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GROUP MANAGEMENT REPORT 2016 | 2017

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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 the EU sugar quota. In the 2016/2017 financial year, the company produced 2.5 million tonnes of sugar from sugar beet in 13 sugar plants in seven European countries. On average over the year, the Group had 3,236 employees.

Our customers include the confectionery industry as well as producers of dairy and bakery products, jams, ice cream and drinks. To a lesser extent, Nordzucker’s products are also used for purposes other than human consumption, such as in the chemical industry, for example. The company sells some 80 per cent of its sugar to customers in the food industry. The remaining 20 per cent is supplied to consumers via the retail industry. Nordzucker sells these retail sugar products to consumers in many different product categories and packaging sizes, primarily under the brand names SweetFamily in Germany, Poland and Slovakia and Dansukker in Northern Europe. Standard products are also sold to consumers under white-label brands. The portfolio includes other products of the sugar-making process, especially dried pulp pellets, pressed pulp and molasses as animal feed – the latter also for the yeast and alcohol industries.
STRATEGY

Since the company was founded in 1997, Nordzucker has systematically driven 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 the Nordic Sugar Group in 2009 and is now the second largest sugar producer in Europe. After restructuring its investment portfolio in 2010 and 2011, the Nordzucker Group now concentrates on the production and distribution of sugar. It benefits from a strong market position in the EU and a solid financial structure.

Nordzucker’s aim is to offer high-quality products and first-class service at a reasonable price. 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, adds value for customers.

Sustainable Business determines all of the workflows throughout the company and includes the entire value chain, from the beet to the customer. Environmental protection, energy efficiency and social aspects are taken into account in all business decisions. Product safety and occupational health and safety have top priority. Nordzucker sets itself ambitious targets in all areas of sustainability, which result in continuous improvements.

With the end of the quota system in 2017, competition will intensify further. The EU sugar market is therefore expected to undergo a renewed process of consolidation, in which Nordzucker aims to play an active role. Overall, Nordzucker has the best chances of being able to exploit the resulting market opportunities. The company works continuously to achieve further efficiency gains and makes targeted investments in its plants, in order to maintain their high level of productivity.

As the SUGAR MARKET REGIME expires in 2017 and the limit on export volumes is lifted, the sugar trade will become more important in future. This means that it will be important for the company to build up additional expertise in European sugar exports and to establish the logistics required for this in order to ensure its further development. In light of this, Nordzucker acquired a stake of 25 per cent in August Töpfer Zuckerhandelsgesellschaft mbH & Co. KG, Hamburg, in the 2015/2016 financial year. This move to strengthen the company does not, however, mean compromising existing relationships with international partners.

In addition, Nordzucker reviews growth opportunities outside Europe. The focus is on attractive growth regions where demand and/or production is likely to grow significantly – in contrast to the EU. The company aims to produce and market sugar outside of Europe within the framework of cooperation initiatives with local, national or international partners. Adjacent agricultural markets in which Nordzucker can apply its outstanding expertise in the processing of, logistics for and distribution of agricultural products offer a further potential growth area.

To prepare for the challenges it will face after the system of EU quotas expires in 2017, Nordzucker embarked on a wide-ranging programme of change that involved staff at all levels of the company. It aimed, in particular, to raise further awareness among all employees of the changes in the market. Thanks to this project – entitled CHANGE – and to many other initiatives implemented in recent years, Nordzucker is more market- and customer-oriented, efficient and effective today than ever before. The transformation process is based on the four Nordzucker values, which have guided the company for many years: dedication, responsibility, courage and appreciation. These VALUES unite our employees in a manner that transcends national borders and they enable them to perform to the very best of their ability.
Nordzucker works continuously to improve efficiency along the entire value chain. 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 the top 20 per cent of beet growers to achieve a yield of 20 tonnes of sugar per hectare by 2020. This project aims to make sugar beet even more competitive in comparison with other crops, thereby safeguarding beet cultivation in the catchment areas of the plants for the long term. Alongside elements of research work and cultivation techniques, the 20·20·20 project also includes communication of the findings, especially by means of cultivation-related advisory work.

Another efficiency programme called Force was launched at the beginning of 2015. This programme aims for substantial cost savings in all areas of the company. Various sub-projects are intended to deliver annual savings across the Nordzucker Group of at least EUR 50 million. The focus is on purchasing, production and all administrative areas. Furthermore, a team has been set up to establish lean management methods at Nordzucker. The entire management at Nordzucker as well as a large part of the workforce have since undergone training in these methods. Lean management aims to simplify processes, prevent waste and cut costs in the long term. The approach is based on a consistent customer focus and on the systematic analysis of workflows. Various projects have already achieved substantial performance gains.

COMPANY MANAGEMENT AND ORGANIZATION

The Nordzucker Group is managed by an Executive Board made up of several members. The Executive Board reports to the Supervisory Board, which has 21 members, of which 14 represent the shareholders and seven the employees. After the 2017 Annual General Meeting, the Supervisory Board will be reduced to 15 members, of which ten will represent the shareholders and five the employees.

Since late 2014, Nordzucker has been managed and controlled purely in terms of functions. Within the Executive Board, the respective functions are the Chairman (responsible for HR, Legal, Business Development, Internal Audit and Communications), Beet Procurement, Production and Purchasing, Marketing and Sales, and Finance. A business team, which consists of five managers, is responsible for the operational management of the company at the level directly below the Executive Board and prepares decisions for the Board. Management is strictly by function, meaning that each area of functional responsibility covers all the subsidiaries and plants and all the countries in which Nordzucker operates. The functional structure pools professional expertise across the company and uses the existing knowledge to the benefit of the company at all of its sites. Standardizing and harmonizing all processes facilitates international cooperation within the Nordzucker Group. As “One Company” (“One Nordzucker”), the business is much more powerful; efficiency is thereby increased, process quality improved, the transfer of knowledge enabled and cost savings achieved thanks to clear responsibilities without overlaps.

The internal management of the Nordzucker Group is carried out by means of financial and non-financial indicators. A new system of financial indicators was introduced in the reporting period, consisting of RoCE, EBIT margin, net income for the period, equity ratio, net debt and free cash flow. The key indicators used to date (EBITDA margin, return on sales, return on equity and the equity ratio that is already used) will continue to be reported in parallel for the time being. RoCE and the EBIT margin measure the profitability of the operating business, while net income for the period measures profitability from the perspective of the owners. RoCE is an important key indicator: it corresponds to the ratio of EBIT to the average capital employed. By comparing the RoCE actually achieved with the expectations of our shareholders and lenders (known as the “cost of capital”), we can measure whether our lenders have generated a return on their capital employed.
that is in line with market conditions. The other key financial indicators, equity ratio, net debt and free cash flow, measure the company’s financial stability, financing leeway and the generation of cash flow within the business.

At the same time, non-financial performance indicators are becoming more important for managing all areas of the company. In the course of the 20-20-20 project, for instance, the aim is for the top 20 per cent of beet growers to produce 20 tonnes of sugar per hectare by 2020. The company also tracks a large number of key indicators relating to sustainability. These reflect the significance of environmental aspects, as well as product quality and occupational health and safety, for example. The development of these key indicators and their target achievement are reported regularly on the Group’s website.

SHAREHOLDER STRUCTURE OF NORDZUCKER AG

Nordzucker Holding AG holds 83.8 per cent of the shares in Nordzucker AG. A further 11.1 per cent is held by Union-Zucker Süd hannover GmbH mit beschränkter Haftung. 5.1 per cent of the capital is held by other shareholders. Nordzucker AG shares are not traded on a stock exchange. A large proportion of the shareholders in Nordzucker Holding AG and Nordzucker AG, as well as the shareholders of Union-Zucker Süd hannover GmbH mit beschränkter Haftung, are also active growers who sell their beet to Nordzucker AG. No single shareholder of Nordzucker Holding AG has more than 25 per cent of the shares.

MACROECONOMIC SITUATION

According to the Organisation for Economic Co-operation and Development (OECD), global economic growth in the year under review was almost as strong as in the previous year. While global gross domestic product (GDP) had increased by 3.1 per cent in 2015, growth in 2016 came to 2.9 per cent. The slight slowdown was due, in particular, to the weaker development in the US and the Eurozone. In addition, two major economies Russia and Brazil were locked in a recession.

Growth in the European Union was down year on year from 2.2 per cent to 1.8 per cent. Bolstering effects such as the persistence of a relatively weak euro to US dollar exchange rate and the ongoing low interest rate policy pursued by the European Central Bank were unable to compensate in full for the numerous sources of economic uncertainty – among other things due to several terrorist attacks, the United Kingdom’s imminent exit from the EU and the banking crisis in Italy.

According to the German Federal Statistical Office, economic growth in Germany came to 1.9 per cent in 2016 (previous year: 1.7 per cent). This puts it roughly on a par with the European average. As in the previous year, German growth was driven largely by private consumer spending. Rising government spending, the continued growth in the real estate sector and moves by companies to increase their investments in machinery also provided a boost to growth.
THE SUGAR MARKET

SECTOR DEVELOPMENTS

WORLD SUGAR MARKET

The 2015/2016 sugar marketing year (1 October to 30 September) was the first in six years in which global consumption outstripped global production. According to data supplied by market research institute F. O. Licht and the assessments of other market observers, the total deficit came to 9.0 million tonnes, meaning that prices made a considerable recovery. In the 2016/2017 sugar marketing year, the deficit is set to drop to 5.5 million tonnes, as a number of producer countries will increase their production while consumption is only likely to increase by a moderate 0.6 per cent. Two years characterized by deficits will reduce stocks considerably, meaning that, when the 2016/2017 sugar marketing year comes to a close on 30 September 2017, they are likely to correspond to 36.1 per cent (2015/2016: 39.4 per cent) of the annual consumption – the lowest level since 2010/2011.

Although the amount produced by the five biggest producer countries will fall in 2016/2017, the expected volume loss is forecast to be offset by increased production in Europe, Africa and Central America. In India, production is still suffering due to the dry weather seen in 2015 and 2016, meaning that production in 2016/2017 could continue to lag behind current expectations. According to F. O. Licht, global production should increase by 3.3 million tonnes to 178.0 million tonnes in 2016/2017.

EU PRICES AND WORLD MARKET PRICES FOR SUGAR, 2006 – 2017

Euro

Source: EU-Price-Reporting, 27 April 2017 and for the world market, London No 5
Two consecutive years of deficits have left their mark on prices; starting at a low of EUR 308 per tonne in August 2015, the price of white sugar had risen to EUR 540 per tonne by October 2016, based on the London No. 5 quoted price. The market has since calmed down, with prices having dropped back to EUR 513 by the end of February 2017. In the last reporting year (March 2016 to February 2017), the price of white sugar rose by 43 per cent from EUR 358 per tonne to EUR 513 per tonne. Prices on the international raw sugar markets collapsed in March 2017, however, which may have an impact on the development of market prices in the EU.

THE SUGAR MARKET IN THE EU

Nordzucker’s 2016/2017 financial year falls within two EU sugar marketing years: 2015/2016 and 2016/2017 (each from 1 October to 30 September). Until 30 September 2017, the EU will distinguish between quota sugar for human consumption and non-quota sugar for industrial use (especially the production of bioethanol) and export. Sugar for human consumption can also be obtained by imports from ACP/LDC countries or by CXL imports.

When the quota system for sugar and the minimum price for sugar beet no longer apply from October 2017, the EU sugar market will be faced with fundamental changes. There will then be no limits on the production of sugar for human consumption or on the production of isoglucose. This will not only considerably intensify competition among sugar producers, but also competition with isoglucose.

According to the European Commission, only 18.3 million tonnes were produced in the 2015/2016 sugar marketing year, following the record campaign of 2014/2015, when 20.8 million tonnes of sugar were produced. Out of the amount produced in 2015/2016, 14.2 million tonnes were quota sugar and 4.1 million tonnes were non-quota sugar. In addition, 3.5 million tonnes of quota sugar were imported, roughly the same amount as in the previous year. With consumption, including exports, of 18.0 million tonnes, quota sugar stocks had declined further by the end of the marketing year to the current level 1.0 million tonnes. This means that stocks of quota sugar have dropped from 2.6 million tonnes in 2013/2014 to only 1.0 million tonnes.

Whereas in the 2014/2015 sugar marketing year, a large harvest and the ensuing sales pressure, ample supplies of quota sugar as well as the weak world market prices at the time all put the market for quota sugar under pressure, the situation stabilized in the 2015/2016 sugar marketing year. Prices recovered again slightly after the sharp drop in the price of quota sugar in the previous year: according to the European Commission, the average market price at the beginning of the 2015/2016 sugar marketing year (October 2015) was EUR 417 per tonne of white sugar, but at the end of the 2015/2016 sugar marketing year in September 2016, it was EUR 450 per tonne. This means that, despite the increase, the EU price in 2016 was, in some cases, still well below the global market price after prices on the international markets showed a rapid increase. One of the main reasons behind this difference in prices is the different time frame used for reporting purposes – the EU price is based on the contractually agreed revenues already transacted as reported by companies, whereas the futures markets trade based on the current market situation and future expectations.

1) ACP countries: Africa, Caribbean and Pacific
2) LDC countries: least developed countries
3) CXL imports: The “CXL quota” applies to Australia, Brazil, Cuba, India and other third countries. Each of these countries has quotas for importing sugar into the European Union with a combined total of 676,925 tonnes at a reduced rate of customs duties.
The 2016/2017 sugar marketing year (30 September 2017) has not yet come to an end. The European Commission estimates that sugar manufacturers in the EU have produced around 18.3 million tonnes of sugar this year, 14.2 million tonnes of which relate to quota sugar. This production volume is on a par with the previous year. In addition to the EU’s own production volume, the 2016/2017 sugar marketing year is also likely to see quota sugar imports of 3.5 million tonnes, i.e. also in line with the volume seen in the previous year. The European Commission estimates that the consumption of quota sugar (including exports) will come to 18.2 million tonnes. Taking account of stocks at the beginning of the period, the Commission expects to see total sugar stocks of 0.5 million tonnes of quota sugar and of 0.6 million tonnes of non-quota sugar at the end of the period.

The 2016/2017 sugar marketing year started in October with an average price of EUR 470, which represents a further recovery as against the previous months. In January 2017, the average price reported by the European Commission came to EUR 495 per tonne of white sugar.

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**GLOBAL SUGAR BALANCE**

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<tbody>
<tr>
<td>Opening Stocks</td>
<td>70,885</td>
<td>79,870</td>
<td>79,044</td>
<td>74,094</td>
<td>63,959</td>
<td>57,374</td>
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<td>Production</td>
<td>177,958</td>
<td>174,678</td>
<td>180,683</td>
<td>181,496</td>
<td>184,166</td>
<td>174,349</td>
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<td>Consumption</td>
<td>181,009</td>
<td>180,028</td>
<td>178,723</td>
<td>175,802</td>
<td>171,636</td>
<td>168,161</td>
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<td>Unrecorded disappearance</td>
<td>–2,451</td>
<td>–3,635</td>
<td>–1,134</td>
<td>–5,199</td>
<td>–2,395</td>
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<tr>
<td>Ending Stocks</td>
<td>65,383</td>
<td>70,885</td>
<td>79,870</td>
<td>79,044</td>
<td>74,094</td>
<td>63,959</td>
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<tr>
<td>Stock-to-use-ratio in %</td>
<td>36.12</td>
<td>39.37</td>
<td>44.69</td>
<td>44.96</td>
<td>43.17</td>
<td>38.03</td>
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<td>Surplus/Deficit</td>
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<td>–8,985</td>
<td>826</td>
<td>4,950</td>
<td>10,135</td>
<td>6,585</td>
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Source: F. O. Licht Weltzuckerbilanz, February 2017

**TOP 5 PRODUCERS**

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<tr>
<td>Brazil</td>
<td>40,055</td>
<td>40,511</td>
<td>34,706</td>
<td>39,534</td>
<td>41,162</td>
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<td>India</td>
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Source: F. O. Licht Weltzuckerbilanz, February 2017

**TOP 5 CONSUMERS**

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<tbody>
<tr>
<td>India</td>
<td>26,300</td>
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<td>EU</td>
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<td>China</td>
<td>17,250</td>
<td>17,065</td>
<td>16,600</td>
<td>16,150</td>
<td>15,760</td>
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<tr>
<td>Brazil</td>
<td>12,000</td>
<td>12,000</td>
<td>12,139</td>
<td>12,411</td>
<td>12,522</td>
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<td>USA</td>
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<td>10,954</td>
<td>10,903</td>
<td>11,099</td>
<td>10,661</td>
<td>10,205</td>
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Source: F. O. Licht Weltzuckerbilanz, February 2017
BUSINESS PERFORMANCE

INDUSTRIAL CUSTOMER BUSINESS

Most of Nordzucker’s industrial customers are food and beverage producers. A smaller group includes customers from the chemical industry, who use sugar for fermentation, for example, as opposed to for human consumption. The centrally managed sales team serves markets both within and outside of the EU. Nordzucker offers its customers pronounced product expertise and a solution-oriented service. This includes providing expert advice on the selection of different types of sugar and grain sizes, as well as extensive logistics services, for example, and high standards in terms of food safety and sustainability.

The 2016/2017 financial year was the last full financial year within the EU’s quota system. The prospect of the quotas expiring already had a significant impact on market activity, with competition becoming much more intense, particularly in Central and Eastern Europe. Europe’s sugar producers worked hard to strengthen their market positions, for example by focusing on specific customer groups or particular regions, or by pursuing aggressive price strategies, which increased the pressure on the market. At the same time, the supply of quota sugar decreased, because imports were unable to fully compensate for the excess demand in an environment characterized by a marked increase in world market prices. All in all, and despite more intense competition – following strong price reductions in the previous year – prices recovered considerably in the second half of the financial year.

In this complex market environment, Nordzucker was able to benefit both from higher prices and from higher sugar sales in Northern and Central Europe. Nordzucker was able to boost its sales with major international customers, in particular. Business outside of the EU also showed positive development and was up in a year-on-year comparison. Overall, 1,995 thousand tonnes of sugar were sold in the industrial sector in the past financial year, which corresponds to an increase of 4.1 per cent as against the previous year.

RETAIL CUSTOMER BUSINESS

The retail business includes retailers of food and household products as well as discount supermarkets. As with the industrial customer segment, this sales function is also managed centrally across all markets, with customer support provided on-site by local sales units.

Nordzucker has a broad range of products encompassing both standard products and a large number of speciality sugars. These products are marketed via a portfolio of Nordzucker brands that includes the high-volume SWEETFAMILY and DANSKUER brands, but also other regional brands that are tailored to suit the local market in question and that are very popular with customers. In Lithuania, for example, sugar is sold under the Panevezio Plius brand, while the Jelgavas Cukurs brand is used in Latvia. Both regional brands are very well-known among consumers and are associated with traditional values. White-label brands round off the retail offering. Nordzucker is a strong and reliable partner for the retail industry with excellent sales expertise relating to sugar.

The same factors that affect the industrial customer segment also influence the retail business. Nordzucker was able to hold its own in this challenging environment, with volumes on a par with the previous year in most of its markets. It even managed to further expand its good position in the key Scandinavian sales markets. By contrast, the intense competition in Germany – the biggest European retail market – continued in the 2016/2017 financial year. In order to achieve the best possible position for the period after the quotas expire, national and foreign competitors fought to secure market share, creating a tense price situation on the market. Although Nordzucker was able to strengthen its position with key customers, sales dipped slightly on the whole, particularly with regard to standard products, as a result of the difficult price situation. In total, 372 thousand tonnes of sugar were sold, which represents a decline of 5.5 per cent.

1,995 thousand tonnes of sugar sold in the industrial customer business

372 thousand tonnes of sugar sold in the retail customer business
MARKET FOR ANIMAL FEED AND MOLASSES

SECTOR DEVELOPMENTS

When sugar is produced from beets, the de-sugared beet cossettes are processed further to make valuable products. After being pressed mechanically, they are used as animal feed in the form of pressed beet pulp or (after being dried) as dried beet pulp. Beet molasses can be added to both products in varying quantities. Molasses is a syrup with a relatively high sugar content that can only be used to produce granulated sugar in a very laborious process. Molasses contains numerous sugar beet ingredients that provide a natural source of nutrients for microbial processes during fermentation. These nutrients make molasses a high-quality product for use not only in the yeast and alcohol industries, but also as an additive for animal feed, such as in the production of high-quality mixed feed products for livestock and pets alike.

Small beet parts are another product of the sugar-making process that consist largely of purified beet fragments and that can also contain beet leaves. This product is also a feed material that is approved in the EU catalogue of feed materials and that Nordzucker mainly sells to farmers directly. Vinasse is a by-product of bioethanol production that largely corresponds to de-sugared molasses syrup and is also used in the production of mixed feed products.

The demand for mixed feed products, to which pressed beet pulp, molasses or vinasse are often added, once again dipped slightly in 2016. In the first few months of the year, mixed feed sales on the German market, for example, were down slightly on the previous year on average. In the cattle feed segment, which is the most important to Nordzucker, sales even showed a particularly strong drop compared with 2015. This was due to the further drop in milk prices, which had reached a low by the middle of 2016 and then stagnated at around EUR 0.22 per litre throughout the summer months. The drop in the volume of milk produced across Europe has contributed to rising milk prices since then, meaning that the overall situation has improved considerably again. As milk prices started to rise, so too did the demand for higher-quality animal feed like the products offered by Nordzucker.

BUSINESS PERFORMANCE

The demand for animal feed was low in the first half of the year; orders for contractually agreed volumes were placed very hesitantly. The situation bounced
back considerably in the second half of the year, and Nordzucker was able to sell a much larger volume of dried pulp pellets and pressed beet pulp. In some cases, customers placed delivery orders for these products earlier than contractually agreed, suggesting that Nordzucker has gained market share in the mixed feed industry. Now that milk prices are on the rise, more attention is again being paid to high-quality feed components. Nordzucker was able to significantly increase the volume of beet cossette products that it sold compared with the previous year. The volume of wet pressed beet pulp sold was up slightly on the previous year.

After an increase in molasses sales in the previous year, the volume sold slipped back down again in the period under review, mainly due to delayed animal feed purchases. At present, the addition of molasses to mixed feed is at a low level. Molasses is being used less here due to its feed properties and superiority, and more as a pressing additive for mixed feed. Since technical solutions are increasingly replacing this function, the quantities used in the mixed feed industry would appear limited in the current market environment. On the other hand, molasses is still being used to a significant degree in the fermentation industry, such as in the yeast industry, for example; Nordzucker’s sales in this segment remained stable in the period under review.

MARKET FOR BIOETHANOL

SECTOR DEVELOPMENTS

The European demand for bioethanol for fuel mixing came to an estimated 4.2 million tonnes in 2016 and only slightly exceeded the local production of approximately 3.9 million tonnes; the deficit was made up by imports. Demand is expected to increase slightly in 2017 due to isolated increases in biofuel quotas. In Germany, the demand for bioethanol – in the second year following the introduction of the greenhouse gas reduction quota – remained relatively constant at around 1.2 million tonnes. This means that demand was once again lower than the level that was the norm back when the energy quota applied (up to and including 2014). In 2016, the amount of bioethanol added directly to petrol was down by 0.7 per cent. By contrast, the use of ethanol refined to produce ETBE (a fuel additive) increased by 6 per cent. The German demand for petrol in 2016 was virtually on a par with the previous year, providing almost no demand impetus for bioethanol. German production of bioethanol came to around 0.7 million tonnes in 2016, down only slightly on the previous year’s figure. Due to commodities prices, however, the volume produced from grain rose by 14 per cent year on year, whereas production from sugar beet dropped by 28 per cent.

With the volume demanded remaining relatively constant, the availability and costs of European bioethanol had a considerable impact on prices; as was already the case in the previous year, the prices of bioethanol continued to fluctuate strongly in the 2016/2017 financial year. Due to low demand for ethanol as a result of seasonal factors and a very weak wheat price, the price of ethanol (Platts T2 FOB Rotterdam price) had initially fallen to EUR 433 per m³ by the end of March 2016. Prices made a marked recovery in May, reaching a peak of EUR 588 per m³; this was due to the insolvency of the Spanish producer Abengoa, which brought several of the company’s European plants to a standstill as well. The price recovery was supported by a temporary increase in the price of maize. The announcement of the planned recommissioning of a major ethanol plant
in the United Kingdom and speculation regarding the resumption of operations at Abengoa’s plants, however, put pressure on prices, meaning that by September, the price of bioethanol had dropped back to EUR 423 per m³. This meant that 2016 did not see the seasonal price recovery in the summer that is otherwise typical. Prices only started to bounce back again after a significant increase in the supply volume failed to materialize, contrary to expectations. On the back of a more stable oil price, a drop in ethanol production from sugar beet and the closure of a number of plants for maintenance purposes, the price of ethanol averaged EUR 638 per m³ in February 2017.

BUSINESS PERFORMANCE

Nordzucker processes beet supplies in Germany to produce either sugar or bioethanol depending on the respective market situation. Due to the increase in sugar prices and the volatile development in bioethanol prices, the company cut the volume of bioethanol produced by 11 per cent in the 2016/2017 financial year. As in the past, most of the bioethanol produced by Nordzucker was sold in Germany, where transport is cheaper, although the proportion exported to other EU member states increased considerably year on year. The export volumes were, however, marketed at prices that were on a par with the previous year. As in the previous year, Nordzucker supplies not only the fuel market, which is very volatile in terms of prices, but also sells volumes for technical applications (industrial alcohol); price development is more stable in this market segment. As in the previous year, around 15 per cent of sales were attributable to these applications. More than 95 per cent of the volume supplied to customers was again transported by rail in the reporting period. This logistics concept was optimized again considerably from both a technical and financial perspective as of January 2017.

MARKET FOR SWEETENERS

BUSINESS PERFORMANCE

Nordzucker addresses the market for stevia sweeteners in Northern and Eastern Europe in a joint venture with the STEVIA PRODUCER PURECIRCLE. The revenues of NP Sweet A/S with regional European food and beverage customers stagnated in the 2016/2017 financial year, meaning that developments at the joint venture once again fell short of expectations.
In the 2016 growing year, the conditions for beet development varied during the vegetation period. After timely to early sowing, the weather conditions in the period leading into July suggested that the harvest would be above average. A very dry late summer in all the Nordzucker countries, with the exception of Slovakia, resulted in a marked reduction in yield expectations, with what had initially been a very high sugar content in the campaign. Although sufficient precipitation from October onwards increased the beet yield considerably, the below-average hours of sunshine in October had resulted in an unusually pronounced fall in sugar content in the course of the campaign. Slovakia reported a record harvest due to the better weather conditions, while in almost all of the other countries, the harvest was at least still above average. Weather conditions during the campaign were good in most countries. The early onset of winter in Sweden, with ice and snow, as well as very low temperatures in Slovakia at the end of the campaign resulted in processing-related problems. The average beet yield for the Group was 71.0 tonnes per hectare (previous year: 66.4 tonnes per hectare). The sugar content came to 17.7 per cent (previous year: 17.5 per cent), which represented an average sugar yield of 12.5 tonnes per hectare (previous year: 11.6 tonnes per hectare). This represents the second-best result in the company’s history.

In 2016/2017, the area under cultivation was increased compared with the very low level seen in 2015/2016 (approx. 191,000 hectares) to around 214,000 hectares. Nordzucker had reduced the area under cultivation considerably in 2015/2016 in order to withdraw surplus supply from the market and thereby to relieve price pressure. Across the Group during the 2016/2017 campaign, Nordzucker produced some 2.5 million tonnes of sugar from beet (previous year: 2.0 million tonnes) and the campaign lasted for 103 days, which was much longer than in the previous year (88 days).
Beet processing in the Nordzucker plants mostly went smoothly thanks to targeted investments and maintenance. The beet growers, their service providers, as well as beet deliveries and production all worked together excellently, and in addition to the generally good weather, this helped to ensure that the campaign ran smoothly. Nordzucker has a sophisticated and highly efficient system of beet logistics in all countries. This has been and is still being developed to prepare for the expiry of quotas in October 2017, taking country-specific requirements into account. In the 2016/2017 campaign in Germany, for example, new software (“Agrilog”) was used very successfully to plan and carry out all beet logistics activities as part of a pilot project. In the next campaign, Agrilog will be rolled out across the board in Germany and will be used as part of a pilot project in Denmark and Sweden.

For the 2017/2018 financial year, Nordzucker is concluding supply contracts with beet growers in Germany and Denmark who will produce sugar beet in accordance with EU basic regulation No. 834/2007 on organic farming, or who are in the process of switching over their business. This is Nordzucker’s way of reacting to the considerable increase in the demand for organic sugar produced from sugar beet.
EARNINGS AND FINANCIAL POSITION AND NET ASSETS

EARNINGS POSITION

Compared with the weak previous year, profitability within the Nordzucker Group increased considerably, mainly due to higher sales volumes and prices for quota and non-quota sugar.

The company’s profitability is measured using the new key indicators RoCE, EBIT margin and net income for the period. RoCE, which reflects the ratio of EBIT (operating result) to the average capital employed came to 8.5 per cent in the reporting year (previous year: 1.0 per cent). This means that the company achieved its objective of at least earning the cost of capital.

The EBIT margin is calculated based on the ratio of EBIT to revenues, and came to 7.7 per cent in the reporting period (previous year: 1.0 per cent). Net income for the period amounted to EUR 99.1 million, compared with EUR 14.9 million in the previous year.

The key indicators of profitability used in the past also showed a marked improvement. The EBITDA margin is calculated by dividing EBITDA (operating result before depreciation, amortization and impairment) by revenues. It came to 13.2 per cent in the reporting period (previous year: 5.6 per cent), meaning that it fell just short of the target of 15.0 per cent. The return on sales, calculated as net income (after minority interests) divided by revenues, came to 5.6 per cent in the reporting year compared with 1.0 per cent the previous year. This was above the target of 5.0 per cent.

Revenues came to EUR 1,708.2 million, a significant increase of EUR 100.8 million compared with the previous year’s figure of EUR 1,607.4 million. Higher sales volumes and prices for quota and non-quota sugar were primarily responsible for the increase in revenues. Revenues for bioethanol, however, dropped due to lower prices and volumes.

Revenues of EUR 1,238.1 million were generated with quota sugar. Quota-sugar revenues were therefore EUR 86.0 million up on the previous year’s figure of EUR 1,152.1 million. The increase in revenues was due both to higher volumes and higher prices; the same applies to non-quota sugar. Revenues for non-quota sugar also outstripped the prior-year level by a considerable margin, rising by EUR 49.7 million to EUR 171.6 million (previous year: EUR 121.9 million).

Revenues from the sale of bioethanol came to EUR 64.9 million, which was down considerably on the previous year’s figure of EUR 94.9 million due to lower sales volumes and prices. Revenues from animal feed include revenues from the sale of molasses, dried pulp pellets and pressed pulp. At EUR 151.1 million, they were almost the same as in the previous year (EUR 153.7 million). Other revenues fell slightly from EUR 84.9 million to EUR 82.5 million.

Production costs came to EUR 1,329.3 million in the reporting period (previous year: EUR 1,365.2 million). Despite an increase in sales volumes, the cost of materials and services was down on the previous year, mainly because the company did not purchase any additional bioethanol and due to lower raw materials costs. The higher raw materials costs in the previous year were partly due to the fact that beet costs were even higher in the 2014/2015 campaign.
Sales costs increased to EUR 160.1 million (previous year: EUR 153.9 million), mainly due to the higher cost of shipment to customers resulting from greater volumes, as well as to higher internal transport and handling costs. Further measures to run down stocks stored externally, on the other hand, enabled the company to reduce rental costs for external storage.

Administrative costs of EUR 75.4 million were down on the previous year’s figure of EUR 79.3 million, primarily due to lower consultancy costs.

Production, sales, administrative and other expenses included total personnel expenses of EUR 201.1 million (previous year: EUR 186.6 million) and EUR 74.0 million in depreciation of property, plant and equipment (previous year: EUR 73.7 million). The increase in personnel expenses was due, in particular, to collective wage and salary increases, as well as to higher variable employee payments due to the better 2016/2017 financial year.

Other income came to EUR 34.9 million and was therefore well below last year’s figure of EUR 42.4 million. This was mainly due to the fact that income from insurance and compensation for damages was much higher in the previous year.

Other expenses came to EUR 46.9 million in the year under review and were therefore well above the previous year’s figure of EUR 35.2 million. This was due to much higher expenses for other impairments than in the previous year and to losses on the disposal of property, plant and equipment. By contrast, the expenses for loss events in the reporting period were down significantly on the corresponding figure for the previous year.

In total, the Nordzucker Group reported an operating result (EBIT) of EUR 131.4 million, as against EUR 16.2 million in the previous year. The operating result before depreciation, amortization and impairment came to EUR 225.4 million (previous year: EUR 89.8 million).

Consolidated EBIT in EUR m

<table>
<thead>
<tr>
<th>Year</th>
<th>EBIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13</td>
<td>506</td>
</tr>
<tr>
<td>2013/14</td>
<td>299</td>
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<td>2014/15</td>
<td>26</td>
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<tr>
<td>2015/16</td>
<td>16</td>
</tr>
<tr>
<td>2016/17</td>
<td>131</td>
</tr>
</tbody>
</table>

*Adopted
Financial income fell from EUR 13.6 million to EUR 6.7 million. This was mainly due to interest income recognized in the previous year from the court-ordered repayment of production levies for prior years.

Financial expenses are largely made up of interest and similar expenses. Finance costs increased year on year by EUR 1.7 million to EUR 9.3 million.

The low tax ratio of 22.9 per cent (previous year: 32.8 per cent) was primarily the result of differing tax rates. Profits in foreign subsidiaries meant that the lower tax rates there had a positive impact on the tax ratio. Negative earnings in foreign subsidiaries in the previous year had had the opposite effect.

In total, Nordzucker reported net income before minority interests of EUR 99.1 million (previous year: EUR 14.9 million). After deduction of minority interests, this resulted in consolidated comprehensive income of EUR 96.4 million, compared with EUR 15.6 million in the previous year.

NET ASSETS POSITION

Total assets for the Nordzucker Group amounted to EUR 2,116.9 million at the end of the reporting year, an increase of EUR 104.2 million on the previous year’s figure of EUR 2,012.7 million.

Intangible assets were down slightly at EUR 19.4 million (previous year: EUR 22.3 million).
In the reporting year, the Nordzucker Group invested EUR 81.2 million (previous year: EUR 57.9 million) in property, plant and equipment. **CAPITAL EXPENDITURE** was offset by current depreciation and amortization of EUR 69.0 million (previous year: EUR 68.5 million) and other impairments of EUR 20.2 million (previous year: EUR 0.6 million). Overall, property, plant and equipment fell by EUR 13.7 million, from EUR 834.8 million in the previous year to EUR 821.1 million.

Financial investments came to EUR 30.6 million and were therefore roughly on a par with the previous year’s figure of EUR 31.2 million.

Inventories fell by EUR 65.0 million to EUR 688.9 million (previous year: EUR 753.9 million). Finished goods and merchandise fell by EUR 52.6 million to EUR 602.4 million. Raw materials, consumables and supplies declined by EUR 5.3 million to EUR 52.0 million (previous year: EUR 57.3 million).

Current receivables and other assets were EUR 37.2 million higher, at EUR 224.4 million compared with EUR 187.2 million in the previous year. Trade receivables and receivables from related parties increased from EUR 128.3 million to EUR 149.6 million, although it is important to note that the trade receivables recognized at the end of the last reporting period had been reduced by the sale of receivables as part of the ABS programme. Current income tax receivables went up by EUR 1.8 million to EUR 2.1 million.

Current financial and other assets increased by EUR 14.0 million to EUR 72.7 million. This was mainly due to the investment in current securities in the amount of EUR 35.0 million in the reporting period, as well as to an increase in receivables from other taxes of EUR 4.7 million. By contrast, claims for damages fell by EUR 10.3 million and the volume of miscellaneous other assets declined by EUR 17.0 million, in the latter case primarily due to payments received relating to interest owed on the court-ordered repayment of production levies for prior years.

As of the reporting date, cash and cash equivalents exceeded financial liabilities by EUR 308.3 million (previous year: EUR 164.4 million).

**NET DEBT (−) / INVESTMENT (+)**

In EUR m

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Debt</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13</td>
<td>350</td>
<td>350</td>
</tr>
<tr>
<td>2013/14</td>
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<td>52</td>
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<td>2014/15</td>
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<td>2015/16</td>
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<tr>
<td>2016/17</td>
<td>–100</td>
<td>–100</td>
</tr>
</tbody>
</table>

Equity rose by EUR 96.1 million in total to EUR 1,374.5 million (previous year: EUR 1,278.4 million). Consolidated net income for the period increased equity by EUR 99.1 million (previous year: EUR 14.9 million). Equity was also increased by other income of EUR 4.5 million recognized in other comprehensive income and in the statement of comprehensive income (EUR 5.0 million from the remeasurement of defined benefit plans after adjustment for deferred taxes and EUR –0.6 million from other matters). In
the previous year, other comprehensive income had included a negative result of EUR –1.3 million (EUR 0.8 million from the remeasurement of defined benefit plans after adjustment for deferred taxes and EUR –2.1 million from other matters). Equity was diminished by the payment of dividends amounting to EUR 5.0 million (previous year: EUR 6.8 million) to shareholders of Nordzucker AG and minority shareholders. The equity ratio was 64.9 per cent, and thereby up slightly on the previous year (63.5 per cent). The figure was again well above the Group target of 30.0 per cent.

Non-current provisions and liabilities fell to EUR 359.0 million (previous year: EUR 376.9 million). The total includes non-current provisions of EUR 271.9 million (previous year: EUR 272.7 million), of which EUR 217.6 million (previous year: EUR 221.8 million) are for pension obligations. Non-current liabilities consist mostly of deferred tax liabilities, which fell from EUR 83.1 million to EUR 75.0 million in the reporting year.

Current provisions and liabilities increased sharply from EUR 357.4 million to EUR 383.4 million. Trade payables to growers of EUR 222.7 million, in particular, were significantly up on the previous year (EUR 183.2 million). Financial and other liabilities were down from EUR 66.7 million to EUR 35.3 million. The decline of EUR 31.4 million was largely attributable to liabilities recognized in the previous year from receivables sold and from interest income from the court-ordered repayment of production levies for prior years, which were settled in the reporting year.
EARNINGS AND FINANCIAL POSITION AND NET ASSETS

Nordzucker improved all of its key earnings figures in the 2016/2017 reporting year. RoCE came to 8.5 per cent as against 1.0 per cent in the previous year. The EBIT margin came in at 7.7 per cent (previous year: 1.0 per cent). Net income for the period amounted to EUR 99.1 million, compared with EUR 14.9 million in the previous year. The EBITDA margin came to 13.2 per cent (previous year: 5.6 per cent). The marked improvement in the earnings level compared with the previous year was due to higher sales volumes and prices for quota and non-quota sugar.

OVERALL ASSESSMENT OF EARNINGS AND FINANCIAL POSITION AND NET ASSETS

The Nordzucker Group’s net assets and financial position, which was already considered to be good in the previous two years, also improved further in the 2016/2017 reporting year. The equity ratio increased again and now amounts to 64.9 per cent. As of the end of the reporting period, the company once again had virtually no financial liabilities (EUR 13.5 million). Cash and cash equivalents exceeded financial liabilities by EUR 308.3 million, an even larger margin than in the previous year again. Cash flow from operating activities was at a very high level of EUR 267.8 million. Cash flow from investing activities came to EUR –118.9 million. This brings the resulting free cash flow to EUR 148.9 million.

GROUP MANAGEMENT REPORT
CONSOLIDATED FINANCIAL STATEMENTS
CAPITAL EXPENDITURE

FINANCIAL POSITION

CASH FLOW FROM OPERATING ACTIVITIES
in EUR m

Cash flow from operating activities of EUR 267.8 million was much higher than in the previous year (EUR 198.6 million). The increase was due, in particular, to the much higher consolidated net income for the period than in the previous year.

Cash flow from investing activities came to EUR –118.9 million, which was also up considerably on the previous year (EUR –64.8 million). Compared with the difficult previous year, investments in property, plant and equipment and intangible assets were stepped up notably in the 2016/2017 financial year. Nordzucker also invested cash and cash equivalents of EUR 35.0 million in current securities.

Cash flow from financing activities improved from EUR –6.9 million to EUR 1.2 million. This was mainly due to the use of a subsidiary’s bilateral credit line that did not exist in the previous year.

The free cash flow, i.e. the total of cash flow from operating activities and cash flow from investing activities, came to EUR 148.9 million, up on the prior-year value (EUR 133.8 million).

As of 28 February 2017, cash and cash equivalents amounted to EUR 321.8 million (previous year: EUR 171.8 million).
Nordzucker invested EUR 84.3 million in property, plant and equipment and intangible assets in the 2016/2017 financial year (previous year: EUR 60.1 million). As in the previous year, the focus was on measures aimed at increasing efficiency, meeting regulatory requirements and replacing existing assets. Key investments related to the completion of the white sugar evaporation crystallization tower in Clauen, the replacement of outdated pulp presses in Uelzen und Kedainiai with those of the latest construction type and efficiency, the installation of further pulp presses in Nakskov, the modernization of beet processing and receiving in Säkylä and the centrifugal control system for white sugar in Klein Wanzleben, as well as the construction of a sugar cooler in Nakskov and a goods warehouse for finished sugar products in Kedainiai. Other projects, such as the modernization of the pulp press unit and the construction of a white sugar silo in Örtofta for the 2017 campaign, the refurbishment of the raw sugar melting system in Porkkala and the replacement of clarified juice filters Opalenica, have been launched.

There were investment commitments of EUR 16.7 million as of the reporting date (previous year; EUR 11.9 million). These commitments will be financed by cash flow from operating activities.

After 30 successful but, recently, very challenging years on the market for fibres, the production of Fibrex and Fipec in Köpingebro, Sweden, is being discontinued. Despite the large number of good, functional properties of Fibrex for human and animal consumption, the product was finding it difficult to compete with newer fibre products in terms of both price and taste; as a result, it only generated revenues of around EUR 2.8 million in the reporting year. This prompted Nordzucker to make the decision to stop the production of Fibrex and Fipec in Sweden. Existing customers will continue to receive supplies from Nordic Sugar during a phasing-out period.
FINANCING

RESPONSIBILITIES AND OBJECTIVES OF FINANCIAL MANAGEMENT

The main responsibilities of Nordzucker’s financial management are to manage and control flows of funds for the entire Group on the basis of clearly defined criteria. The main aim is to ensure that sufficient liquidity is available at all times. Due to the considerable liquidity that the Nordzucker Group currently has, the company will also focus on investing these funds with the aim of limiting risks and preventing negative interest rates. In view of increasing volatility on international markets, the management of raw material, exchange rate and interest rate risks is also a priority. The financial management function is also responsible for developing and executing financing strategies. In order to execute these strategies successfully, Nordzucker maintains close contact with its banks.

FINANCING, FINANCIAL COVENANTS AND INVESTMENT OF FREE CASH AND CASH EQUIVALENTS

In March 2014, Nordzucker took out a new syndicated loan. This loan gave the company much greater latitude for entrepreneurial activities than the previous arrangement. The original term of the loan was five years initially.

Loans of this kind include what are known as “financial covenants”. These consist of obligations to maintain certain financial ratios over the entire term of the loan.

The covenants are an essential element of the loan agreement. Banks use them as a tool to identify and avoid risks at an early stage by drawing conclusions from the figures about the company’s financial position. For Nordzucker, these have been defined at the Group level. Compliance with the covenants is monitored internally on a continual basis and reported to the banks at defined intervals.

In the 2016/2017 reporting year, the agreed financial ratio (EBITDA in relation to net debt) was met at all test dates. On the basis of the planning currently available
for the Group, the Executive Board of Nordzucker AG assumes that the covenants will not be breached in future.

In March 2016, Nordzucker exercised the contractually agreed extension option regarding an increase in the term by a further two years until March 2021. This means that Nordzucker AG now has access to credit facilities initially amounting to EUR 344.5 million, and then amounting to EUR 312.6 million as of 2019, in the period leading up to March 2021.

An ABS programme to sell trade receivables was also arranged in 2015/2016 as an alternative source of funding for the Nordzucker Group. This ABS programme enables Nordzucker to sell receivables of Nordzucker AG and its operating subsidiaries on a non-recourse basis. It therefore constitutes a “true sale”, which provides the company with cash and transfers the receivables from the balance sheet.

Thanks to the operating cash flows achieved over the last few years and the willingness of the company’s shareholders to leave part of these cash flows within the company, the Nordzucker Group has accumulated a significant volume of freely disposable funds (as of the reporting date, EUR 356.8 million including securities not reported as cash and cash equivalents). These funds will allow the company to implement its growth strategy in the coming years. At the same time, they give the company sufficient reserves to hold its ground on the market and to defend its market share even if prices drop considerably. There is a good chance that the European market will enter a prolonged period of weak development after the sugar market regime comes to an end. Nordzucker is investing these freely disposable funds with banks, on the capital market and with investment companies; the investment horizon is less than one year. Ideally, interest-bearing securities should mature before the end of the financial year. Nordzucker limits its risks by distributing its investments across various asset classes, by stipulating a minimum credit rating to be achieved for all investments and by using short interest periods.

DIVIDEND

A proposal will be put forward at the Annual General Meeting of Nordzucker AG by the Executive Board and the Supervisory Board to distribute a dividend of EUR 1.10 per share of share capital for the 2016/2017 reporting year. This corresponds to a total dividend distribution of EUR 53.1 million. This means that, after the low dividend payments made in the two previous years, shareholders will once again receive an appropriate return on their capital employed, allowing them to participate in the good results achieved in the financial year. The 2016/2017 financial year is the last financial year that will be covered in full by the existing sugar market regime. The current dividend policy will have to be reviewed, and adjusted where appropriate, following the end of the sugar market regime.

TOTAL DIVIDENDS, NORDZUCKER AG

in EUR m

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividend</th>
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</thead>
<tbody>
<tr>
<td>2012/13</td>
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<tr>
<td>2013/14</td>
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</tr>
<tr>
<td>2014/15</td>
<td>63</td>
</tr>
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<td>2015/16</td>
<td>5</td>
</tr>
<tr>
<td>2016/17</td>
<td>53*</td>
</tr>
</tbody>
</table>

*Proposal
EMPLOYEES

EMPLOYEE STRUCTURE

The Nordzucker Group had an average of 3,236 employees in the reporting year, which was higher than in the previous year (3,206 employees).

A look at the workforce by country shows slight changes in recent financial years. The number of employees has dropped slightly in the Scandinavian countries, whereas the figures have remained constant in the Eastern European countries.

Around 60 per cent of the workforce is employed in Eastern and Northern Europe, with some 40 per cent working in Germany.

The average proportion of women employed by the Nordzucker Group is stable at 21.3 per cent.

The proportion of women in management positions within the Group currently stands at 17 per cent. To implement the Act on Equal Access by Women and Men to Management Positions in the Private and Public Sectors, Nordzucker continues to promote the recruitment of female managers to fill positions across the Group.

### EMPLOYEES IN THE FINANCIAL YEAR

<table>
<thead>
<tr>
<th></th>
<th>Annual average</th>
<th>2016/17</th>
<th>2015/16</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total company</td>
<td>3,236</td>
<td>3,206</td>
<td>3,283</td>
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</tr>
<tr>
<td>Germany</td>
<td>1,292</td>
<td>1,262</td>
<td>1,263</td>
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<tr>
<td>Denmark</td>
<td>477</td>
<td>487</td>
<td>501</td>
<td></td>
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<tr>
<td>Sweden</td>
<td>397</td>
<td>395</td>
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<tr>
<td>Poland</td>
<td>333</td>
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<tr>
<td>Finland</td>
<td>276</td>
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<tr>
<td>Ireland</td>
<td>10</td>
<td>11</td>
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</tr>
<tr>
<td>Latvia</td>
<td>3</td>
<td>4</td>
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</tr>
</tbody>
</table>

### EMPLOYEES BY AGE GROUP (PERMANENT STAFF)

<table>
<thead>
<tr>
<th></th>
<th>% at the end of February</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total company</td>
<td>21.3</td>
<td>21.5</td>
<td>21.4</td>
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</tr>
<tr>
<td>Germany</td>
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<td>18.9</td>
<td>18.8</td>
<td></td>
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<tr>
<td>Denmark</td>
<td>35.3</td>
<td>35.7</td>
<td>29.9</td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>14.6</td>
<td>14.2</td>
<td>14.1</td>
<td></td>
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<tr>
<td>Poland</td>
<td>22.8</td>
<td>24.0</td>
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<td></td>
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<tr>
<td>Finland</td>
<td>20.1</td>
<td>19.9</td>
<td>20.6</td>
<td></td>
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<tr>
<td>Lithuania</td>
<td>21.2</td>
<td>22.9</td>
<td>24.7</td>
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<tr>
<td>Slovakia</td>
<td>24.7</td>
<td>24.6</td>
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<tr>
<td>Ireland</td>
<td>50.0</td>
<td>50.0</td>
<td>45.5</td>
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<tr>
<td>Latvia</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
Nordzucker continues to boast a very high average length of service. 57.7 per cent of employees have been with the company for at least 16 years, with 37.4 per cent even having spent at least 26 years with Nordzucker. Employee satisfaction levels are consistent with our attractiveness as an employer, and staff turnover remains stable at a low level within the Group.

**PERIOD OF EMPLOYMENT IN YEARS (PERMANENT STAFF)**

<table>
<thead>
<tr>
<th>% at the end of February</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 35</td>
<td>14.3</td>
<td>13.3</td>
<td>12.1</td>
</tr>
<tr>
<td>26–35</td>
<td>23.1</td>
<td>23.8</td>
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<td>16–25</td>
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<td>6–15</td>
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<td>0–5</td>
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### DIVERSITY AND COMMON VALUES – »ONE NORDZUCKER«

Nordzucker is present in nine countries in Europe and benefits from its international workforce. Cultural diversity is a key asset and helps us to pick up on customers’ particular needs and expectations and to further strengthen our market presence. Different perspectives result in creative new solutions and promote individual learning. Employees’ development prospects depend solely on their skills, not on their nationality, ethnic origin, gender, religion, politics, disability, age or sexual identity. Its different sites in Europe and the diversity that they bring mean that Nordzucker considers it an obligation to support and promote openness and cultural expertise.

Learning from each other, developing and broadening horizons – this is something that Nordzucker also promotes by giving employees the opportunity to take part in national and international exchange, or “job rotation”, projects. Employees spend a certain period working on cross-divisional and cross-border pilot projects in other countries and cultures, an experience that promotes both their personal development and their professional skills.

The four uniform Nordzucker values that are binding for all employees unite the workforce regardless of national borders and cultural differences, and form the basis for successful day-to-day working relationships. The values define what Nordzucker employees can expect from each other, and what customers and suppliers can expect from them: responsible action, respect for all, courage and dedication.

### EFFECTIVE PERSONNEL DEVELOPMENT

Qualifications, professional training and development play an important role in the company. Nordzucker focuses on vocational training as a proven, successful cornerstone. In Germany, a total of 79 trainees were undergoing training as electricians (for industrial engineering) and industrial mechanics in 2016, a figure that is on the rise. In the last three years, the number of trainees taken on as core employees in Germany after completing their training has almost doubled. In recent years, Nordzucker has received various prizes and awards for its successful measures to promote young talent as a result of its particular dedication to vocational and professional training. Training plays a key role in our European locations, too. Nordzucker has 21 trainees in Denmark and currently has six in Poland. Again, these figures are increasing.
It is the company’s stated aim to prepare the entire Nordzucker workforce for the challenges of the international sugar market and to provide them with effective support in adapting to the new requirements. Nordzucker sees personnel development as an ongoing learning and development process and offers a whole range of personnel development measures throughout the company. The “Sugar Academy”, an in-house Nordzucker professional training programme in Germany, was completely revamped and expanded in 2016 and covers a broad range of specialist and management issues, self-management, communications and sector-specific areas of knowledge. For years, the company has also been continuously focusing on operational health management measures that are implemented across the entire Group. The workforce makes intensive use of workshops and seminars on stress management, mindfulness training, nutrition and exercise.

Value-oriented leadership is another focal point of personnel development at Nordzucker. The aim of the management development process, that spans several years was launched in 2016, is to further prepare all levels of management and, on a step-by-step-basis, the entire workforce for the challenges and market changes that lie ahead. The modules that form part of the development process focus on core issues such as communication, reflection, how employees see themselves and how others see them, as well as team development. This raises awareness of, and makes employees more open to, change, thereby enabling Nordzucker to become stronger, more efficient and more effective in the process.

The company’s holistic focus on employees resulted in Nordzucker achieving first place in the 2016 Focus Money survey “Top career opportunities” in the “Food production” industry. At the same time, Nordzucker was awarded the “Germany’s best training companies 2017” seal. Excellent general working conditions, modern working-time models and social benefits are also the reason why Nordzucker received the award as “Top national employer 2017” in Germany.

From Nordzucker’s perspective, these awards are another visible component in the company’s quest to attract well-trained and first-class applicants, and show that staff retention and a focus on employees are a top priority. But the high levels of employee satisfaction, which are also evident from the above-average length of service and low staff turnover levels, are even more important to Nordzucker.

HOLISTIC APPROACH – FOCUS ON EMPLOYEES

Nordzucker is responding to the continuous changes and rising demands on employees and employers...
alike with a holistic and constantly evolving concept that addresses every aspect of the employee. A diverse and coordinated package of measures and services is offered with the aim of enabling employees to stay healthy, fit and active and to achieve a better work-life balance. The focus throughout the Group is on prevention and on promoting/maintaining health.

Ongoing dialogue with employees serves as the basis for the selection and structuring of the measures on offer. A process of continual exchange makes it possible to recognize needs in order to establish targeted activities that deliver long-term success. This holistic approach not only reflects the duty of care and social responsibility that Nordzucker has as an employer, but also its appreciation for its staff.

In 2016, Nordzucker’s endeavours in Germany focused primarily on prevention, particularly on ergonomics in the workplace. Workplace design and functionality were reviewed and analyzed to make any necessary improvements. As employees spend a large part of their time at work, the functionality of their workstations has a key impact on their health, effectiveness and satisfaction. The aim is to prevent any unnecessary health complaints or to alleviate any existing complaints. This means that ergonomics is a key component of occupational health protection.

NORDZUCKER LIVES AND BREATHES DIVERSITY

To implement the Act on Equal Access by Women and Men to Management Positions in the Private and Public Sectors, the Supervisory Board and Executive Board of Nordzucker AG have taken the following decisions, bearing in mind the company’s specific situation, in particular its business, size, proportion of international business, diversity and the current service contracts of the Executive Board members: By 30 June 2017, the targets for the proportion of women on the Supervisory Board are at least 19 per cent and on the Executive Board 0 per cent. At present, there are five women on the Supervisory Board, which corresponds to a proportion of 23.8 per cent. The Supervisory Board consists of a total of 21 members, with 14 representing the shareholders and seven being elected by the employees. There are currently no women on the Executive Board.

For the first level below the Executive Board, a target of ten per cent of female managers should be achieved by 30 June 2017. For the second level – managers with employee responsibility – the target is 20 per cent. Within the Nordzucker Group as a whole, the first level of management below the Executive Board has a proportion of women currently amounting to 10.7 per cent, a figure that rises to 14.3 per cent for Germany in particular. At the second level below the Executive Board, the proportion of women comes to 20.79 per cent for the Group as a whole, and 18.18 per cent for Germany.

The Executive Board of Nordzucker AG has also set the following targets for the future: for the first level below the Executive Board, a target of 15 per cent of female managers should be achieved by 30 June 2022. For the second level – managers with employee responsibility – the target is 21 per cent.

At its meeting held on 9 March 2017, the Supervisory Board of Nordzucker AG set the following targets for the future proportion of women on the Executive Board and the Supervisory Board: By 30 June 2022, the targets for the proportion of women on the Supervisory Board are at least 25 per cent and on the Executive Board 0 per cent.

The company promotes the equality of women and men in all areas regardless of hierarchical level. The ability to reconcile family and work life remains a decisive criterion when choosing an employer. Since 2011, Nordzucker has supported its staff with a sustainable and varied concept for work-life balance, which, among other things, enables a straightforward and prompt return to work after parental leave.
OPPORTUNITIES AND RISKS

RISK MANAGEMENT

BASIC PRINCIPLES OF RISK MANAGEMENT

Given the changes on the European sugar market and the increasing level of market volatility, risk management is becoming ever more important. The purpose and aim of risk management within the Nordzucker Group is therefore to identify risks resulting from business activities at an early stage, to evaluate them and to manage them consistently. Nordzucker deliberately takes risks within the scope of a defined risk appetite if the risks are unavoidable or are likely to be offset by opportunities; Nordzucker also transfers some risks to third parties. This strategy will help the company to achieve successful further development in the long term and to secure its future. Nordzucker’s risk management system meets the requirements set out in the Law on Control and Transparency in Business (KonTraG).

STRUCTURE OF THE RISK MANAGEMENT SYSTEM

Nordzucker has introduced an integrated system throughout the company for the identification and management of risk. The key building block for the risk management system is the identification and management of operational risks by means of the monitoring, planning, management and control systems in place in the Nordzucker Group.

The risk management system of Nordzucker AG is supported by an internal control system (ICS) that has been set up on a company-wide basis and that also includes the accounting processes. The ICS is an ongoing process based on fundamental control mechanisms, such as technical system-based and manual reconciliations, the separation and clear definition of functions and the monitoring of adherence to, and the further development of, Group-wide guidelines and specific directives.

RISK MANAGEMENT

The risk management function discusses at regular intervals the progress made in implementing the defined steps to manage risk with the different departments and/or managers responsible. Regular risk management reports are made to the Executive Board and Supervisory Board.

All major operating and strategic decisions always take risk aspects into account. When such decisions are made, their consequences are evaluated in various different scenarios. Given the highly volatile nature of the market environment, the company’s plans have, for a number of years now, illustrated how different market situations can impact the course of business. 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 transferred to third parties, such as insurance companies. The scope and amount of insurance coverage is reviewed regularly and adjusted as necessary.

INTERNAL AUDITING

The Internal Audit department examines and evaluates the business processes, organizational structure and the governance system (monitoring measures, risk management and the internal control system of the Nordzucker Group) 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 guidelines, optimizing business processes or continuously
improving the Nordzucker 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 as well as the implementation status of the agreed activities.

POLITICAL AND LEGAL RISKS AND OPPORTUNITIES

SUGAR MARKET REGIME

In June 2013, the member states of the EU, the European Parliament and the European Commission only decided to extend the sugar market regime in its current form until the end of the 2016/2017 sugar marketing year on 30 September 2017. Up to this point, it remains the operating framework for the EU sugar industry. At the same time, the European Council, European Parliament and European Commission decided to let the sugar market regime in its current form expire thereafter.

The European Commission is still busy structuring the legal framework for the period after October 2017. This entails reviewing the relevant regulations and making any amendments as necessary.

What is more, a number of EU member states have decided to subsidize sugar beet cultivation through coupled direct payments. This essentially means that they will be protecting cultivation in their own countries. Because the same competitive conditions apply to all European producers, these member states cannot increase their area under cultivation.

At the beginning of the 2017/2018 sugar marketing year, the main building blocks of the existing sugar market regime – the quotas for sugar and isoglucose, as well as the minimum price for sugar beet – will be abolished. The end of the quota system also means the end of the WTO export limit, presently set at 1.37 million tonnes.

The impending abolition of quotas for sugar and isoglucose is already having a considerable impact on the EU sugar market. A number of European competitors have purchased much larger quantities of beet for the period following the abolition of the quotas; they could try to achieve significant market shares in Europe or force competitors out of the market completely. Greater supplies of sugar will increase competition and this is expected to lead to crowding out among European sugar producers. Competition between sugar and isoglucose will also get much tougher, because quotas for the latter are also being abolished along with the sugar quotas. The European Commission and other market observers anticipate that a larger volume of isoglucose will be marketed in the EU in future. Securing sufficient quantities of beet at competitive prices in the long term will play an even greater role in this environment (see section “Securing raw materials”). At the same time, a market without quotas and export restrictions offers competitive providers the chance to boost their sales not only in Europe, but also in the export business.

As far as the EU sugar producers are concerned, developments in the future relationship between the EU and the United Kingdom will also prove to be highly significant. After the United Kingdom officially applied to leave the EU on 29 March 2017, negotiations on the terms of its departure and on future trade relationships will now commence. The UK’s membership of the EU is scheduled to end on 29 March 2019. The UK produces around 1.2 million tonnes of sugar per year and consumes 2.2 million tonnes annually, making it a net importer. In recent years, the EU has been exporting between 200,000 and 400,000 tonnes of white sugar to the United Kingdom every year. Conversely, the EU imported around 400,000 tonnes of sugar from the United Kingdom every year between 2011 and 2015. The United Kingdom’s exit from the EU will result in it losing access to all EU free trade agreements. If the EU and the UK cannot agree on a separate trade agreement, British trade relations with the EU will be subject to WTO rules, including the regulations on import duties, in the future. Brexit could result in a change in

British trade policy and see the United Kingdom open its market more to raw cane sugar from third countries, thereby taking export opportunities away from continental European providers.

In this environment, Nordzucker is well positioned to defend/increase its market share. The aim, however, is not only for Nordzucker to hold its own on the market, but rather to react to market conditions in a flexible manner and, in doing so, to create value for shareholders and growers alike. In order to implement this strategy, the company will need to stay in touch with the market and further efficiency gains in all areas will be absolutely essential.

One important area within this context remains increasing the efficiency of sugar beet cultivation compared with alternative crops. Nordzucker is pooling all of its activities to boost the productivity of beet cultivation in the 20·20·20 project; yields have already been increased considerably in recent years. The FORCE efficiency programme that was launched in 2015 to achieve sustainable savings and efficiency gains within all of the company’s other functions and sites is also already bearing fruit. Overall, the project is resulting in savings of around EUR 50 million. In order to make this possible, Nordzucker has been using lean management methods since 2015. Lean management facilitates permanent improvements in workflows, both in production as well as in indirect units. The systematic use of lean management will enable Nordzucker to improve the efficiency and quality of all processes in the future.

Nordzucker’s strong position on the European market and the wide-ranging efforts to become more competitive also open up new market opportunities, both in Europe and in export markets, when the quota system comes to an end. In Europe, Nordzucker is working on securing and expanding its current market share in the long term. When the quota system ends at the end of September 2017, so does the restriction on export volumes from the EU. The acquisition of a stake in August Töpfer Zuckerhandelsgesellschaft mbH & Co. KG has allowed Nordzucker to strengthen its market expertise and logistics capabilities for exports.

In order to prepare employees for the future challenges of the market, an extensive process of change has been launched throughout the entire company. The continued development of the company culture requires the involvement of all staff who are actively engaged in the change process. In this way, all areas of the company will get to grips with the expected changes and prepare themselves intensively for the period after the expiry of the sugar market regime. The aim here is to exploit the opportunities it provides and to reduce the risks as far as possible.

**WTO NEGOTIATIONS**

At its ministerial conference held in Bali in December 2013, the members of the World Trade Organization (WTO) agreed to continue the liberalization of trade. Building on this, the WTO member states voted at the Nairobi Conference, held from 15–19 December 2015, to abolish export subsidies for agricultural goods five years earlier than originally planned. The deadline of 30 September 2017 was defined for phasing out export subsidies for EU sugar. However, as EU sugar exports are no longer considered to be subsidized as of 1 October 2017, this agreement has no effects for the EU sugar industry. Export subsidies in developing countries are to be abolished by the end of 2018, although export subsidies for transport, freight and marketing may still be granted until the end of 2023. As a result, the Nairobi agreements do not have any impact on sugar trade between the EU and the LDCs; the EU already meets all of the requirements.

The future WTO negotiations are expected to concentrate on reducing customs duties and subsidies for agricultural produce. The agreement has no deadline, however, making further developments uncertain. The agenda for the next WTO ministerial conference, to be
held from 11 to 14 December 2017 in Buenos Aires, is still being discussed. The conference is expected to be used to discuss a wide range of issues, from agriculture to fisheries subsidies, services, digital trade and investment. The exploratory talks held so far on agricultural issues have focused on reducing internal agricultural subsidies and protective clauses, which have a distorting effect.

Maintaining import duties is of vital importance for the European sugar sector. Reducing EU 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 given the changes that will take place from 2017. Import duties protect the European sugar industry from imports 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, increasingly, also via bilateral trade agreements. Without EU import duties, unlimited quantities of sugar could be imported into the EU at global market prices. This would discriminate against European sugar producers, because almost all the countries in the world where sugar is produced provide massive support to local producers and protect them from outside competition.

EU FREE TRADE AGREEMENTS

Free trade agreements are becoming more and more important for the European Union. Trade agreements signed in recent years with Moldova, Georgia, Ukraine, Columbia, Peru, Panama, Ecuador, states in Central America and South Africa enable annual duty-free sugar imports of more than 500,000 tonnes. Already negotiated but not yet in effect are trade agreements including further import contingents of sugar and products containing sugar with Canada, Vietnam and Singapore. Behind these negotiated agreements are more import contingents (amounting to a total of 95,000 tonnes), plus the gradual reduction of duties for white and raw sugar.

Negotiations are under way with other countries including Mexico, India, Malaysia, Thailand, Japan, Morocco, Egypt, Jordan and the Gulf states. Particularly important for the EU sugar market are the negotiations with the MERCOSUR states of the South American economic area. Key strategic decisions are expected to be made within the context of the negotiations in 2017. As the world’s largest sugar exporter, Brazil, in particular, is pressing for an import quota for sugar and ethanol. The negotiations on a transatlantic free trade agreement with the US have currently come to a standstill. The protectionist trade policy supported by the US president could also have an impact on trade relations between other countries as well as on the negotiations on future EU free trade agreements.

Nordzucker is addressing the risks from the WTO negotiations and from free trade agreements with steps to further increase its competitiveness, as described in the “SUGAR MARKET REGIME” section.

ADDITIONAL COSTS FOR CO₂ CERTIFICATES

As a company that emits carbon dioxide (CO₂) from generating its own electricity and heat, Nordzucker requires a number of certificates on the basis of the statutory provisions in order to cover its annual emissions. Missing certificates have to be purchased. The poor economic performance in Europe has meant that the price increases expected for CO₂ certificates have not materialized in recent years. Despite this, there is considerable political pressure to reduce CO₂ emissions further in the years ahead by making the certificates more expensive. The political aim is to achieve global greenhouse gas neutrality in the second half of the century. This was the agreement reached by the UN member states at the Climate Change Conference held in Paris in December 2015. Nordzucker is also working continuously to cut its CO₂ emissions even further by investing in energy efficiency and optimizing its operations. This not only reduces the number of CO₂ certificates to be purchased and, as a result, the associated costs, but also makes Nordzucker’s business more sustainable.
LEGAL RISKS

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 of October 2017, the EU will be deregulating the sugar market considerably by abolishing the sugar quota and the minimum prices for sugar beet. This will reduce the risks associated with the stringent regulations.

Further risks can also arise from food and animal feed law, as well as from tax regulations in the various countries in which the Nordzucker Group operates and from legal disputes. Nordzucker is of the opinion that any breaches of competition law in Germany before 2009 that may be determined by the German competition authorities did not result in any losses to the purchasers of sugar. Even in the period examined by the competition authority, there was competition between sugar producers leading to customers switching supplier and differences in sale volumes. Furthermore, many customers bought sugar from multiple domestic and foreign sugar producers. The sugar market was also highly regulated as a result of the sugar market regime. This applies particularly to volumes and prices. The sugar volume was limited by the quota regulations of the European sugar market regime. Prior to 2006, sugar producers could also export quota sugar onto the global market in exchange for a refund. The European sugar market regime also stipulated intervention prices, i.e. minimum prices for sugar. It also regulated the minimum price to be paid for beet by the sugar producers.

Although Nordzucker does not expect this to be the case, successful claims for damages by third parties against Nordzucker cannot be ruled out for the future.

MARKET OPPORTUNITIES AND RISKS

SUGAR MARKET AND SUGAR PRICES

Since the reform of the sugar market regime in 2006, which included substantial cuts to production quotas, fluctuations in the world market price have had a significant impact on markets in the EU. To meet demand for sugar for use in food, the EU was dependent on imports from ACP and LDC countries and world markets. From October 2017, these imports are no longer necessary, but are still possible. When the quotas are abolished, the volume limits for export will also end. This is again likely to heighten the influence of the global market on European prices and to increase volatility in Europe.

As described in the “SUGAR MARKET REGIME” section, Nordzucker is preparing for these challenges by taking extensive measures to become more market and customer-oriented and to improve efficiency. Given its strong market position, solid financial structure and the steps that have already been taken or which are currently under way, the company considers that it is well prepared for these market changes.

DISCUSSION ABOUT HEALTHY EATING AND SUGAR

Sugar makes people neither fat nor ill, but is part of a balanced diet. Despite this, sugar is presented in the public debate as a cause of being overweight, obese and, as a consequence, of diseases such as diabetes and caries. The discussion about sugar became more virulent in 2016/2017, and the matter is also being keenly
debated outside of Europe. This is why food manufacturers are working to reduce the content of sugar in their food. Some countries have already imposed, or are debating the introduction of, a tax on sugary foods. In Denmark, however, this was abolished again after just a short period of time.

In spite of this, academic studies show that reducing sugar consumption does not necessarily lead people to lose weight. There are many reasons why people are overweight, which is why focusing on individual ingredients such as sugar distracts from the bigger picture. Ultimately, whether or not a person becomes overweight is all about the balance between calorie intake and calorie expenditure, and about how aware individuals are of their own calorie intake.

To bring more clarity to the debate, Nordzucker works continuously and intensively at national and EU level, as well as within industry associations, to provide information about the effect of sugar in food and about the links between sugar and a balanced diet as part of a healthy lifestyle. This is intended to inform politicians and consumers clearly, objectively and on the basis of scientific findings, about the interrelationships.

GLOBAL DEMAND FOR SUGAR IS INCREASING

Population growth and greater prosperity, particularly in emerging markets, are behind a long-term global trend towards higher sugar consumption. This increase in demand will require the sustained expansion of global production capacities and will support long-term developments in the price of sugar. Like all European manufacturers, Nordzucker hopes that this growth trend will open up export opportunities and make investments in sugar attractive outside of Europe, too.

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. In an environment characterized by intense competition for land under cultivation, it is important for beets to be worthwhile for growers in terms of allowing them to generate high yields and keep their production costs down.

One 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 the top 20 per cent of growers 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 growers, research institutes, agricultural associations and other companies in the value chain.

Nordzucker signs supply contracts with the beet growers well in advance in order to secure the necessary volumes. Various supply contract models were offered to growers in all countries for 2017/2018. They have different contractual terms and there are fixed-price models as well as models with prices linked to sugar prices/EBIT. Thanks to the conclusion of these market-driven supply contracts, the company believes that it is very well equipped for the period following the expiry of the quota regulations. With the conclusion of the supply contracts for the 2017/2018 campaign, the right to supply beet to the company in Germany was implemented as defined in the Articles of Association of Nordzucker Holding AG and Union-Zucker Südhannover Gesellschaft mit beschränkter Haftung. Shareholders who themselves are beet growers, or their tenants, will then have the right to supply a certain amount of beet to Nordzucker AG for every share they hold. Volumes not assigned on the basis of these delivery rights will then be offered to all beet growers as “free volumes”. If the beet growers want to supply more of these “free volumes” than Nordzucker AG requires, then the “free volumes” are distributed in line with economic criteria.
For 2017/2018, Nordzucker has also concluded supply contracts with beet growers who will produce sugar beet in accordance with EU basic regulation No. 834/2007 on organic farming, or who are in the process of switching over their business. This is Nordzucker’s way of reacting to the considerable increase in the demand for organic sugar produced from sugar beet.

ENERGY PRICES

The production of sugar requires energy in the form of raw materials such as natural gas, coal or crude oil, the prices of which are generally subject to fluctuations. In addition to the risk of changes in the price, there is also a risk that the volumes required for production are not available in time (production downtime risk). To a certain extent, Nordzucker mitigates the risk of changes in prices by means of hedging transactions and long-term supply contracts. It also invests sustainably in energy-efficient machinery and equipment in order to reduce energy consumption. Nordzucker counters production downtime risk by testing the use of alternative raw materials. It also reduces this risk by pursuing a forward-looking procurement policy and by establishing long-term supplier relationships.

SUPPLIER PORTFOLIO

Given the limited number of suppliers and an ongoing process of concentration among them, there is a risk of increased dependence. This may cause problems in the production process (in the event of insolvency or supply difficulties) or lead to price increases. Cutting procurement costs then becomes much more difficult.

To ensure that Nordzucker has low-cost access to key materials at all times, cooperation has been intensified with the departments that consume supplies, in order to determine purchasing requirements in good time and to optimize the procurement process. Across the Group, critical spare parts have been identified, prioritized, acquired and stored, which has reduced the procurement risk.

One strategic objective of procurement is to diversify sources of supply. This means that for all critical goods and services to be purchased, there must be several suppliers in principle; if necessary, new additional suppliers have to be identified, evaluated and developed. Wide-ranging steps to optimize costs and processes in procurement have also been identified and implemented as part of the FORCE efficiency programme.

OPERATING RISKS

LONGER CAMPAIGNS

In order to boost productivity, the possible length of the campaign has generally been increased in the plants since 2009 to an average of 120 days. The Trenciaska Tepla plant in Slovakia had the longest campaign in the 2016/2017 financial year, at 130 days, while Säkylä in Finland had the shortest, at just 57 days. The average plant campaign duration came to 103 days, up by 17 per cent on the previous year. 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 minimize these risks. In recent years, for example, beet clamps have been covered with a sheet of fleece to further optimize the extent to which the beet is protected from frost. Further frost protection measures include the systematic introduction of 10-metre-wide clamps. Nordzucker has also improved the technical processes in the plants to ensure they are adapted as well as possible to processing beet which may have frost damage.

In order to minimize maintenance costs while maintaining high levels of availability at the plants, risk-oriented maintenance was introduced some years ago and will now be applied systematically throughout the Group as part of the new organizational structure. The risk of production downtime can be reduced further by way of standardization, the identification of critical spare parts and a common spare parts pool.
**ENVIRONMENT**

Environmental impacts, such as airborne emissions (odours, noise, dust), the accumulation of waste and waste water treatment, cannot be avoided altogether when sugar is produced. 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, key focus areas have been the optimization of waste water treatment in order to minimize unpleasant odours, new filters to reduce dust emission as well as noise-abatement measures. 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 EU Environmental Audit regulation (EC) 1221/2009 (EMAS III) and the DIN EN ISO 14001 environmental management system. 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 communication 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 locations, for example, comply with DIN EN ISO 9001 and the FSSC 22000 product safety standards.

Due to differences in local rules, some sites are also certified in accordance with the following standards: 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**

Digitalization is opening up new opportunities for Nordzucker. By evaluating the data that is already available in a digitally connected system, Nordzucker can pick up on any deviations more quickly and then take targeted measures to manage them. This not only makes processes within Nordzucker more efficient, but also boosts efficiency along the entire value chain, from growers to customers. Nordzucker is already making use of these technical opportunities with the new Agrilog system, which optimizes the supply chain from the grower to the plant, and with digital consultancy solutions for growers. Further applications for use in production and in other areas will follow over the next years ahead.

At the same time, the further integration of business partners is also resulting in mounting risks. An attack from outside could, for example, disrupt the production or delivery of sugar and valuable data could be stolen. In order to limit risks like these, Nordzucker is investing in further security measures, e.g. the use of state-of-the-art techniques to detect the latest threats, in order to achieve an appropriate level of protection for the company and to ensure system availability. The statutory requirements (German IT Security Act, UP KRITIS) also have to be taken into account. By playing an active role on the relevant committees (industry working group), Nordzucker can help shape the overall conditions.
At the same time, the company is working intensively on continually providing all employees with information on the risks and protective measures in the digital world. Together with them and our external partners, Nordzucker is making constant improvements to the protection of all systems, in order to make all IT services as reliable and secure as possible.

**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 volatility of exchange rates, raw materials and interest rates give rise to operating risks, the hedging of which is the responsibility of the individual functional units and, on a centralized basis within the Group, of the Corporate Finance department.

To limit these risks, they are analyzed 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 minimize this counterparty risk, financial derivatives are either transacted directly via the stock exchange and/or only with first-class international financial institutions, whose economic performance is monitored regularly, partly by analyzing 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 2017, the Nordzucker Group had exchange rate derivatives with a notional net volume of EUR 44.3 million (as of 29 February 2016: EUR 135.7 million). At the end of the financial year, derivative transactions with a notional value of EUR 0.7 million were open to hedge against price movements for raw materials (as of 29 February 2016: EUR 20.0 million).

These existing hedges generally run for less than one year and match the maturity profile of the hedged transactions.

The new EU regulation “EMIR” introduced standards for reporting obligations for trading in derivatives. Nordzucker implemented these as of the statutory effective date on 14 February 2014. The statutory reporting obligations have been met in full in the 2016/2017 financial year. The related audit required by Sec. 20 paragraph 1 German Securities Trading Act (WpHG) was conducted again in 2016/2017 without any objections.
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 meet this funding requirement from free cash flow or existing credit lines, a situation may arise in which its continued existence is at risk. This is why the finance function regularly draws up liquidity forecasts for the Group, on the basis of which the financing strategies are then prepared and implemented.

AVAILABILITY OF FUNDING

The financial crisis in the EU resulted in much tighter regulation of banks, which may make it far more difficult for the company to obtain credit in future. New financial crises could also occur that would make financing much more expensive.

To reduce these risks, Nordzucker took out a new syndicated loan in March 2014 with a smaller group of banks and on better terms. This loan had a minimum term of five years, and in March 2016 it was extended by two years, i.e. until 2021, to make a seven-year term in total. It therefore extends well beyond the end of the sugar market regime. All the syndicate banks have good credit ratings and are very dependable. In the opinion of the company management, the medium-term syndicated loan to finance its operating business, together with the ABS programme and 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.

The availability of the loan nonetheless depends on the meeting of various conditions; in particular, Nordzucker has to comply with a number of financial covenants. 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. Further steps have also been taken to support compliance with these covenants in future.

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

Risky financial investments or the default of a bank may result in the loss of financial assets. Nordzucker has a conservative investment policy. The Group’s free liquidity is largely invested in money-market products with European financial institutions that are selected on the basis of a credit rating classification. In general, the investment amounts are spread to prevent cluster risks and to ensure that the funds are largely covered by the applicable deposit insurance mechanisms despite changes in the EU legal situation. In spite of these extensive measures, invested funds could suffer value losses or be unavailable in the short term in the event of another financial crisis. Due to the continued highly expansionary monetary policy pursued by the European Central Bank, Nordzucker could pay negative interest rates on investments. To date, it has been possible to avoid this; in any case, the impact on the company’s overall profitability is likely to be kept to a minimum.
The liquidity available within Nordzucker allows the company to exploit growth opportunities, also by taking growth steps outside of Europe. This strong financial position will enable the company to defend its market share and expand its market position in an environment that will be characterized by more intense competition in Europe in the future. Nordzucker is also well positioned to weather any prolonged period of lower prices.

**OVERVIEW OF ALL OPPORTUNITIES AND RISKS**

The expiry of the sugar market regime on 30 September 2017 will result in fundamental changes to the overall conditions for the European sugar industry. The quotas for sugar and isoglucose will cease to apply, making the competition much more intense. The lifting of all export restrictions will increase the influence of the global market. Prices on the global market are very volatile, and there have also been phases of very low prices in the past. In the long run, the supply of sugar could increase significantly (for example due to a greater switch from bioethanol to sugar in Brazil) or growth in global demand could slow, for example due to changes in consumer behaviour, particularly in the developed economies. Due to the energy required to produce sugar, energy prices/availability could put pressure on the profitability of the Nordzucker Group.

At the same time, there are also significant opportunities for Nordzucker. Sugar is a product in high demand across the globe, the consumption of which will continue to increase in the future as the global population grows and prosperity levels rise. In addition, global growth is likely to present the company with attractive investment opportunities outside of Europe in the coming years. The measures taken to date and those planned for the future also put Nordzucker in a good position for the period following the end of the sugar market regime. Its strong market presence gives the company access to attractive sales markets. The ongoing work with growers and external partners is boosting yields every year. The company’s production and administrative structures are productive and efficient; with lean management, Nordzucker is using tools to forge ahead further with this process and achieve good results. The entire value chain aims to achieve a high level of sustainability; employees have recognized the changes and are embracing them.

The overall assessment of current opportunities and risks suggests that there are no risks that could jeopardize the company’s continued existence. Existential risks in the future have also not been identified at the present time.

**FORECAST**

Developments in 2016/2017 were consistent with the positive outlook at the start of the financial year. The world market price was at a very low level (EUR 358 per tonne of sugar in February 2016, based on London No. 5) at the end of the 2015/2016 financial year. It gradually recovered in the course of the 2016/2017 financial year, reaching a high of EUR 541 per tonne in October 2016. Sugar then lost considerable value again in the period leading up to the end of the 2016/2017 financial year (EUR 513 per tonne of sugar in February 2017). There were times when the world market prices were higher than the prices in Europe, putting a considerable damper on imports to Europe. With lower quota sugar stocks in Europe, European prices then picked up again slightly, although they were still down considerably on the level seen in the past.

In this environment, Nordzucker was able to outperform its return on sales target of 5.0 per cent, achieving a return on sales of 5.6 per cent in the 2016/2017 financial year. At 13.2 per cent, the EBITDA margin only just fell short of the ambitious target of 15.0 per cent. The equity ratio once again exceeded the target of 30.0 per cent by quite some way. The capital structure is very solid. At the end of the year, the company had cash and cash equivalents of around EUR 357 million (including securities not reported as cash and cash equivalents). This puts Nordzucker in an excellent position to achieve further growth and to defend/expand its market share in an environment that is set to become a lot more challenging in the future.
The 2017/2018 financial year will be one of transition. The current sugar market regime will continue to apply until 30 September 2017, and the low level of imports means that quota sugar is in shorter supply than in the past. Measures taken by the European Commission to convert non-quota sugar or duty-reduced imports could bring additional goods onto the market. Thanks to an early campaign start, supplies for European customers are likely to be secured even if no such measures are taken.

The current sugar market regime will cease to apply in October 2017. This has prompted a number of competitors to expand their area under cultivation considerably, meaning that the competition in Europe is likely to become much more intense. Some countries are also making coupled direct payments, with the result that competition for production sites in countries without such subsidies is becoming much more intense.

EU protection against imports for sugar will not be affected by the expiry of the sugar market regime, but the maximum volumes for export will cease to apply at the same time. This is likely to further increase the influence of world market prices. After a deficit on the global markets in 2015/2016 and 2016/2017, it is not clear whether the global market will continue to report a deficit or achieve a surplus in 2017/2018. It is virtually impossible to predict what earnings will be during this period.

This is making it very difficult to arrive at a forecast for the 2017/2018 financial year as a whole. Thanks to the stable development in the period leading up to September 2017, however, the entire 2017/2018 financial year should show positive development, with earnings (EBIT, net income for the period) at least on a par with those reported in the previous financial year. This will also have a positive impact on the key financial indicators. In order to better reflect the creation of value, cash flow and financing stability, the following key financial indicators will be used: RoCE, EBIT margin, net income for the period, equity ratio, net debt and free cash flow. In order to make it easier for shareholders to compare these figures with past figures, we will continue to report the previous financial indicators (EBITDA margin, return on sales, return on equity and the equity ratio that has been reported to date) for the time being. As far as the 2017/2018 financial year is concerned, the Executive Board expects Nordzucker to achieve an RoCE that at least corresponds to the cost of capital and for the company to record an improvement not only in RoCE, but also in the other key financial indicators.

In the medium term, the European sugar market should show positive development. The high economic potential of sugar beet enables European sugar producers to supply their customers on competitive terms and, after a transitional period, the market will consolidate further, driven by the competitive pressure. The influence of the global market is expected to increase further. The rising demand for sugar, especially in Asia and Africa, is likely to provide a boost to prices on the global market. As sugar is highly volatile, however, there will be years with fairly high prices as well as years characterized by fairly low prices.

Nordzucker is a strong provider in Europe that will make use of the opportunities on the markets and that is preparing intensively to do so. The company is well set up to play an active role in the market consolidation and to further expand its position in Europe. Its capital structure is so solid that the company can also strengthen its core business further by means of investments. Growth opportunities outside of Europe can also be considered. Nordzucker has successfully dealt with all of the changes in Europe to date, and has emerged from them even stronger. Even in a world without sugar quotas, the company will continue on this successful path.

Braunschweig, Germany, 20 April 2017

The Executive Board

Hartwig Fuchs   Axel Aumüller
Dr Michael Noth   Dr Lars Gorissen