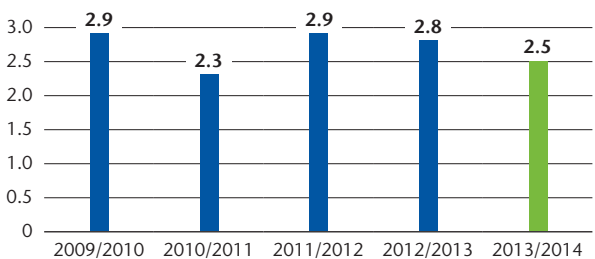
Beet cultivation and campaign

Late beet sowing in most cases and changeable weather conditions during the growing period caused some challenges for the sugar beet. Favourable weather in the autumn and good processing conditions during the campaign nonetheless allowed for very good yields, which were only slightly below those of the previous year. The average beet yield for the Group was 63.0 tonnes per hectare (previous year: 65.2 tonnes). The sugar content came to 18.0 per cent (previous year: 17.9 per cent), which represented an average sugar yield of 11.3 tonnes per hectare (previous year: 11.7 tonnes).

Land under cultivation fell year on year by nine per cent to 241,000 hectares in 2013/2014 as a result of targeted activities. Across the Group during the 2013/2014 campaign, Nordzucker produced 2.5 million tonnes of sugar from beet (previous year: 2.8 million tonnes). The campaign lasted for 106 days (previous year: 125 days).

Beet processing in the Nordzucker plants mostly went smoothly thanks to targeted investments and forward-looking maintenance. Excellent cooperation between beet deliveries, production and sugar logistics also ensured that the campaign went off smoothly all round.

SUGAR PRODUCTION NORDZUCKER GROUP
in millions of tonnes



AVERAGE SUGAR YIELD NORDZUCKER
tonnes per hectare

