

## REPORT BY THE SUPERVISORY BOARD OF NORDZUCKER AG FOR THE FINANCIAL YEAR 2016/2017

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**HANS-CHRISTIAN KOEHLER**  
Chairman of the Supervisory Board

**Dear shareholders,**

Nordzucker AG can look back on an encouraging financial year. As a result, following the low dividend payments made in the last two years, the Supervisory Board and the Executive Board will be proposing the distribution of a dividend of EUR 1.10 at the Annual General Meeting – this means that you, our shareholders, will once again receive an adequate return on your capital employed, allowing you to participate in the positive earnings achieved in the financial year under review.

Nordzucker is well prepared for the new market following the expiration of the sugar quota and minimum beet prices. A comprehensive transformation programme was launched to achieve this, involving employees at all levels and in all locations of the Group. This programme helped to raise further awareness of market changes among all employees. Thanks to this project and the numerous initiatives implemented in recent years, Nordzucker is not only more market and customer-oriented, but also more efficient and effective today than ever before. With this philosophy in mind, key resources are also being conserved. This is also highlighted by the investments being made in our factories to make them fit for the new era in sugar production and to boost the efficiency of our sites even further. After all, the expiration of the quotas is likely to result in a further process of consolidation on the EU sugar market, which will also be reflected in more intense competition. The Supervisory Board believes that Nordzucker AG is well equipped to tackle the challenges that lie ahead. Overall, Nordzucker has the best chances of being able to exploit the market opportunities that will arise from the end of the sugar market regime.

The Supervisory Board supports the Executive Board in its strategy of further growth, not only in Europe but also in third countries in which we expect to see rising demand for sugar. Just like our Executive Board members, however, the Supervisory Board has also identified the challenges and risks associated with the expiration of the sugar market regime. These include, first and foremost, price volatility, which is set to increase considerably as we are currently witnessing a dramatic slump in prices on the international raw sugar market. This will make our earnings less predictable and more difficult to plan in the future. Nevertheless, Nordzucker has its sights firmly set on the future and remains optimistic.

In the financial year 2016/2017, the Supervisory Board of Nordzucker AG carried out the duties required of it by statutes, the company's Articles of Association and rules of procedure, advising and monitoring the Executive Board of Nordzucker AG and the Nordzucker Group on an ongoing basis. This monitoring and advising took place in particular in meetings of the Supervisory Board and its committees.

## SUPERVISORY BOARD MEETINGS AND RESOLUTIONS

The Supervisory Board held four ordinary meetings in the 2016/2017 financial year. Furthermore, the Supervisory Board held a closed meeting in March 2016 and a constitutive meeting following the Annual General Meeting in July 2016. The Executive Board also attended each of the meetings.

Prior to its first ordinary Supervisory Board meeting in the 2016/2017 financial year, the Supervisory Board held a closed meeting on 2 March 2016 to discuss Nordzucker's marketing structure as part of the global competitive landscape. The Supervisory Board also discussed the amendments to the rules of procedure for the Supervisory Board and the Executive Board, as well as an amendment to the Articles of Association of Nordzucker AG. This amendment largely relates to the decision to reduce the size of the Supervisory Board from 21 to 15 members in order to make it more efficient. The Articles of Association also created authorized capital in order to allow the company to exploit any market opportunities that arise.

At its first ordinary meeting on 3 March 2016, the Supervisory Board adopted the budget for the Nordzucker Group for the financial year 2016/2017 and discussed and debated the long-term financial planning in detail. The Supervisory Board also adopted the statement of compliance issued by Nordzucker AG on the German Corporate Governance Code, the recommendations of which are followed by Nordzucker AG on a voluntary basis as a company that is not listed on the stock exchange. To the extent that the Code refers to statutory obligations of publicly quoted companies outside the scope of its recommendations, these are not applicable to Nordzucker AG. The company also assumes no voluntary obligation to adhere to them. Otherwise, we refer to the comments in the Corporate Governance Report. In addition, the amendments to the rules of procedure and the Articles of Association discussed at the closed meeting were debated.

The individual and consolidated financial statements for the financial year 2015/2016 and the dependent company report were the main subject of the second ordinary Supervisory Board meeting held on 23 May 2016 (financial statements meeting). After hearing the auditors' report and conducting an in-depth discussion, and on the recommendation of its Audit and Finance Committee, the Supervisory Board endorsed the annual financial statements of Nordzucker AG and approved the consolidated financial statements. The Supervisory Board's proposals to the Annual General Meeting to be held on 7 July 2016 were also on the agenda. The Supervisory Board also discussed the creation of authorized capital, which will give the Executive Board the opportunity to be flexible in reacting to market developments.

At the recommendation of its Human Resources Committee, the Supervisory Board also adopted the targets for the variable remuneration of the Executive Board for the year 2016/2017. The Supervisory Board also voted to change the remuneration system for the members of the Executive Board. In the 2015/2016 financial year, the total monetary remuneration paid to members of the Executive Board was based on a fixed basic annual salary and on earnings and performance-related variable remuneration. The variable bonus can be up to a maximum of 50 per cent of total compensation. Therefore, 45 per cent of variable remuneration was paid as a short-term incentive linked to the achievement of targets for the given financial year. The remaining 55 per cent was paid as a long-term incentive, calculated on the basis of average performance against targets for previous years.

Following intensive discussions in the Human Resources Committee and the Supervisory Board as a whole, we reached an agreement with the Executive Board on a new remuneration system to replace the previous, highly complex system with a clear system that better suits the way our company works.

With effect from 1 March 2016, the remuneration components paid to Executive Board members were reweighted in terms of the ratio of fixed to variable remuneration. The variable component of the Executive Board remuneration has been reduced from the previous level of 50 per cent to around 25 per cent. In turn, the fixed remuneration paid to Executive Board members has been increased. Notwithstanding the description in paragraph 4.2.3 of the German Corporate Governance Code (GCGC) (version dated 5 May 2015), which is based on the legal provision for listed companies set out in Sec. 87 paragraph 1 AktG, the variable remuneration components following the change in the system of remuneration do not include a long-term assessment basis. This means that remuneration is now only based on the financial year in question, as opposed to on an assessment of the last three financial years as in the past. The individual “soft targets” set for the Executive Board have also been abolished. Since the 2016/2017 financial year, the variable remuneration paid to the Executive Board has been based on the achievement of three key financial indicators. The Supervisory Board sets annual targets for two of these key indicators, whereas for the RoCE a target was fixed for several years. These three key figures – EBITDA, net income and RoCE – were also relevant in the past.

The reason behind the change is simple: the sugar market is expected to become even more volatile in the future. Although the Executive Board is responsible for the performance of Nordzucker AG, it is not responsible for the major fluctuations in market prices. The new system allows us to impose both lower and upper limits on the amount of remuneration. As a result, we are convinced that the changes to the remuneration system make sense and are appropriate both for Nordzucker as a company and for the Executive Board members. Even without a long-term assessment basis, the Supervisory Board believes that the remuneration paid to the Executive Board members is based on sustainable company performance overall, taking into account the particular circumstances that apply to Nordzucker AG and the structure of the variable remuneration components.

Detailed information on Executive Board remuneration is provided in the remuneration report, which forms part of the annual report (see pages 135 et seq.).

The constitutive meeting of the Supervisory Board took place immediately after the Annual General Meeting on 7 July 2016 and focused on personnel matters. Hans-Christian Koehler was confirmed as Chairman of the Supervisory Board. The shareholder representative, Jochen Johannes Juister, and the employee representative, Dieter Woischke, were elected as Deputy Chairmen. The following members were re-elected to the Steering Committee, which is chaired by Chairman of the Supervisory Board Hans-Christian Koehler: Hans Jochen Bosse, Michael Gerlif, Dr Harald Isermeyer, Jochen Johannes Juister, Sigrun Krussmann and Dieter Woischke. Michael Gerlif was re-elected as chairman and Ulf Gabriel, Jochen Johannes Juister and Marina Strootmann were re-elected as members of the Audit and Finance Committee. The shareholder representative Grit Worsch was newly elected. Dr Harald Isermeyer, Sigrun Krussmann, Dieter Woischke and Grit Worsch were elected as members of the Human Resources Committee and Helmut Bleckwenn, Gerhard Borchert, Dr Harald Isermeyer and Dr Hans Theo Jachmann were elected to the Nomination Committee. Hans-Christian Koehler chairs the Human Resources and Nomination Committees in his role as Chairman of the Supervisory Board.

At its third ordinary meeting held on 29 September 2016, the Supervisory Board, after careful consideration and on the recommendation of its Audit and Finance Committee, adopted the investment budget for the coming financial year as proposed by the Executive Board and was provided with detailed information on the long-term financial planning. The Supervisory Board also discussed new developments within production.

The fourth ordinary Supervisory Board meeting was held on 1 December 2016 as part of a Supervisory Board excursion to the plant in Kedainiai (Lithuania). This meeting focused on preparations for an internal efficiency review. In line with the German Corporate Governance Code we carried out this review in 2010/2011, 2012/2013 and in 2014/2015. Proposals were discussed for further optimizing the work of the Supervisory Board and its committees and the working relationship with the Executive Board on the basis of an anonymous online survey conducted among the Supervisory Board members.

At all its meetings in the reporting year the Supervisory Board also discussed the consequences and risks of the antitrust proceedings, the company's financial status and the forecasts and budgets for Nordzucker AG and the Nordzucker Group. It discussed the Nordzucker Group's strategy, continued development and corporate planning with the Executive Board on a regular basis. Also discussed at Supervisory Board meetings were the course of business, risk exposure, risk management, the internal control system and conformity with compliance regulations as well as transactions of considerable importance.

The Executive Board fulfilled its obligations as defined by statute, the Articles of Association and the rules of procedure and regularly informed the Supervisory Board about events of importance for the company, promptly and comprehensively, both in the course of and outside Supervisory Board meetings. The Executive Board presented to the Supervisory Board all matters requiring its authorization. After thorough review and discussion, the Supervisory Board gave its approval to the Executive Board proposals.

The Chairman of the Supervisory Board was in regular contact with the Executive Board, also in-between Supervisory Board meetings. He was informed of the current state of business and major transactions and discussed with the Executive Board matters of strategy, planning, corporate development, risk exposure, risk management and compliance with company standards.

In the 2016/2017 financial year, the Supervisory Board was not informed of any conflict of interest by any of its members – in particular of any conflicts of interest which may result from a consultant or directorship function with clients, suppliers, lenders or other business partners.

## SUPERVISORY BOARD COMMITTEES

For the efficient exercise of its duties, the Supervisory Board of Nordzucker AG has formed four committees: the Steering Committee, the Audit and Finance Committee, the Human Resources Committee and the Nomination Committee. The committee chairs reported on the main elements of the committee meetings at the Supervisory Board meetings. Minutes and documents of all committee meetings were provided to all the Supervisory Board members.

The Steering Committee of the Supervisory Board met five times in the 2016/2017 financial year (9 May, 11 August, 13 September, 15 November 2016 and 23 February 2017). The Supervisory Board Executive Committee discussed the latest key topics concerning the Nordzucker Group, important projects and the company's strategic direction after the expiry of sugar quotas and the EU minimum price. In addition, the Executive Committee prepared the Supervisory Board meetings (including the dates and agenda items) and the Annual General Meeting, as well as the closed meeting of the Supervisory Board, and looked closely at the voluntary statement of compliance by Nordzucker AG on the German Corporate Governance Code in line with Sect. 161 of the German Stock Corporation Act (AktG).

The Audit and Finance Committee met four times in the financial year 2016/2017 (9 May, 13 September, 15 November 2016 and 23 February 2017). It looked regularly at the financial situation and forecasts, company funding, investment planning, quarterly and half-yearly financial statements for the Nordzucker Group and Nordzucker AG, risk management, the internal control system and the effectiveness, the resources and the findings of the Internal Audit department. In the presence of the auditors, the committee

discussed the financial statements and management reports for the Nordzucker Group and Nordzucker AG for the financial year 2015/2016. Its work also included appointing the auditors for the financial year 2016/2017 and verifying their independence. The examination and approval of the individual and consolidated financial statements and the dependent company report for the past financial year 2016/2017 as well as the proposal for election of the auditors for the financial year 2017/2018 and the dividend proposal to the Annual General Meeting were prepared at an additional meeting held outside the period under review on 8 May 2017.

The Human Resources Committee met on 27 April 2016 and 24 February 2017 in the reporting period. In particular, it prepared the Supervisory Board's decisions on the variable remuneration paid to the Executive Board (see remuneration report in the annual report). It also discussed the reappointment of Axel Aumüller to the Executive Board and submitted a recommendation to this effect to the Supervisory Board for its meeting on 9 March 2017.

The Nomination Committee met on 27 April 2016 and 22 February 2017 in the 2016/2017 financial year. It updated the job description for the shareholder representatives on the Supervisory Board. The members of the Committee also discussed a change in the target composition and set the target for the proportion of women on the Supervisory Board to be reached by 30 June 2022. At the moment, the Supervisory Board has five female members, which corresponds to a proportion of 23.8 per cent. At its meeting held on 9 March 2017, the Supervisory Board set a target of 25 per cent for the proportion of women on the Supervisory Board, which is to be met by 30 June 2022.

The Nomination Committee gave the full Supervisory Board recommendations for its proposal to the Annual General Meeting on the election of shareholder representatives to the Supervisory Board. The decision to reduce the size of the Supervisory Board to 15 members in the future had to be taken into account in this regard. It also made proposals to the full Supervisory Board on candidates for the chair and deputies as well as the Supervisory Board committees.

## ANNUAL FINANCIAL STATEMENTS 2016/2017

The Executive Board presented the Supervisory Board in good time with the annual financial statements of Nordzucker AG and the Group, the management report and the Group management report, the proposal for the use of profits and the report on related party transactions. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hanover, were selected as auditors at the Annual General Meeting on 7 July 2016 at the Supervisory Board's proposal. They audited the 2016/2017 annual financial statements for Nordzucker AG, its management report, the consolidated financial statements and the Group management report and issued each with an unqualified audit opinion. The auditors also audited the dependent company report, presented it to the Supervisory Board members in good time and gave the following opinion: "Following our professional audit and assessment we confirm that 1. the factual statements in the report are correct, and 2. that the consideration paid by the company in the transactions listed in the report was not inappropriately high."

The aforementioned documents were presented in good time, examined thoroughly by the Audit and Finance Committee and the Supervisory Board, and were discussed in detail in the presence of the auditors following their report on the main findings of the audit. The Supervisory Board concurs with the result of the audit and concluded from its own examination at the meeting held on 22 May 2017 that it has no objections to make. The Supervisory Board approved the annual financial statements as prepared by the Executive Board, which are thereby adopted. The Supervisory Board also approved the Executive Board's proposal to use the net distributable profit to pay a dividend of EUR 1.10 per share for the financial year 2016/2017.

## PERSONNEL MATTERS

At the Annual General Meeting on 7 July 2016 the shareholders of Nordzucker AG again elected Gerhard Borchert and Dr Hans Theo Jachmann to the Supervisory Board. Dr Carin-Martina Tröltzsch was elected as a new member of the Supervisory Board to replace Mats Rosendahl, whose term of office had come to an end. The Supervisory Board would like to thank Mats Rosendahl for his many years of work for the benefit of the Nordzucker Group.

There were no changes to the Executive Board. Dr Lars Gorissen was re-elected to the Executive Board by the Supervisory Board at its meeting held on 23 May 2016. Outside of the reporting period, the Supervisory Board reappointed Axel Aumüller to the Executive Board at its meeting held on 9 March 2017.

Finally, the Supervisory Board would like to thank the Executive Board and all the employees of the Nordzucker Group for their work in 2016/2017.

Braunschweig, Germany, 22 May 2017



Hans-Christian Koehler  
Chairman of the Supervisory Board