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NORDZUCKER AT A GLANCE

BUSINESS ACTIVITIES

Nordzucker is one of the largest sugar producers in the European Union (EU). In the 2017/2018 financial year, the company produced 2.7 million tonnes of sugar from sugar beet in 13 sugar plants in seven European countries. On average over the year, the Group had 3,234 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 name SweetFamily and, in the Nordic countries, under the brand name Dansukker. 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 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 mainly concentrates on the production and distribution of sugar. It benefits from a strong market position in the EU and a solid financial structure. With the end of the sugar market regime in its existing form as of 30 September 2017, competition in the EU has intensified further; Nordzucker adjusted to this development early on and is continuing to systematically work on boosting its productivity.

Nordzucker offers 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.

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 and 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: 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 vision behind 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 aimed for substantial cost savings in all areas of the company. Through various sub-projects, annual savings of roughly EUR 47 million were thus achieved in the Nordzucker Group up to the end of the 2017/2018 financial year. The focus was 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. In addition, the company is continuing to make targeted investments in its plants in order to maintain their high level of productivity and to prepare them to fulfil future requirements.

These measures will enable Nordzucker to utilize strategic opportunities following the end of the sugar market regime (in its existing form). The EU sugar market is expected to undergo a renewed process of consolidation, in which Nordzucker aims to play
an active role. The expiry of the sugar market regime in 2017 means that the maximum limits for export volumes no longer apply. Accordingly, sugar exports will gain in significance 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.

In addition, Nordzucker reviews growth opportunities outside Europe. The focus is on attractive growth regions where demand and/or production is likely to continue to grow – 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 strong expertise in the processing of, logistics for and distribution of agricultural products offer a further potential growth area.

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 15 members, of which ten represent the shareholders and five the employees.

Since late 2014, Nordzucker has been managed and controlled in terms of functions. At the Executive Board level, the respective functions are the Speaker of the Executive Board, Production, Marketing and Sales, and Finance. Following the retirement of the CEO Hartwig Fuchs on 28 February 2018, the Chief Executive Officer and Chief Agricultural Officer positions were combined. From 1 March 2018, the Chief Agricultural Officer will also serve as the Speaker of the Executive Board.

The 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. Standardizing and harmonizing all processes facilitates international cooperation within the Group. The “One Company” (“One Nordzucker”) strategy will significantly increase the level of efficiency and effectiveness, improve process quality and lay the foundation for the transfer of knowledge and cost savings.

The internal management of the Nordzucker Group is carried out by means of financial and non-financial indicators. The financial indicators system comprises the following parameters: RoCE, EBIT margin, net income for the period, equity ratio, net debt and free cash flow. The key indicators previously used (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 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 also 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 Südhannover Gesellschaft 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 Südhannover Gesellschaft 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.

SHAREHOLDER STRUCTURE OF NORDZUCKER AG

MACROECONOMIC SITUATION

According to the Organisation for Economic Co-operation and Development (OECD), global economic growth in the year under review was significantly stronger than in the previous year. While global gross domestic product (GDP) had increased by 2.9 per cent in 2016, growth in 2017 came to 3.6 per cent. Growth has picked up in almost all regions of the world. The period of economic weakness in Brazil and Russia is now over, while China continues to register strong growth. At 2.3 per cent, growth in the European Union was half a percentage point higher than in the previous year (1.8 per cent). The European Central Bank’s key interest rate remains at a low level, thus continuing to stimulate the overall Eurozone economy.

According to the German Federal Statistical Office, economic growth in Germany came to 2.2 per cent in 2017 (previous year: 1.9 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 as well as a higher volume of corporate investment. Due to the further increase in foreign demand, German companies’ exports have likewise boosted growth.
THE SUGAR MARKET

SECTOR DEVELOPMENTS

WORLD SUGAR MARKET

The 2016/2017 sugar marketing year (1 October to 30 September) was the second consecutive year in which global consumption outstripped global production. According to the market research institute F. O. Licht, in 2016/2017 the total deficit came to 3.6 million tonnes, compared to a deficit of 9.1 million tonnes in the previous year. However, the deficit thus clearly fell short of the original expectations. In particular, this reflected the fact that Brazilian producers processed more sugar cane than expected into sugar rather than into ethanol.

Due to this development and in anticipation of a production surplus in the current sugar marketing year, prices declined significantly in the first half of the 2017 calendar year. In the current 2017/2018 sugar marketing year, to date the harvest season in most countries has matched or even exceeded expectations, particularly in India. Overall, the forecast points to a rise in global production in 2017/2018 of 14.7 million tonnes (8.2 per cent on the previous year), while consumption will grow by just 3.0 million tonnes (1.65 per cent on the previous year). Worldwide, this will result in an expected surplus of 7.7 million tonnes and thus a global increase in stocks that will likely rise to 75.8 million tonnes or 41.3 per cent of consumption.
In view of the abundant supply of sugar, prices on the world market remain under pressure. In the last reporting year (February 2017 to February 2018), the price of white sugar, based on the London No. 5 quoted price, had fallen by 44 per cent, from EUR 513 per tonne to EUR 289 per tonne, in February 2018. However, some of this decrease was attributable to the Euro’s rise against the US Dollar.

THE SUGAR MARKET IN THE EU

Nordzucker’s 2017/2018 financial year falls within two EU sugar marketing years: 2016/2017 and 2017/2018 (each from 1 October to 30 September). Since 1 October 2017, the EU no longer distinguishes between quota sugar for human consumption and non-quota sugar for industrial use (especially bioethanol production) and for export; the quota system for sugar, the minimum sugar beet price and the restriction on export volumes thus no longer apply. This represents a fundamental change for the EU sugar market. There are now no limits on the production of sugar in the EU for any type of use. At the same time, isoglucose production is likewise no longer subject to a quota system. Overall, this will not only considerably intensify competition among sugar producers. Sugar will also remain obtainable by imports from ACP/LDC countries or by CXL imports.

According to the European Commission, in the 2016/2017 sugar marketing year at 18.5 million tonnes sugar production roughly matched the level in the previous sugar marketing year (18.4 million tonnes). Of these 18.5 million tonnes, 14.2 million tonnes were quota sugar and 4.3 million tonnes were non-quota sugar. Moreover, at 3 million tonnes the volume of imports was considerably lower than in the previous marketing year (3.5 million tonnes in 2015/2016). Together with imports, the market in the EU was adequately supplied with quota sugar in the period up to 30 September 2017.

Prices thus remained relatively stable in the 2016/2017 sugar marketing year: according to the European Commission, the average market price at the beginning of the 2016/2017 sugar marketing year (October 2016) was EUR 470 per tonne of white sugar, but at the end of the 2016/2017 sugar marketing year in September 2017, it was EUR 490 per tonne.

The European sugar price trend was more subdued by comparison with the world market price. 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 revenues reported by companies, as contractually agreed in the past and transacted in the current month, whereas the futures markets trade based on the current market situation on the world market and future expectations.

The 2017/2018 sugar marketing year (30 September 2018) has not yet come to an end. The European Commission estimates that sugar manufacturers in the EU have produced around 20.9 million tonnes of sugar this year. The distinction between quota and non-quota sugar ceased to apply in this sugar marketing year. The volume of production is thus significantly higher than the previous year’s level as well as the average volume for previous years. The German and French sugar industries in particular have significantly expanded their production; these large production volumes are depressing the market. While imports have declined strongly (1.8 million tonnes are still predicted), the European market is more than adequately provided for. Despite weak global market prices, the European Commission expects exports with a volume of 4.8 million tonnes (of which 3.2 million tonnes of sugar and 1.6 million tonnes in products containing sugar) and a level of consumption in the EU of 17.7 million tonnes. Even on the basis of these assumptions, as of 30 September 2018 stocks will increase to 2.4 million tonnes.

The abundant supply in the EU and the weak global market have resulted in a significant fall in prices. The 2017/2018 sugar marketing year started in October with an average price reported by the European Commission of EUR 422, which thus represented a strong decline on the previous months. In January 2018, the average price came to EUR 374 per tonne of white sugar.
### GLOBAL SUGAR BALANCE

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<tbody>
<tr>
<td>Opening Stocks</td>
<td>68,153</td>
<td>71,740</td>
<td>80,871</td>
<td>79,200</td>
<td>74,332</td>
<td>63,959</td>
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<td>Production</td>
<td>194,066</td>
<td>179,380</td>
<td>174,049</td>
<td>180,697</td>
<td>181,503</td>
<td>184,166</td>
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<tr>
<td>Consumption</td>
<td>183,616</td>
<td>180,638</td>
<td>179,834</td>
<td>178,568</td>
<td>175,942</td>
<td>171,636</td>
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<tr>
<td>Unrecorded disappearance</td>
<td>2,753</td>
<td>2,328</td>
<td>3,346</td>
<td>0,458</td>
<td>0,892</td>
<td>-2,395</td>
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<tr>
<td>Ending Stocks</td>
<td>75,850</td>
<td>68,415</td>
<td>71,740</td>
<td>80,871</td>
<td>79,200</td>
<td>74,094</td>
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<td>Stock-to-use-ratio in %</td>
<td>41.31</td>
<td>37.73</td>
<td>39.89</td>
<td>45.29</td>
<td>45.01</td>
<td>43.17</td>
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<td>Surplus/Deficit</td>
<td>7,697</td>
<td>-3,586</td>
<td>-9,131</td>
<td>1,671</td>
<td>4,669</td>
<td>10,135</td>
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Source: F. O. Licht Weltzuckerbilanz, March 2018

### TOP 5 PRODUCERS

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<tr>
<td>Brazil</td>
<td>34,409</td>
<td>41,954</td>
<td>40,511</td>
<td>34,706</td>
<td>39,534</td>
<td>41,162</td>
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<tr>
<td>India</td>
<td>33,150</td>
<td>22,126</td>
<td>27,372</td>
<td>30,616</td>
<td>26,580</td>
<td>27,332</td>
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<td>EU</td>
<td>21,088</td>
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<td>15,098</td>
<td>19,147</td>
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<td>Thailand</td>
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<td>10,025</td>
<td>11,579</td>
<td>11,677</td>
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<td>China</td>
<td>11,159</td>
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<td>9,459</td>
<td>11,474</td>
<td>14,476</td>
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Source: F. O. Licht Weltzuckerbilanz, March 2018

### TOP 5 CONSUMERS

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<tbody>
<tr>
<td>India</td>
<td>27,744</td>
<td>27,200</td>
<td>26,739</td>
<td>27,010</td>
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<td>EU</td>
<td>18,493</td>
<td>18,516</td>
<td>18,513</td>
<td>18,639</td>
<td>19,228</td>
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<tr>
<td>China</td>
<td>17,200</td>
<td>17,000</td>
<td>16,739</td>
<td>17,283</td>
<td>16,600</td>
<td>16,150</td>
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<td>Brazil</td>
<td>12,054</td>
<td>11,907</td>
<td>11,754</td>
<td>11,746</td>
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<td>USA</td>
<td>11,525</td>
<td>11,320</td>
<td>11,120</td>
<td>10,932</td>
<td>10,903</td>
<td>11,109</td>
</tr>
</tbody>
</table>

Source: F. O. Licht Weltzuckerbilanz, March 2018
BUSINESS PERFORMANCE

INDUSTRIAL CUSTOMER BUSINESS

Most of the company’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 and use of different types of sugar and grain sizes, as well as extensive services – such as in logistics or the joint development of customer-specific product solutions. High food safety and sustainability standards are another important aspect of the company’s service.

In particular, the 2017/2018 financial year was influenced by the expiry of the previously applicable sugar market regime. The abolition of the market regime and the associated quota system mean that Nordzucker is exposed to significant changes. Up to the end of the quotas on 30 September 2017, prices remained stable and were able to clearly decouple themselves from the declining world market level. In the 2017/2018 campaign – the first without quotas – sugar production was then clearly stepped up, particularly in countries with advantageous climatic conditions for sugar beet cultivation such as France and Germany. This expansion of sugar production, combined with the negative trend for the world market price, resulted in a drastic decline in prices in the EU. Necessary exports to take the pressure off the internal market were not a very attractive option, which intensified competition and the struggle for market shares. A positive factor is the fact that sales of isoglucose, which is likewise no longer regulated through quotas, have not yet increased significantly and have thus not put any further pressure on the market. The level of demand for sugar in the food industry remained relatively stable. Customer requirements in relation to quality, sustainability, availability as well as delivery punctuality and flexibility became even more critical, and Nordzucker successfully met these requirements.

Overall, Nordzucker maintained its strong market position in this complex and difficult market environment. While it suffered losses in some countries, in other countries it was able to stabilize and expand its market position. Business outside of the EU showed positive development and was up in a year-on-year comparison. Overall, a good 2 million tonnes of sugar were sold in the industrial sector in the past financial year, which corresponds to a decline of 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.

The same factors that affect the industrial customer segment also influence the retail business. Here again, prices declined drastically following the abolition of the quota system. However, the effects of this were still limited in the past financial year, since the lower prices only applied for the last two months of this period.

In terms of its sales markets, Nordzucker registered slight declines in sales in North and Central Europe but significantly expanded its market presence in Eastern Europe, achieving sales growth of 3 per cent.

Overall, Nordzucker maintained its strong market position in this complex and difficult market environment. While it suffered losses in some countries, in other countries it was able to stabilize and expand its market position. Business outside of the EU showed positive development and was up in a year-on-year comparison. Overall, a good 2 million tonnes of sugar were sold in the industrial sector in the past financial year, which corresponds to a decline of 1 per cent as against the previous year.
MARKET FOR ANIMAL FEED AND MOLASSES

SECTOR DEVELOPMENTS

In line with the aforementioned trend on the world sugar market, production of molasses increased by 7.2 per cent on the previous year to 65.5 million tonnes. Production on the American continent remained largely stable. In Asia, on the other hand, a growth rate of 14 per cent is assumed. In the EU, together with positive acreage yields for sugar beet according to the market research institute F. O. Licht, the disproportionately large increase in acreage that resulted from the expiry of the former sugar market regime caused molasses production to increase by 0.7 million tonnes or 21.9 per cent to 3.9 million tonnes. The rate of increase in production in Europe, including the non-EU countries, is estimated to amount to 10.7 per cent.

The fermentation industry in Europe is mainly shaped by alcohol producers, with roughly 2.3 million tonnes of molasses used in 2017, followed by the yeast industry with a relatively stable volume of demand for molasses over the years of between 1.1 and 1.2 million tonnes per year.

Analogously to the increase in sugar production from sugar beet, the volume of beet cossettes worldwide has increased to 16.8 million tonnes (calculated on the basis of 90 per cent dry content). Europe accounts for the largest share, 13.1 million tonnes. This corresponds to a 12 per cent increase on the previous year in Europe. In the EU itself, the volume of production increased disproportionately strongly, by 21.2 per cent to 7.9 million tonnes.

European manufacturers of mixed feed products for livestock and pets slightly increased their volume of production in 2017 by 0.2 per cent to 156.7 million tonnes. Moreover, demand for mixed feed for cattle and horses increased in some markets. Both of these factors had a positive impact on demand for dried pulp pellets and molasses.
BUSINESS PERFORMANCE

FERMENTATION INDUSTRY CUSTOMERS

The molasses produced by Nordzucker are mainly sold to customers in the fermentation industry. Here, Nordzucker AG increased its volume of sales to customers by almost 20 per cent; at the same time, use of molasses in bioethanol production was reduced. While molasses prices declined considerably (minus 8.7 per cent at Nordzucker) due to the impending surpluses in the EU’s molasses production, sales to customers in the fermentation industry were more profitable than use for bioethanol production.

ANIMAL FEED CUSTOMERS

Nordzucker markets dried pulp pellets, molasses as well as vinasse from its own ethanol production to mixed feed producers. These products are feed materials listed in the EU catalogue of feed materials. In the 2017/2018 financial year, at roughly 600,000 tonnes, sales of dried pulp pellets slightly exceeded expectations. The market price realized for dried pulp pellets was four per cent higher than in the previous year. The volume of the liquid molasses product sold to the mixed feed industry remained largely stable in the past financial year, while the volume of vinasse sold was lower than in the previous year due to production factors. Prices for feed molasses fell in the past financial year. Nordzucker achieved a slight increase in its volume of sales of pressed pulp to ca. 600,000 tonnes. Prices of this feed material remained stable in the past financial year.

MARKET FOR BIOETHANOL

SECTOR DEVELOPMENTS

Fuel mixing accounts for roughly two thirds of European demand for bioethanol, while industrial use and potable alcohol account for one third.

Demand for bioethanol for fuel mixing came to an estimated 4.3 million tonnes in 2017 in the EU and thus only slightly exceeded the local production volume of roughly 4.0 million tonnes; as in the previous year, the deficit was made up by imports. Despite increases in the biofuel quotas in several member states, demand only increased by 0.1 million tonnes by comparison with the previous year. In Germany, demand for bioethanol for fuel mixing fell to roughly 1.15 million tonnes, which represents a decline of two per cent on the previous year. This decrease was mainly attributable to the strong, 13 per cent decline in the use of ETBE (a fuel additive produced from refined ethanol) on the previous year; in 2016, this had increased by six per cent. The direct addition of bioethanol in petrol also declined in 2017, by 0.4 per cent. While demand for petrol increased by 1.8 per cent in Germany, ultimately this was unable to compensate for the reduced volume of bioethanol used as a fuel additive.

Demand for ethanol in the traditional areas of industrial use and potable alcohol matched the previous year’s level, with an estimated 2.3 million tonnes in Europe and 0.4 million tonnes in Germany.

The volume of supply and costs of bioethanol strongly influenced prices, while the level of European demand remained relatively constant. As in the previous year, in the 2017/2018 financial year prices of bioethanol for fuel mixing fluctuated very strongly, with a difference of almost EUR 200 per m³ between the highest and lowest prices. This reflected production stoppages as well as the price trends for wheat, maize and sugar.
MARKET FOR BIOETHANOL
MARKET FOR SWEETENERS
BEET CULTIVATION AND SUGAR PRODUCTION

While prices in the fuel market were highly volatile, prices of ethanol for industrial use and potable alcohol were at a similar average level over the course of the year but were subject to considerably lower fluctuations due to longer-term contract structures in this segment.

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 in the first half of the financial year, the volatile trend for bioethanol prices and impending maintenance work, in the 2017/2018 financial year the company reduced its volume of bioethanol production by 27 per cent on the previous year. Production was therefore suspended in the period from early May to late July.

Nordzucker markets bioethanol in the fuel market as well as in its traditional area of use as industrial alcohol. Germany remained the primary market for the company’s sales of bioethanol, thus entailing reduced freight costs. The proportion exported to other European member states was at the same level as in the previous year. The proportion of bioethanol sold for fuel mixing declined from 85 per cent in the previous year to 75 per cent in the reporting period. In this segment, Nordzucker realized prices which matched the previous year’s level in overall terms. On the other hand, in the 2017/2018 financial year the quantity delivered for industrial use and potable alcohol increased to 25 per cent of total sales (previous year: 15 per cent), while the overall volume of production declined. Prices fell here slightly on the previous year but exceeded the prices for bioethanol used for fuel mixing.

MARKET FOR SWEETENERS

SECTOR DEVELOPMENTS

The global demand for food and beverages sweetened with stevia (steviol glycosides) is continually growing. On the other hand, developments in the EU stagnated last year, meaning that they once again fell short of the original expectations. Although new products sweetened with stevia are still being developed and launched on the market, the number of new product launches in the EU and Germany is now on the decline. When the products that are currently still in the development phase achieve market readiness, the market volume, which is low at present, should gradually increase again, although the small number of new products could result in a lower growth rate.

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 this joint venture (NP Sweet A/S) with regional European food and beverage customers in the 2017/2018 financial year matched the previous year’s level; however, the company’s development thus continued to clearly fall short of expectations.
BEET CULTIVATION AND SUGAR PRODUCTION

Following punctual or even early sowing in Germany, below-average temperatures in the period from mid-April to mid-May slowed down the development of the sugar beet crop. This temporary growth deficit was made up for in Germany through above-average temperatures from mid-May onwards. In July, torrential rain in the German growing area resulted in regional flooding and the total loss of some beet cultivation areas. The consistently above-average level of soil moisture together with above-average temperatures resulted in the highest sugar yield in Germany since 2014, at 13.9 tonnes per hectare.

In the other Nordzucker countries, sugar yields were below the long-term average level, due to weather-related delays in sowing (Finland) as well as below-average temperatures and a significant dry period in the summer (Slovakia). Only in Poland was an average sugar yield achieved, with 11.9 tonnes per hectare. With the exception of Slovakia, the weather conditions during the campaign were challenging in all of Nordzucker’s countries. Heavy rainfall before and during the campaign made the harvest and loading significantly more difficult. The partial inaccessibility of the soil and limited transport capacities in logistics meant that it was not possible to fulfil delivery schedules in some cases, which resulted in problems in terms of a consistently high level of processing. The average beet yield for the Group was 70.9 tonnes per hectare (previous year: 71.0 tonnes per hectare). The sugar content came to 17.3 per cent (previous year: 17.7 per cent), which represented an average sugar yield of 12.2 tonnes per hectare (previous year: 12.5 tonnes per hectare).

In the 2017/2018 period, the growing area increased to roughly 239,000 hectares by comparison with 2016/2017 (roughly 214,000 hectares). Across the Group during the 2017/2018 campaign, Nordzucker produced some 2.7 million tonnes of sugar from beet (previous year: 2.5 million tonnes). The campaign lasted for 117 days, which was much longer than in the previous year (103 days).
Beet processing in the Nordzucker plants mostly went smoothly thanks to targeted investments and maintenance, despite the difficulties in the area of logistics. Beet growers and their service providers as well as beet delivery and production worked together outstandingly; despite adverse weather conditions (see page 43) and some problems with beet logistics, this meant that the campaign largely went smoothly. Nordzucker has a sophisticated and highly efficient system of beet logistics in all countries. It has systematically developed this system and continues to do so, taking country-specific requirements into account. In the 2017/2018 campaign in Germany, for example, new software (“AgriLog”) was used very successfully to plan and carry out all beet logistics activities. In the next campaign, AgriLog will also be extensively introduced in Denmark and Sweden.

In Germany and Denmark, in the 2017/2018 campaign beet was produced and processed in accordance with EU basic regulation No. 834/2007 on organic farming. This is Nordzucker’s way of reacting to the considerable increase in the demand for organic sugar produced from sugar beet.

**AVERAGE SUGAR YIELD NORDZUCKER**

<table>
<thead>
<tr>
<th>Year</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield</td>
<td>11.3</td>
<td>13.2</td>
<td>12.5</td>
<td>11.6</td>
<td>12.2</td>
</tr>
</tbody>
</table>

Tonnes per hectare
EARNINGS AND FINANCIAL POSITION AND NET ASSETS

EARNINGS POSITION

Compared with the previous year, profitability within the Nordzucker Group increased. This resulted primarily from the stable earnings position in the first three quarters of the financial year. In the final quarter, price decreases connected to the end of the sugar market regime (in its previous form) had a strong effect on profitability.

The company’s profitability is measured using the 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 10.2 per cent in the reporting year (previous year: 8.5 per cent). This means that the company once again achieved its objective of at least earning the cost of capital.

The EBIT margin is calculated based on the ratio of EBIT to revenues. It came to 9.3 per cent in the reporting period (previous year: 7.7 per cent). Net income for the period amounted to EUR 117.8 million, compared with EUR 99.1 million in the previous year.

The key indicators of profitability used in the past also improved. The EBITDA margin is calculated by dividing EBITDA (operating result before depreciation, amortization and impairment) by revenues. It came to 13.8 per cent in the reporting period (previous year: 13.2 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 7.0 per cent in the reporting year compared with 5.6 per cent the previous year. This was once again above the target of 5.0 per cent.

Revenues came to EUR 1,649.6 million, a decline of EUR 58.6 million on the previous year’s figure of EUR 1,708.2 million. The fall in revenues was principally due to lower sales volumes for sugar.

Revenues of EUR 1,366.7 million were generated with sugar. This corresponds to a decline of EUR 43.0 million (previous year: EUR 1,409.7 million). The fall in revenues was attributable to low volumes.

Revenues from the sale of bioethanol came to EUR 46.5 million, which was down considerably on the previous year’s figure of EUR 64.9 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 147.3 million, they were slightly lower than in the previous year (EUR 151.1 million). Other revenues increased from EUR 82.5 million to EUR 89.1 million.

Production costs declined from EUR 1,329.3 million to EUR 1,220.8 million in the reporting year. This mainly reflected declining sales volumes, reduced quantities of purchased sugar and lower beet prices following the end of the sugar market regime.

Sales costs of EUR 161.1 million were almost at the same level as in the previous year (EUR 160.1 million). Freight costs fell by EUR 2.7 million. However, personnel expenses and other costs of sales increased slightly, by EUR 1.6 million and EUR 2.8 million respectively.
Administrative costs of EUR 74.9 million were also close to the previous year’s figure of EUR 75.4 million. This slight decrease was mainly attributable to reduced personnel expenses.

Production, sales, administrative and other expenses included personnel expenses of EUR 200.6 million (previous year: EUR 201.1 million) and EUR 69.5 million in impairment on property, plant and equipment and intangible assets (previous year: EUR 74.0 million). In particular, the slight decrease in personnel expenses reflected lower wages and salaries due to lower variable employee remuneration.

Other income came to EUR 23.1 million and was therefore well below last year’s figure of EUR 34.8 million. This was mainly attributable to the significant decline in income from insurance and compensation payments in contrast to the previous year, the reversal of provisions, disposals of assets as well as other matters. Conversely, foreign currency gains increased considerably to EUR 13.3 million (previous year: EUR 2.4 million), but were also contrasted with significantly higher foreign currency losses in the amount of EUR 15.2 million (previous year: EUR 2.0 million) which were reported under other expenses.

Other expenses came to EUR 62.3 million in the year under review and were therefore well above the previous year’s figure of EUR 46.9 million. This was due in particular to a significant increase in expenses from additions to provisions.

In total, the Nordzucker Group reported an operating result (EBIT) of EUR 153.7 million, as against EUR 131.4 million in the previous year. The operating result before depreciation, amortization and impairment (EBITDA) came to EUR 227.2 million (previous year: EUR 226.2 million).
Financial income rose from EUR 6.7 million to EUR 9.6 million. Significantly higher investment income was received in the reporting period by comparison with the previous year.

Financial expenses are largely made up of interest and similar expenses. Finance costs increased year on year by EUR 1.1 million to EUR 10.4 million.

At 22.8 per cent, the tax ratio is almost unchanged by comparison with the previous year (22.9 per cent).

In total, Nordzucker reported net income before minority interests of EUR 117.8 million, as against EUR 99.1 million in the previous year. After deduction of minority interests, this resulted in consolidated comprehensive income of EUR 114.8 million, compared with EUR 96.4 million in the previous year.

Intangible assets were up slightly at EUR 20.6 million (previous year: EUR 19.4 million).

In the reporting year, the Nordzucker Group invested EUR 85.2 million (previous year: EUR 81.2 million) in property, plant and equipment. Capital expenditure was offset by current depreciation and amortization of EUR 66.8 million (previous year: EUR 69.0 million) and other impairments of EUR 4.0 million (previous year: EUR 20.2 million). Overall, property, plant and equipment increased by EUR 9.7 million, from EUR 821.1 million in the previous year to EUR 830.8 million.

Financial investments came to EUR 29.4 million and were therefore roughly on a par with the previous year’s figure of EUR 30.6 million.

Inventories fell slightly, by EUR 5.4 million to EUR 683.5 million (previous year: EUR 688.9 million). At EUR 52.4 million, raw materials, consumables and supplies were virtually at the same level
as in the previous year (EUR 52.0 million). Unfinished goods and services increased by EUR 11.6 million to EUR 46.0 million. Finished goods and merchandise fell by EUR 17.3 million to EUR 585.1 million.

Current receivables and other assets were EUR 79.0 million higher, at EUR 303.4 million compared with EUR 224.4 million in the previous year. Trade receivables and receivables from related parties were roughly stable at EUR 147.2 million, compared to EUR 149.6 million. Current income tax receivables amounted to EUR 1.8 million (previous year: EUR 2.1 million).

Current financial and other assets increased by EUR 81.6 million to EUR 154.3 million. This was mainly due to investments in current securities in the amount of EUR 80.0 million in the reporting period (previous year: EUR 35.0 million).

As of the reporting date, cash and cash equivalents exceeded financial liabilities by EUR 301.0 million (previous year: EUR 308.3 million).

Non-current provisions and liabilities rose to EUR 381.0 million (previous year: EUR 359.0 million). The total includes non-current provisions of EUR 297.2 million (previous year: EUR 271.9 million), of which EUR 216.1 million (previous year: EUR 217.6 million) are for pension obligations. Non-current liabilities consist mostly of deferred tax liabilities, which fell from EUR 75.0 million to EUR 71.6 million in the reporting year.

Current provisions and liabilities decreased from EUR 383.4 million to EUR 372.5 million. In particular, trade payables of EUR 215.6 million were down on the previous year (EUR 222.7 million). At EUR 35.3 million, financial and other liabilities matched the previous year’s level.

Equity rose by EUR 54.5 million in total to EUR 1,429.0 million (previous year: EUR 1,374.5 million). Consolidated net income for the period increased equity by EUR 117.8 million (previous year: 99.1 million). However, equity was reduced by other income of EUR –6.4 million recognized in other comprehensive income and in the statement of comprehensive income (EUR 2.2 million from the remeasurement of defined benefit plans after adjustment for deferred taxes and EUR –8.6 million from other matters). In the previous year, other comprehensive income had included a result of EUR 4.5 million (EUR 5.0 million from the remeasurement of defined benefit plans after adjustment for deferred taxes and EUR –0.6 million from other matters). Equity was also diminished by the payment of dividends amounting to EUR 56.9 million (previous year: EUR 5.0 million) to shareholders of Nordzucker AG and minority shareholders. The equity ratio was 65.5 per cent, and thereby once again up slightly on the previous year (64.9 per cent). The figure was again well above the Group target of 30.0 per cent.
As of 28 February 2018, cash and cash equivalents amounted to EUR 306.9 million (previous year: EUR 321.8 million). Including current securities investments which the company also enters into for the investment of liquidity, cash and cash equivalents available on a short-term basis increased to EUR 421.9 million (previous year: EUR 356.8 million).

**OVERALL ASSESSMENT OF EARNINGS AND FINANCIAL POSITION AND NET ASSETS**

Nordzucker improved all of its key earnings figures in the 2017/2018 reporting year. RoCE came to 10.2 per cent as against 8.5 per cent in the previous year. The EBIT margin came in at 9.3 per cent (previous year: 7.7 per cent). Net income for the period amounted to EUR 117.8 million, compared with EUR 99.1 million in the previous year. The EBITDA margin came to 13.8 per cent (previous year: 13.2 per cent). The significantly improved earnings level by comparison with the previous year was attributable to the stable earnings development in the first three quarters of the financial year.

The Nordzucker Group’s net assets and financial position, which was already considered to be good in previous years, also improved further in the 2017/2018 reporting year. The equity ratio increased again and now amounts to 65.5 per cent. As of the end of the reporting period, the company once again had virtually no financial liabilities (EUR 5.9 million). Cash and cash equivalents once again significantly exceeded financial liabilities, by EUR 301.0 million. Cash flow from operating activities was at a very high level of EUR 218.7 million. Cash flow from investing activities came to EUR –169.1 million. This brings the resulting free cash flow to EUR 49.6 million.

Cash flow from operating activities of EUR 218.7 million was much lower than in the previous year (EUR 267.8 million). In particular, this decrease resulted from a reduced decline in working capital by comparison with the previous year. On the other hand, consolidated net income for the period increased.

Cash flow from investing activities came to EUR –169.1 million, which was once again up considerably on the previous year (EUR –118.9 million). Investments in property, plant and equipment and intangible assets increased on the previous year, rising from EUR 85.7 million to EUR 90.2 million. Nordzucker also invested cash and cash equivalents with a net volume of EUR 80.0 million (previous year: EUR 35.0 million) in current securities.

Cash flow from financing activities amounted to EUR –64.4 million in the reporting year, compared to EUR 1.2 million in the previous year. The higher cash outflow by comparison with the previous year mainly resulted from the significantly higher dividend payment to the shareholders of Nordzucker AG.

The free cash flow, i.e. the total of cash flow from operating activities and cash flow from investing activities, came to EUR 49.6 million and was thus significantly lower than the prior-year value (EUR 148.9 million).
Nordzucker invested EUR 88.9 million in property, plant and equipment and intangible assets in the 2017/2018 financial year (previous year: EUR 84.3 million). As in the previous year, the focus was on measures aimed at increasing efficiency, meeting regulatory requirements and replacing existing assets. The company’s key investments related to the completion of its white sugar silo in Örtofta and a further silo in Clauen, the installation of two new pulp presses in Örtofta and one in Nordstemmen, the transfer of two pulp presses from Uelzen to Chelmza and the renewal of a stage of the evaporation plant with a falling-film evaporator as well as the commissioning of a packaging machine in Kėdainiai. Further projects have been initiated, such as the construction of a white sugar silo in Chelmza, the replacement of the beet pre-wash drum and a cosset mixer in Örtofta for the 2018 campaign as well as the modernization of the control technology in Nyköbing. In addition, Nordzucker has launched a multiple-year programme in Sweden with the goal of delivering increased efficiency and the long-term concentration of production at its Örtofta plant. In the first construction phase, the sugar house will be renovated by the 2019 campaign.

There were investment commitments of EUR 14.0 million as of the end of the reporting period (previous year: EUR 16.7 million). These commitments will be financed by cash flow from operating activities.
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 funds currently invested in the Nordzucker Group, the company will also focus on investing these funds with the aim of limiting risks and avoiding 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 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 2017/2018 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 amounting to EUR 344.5 million until March 2019, and then EUR 312.6 million 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 421.9 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. 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 1.20 per share of share capital for the 2017/2018 reporting year. This corresponds to a total dividend distribution of EUR 58.0 million. This means that 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.

EMPLOYEES

EMPLOYEE STRUCTURE

The Nordzucker Group had an average of 3,234 employees in the reporting year, which roughly matched the previous fiscal year’s level (3,236 employees).

A look at the workforce by country shows slight changes in recent financial years. The number of employees has decreased slightly in the Scandinavian countries. The numbers are relatively constant in the Eastern European countries, while a slight increase has taken place in Germany.

Around 60 per cent of the workforce are employed in Eastern and Northern Europe, with some 40 per cent working in Germany.
EMPLOYEES IN THE FINANCIAL YEAR

<table>
<thead>
<tr>
<th></th>
<th>2017/18</th>
<th>2016/17</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total company</td>
<td>3,234</td>
<td>3,236</td>
<td>3,206</td>
</tr>
<tr>
<td>Germany</td>
<td>1,320</td>
<td>1,292</td>
<td>1,262</td>
</tr>
<tr>
<td>Denmark</td>
<td>458</td>
<td>477</td>
<td>487</td>
</tr>
<tr>
<td>Sweden</td>
<td>385</td>
<td>397</td>
<td>395</td>
</tr>
<tr>
<td>Poland</td>
<td>335</td>
<td>333</td>
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<tr>
<td>Finland</td>
<td>273</td>
<td>276</td>
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<tr>
<td>Lithuania</td>
<td>245</td>
<td>252</td>
<td>246</td>
</tr>
<tr>
<td>Slovakia</td>
<td>206</td>
<td>196</td>
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</tr>
<tr>
<td>Ireland</td>
<td>9</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Latvia</td>
<td>3</td>
<td>3</td>
<td>4</td>
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</tbody>
</table>

The proportion of women employed by the Nordzucker Group has fallen slightly, to 20.9 per cent.

The proportion of women in management positions currently stands at 17 per cent. To comply with 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.

PROPORTION OF WOMEN EMPLOYED (PERMANENT STAFF)

<table>
<thead>
<tr>
<th></th>
<th>% at the end of February</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td>Total company</td>
<td>20.9</td>
</tr>
<tr>
<td>Germany</td>
<td>18.7</td>
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<tr>
<td>Denmark</td>
<td>33.7</td>
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<td>Sweden</td>
<td>14.5</td>
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<td>Poland</td>
<td>21.8</td>
</tr>
<tr>
<td>Finland</td>
<td>20.0</td>
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<tr>
<td>Lithuania</td>
<td>22.8</td>
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<tr>
<td>Slovakia</td>
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<tr>
<td>Ireland</td>
<td>37.5</td>
</tr>
<tr>
<td>Latvia</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The average period of employment in the Nordzucker Group remains very high. 56.2 per cent of employees have been with the company for at least 16 years and actually 40 per cent have spent at least 26 years with Nordzucker. Nordzucker is an attractive employer, its employees are highly satisfied and the level of fluctuation in the Group remains low.

PERIOD OF EMPLOYMENT IN YEARS (PERMANENT STAFF)

<table>
<thead>
<tr>
<th></th>
<th>% at the end of February</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td>&gt; 35</td>
<td>17.5</td>
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<tr>
<td>26–35</td>
<td>22.5</td>
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<tr>
<td>16–25</td>
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<tr>
<td>6–15</td>
<td>24.9</td>
</tr>
<tr>
<td>0–5</td>
<td>18.9</td>
</tr>
</tbody>
</table>

The age structure at Nordzucker shows an increasingly high proportion of employees over the age of 50. The increase in the statutory retirement age in some European countries will mean that our staff will stay in employment longer. Nordzucker is systematically preparing for the demographic change and the employment of older employees. The company is working on the essential transfer of knowledge and has a long-term succession plan in place to ensure the necessary transfer of expertise. The expected retirement dates are calculated by means of simulations, as the basis for targeted succession planning. Nordzucker has a clear roadmap for the future – for this reason, in August 2017 the federal state of Lower Saxony awarded the certification “Demografiefest. Sozialpartnerschaftlicher Betrieb” to show that Nordzucker is demographically sound and a company that values social partnership.
Qualifications, professional training and development play an important role in the company. Nordzucker focuses on apprenticeship as a proven, successful cornerstone of personnel development. In Germany, a total of 88 trainees were undergoing training as electricians (for industrial engineering) and as industrial mechanics at Nordzucker in 2017, with a continuing upward trend. In the last three years, the number of trainees being hired as permanent 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 also plays a key role at the Group’s European sites. Nordzucker has 30 trainees in Denmark and eight trainees in Poland, and here too 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 internal professional training programme in Germany, was introduced in all of the Group’s countries in 2017. This expanded concept promotes employees’ development as well as networking that transcends national borders, while strengthening the “One Company” philosophy. By expanding the scope of its international skill-building initiative, Nordzucker is developing a targeted, company-wide training system to develop employees’ skills and capabilities. In future, as part of the Sugar Academy country-specific training courses will be held in the local language while international courses will be held in English.

The Sugar Academy’s courses cover a broad range of topics, such as specialist and management issues, self-management, communications and sector-specific areas of knowledge. For some years now, the company has continuously focused on corporate health management measures. The workforce makes intensive use of workshops and seminars regarding stress management, mindfulness training, nutrition and exercise.

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 projects, or “job rotations”. Employees spend a certain period working on cross-divisional and cross-country pilot projects in other countries and cultures, an experience that promotes both their personal development and their professional skills.

Value-oriented leadership is another focal point of personnel development at Nordzucker. The aim of the long term Leadership Development Process which was launched in 2016 is to further prepare all of the company’s management levels and, on a step-by-step basis, its 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, self-reflection, self-perception and outside perception, as well as team development. This raises awareness and makes employees more open to change, thereby enabling Nordzucker to become even stronger, more efficient and more effective.

Due to the company’s holistic focus on employees, Nordzucker achieved first place in the 2017 Focus Money survey “Top career opportunities” in the “Food production” industry. At the same time, Nordzucker was awarded as one of “Germany’s best training companies 2017”. Excellent working conditions, modern working-time models and social benefits are also the reason why Nordzucker was awarded “Best employer 2017” in Germany.

From Nordzucker’s perspective, these awards are another public component in the company’s quest to attract well-trained, excellent applicants and in addition the awards certify that a focus on employees and employee retention are a top priority. But the high levels of employee satisfaction, which are also apparent in terms of the above-average period of employment and low staff turnover levels, are even more important to Nordzucker.
HOLISTIC APPROACH – FOCUS ON EMPLOYEES

Nordzucker faces continuous changes and rising demands on employees and employers with a holistic and constantly evolving concept that focusses on the employee. A diverse and aligned 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 as well as promoting and maintaining health.

Workplace ergonomics is one of the core aspects of corporate health management. Workplace design and functionality are reviewed and analysed in order to evaluate necessary improvements. As employees spend a large part of their time at work, the functionality of their work places has a key impact on their health, effectiveness and satisfaction. The aim is to prevent any health complaints or to alleviate any existing complaints.

Continuous communication with employees serves as the basis for the selection and structuring of the measures being offered. A process of frequent exchange makes it possible to recognize needs in order to establish targeted activities that provide long-term success. This holistic approach does not only reflect our duty of care and social responsibility as an employer, it foremost shows our appreciation for our staff.

To ensure ongoing and best development of our employees’ abilities and potentials, Nordzucker has introduced a Group-wide talent management process. This strategic approach will boost the company’s ability to compete on a long-term basis and it will promote the personal development of individual employees. In addition, the talent management process will enable and promote the networking of talents in the Group’s various countries. Nordzucker is meeting the constantly rising demands in an increasingly competitive market environment through focused support for these talented individuals. A diversified approach focuses on developing talents at all hierarchical levels.

NORDZUCKER LIVES AND BREATHES DIVERSITY

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 comes with it, mean that With all its different sites in Europe and increasing diversity, Nordzucker understands it as a clear commitment to support and promote openness and cultural expertise.
To comply with 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 were to be at least 19 per cent and on the Executive Board 0 per cent. As of 30 June 2017, there were five women on the Supervisory Board, which corresponds to a proportion of 23.8 per cent. This target has thus been met. As of 30 June 2017, the Supervisory Board consisted of a total of 21 members, with 14 representing the shareholders and seven being elected by the employees. There were no women on the Executive Board on 30 June 2017.

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.

As of the close of the Annual General Meeting in which votes were cast on discharging the boards for the 2016/2017 financial year, the Supervisory Board was reduced to 15 members. Of these members, ten are drawn from the ranks of the company’s shareholders and five from the ranks of the employee representatives, who were likewise newly elected in 2017. Three women currently serve on the Supervisory Board, which corresponds to a ratio of 20 per cent – i.e. roughly in line with the proportion of the company’s female workforce. 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 was to be achieved by 30 June 2017. For the second level – managers with employee responsibility – the target was 20 per cent. As of this date, the proportion of women at the first level of management below the Executive Board was 11.1 per cent throughout the Group and 14.3 per cent throughout Germany. The target for the first level of management below the Executive Board was thus met. At the second level below the Executive Board, as of 30 June 2017 the proportion of women came to 19.5 per cent for the Group as a whole, and 18.0 per cent for Germany. The company thus slightly fell short of this target.

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. As of the end of the financial year, the proportion of women at the first level of management below the Executive Board was 10.0 per cent throughout the Group and 13.0 per cent throughout Germany. At the second level below the Executive Board, the proportion of women comes to 18.8 per cent for the Group as a whole, and 17.6 per cent for Germany.

The company promotes the equality of women and men in all areas and at every 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.
RISK MANAGEMENT

PRINCIPLES OF RISK MANAGEMENT

Risk management is a central aspect of corporate governance in the Nordzucker Group. In order to take into account the changes on the European sugar market and the increasing level of volatility in individual markets, risk management is being continuously expanded within the Nordzucker Group. The purpose and aim of risk management is 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 its 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.

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 provided to the 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 AUDIT AND COMPLIANCE

The Internal Audit department examines and evaluates the business processes, organizational structure and the governance system (management and 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 Speaker of the Executive Board and reports regularly.
OPPORTUNITIES AND RISKS
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.

To ensure compliance with rules and laws, the role of a compliance coordinator has been established throughout the Group. This person coordinates all general issues relating to compliance with rules and laws and reinforces staff and managerial awareness of how to remain compliant and of ethically correct company practices.

RISKS AND OPPORTUNITIES RESULTING FROM THE SALES MARKET

RISKS RESULTING FROM THE HEALTH DISCUSSION ABOUT 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 has become more virulent, 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 a tax on sugary foods, while others are debating its introduction.

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 through the activities of 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.

OPPORTUNITIES RESULTING FROM THE DEMAND FOR SUGAR

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. Sugar consumption is expected to pick up in Asia, Africa and Latin America in particular. Worldwide, the growth rate is expected to average 1.5 to two per cent per year. 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.

RISKS RESULTING FROM THE EXPIRY OF THE PREVIOUS SUGAR MARKET REGIME

In June 2013, the member states of the EU, the European Parliament and the European Commission decided to extend the decades-old sugar market regime in its previous form until the end of the 2016/2017 sugar marketing year on 30 September 2017. Up to this point, it had served as the operating framework for the EU sugar industry.

The European Commission has largely fleshed out a legal framework for the period without a quota system and minimum prices. The relevant rules have been reviewed and adjusted where appropriate.

What is more, a number of EU member states 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 are not permitted to 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 – were abolished. The end of the quota system also meant the end of the WTO export limit, presently set at 1.37 million tonnes.

The abolition of quotas for sugar and isoglucose already had a considerable advance 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. Greater supplies of sugar are increasing competition, and this has led to crowding out among European sugar producers, which can be expected to continue. Competition between sugar and isoglucose will probably also be tougher in future, 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. On 29 March 2017, the United Kingdom notified the European Council of its intention to withdraw from the European Union on 29 March 2019, in accordance with Article 50 of the Treaty on European Union. In December 2017, the heads of state and government of the EU 27 resolved that sufficient progress had been made in the first phase of the negotiations setting out the UK’s financial obligations to the EU, the future rights of EU citizens and the border between Ireland and Northern Ireland.

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 the period between 2011 and 2016, the EU 27 exported roughly half a million tonnes of sugar to the United Kingdom per year. Conversely, the EU 27 imported around 0.2 million tonnes of sugar per year from the United Kingdom. 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 their 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.

Due to the abolition of quotas, the increased level of competition, overproduction and price pressure, the current market situation is challenging for the entire industry. To address these issues, efficiency increases in all areas are a key focus for Nordzucker.

This includes increasing efficiency in sugar beet cultivation. Over the last few years, beet cultivation yields have already been significantly increased by means of joint measures implemented by Nordzucker and beet growers. Through the FORCE efficiency programme that was launched in 2015, savings and efficiency gains were achieved within all of the company’s other functions and at all of its sites. The goal of achieving savings of around EUR 50 million was fulfilled as the end of the 2017/2018 financial year, after this project had been implemented for a period of three years. In order to make this possible, Nordzucker has used lean management methods since 2015. This facilitates permanent improvements in workflows, both in production as well as in supporting units. The systematic use of lean management will enable Nordzucker to achieve further improvements in the efficiency and quality of all processes in the future.
In order to prepare employees for the revised 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 have addressed the expected changes and prepared themselves intensively for the period after the expiry of the previous sugar market regime.

**OPPORTUNITIES RESULTING FROM THE EXPIRY OF THE PREVIOUS SUGAR MARKET REGIME**

In this environment, due to the size of the company, its solid financing and its consistent focus on customer benefits and efficiency, Nordzucker considers itself well positioned in order to exploit the resulting opportunities.

The company’s strong position on the European market and the wide-ranging efforts to become more competitive will 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 shares in the long term and plans to exploit the expected process of consolidation within the industry in order to achieve further growth. The end of the quota system likewise meant the end of 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. This will give rise to significant market opportunities for sugar exports.

**RISKS RESULTING FROM 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 not had any effects on 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 did not have any impact on sugar trade between the EU and the LDCs; the EU already meets all of the requirements.

Where things will go from here is uncertain. The WTO ministerial conference held in Buenos Aires in December 2017, which followed on from Nairobi, failed to deliver any tangible results. This was mainly due to the obstructive attitude of the USA and India. The negotiations are currently deadlocked.

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.
RISKS RESULTING FROM THE EU’S 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. Trade agreements including further import quotas for sugar and products containing sugar have already been negotiated with Canada, Vietnam, Singapore and Japan. However, these agreements have not yet come into effect. Behind these negotiated agreements are more import quotas (amounting to a total of 95,000 tonnes), plus the gradual reduction of duties for white and raw sugar.

Negotiations are under way with further countries such as Egypt, Azerbaijan, the Gulf states, India, Indonesia, Japan, Jordan, Kyrgyzstan, Malaysia, Morocco, Mexico, the Philippines, Thailand and Tunisia. Particularly important for the EU sugar market are the negotiations with the MERCOSUR states of the South American economic area. 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 remain frozen. The protectionist trade policy supported by the American 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 developments resulting from the WTO negotiations as well as the risks arising from free trade agreements with steps to further increase its competitiveness, as outlined in the “Risks resulting from the expiry of the previous sugar market regime” section.

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The price of sugar has come under strong pressure in the current 2017/2018 sugar marketing year. In the beet delivery contracts whose prices are tied to the sugar price, this will result in beet prices which are significantly lower than those expected by the growers.

RISKS RESULTING FROM 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 price changes by means of hedging transactions and long-term supply contracts. It invests in energy-efficient machinery and equipment in order to reduce energy consumption. It also reduces the risk of production downtime by pursuing a forward-looking procurement policy and by establishing long-term supplier relationships.

RISKS RESULTING FROM THE SUPPLIER PORTFOLIO

Given the limited number of suppliers and an ongoing process of concentration among them, there is a risk of increased dependence. Moreover, suppliers’ and service providers’ growing lack of specialists is resulting in increasing time pressure. This may give rise to problems in relation to delivery dates and the production process as well as price increases.

To ensure that Nordzucker is able to ensure 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 or stored at suppliers, which has reduced the procurement risk.

One strategic objective of procurement is to diversify sources of supply. The goal is thus to have several suppliers in principle, for all critical goods and services to be purchased; if necessary, new additional suppliers have to be identified, evaluated and developed.

RISKS RESULTING FROM 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 Opalenica plant in Poland had the longest campaign in the 2017/2018 financial year, at 137 days, while Säkylä in Finland had the shortest, at just 60 days. The average plant campaign duration came to 117 days, up by 14 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, the beet’s vulnerability to frost has been reduced. 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.

However, this year the fact that other weather conditions can likewise cause significant problems for a plant has once again been evident. Recurrent rainfall throughout almost the entire campaign has resulted in difficulties in processing, both in terms of bottlenecks in the supply chain for plants due to difficult harvesting and/or transportation conditions and the delivery of beet with a significantly increased soil tare. This also entails increased need for maintenance. In order to implement targeted measures within the scope of the company’s long-term maintenance strategy, increased use of diagnostic and monitoring systems is a key area of focus. These systems are available to Nordzucker thanks to the ongoing development of automation technology.
Continuous status monitoring in connection with the permanent recording of measurement data not only enables targeted maintenance and the identification of vulnerabilities but also improved use of equipment, while enabling the identification of changes in the process early on. For instance, maintenance intervals can thus be extended or maintenance work even avoided entirely.

ENVIRONMENTAL RISKS

Sustainable and environmentally friendly production is an integral part of Nordzucker’s corporate strategy. Its value chain is designed for the conversion of all of the materials delivered into valuable products: beet is converted into sugar, pressed pulp, dried pulp pellets and molasses, limestone with non-sugar substances is turned into carbolime, soil is returned to the field, while stones are used for road construction etc. Nonetheless, environmental impacts cannot be avoided entirely during the sugar-making process. These include airborne emissions (odours, noise, dust), the accumulation of technical waste (for example lubricants) and waste water. 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 areas of focus have been the minimization of noise pollution through improved noise abatement, new filters to reduce dust emissions as well as measures to reduce odour emissions. 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. Through direct contacts, Nordzucker employees are able to explain the improvement measures implemented and to request their understanding in relation to any inevitable lasting adverse effects.

RISING RESULTING FROM ADDITIONAL COSTS FOR CO₂ CERTIFICATES

Within the scope of the European emissions trading system, every year Nordzucker requires certificates to cover its annual CO₂ emissions to generate energy. In case of a shortfall, the missing certificates have to be purchased. The price increases expected for CO₂ certificates have not occurred over the past few years or else have been far lower than expected. 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.

To achieve even further sustainability in the sugar-making process, for many years now Nordzucker has successfully lowered its CO₂ emissions. These production-related emissions have already been reduced by 65 per cent compared to the levels of 1990. In future, Nordzucker will continue to work on cutting its CO₂ emissions even further by investing in energy efficiency and optimizing its operations. This will not only reduce the number of CO₂ certificates to be purchased and, as a result, the associated costs, but also ease the impact on the environment.
RISKS RESULTING FROM 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), the IFS (International Featured Standards) food standard and the GMP B2 standard for the production of animal feed ingredients. Organic and fair trade products are grown and inspected in line with the applicable legislation and standards.

LEGAL RISKS

The companies in the Nordzucker Group are also subject to various statutory regulations, which can give rise to liability risks. They included, in particular, the sugar market regime in connection with the relevant provisions of customs and licensing law. With effect from October 2017, the EU deregulated the sugar market considerably by abolishing the sugar quota and the minimum prices for sugar beet. This will reduce the risks associated with the previously 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 prices to be paid for sugar 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.

RISKS AND OPPORTUNITIES RESULTING FROM INFORMATION TECHNOLOGY

Networking of business partners also increases 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 such risks and to achieve an appropriate level of protection for the company and to ensure system availability, Nordzucker is investing in further security measures, such as the use of state-of-the-art techniques to detect the latest threats. The statutory requirements (German IT Security Act, UP KRITIS) also have to be taken into account. By playing an active role on relevant committees (industry working group), Nordzucker can help shape the overall conditions for this purpose.
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.

**OPPORTUNITIES RESULTING FROM DIGITALIZATION**

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 internal processes 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 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 (such as logistics) will follow over the next few years.

**RISKS RESULTING FROM THE GENERAL DATA PROTECTION REGULATION**

Data protection is increasingly important for the company as digital technology develops. The new European General Data Protection Regulation (EU GDPR) sets out clear and consistent requirements for companies in Europe.

The goal of the new regulation is to enhance the protection of personal data throughout Europe and to standardize data protection for all individuals in the European Union (EU). It will have a major impact: both in terms of data protection arrangements and in case of violations. Companies may be faced with fines of up to EUR 20 million, or four per cent of the consolidated annual revenues of a corporate group.

To ensure its compliance with these data protection requirements, Nordzucker has established an internal governance structure that includes the appointment of a Group data protection officer. This officer continuously guides, supervises, notifies and advises it in relation to such matters. In addition, data protection coordinators have been appointed for each country and for each role.

Nordzucker has also initiated a comprehensive data protection project to prepare for compliance with the requirements of the EU GDPR. Since its official launch in early September 2017, it has examined and documented processes involving personal data, developed policies and concepts for handling of personal data throughout the company and provided training for employees concerned with personal data.

Once the EU GDPR comes into effect, it is expected that the data protection authorities will send questionnaires regarding the measures implemented by way of compliance. As things currently stand and on the basis of the envisaged status of the company’s data protection project, including the compliance measures implemented, there is no immediate risk of penalties due to concrete data protection violations.

**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.

**RISKS RESULTING FROM DEFAULTS**

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 fulfil 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, investment 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 2018, the Nordzucker Group had exchange rate derivatives with a notional net volume of EUR 189.1 million (as of 28 February 2017: EUR 44.3 million). At the end of the financial year, derivative transactions with a notional value of EUR 2.4 million were open to hedge against price movements for raw materials (as of 28 February 2017: EUR 0.7 million).

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

The 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 2017/2018 financial year. The related audit required by Sec. 20 paragraph 1 German Securities Trading Act (WpHG) was conducted again in 2017/2018 without any objections.

LIQUIDITY RISKS

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.
RISKS RESULTING FROM THE SUPPLY OF CREDIT

European transposition of the BASEL III requirements through CRD IV will entail even more stringent requirements for commercial banks’ lending operations, which will likely make it even harder for companies to obtain credit in future. This effect is currently still being obscured by the generous supply of liquidity from the ECB. 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 previously applicable 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.

RISKS RESULTING FROM FINANCIAL INVESTMENTS

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 of European financial institutions that have been selected based on a credit rating classification. However, in general all investment amounts are spread in terms of the maturities, investment forms and issuers, in order to prevent cluster risks. For balances with banks, the funds must be 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 held by banks. To date, it has largely 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.
OVERALL PICTURE FOR RISKS AND OPPORTUNITIES

The expiry of the previously applicable sugar market regime on 30 September 2017 resulted in fundamental changes to the overall conditions for the European sugar industry. As expected, this has significantly intensified the level of competition. The EU sugar market is now considerably more exposed to the influence of the global sugar market. This influence will continue to grow.

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 fall in oil or ethanol prices) 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 put Nordzucker in a good position for the future. 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

The overall result for the 2017/2018 financial year was in line with the positive outlook provided in the last annual report. However, the company’s economic situation deteriorated significantly following the end of the sugar market regime in its existing form.

The world market price was at a relatively high level (EUR 513 per tonne of sugar in February 2017, based on London No. 5) at the end of the 2016/2017 financial year. This declined considerably in the course of the 2017/2018 financial year. In February 2018, it reached its lowest level to date at EUR 289 per tonne. Despite the falling global market price, in the period up to the end of September 2017 the average European price reported by the European Commission remained relatively stable due to the European market structure; it fluctuated between EUR 490 per tonne and EUR 501 per tonne.

With the end of the previously applicable sugar market regime, some European producers significantly increased their supply. At the same time, there was a clear surplus on the world market. Prices thus also fell significantly in Europe; in late January 2018, the average European price was just EUR 374 per tonne.

It was only thanks to the stable trend at the start of the financial year that Nordzucker was able to outperform its return on sales target of 5.0 per cent, achieving a return on sales of 7.0 per cent in the 2017/2018 financial year. At 13.8 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 422 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 2018/2019 financial year will be the first full year following the end of the previously applicable sugar market regime. EU protection against imports for sugar will not be affected by the expiry of the sugar market regime in its previous form, but the maximum volumes for export will cease to apply at the same time. This will further increase the influence of world market prices.

In the 2017/2018 campaign, considerably more sugar was produced in the EU than in the previous year. Sugar production thus significantly exceeded consumption. For this reason, there is no prospect of a rapid recovery of prices in the 2018/2019 financial year. A production surplus is likewise expected for the 2018/2019 sugar marketing year for Europe and for the global market. This will make a price increase less likely in the near future. Prices are, however, expected to recover in the medium term.

Due to sugar prices that are likely to remain low (by comparison with the 2017/2018 financial year), the outlook for the 2018/2019 financial year points to a decline in earnings. Earnings (RoCE, EBIT margin, net income, EBITDA margin) will likely be considerably lower than in the 2017/2018 financial year. Since the company was well prepared for the end of the previously applicable sugar market regime and the measures it implemented are paying off, a positive result is nonetheless expected.

In the medium term, the European sugar market is expected to develop positively. The high economic potential of sugar beet enables European sugar producers to supply their customers on competitive terms. Moreover, following a transitional period the market will consolidate further, driven by the competitive pressure. The sugar market in the EU is significantly influenced by the global sugar market. The rising demand for sugar, especially in Asia and Africa, is likely to provide a boost to prices on the global market in the medium term. Sugar prices will remain volatile; there will be years with high prices as well as years with low prices.

Nordzucker is a strong provider in Europe that will make use of the opportunities on the markets. The company is well set up to play an active role in the market consolidation and to further expand its position in Europe. Nordzucker’s goal is to secure and increase its market shares. The company will benefit from a solid capital structure that will enable it to make further investments in its core business. Growth opportunities outside of Europe will also be considered. Nordzucker has successfully dealt with all of the changes in Europe to date and has emerged from them even stronger. Even with increasingly competitive market conditions, the company will continue on this successful path.

Braunschweig, Germany, 27 April 2018

The Executive Board

Dr Lars Gorissen   Axel Aumüller
Dr Michael Noth   Erik Bertelsen