

# GROUP MANAGEMENT REPORT OF NORDZUCKER AG

## NORDZUCKER AT A GLANCE

### Business activities

Nordzucker is the second largest sugar producer in the European Union, with a market share of more than 15 per cent, as measured by its share of the **EU sugar quota**. In the past financial year, the company produced 2.5 million tonnes of sugar from sugar beet and refined 200,000 tonnes of sugar from **raw cane sugar** at 13 sites in seven European countries. On average over the year the Group had 3,279 employees.

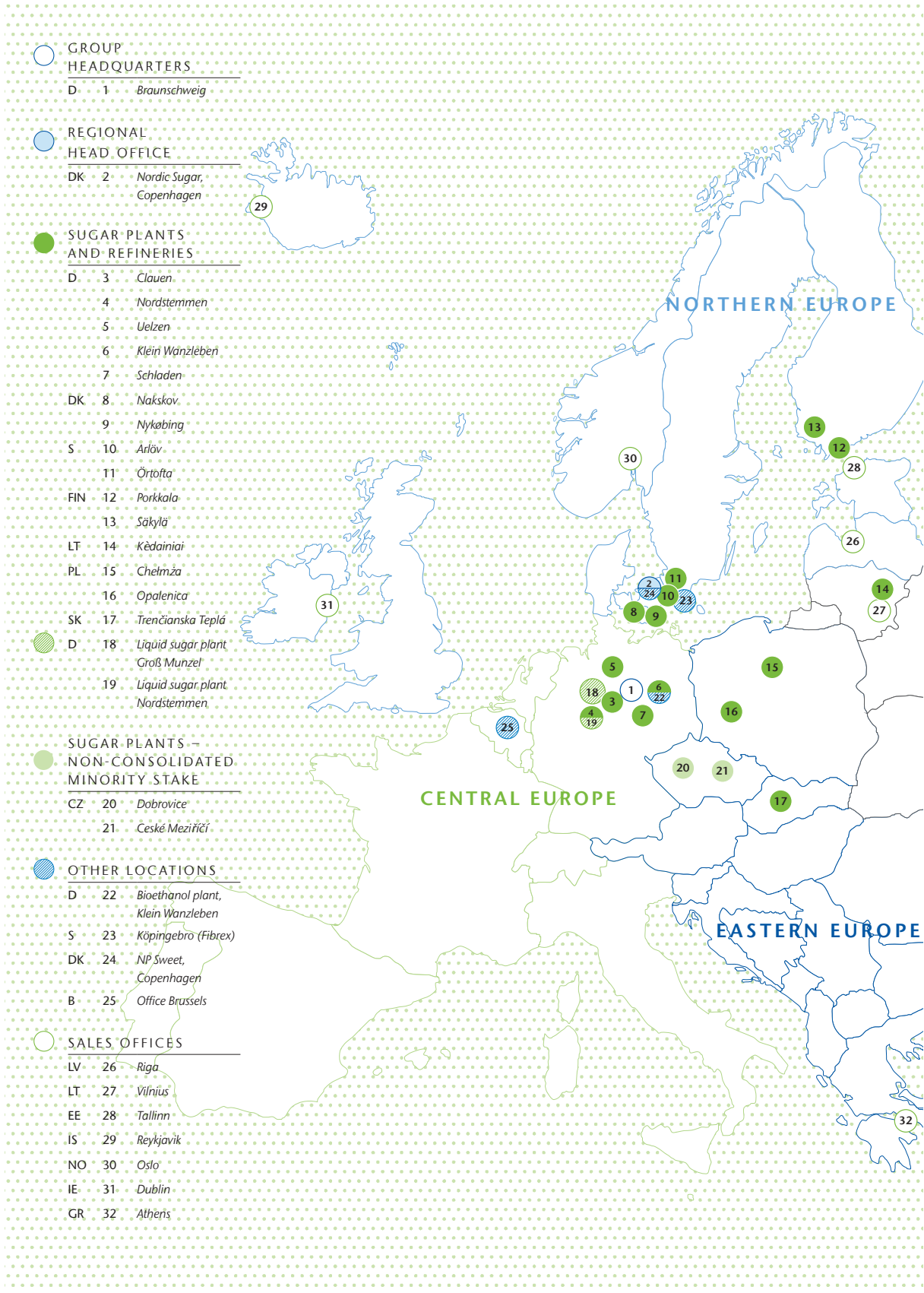
Our customers include the confectionery industry as well as producers of dairy and bakery products, jams, ice cream and drinks. Nordzucker sells some 80 per cent of its sugar to manu-

facturers of food and beverages. The remaining 20 per cent is supplied to consumers via the retail industry. Nordzucker sells these retail sugar products in many different varieties, primarily under the brand names **SweetFamily** in Germany and Eastern Europe and **Dansukker** in Northern Europe. The portfolio includes other products of the sugar-making process, especially **dried pulp pellets** and **pressed pulp** as animal feed and **molasses** for the yeast and alcohol industries.

Sustainability, environmental protection and product safety have a particularly high priority at Nordzucker.

NORDZUCKER AG					
REGION CENTRAL EUROPE (CE)		REGION NORTHERN EUROPE (NE)		REGION EASTERN EUROPE (EE)	
NORDZUCKER AG <i>Braunschweig/Germany</i>	100%	NORDIC SUGAR A/S <i>Copenhagen/Denmark</i>	100%	POVAŽSKÝ CUKOR A.S. <i>Trenčianska Teplá/Slovakia</i>	96.80%
NORDDEUTSCHE FLÜSSIGZUCKER GMBH & CO. KG <i>Braunschweig/Germany</i>	70%	NORDIC SUGAR AB <i>Malmö/Sweden</i>	100%	NORDZUCKER POLSKA S.A. <i>Opalenica/Poland</i>	99.87%
		SUOMEN SOKERI OY <i>Kantvik/Finland</i>	80%	TEREOS TTD, A.S. <i>Dobruvice/Czech Republic</i>	35.38%
		SUCROS OY <i>Säkylä/Finland</i>	80%		
		AB NORDIC SUGAR KĖDAINIAI <i>Kėdainiai/Lithuania</i>	70.60%		
		NORDZUCKER IRELAND LTD. <i>Dublin/Ireland</i>	100%		

LOCATIONS IN EUROPE



## Group structure

The Nordzucker Group is divided into the three regions of Central, Northern and Eastern Europe.

### Central Europe

In the Central Europe region, Nordzucker AG operates five sugar plants in Germany. The plants are in Lower Saxony and Saxony-Anhalt, and produce around one million tonnes of quota sugar every year. Sugar from the Central European region is mainly sold on the German market. Markets outside the EU account for around five per cent of sales.

Other products of the sugar-making process are also sold, such as animal feed and **molasses**.

In addition, Nordzucker produces and markets **bioethanol** from intermediate products of the sugar-making process (**raw juice, thick juice**) and **molasses** at its plant in Klein Wanzleben.

Nordzucker AG holds a majority stake in Norddeutsche Flüssigzucker GmbH & Co. KG (NFZ), which operates two liquid sugar plants, in Nordstemmen and Groß Munzel.

An average of 1,247 employees worked in the Central Europe region in the financial year 2013/2014. Its business accounted for around 44 per cent of Group revenues.

### Northern Europe

In the Northern Europe region, Copenhagen-based Nordic Sugar produces sugar in five plants and two refineries in Denmark, Sweden, Finland and Lithuania. The company markets a broad range of sugar products, above all in the Nordic countries, the Baltic states and Ireland. Nordic Sugar is the market leader in Northern Europe and its 1,509 employees contributed around 40 per cent to Nordzucker's consolidated revenues in 2013/2014.

NP Sweet is also based in Copenhagen. The joint venture between Nordzucker and PureCircle develops and distributes products based on the sweetener **stevia (steviol glycosides)** in collaboration with its customers.

### Eastern Europe

The Eastern Europe region includes two sugar plants in Poland, one of which is also used as a sugar refinery, and one in Slovakia. Furthermore, Nordzucker has a 35 per cent stake in Tereos TTD a.s., a sugar producer in the Czech Republic. The Eastern Europe sales area also includes a number of other Eastern European states. Nordzucker had an average of 523 employees in the Eastern Europe region in 2013/2014. It accounted for around 16 per cent of consolidated revenues.

## Strategy

Since the company was founded in 1997, Nordzucker has focused on growth in its core sugar market. Consolidation of the North German sugar industry was followed by several acquisitions in Eastern Europe. Nordzucker pursued its growth strategy with the purchase of Nordic Sugar in 2009 and is now the second largest sugar producer in Europe.

After restructuring its investment portfolio in 2010 and 2011, the Group is initially concentrating on its core business: the production and distribution of sugar. The Nordzucker Group benefits from its strong market position in the EU. Further reinforcing this position remains its overriding corporate objective. In addition, the company reviews growth opportunities outside Europe. The focus is on attractive growth regions such as Africa and Asia, because demand for sugar is growing rapidly there – in contrast to the EU. These reviews are aimed at preparing the company to move into the production of cane sugar and to build a regional sugar marketing organisation in order to develop an additional high-potential business area. The objective is to sign cooperation agreements with local, national or international partners. A final decision on an actual commitment and the associated issues, such as the construction of production facilities, for example, had not been made at the time the consolidated financial statements and Group management report were prepared, however. Projects outside Europe not only bring considerable growth opportunities, but also new challenges. The Executive Board is therefore reviewing these opportunities with particular care.

In response to growing demand for natural sweeteners, Nordzucker also sells products containing **stevia**, a plant-based sweetener, in addition to sugar.

Sustainable business determines all the workflows throughout the company. Long-term success can only be secured by running a sustainable business and by including environmental protection, energy efficiency and social aspects in business decisions. Product safety and occupational health and safety also have a high priority within the company. Nordzucker sets itself ambitious targets in all areas of sustainability, which result in continuous improvements. It is particularly important to include the entire process chain, from the beet to the customer, in the sustainability assessment.

Nordzucker's aim is to offer high-quality products and first-class service at a reasonable price. Only by providing consistently high quality can Nordzucker retain the loyalty of its customers as competition grows even more intense. Nordzucker therefore sets great store by customer orientation, individual solutions, great flexibility and dependability of supplies. Its broad product range, which includes a wide assortment of speciality products, also adds value for customers.

Continuous efficiency improvements along the entire value chain are driven by wide-ranging projects throughout the Group. Efforts are particularly focused on steps to achieve lasting increases in the yields from beet farming. The aim of the 20·20·20 project is for 20 per cent of beet farmers to achieve a yield of 20 tonnes of sugar per hectare by 2020, because it is vital to make sugar beet even more competitive in comparison with other crops, so as to safeguard beet cultivation in our regions for the long term. The 20·20·20 project includes activities in the areas of research, cultivation advice and communications.

The five-year efficiency improvement programme 'Profitability *plus*' has been under way since 2009/2010 and has also delivered cost reductions in all areas of the company. The savings target of EUR 67 million was achieved in the financial year 2013/2014, a year earlier than planned. Major investments in the production process made a key contribution, especially those aimed at saving energy. Significant improvements were also made in the purchasing of energy and technical services. Another focus of our work in recent years has been the harmonisation and optimisation of business processes and the integration of the IT environment for the whole Group, which all contribute substantially to lasting improvements in the company's competitiveness. All the efficiency programmes are aimed at preparing the company for the changes to the market and competitive situation that will take place after 2017.

Sustainability, a focus on customers and markets, and efficiency gains strengthen the company's market position and enable additional growth in the core business. Nordzucker's goal is not just to develop its excellent position within Europe, but to open up new growth areas outside Europe at the same time. Both are necessary to ensure long-term profitability and further growth.

**Company management**

The company is managed by an Executive Board made up of several members. It reports to the Supervisory Board, which has 21 members, of which 14 represent the shareholders and seven the employees. The internal management of the company is carried out by means of financial indicators. The following targets have been set: a **return on sales** of five per cent, **total operating profitability** of 15 per cent, a **return on equity** of ten per cent and an **equity ratio** of 30 per cent.

**Shareholder structure of Nordzucker AG**

Following the merger between Nordharzer Zucker Aktiengesellschaft and Nordzucker Holding Aktiengesellschaft as of 1 April 2013, Nordzucker Holding Aktiengesellschaft holds 84.1 per cent of the shares in Nordzucker AG. A further 10.8 per cent is held by Union-Zucker Südhannover Gesellschaft mit beschränkter Haftung. 5.1 per cent of the capital is held by other shareholders. The Nordzucker AG share is not traded on the stock exchange. Shareholders are, to a large extent, also active beet suppliers of Nordzucker AG.

**SHAREHOLDER STRUCTURE OF NORDZUCKER AG**

EUR 123.7m share capital

