

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL REMARKS

1. ACCOUNTING PRINCIPLES

The consolidated financial statements as of 28 February 2014 for Nordzucker AG (Küchenstrasse 9, 38100 Braunschweig, Germany) have been prepared in accordance with Sec. 315a HGB (German Commercial Code) in accordance with the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee (IFRS IC) as applicable in the European Union (EU-IFRS) and with supplementary provisions of German commercial law. The financial statements comply fully with EU-IFRS and give a true and fair view of the net assets, financial and earnings position of Nordzucker AG and its consolidated subsidiaries, associated companies and joint ventures (hereinafter known as 'Nordzucker Group' or 'Group').

As the parent company of the Group, Nordzucker AG is entered in the commercial register at Braunschweig Local Court (HRB 2936).

The consolidated financial statements of Nordzucker AG, audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, and issued with an unqualified opinion, are published in the German Federal Gazette. The annual report can be viewed on the Nordzucker AG website (www.nordzucker.de).

The reporting currency is the Euro, with amounts reported in thousands of Euros (in EUR thousands).

The consolidated financial statements of Nordzucker AG will be released by the Board of Management via passing it to the Supervisory Board on 22 May 2014.

2. CONSOLIDATION AND ACQUISITIONS

2.1. Principles of consolidation

Subsidiaries

In addition to Nordzucker AG as the parent company, the Nordzucker consolidated financial statements also include the domestic and foreign subsidiaries in which Nordzucker AG has direct or indirect control of financial and operating policy.

Subsidiaries are fully consolidated from the acquisition date, i.e. the date on which the Group obtains control. Consolidation ends once the parent company no longer exercises control. The financial statements of the subsidiaries are prepared for the same reporting period as the financial statements for the parent company using uniform accounting methods. Intra-group transactions between companies in the Group are eliminated in full.

Associated companies and joint ventures

Associated companies and joint ventures are accounted for in the consolidated financial statements using the equity method. Associated companies are defined as companies in which the Nordzucker Group has a significant influence over financial and operating policy. Joint ventures are companies which are jointly controlled in cooperation with other companies. In applying the equity method, the IFRS financial statements of these companies are used. Losses from associated companies which exceed the carrying amount or other non-current receivables from financing these companies are not recognised unless there is an obligation to provide further capital.

2.2. Acquisitions

No acquisitions were made in the reporting period or comparative period.

For the accounting principles relating to acquisitions, please see Note 3.16.

2.3. Group of consolidated companies

The consolidated companies in the Nordzucker Group are as follows:

GROUP OF CONSOLIDATED COMPANIES

	28/2/2014	28/2/2013
Fully consolidated subsidiaries		
Domestic	3	4
Foreign	14	19
Companies accounted for using the equity method		
Domestic	2	2
Foreign	2	2

In the reporting period, the Group of consolidated companies was reduced by six subsidiaries. In Germany, fuel 21 GmbH & Co. KG was merged with Nordzucker AG. Outside of Germany, Nordzucker Eastern Europe GmbH (Vienna, Austria) and SugarPartners Holdings Limited (Dublin, Ireland) were liquidated and therefore deconsolidated. In addition, Nordic Sugar UAB (Vilnius, Lithuania), SIA Nordic Sugar (Riga, Latvia) and Ingolf Wesenberg & Co. AS (Oslo, Norway) were also deconsolidated due to lack of significance. The carrying amounts for these three companies are listed in the item 'Other financial investments'.

The list of shareholdings can be found in the Nordzucker AG annual report and is published in the German Federal Gazette.

All the companies included in the consolidated financial statements have 28 February 2014 as their reporting date.

2.4. Significant subsidiaries and joint ventures

The significant subsidiaries of the Nordzucker Group are listed in the table below:

SIGNIFICANT SUBSIDIARIES

	Group stake
Central Europe region	
NORDZUCKER GmbH & Co. KG, Braunschweig, Germany	100%
Norddeutsche Flüssigzucker GmbH & Co. KG, Braunschweig, Germany	70%
Northern Europe region	
Nordic Sugar A/S, Copenhagen, Denmark	100%
Nordic Sugar AB, Malmö, Sweden	100%
Suomen Sokeri Oy, Kantvik, Finland	80%
Sucros Oy, Säköylä, Finland	80%
AB Nordic Sugar Kėdainiai, Kėdainiai, Lithuania	70.6%
Nordzucker Ireland Limited, Dublin, Ireland	100%
Eastern Europe region	
Považský cukor a.s., Trenčianska Teplá, Slovakia	96.798%
Nordzucker Polska S.A., Opalenica, Poland	99.87%

The following trading companies structured as limited partnerships (GmbH & Co. KG)

- > NORDZUCKER GmbH & Co. KG, Braunschweig, Germany
- > Norddeutsche Flüssigzucker GmbH & Co. KG, Braunschweig, Germany

are exempt from the obligation to prepare annual financial statements in accordance with the regulations applicable to companies with limited liability pursuant to Sec. 264b German Commercial Code (HGB).

Significant joint ventures of the Nordzucker Group that are accounted for under the equity method are listed below:

SIGNIFICANT JOINT VENTURES

	Group stake
Central Europe region	
MEF Melasse-Extraktion Frellstedt GmbH, Frellstedt	50%
Northern Europe region	
NP Sweet A/S, Copenhagen, Denmark	50%

2.5. Conversion of financial statements in foreign currencies

Assets and liabilities of subsidiaries whose functional currency is not the Euro are converted at the exchange rate applicable on the balance sheet date. The functional currency is the currency of the primary economic environment in which the subsidiary operates. Items in the income statement are converted at the weighted average rate for the relevant reporting period. Equity components of subsidiaries are converted at the historical rate for the date first recognised. The currency differences resulting from conversions are included in other comprehensive income (i.e. in the statement of comprehensive income and not in the income statement).

The rates for the conversion of key financial statements in foreign currencies into Euros have changed as follows:

EXCHANGE RATES OF FOREIGN CURRENCIES

for EUR 1.00	Average rate		Spot rate	
	2013/2014	2012/2013	28/2/2014	28/2/2013
Polish Zloty (PLN)	4.20104	4.16353	4.16760	4.15150
Hungarian Forint (HUF)	298.97255	288.25639	310.45000	295.80000
Danish Crown (DKK)	7.45811	7.44799	7.46250	7.45600
Swedish Crown (SEK)	8.69838	8.65947	8.85250	8.44750
Lithuanian Litas (LTL)	3.45280	3.45280	3.45280	3.45280

3. EXPLANATION OF ACCOUNTING POLICIES

3.1. General principles

The valuation of the items in the consolidated financial statements is primarily at amortised cost. Derivative financial instruments and actuarial reserves for pension obligations in the form of plan assets, in particular, are recognised at fair value.

Individual line items of the income statement and the balance sheet have been aggregated to improve readability. These items are listed in the notes.

The income statement has been prepared using the cost of sales method. As such, the revenues recognised in the reporting period are compared with the costs incurred to achieve these revenues, categorised by the functional areas of production, sales and administration.

In the balance sheet, assets and liabilities are categorised as non-current (with maturities of more than one year) or current.

3.2. Recognition of income and expense

Revenues are recognised in accordance with IAS 18 when the goods or services are delivered if the amount of revenue can be estimated reliably and the flow of economic benefit is probable. Revenues are reduced by sales discounts.

Operating expenses are recognised when the service is used or as of the date they arise.

Interest is recognised as an expense or as income in the period in which it arises. Interest expense arising in connection with the purchase or production of certain assets is only capitalised if they are qualifying assets in accordance with IAS 23.

Dividends are recognised in profit or loss when the legal entitlement is vested.

3.3. Intangible assets including goodwill

This item primarily refers to acquired intangible assets, internally generated intangible assets and goodwill.

Acquired intangible assets (purchased rights and licences) are valued initially at cost (purchase price, directly attributable costs). Assets related to acquisitions (see also Note 3.6), such as contractual customer relationships, trademark rights and no-competition clauses, are recognised as acquired intangible assets, provided that the criteria of IFRS 3 and IAS 38 are fulfilled, and valued initially at fair value.

Internally generated intangible assets (such as internally generated software) are recognised provided that they fulfil the capitalisation criteria of IAS 38 (in particular with regard to demonstration of technical feasibility, of the intention and ability to use the asset, as well as of its reliable valuation). Production costs include the costs directly attributable to the development phase, as well as borrowing costs insofar as they can be capitalised under IAS 23. Research costs are recognised as an expense.

Acquired and internally generated intangible assets with finite lives are subject to scheduled amortisation after initial recognition. This is done on a straight-line basis under the assumption of the following useful lives:

.....

INTANGIBLE ASSETS	
	Useful life in years
Production quotas acquired against payment	10
ERP licences	20
Other software	3–15

Useful lives are reviewed regularly to ensure they are appropriate. If necessary they are adjusted accordingly. If there is reason for an impairment on intangible assets with finite useful lives in accordance with IAS 36 and the recoverable amount is less than the amortised cost, impairment losses are recognised on these items (see also Note 3.6). If the reasons for the impairment losses are no longer valid, the relevant reversals of impairments are to be made.

Goodwill arises in conjunction with an acquisition (see also Note 3.16) if the total consideration transferred to the seller (purchase price and any future contingent considerations) exceeds the net amount of the identifiable assets acquired and the liabilities assumed. The positive difference is capitalised under IFRS 3.

Acquired and internally generated intangible assets with indefinite useful lives, as well as goodwill, are not subject to scheduled amortisation, but must be tested for impairment at least once a year in accordance with IAS 36 (see also Note 3.6). The impairment test for goodwill takes place at the level of the cash-generating unit to which the item was attributed upon initial recognition. Goodwill is assigned to the cash-generating unit that stands to benefit from the synergies of the business combination. According to IAS 36, a cash-generating unit is the smallest identifiable group of assets with cash inflow that is largely independent of cash inflow from other assets. Within the Nordzucker Group, the lowest possible level is deemed the one within the entity at which goodwill is monitored for internal management purposes. An impairment loss is recognised on goodwill when the recoverable amount attributed to the cash-generating unit for this item is less than the carrying amount of this cash-generating unit; goodwill must then be written down by the amount of this difference. The basis for calculating the recoverable amount is the value in use of the cash-generating unit. The cash-generating unit determines a present value model taking into account cash flows that are based on internal targets. Reversals of the impairment or increases in the carrying amount of goodwill cannot be carried out later.

Gains or losses resulting from the disposal or impairment of intangible assets are recorded on the income statement under 'Other income' or 'Other expenses'.

3.4. Property, plant and equipment

In accordance with IAS 16, property, plant and equipment is initially recognised at cost and subsequently depreciated on a straight-line basis over their expected useful lives. Costs include the purchase price, all directly attributable costs, estimated costs for future decommissioning and restoration obligations, as well as borrowing costs insofar as they can be capitalised under IAS 23.

The following useful lives are assumed for depreciation:

PROPERTY, PLANT AND EQUIPMENT	
	Useful life in years
Buildings	20–60
Technical plant and machinery	4–60
Railway tracks	70
Vehicles	4–15
Trailers and rolling stock	25
Other operating and office equipment	3–25

Useful lives are reviewed regularly to ensure they are appropriate. If necessary they are adjusted accordingly. Depreciation starts from the time at which the asset in question becomes ready for use. Production-related technical plant and machinery only used during the campaign are depreciated for the full year. If there is reason for an impairment in accordance with IAS 36 and the recoverable amount is less than the amortised cost, impairment losses are recognised on these items (see also Note 3.6). If the reasons for the impairment losses are no longer valid, the relevant reversals of impairments are to be made.

If the major opportunities and risks associated with ownership of rented or leased items of property, plant and equipment are borne by the tenant or lessee, then the items are to be recognised as an asset under IAS 17 on the lessee's balance sheet. The asset is initially valued at the present value of the minimum lease payments, or at fair value for the leased item – whichever is lower. In exchange, a liability is to be recognised at an appropriate amount for the finance lease. The leased item is reduced by scheduled depreciation or impairment. If it is not sufficiently clear at the start of the lease whether or

not ownership will be transferred to the lessee, the scheduled depreciation takes place either over the term of the leasing arrangement or the useful life – whichever is shorter. If this is not the case, the leased item must be depreciated over its useful life.

Gains or losses resulting from the disposal or impairment of items of property, plant and equipment are recorded on the income statement under 'Other income' or 'Other expenses'.

3.5. Investment property

Property intended to be let to third parties is initially recognised at cost under IAS 40. For subsequent measurement, the Nordzucker Group consistently exercises the option of measuring investment property at cost, minus scheduled and unscheduled depreciation. Depreciation takes place on a straight-line basis over the useful life of 20 to 60 years. If there is reason for an impairment in accordance with IAS 36 and the recoverable amount is less than amortised cost, an impairment is recognised (see also Note 3.6), which is reversed if the reason for the impairment no longer exists in subsequent periods.

3.6. Impairment of intangible assets (including goodwill), property, plant and equipment as well as investment property

Under IAS 36, impairment losses are calculated by comparing the carrying amount with the recoverable amount. This impairment test is applied at the level of individual assets, provided that it is possible to estimate the recoverable amount for the individual asset. If this is not the case, the impairment test must be applied at the level of the cash-generating unit. The cash-generating unit is the smallest possible group of assets that generate largely independent cash inflows.

On each reporting date, a review is conducted to assess whether any indications for the impairment of assets exist. If such an indication exists, the recoverable amount of the asset or cash-generating unit must be determined and compared with the carrying amount. Impairment testing is carried out once a year for goodwill, other intangible assets with indefinite useful lives and for intangible assets not yet available for use – regardless of whether or not indications for impairment exist.

The recoverable amount of an asset or cash-generating unit equates to the higher of fair value less costs of disposal and value in use. For cash-generating units, the recoverable amount is generally calculated using the discounted cash flow method, taking into account cash flows based on internal targets. The cash flows are discounted at a rate which reflects current market assessments of the time value of money and the specific risks of the cash-generating unit.

An impairment is applied if the recoverable amount of the asset or cash-generating unit is lower than the corresponding carrying amount. For cash-generating units, any goodwill must first be reduced or eliminated. If the carrying amount is insufficient, other assets belonging to the cash-generating unit must be reduced proportionally.

With the exception of goodwill, a review must be conducted on each end of the reporting period to assess whether there are any reasons for whether a previously recognised impairment no longer exists or has been reduced. If this is the case, the carrying amount of the asset or cash-generating unit must be increased to its recoverable amount. As such, assets may not be attributed in excess of the amortised carrying amount as would have been determined in the absence of any prior impairment.

3.7. Investment subsidies

Government grants representing grants for assets under IAS 20 (i.e. being investment subsidies) are only recorded if there is sufficient reason to believe that a company within the Nordzucker Group is likely to fulfil the associated conditions and the grant will be received. Subsidies are not subtracted from the corresponding asset but are considered as deferred income under 'Other liabilities'. The deferred income is subsequently released to profit or loss (i.e. via the income statement) over the useful life or depreciation period of the corresponding item of property, plant and equipment.

3.8. Financial instruments

Financial instruments are defined in IAS 32; the relevant accounting and disclosure principles can be found in IAS 39 and IFRS 7. The term financial instruments covers both financial assets and financial liabilities. Financial assets include cash and cash equivalents, contractual rights to receive cash or other financial assets such as trade receivables, derivative financial instruments with positive fair value and equity instruments of another company. Financial liabilities include contractual obligations to deliver cash and cash equivalents or other financial assets. These include, for example, borrowings, current loans, trade payables and derivative financial instruments with negative fair value.

Only financial assets are included under 'Other financial investments', 'Financial assets', 'Trade receivables', 'Receivables from related parties' and 'Cash and cash equivalents'. The items 'Financial liabilities', 'Trade payables', 'Liabilities towards related parties' and 'Other financial liabilities' only comprise financial liabilities.

For the initial recognition, financial instruments must be assigned to measurement categories as listed in IAS 39. The subsequent valuation of the items is determined by the measurement category. There are four measurement categories for financial assets ('Financial assets at fair value through profit or loss', 'Held-to-maturity investments', 'Loans and receivables', 'Available-for-sale financial assets'). Financial liabilities may be assigned to two measurement categories ('Financial liabilities at fair value through profit or loss', 'Financial liabilities measured at amortised cost'). In the reporting period and comparative period, no financial assets were assigned to the measurement category 'Held-to-maturity investments'. In addition, there were no reclassifications from one measurement category to another.

Financial assets and liabilities must be recognised as soon as a company becomes a party to the contractual provisions of the financial instrument. Within the Nordzucker Group, regular purchases and sales are recognised on the settlement date (the day on which the asset is supplied to or by the company). Initial recognition is at fair value. The principles of IFRS 13 are applied to determine fair value. For items not measured at fair value through profit or loss, transaction costs must be taken into account in the initial carrying amount.

The Nordzucker Group has not used the voluntary option of designating financial assets or financial liabilities upon initial recognition as at fair value through profit or loss (fair value option).

After initial recognition, financial instruments in the category 'Financial assets/liabilities at fair value through profit or loss' are to be recognised at fair value. This includes derivative financial instruments that are not part of an effective hedging relationship as set out in IAS 39 (see also Note 3.14). Changes in value are recognised through profit or loss (i.e. in the income statement). The subsequent measurement of items in the measurement category 'Available-for-sale financial assets' is also at fair value. However, having considered for the effects of tax, changes in fair value are recognised without effect on profit or loss in other comprehensive income (i.e. in the statement of comprehensive income and not in the income statement). If fair value for items in the measurement category 'Available-for-sale financial assets' cannot be reliably determined, the items are to be valued at cost.

For derivative financial instruments that are part of an effective hedging relationship as set out in IAS 39 (see also Note 3.14), no measurement category is assigned. The instruments are also recognised at fair value. However, value changes are recognised also in other comprehensive income (i.e. in the statement of comprehensive income) depending on the type of hedging relationship.

Following initial recognition at amortised cost, financial assets in the measurement category 'Loans and receivables' and financial liabilities in the measurement category 'Financial liabilities measured at amortised cost' are measured using the effective interest method.

Within the Nordzucker Group, the financial assets included under the item 'Cash and cash equivalents' are assigned to the measurement category 'Loans and receivables'. This includes bank balances, cash in hand and current balances with banks which have an initial remaining term of up to three months. Amortised cost is frequently the same as the nominal value.

On each end of the reporting period, it must be identified whether an impairment of a financial asset or a group of assets exists according to IAS 39. There must be objective indications of a loss event (e.g. severe financial difficulties of the issuer or debtor, breach of contract, concessions made to debtors for economic or legal reasons in connection with the debtor's financial difficulties, an increased probability of insolvency, a significant or prolonged decline in the fair value below its cost), and this must have a reliably estimated effect on expected future cash flows. For financial assets in the measurement categories 'Held-to-maturity investments' and 'Loans and receivables', any impairment amount is calculated by comparing the carrying amount with the present value of the expected future cash flows (discounted using the effective interest rate). For items in the measurement category 'Available-for-sale financial assets', a comparison must be made between acquisition cost and fair value.

3.9. Assets held for sale

Under IFRS 5, items classed as 'Assets held for sale' include non-current assets and disposal groups classified as 'held for sale'. This classification applies if the relevant carrying amount will be recovered principally through a sales transaction rather than through continuing use. In addition, the items must be available for immediate sale in its present condition and the sale must be deemed highly probable, and expected to occur within one year.

Non-current assets are not subject to depreciation, provided that they are categorised as 'held for sale' or belong to a disposal group categorised as 'held for sale'. Non-current assets or disposal groups that are classified as 'held for sale' must be measured immediately after being classified as such, as well as before subsequent ends of reporting periods, at either the carrying amount or fair value less costs to sell, whichever is lower.

If a non-current asset is no longer classified as 'held for sale' or no longer belongs to a disposal group classified as 'held for sale', and if it is again presented as a non-current item and is at the time of the decision not to sell, it is measured either at the recoverable amount or – if this is lower – at the carrying amount prior to classification, adjusted for all depreciation or revaluations that would have been recorded in the absence of classification.

3.10. Inventories

Under IAS 2, inventories are measured at the lower of cost and net realisable value. The cost of inventories include all costs of acquisition and production, as well as any costs incurred in transferring inventories to their current location and in their current condition. Costs are determined using weighted averages. Costs include all direct costs attributable to producing the asset as well as indirect costs attributable to production. Borrowing costs are not included in costs as the Group's products are not qualifying assets under IAS 23.

The net realisable value is the estimated selling price in the ordinary course of business less estimated costs to completion and estimated costs to sell. The net realisable value of work in progress is inferred from the net realisable value of finished goods and services less the outstanding costs of completion. Semi-finished goods from production processes are measured using their respective full cost approach. Indirect costs are allocated according to production volume and the amount of production work carried out in-house. If the recognised amounts for finished products and goods are higher than fair value as of the end of the reporting period, the inventories are written down to net realisable value. Sugar stocks from internal production presented under finished products are recognised at cost, unless they are recognised at lower net realisable value in view of sales opportunities. Costs include production costs, indirect costs attributable to the production department and straight-line depreciation for wear and tear. The production costs of quota sugar also include the plant portion of the production levy of EUR 6.00 per tonne.

An impairment loss for inventories to the net realisable value is reversed if the reasons for recognising the loss no longer exist.

3.11. Provisions for pensions

Under IAS 19, provisions must be made for pension commitments in the form of defined benefit plans where the company primarily bears the actuarial risk (that the benefits will result in higher costs than expected) and the investment risk (that the assets invested will not be sufficient to provide the benefits expected). Provisions are presented as a net liability, i.e. the capital accrued to finance the pension payments (actuarial reserves) is offset against the defined benefit obligation (reflecting the future pension payments to the employee) if the actuarial reserves shows the defining characteristics of plan assets.

The valuation of the defined benefit obligation is made using actuarial methods (projected unit credit method). This method assumes that each period of service gives rise to an additional unit of benefit entitlement; as such, the defined benefit obligation increases successively until the employee retires. Future payouts are subject to a discount rate, which is calculated on each end of the reporting period based on market returns on high-quality corporate bonds. The method takes into account both actuarial and demographic assumptions (such as expected mortality, fluctuations, early retirement, for example), as well as financial assumptions (such as discount rates and future salary trends, for example).

Cost components with a bearing on pension provisions include service cost, net interest (interest expense, interest income), actuarial gains or losses, return on plan assets. In the income statement, the service cost (i.e. the increase in the present value of a defined benefit obligation arising from a service provided during the reporting period) is recorded in the items 'Production costs', 'Distribution costs' and 'Administrative expenses', while the net interest is recorded under 'Financial expenses'. Net interest is calculated by multiplying the net liability with the discount rate of the defined benefit obligation. Actuarial gains or losses and return on plan assets are recognised without effect on profit or loss in other comprehensive income (i.e. in the statement of comprehensive income and not in the income statement). Actuarial gains and losses are defined as changes in the present value of the defined benefit obligation as a result of experience adjustments (effects of variations in past actuarial assumptions and actual developments) and effects of changes in actuarial assumptions. Return on plan assets is the variation between the actual rate for the plan asset and the interest based on the discount rate for the defined benefit obligation.

3.12. Other provisions

The item 'Other provisions' includes personnel-related provisions for anniversaries, partial early retirement, early retirement and severance pay obligations, as well as obligations for profit-sharing, bonuses and other gratuities. Under IAS 19, these are recognised depending on the characteristics of the obligation – either according to the rules for short-term employee benefits, the rules for other (i.e. not considered as pension benefits) long-term employee benefits, or according to the rules for long-term employee benefits resulting from the termination of an employment relationship (termination benefits).

The item 'Other provisions' also includes recultivation obligations and other provisions (e.g. for onerous contracts or imminent losses). Under IAS 37, these kinds of provisions are recognised if a present (legal or factual) obligation has arisen as a result of a past event, which will probably result in an outflow of resources and if the extent of the provisions can be reliably estimated. The measurement is based on the best-possible estimate of the expenses required to fulfil the obligation before the end of the reporting period. Long-term provisions must be discounted with an interest rate commensurate to the risk.

Other provisions take into account all recognisable legal and factual obligations of the Nordzucker Group towards third parties.

3.13. Deferred taxes

Under IAS 12, deferred taxes are recognised for future tax assets and liabilities resulting from temporary differences between the value of assets and liabilities for tax purposes and their carrying amount in the IFRS financial statements, and for tax loss carry-forwards. Deferred taxes are measured on the basis of the fiscal legislation enacted at the end of each reporting period for the reporting periods in which the differences are expected to reverse or in which it is likely that tax loss carry-forwards will be used. Deferred tax assets for tax loss carry-forwards are only recognised if it is sufficiently likely that they will be realised in the near future. Deferred tax assets are only offset against deferred tax liabilities if specific conditions are fulfilled.

The offsetting entry of deferred taxes is made within the income statement under the item 'Income taxes' – unless the tax results from a transaction or event that is recognised directly in equity during the same period or another period either under other comprehensive income (i.e. in the statement of comprehensive income) or in any other place.

3.14. Derivative financial instruments and hedge accounting

Due to the nature of its business, the Nordzucker Group is exposed to interest rate, exchange rate and other market risks. Derivative financial instruments are used as a means of managing these risks.

Accounting of derivative financial instruments is governed by the principles set out in IAS 39. Derivative financial instruments are either accounted for separately or they are part of an effective hedging relationship ('hedge accounting'). Hedge accounting means addressing hedged items and hedging instruments that are documented as being linked from a financial point of view in such a way that the compensatory effects on the income statement resulting from changes in market prices occur in the same period. If a hedging relationship is designated, recognition of gains and losses from hedged items and hedging instruments is based on special hedge accounting rules. There is a hedge accounting option for every scenario. However, the application of hedge accounting rules is tied to certain conditions. For one thing, the hedging relationship must be documented. In addition, the hedge must be effective, i.e. the fair value or cash flow changes of hedged items and hedging instruments must be offset within a specific range.

The value measure for the initial and subsequent recognition of derivative financial instruments is fair value. The fair value of certain derivatives may be both positive or negative; depending on that they are either financial assets or financial liabilities. Fair value must be determined in accordance with the principles set out in IFRS 13. If no market prices for active markets are available, fair value is determined using the present value or option pricing models, whose significant input factors (e.g. market prices, interest rates) are derived from price quotations or other directly or indirectly observable input factors.

Stand-alone derivative financial instruments, i.e. those that are not part of an effective hedging relationship according to IAS 39, are always assigned to the measurement categories 'Financial assets/liabilities at fair value through profit or loss'. Value changes are recognised in the income statement under either 'Financial income' or 'Financial expenses'.

For derivative financial instruments in an effective hedging relationship no measurement category is assigned. They are also recognised at fair value, although their recognition depends on the type of hedge (fair-value hedge, cash flow hedge) or on the characteristics of the hedge as either with an effect on profit or loss (i.e. in the income statement) or with no effect on profit or loss under other comprehensive income (i.e. in the statement of comprehensive income).

Within the Nordzucker Group, interest rate derivatives are always integrated into hedging relationships as cash flow hedges. Stand-alone derivatives are also used to hedge currency and market risks.

3.15. Transactions and items in foreign currencies

Under IAS 21, a foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency. A foreign currency is defined as any currency other than the functional currency of the company. Foreign currency transactions are business transactions for the acquisition or sale of goods or services in a foreign currency, borrowing activity or leases in a foreign currency, or acquisitions or sales of assets or debt in a foreign currency by any other means. Foreign currency items are balance sheet items that are received or borrowed in foreign currency (and which were related with foreign currency transactions before initial recognition).

Foreign currency transactions or foreign currency items are translated into the functional currency initially at the spot exchange rate valid on the day of the transaction.

Subsequent recognition of foreign currency items depends on whether they are monetary or non-monetary items. Monetary items in a foreign currency are to be translated into the functional currency by each end of the reporting period using the closing rate (i.e. the spot exchange rate at the end of the reporting period); exchange differences must generally be recognised through profit or loss (i.e. in the income statement). Non-monetary items – provided that they are recognised at cost – are to be translated into the functional currency using the exchange rate on the day of their initial recognition. Non-monetary items recognised at fair value must be translated using the exchange rate that was valid on the day of their recognition (i.e. generally using the closing rate). Exchange differences from non-monetary items should be treated like all other gains or losses, i.e. they are either recognised with an effect on profit or loss or with no effect on profit or loss under other comprehensive income (i.e. in the statement of comprehensive income).

3.16. Acquisitions

Business combinations are presented using the purchase method in accordance with IFRS 3. The acquisition costs of a business combination are defined as the total consideration paid, measured at fair value as of the acquisition date and the non-controlling interests in the acquired entity. For every business combination the acquirer measures the non-controlling interests in the acquired entity either at fair value or at their pro rata share of the identified net assets of the acquired entity. Costs incurred in the course of the business combination are recognised as expenses in profit or loss.

If the Group acquires an entity it determines the appropriate classification and designation of the financial assets and liabilities assumed in accordance with the terms of the contract, economic circumstances and the conditions at the acquisition date. This also includes separating embedded derivative financial instruments from their host contract.

For business combinations in stages, the fair value of the equity interest held by the purchaser in the acquired entity is measured as of each acquisition date and the resulting gain or loss is recognised in the income statement.

The agreed contingent consideration is recognised at fair value as of the acquisition date. Subsequent changes in the fair value of a contingent consideration that constitutes an asset or a liability are generally recognised either in the income statement or in other comprehensive income in accordance with IAS 39. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Goodwill is initially recognised at cost, which is defined as the excess of total consideration transferred and the amount of any non-controlling interest over the identifiable assets acquired and the liabilities assumed. If this consideration is below the fair value of the net assets of the company, the difference is recognised in the income statement.

After initial recognition, goodwill is not subject to scheduled amortisation, but is tested at least once a year for impairment under IAS 36 (see also Notes 3.3 and 3.6).

4. DISCRETIONARY DECISIONS AND ESTIMATION UNCERTAINTY

The presentation of the net assets, financial and earnings position, as well as the accounting policies, are influenced by estimations and assumptions. Estimated values and actual amounts may vary – sometimes significantly.

In particular, key estimates and assumptions have been made in defining uniform periods of depreciation and amortisation for the Group, the amount of impairments on receivables, as well as determining the actuarial assumptions for measuring pension provisions. At the same time, it is also highly necessary to make estimates and assumptions to account for provisions or disclose contingent liabilities – particularly with regard to related or potential legal disputes or other pending claims. Estimates, for example, must be made regarding the likelihood of a pending case being ruled in the claimant's favour, and regarding any payment obligations arising as a recognition the ruling. There is also estimation uncertainty in the recognition of provisions for onerous contracts or imminent losses with regard to whether a loss is likely, and whether it is possible to estimate this loss reliably. For deferred tax assets, the main estimates relate to the taxable profits that will be generated in future. Other significant estimations are made with regard to the issue of whether there are reasons for an impairment of assets or a cash-generating unit, as well as in the implementation of the impairment testing in accordance with IAS 36 with regard to determining the cash flows in the forecast period and the selection of a suitable capitalisation rate. We refer to the corresponding notes to the consolidated balance sheet for the carrying amounts of balance sheet items affected by significant estimates.

5. ACCOUNTING STANDARDS TO BE APPLIED FOR THE FIRST TIME

The Nordzucker Group applied the following pronouncements or amendments to existing pronouncements of the IASB or IFRS IC for the first time during the reporting period:

- > Amendment to IAS 1 Presentation of Financial Statements;
- > Amendment to IAS 19 Employee Benefits;
- > IFRS 13 Fair Value Measurement;
- > Amendment to IFRS 7 (designation of the amendment: Disclosures – Offsetting Financial Assets and Financial Liabilities);
- > Improvements to International Financial Reporting Standards (published 2012);
- > Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards (designation of the amendment: Government Loans);
- > IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine.

The amendment to IAS 1 contains new guidelines for the structure of the statement of comprehensive income. The items listed under other comprehensive income on the statement of comprehensive income must now be divided into two groups, depending on whether or not they will be reclassified to the income statement in the future.

The amended of IAS 19 has resulted in significant changes to the accounting policies used by the Nordzucker Group. Note 7 goes into more detail regarding the changes to the regulations and the effects associated with them.

IFRS 13 contains general and overarching regulations with regard to the definition and determination of fair value, as well as to the associated disclosures. The guidelines apply to almost every standard, with accounting for Inventories (IAS 2), Leases (IAS 17) and Share-based Payment (IFRS 2) the only exceptions. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The amendment to IFRS 7 extends the disclosure obligations for financial instruments to include disclosures in connection with offsetting financial assets and financial liabilities.

The IASB makes amendments to various IFRSs via its overarching 'Improvements to International Financial Reporting Standards'. A total of five standards were amended with the 2012 publication. The amendments to IAS 16 are likely to be the only ones relevant to the Nordzucker Group. These amendments clarify the fact that spare parts, stand-by equipment and servicing equipment may qualify as items of property, plant and equipment if they fulfil the relevant definition.

The amendment to IFRS 1 is not relevant to the Nordzucker Group because IFRS 1 concerns the first-time application of IFRS.

IFRIC 20 is also of no consequence for the Nordzucker Group because its interpretation refers to accounting issues facing mining companies.

With the exception of the amendments to IAS 19, none of the above amendments have any major impact on the net assets, financial and earnings position or the cash flows of the Nordzucker Group.

6. ACCOUNTING STANDARDS NOT APPLIED

No IFRSs were voluntarily applied ahead of time in the consolidated financial statements of Nordzucker AG as of 28 February 2014. The pronouncements will be taken into account for the first time when their application becomes mandatory. The application of IFRS requires the European Union (EU) to first grant approval (endorsement process), which in some cases is still outstanding.

In addition, the Nordzucker Group has not yet applied IFRS 8 Operating Segments or IAS 33 Earnings per Share; their application is only mandatory for capital market related companies.

The amendments listed below are not likely to have any major impact on the presentation of the net assets, financial and earnings position or the cash flows of the Nordzucker Group.

6.1. Mandatory first-time application in the 2014/2015 reporting period

The following pronouncements are to be applied for the first time in the Nordzucker consolidated financial statements as of 28 February 2015:

- > Amendment to IAS 27 Consolidated and Separate Financial Statements (in future: Separate Financial Statements);
- > Amendment to IAS 28 Investments in Associates (in future: Investments in Associates and Joint Ventures);
- > IFRS 10 Consolidated Financial Statements;
- > IFRS 11 Joint Arrangements;
- > IFRS 12 Disclosure of Interests in Other Entities;
- > Amendments to IFRS 10, IFRS 11 and IFRS 12 (designation of the amendments: Consolidated Financial Statements, Joint Agreements and Disclosure of Interests in Other Entities: Transition Guidance, as well as Investment Entities);
- > Amendment to IAS 32 (designation of the amendment: Presentation – Offsetting Financial Assets and Financial Liabilities);
- > Amendment to IAS 36 Impairment of Assets (designation of the amendment: Recoverable Amount Disclosure for Non-Financial Assets);
- > Amendment to IAS 39 Financial Instruments: Recognition and Measurement (designation of the amendment: Novation of Derivatives and Continuation of Hedge Accounting);
- > IFRIC 21 Levies (not yet endorsed by the EU).

The amendments to IAS 27 and IAS 28, as well as IFRSs 10 to 12, have brought about changes in the guidelines for consolidated accounting:

- > Following the adoption of IFRS 10 and IFRS 12, the scope of IAS 27 is limited to accounting for subsidiaries, joint ventures and associated companies in separate financial statements. In addition, the scope of IAS 28 has been extended to cover the application of the equity method to joint ventures as well as to associated companies.
- > IFRS 10 replaces the previous regulations on consolidated accounting in IAS 27 and SIC-12. The standard defines a uniform concept of control, which is applied to all companies including special purpose entities.
- > IFRS 11 replaces IAS 31 and SIC-13. IFRS 11 abolishes the previous option of accounting for joint ventures using the proportional consolidation method, i.e. joint ventures now have to be accounted for using the equity method.
- > IFRS 12 contains uniform rules for disclosures in the area of consolidated accounting and consolidates the disclosures on subsidiaries that were previously governed by IAS 27, the disclosures on joint ventures and associated companies previously defined in IAS 31 and IAS 28 respectively and those for structured entities.

The amendment to IAS 32 includes clarifications on offsetting financial instruments, although it retains the existing basic rules.

The amendment to IAS 36 requires the provision of disclosures regarding the recoverable amount for assets or cash-generating units for which impairments were made or reversed during the reporting period.

The amendment to IAS 39 allows, under certain conditions, for the continuation of hedge accounting with derivatives which are transferred to a central clearing house.

IFRIC 21 determines that a company active in a particular market must recognise a liability for the levies for the relevant authorities in the market if the business activity causing the levy takes place. For levies dependent on a certain minimum volume being reached, for example, the interpretation clarifies that the liability can only be recognised as such once this minimum volume has been reached.

6.2. Mandatory first-time application in the 2015/2016 reporting period or later

These standards or amendments are to be applied to the Nordzucker consolidated financial statements for the first time as of 29 February 2016 or for later reporting periods:

- > Amendment to IAS 19 Employee Benefits (designation of the amendment: Employee Contributions; not yet endorsed by the EU);
- > Improvements to International Financial Reporting Standards (2010–2012 Cycle; published in 2013; not yet endorsed by the EU);
- > Improvements to International Financial Reporting Standards (2011–2013 Cycle; published in 2013; not yet endorsed by the EU);
- > IFRS 9 Financial Instruments (published 2009, 2010) and subsequent amendments to IFRS 9 and IFRS 7 (designation of the amendments: Mandatory Effective Date and Transition Disclosures – Amendments to IFRS 9 and IFRS 7; published in 2011) and to IFRS 9, IFRS 7 and IAS 39 (designation of the amendments: IFRS 9 Financial Instruments – Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39; published in 2013); not yet endorsed by the EU.
- > IFRS 14 Regulatory Deferral Accounts (not yet endorsed by the EU).

The amendment to IAS 19 governs the recognition of contributions made by employees or third parties to pension plans to reduce the service cost insofar as the reduction reflects the service rendered during the reporting period.

The IASB makes amendments to various IFRSs via its overarching ‘Improvements to International Financial Reporting Standards’. The 2010–2012 cycle amended a total of seven standards; the 2011–2013 cycle amended four.

IFRS 9 is to replace the existing regulations in IAS 39 regarding accounting for financial instruments. The standard is being developed by the IASB in a series of stages and will then be published. EU adoption of the standard will only begin once the IASB has completed all the stages. IFRS 9 contains new regulations on categorisation and measuring financial assets as well as on accounting for hedging relationships. The existing guidelines on the categorisation and measurement of financial liabilities will largely be retained.

IFRS 14 will make it possible to continue using previously applied accounting guidelines to account for regulatory deferred income items from price regulations during the transition to the new IFRS.

7. CHANGES IN THE REPORTING STRUCTURE AND CHANGES OF ACCOUNTING POLICIES

7.1. Presentation of the income statement according to the cost of sales method

In the 2013/2014 Nordzucker consolidated financial statements, the income statement has been prepared using the cost of sales method for both the reporting period and the comparative period. In previous annual reporting periods, the income statement was prepared using the nature of expense method. The transition is a result of the fact that the cost of sales method has become the more common method on both a national and international level. It is also used predominantly in the industry. As such, switching over to the cost of sales method will facilitate the comparison of the Nordzucker consolidated financial statements.

7.2. Changes resulting from IAS 19

Within the Nordzucker Group, an amended version of IAS 19 (published in 2011) was applied for the first time in the 2013/2014 reporting period. The first-time application is made retrospectively, i.e. it must be accounted for as if the new guidelines had always been used. As a result, amounts from the comparative period must be adjusted. For significant retrospective adjustments, IAS 1 additionally requires the preparation of an additional (third) balance sheet at the beginning of the comparative period. Adjustments for earlier periods that are not shown in the financial statements are offset against the value on the opening balance sheet for each equity component affected in the earliest period presented.

For the Nordzucker Group, the following amendments to the regulations in IAS 19 have an effect on the presentation of the net assets, financial and earnings position:

- > In terms of pension provisions, the abolition of the corridor method will lead to the immediate recognition of actuarial gains and losses, as well as of past service costs. This results in the fact that at the end of each reporting period the full amount of the net liability (defined benefit obligation less plan assets) is presented.
- > In conjunction with pension provisions, the expected return on plan assets or on reimbursements no longer has to be recognised as interest income in the income statement. Instead, interest income for the reporting period must be calculated on the basis of the discount rate at which the defined benefit obligation was determined at the end of the previous reporting period. The difference between the actual return on plan assets or on reimbursements for the reporting period and the interest income calculated based on the discount rate represents a gain or loss as a result of the remeasurement of the plan asset or reimbursement. This gain or loss must be recognised outside of profit or loss under other comprehensive income (i.e. in the statement of comprehensive income).
- > For other provisions, there are changes with regard to the value of obligations from partial early retirement agreements. On the basis of previous regulations, the top-up amounts were treated in the same way as benefits arising from the termination of an employment relationship (termination benefits), i.e. they were recorded as liabilities in their full amount at the time the benefits were approved. With the revision of IAS 19, the definition of termination benefits has been changed; it now no longer includes any payments in exchange for future work. This also affects the top-up amounts, which are now no longer accountable as termination benefits, but are recognised proportionally over the vesting period as a provision according the rules of other long-term employee benefits. As a consequence, partial early retirement obligations were previously overstated on the basis of the revised IAS 19.

The following table shows the effects of the changes in accounting methods for pension and partial early retirement obligations on the balance sheet and result:

<i>in EUR thousands</i>	28/2/2013 cumulative	28/2/2013	1/3/2012
Retained earnings	10,657	8,416	2,241
of which adjustments within the income statement			
Administrative expenses		- 434	
Financial income		- 1,446	
Financial expenses		13,834	
Income taxes		- 3,538	
Other comprehensive income (including non-controlling inter- ests, including deferred taxes)	- 35,357	- 23,645	- 11,712
Provisions for pensions and similar obligations (non-current)	35,590	20,724	14,866
Other provisions (non-current)	- 789	618	- 1,407
Deferred tax assets	10,101	6,113	3,988

If the Nordzucker Group were to continue applying the old version of IAS 19, the net expenses recorded in the income statement for pension provisions in the reporting period would exceed those calculated under the new version of IAS 19 by EUR 231 thousand. Under the hypothetical application of the old version of IAS 19, the pension provisions shown in the balance sheet would have been EUR 32,149 thousand lower as of the reporting date than on the basis of the new version of IAS 19; as a result, the equity shown in the balance sheet, adjusted for deferred taxes, would have been correspondingly higher.