

MANAGEMENT REPORT AND FINANCIAL STATEMENTS

SÜDZUCKER AG

DATED 28 FEBRUARY 2017 (GERMAN GAAP – HGB)

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The annual report is also available in German. This translation is provided for convenience only and should not be relied upon exclusively. The German version of the annual report is definitive and takes precedence over this translation.

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## REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

Before providing a detailed report on the supervisory board's work in fiscal 2016/17 as usual in this space, let us first briefly look at an important topic: the future direction of the company.

Since the EU decision in June 2013 to let all of the key European sugar market regulations expire without substitute, Südzucker has introduced and implemented countless measures to improve the efficiency of the value chain from the field to the customer.

What the European sugar market will look like after October 2017 without the regulating mechanisms that have been in place to date cannot be answered with certainty at this point. It will frankly be a once-in-a-lifetime event. No other important sugar production market in the world has been deregulated to the extent that it will be in Europe. What is certain however is that this radical change in the European sugar market will have a strong impact on our company.

Developments in the world sugar market will in future much more directly impact the European market. That is why our company's ability to respond flexibly to market fluctuations will be pivotal to its success. We have initiated and executed the change programs we consider appropriate to the situation. For example, it is worth mentioning the new beet contracting system at this juncture. The company and beet growers reached agreement early on conditions that will allow both flexible and market-based beet compensation, as well as better and longer loading of the sugar factories.

The supervisory and executive boards are also keeping an eye on the future of the other segments. An example here is the construction and startup of the wheat starch plant in Zeitz, which

not only expands the company's product range, but also makes it possible to optimize the use of the material streams at the multipurpose Zeitz site.

With these topics, among others, we were able to work on the basis of mutual trust and in the spirit of a goal-oriented team with the executive board and examine in depth the general framework, direction and strategic development of the company in fiscal 2016/17. In doing so, we concentrated on the tasks for which we are responsible by law, the company's articles of association and the rules of procedure: to monitor and advise the executive board in the latter's management of the company.

The supervisory board was directly involved in all decisions of material importance affecting Südzucker Group and was continuously advised in detail and in a timely manner on all issues related to corporate planning and further strategic development, business activities, the status and development of Südzucker Group (including risk situation), as well as risk management and compliance.

The executive board updated the supervisory board at all meetings on the course of business as well as the company's situation, and in between meetings informed the supervisory board about the current developments and important business dealings. The executive board reports were mainly updates about the company's situation and development, corporate policy and profitability as well as Südzucker AG's and Südzucker Group's corporate, treasury, investment, research and personnel budgets. In addition, the supervisory board chairman took part in executive board meetings and was informed by the CEO in several working meetings about all important business activities.

### Supervisory board meetings and decisions

The supervisory board met with the executive board at four ordinary meetings and one extraordinary meeting in fiscal 2016/17. The supervisory board approved all of the executive board's decisions after a thorough review and discussions.

The meeting regarding the balance sheet on **18 May 2016** dealt with the audit and endorsement of Südzucker AG's financial statements and the consolidated financial statements dated 29 February 2016. The auditor reported on the material findings and results of the audit, which included the accounting-system-related internal control systems. The board approved the recommendation for appropriation of retained earnings and the supervisory board report. The board also made preparations for the 2016 annual general meeting: The supervisory board adopted the agenda and proposed resolutions. The executive board presented the current compliance organization. The supervisory board approved budget amendments, as well as acquisition projects and property purchases.

At its meeting on **13 July 2016** – the day prior to the annual general meeting – the supervisory board approved the investment plan for 2017/18, the long-term investment program and investment amendments. The CFO presented the mid-term plan. The supervisory board also approved acquisition and financing projects.

The earnings projections for 2016/17 were presented at the board's **17 November 2016** meeting. As always during the November meeting, the supervisory board focused on corporate governance. The board also conducted its annual test of effectiveness and completed the 2016 declaration of compliance. The supervisory board also approved an editorial change to the wording of the articles of incorporation. It further approved acquisition and financing projects, a corporate action and investment

amendments. Dr. Kirchberg's appointment to the executive board was extended by a further five years.

At the meeting on **31 January 2017**, a shareholders representative candidate running for supervisory board membership at the 2017 elections introduced herself. The responsibility of the company's bodies in connection with the 2014 antitrust fine was also discussed. The CFO presented the current earnings projection for 2016/17. The supervisory board approved acquisition and investment projects, as well as investment budget updates. The supervisory board approved the regular adjustment of the executive board's remuneration.

One member was excused at the meeting on 18 May 2016 and two supervisory board members were excused at the 17 November 2016 meeting. However, the absent members took part in the decision-making via written notes. Otherwise, all supervisory board members personally attended the meetings. No member of the supervisory board took part in only half or fewer than half of the board's meetings or of its committees.

### Supervisory board committees

The supervisory board set up five committees to enable its efficient fulfillment of duties (executive committee, mediation committee, audit committee, agricultural committee and economic and social committee), each of which is made up of an equal number of shareholders' and employees' representatives. The current members of the committees are presented in the notes under item 37 "Supervisory board and executive board".

In accordance with the recommendations of the German Corporate Governance Code, the chair of the audit committee is not the same person as the chair of the supervisory board.

The supervisory board **general committee** convened four times in fiscal 2016/17. Subject of discussion has always been strategic issues. Succession planning for the executive board was also discussed at the meeting on 18 May 2016 and on 13 July 2016. At the 17 November 2016 and 18 January 2017 meetings, the board discussed the status of the antitrust damage claims and the responsibility of corporate bodies in connection with the 2014 antitrust fine. At its meeting on 31 January 2017, the supervisory board had a preliminary discussion regarding the regular adjustment of the executive board's remuneration.

The **audit committee** convened five times during the year, in three meetings and two telephone conferences. At its 4 May 2016 meeting and in the presence of the external auditors it discussed matters relating to the annual financial statements of Südzucker AG and the consolidated financial statements. It prepared the supervisory board financial review meeting – at which the chair of the audit committee reported – and subsequently approved the recommendations of the audit committee. In addition, it discussed the recommendation regarding the appointment of the auditors and checked their independence. At the meeting on 14 July 2016 the audit committee discussed the auditor's quotation for the audit assignment and commissioned the audit assignment. In the 11 October 2016 audit committee meeting, the auditors dealt with monitoring the accounting process, the effectiveness of the internal controlling system, the risk management system and the internal audit system, as instructed by the supervisory board. Another agenda item was the discussion of the half-year financial report.

In telephone conferences on 5 July 2016 and 10 January 2017, the audit committee discussed the Q1 and Q3 2016/17 quarterly financial reports with the executive board. On 10 January 2017, it also dealt with the new statutory requirements for non-audit services and approved the catalog of non-audit services auditors are permitted to deliver, together with application guidelines.

The **agricultural committee** convened on 17 November 2016. Reports on current agricultural division issues, the acquisition of a farming operation in Thuringia and agricultural activities in Moldova were presented and discussed.

The chairs of the committees reported their findings at each subsequent supervisory board sitting.

The **mediation committee** had no reason to convene last fiscal year. Neither did the social committee meet.

### Supervisory board effectiveness test

In accordance with paragraph 5.6 of the German Corporate Governance Code, the supervisory board again conducted a test of its effectiveness. This is done annually using a questionnaire, without external assistance. Each year, the questionnaire is revised according to the latest changes to the code. The questionnaires were assessed in the meeting on 17 November 2016, at which time the results were discussed and improvement recommendations made. The aim is to continuously improve the work of the supervisory board and its committees.

## Compliance

On 10 January 2017, the executive board, external auditor, chairman of the supervisory board and audit committee sat for the regular fraud review meeting. The topics presented and discussed included the assessment of business risks and measures to limit the risks arising from fraud.

## Corporate Governance

A detailed description of corporate governance at Südzucker, including the wording of the supervisory board's diversity goals for its future composition and the declaration of compliance for 2016 issued by the executive and supervisory boards, can be reviewed in the corporate governance report. In addition, all relevant information is available on the Internet at <http://www.suedzucker.de/en/Investor-Relations/Corporate-Governance/>.

The executive board fully complied with its duties as prescribed by law and the standard rules of procedure regarding reporting to the supervisory board, and did so in a timely manner. The supervisory board is confident that company management is acting properly and that the company's organizational structure is effective. It discussed these subjects in detail with the auditors. The same applies to the effectiveness of Südzucker Group's risk management system. Here too, the supervisory board was updated in detail by the executive board.

The supervisory board was not advised of any conflict of interest on the part of any of its members, especially one that could arise as a result of a consultation or supervisory board duty related to customers, suppliers, creditors or other business partners.

## Financial statements

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Frankfurt am Main, was selected by the shareholders at the annual general meeting at the recommendation of the supervisory board. The auditor has reviewed the financial statements and management report of Südzucker AG for fiscal 2016/17, the recommendation of the executive board for appropriation of retained earnings and the consolidated financial statements and management report for 2016/17, and issued a qualified audit opinion on each of them. The auditor also confirmed that the executive board suitably complied with its duties as outlined in article 91, paragraph 2 of the German Stock Corporation Act (AktG). In particular, it established an appropriate information and monitoring system that meets the needs of the company and that is suitable for early detection of developments that may threaten the company's survival. PwC has audited the group and individual financial statements since the 2003/04 fiscal year. Michael Conrad has been the responsible auditor at PwC since 2016/17.

In view of the declaration by Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG (SZVG), Stuttgart, which states that SZVG holds over 50 % of the voting rights of Südzucker AG, the executive board has prepared a report on related party transactions in accordance with article 312 of the German Stock Corporation Act (AktG). The auditor reviewed this report and reported its findings in writing. It confirmed that the facts set out in the report are true, that the contractual transactions itemized in the report are not unreasonably high and that there are no grounds for a significantly different assessment than that of the executive board.

The documents to be audited and the audit reports were sent to each supervisory board member in a timely manner. The auditor participated in the audit committee's 9 May 2017

meeting and in the supervisory board's financial review meeting of 17 May 2016 and provided a detailed report on the proceedings and result of its audit. After carefully reviewing the auditor's reports, the supervisory board agreed with the results of the audit. The results of the preliminary review by the audit committee and the results of its own review are in complete agreement with the results of the external audit. The supervisory board raised no objections to the audit reports submitted. In its meeting of 17 May 2017, it endorsed the financial statements for Südzucker AG and consolidated Südzucker Group financial statements prepared by the executive board. The financial statements of Südzucker AG are thus adopted. The supervisory board concurs with the executive board's recommendation made on 24 April 2017 regarding the distribution of a dividend in the amount of € 0.45 per share.

### Personnel

There were no personnel changes on the executive or supervisory board in fiscal 2016/17.

Together with the executive board, the members of the supervisory board would like to pay their respect to those active and former employees of the Südzucker Group who passed away during the year. The supervisory board thanks the executive board and all employees of Südzucker AG and its affiliated companies for their performance during the year.

Mannheim, 17 May 2017

On behalf of the supervisory board



Dr. Hans-Jörg Gebhard

Chairman

# Management Report

## About the group

### Group structure

Südzucker AG, a German stock corporation based in Mannheim, is the parent company of Südzucker Group and also its largest operating entity. The consolidated financial statements include the parent company – Südzucker AG – and 152 (153) other entities, of which Südzucker AG is directly or indirectly the majority shareholder. A total of 16 (16) of those entities were accounted for in the consolidated financial statement using the equity method. For additional details about Südzucker's share ownership in other companies, please see the list of shareholdings beginning page 80 ("List of shareholdings in accordance with section 313 (2) HGB") in the notes to this annual report.

Südzucker Group comprises four segments: sugar, special products, CropEnergies and fruit. The sugar, special products and fruit segments are further subdivided into 13 divisions that manage the day-to-day operational businesses. The CropEnergies segment is managed as an independent corporate entity.

The group's departments are as follows: business administration/controlling, byproducts, procurement of operating supplies, purchase of capital goods, maintenance supplies and services, finance and accounting, research/development/services, engineering, investor relations, agricultural research, food law/consumer policies/quality assurance, properties/insurance, public relations, organization/IT, personnel, legal, audit, taxes, strategic corporate planning/group development/shareholdings, sugar sales/sugar trading,

sugar/production and sugar/beets. Administrative tasks are handled at shared finance centers and research activities at several research centers.

**SUGAR SEGMENT** The sugar segment comprises the sugar business unit with its four divisions located in Belgium (Raffinerie Tirlemontoise S.A., Tienen), Germany (Südzucker AG, Mannheim), France (Saint Louis Sucre S.A.S., Paris) and Poland (Südzucker Polska S.A., Wrocław) as well as distributors in Greece, the United Kingdom, Israel, Italy and Spain. The AGRANA sugar division's production operations are located in Austria, Romania, Slovakia, the Czech Republic and Hungary. There is also a sugar production division in Moldova (Südzucker Moldova S.A., Chisinau) and an agricultural division (Südzucker AG, agricultural division and Agrar und Umwelt AG Loberaue, Rackwitz; Terra eG, Sömmerda). The following entities have been accounted for in the consolidated financial statements using the equity method: British trading company ED&F Man Holdings Ltd., Agrana Studen Group (including its sugar production operation in Bosnia) and Maxi S.r.l., an Italian marketing joint venture.

**SPECIAL PRODUCTS SEGMENT** The special products segment is comprised of four divisions: BENE0, Freiberger, PortionPack Europe and Starch. BENE0 produces and sells functional food ingredients for food and animal feed products and are made from various raw materials. The products have dietary and technology benefits. Freiberger Group produces chilled and frozen pizzas as well as frozen pasta dishes and snacks and focuses strongly on the private label business. PortionPack Europe specializes in developing, packaging and marketing portion

packs. The starch division comprises AGRANA's starch and bioethanol business, which includes Austrian potato and corn starch producers, a corn starch factory in Romania and bioethanol producers in Austria. The starch division is also responsible for the wheat starch plant at the Zeitz location. The starch and bioethanol businesses of Hungrana group in Hungary are consolidated at equity.

**CROPENERGIES SEGMENT** Südzucker Group's bioethanol business, with its four production sites in Germany, Belgium, France and the United Kingdom as well as trading activities in Brazil and Chile, is managed under the CropEnergies segment as a listed stock corporation. CropEnergies is a leading manufacturer of sustainably produced bioethanol for the fuel sector in Europe. The company also produces food and animal feed. CropEnergies owns 50 % of CT Biocarbonic GmbH, which has been operating a food-grade CO<sub>2</sub> liquification plant in Zeitz. The company is included in the consolidated financial statements as an equity-accounted investment.

**FRUIT SEGMENT** The fruit segment is comprised of the fruit preparations division (AGRANA Fruit) and the fruit concentrates division (Austria Juice). The fruit segment's companies conduct business around the globe and supply international food companies, especially in the dairy, baked goods, ice cream and soft drinks industries.

## Group management

Südzucker AG's executive board independently manages the businesses and is supervised and guided by the supervisory board. The executive board is bound to work in the corporation's interests and is responsible for increasing shareholder value. The executive board members are jointly responsible for managing the entire company. Notwithstanding the overall responsibility of all executive board members, individual board members bear sole responsibility for carrying out the decisions made by the executive board that concern the portfolios they handle. The executive board's rules of procedure outline the details of the board's work. Südzucker AG's articles of association stipulate that important business transactions are subject to the consent of the supervisory board.

The executive board is responsible for appropriate risk monitoring and management at the company. It is also responsible for ensuring that executive management positions are appropriately filled. The executive board is also responsible for ensuring that the company complies with statutory requirements and in-house corporate policies and that group companies adhere to these rules (compliance).

The segment and divisional management organizations also manage the day-to-day operational businesses in compliance with the aforementioned requirements. The company uses a matrix organizational structure, whereby the line functions are supported and advised by central departments, which are authorized to issue directives.

**VALUE BASED MANAGEMENT** The corporation's policies focus on steadily improving shareholder value. The objective of Südzucker's value-based management system is to generate a higher return on capital employed than the cost of capital in each segment and division and thus

create added value for the company's shareholders.

Südzucker uses a consistent group-wide reporting and budgeting system together with centrally defined key indicators such as operating result and return on capital employed (ROCE) to achieve this value-based corporate management.

When calculating operating result, the result from operations reported in the income statement is adjusted to reflect the results of restructuring and special items as well as companies consolidated at equity. Capital employed comprises the invested items of property, plant and equipment plus acquired goodwill and working capital as of the reporting date. Return on capital employed is the ratio of operating result to capital employed. Südzucker calculates the cost of capital for the operating assets as the average of weighted equity and debt capital. The costs of capital are specified for the segments and divisions by taking into account the respective country and business risks. Currently Südzucker Group's primary indicators for management purposes are the financial performance indicators.

**FINANCIAL MANAGEMENT** Südzucker's growth is financed by a steady, strong cash flow, a stable relationship with the company's various shareholder groups, access to international capital markets and reliable bank relationships. The foundation for the financing is the company's investment grade rating, which secures the company's access to equity and loan financing instruments. Südzucker operates an optimal mix of financial instruments, taking into consideration terms to maturity and interest rates, including hybrid equity capital, bonds, promissory notes and bank credits. The unique financing requirements during the fiscal year due to the seasonality of the sugar sector (financing beet purchases and inventories) means that securing short-term cash is an important aspect of our

financing structure. These short-term financing needs are primarily covered through a commercial paper program in the amount of € 600 million and syndicated and bilateral credit lines.

The capital structure is managed based on a long-term outlook and focuses on the factors associated with an investment grade rating. The key indicators Südzucker uses to manage its capital structure are the debt factor (ratio of net financial debt to cash flow), debt to equity ratio (net financial debt as a percentage of equity) and the equity ratio (equity as a percentage of total assets).

However, for Südzucker AG, pursuant to the provisions of the Commercial Code (HGB), the metrics sales revenues, operating result (HGB) and net financial debt are the key figures for corporate management.

## Strategic Direction and Objectives

Our aim is to grow profitably without compromising our ecological and social responsibilities. Our policies enable us to sustainably increase shareholder value.

**Sustainability is integral part of our corporate strategy** Responsible conduct is a prerequisite to long-term business success. Corporate management is committed to conducting business sustainably, whereby the key principle is to handle all of our resources carefully. No business is worth harming our partner – the nature.

**We focus on global megatrends** Global megatrends, such as the expanding world population and rising incomes, continuously increase demand for food and animal feed, as well as renewable energy. We continue to align our business segments with these trends.

Südzucker Group's four segments conduct business in sectors that will benefit from these megatrends, both in the medium and long term. These trends will continue to drive growth and offer new opportunities. Demand for our products will continue to rise, especially in the emerging nations. For example, global sugar consumption is expected to continue to rise about 2 % per annum on average – from currently 180 million tonnes to about 200 million tonnes in 2025.

**Our objective is to sustainably increase shareholder value** The key indicator we use to measure our success is return on capital employed (ROCE).

**We aim to grow market share in our business sectors** We want to grow our share and set benchmarks in the domestic and export markets we target. Our aim here is to be number one or a strong number two.

The lifting of export restrictions for European beet sugar will increasingly bring back sales and marketing opportunities on the world market. As Europe's largest supplier of beet sugar, with high-performance factories in the most competitive European beet growing areas, Südzucker considers itself well positioned in this new market environment. Because Südzucker produces in its European core markets, close to industrial customers and the key sugar consumption markets, it is able to supply sugar products to European buyers at the lowest possible cost. The next step is to expand sugar production and establish a global distribution infrastructure, so that the company will be able to directly supply customers around the world from a single

source. We take advantage of additional world market sugar sales opportunities through our alliance with British trading company ED&F Man, London.

To further boost competitiveness, Südzucker continually cuts its sugar segment's costs and improves the division's logistics processes. This will include the upcoming higher loading of our beet sugar factories.

**We focus on our core competencies** We focus on our core competencies: large-scale processing of agricultural raw materials and the associated logistics. Our aim is to continually advance our expertise in the areas by engaging in intensive research – especially in fields such as raw material security, processing technology, product innovation, as well as utilizing and refining of byproducts (→ research and development).

**Our portfolio is diversified and we take advantage of synergies** We maintain a balanced risk exposure by diversifying our portfolio of products and services and spreading it out across a wide range of geographic locations. This will continue to be our approach.

We aim to align our growth targets with our core competence so that we can tap synergies along the entire value chain – from raw material cultivation through various refining stages to the end customer.

We especially benefit from synergies when we improve our multipurpose sites, where we produce products for different segments. This conserves natural resources, cuts costs and contributes to business success.

**Solid financing strategy** We have a solid financing strategy. Our aim is to sustainably strengthen our ability to generate cash flow, nurture a strong relationship with the shareholder groups that support the company and ensure that we have access to global capital markets and banks.

**Targeted value-oriented investments** We will strengthen all of our divisions in order to secure future growth. In addition to investing in replacements and energy efficiency improvements in all segments and divisions, we will continue to focus on establishing and expanding multipurpose sites, where investments benefit all segments.

In addition, we will continue to go forward with our internationalization strategy by continually evaluating acquisition opportunities.

**We support and foster our employees** The success of our company is supported by the specialist expertise, experience, social skills and commitment of our employees throughout the world. Our various human resources policy measures aim to supporting the company's strategy and enable our employees to work successfully amid ever-changing conditions.

### Our strengths and values

- Our core competence is large-scale processing of agricultural materials in various business segments. Our expertise covers the entire value added chain – from our suppliers to our customers.

- Our business relies on our highly skilled, motivated employees. They embody our expertise, our experience and our innovation capability in production, sales and marketing and logistics.
- We stand for quality and reliability and manufacture excellent, safe products.
- We always treat our stakeholders fairly.
- Our business segments' growth is founded on a strong market position.
- Our values are solidly based on our corporate traditions.
- We respect the needs and demands of future generations.

### Our guiding principles

- We adhere to statutory provisions and corporate guidelines.
- We work efficiently and have a long tradition of sustainable conduct. Our business is founded on long sighted, careful and responsible utilization of nature and all resources.
- We are our suppliers' and customers' reliable partner.
- We are a responsible employer that helps its employees fulfill their potential and takes into consideration and values their distinct personalities.
- We openly and transparently communicate with our shareholders and all other capital market players.
- Our food products should be part of a balanced diet.

## Research and development

Südzucker's business model is primarily based on large-scale conversion of agricultural materials into high-quality products. One of the research department's key tasks is thus to continuously optimize and enhance every step in the value chain; from raw material cultivation through the process technology, up to and including production of the final product. The department also focuses on evaluating innovative raw materials and product concepts by using new technologies or based on new interesting raw materials, in order to expand the product portfolio and penetrate new markets.

R&D handles projects for the entire group throughout the world; also in co-operation with research institutes, other companies, government institutions and/or universities, and participates in publicly funded projects. Groupwide communication, team-based project execution and sharing of information with all Südzucker Group stakeholders ensure that the results of all research and development activities are ultimately implemented in practice.

In fiscal 2016/17, the company filed new patent applications to protect its expertise and strengthen its market position, especially in the field of functional food ingredients and starch derivatives.

143 (142) employees are responsible for tasks in the area of research, development and technological services at Südzucker AG; the total expenditure in 2016/17 for research, development and technological services was €'000 20,245 (20,345).

## Agricultural raw materials

A key priority in the agricultural research area is defining various approaches to securing the yield and quality of the agricultural raw materials processed by the group – especially the raw materials sugar beets and chicory, which are supplied under contract. Research institutes, such as the Sugar Beet Research Institute or the “Kuratorium für Versuchswesen und Beratung” [board of experimentation and consultation], which we support together with beet growers in southern Germany, play a key role here. We jointly conduct practical field experiments in various countries, taking into consideration the individual and national situations and requirements.

The aim of all of our activities is to be in a position to provide comprehensive advice to all of our raw material suppliers and provide them with options for improving their efficiencies in a sustainable and environmentally sound way, in alignment with their regional requirements and respective situations.

**Plant protection** In Germany for instance, experiments are geared toward future challenges; for example, the German federal government's national action plan for plant protection, which among other things aims to minimize risk when using plant protection agents.

In order to achieve a measured, integrated approach toward the use of plant protection agents for the targeted control of disease and pests, combatting resistant strains, sequelae, emerging pathogens and pests, it is important to develop alternative processes to supplement chemical plant protection and optimize them using improved forecasting models. A current innovative

approach is to further optimize weed control using sugar beet varieties that resist herbicides from the sulphonylureas group.

**Varietals** A key focus of the experimentation is examining the performance of different varieties with respect to yield, quality and storability in combination with resistance to important pathogens such as nematodes, leaf diseases and root rot. A further objective is to improve resistance toward abiotic factors such as heat and drought. Varietals are subjected to experiments under differing environmental conditions at a large number of sites, both nationally and internationally.

**Boosting sugar and inulin content** The aim of the “Betamorphosis” project is to boost the efficiency of sugar flow within the plant itself. The next project, “Betahiemis”, will seek to improve the tolerance of sugar beets toward frost. For chicory, attempts are being made to slow inulin quality deterioration over the course of a campaign. Among the techniques being used here are new molecular biological genome editing methods such as CRISPR/Cas9.

**Smart farming** The objective of our smart farming initiative is to improve our agricultural advisory services and the quality of the information we provide. Farmers will increasingly have at their disposal large amounts of data that have been captured, analyzed and linked to help them make decisions. The goal is to optimize the use of operating supplies, boost efficiency and productivity, cut cultivation costs, and last but not least, reduce environmental pollution.

**Optimizing harvest quality and improving long-term storage** During lengthy campaigns, issues such as efficient and gentle harvesting, as well as low-loss raw materials storage, such as sugar beets on the edges of fields, become increasingly important. In this area we work on solutions together with harvesting equipment manufacturers and take advantage of options for inte-

grating innovative sensor technologies and/or the soil biome.

## Sugar

**Process technology** The sugar technology focus is on improving individual process stages and optimizing product quality. Again in anticipation of future longer campaigns, the department is working with experts from the sugar production business units to develop models that assess the efficiency of specific process sections and then modify the processes to reduce sugar losses, reduce energy consumption and cut operating supplies requirements. By harmonizing the beet processing systems throughout the group, the department is able to evaluate the optimization potential of individual factories, taking into consideration local constraints and the available technical equipment, and through targeted measures, further improve efficiencies.

R&D also evaluates investment projects and provides assistance with the processes. This work ranges from conducting tests on pilot plants right through to commissioning newly installed factory systems.

**Product development** In the sugar and specialty sugar products area, the department works on recipes that focus on market trends such as clean label and the use of natural ingredients, on new production concepts and technologies, as well as retail products.

## Functional food ingredients

**Process technology** Palatinose™ production was switched to a newly developed biocatalyzer in order to utilize the raw material sucrose as optimally as possible. New variants of the **Fruktan** product range having specific properties – among other things a biovariant based on agave inulin – were successfully introduced to market. A physical treatment method led to the development of new varieties of **functional rice starches** with improved properties. The advantage of the starches produced this way is that they can be used to produce clean label products. The findings from the pilot plant were easily transferred to the production system.

**Dietary and physiological aspects** Claims regarding the physiological properties of Palatinose™, inulin and oligofructose were further reinforced by nutritional scientific research and experimental studies. The focus of the work was on the beneficial effect of Palatinose™ on blood glucose regulation and energy metabolism as well as inulin and oligofructose on bowel health.

**Product development** The functional food ingredients product development department works mostly on preparing application concepts, as well as numerous customer developments and answers to a wide range of customer questions.

The focus for **galenIQ** is developing application options for tablets, coated products and powders, as well as new variants with a special particle size range.

The technological advantages of **isomalt** are especially apparent in various chewing gum and hard caramel applications. A translucent coating was developed for the chewing gum sector.

A finishing glaze with reduced stickiness containing **Palatinose™** was produced on a large scale for the first time. Recipes with a high

Palatinose™ component for producing milky beverages were also developed.

For **inulin** and **oligofructose**, the focus is on developing formulas to reduce sugar and fat in baked goods and dairy products. The fat content of cream cheese was successfully reduced on one project.

Work on developing applications for the use of **rice starch and rice flour** in baby food products and baked goods is being accelerated.

**Plant-based proteins**, such as textured gluten and rice flour, are sought after ingredients by the fast growing vegetarian and vegan food market. Here we are working very hard on developing new combinations of gluten and rice or wheat flour with various characteristic profiles. The purchase of an extruder for our own technical center has enabled us to develop products faster and more flexibly.

## Starch

**Raw materials** The ripeness of grain, and especially corn, has a major influence on the processability of the raw material, as well as the properties of the starch produced from them. Raw materials of varying stages of ripeness were processed on a pilot plant that has been modified to also process wheat. The purpose of the tests was to define the processing properties and analyze the starch produced. Application-related experiments are also being conducted on food and non-food applications to evaluate quality.

**Food** Catering to the "vegan" and "clean label" market trends, research in this area focuses on developing commensurate starches for the food industry. For example, a new recipe that eliminates the need for eggs in various baked goods recipes was developed for the vegan market.

**Non-food** Sustainability factors are also becoming increasingly important in the technical sectors and determine the demands of the market.

R&D was able to develop innovative solutions for the **starch adhesive market**. A special foam-based application process led to the development of new starch products that permit faster adhesion in the field while at the same time reducing the volume of adhesive used.

The trend toward highly specialized starch products continues in the **dry mortar market**. Improved handling characteristics for tile adhesives and grouts look promising. Together with reputable manufacturers, the department developed and introduced to market highly modified starch ethers.

New starch ether based thickeners for **drilling fluids** were developed for the geothermal and crude oil drilling sectors. Highly derivatized starches have been manufactured that offer the market new products with interesting properties.

Research and development work in the area of **biodegradable plastics** was further intensified, with the result that a significant percentage of thermoplastic starches can now be used to manufacture biodegradable plastic film. Custom solutions can be developed by optimizing various products and processes. This not only improves the sustainability of the biopolymer end product, but also cuts the cost of bioplastics production.

New starch products to be applied in dry shampoos were developed for the **cosmetics industry** and brought to the stage of production readiness. Oil-based components were replaced by newly developed starch based thickeners in recipes for liquid shampoos and conditioners. These products are especially gentle on users' hair and scalp.

## Bio-Ethanol

We aim to use as wide a range of raw materials as possible for fermentation at our bioethanol production plants, which is why we continue to prioritize the evaluation of new digestion technologies as well as new enzymes and yeasts on efficiency and profitability.

We also focus on identifying and acting on potential energy savings options, in close alignment with using optimized process automation technologies. Any enhancements are applied to the various CropEnergies Group plants. Examples include increased drying capacities for bioethanol and optimized gluten drying at the site in Wanze, Belgium, improved product quality and expanded capacity of the DDGS pelletizing system in Zeitz, as well as the smooth restart of the plant in Wilton, Great Britain, where process and other technical upgrades have had a positive impact on process stability.

R&D continues to respond to quality related questions and support the ethanol and ethanol-based fuels standardization processes in Germany and Europe. Studies by European experts continued to explore the technical feasibility of using gasoline with ethanol blend percentages of up to 25 % by volume. This preparatory work is in anticipation of standards for future fuels with higher ethanol content. The focus is on additional scientific studies geared toward improving the energy efficiency of such fuels in comparison to conventional gasoline.

## Fruit

By using new technologies in the area of raw material procurement, microorganism activity on the surface of harvested fruits was greatly reduced, thereby improving their shelf life. An innovative treatment of fruits prior to freezing resulted in a significant improvement in texture when they were thawed. In addition to sensory improvement, the new process generated significant savings in downstream processing.

A cooperation with TU Wien (Vienna) produced new research findings related to optimizing coolers. When implemented on the production system, it reduces damage to fruits during processing.

Die sensorischen Eigenschaften von Fruchtzubereitungen konnten durch eine Optimierung der Pasteurisationsparameter und der Prozessführung signifikant verbessert werden. Gleichzeitig bleibt der hohe mikrobielle Qualitätsstandard erhalten.

After optimizing pasteurization parameters and process flow, the sensory characteristics of fruit preparations were significantly improved, without compromising the high microbial quality standard.

An innovative fruit preparation was developed for use in ice cream, which due to its texture, is not mixed with either the ice cream or the chocolate coating, neither during production nor in the finished product.

Chia seeds are currently an interesting new raw material with significant potential for food applications. Research activities are focused on isolating the outer seed layer, which consists mainly of mucopolysaccharides and exhibits strong thickening properties. This stabilizer is similar to the hydrocolloid xanthan, but exhibits a significantly higher thickening potential. The extracted material was successfully used to stabilize a variety of foods, such as mayonnaise, ketchup, fruit preparations, baked goods and whipping cream.

## New products and processes

**Proteins** Südzucker's aim is to operate its production plants as integrated biorefineries (→ keyword biorefinery) and improve the efficiency and sustainability of its factories by extracting additional components that have value. Of interest are concepts for coupled processing streams related to byproduct process energy and material consumption. These concepts are being studied in-house, and especially in publicly funded projects.

For example, the EU project "PROMINENT" is examining the efficient use of bioethanol production byproduct streams that contain protein, such as gluten, distillers' dried grains with solubles (DDGS) and concentrated distillers' solubles (CDS). Südzucker is a member of the Joint Technology Initiative – JTI Bio-based Industries (BBI), together with European industrial and scientific community partners. The objective of the project is to develop process concepts for generating new protein products for food applications from bioethanol production byproduct streams. During the first phase, the group was able to identify wheat-based byproduct process streams containing proteins and isolate an initial set of highly functional protein products. This very promising alternative to animal-based proteins can contribute significantly to sustainable,

healthy nutrition and at the same time improve the efficiency of existing plants.

**Keyword: Biorefinery** Biorefining refers to sustainably converting biomass into usable high-quality products, such as food and animal feed, as well as chemicals and energy in the form of fuels, power or heat.

**Bioethanol as a chemical raw material** Südzucker continues to work on concepts to produce C4 building blocks as a raw material for the chemical industry in the downstream part of the bioethanol production process. The focus is on chemical-catalytic conversion of ethanol to butyl alcohol. Suitable catalytic converters were identified during the first phase. At present, a continuous process pilot plant is being installed in order to further optimize reaction control and yield.

**Biobased chemicals** Carbohydrate-based products are especially interesting to the plastics sector in regard to sustainability. This is why the company is deeply involved in the subject of biobased chemicals as it relates to raw materials and processes. Expertise related to fermentative and chemical-catalytic processes is being developed in various publicly funded projects. This expertise is being applied in in-house research with the aim of producing carbohydrate-based products. Initial applications for biobased products have been submitted based on promising results. The next step is to design a continuous process pilot plant.

One example is the “ZeroCarb FP” project sponsored by the German Federal Ministry of Education and Research. It was implemented as part of the innovation alliance “industrielle Biotechnologie”. Studies are being conducted on the material use of highly purified carbon dioxide generated by the bioethanol fermentation process. The focus is on developing a cultivation process for a microorganism that blocks CO<sub>2</sub> and delivers intermediate chemical products. The bio-based

chemicals generated this way can be used as an alternate to petrochemical products and contribute positively to sustainability and the overall economics of bioethanol plants. During the first phase, a two-stage biotechnical process for organic acid was developed, which has the potential to replace a very wide range of petrochemicals. The results look promising and are now to be reviewed on a large scale plant.

## Employees

Südzucker AG employed an average of 2,501 (2,446) persons during the financial year.

There were no material changes in the number of employees by region. Almost one-quarter of all employees continue to work in Germany; slightly over half in other EU countries. Twenty-five percent work in other countries around the world.

**Employees according to employment relationship and gender** More than 70 % of all employees work under a collective agreement.

Roughly 13 % of the workers have a temporary employment relationship. This group of employees primarily represents seasonal workers who typically help with the harvest or are active in the processing campaigns.

Südzucker supports its employees with extensive benefits; for example, options to improve the compatibility of career and family. Among other things, this includes very flexible working conditions – especially agreements on flex time, part time employment or working from a remote location – as well as various employee holiday childcare programs. The number of part-time employees for the group as a whole was about 3 %, most of whom were women.

Südzucker obviously complies with all legislative requirements. This applies also to compliance with the general law on equal treatment. Employees are strictly hired and promoted according to their suitability, qualifications and performance, and/or willingness to learn. Gender is not a consideration. Men and women have the same opportunities. Nevertheless, due to the company's strong orientation toward production and technology, men outnumber women at all levels, at times significantly. The recruiting pro-

grams have recently seen a higher share of women.

**Age structure and length of service** The age structure of our employees continues to be balanced. However, the share of older employees will increase in coming years due to the raising of the statutory retirement age. Appropriate measures must be prepared and introduced to create the necessary general conditions.

An average length of service for the group as a whole of about 13 years is proof that Südzucker is an attractive employer. Fair remuneration, modern benefits and good conditions for successful work along with the corporate culture make an important contribution to creating a good working environment.

For Südzucker Group overall, the percentage of women on the payroll at the end of 2016/17 was about thirty. Women represent about 19 % at the management level.

### EMPLOYEE DEVELOPMENT/TRAINING AND CONTINUING EDUCATION

Development and continuing education are key priorities throughout the entire Südzucker group. In view of the extended early-retirement program (partial retirement) and the challenges due to changes in the market, we continue to pay special attention to our recruiting programs. These include various international trainee programs, junior executive programs, international 'Onboarding' programs, as well as countless training seminars conducted directly by the various operations. Other initiatives include so-called behavioral training – from management seminars to presentation training –, foreign language seminars and IT security training sessions. We not only focus on continuing technical training, but also teamwork, getting to know

and communicate with colleagues from other parts of the company, personal development and motivation.

**Career training at Südzucker AG and Südzucker Group** Primary vocational training continues to be a high priority. This is on the one hand a testament to the company's social responsibility, and on the other a way to prepare for the projected skills shortage. Südzucker AG's apprenticeship ratio is about 10 %, with 200 apprentices enrolled in nine vocational courses. Last fiscal year, the overall average number of apprentices at the German and Austrian Südzucker Group companies was 307 (309), enrolled in seventeen different career programs.

In September 2016, twenty-two apprentices enrolled in a dual electromechanical engineering program that was launched as a pilot project at the Tirlémontoise refinery in Tienen. This project is to be further expanded after a very promising start. The Wanze location is currently exploring various possibilities.

## WORK SAFETY AND HEALTH PROTECTION

**Work safety** Work safety is of key importance to the entire Südzucker group. There are two aspects to safety, both of which must be equally addressed: creating a safe work environment on the one hand, and on the other, ensuring every individual employee is aware of safe work practices.

We regularly assess and evaluate work and plant safety risks. We systematically check continuous improvement targets and the associated measures, and regularly evaluate the effectiveness of the established programs. An in-house work safety management system defines procedures for identifying hazards, investigating accidents, as well as training and roles and responsibilities.

A fatal work accident occurred in fiscal 2016/17. Unfortunately there were also other serious work-related accidents, which resulted in a higher accident-related daily absence rate than last year. The on-the-job accidents are being examined in detail and analyzed, and suitable countermeasures are being defined in order to avoid similar incidents in future. These procedures were also expanded to include factories that were not involved.

The programs to reduce work-related accidents vary in the different segments and are adapted to meet their specific requirements. This includes assessing hazards, training employees and managers, and staging work protection action days during which employees are actively trained and sensitized using appropriate measures. Especially noteworthy here are employee suggestions to improve work safety, such as a suggestion to use a portable device to improve safety when entering ditches and canals.

As a member of the sugar industry association "Verein der Zuckerindustrie", Südzucker actively supports the "VISION ZERO. Zero Accidents – Healthy at Work!" cooperation agreement between this employers' association and the professional association "Rohstoffe und chemische Industrie". Our group-wide target is zero accidents. This was done at the following sugar segment locations in 2016: Buzău, Cagny, Cerekiew, Etrépagny, Kaposvár, Regensburg, Roman, Strzelin, Strzyżów and Tandarei. In addition, BENEÓ-Palatinit in Offstein, BENEÓ-Remy in Wijkmaal, Biowanze in Wanze and Ensus in Wilton as well as seven production sites in the fruit

segment were all accident free. Compared to other companies in the industry, our German sugar factories have played a pioneering role in the sector for over twenty-five years. CropEnergies sites are also exemplary.

**Health protection** Protecting the health of its employees is a very high priority for Südzucker. Various programs at the company, such as occupational health care by on site doctors and vaccinations, are supplemented by initiatives such as ongoing analysis of psychological stress in the workplace. Launched two years ago, the program aims to identify potential for improvement and take appropriate steps to ameliorate adverse conditions. The company established an integration management program to help employees returning to work after a lengthy absence.

The fact that employees can be reached via the Internet, intranet, e-mail and social media can also trigger psychological stress. Südzucker has established clear rules in its code of conduct about contacting employees outside of working hours and under which conditions they may be asked to work during such times.

In its guidelines, Südzucker has firmly committed to making its products part of a healthy and balanced nutritional regimen. A series of articles entitled "health tips" was started in the employee magazine to raise employee awareness in this regard and to impart appropriate knowledge. Workshops are also offered at some sites. There are also countless fitness initiatives such as running events and soccer tournaments, as well as cooperation with fitness clubs.

Last fiscal year, the sickness ratio remained unchanged at about 4 (4) %.

## SÜDZUCKER AWARE OF ITS RESPONSIBILITY AS AN EMPLOYER

Südzucker deals with its employees according to the Südzucker code of conduct which, among other things, prohibits discrimination, harassment, child and forced labor, and declares the company's commitment to freedom of assembly, health and safety in the workplace. The code of conduct is an integral part of purchasing terms and conditions, also for our suppliers and service providers.

Südzucker Group companies demonstrate their commitment to their employees, over and above legal requirements, by offering a broad range of diverse activities at their sites. This includes family days and various types of celebrations, joint sporting occasions, as well as cultural and social charity events in the regions where the plants are located.

## COMPANY SUGGESTION PROGRAM

Employee suggestion programs are in place in almost all Südzucker Group departments and divisions. Together with the quality of the suggestions, this shows that employees are motivated to successfully contribute their specialized knowledge, make processes more efficient and reduce costs.

## DIALOGUE WITH EMPLOYEE REPRESENTATIVES – EUROPEAN WORKS COUNCIL

The European Works Council met last year in Berlin. Representatives from Germany, Austria, Belgium, France, Poland and Hungary met with the executive board to talk about cross-border issues.

### **THANK YOU FROM THE EXECUTIVE BOARD**

The executive board greatly appreciates the commitment and reliability of the employees throughout the group and thanks everyone most sincerely. This vote of thanks extends also to the employee representatives for their ongoing co-operation and constructive teamwork.

## Corporate Governance

In the section described below, Südzucker reports on corporate management in accordance with article 289a, paragraph 1 of the German Commercial Code (HGB) and corporate governance as per item 3.10 of the German Corporate Governance Code. The corporate management declaration and the corporate governance report are published on Südzucker's website at [www.suedzucker.de/en/Erklaerung\\_zur\\_Unternehmensfuehrung/](http://www.suedzucker.de/en/Erklaerung_zur_Unternehmensfuehrung/).

### Supervisory board and executive board operating procedures

The following summary outlines the operating procedures of the executive and supervisory boards in accordance with article 289a, paragraph 2, item 3 of the German Commercial Code (HGB).

**GENERAL INFORMATION** Südzucker AG is a German stock corporation and as such has a dual management structure consisting of an executive board and supervisory board, each having members with independent expertise in different areas. The executive and supervisory boards work on the basis of mutual trust and closely cooperate to manage and supervise the company.

**EXECUTIVE BOARD** Südzucker AG's executive board currently consists of four members. The management body independently manages the company's businesses in the interests of the corporation with the aim of generating sustainable added value. The duties assigned to the executive board members are outlined in the rules of procedure for the executive board in the version dated 26 January 2016.

Some executive board members have dual responsibilities with respect to the subsidiary AGRANA Beteiligungs-AG, Vienna, Austria. The CEO of AGRANA Beteiligungs-AG, Johann Marihart, Limberg, Austria, is also a member of Südzucker AG's executive board and the CFO of Südzucker AG. Mr. Thomas Kolbl, Speyer, is also a member of the executive board of AGRANA Beteiligungs-AG.

Südzucker AG's executive board members are also either members or chairs of the supervisory boards of Südzucker Group's major subsidiaries.

**SUPERVISORY BOARD** The supervisory board supervises and advises the executive board in its management of the company. It is involved in strategy and planning, as well as all issues of material importance to the company. For important business processes, such as budgeting and strategic planning, acquisitions and divestments, the rules of procedure of both the executive board and the supervisory board stipulate that decisions are subject to approval by the supervisory board. The chair of the supervisory board coordinates the supervisory board's work, chairs the meetings and speaks on behalf of the panel to the outside world.

The executive board submits comprehensive, timely reports regarding planning, business developments and the group's positioning to the supervisory board – in writing and at regular meetings. Risk management and compliance are additional key reporting topics. If necessary, extraordinary meetings are held with the supervisory board to discuss important issues. The supervisory board has established rules of procedure for its work, which are in force as per the version dated 26 November 2009. The shareholder representatives and employee representatives always meet separately to prepare the supervisory board meetings.

**SUPERVISORY BOARD STRUCTURE** Südzucker AG's supervisory board consists of twenty members as per the articles of incorporation, of which ten are elected by the shareholders and ten by the employees. The terms of office are identical. The term of office of all supervisory board members runs until the adjournment of the annual general meeting in 2017, at which shareholders will vote on ratifying the board's actions for fiscal 2016/17. There are no former Südzucker AG executive board members on the supervisory board. All members of the supervisory board are familiar with the company's operating sectors. A financial expert on the supervisory board and on the audit committee – that is a member who has expert knowledge of accounting and auditing – is Mrs. Veronika Haslinger from Vienna, Austria.

**DIVERSITY GOALS** As per a resolution passed on 25 November 2010, which was confirmed by the newly constituted supervisory board on 20 November 2012, the supervisory board is aiming for the following diversity targets in its future composition, in consideration of the sector, the size of the company and the share of international business activity:

- Maintain the number of independent members at the appropriate level, considered to be at least two.
- Maintain the number of persons that especially meet the internationality criterion at the appropriate level, considered to be at least two.

The target for an appropriate level of women representatives on the supervisory board was updated following the enactment of the law on 1 May 2015 regarding equal participation by women and men in leadership positions in the private and public sectors (so-called Gender Quota Law). These targets will be explained in the following corporate governance report.

The supervisory board's rules of procedure state that supervisory board members must step down from the board at the end of the financial year in which they turn seventy.

The supervisory board will continue to recommend candidates at the annual general meeting who are most suited to sit on a supervisory board, whereby the aforementioned diversity goals will be duly considered.

The degree to which these goals have been achieved as of the time of this report is as follows:

The regular elections of employees' representatives by the workforce and of shareholder representatives by shareholders at the annual general meeting were held in 2012. At the annual general meetings in 2014 and 2015, special elections were held for shareholder representatives who had resigned. The supervisory board since then has at least two independent members, which satisfies code requirements ("not independent" as per item 5.4.2 of the German Corporate Governance Code is anyone who has a personal or business relationship with the company, its organs, a controlling shareholder or company associated with these, which could result in a material and not merely temporary conflict of interest). At least two members in particular meet the criterion of "internationality". The supervisory board has four women members – two representing the employees and two representing shareholders.

**SUPERVISORY BOARD COMMITTEES** The supervisory board has formed an executive committee, audit committee, agricultural committee, social committee and mediation committee from among its members. These committees prepare and supplement its work. The executive and mediation committees each consist of four members. The other committees have six members each, with an equal number of shareholder and employee representatives. The duties of the executive board and the other committees are

outlined in the supervisory board rules of procedure version dated 26 November 2009. In addition, the audit committee's rules of procedure version dated 21 July 2009 apply to the audit committee. The current members of the committees are presented in the notes of the consolidated statements under item 37 "Supervisory board and executive board".

The chairman of the supervisory board is not simultaneously the chairman of the audit committee.

#### **SHAREHOLDERS AND ANNUAL GENERAL MEETING**

Südzucker AG's shareholders exercise their voting and control rights at general meetings held at least once a year. On an annual general meeting, shareholders vote on all issues as per the statutory requirements. The decisions are binding for all shareholders and the company. Shareholders are entitled to one vote for each share held.

Every shareholder meeting the general requirements for participating and exercising voting rights and who registered by the due date is entitled to participate in the annual general meeting. Shareholders who are unable to attend personally have the option of exercising their voting rights by proxy through a financial institution, a shareholder association, Südzucker AG appointees who are bound by the directives of the shareholders or by some other authorized representative of their choice. Shareholders also have the option of submitting their vote in advance of the general meeting via Südzucker AG's website ([www.suedzucker.de/en/Investor-Relations/Hauptversammlung/](http://www.suedzucker.de/en/Investor-Relations/Hauptversammlung/)) or by assigning power of attorney to Südzucker AG's proxies or to a third party.

**2017 ANNUAL GENERAL MEETING** The invitation to the annual general meeting scheduled for 20 July 2017, as well as the reports and information required for the resolutions will be published in accordance with the rules of the German Stock Corporation Act and made available

on Südzucker AG's website ([www.suedzucker.de/en/Investor-Relations/Hauptversammlung/](http://www.suedzucker.de/en/Investor-Relations/Hauptversammlung/)).

**RISK MANAGEMENT** Responsible management of business risks is fundamental to good corporate governance. Südzucker AG's executive board and Südzucker Group's managers make use of group-wide, company-specific reporting and control systems to detect, evaluate and manage these risks. The executive board regularly keeps the supervisory board abreast of existing risks and how they evolve. The audit committee deals mainly with monitoring the accounting process and the annual audit of the financial statements. It also reviews and verifies the effectiveness of the internal control systems, the risk management process and the internal auditing process. Details regarding risk management are outlined in the risk report.

## **Corporate governance report**

Corporate governance aims to ensure that companies are managed and controlled responsibly and that they provide lasting shareholder value. The following corporate governance report is prepared in accordance with article 289a, paragraph 2, item 1 of the German Commercial Code (HGB). Effective and efficient cooperation between the executive and supervisory boards ensures transparency and the claim to keep shareholders and the public fully informed in a timely manner. The corporate governance report published here by Südzucker AG complies with legal requirements and the German Corporate Governance Code rules.

Good corporate governance is a given at Südzucker and has been practiced since many years. The company's policies are consistent with the recommendations of the Code and compliance is a key executive board and supervisory board responsibility.

Südzucker regards the current version of the Code dated 7 February 2017 as largely balanced, practical and of high standard when compared internationally. As in previous years, we have thus not found it necessary to prepare individual, company-specific corporate governance principles. We comply with the recommendations of the code with the exception of the items outlined in the declaration of compliance.

## 2016 DECLARATION OF COMPLIANCE

In the mutual declaration of compliance by the executive board and supervisory board for 2016, the following exceptions to recommendations declared last year were deleted, since Südzucker now complies with these recommendations:

**Item 4.3.3 Paragraph 4 (executive board/conflicts of interest)** Südzucker AG adjusted its standard rules of procedure for the executive board on 26 January 2016 to comply with the new recommendation brought out in the 2015 version of the code, which states that business transactions by a person or company related to an executive board member may only be conducted with the approval of the supervisory board. There is thus no further requirement to declare an exception to the recommendation.

**Item 5.4.1 (Diversity goals for composition of the supervisory board)** The code was amended to comply with legislation regarding membership on supervisory boards, Germany's so-called Gender Quota Law dated 1 May 2015. The current version of the code contains only the same wording as contained in the legislation and no longer includes any recommendations that would require taking exception to article 161 of the German Stock Corporation Act (AktG). The

declaration of an exception (previously only precautionary) was therefore deleted.

**Item 5.4.6 (Remuneration of the supervisory board)** In last year's annual report, supervisory board members' remuneration was not presented for each individual. However, the fixed and performance related components were disclosed. Südzucker has and will continue to comply with this code recommendation in future, to the extent that the wording of the declaration regarding item 5.4.6 could be amended.

The complete version of the mutual 2016 declaration of compliance by the executive board and supervisory board – as well as the declaration of compliance for prior years – is posted on Südzucker's website ([www.suedzucker.de/en/Entsprechenserklaerung/](http://www.suedzucker.de/en/Entsprechenserklaerung/)).

## GENDER QUOTA

The so-called Gender Quota Law that came into force on 1 May 2015 stipulates that listed and co-determined companies have a fixed gender quota of 30 % on the supervisory board and that listed companies set targets for the number of women on the supervisory board, executive board and the two management levels below the executive board.

In its meeting of 15 July 2015, the supervisory board resolved that the percentage of women on the executive board remain at 0 % until 30 June 2017.

In its meeting of 21 September 2015, the executive board resolved to raise the percentage of women at Südzucker AG at the first and second management levels below the executive board level to 10 and 15 %, respectively, from the current 8 % and 12 %, respectively, by 30 June 2017.

## EDUCATION AND TRAINING

Members of the supervisory board are solely responsible for any education and training measures they may require to fulfill their duties. They received appropriate support from Südzucker. Again in fiscal 2016/17, an information seminar regarding corporate governance topics was presented by an external legal expert. Almost all supervisory board members attended.

## REMUNERATION

**Executive board** Südzucker AG's executive board compensation consists of a fixed annual base salary, a variable incentive component based on the average dividends of the previous three years, a company pension plan, which is mainly based on a fixed percentage of the annual base salary, plus payments in kind. The remuneration does not include any share-based compensation or comparable long-term remuneration components. Since the Act on the Appropriateness of Management Board Compensation (VorstAG) came into force, the executive committee has prepared the executive board's compensation, which is defined by the full supervisory board and reviewed at regular intervals. Article 87, paragraph 1 of the German Stock Corporation Act, revised by VorstAG, states that the remuneration system for listed companies must be based on sustainable corporate growth and that variable compensation components must therefore be based on terms longer than one year. The statutory requirement regarding a term longer than one year is met by basing the variable component on the average dividend of the three previous fiscal years.

**SUPERVISORY BOARD** The supervisory board is compensated in accordance with article 12 of Südzucker AG's articles of incorporation.

Each member of the supervisory board receives a basic remuneration in addition to the reimbursement of his or her cash outlays and the

value-added tax incurred arising from supervisory board activities. This base amount consists of a fixed sum of € 60,000 payable at the end of the fiscal year plus a variable remuneration of € 500 for each € 0.01 of distributed dividends on ordinary shares exceeding € 0.50. Tax-related special dividends are not considered in the remuneration calculation. The chair receives triple this amount and the deputy and other members of the executive committee receive one- and-a-half times this remuneration. Committee members' remuneration increases by 25 % for each committee of which they are a member and committee chairs' by 50 %, assuming the committee actually met during the fiscal year. The latter does not apply to members of the executive and mediation committees. As discussed in detail in the declaration of compliance, Südzucker AG does not disclose the level of compensation of individual executive and supervisory board members because the benefits of such information bear no reasonable relation to the associated invasion into their privacy.

The total remuneration of executive and supervisory board members is presented under item 36 "Related parties" of the notes to the annual report.

## ASSET LOSS LIABILITY INSURANCE

The company has taken out an asset loss liability insurance with a deductible, which covers the activities of members of the executive and supervisory boards (D & O insurance). Article 93, paragraph 2 of the German Stock Corporation Act (AktG) states the deductible for supervisory board members shall be at least 10 % of the damage up to at least 1.5 times their fixed annual remuneration. The German Corporate Governance Code endorses this recommendation with respect to supervisory board members. The D & O insurance deductibles for the executive and supervisory board members have been adjusted accordingly.

## SHARES HELD BY MEMBERS OF THE EXECUTIVE AND SUPERVISORY BOARDS/SECURITY TRANSACTIONS SUBJECT TO DISCLOSURE

No member of the executive or supervisory board owns shares or related financial instruments that either directly or indirectly represent more than 1 % of Südzucker AG's total share capital. Furthermore, the total shareholdings of all executive and supervisory board members are less than 1 % of the total shares issued by the company.

In fiscal 2016/17, the members of the executive and supervisory boards have not informed Südzucker AG about any notifiable dealings in securities.

## Compliance

The following summary relates to disclosures about corporate policy regarding compliance in accordance with article 289a, paragraph 2, clause 2 of the German Commercial Code (HGB).

### COMPLIANCE MANAGEMENT SYSTEM

For Südzucker, compliance; that is, operation in accordance with laws and company policies, is a standard part of good corporate management. At Südzucker, practicing compliance is not merely the responsibility of the executive board, but also the managers of all of the group departments, divisions and subsidiaries or companies in which Südzucker Group holds an interest. The purpose of the compliance management program is to ensure that the company, its management bodies and employees conduct themselves in accordance with applicable laws. The goal is to prevent employees from breaking any laws and to help them apply laws and corporate guidelines properly and professionally. Accordingly, the program is continuously enhanced and regularly checked against current requirements.

Existing Südzucker Group corporate rules were incorporated into the compliance management system policies and various compliance-critical company departments and activities were integrated into the program. The compliance management system is based on the principles of "knowledge" (informing and training), "compliance" (verifying and documenting) and "improvement" (reporting and acting). Violations of external and internal rules are not tolerated. Any indication of wrongdoing is investigated.

Compliance activities and the compliance organization were again enhanced last fiscal year. The management culture focus on transparency and corporate principles was continuously enhanced in 2016/17 to further strengthen the compliance culture.

Südzucker's group-wide compliance principles are adapted as required to various national and company-specific peculiarities and focus on compliance with antitrust laws and prevention of corruption. These principles are reinforced by guidelines. Examples include the guideline on compliance with antitrust laws at Südzucker Group and the guideline for handling gifts and invitations as it applies to Südzucker Group business partners. The objective of these guidelines is to prevent employees from violating antitrust laws and to provide practical support in the application of relevant company rules and statutory regulations.

Again in fiscal 2016/17, Südzucker continued to strengthen its compliance measures - among other things in consideration of the lessons learned from the antitrust proceedings. Apart from recommended conduct illustrated with practical examples, employees of all major group companies who could potentially be involved in the key issues were further trained. For example, last fiscal year twenty-three seminars were held to inform about corruption prevention. The executive board stipulated that all contacts with competitors be approved in advance

by the responsible supervisor and that such contact always be documented.

The executive board regularly reports to Südzucker AG's supervisory board and the supervisory board's audit committee regarding compliance issues.

## COMPLIANCE – CORPORATE PRINCIPLES

Südzucker aims to compete successfully through innovation, quality, reliability and fairness. This entails complying with internal rules, as well as statutory regulations. The corporate compliance principles serve as a guideline. They highlight key issues that are very important in day-to-day practice. The corporate compliance principles are published at Südzucker's website at [www.suedzucker.de/en/Unternehmensgrundsaeetze/](http://www.suedzucker.de/en/Unternehmensgrundsaeetze/).

Südzucker applies the laws currently in force and expects no less from its employees and business partners.

Südzucker provides its employees with the necessary information sources and advice to enable them to avoid contravening any rules or laws. All supervisors must organize their area of responsibility to ensure that the corporate compliance principles, the company's internal rules and statutory requirements are adhered to. After all, only risk-aware employees can recognize risks and successfully avoid or at least mitigate them.

The compliance officer and compliance representatives ensure that information flow is timely. They are charged with tasks such as training and investigating alleged compliance issues. Group wide training courses were held in fiscal 2016/17. All employees are obliged to report any violation of corporate compliance principles to the compliance officer, the compliance representatives or the executive board immediately.

## Disclosures on takeovers

The following disclosures provide further details in accordance with articles 289, paragraph 4, 315, paragraph 4 of the German Commercial Code (HGB) and an explanatory report as per article 176, paragraph 1, clause 1 of the German Stock Corporation Act (AktG); they form part of the audited group management report.

**COMPOSITION OF SUBSCRIBED CAPITAL AND VOTING RIGHTS** As of 28 February 2017, Südzucker's subscribed capital amounts to € 204,183,292 million and consists of 204,183,292 ordinary bearer shares, each of which represents a notional holding of € 1 per share. The company held no treasury shares as of the balance sheet date.

**VOTING RIGHTS, SHARE TRANSFERS** All shares entitle holders to the same rights and each share is worth one vote at the annual general meeting. Voting rights for the shares may be restricted as per German Stock Corporation Act regulations. Under certain conditions, shareholders may not be entitled to vote (article 136 of the German Stock Corporation Act [AktG]).

A voting agreement exists between Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG (SZVG), Stuttgart, and Zucker Invest GmbH (Zucker Invest), Vienna /Austria, one of the companies of the registered Raiffeisen Holding Niederösterreich-Wien cooperative with limited liability (Raiffeisen-Holding), Vienna/Austria. Additional voting agreements exist between compa-

nies of the Raiffeisen group. Furthermore, SZVG has a preemptive right to buy 18,797,796 of Zucker Invest's Südzucker shares and Zucker Invest has a preemptive right to buy 246,368 of the Südzucker shares held by SZVG.

**SÜDZUCKER AG SHAREHOLDINGS EXCEEDING 10 %** Südzucker AG knows of two direct equity investments in the company that exceed 10 %: SZVG owns about 56 % of total share capital and Zucker Invest about 10 %. Raiffeisen-Holding and its associated companies hold a direct interest via Zucker Invest. The shareholdings are reciprocally attributed to the companies, so that each holds a share of about 66 % of total share capital, according to the German Securities Trading Act.

**SHARES WITH SPECIAL RIGHTS, VOTING RIGHTS CONTROL FOR SHARES HELD BY EMPLOYEES** Shares with special rights that would impart controlling authority do not exist at Südzucker. No employees who hold shares of Südzucker AG are subject to voting rights control.

**APPOINTMENT AND DISMISSAL OF EXECUTIVE BOARD MEMBERS** Executive board members are appointed and dismissed by the supervisory board in accordance with articles 84 and 85 of the German Stock Corporation Act (AktG) and article 31 of the German Codetermination Act (MitbestG). In accordance with article 5, item 2 of Südzucker AG's articles of incorporation in the current version dated 23 December 2016, the supervisory board determines the number of executive board members and the supervisory board has the authority to appoint deputy members.

**AMENDMENTS TO THE ARTICLES OF ASSOCIATION** Amendments to the articles of association are governed by articles 179 and following of the German Stock Corporation Act (AktG). Article 22 of the articles of incorporation authorizes the supervisory board to make amendments to the company's articles of association that only affect the wording.

**AUTHORITY OF THE EXECUTIVE BOARD, ESPECIALLY AS RELATES TO ISSUING AND SHARE BUYBACK** Subject to approval by the supervisory board, the executive board is authorized to increase the company's share capital once or several times up until 15 July 2020 by up to € 20,000,000 by issuing new no-par value bearer shares in exchange for cash contributions and / or contributions in kind, for the entire amount or in tranches (Authorized Capital 2015). Subject to approval by the supervisory board and according to article 4, paragraph 4 of the articles of incorporation, the executive board may exclude subscription rights of shareholders in certain cases, provided the shares issued under exclusion of the subscription rights do not exceed 10 % of total share capital, neither at the time of the coming into force of this authorization, nor at the time of exercising same. Details are outlined in article 4, paragraph 4 of the articles of association. Authorized Capital 2015 has not been utilized to date.

Shareholders at the 16 July 2015 annual general meeting authorized the executive board to buy back up to 10 % of the company's total share capital existing at that time until 15 July 2020 in accordance with article 71, paragraph 1, item 8 of the German Stock Corporation Act (AktG). The shares may be acquired on the open stock market or via a public offer to purchase to all shareholders. The costs of buying back own shares may be charged against net retained earnings or other revenue reserves. The executive board was also authorized, subject to approval by the supervisory board, to sell the shares bought back to third parties and to exclude shareholder subscription rights in the case of corporate mergers or when purchasing companies or parts of companies or shares of companies. Details are provided in the authorization approved at the annual general meeting on 16 July 2015. To date, the board has not exercised the right granted in 2015 to purchase own shares.

**CHANGE OF CONTROL AND COMPENSATION AGREEMENTS**

Südzucker AG has signed an agreement with a banking consortium providing access to a line of credit in the amount of € 600,000,000. In the event of a change of control, each member of the bank consortium would under certain conditions have the right to terminate the line of credit and its share of the outstanding loans, and demand immediate repayment of same, including interest. Other than that, there are no material agreements pursuant to article 315, paragraph 4, clause 1, item 8 of the German Commercial Code (HGB) that would be affected by a change of control resulting from a takeover offer. Compensation agreements with members of the executive board or in favor of employees that would come into effect in the event of a change of control do not exist either

Details regarding the executive and supervisory boards' compensation are outlined in the section "compensation report" section of the corporate governance report, which forms part of this management report.

## Business report

### General and industry-specific business conditions

**WORLD SUGAR MARKET** In its third estimate of the world sugar balance for the 2016/17 marketing year (1 October to 30 September) released in February 2017, German market analyst F. O. Licht expects another sugar production deficit. The previous marketing year 2015/16 saw the first production deficit in six years. Despite production recovering to 178.0 (174.7) million tonnes, inventories are expected to decline again, to 65.4 (70.9) million tonnes, about 36 (39) % of one year's consumption and the lowest level since 2010/11. The drop is driven by continuously expanding consumption, which

grew to 181.0 (180.0) million tonnes. Weather conditions, especially in India and Thailand, together with cultivation cutbacks in Europe, had resulted in lower production than in previous years during the 2015/16 marketing year. Expanded cultivation and higher yields in Europe during the 2016/17 marketing year drove sugar production slightly higher, but still not as high as in prior years. The expansion of global sugar consumption continued during 2016/17, driven by population growth, especially in Africa and Asia.

#### Global sugar balance

Million of tonnes	2016/17e	2015/16	2014/15	2013/14	2012/13
<b>Opening balance</b>	<b>70.9</b>	<b>79.9</b>	<b>79.0</b>	<b>74.1</b>	<b>64.0</b>
Production	178.0	174.7	180.7	181.5	184.2
Consumption	-181.0	-180.0	-178.7	-175.8	-171.6
Volume adjustments	-2.5	-3.7	-1.1	-0.8	-2.5
<b>Closing Balance</b>	<b>65.4</b>	<b>70.9</b>	<b>79.9</b>	<b>102,079.0</b>	<b>74.1</b>
In % of consumption	36.1	39.4	46,744.7	61,144.9	45,543.2

Source: F.O. Licht, 3rd world sugar balance estimate 2016/17 as of February 2017.

The steady climb that began in fall 2015 continued amid unchanged high volatility over the course of the 2016/17 fiscal year. Driven by the continuing deficits on the world market that have been experienced for over two years and reinforced by high positions taken by financial investors, the world market price for white sugar rose from 375 €/t to over 550 €/t as of October 2016, the highest level since 2012. Thereafter the price initially corrected, falling to close to 450 €/t by mid-December. Prices subsequently recovered and rose to over 500 €/t, helped by the rising value of the US dollar versus the euro.

At the end of the reporting period, the world market price for white sugar was 503 €/t.

**EU sugar market** The last sugar marketing year (1 October – 30 September) governed by current market regulations regarding quotas and minimum beet prices began on 1 October 2016. Due to expanded cultivation and better yields, the EU Commission expects sugar production in the EU (including isoglucose) to rise to about 17.4 (15.7) million tonnes. During the 2015/16 sugar marketing year, production declined due to cultivation cutbacks and a record harvest the previous year.

As in preceding years, the European Commission expects a further reduction of quota sugar inventories for the 2016/17 sugar marketing year. The EU is a net importer of quota sugar. A price level in the EU that at least covers marketing of the imports would be necessary for an increase in preferential imports. The actual price level in the EU has been below the world market price since June 2016.

## Legal and political environment

**WTO-II negotiations** WTO-II negotiations during the Doha round, primarily aiming to improve the trade perspective of developing countries, have been ongoing since 2001 and have still not been concluded.

On 19 December 2015, the WTO ministers' conference adopted a resolution to eliminate export subsidies for agricultural goods earlier than originally planned. The decision will have no immediate negative impact on EU sugar exports due to the expiry of the quota and minimum price regulations in October 2017. After October 2017, EU sugar producers will be permitted to export sugar to the world market without volume restrictions.

**Free trade agreements** In parallel with the ongoing WTO discussions, negotiations regarding potential free trade agreements are underway with various nations and communities, such as MERCOSUR and Australia. In the event sugar and sugary products are not defined as sensitive products – contrary to current trade practice – substantial additional sugar volumes could in future be imported into the European Union at preferential tariff rates. In November 2016, the EU released the procedures and specifications for granting and administering quotas for EU sugar imports from South Africa. A duty-free import quota of 25,000 tonnes of raw and white

Export licenses for 1.35 million tonnes of non-quota sugar were granted for the 2016/17 sugar marketing year, the same as last year.

According to EU price reporting, the average price for quota sugar rose from about 430 €/t at the beginning of the fiscal year to 450 €/t for bulk sugar (ex factory) in September 2016. At the beginning of the new sugar marketing year, the EU price level initially rose to 470 €/t in October 2016 and at the end of the fiscal year was quoted at 495 €/t.

sugar was granted for the year 2016. Starting in 2017, the annual quota of imports from South Africa to the EU is set at 150,000 tonnes of raw and white sugar. In addition, at the end of December 2016, the EU and Ecuador concluded negotiations concerning the procedures required for preliminary application of the free trade agreement. The trading part of the agreement thus came into force on 1 January 2017. The EU has committed to allowing two duty-free import quotas: 15,000 tonnes for raw sugar and 10,000 tonnes for white sugar, isoglucose, glucose and sugary products. These quotas are slated to rise slightly every year going forward.

**EU initiative to reduce sugar in food** Spurred by recommendations from the World Health Organization (WHO) concerning the amount of sugar in people's daily diet, the pressure on the EU commission and EU member states to take action on legislating changes to product recipes is steadily rising. The EU member states have agreed that by 2020, the volume of so-called added sugar in the overall marketed volume of food be 10 %

less than in 2015. This includes all types of sugar, not only the household variety, but also fruit preparations added to food for the purpose of sweetening.

## Beet harvest and campaign chronology

In 2016, planting began for the most part as early as in previous years, amidst average to excellent planting conditions. By mid-April, beets had been sown in all Südzucker AG regions. After seeding, beet development was restrained by successive periods of cool weather and frost at night. By mid-May, most fields were benefiting from plentiful rain and the beets flourished as temperatures rose. August and September brought high temperatures in excess of 30°C. Parched soil at the start of the campaign hampered beet harvesting in some regions.

Humid weather in early summer triggered severe *Cercospora* attacks and beet root rot in some regions. High temperatures at the start of the campaign also had a negative impact on beet quality, which caused temporary beet processing problems at the Ochsenfurt, Plattling and Brottewitz factories.

The campaign began between 10 and 21 September with beet receiving. Wabern was the first factory to finish, completing its processing after 79 days, on 9 December 2016. The campaign lasted until 4 January 2017 at the Plattling factory in Bavaria. The average campaign duration at Südzucker AG was 100 days, 25 days longer than last year. The yield was 78.6 t/ha, higher than the five-year average. The average sugar content of 17.8 % was slightly below average.



## Business performance

Like the prior year, the first half of the 2016/17 financial year was characterized by low sugar prices. The rising sugar revenues in the course of the financial year were able to offset the lower volumes of both quota and non-quota sugar in the second half of the year as a result of lower harvest yields in 2015.

### REVENUE AND OPERATING PROFIT

(in € millions)	2016/17	2015/16
Revenues	1,278.6	1,170.8
Change in work in progress and finished goods and internal costs capitalized	54.7	-100.1
Other operating income	28.2	87.3
Cost of materials	-988.1	-804.3
Personnel expenses	-218.1	-196.1
Depreciation of intangible assets and fixed assets	-54.7	-51.5
Other operating expenses	-196.0	-216.0
<b>Operating profit (HGB)</b>	<b>-95.4</b>	<b>-109.9</b>
Investment income/expense	210.0	214.7
Depreciation of financial assets	0.0	0.0
Interest income/expense	-31.1	-36.0
<b>Income from ordinary activities</b>	<b>83.5</b>	<b>68.8</b>

**Revenues** rose in fiscal 2016/17 by € 107.8 million or 9.2% from € 1,170.8 million to € 1,278.6 million. The revenue growth is attributable to the commissioning of the wheat starch plant in Zeitz and the acquisition of sugar trading and export activities from our subsidiary Raffinerie Tirlemontoise S.A., Brussels, in the current financial year. In addition, due to amendments to the German Commercial Code (HGB), income in the amount of € 37.1 million was allocated to revenues in the current financial year after previously being recognized under other operating income. Sales revenues from own sugar declined.

**Other operating income** in the amount of € 28.2 (87.3) million includes € 4.3 (20.1) million in income from prior periods, which largely resulted from accounting profits and the reversal of provisions. The decline is a result of the reclassification stipulated by the Accounting Directive Implementation Act (BilRUG) of cost allocations in the group that were still included in the previous year.

In addition, income from the reversal of special items with an equity portion of € 1.3 (1.4) million is included as well as income last year from the reversal of deferred items from EU restructuring assistance totaling € 0.0 (11.9) million deferred until 2015/16.

The increase in **material expenditures** by € 183.8 million to € 988.1 (804.3) million resulted from the higher beet costs due to higher production in the 2016/17 campaign and the raw material requirements of the new wheat starch factory in Zeitz.

**Personnel expenses** increased by € 22.0 million to € 218.1 (196.1) million. Alongside the rise in the average number of employees by 55 to a total of 2,501 (2,446), with 30 of these attributable to the wheat starch plant in Zeitz, this was also due to a higher allocation to pension provisions.

**Depreciation** was higher than last year, posting at € 54.7 (51.5) million.

**Other operating expenses** fell by € 20.0 million to € 196.0 (216.0) million. Other taxes shown under a separate item in the previous year are recognized under other operating expenses.

**Operating result (HGB)** improved by € 14.5 million compared to the previous year, but at € -95.4 (-109.9) million it is still well below our long-term expectations.

**Income from investments** posted at € 210.0 (214.7) million, which was well above the previous year.

The **net interest result** improved by € 4.9 million to € -31.1 (-36.0) million. Included in the net interest result are expenses from the unwinding of the discount for pensions and long-term liabilities totaling € 20.6 (21.1) million.

The **income from ordinary activities** increased by € 14.7 million to € 83.5 (68.8) million.

(in €millions)	2016/17	2015/16
<b>Income from ordinary activities</b>	<b>83.5</b>	<b>68.8</b>
Taxes on income	11.9	-1.3
<b>Profit after taxes/Net earnings for the year</b>	<b>95.4</b>	<b>67.5</b>
Profit brought forward from the previous year	0.0	0.1
Allocations to revenue reserves	-3.5	-6.3
<b>Net earnings available for distribution</b>	<b>91.9</b>	<b>61.3</b>

**Taxes on income** in the current financial year total € +11.9 (-1.3) million, resulting from the reversal of a provision for prior years.

**Net earnings** were thus € 95.4 (67.5) million.

The **allocation to revenue reserves** in the fiscal year was 3.5 (€ 6.3 million last year). With the profit carried forward last year of € 0.0 (0.1) million, the **net earnings available for distribution** € 91.9 (61.3) million.

## INVESTMENTS AND FINANCING

**Investments in property, plant and equipment and intangible assets** totalled € 97.0 (129.5) million in the financial year. The investments focused on the completion of the wheat starch plant in Zeitz, environmental, replacement and optimization measures in the

sugar factories and the acquisition of sugar trading and export activities in Antwerp from our subsidiary Raffinerie Tirlemontoise S.A., Brussels/Belgium.

<b>Net financial debt</b>		
(in €millions)	28 Feb. 17	29 Feb. 16
Securities	-171.2	-209.2
Cash and cash equivalents	-5.0	-2.5
Receivables as part of group financing	-689.7	-496.6
Bonds	0.0	125.0
Financial liabilities to banks	208.6	188.8
Liabilities as part of group financing	1,265.7	953.9
<b>Net financial debt</b>	<b>608.4</b>	<b>559.4</b>

**Net financial debt** increased from € 559.4 million in the prior year to € 608.4 million as at 28 February 2017. This includes financing of the acquisition of Terra e.G., Sömmerda, as well as the increase in the shares in ED&F MAN Holdings Limited, London, to 35%. Operating cash flow posted at € 119.6 (273.9) million. Investments in financial assets totalled € 10.3 million (€ 0.0 million last year) and were attributable to a capital increase at Südzucker Verwaltungs GmbH, Mannheim, to purchase Terra e.G., Sömmerda. Distributions for the previous year amounted to € 61.3 million.

Südzucker has the following outstanding bonds as at 28 February 2017:

	Coupon	Volume (€)	ISIN	Stock exchange listing
Hybrid bond 2015 Perceptual NC 10	3-Month-EURIBOR + 310 BP = 2,968 %	700 million	XS0222524372	Luxembourg (official Market)
Bond 2011/2018	4,125 %	400 million	XS0606202454	Luxembourg (official Market)
Bond 2016/2023	1,25 %	300 million	XS1524573752	Luxembourg (official Market)

The financial instruments are generally issued via the group financing company Südzucker International Finance B.V., Oud-Beijerland, Netherlands, and used throughout the group.

A commercial paper (CP) program with a volume of € 600 million is also available for seasonal campaign financing. This program was utilized in the amount of € 125 (200) million as at 28 February 2017.

The seasonal liquidity requirements are also secured by the € 600 million syndicated credit line concluded through 2020.

See the section on "Corporate management" in the group management report for fiscal year 2016/17 for information on corporate management at Südzucker AG.

## BALANCE-SHEET

### ASSETS

(in €millions)	28 Feb. 17	29 Feb. 16
Intangible assets	13.7	7.7
Property, plant and equipment	513.4	478.8
Financial assets	2,791.9	2,782.0
<b>Fixed assets</b>	<b>3,319.0</b>	<b>3,268.5</b>
Inventories	455.3	389.1
Receivables and other assets	965.2	694.5
Securities	171.2	209.2
Cash and cash equivalents	5.0	2.5
<b>Current assets</b>	<b>1,596.7</b>	<b>1,295.3</b>
<b>Accrued and deferred items</b>	<b>1.3</b>	<b>1.3</b>
	<b>4,917.0</b>	<b>4,565.1</b>

Südzucker AG's **total assets** reduced as at 28 February 2017 to € 4,917.0 (4,565.1) million.

**Fixed assets** totalled € 3,319.0 (3,268.5) million, € 50.5 million higher than last year.

The addition of **inventories** to € 455.3 (389.1) million resulted from the higher sugar production volume of the 2016/17 campaign.

**Receivables and other assets** increased by € 270.7 million to € 965.2 (694.5) million. This results due to higher allocations of intragroup loans to affiliated companies for acquisition of shares and higher trade receivables.

The decline in **securities** to € 171.2 (209.2) million is attributable to the placement of 500 thousand shares of AGRANA Beteiligungs-AG, Vienna, from Südzucker direct holdings as part of the capital increase. As a result, the direct stake in AGRANA Beteiligungs-AG was reduced to 2.7 (6.5) %. Südzucker also has an indirect stake of 39.2 (43.1) % via Z&S Zucker und Stärke Holding AG, Vienna.

**LIABILITIES AND SHAREHOLDERS' EQUITY**

(in €millions)	28 Feb. 17	29 Feb. 16
Shareholders' equity	2,179.5	2,145.4
Special items with an equity portion	32.7	34.0
Provisions for pensions and similar obligations	505.2	478.1
Other provisions	342.6	323.3
Liabilities	1,857.0	1,584.3
	<b>4,917.0</b>	<b>4,565.1</b>

**Equity** increased to € 2,179.5 (2,145.4) million due to the higher dividend from net earnings compared to last year. The equity ratio improved to 44.3 % (47.0 %) as a result of lower total assets. As in the prior year, Südzucker AG's fixed assets at the balance sheet date were financed entirely through medium and long-term capital; the equity to fixed assets ratio was 121.5 % (111.1 %).

**Pension provisions** rose by € 27.1 million to € 505.2 (478.1) million, largely due to the adjustment of the discount rate to 3.97 (4.27) % and the consideration of salary and pension adjustments.

**The other provisions** item consists of taxes, personnel expenses, litigation risks and recultivation obligations.

**Financial liabilities** increased by € 272.7 million from € 1,584.3 million to € 1,857.0 million. This corresponds with allocations of intragroup loans to affiliated companies on the one hand and higher payables from deliveries during the 2016 campaign.

## CURRENT AND PROJECTED BUSINESS PERFORMANCE

Contrary to the stable expectation in last year's outlook, revenues increased due to the centralization of sugar export and trading activities.

The operating result is better than the year prior, but still negative at € -95.4 million. There are numerous reasons for this, but one main factor is the unsatisfactory price level. This also includes a burden resulting from the reduction of the discount rate for pension provisions and the conclusion of a new agreement on part-time early retirement.

Contrary to the forecast, the expected income from investments is roughly comparable to last year's level. The expectation of an improved net interest result due to the decline in interest rates has been confirmed.

Overall, because of these effects, the company was unable to achieve the net earnings forecast for the 2016/17 financial of at least that of the previous year.

## Risks and opportunities report

### Risk management system

Südzucker Group's business policies aim to safeguard the company's continued life, to earn sustainable, reasonable returns and systematically and steadily improve shareholder value. Risk management systems are installed throughout the group to detect and actively manage risks.

**RISKS AND OPPORTUNITIES POLICY** believes a responsible attitude toward business risks and opportunities is an important element of a sustainable, value-oriented management system. Südzucker views risks and opportunities as future developments and events that can negatively and/or positively influence implementation of strategic goals and operational plans. Südzucker uses an integrated system for the early identification and monitoring of group-specific risks. The guiding principle for successfully managing risk is to balance opportunities and risks. The company's risk culture is characterized by risk-aware conduct, clear responsibilities, independent risk controlling and internal audits. Insofar as it is possible and economically practical, insurable risks are covered by a group-wide insurance policy

**RISK MANAGEMENT** The risk management system is embedded in Südzucker Group's value-oriented management and planning system. The purpose of the risk management system is to detect existing risks early and systematically, to evaluate them and to provide the relevant decision makers with properly organized risk information. This is accompanied by improving the internal transparency of all processes that have an element of risk and creating a culture of risk awareness among all employees. One of the key

risk management tasks is to limit strategic, operative, legal and financial risks

Südzucker Group's risk management system includes a monitoring system that ensures compliance with all actionable items.

**RISK MANAGEMENT SYSTEM** The executive board is responsible for the group-wide risk management system, as well as for the early detection and mitigation of existential and strategic risks. The risk management committee supports the board in this task. It regularly evaluates the suitability of the installed risk management rules and improves them if necessary. In addition, it continuously monitors material risks, including cross-business risks, and alerts those responsible if action is necessary. The auditor assesses the reliability and performance capability of the risk early warning system as part of the risk management system.

The risk management system of the business segments, divisions and the corporate departments is the responsibility of their respective managers, who take steps to reduce and defuse operational risks, as well as financial and legal risks. Changes in market prices can exert considerable positive or negative pressure on the operating result. The company has therefore installed risk committees that evaluate how to handle such risks in those divisions and business units in which operating results are materially affected by market price volatility. Market price risks resulting from commodity and selling prices, as well as currency exchange and interest-rate risks are also countered by selectively using derivatives. The executive board has defined the acceptable instruments in a risk management directive, which also governs hedging strategies, responsibilities, processes and control mechanisms. The hedging instruments are

exclusively used to protect the underlying transactions; never for trading or speculation purposes. Financial derivative instruments are only entered into with banks that have a high credit rating or on futures exchanges.

Operative, financial and strategic risks are reported and documented regularly as part of the overall planning, management and reporting process. The executive board and the business units and/or divisions responsible also receive monthly risk reports that outline risks and sensitive issues at both the divisional, business unit and group level and that focus on the current and subsequent fiscal year. The development of the risk parameters, in line with the current market situation and business performance, is compared with the budget and/or the current forecast, while the risk score is determined by evaluating its impact on operating result.

**RISK COMMUNICATION** Openly communicating with the employees within the company who are responsible for the businesses and processes is essential to a properly functioning risk management system. As such, the executive board, division and business managers as well as group executives communicate risks quickly and transparently. Employees are required to be aware of and deal with risks proactively. Regular meetings between the executive board and division and business units heads to discuss earnings developments and budgets is one tool Südzucker uses to ensure that information flows directly between the parties. Mitigating measures are defined and initiated for any strategic or operational risks identified during the sessions. Not only the heads of divisions and business areas, but also the group departments regularly report to their respective department heads concerning current developments in their areas of responsibility.

**INTERNAL AUDIT** The group's internal audit department monitors both the parent company and group companies. The department, which reports directly to the chairman of the executive board, systematically and rigorously assesses the effectiveness of the risk management system, the controls, management and monitoring processes on the basis of independent, objective auditing and advisory methods. In doing so, it focuses on improving them and the underlying business processes.

## Risks

### SUMMARY OF CORPORATE RISK EXPOSURE

Südzucker's exposure to material risks is outlined in the following section and classified according to the parameters "probability of occurrence" and "financial impact" based on the medium-term result forecast. The effect of already implemented countervailing measures is included.

The relative and absolute values "low", "medium" and "high" used for the corresponding categories are shown in the following table. The significance of the identified risks is determined by weighing the combined probability of occurrence and potential financial impact.

Occurance probability		Financial impact
low	< 10 %	< € 5 Million
medium	10–50 %	€ 5–50 Million
high	> 50 %	€ >50 Million

The price volatility of raw materials, risks associated with fluctuating product prices and changes to the legal and political framework are currently the most significant risks. The potential financial impact of the other risks outlined in this report is comparably minor.

Overview of corporate risks	Occurrence probability	Financial impact
<b>Regulatory risks</b>		
Risks of changes in legal and political environment	medium	high
Macroeconomic risks	medium	medium
Risks of structural changes of product markets	medium	high
<b>Operational Risks</b>		
Risks of availability of raw materials	medium	medium
Risks of price volatility of raw materials	high	high
Risks of price volatility of products	high	high
Exchange rate fluctuation risks	medium	medium
Product quality risks	low	medium
IT risks	low	medium
Personnel risks	low	medium
Creditworthiness and default risks	low	medium
Other operating risks	low	low
<b>Compliance risks</b>		
Legal risks	medium	medium
Antitrust risks	low	high
Corruption risks	low	medium
<b>Financial risks</b>		
Interest rate fluctuation risks	medium	medium
Exchange rate fluctuation risks	medium	medium
Liquidity risks	low	high
Creditworthiness and default risks	low	high
Risk of rating downgrade	medium	medium

## STRATEGIC RISKS

As outlined in the respective sections of the segments' management reports, Südzucker's business is subject to a variety of legal and political stipulations, both at the national and European level. The expiry of minimum beet price and quota regulations on 30 September 2017 will cause beet sugar and isoglucose production in the EU to expand. The EU will thus once again be a net sugar exporter. The highly volatile world market price for sugar increasingly drives EU sugar market prices. This will lead to increased competition in the markets. Sugar prices will influence the availability of sugar beets as raw material in the future, whose cultivation is in competition with alternative crops. At the same time, the competitive situation will be distorted by the fact that several EU member states pay incentives tied to beet cultivation.

On 30 November 2016, the EU Commission presented recommendations for implementing the EU's climate and energy policies to 2030, which relate especially to renewable energies and energy efficiency. At the current stage of the legislative process, it is next to impossible to predict how the future legal framework will impact the bioethanol business. A reduction of mandatory blend ratios can lead to reduced demand, which could weigh on CropEnergies' business.

Additional risks could also arise if additional duty-free import quotas for sugar are granted under the terms of new bilateral free trade agreements or if the level of EU tariff protection is lowered. For bioethanol too, restriction or promotion of the use of various materials to produce bioethanol, boosting or cutting national mandatory blend ratios after 2020, and regulating the use of cultivation areas can bring additional opportunities and risks. Changes to external trade relations with non-EU countries, legislative compensation policies for generating renewable energies as they exist in some EU

countries as well as tariff rates can also lead to new opportunities or risks. Any potential changes to international and national trade agreements or agricultural market regulations are proactively analyzed without delay and evaluated within the risk management framework regarding their potential impact on Südzucker Group's earnings, financial and asset situation.

The vote by the majority of Great Britain's citizens to exit the European Union (Brexit) could pose new risks for Südzucker's business activities due to the changed legal and political framework; however, these risks can presently not yet be assessed. Great Britain submitted its application to exit the EU on 29 March 2017

Südzucker Group's products are also subject to the risk of demand fluctuations due to overall economic developments or changes in consumer behavior.

## OPERATIONAL RISKS

**RISKS ARISING FROM THE AVAILABILITY OF RAW MATERIALS** Every year, Südzucker Group processes roughly 30 to 35 million tonnes of agricultural raw materials grown on more than 800,000 hectares of land. In addition to sugar beets, the crops comprise corn, wheat, barley, rice, triticale, chicory and potatoes, as well as the raw materials processed in the fruit segment.

As a processor of these raw materials, Südzucker is exposed – in spite of regional diversification – to procurement risks. These relate mainly to above-normal fluctuations of harvest yields, due primarily to extreme weather conditions (climate change), as well as pests and diseases that attack the company's crops. The associated risks result from greater evaporation and even more frequent and intense extreme weather events, such as sustained drought, flooding, storms and hail.

In addition, geographically shifting climatic zones or rainfall can negatively impact regional production of agricultural raw materials. This risk is addressed to the greatest extent possible by appropriate cultivation planning and targeted cultivation consultation and research.

However, in Europe climate change is also linked to opportunities when it comes to beet cultivation. An extended growing period that starts earlier, fewer frost days and faster heating of the soil hold the promise of rising yields.

Beets compete with other crops when farmers decide what to plant, which represents a procurement risk in the sugar segment. Our beet growers' plans are based on completely fulfilling the beet delivery rights they were issued.

### RISKS ARISING FROM PRICE VOLATILITY OF RAW MATERIALS

In addition to the procurement risks related to availability, agricultural raw materials are subject to price fluctuations that cannot always be directly passed on to the market. Grain and oilseed market price fluctuations are driven primarily by fundamental global and regional market data such as availability, demand and inventories. Markets are very sensitive to critical thresholds related to the ratio of annual consumption to inventories, as well as uncertainty about supply and demand factors, and prices fluctuate accordingly. Over the last few years, this has been repeatedly observed for certain products and is in principle again possible in the future. The price volatility of global markets is increasingly mirrored in the European and domestic markets due to expanding global raw material trading.

Political measures such as export bans instituted by key exporting countries can also cause increased short-term price volatility.

For sugar beets, the company normally signs annual beet delivery contracts each season in the various cultivation areas. For the 2016/17 sugar marketing year, these contracts for quota beets reflect the still valid market regulation requirements regarding minimum prices and participation of farmers in higher sales revenues. The prices for non-quota beets are in part derived from sugar sales revenues. Starting in sugar marketing year 2017/18, Südzucker group will set the price it pays for its total beet requirements based on sugar revenues, without guaranteeing a minimum beet price. Nevertheless, the price set for beets must also take into consideration the competitiveness of beets compared to other normal crops.

The refineries in Brčko/Bosnia and Buzău/Romania convert raw sugar delivered from third parties into white sugar. The risk of a fluctuating purchase price for raw sugar is hedged by means of commodity futures contracts.

For producing bioethanol agricultural products containing carbohydrates, such as grain and sugar syrup, are required. Price fluctuations on global agricultural markets directly impact raw material costs. To assess the risk of producing bioethanol, we calculate raw material costs minus sales revenues from food and animal feed (according to net raw material costs). Because grain price fluctuations mainly go hand-in-hand with an equivalent price change for food and animal feed containing protein, we are able to partly offset higher raw material costs with increased sales revenues from these products.

CropEnergies' business policy will continue to be to mitigate residual risks of raw material price increases by entering into long-term supply agreements and utilizing commodity futures contracts as a hedge, as well as using alternative raw materials. Also, the company regularly balances forward contracts for purchased raw materials and sales of food, animal feed and ethanol. The degree of hedging is determined by the market situation. However, depending on the market price situation, the risk that it will not be possible to secure cost covering hedging transactions or to pass price increases of raw materials on to bioethanol purchasers remains.

The EU ties the promotion of fuels produced from biomass to compliance with certain sustainability criteria. Bioethanol produced at all of our plants meet these requirements provided sustainably produced raw materials are available.

Raw material costs are also of key importance to starch production. Here too, the strategy is to use physical supply contracts to cover the planned requirements as well as possible. Hedging transactions are also used to a limited extent. There is a risk that higher raw material costs can be only partially passed on to customers in the short term.

Procurement risk in the fruit segment is affected by poor weather and any plant diseases that may arise. Poor harvests resulting from these factors can have a negative impact on both the availability and cost of raw materials. Through its worldwide presence and knowledge of local markets, AGRANA's fruit preparation division is able to detect regional supply bottlenecks and/or price volatility early and take steps to mitigate such situations. In addition, the division strives to enter into annual contracts where possible, both on the sales and procurement side. Fruit juice concentrates, raw material, production and distribution risks in the divisions are managed transregionally.

Südzucker Group counters energy price risks by designing its production plants to be capable of utilizing diverse energy sources in line with the particular circumstances, with the ultimate goal of minimizing costs. In addition, investments to improve the energy efficiency of the production plants throughout the group are an ongoing priority. The company utilizes long-term supply contracts or derivatives to hedge some of the fuels used during the campaign.

The free-of-charge CO<sub>2</sub> certificates allocated in conjunction with the third trading period in the EU from 2013 to 2020 will not cover Südzucker Group's consumption. Südzucker's sugar, starch, inulin and bioethanol production processes for the period from 2013 to 2019 meet current EU directives for carbon leakage, and accordingly, a limited number of CO<sub>2</sub> certificates will be allocated free of charge. We are currently not expecting our carbon leakage status to be canceled. The general conditions for the upcoming fourth trading period for the years 2021 to 2030 are difficult to predict given the current state of the EU's legislative process. In view of the EU's climate targets – a reduction of greenhouse gases by twenty percent by 2020 and forty percent by 2030, both referred to the value measured in 1990 – the general assumption is that there will be a further reduction of the certificates allocated free of charge starting in 2021.

#### RISKS ARISING FROM THE PRICE VOLATILITY OF PRODUCTS

The sugar segment is exposed to selling price risks resulting from price fluctuations in the world sugar market, the EU common market and animal feed markets. The EU granted a limited number of export licenses during the 2016/17 sugar marketing year. Starting in October 2017, exports are expected to increase as production volumes rise when the quota regulations expire and export restrictions are lifted. This will increase the risk related to world market price fluctuations. There is evidence that the EU domestic market will also be increasingly directly tied to world market prices. For the volumes tied directly to global market prices, we enter into sugar futures contracts on the exchanges in London and New York according to market conditions. The company thus pays particular attention to consistency in its sales strategy and long-term planned customer loyalty to mitigate the volume and price risk for animal feed.

Another example of price risk is bioethanol prices in Europe, which are affected by various factors such as supply and demand at the local level, the price level and availability in the United States, Brazil and other exporting countries, as well as general political conditions, and may thus fluctuate significantly. CropEnergies manages these risks by adjusting the wording and expiry date of its sales contracts and to the extent possible, using derivative instruments, as well as flexibly operating its bioethanol plant in Wilton, Great Britain, depending on the market situation and the associated costs and earnings.

European bioethanol prices are currently determined by price reporting agencies based on very low volumes, resulting in high price volatility. In December 2015, European Union trilateral negotiators reached agreement on implementing a benchmark directive. It prescribes a transparent pricing mechanism for determining reference prices in unregulated markets. EU member states have been given two years to implement

the directive. It is expected that implementing the directive will lead to greater transparency when setting the price of bioethanol and thereby to less volatility and greater liquidity for market prices.

**CURRENCY EXCHANGE RISKS** Currency exchange risks arise at Südzucker's operations when sales revenues or the cost of materials and/ or merchandise are denominated in a currency other than the local currency.

In the sugar segment, sugar exports to the world market are subject to US dollar exchange rate risks, and are always hedged from the date of entering the sugar futures contract to the date of payment receipt. Raw sugar refining is exposed to currency risks from any raw sugar purchases denominated in US dollars.

In the special products segment, foreign exchange risks arise in the BENEIO division from US dollar sales revenues for which the underlying production costs are mostly incurred in euros and Chilean pesos. Sales revenues of the Freiburger Group in Great Britain are subject to currency risk related to the British pound sterling, and this risk is increased by the British vote to exit the European Union. Great Britain submitted its application to exit the EU on 29 March 2017.

The CropEnergies segment's raw material purchases and product sales are mainly denominated in euro. The company is only exposed to currency risks when purchasing raw alcohol in US dollars and selling industrial alcohol in euro. These transactions are hedged using forward exchange contracts immediately after purchasing the raw alcohol.

The fruit segment's currency risks relate primarily to volumes sold in euro or US dollars, whereas raw material and operating expenses are denominated in the respective local currency. When raw materials and/or sales are denominated in foreign currencies, the currency risk is partly hedged using forward exchange contracts.

**PRODUCT QUALITY RISKS** Serious safety standards violation incidents for food and other products could damage Südzucker's reputation and reduce the volumes of our products. Furthermore, one of our stated objectives is to supply customers with safe, high quality products at all times. In order to guarantee this, the company has a quality management system that documents responsibilities, activities and processes. The quality management system covers all processes; from the procurement of raw materials, through the production process itself, to delivery to customers.

Adherence to all internal and external specifications is regularly checked within the framework of the quality management system. The company takes any necessary steps to further optimize its products and processes, which contributes to further risk minimization.

**IT RISKS** The management of our group is largely dependent on sophisticated information technology. As a result, risks associated with the security, quality or failure of IT systems are especially significant. It is likely that external cyber threats to Südzucker group's IT system will continue to increase. We employ qualified internal and external experts and take appropriate technical steps to ensure that the IT systems are properly maintained, optimized, and secured in particular. To facilitate these efforts, Südzucker has widely standardized the information systems and processes used by Südzucker Group.

**PERSONNEL RISKS** Südzucker Group competes intensely with other companies for trained personnel and is thus exposed to the risk of being unable to suitably fill vacancies. In order to protect Südzucker's position when competing for qualified employees, we emphasize the attractiveness of Südzucker Group as an employer through our human resources management policies, which aim to encourage specialists and managers to stay with the company for the long term. In addition to attractive social benefits and compensation policies, we offer a wide range of opportunities at Südzucker Group, such as advanced and continuing education courses, trainee programs and possibilities to work for various group companies.

**CREDITWORTHINESS AND DEFAULT RISKS** Südzucker could suffer significant losses if a large number of its customers were unable to meet their contractual payment obligations. Südzucker AG counters credit and default risks associated with outstanding receivables by constantly monitoring the creditworthiness and payment history of its debtors and setting appropriate credit limits. A group-wide credit management system continues to be strictly enforced. Furthermore, risks are capped using credit insurance and bank guarantees. Default risks associated with the financial instruments with which we have entered into hedging transactions also exist.

**OTHER OPERATING RISKS** Other operating risks that may arise in the production, logistics, research and development areas are not expected to have any material impact on the company's position. Südzucker also mitigates other operating risks by constantly monitoring them and continuously improving its business processes.

## COMPLIANCE RISIKEN

**GENERAL LEGAL RISKS** Various lawsuits are pending against Südzucker AG and the group's companies. Accruals are being formed to cover the legal costs for these proceedings. Accruals for the lawsuit risks are built when the likelihood that the company will be liable and the extent of the liability can be adequately determined. The final outcome of individual proceedings may affect earnings during a particular reporting period, but the potential associated liabilities would have no long-term impact on the group's assets and financial position.

Südzucker is exposed to potential changes in the legal environment, particularly as relates to food and environmental laws. Such risks are documented without delay, their impact on the group's business activities evaluated and appropriate action taken if necessary.

**RISKS ARISING FROM ANTITRUST LAW** There is a risk that antitrust authorities may interpret the conduct of company organs and employees as violating antitrust laws, and that they may initiate proceedings. Such proceedings always negatively impact the company's reputation and can result in high fines and potentially, unfounded claims for compensation from third parties.

Südzucker further strengthened its antitrust law compliance program again in fiscal 2016/17. Training courses to prevent antitrust law violations are conducted at regular intervals. The program will continue to be rigorously executed, also taking into account the lessons learned from the antitrust case concluded in 2014 involving several companies in the German sugar industry. A groupwide standard on compliance with antitrust laws at Südzucker Group (Competitive Guideline) has been in force since 1 December 2014. The objective of this guideline is to prevent employees from violating antitrust laws and to provide practical support in the application of relevant rules and regulations. This

includes especially the obligation of all employees to comply with antitrust legislation.

As described in last year's annual reports, the German Federal Antitrust Authority charged German sugar producers Südzucker AG, Nordzucker AG and Pfeifer & Langen GmbH & Co. KG with engaging in unlawful practice to restrict competition, including territorial, quota and price-fixing agreements. Südzucker accepted the penalty notice issued on 18 February 2014 as part of a settlement, and paid the fine in order to bring to a close the case and achieve legal and planning certainty going forward. The case was based on statements by a crown witness for the prosecution and had lasted almost five years. After payment of the fine, the German antitrust case was closed.

Since closure of the German antitrust proceedings, customers are claiming damages as expected, due to alleged cartel-related markups. Südzucker and the two other fined German sugar producers are categorically disputing these claims, especially since various appraisers have stated that no customers were disadvantaged during the timeframe considered by the Antitrust Authority. Some customers have made claims for damages or information before several German courts against the affected sugar manufacturers – mostly jointly and severally. All of these cases remain at an early stage and no rulings have been made to date.

As outlined in last year's annual report, in September 2010, the Austrian Federal Competition Authority referred AGRANA Zucker GmbH and Südzucker AG to the Vienna cartel court, requesting a decision on an alleged violation of the Austrian Cartel Act. AGRANA and Südzucker are accused of anticompetitive agreements relating to Austria in connection with the German antitrust fine. The defendants continue to consider the accusations groundless and dispute the claims submitted in October 2011 by the antitrust authorities based on the evidence presented at the hearings that have been held to date, even after the latest witnesses took the stand in September 2014. The Vienna cartel court has not yet issued a verdict.

**CORRUPTION RISKS** Risks due to corruption can arise if Südzucker Group organs or employees violate laws, internal rules or regulatory standards recognized by Südzucker and the respective Südzucker Group company subsequently suffers damage to its assets or image. The company follows up on all reports of malpractice. The compliance program and the compliance organization were further enhanced in fiscal 2016/17. The management culture focus on transparency and corporate principles was continuously enhanced to strengthen the compliance culture. Training was further intensified in order to ensure that each and every employee behaves in a proper manner regarding legal conformity and social ethics. Specific recommendations on selected topics were further developed and made available to employees.

## **FINANCIAL RISKS**

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enhanced in fiscal 2016/17. The management culture focus on transparency and corporate principles was continuously enhanced to strengthen the compliance culture. Training was further intensified in order to ensure that each and every employee behaves in a proper manner regarding legal conformity and social ethics. Specific recommendations on selected topics were further developed and made available to employees.

**INTEREST RATE RISKS** Südzucker Group is exposed to a limited extent to unexpected changes in interest rates on variable-rate or short-term financial obligations and investments. Exposure to these loans and investments fluctuates significantly over the course of the year because of campaign-related financing requirements. Long-term interest rate changes are of minor importance because of the company's low indebtedness.

**CURRENCY EXCHANGE RISKS** Financing-related currency exchange risks are mainly due to intragroup financing of subsidiaries in currencies other than the local currency. In Eastern Europe, Südzucker Group finances its subsidiaries through intragroup loans denominated in euro. US dollar financing also occurs in Chile and Mexico. To a lesser extent, parent companies also provide financing to subsidiaries in their differing national currency in the eurozone.

**LIQUIDITY RISKS** Südzucker is exposed to liquidity risk in that it may not be able to raise the necessary funds to fulfill a payment obligation in time or at all. Südzucker Group's liquidity is thus monitored daily. To the extent that they make sense economically, the company uses cash pools, both in Germany and internationally. Excess cash is also utilized throughout the group. Südzucker ensures that it has a balanced debt repayment scheme and reduces its financing risks by issuing long-term bonds and using bank credit lines. Risks resulting from cash flow fluctuations are detected and controlled at an

early stage as part of short, medium and long-term liquidity planning, which is an integral part of corporate planning. A commercial paper program and approved bank credit lines give Südzucker access to immediate and adequate liquidity to meet the seasonal financing requirements associated with sugar campaign production at any given time.

**CREDITWORTHINESS AND DEFAULT RISKS** There are also financial creditworthiness and default risks associated with financial institutions with which we have entered into hedging transactions, have deposited funds, have credit lines or that have provided guarantees on behalf of Südzucker. These risks increased due to the financial crisis and we limit them by conducting our financial business only with banks that have a high credit rating. Accordingly, we continuously monitor the creditworthiness of the financial institutions.

**RISK OF RATING DOWNGRADE** The rating agencies Moody's and Standard & Poor's assess Südzucker's creditworthiness. Südzucker feels obliged to maintain a stable investment grade rating. A downgrade in the assigned rating could negatively impact the group's cost of capital for future financing needs.

## Overall risk position

Material risks that could impact the future growth of Südzucker Group are particularly those arising from fluctuations in product and raw material prices, together with the risks associated with a change in the legal and political framework under the terms of which the company operates. The pressure of the world market price on the price of sugar in the European Union has increased for the sugar segment. This pressure will become even greater in future; the risk associated with fluctuations in EU sugar prices will thus also increase. The CropEnergies segment's result is tied primarily to the price of

raw materials – particularly wheat – and to bioethanol revenues. In phases of declining bioethanol prices with unchanged or increased grain prices, losses may be incurred when margins do not contribute enough to covering costs. When the variable costs are no longer covered, temporary production stoppage may become necessary. Because the markets for wheat and bioethanol are relatively independent of each other, forecasting result development is difficult. Nevertheless, it is not always practical or possible to hedge all price risks in advance, as this would reduce the future opportunities for positive price development. In addition, insufficient liquidity of price hedging instruments with longer terms limits their use.

The group's overall risk position remains unchanged compared to last year. Nevertheless, there are still no apparent risks that threaten the organization's continued existence.

## Opportunities

Rigorously pursuing a corporate strategy aimed at long term value-based growth also creates many opportunities for Südzucker Group. This section outlines opportunities with regard to business activities in the individual segments and divisions.

Südzucker is Europe's leading sugar producer. The company's special products (functional ingredients for food and animal feed, frozen products, portion packs and starch), CropEnergies and fruit (fruit preparations, fruit concentrates) segments have captured significant market shares in their target sectors.

As a result, Südzucker Group will continue to operate in what will remain strongly growing international markets that will drive demand for agricultural commodities, food, animal feed and energy even higher. Südzucker's European locations have advantageous natural geography with excellent soils, high yields and favorable weather conditions compared to other regions around the globe. The company enjoys a stable and reliable foundation for competing internationally as a result. The expanding global population and the trend toward high-quality foods should increase the market opportunities for Südzucker products, especially in countries with rising living standards. With its infrastructure for producing and marketing bioethanol in Europe, the group is in an outstanding position to benefit from the growing European market for fuel from renewable raw materials.

## SUGAR SEGMENT

Südzucker's competitive position in the European Union is excellent due to its concentration on the top beet growing regions in Europe and the company will be able to take advantage of the expiry of the quota regulations to strengthen its production and market position. Producing in the European core markets and being close to industrial customers is also a major advantage logistics-wise. Additional market opportunities may rise in the non-food market, such as in bio-based chemicals.

Additional opportunities will arise from exporting sugar outside the EU after 2017, when such exports will no longer be capped by export restrictions. After the expiry of quota regulations, there will be an opportunity to increase capacity utilization by extending the duration of the campaigns. Global sugar consumption is expected to increase by 2 % to 3 % per annum from the current more than 180 million tonnes to more than 200 million tonnes until 2025. This outlook supports the world market price for sugar. Still, in the near term other factors, espe-

cially weather conditions in the main growing regions for sugar cane and sugar beets, exchange rate fluctuations and financial investor positions will have a significant influence. This applies especially to the Brazilian real and the Brazilian government's ethanol policies, which can impact the world market price for sugar. The participation in ED & F Man will also give Südzucker additional opportunities to participate in market growth.

### SPECIAL PRODUCTS SEGMENT

Südzucker enjoys an excellent position in several growth markets due to the expansion of its special products segment.

**BENEO** The BENEO division is a key business unit of the special products segment, which will benefit from the long-term trend toward healthier dietary habits. BENEO is a leading international supplier of functional food ingredients for food and beverages and animal feed. It offers functional carbohydrate product lines – Isomalt, Palatinose™ – and the functional dietary fibers inulin and oligofructose. A clearly differentiated market offering is the special product line based on ingredients made from rice, which has hypoallergenic properties. The division aims to take advantage of current growth opportunities for the group by promoting its product lines for new applications.

**FREIBERGER** Freiburger Group uses its Europe-wide leading position as a supplier of customer-specific convenience products labeled as the private brands of international trading companies to tap the resulting growth potential. The group's European sales and distribution activities have been extended to cover the North American markets.

**PORTIONPACK EUROPE** As the European market leader, the company creates, produces and distributes portion-sized articles. The product range covers mainly the food sector, but a number of non-food articles are also available. The key markets are in food service sectors such as hotels, restaurants and bars and caterers. PortionPack is expanding its European market share by growing internally and externally, responding flexibly to customer demands and continuously working on product innovations.

**STARCH** The starch division focuses on high-value-added specialty products. Innovative, customer-oriented products with accompanying applications consultation, ongoing product development and continuous cost optimization are among the division's key objectives. Examples include the leading shares in organic starches and non-GMO starches for the food industry or the technical leadership for specialty starches in the paper, textiles, cosmetics, pharmaceuticals and construction sectors. Additional market opportunities for isoglucose and/or starch saccharification products can arise in the European sweetener market starting in 2017.

### CROPENERGIES SEGMENT

The segment's ongoing development and results are primarily driven by sales revenue growth for bioethanol, food, animal feed and the costs of the raw materials used.

Opportunities arise from lower grain prices and/or higher prices for bioethanol and the food and animal feed products produced in parallel. CropEnergies can to some extent avoid the volatility of the grain markets by using sugar syrups as a raw material. In addition, CropEnergies benefits by generating sales revenues from high quality foodstuffs and animal feed, which lowers net raw material costs and optimizes production process energy consumption.

In the medium term, CropEnergies expects that the agreements reached at the Paris Climate Summit will result in further growth, also for renewable energies in the transportation market. If not, the goals to limit the increase of the earth's temperature to 2 °C and cut the consumption of fossil fuels will be impossible to reach.

As one of Europe's leading bioethanol producers, with adequate plant flexibility and capacity, CropEnergies is well positioned to meet the associated increased demand. This is in part due to the successful restart of the production plant in Wilton in July 2016, which enables CropEnergies to now flexibly deploy the entire production capacity according to the market and contract situation.

Additional opportunities for CropEnergies could arise from a consolidation of the number of suppliers in the European bioethanol market, as CropEnergies enjoys competitive advantages based on its size, locations and technological leadership.

## FRUIT SEGMENT

The AGRANA fruit segment is the world market leader for fruit preparations for the dairy, ice cream and baked goods industries and the European market's largest producer of fruit juice concentrates from apples, red fruit and berries. Growth opportunities arise in countries with rising incomes, such as Russia, China and Brazil. A greater emphasis is also being placed on the American market, the regions of North Africa and the Middle East.

## Internal control and risk management system as it applies to accounting systems

**ESSENTIALS** Südzucker AG's accounting-related internal control system aims to ensure that its financial reporting and accounting practices comply with recognized standards, are reliable and effective, and that they truly reflect the company's assets, financial and earnings situation at all times. The system is embedded in the underlying business processes in all relevant legal entities and central departments and is continuously being enhanced. The main elements of the system are the principles, procedures and controls that ensure thorough and complete financial reporting; for example, consistent accounting, valuation and balance sheet procedures, processes and practices throughout the group.

**IFRS REPORTING GUIDELINE** Südzucker Group's accounting and valuation guidelines, including the accounting principles as per International Financial Reporting Standards (IFRS), ensure that the accounting and valuation systems used for all business transactions by the German and foreign subsidiaries included in Südzucker's consolidated financial statements are consistent throughout the group. Südzucker's internal IFRS Reporting Guideline ensures that IFRS is applied as applicable to Südzucker and explains accounting topics. The contents of the IFRS Reporting Guideline are prepared centrally and are regularly updated.

**INTERNAL AUDIT SYSTEM AS RELATES TO THE ACCOUNTING PROCESS** The group accounting process starts with the group's individual companies. Individual organizational entities prepare and check their financial statements and send them to Südzucker AG's central consolidation department by uploading the data to the consolidation system. Clearly structured authorization

rules are in place for all of the group's accounting-related IT systems.

Südzucker AG's central consolidation department is in charge of completing the overall consolidation and preparing the group management report and consolidated financial statements. It also oversees the group's binding standard chart of accounts and manages the IT consolidation tool.

External auditors are regularly appointed as part of the preparation of the financial statements for the valuation of provisions, primarily those for personnel.

Südzucker Group's internal monitoring system has two components: controls integrated into the processes and process-independent controls. There is a strong emphasis on the principle of segregation of duties and the principle of dual control, as well as compliance with guidelines and rules related to key business processes.

Automated validation rules and plausibility checks, especially in the IT-based consolidation system, ensure that the data entered by the individual companies is complete and correct.

Segregating the administrative, executive, accounting and approval functions and making different persons responsible greatly restricts the opportunities to engage in criminal activity. Nevertheless, it is impossible to fully exclude every eventuality, especially arbitrary personal decisions with negative ramifications, erroneous audits, criminal activities or other circumstances.

The monitoring steps taken to ensure proper and reliable accounting include, for example, analyzing business developments on the basis of specific key indicator analyses, as well as analyzing individual transactions in detail. At the group level, specific audit activities to ensure that the group accounting is being properly and reliably carried out include analyzing and, if

necessary, adjusting the individual group company financial statements, taking into consideration the external auditors' reports and/or the audit debriefings.

Before integrating newly acquired companies, their internal control systems are quickly adapted to meet Südzucker Group's high standards.

**INTERNAL AUDIT** The audit committee deals mainly with compliance, monitoring the accounting process and the annual audit of the financial statements. It also reviews and verifies the effectiveness of the internal control systems, the risk management process and the internal auditing process. The internal audit department audits the internal control system, compliance with legal requirements and internal corporate guidelines, as well as the risk management system. It makes recommendations and develops any necessary process changes accordingly, thereby contributing to continuous improvement of the internal control and risk management systems.

**EXTERNAL AUDIT** The external auditor checks that the early risk identification procedure integrated into the risk management system is entirely suitable for timely identification of existential risks. The auditor also reports to the supervisory board any material weaknesses found in the internal control and risk management system. During the audit of the closing financial statements, the auditor confirmed that Südzucker's early warning system is capable of timely detection of existential risks. The auditor has not encountered any material weaknesses in the internal accounting-related auditing system during its audit.

## Outlook

Given the expiry of quota and minimum beet price regulations for the EU sugar market effective 1 October 2017, the forecast is marked by considerable uncertainty.

We expect moderately rising revenues in fiscal year 2017/18. The wheat starch factory in Zeitz, which was started up halfway through last fiscal year, together with the sugar trading and export business taken over by our Raffinerie Tirlemontoise S.A., Brussels subsidiary and higher sugar volumes than last year will all contribute to revenue growth.

The trend in the sugar market is that the higher market prices observed since fall 2016 will generate higher average revenues. Improved capacity utilization that will generate economies of scale and continuing cost reduction measures lead us to expect a better, but not yet positive operating result.

Additional operating charges from the wheat starch plant, together with still lower discount rates for pension provisions, will negatively impact the result.

While the net interest result, which is based on favorable average interest rates, will continue to improve slightly, net income from investments is expected to remain unchanged.

Net income for the year is expected to be slightly higher than last year.



## Recommendation on appropriation of profits

The executive and supervisory boards will recommend a dividend of € 0.45 (0.30) per share to the annual general meeting on 20 Juli 2017. With dividend-bearing capital of € 204.2 (204.2) million, this represents a total dividend pay-out of € 91.9 (61.3) million. The dividend is scheduled to be paid on 25 Juli 2017.

## Concluding declaration regarding the dependent company report pursuant to section 312 (3) of the stock corporation act (AktG)

According to notice received from Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG (SZVG), Stuttgart, the entity holds a majority interest in our company through its own holdings of Südzucker shares and the shares it holds in trust for its associated shareholders. The report in this regard, based on article 312 of the German Stock Corporation Act, closes with the following declaration:

"For the legal transactions listed in the report regarding the relationship to SZVG, the association of Association of Süddeutsche Zuckerrübenanbauer e.V., Ochsenfurt, its regional associations and beet farmers, our company received appropriate compensation for every legal transaction in accordance with the conditions known at the time such transactions were undertaken. Measures subject to reporting as per article 312 of the AktG (German Stock Corporation Act) were neither undertaken nor neglected during the reporting year."

# FINANCIAL STATEMENTS

## Balance sheet as of 28 February 2017

### ASSETS

(€ '000)	Notes	28 February 2017	29 February 2016
Intangible assets		13,711	7,675
Property, plant and equipment		513,414	478,844
Financial assets		2,791,881	2,781,980
<b>Fixed assets</b>	1	<b>3,319,006</b>	<b>3,268,499</b>
Inventories	2	455,287	389,101
Receivables and other assets	3	965,209	694,468
Securities	4	171,206	209,200
Cash and cash equivalents		4,951	2,452
<b>Current assets</b>		<b>1,596,653</b>	<b>1,295,221</b>
<b>Accrued and deferred items</b>	5	<b>1,374</b>	<b>1,364</b>
		<b>4,917,033</b>	<b>4,565,084</b>

### LIABILITIES AND SHAREHOLDERS' EQUITY

(€ '000)	Notes	28 February 2017	29 February 2016
Subscribed capital		204,183	204,183
Capital reserve		1,620,579	1,620,579
Revenue reserves		262,778	259,278
Net earnings available for distribution		91,940	61,327
<b>Shareholders' equity</b>	6	<b>2,179,480</b>	<b>2,145,367</b>
<b>Special items with an equity portion</b>	7	<b>32,693</b>	<b>34,027</b>
Provisions for pensions and similar obligations	8	505,151	478,059
Other provisions	9	342,644	323,329
<b>Provisions</b>		<b>847,795</b>	<b>801,388</b>
<b>Liabilities</b>	10	<b>1,857,065</b>	<b>1,584,302</b>
<b>Accrued and deferred items</b>	10	<b>0</b>	<b>0</b>
		<b>4,917,033</b>	<b>4,565,084</b>

## Income statement

### 1 March 2014 to 28 February 2017

(€ '000)	Notes	1 March 2016-	1 March 2015-
		28 February 2017	29 February 2016
Revenues	12	1,278,610	1,170,847
Change in work in progress and finished goods and internal costs capitalized	13	54,734	-100,114
Other operating income	14	28,154	87,286
Cost of materials	15	-988,089	-804,254
Personnel expenses	16	-218,105	-196,064
Depreciation of intangible assets and fixed assets		-54,723	-51,458
Other operating expenses	17	-195,995	-215,951
Investment income/expense	18	209,956	214,692
Interest income/expense	19	-31,074	-36,118
Taxes on income	20	11,900	-1,339
<b>Profit after taxes/Net earnings for the year</b>		<b>95,368</b>	<b>67,527</b>
Profit brought forward from the previous year		72	100
Allocations to revenue reserves		-3,500	-6,300
<b>Net earnings available for distribution</b>		<b>91,940</b>	<b>61,327</b>

## Notes to the financial statements

### Application of German GAAP (HGB)

The financial statements of Südzucker AG (register court: district court of Mannheim HRB 0042) were prepared in accordance with the rules of the German Commercial Code (HGB) in the version of the Accounting Directive Implementation Act (BilRUG) as well as the Stock Corporation Act (AktG).

The income statement has been prepared using the nature of expense method. Certain items in the balance sheet and income statement have been combined in order to improve the clarity of presentation. These items are shown separately and described in the notes to the financial statements.

The financial statements have been prepared in euros. Unless otherwise indicated, all amounts are disclosed in thousands of euros (€ '000) or millions of euros (€ million). The previous year's numbers are generally put in parentheses in the notes.

### Accounting policies

Transactions in foreign currencies are recognized at the historical exchange rate at the time of initial recognition.

**Long-term foreign currency receivables** are recognized at the asking price when the claim arises or at the lower fair value on the basis of the average spot exchange rate on the financial reporting date (impairment principle). **Short-term foreign currency receivables** (remaining term of one year or less) and cash or other current assets denominated in foreign currencies are translated at the average spot exchange rate at the balance sheet date.

**Long-term foreign currency liabilities** are measured at the bid price when the liability arises or at the higher closing rate on the basis of the average spot exchange rate on the financial reporting date (impairment principle). **Short-term foreign currency liabilities** (remaining term of one year or less) are translated at the average spot exchange rate at the balance sheet date.

Exchange gains or losses from different average spot exchange rates between the transaction date and the balance sheet date are reported under other operating income or expense.

### Fixed assets

**Intangible assets and fixed assets** are measured at acquisition or production cost less depreciation and write-downs. In addition to the wear and tear of the fixed assets, production costs for internally-constructed equipment also include the production material, labor costs, and appropriate components of the overheads required.

Items subject to depreciation according to requirements of German commercial law are depreciated using the declining-balance or straight-line method.

Intangible assets are depreciated using the straight-line method.

The useful life of goodwill was determined by the economically expected useful life and is based in particular on the useful life gained through the acquisition of 'know-how' (employees, processes, etc.).

Fixed assets acquired on or after 1 January 2001 were offset at a rate of maximum 20 percent when depreciated using the declining-balance method. Fixed assets acquired on or after 1 January 2006 to 31 December 2007 were offset pursuant to tax provisions at a rate of maximum 30 percent when depreciated using the declining-balance method.

Fixed assets acquired after 31 December 2008 were offset at a rate of maximum 25 percent when depreciated using the declining-balance method. The transition from the declining-balance to the straight-line method takes place at the date at which the remaining carrying amount distributed in equal annual amounts over the remaining useful life leads to higher depreciation rates.

The straight-line method was used exclusively for fixed assets acquired or produced on or after 1 March 2010. Südzucker AG exercises the option of using the reduced carrying amount (Beibehaltungswahlrecht) pursuant to note 67 (4) sentence 1 of the Introductory Act to the German Commercial Code (EGHGB).

Independently usable movable items of fixed assets subject to depreciation are fully depreciated in the year of initial recognition if their acquisition or production costs do not exceed € 150. Depreciable movable assets under fixed assets acquired or produced after 31 December 2007 whose acquisition or production costs are greater than € 150 but do not exceed € 1,000 were combined into compound items. Compound items are depreciated at the same rate over a period of five years.

Depreciation of fixed assets and of intangible assets is based on the following useful lives:

Intangible assets	2 to 9 years
Goodwill	10 years
Buildings	10 to 50 years
Technical equipment and machinery	5 to 15 years
Factory and office equipment	3 to 10 years

**Shares in affiliated companies and the participations** are measured at acquisition cost or the lower fair value. Borrowings are recognized at their nominal amount.

**Long-term financial investments** are measured at acquisition cost, if applicable, less depreciation of the respective lower fair value at the end of the financial year.

Lower fair values of fixed assets are accounted for with write-downs if continued impairment is expected. Write-downs are reversed if the reasons for the write-downs no longer exist.

## Current assets

**Materials and other supplies** are measured according to the principles of valuation on a separate or standard value basis at acquisition costs with due respect for the lower-of-cost-or-market principle. Merchandise is measured at acquisition cost with due respect for the lower-of-cost-or-market principle. Appropriate valuation reductions are made each time realizability is limited.

**Finished goods and work in progress** are measured in accordance with notes 253 to 256 HGB at production costs or at the recoverable net proceeds derived from the sale price with due respect for the principle of loss-free evaluation. The FIFO method is used in the measurement of finished goods. Valuation reductions are made if inventory risk arises from extended storage duration or reduced realizability.

The depreciation of the fixed assets in use (wear and tear), the directly attributable material and production costs and the appropriate components of the necessary material and production overheads are considered when determining production costs for sugar. Interest expense is not included.

**Short-term financial investments** are reported at acquisition cost, less depreciation of the respective lower quoted or market price at the end of the financial year.

**Receivables and other assets** are measured either at nominal value with due respect for the lower-of-cost-or-market principle or at discounted value. Individual allowances are made in the estimated amount of default risk for doubtful receivables. General credit risk is accounted for with general allowances.

CO<sub>2</sub> emission certificates allocated free of charge are capitalized with an acquisition value of zero; certificates acquired for a fee are recognized at their acquisition cost. Provisions are recognized in the amount of the acquisition cost for the certificates if CO<sub>2</sub> emissions exceed the allocated certificates.

**Cash and cash equivalents** are recognized at their nominal value.

## Prepaid expenses

Expenses paid prior to the balance sheet date are classified as an asset and recorded as prepaid expenses insofar as they represent expenses for a particular period after the reporting date.

## Subscribed capital

Subscribed capital is recognized at nominal value.

The book value of the treasury stock acquired is deducted on the face of the balance sheet from the item “subscribed capital” in the preceding column. The difference between the book value and the acquisition costs for the treasury shares is offset against the available retained earnings. Acquisition-related costs are recognized as an expense for the fiscal year.

## Special untaxed reserves

Special untaxed reserves for differences from increased depreciation permissible according to tax law and special depreciation as well as regular depreciation on a straight-line or declining balance basis were recognized until 28 February 2010.

Südzucker AG exercises the option of using the reduced carrying amount (continuation option) pursuant to note 67 (3) s. 1 of the Introductory Act to the German Commercial Code (EGHGB).

## Provisions

Provisions for **pensions and similar obligations** are determined on the basis of biometric probabilities (Heubeck 2005 G actuarial tables) using the projected unit credit method. The wage and pension inflation parameters were adjusted as follows on the basis of current wage and pension inflation and medium-term projections: The future salary and income threshold increase rates were as in the previous year set at 2.50 (2.50) percent, of an income threshold trend (“Beitragsbemessungsgrenze”) of 2.50 (2.50) percent, the future pension increase rate at 1.50 (1.50) percent and the average employee turnover rate at 1.0 (1.0) percent. An actuarial interest rate of 3.97 (4.27) percent was used as a basis for the discount rate for pension obligations as at 28 February 2017.

This corresponds to the average market interest rate from the past ten financial years determined by Deutsche Bundesbank for an assumed time to maturity of 15 years. Changes to the discount rate that affect net income and fair value changes to fund assets are shown in the financial results. The asset value of the liability insurance is recognized for reinsured obligations from deferred compensation.

Provisions for pensions and similar obligations are offset with existing fund assets (pension liability) which were recognized at fair value. The fair value of fund assets is the actuarial asset value of the liability insurance, which corresponds to the historic acquisition costs.

For the measurement of **provisions for partial retirement** (“Altersteilzeit”), increases are treated as “payments with compensation character” according to the rules outlined in the latest applicable version of IDW RS HFA 3. The discount rate for provisions for part-time early retirement credits is 1.90 (2.43) % and 3.16 (3.77) % for anniversary claims. The salary trend corresponds to that of the provisions for pensions and similar obligations.

Other provisions are recognized for **uncertain liabilities and imminent losses** from pending business transactions. Provisions are also recognized for maintenance expenses that have been put off and are made up for within three months in the following financial year. Other provisions are measured in the

amount of the settlement value required according to reasonable commercial assessment that also includes price and cost increases. Provisions with a remaining term of more than one year are discounted using the market interest rate corresponding to their remaining term.

## Liabilities

All liabilities are reported using their settlement value.

## Deferred tax

Deferred tax is measured for temporary differences between legal commercial and tax valuations of assets, liabilities and accrued and deferred items. Interest carry forwards and tax loss carry forwards are also considered in addition to temporary accounting differences.

Deferred tax is calculated on the basis of the combined income tax rate of 29.1 percent currently applicable for the Südzucker AG tax group. The combined income tax rate comprises the German corporate income tax (Körperschaftsteuer), the trade tax on income (Gewerbesteuer) and the solidarity tax (Solidaritätszuschlag).

If applicable, a resulting tax burden is recognized in the balance sheet as a deferred tax liability. If deferred tax assets are greater than deferred tax liabilities the option of not recognizing any deferred tax assets is exercised. In the financial year under review deferred tax assets were greater and thus not recognized.

## Research and development expenses

The option of capitalizing development expenses is not exercised.

Research expenses are recognized directly in the income statement as expenses that cannot be capitalized.

## Creation of valuation units for hedging instruments

Accounting for valuation units is based on the principle that comparable risks from a hedged item are offset economically by opposite changes in value or cash flows from a hedge. Unrealized gains and losses are therefore not considered in the scope and for the period in which opposite changes or cash flows from a hedged item and hedge offset each other.

Hedging instruments are considered a valuation unit with the hedged item if the requirement for the creation of valuation units is met. When disclosing the market values the amount is applied which would flow to or from Südzucker AG assuming the hedge were reversed at the balance sheet date. As hedge transactions only comprise normal market tradable financial instruments, the market value is derived from quoted prices on exchanges without offsetting any possible value changes relating to the underlying transaction being hedged.

Net unrealized losses are recognized as an expense provision for valuation units if changes in the value of the hedged item and hedging instrument relating to the hedged risk result from offsetting.

As a general rule, the effective portions of the valuation units are accounted for using the net hedge presentation method (Einfrierungsmethode). The gross hedge presentation method (Durchbuchungsmethode) is used for hedging of commercial transactions.

## Notes to the balance sheet

### (1) Fixed assets/Intangible assets

(€ '000)	Concessions, industrial pro- perty rights, licences	Goodwill	Intangible assets
<b>Acquisition or production cost</b>			
As of 1 March 2016	111,413	0	111,413
Addition	4,633	4,300	8,933
Disposal	-308	0	-308
Transfer	1,177	0	1,177
As of 28 February 2017	116,915	4,300	121,215
<b>Accumulated depreciation</b>			
As of 1 March 2016	103,738	0	103,738
Annual depreciation	3,889	179	4,068
Disposal	-302	0	-302
As of 28 February 2017	107,325	179	107,504
<b>Net book value</b>			
29 February 2016	0	7,675	7,675
28 February 2017	9,590	4,121	13,711

**Goodwill** was acquired in the financial year through the acquisition of sugar, trading and export activities from the subsidiary Raffinerie Tirlemontoise S.A., Brussels.

## Property, plant and equipment

(€ '000)	Land and buildings	Technical equipment and machinery	Other plant, factory and office equipment	Advances paid and construction in progress	Property, plant and equipment
<b>Acquisition or production cost</b>					
As of 1 March 2016	434,439	1,218,580	124,205	82,836	1,860,060
Addition	12,247	51,727	7,937	16,122	88,033
Disposal	-1,401	-6,122	-6,953	0	-14,476
Transfer	4,708	77,250	793	-83,928	-1,177
As of 28 February 2017	449,993	1,341,435	125,982	15,030	1,932,440
<b>Accumulated depreciation</b>					
As of 1 March 2016	236,934	1,052,916	91,366	0	1,381,216
Annual depreciation	9,770	32,137	8,748	0	50,655
Disposal	-711	-5,575	-6,559	0	-12,845
Transfer					0
As of 28 February 2017	245,993	1,079,478	93,555	0	1,419,026
<b>Net book value</b>					
29 February 2016	197,505	165,664	32,839	82,836	478,844
28 February 2017	204,000	261,957	32,427	15,030	513,414

## Financial assets

(€ '000)	Shares in affiliated companies	Participations	Other loans	Financial assets
<b>Acquisition or production cost</b>				
As of 1 March 2016	3,567,200	80	667	3,567,947
Addition	10,000	0	261	10,261
Disposal	0	0	-360	-360
Transfer	0	0	0	0
As of 28 February 2017	3,577,200	80	568	3,577,848
<b>Accumulated depreciation</b>				
As of 1 March 2016	785,967	0	0	785,967
As of 28 February 2017	785,967	0	0	785,967
<b>Net book value</b>				
29 February 2016	2,781,233	80	667	2,781,980
28 February 2017	2,791,233	80	568	2,791,881

The addition in the **shares in affiliated companies** relates to a capital increase at Südzucker Verwaltungs GmbH, Mannheim, to purchase Terra e.G., Sömmerda.

**(2) Inventories**

(€ '000)	28 February 2017	29 February 2016
Raw materials and supplies	51,809	43,887
Work in progress	116,700	94,398
Finished goods, merchandise	286,778	250,816
	<b>455,287</b>	<b>389,101</b>

The decline in **finished goods** as at 28 February 2017 is largely attributable to lower production costs than in the previous year. Some finished goods had to be written down due to unexpected lower sales proceeds.

**(3) Receivables and other assets**

(€ '000)	28 February 2017	29 February 2016
Trade receivables	99,497	65,327
<i>thereof with remaining term of more than one ye.</i>	<i>274</i>	<i>1,055</i>
Receivables owed by affiliated companies	804,763	565,142
<i>thereof with remaining term of more than one ye.</i>	<i>141,713</i>	<i>160,405</i>
Receivables owed by companies in which participations are held	81	164
Other assets	60,868	63,835
	<b>965,209</b>	<b>694,468</b>

Individual impairments of €'000 10,656 (10,521) have been made for **trade receivables** totalling €'000 99,497 (65,327).

**Receivables from affiliated companies** comprise financial receivables from group loans in the amount of €'000 280,175 (212,005), trade receivables of €'000 53,288 (78,700) and other receivables in the amount of €'000 471,300 (274,437), which relate to short-term group financing of subsidiaries (Cash-Pool) of subsidiaries.

**Other assets** totalling €'000 60,868 (63,835) at the effective date included receivables in the amount of €'000 0 (23,028) from the reimbursement of production levies from previous years. Also recognized here are the VAT receivables and energy tax reimbursement claims. Positive market values from sugar derivatives of €'000 20,695 (755) resulted from the centralized export activities.

**(4) Securities**

(€ '000)	28 February 2017	29 February 2016
Shares in affiliated companies	16,200	56,700
Other securities	155,006	152,500
	<b>171,206</b>	<b>209,200</b>

**Shares in affiliated companies** include the shares of AGRANA Beteiligungs AG, Vienna, Austria. The decline is attributable to the placement of 500 thousand shares of AGRANA Beteiligungs-AG, Vienna/Austria, from Südzucker direct holdings as part of a capital increase of the company.

**(5) Accrued and deferred items**

This item primarily includes accrued interest expense.

**(6) Shareholders' equity****Changes in equity**

(€ '000)	1 March 2016	Divided for 2015/16	Net earnings for the year	28 February 2017
Subscribed capital	204,183			204,183
Capital reserve	1,620,579			1,620,579
Revenue reserves	259,278		3,500	262,778
Net earnings available for distrib	61,327	61,255	91,868	91,940
	<b>2,145,367</b>	<b>61,255</b>	<b>95,368</b>	<b>2,179,480</b>

As of 28 February 2017, the **subscribed capital** is valued at € 204,183,292 and consists of 204,183,292 bearer shares; this exclusively concerns no-par value ordinary shares, each of which represents a notional holding of € 1 per share. The company had no treasury shares as of the period end.

As at 28 February 2017, the freely available reserves plus profit carried forward exceed the total amount of the amounts subject to a distribution restriction. Thus there is no distribution restriction in relation to the net earnings of the financial year. Südzucker AG did not exercise any accounting options that trigger a distribution restriction. Südzucker AG did not exercise any accounting options that trigger a distribution restriction.

**(7) Special items with an equity portion**

Special untaxed reserves included only impairment losses for tax purposes.

**(8) Provisions for pensions and similar obligations**

Current obligations for pensions and benefits are reported under provisions for pensions and similar obligations. The amount required to fund provisions for pensions and similar obligations in the amount of €'000 507,615 (480,725) is offset against the pension fund assets (funding sources) in the amount of €'000 2,464 (2,666). The fair value of fund assets is the actuarial asset value of insurance policies, which corresponds to the historic acquisition costs.

The difference between the recognized provisions in accordance with the corresponding average market interest rate derived from the previous ten financial years and the recognized provisions in accordance with the corresponding average market interest rate from the previous seven financial years pursuant to section 253 (6) HGB is €'000 63,307.

**(9) Other provisions**

(€ '000)	28 February 2017	29 February 2016
Tax provisions	89,519	99,565
Other provisions	253,125	223,764
	<b>342,644</b>	<b>323,329</b>

**Tax provisions** include additions from income tax expenses for periods not yet completed for tax audit purposes. Reimbursements and accrual reversals mitigated these charges. Overall, the tax expenses relating to other periods totaled € 1.3 million.

**Other provisions** comprise obligations for personnel expenses, expenses for exporting beet soil and recultivation of sludge lagoons and/or earth-moving operations for soil preparation and improvement, risks arising from the EU sugar market regulation, antitrust risks (fines and claims for damages), litigation risks and risk precautions.

Provisions were also recognized for maintenance expenses that were put off in the financial year under review and will be made up for within three months of the following financial year.

The provision for part-time early retirement was recognized for such agreements already concluded prior to and those already committed as of the balance sheet date. It includes top-up contributions and accumulated settlement amounts accrued up to the balance sheet date.

## (10) Liabilities

(€ '000)	28 February 2017			29 February 2016		
	Total	< 1 year	> 1 year	Total	< 1 year	> 1 year
Bonds and debt securities	0	0	0	124,981	124,981	0
Liabilities to banks	208,648	61,822	146,826	188,778	17,130	171,648
Trade payables	254,375	254,375	0	200,740	200,740	0
Liabilities to affiliated companies	1,283,958	247,158	1,036,800	959,763	289,213	670,550
<i>thereof trade payables</i>	<i>18,266</i>	<i>18,266</i>	<i>0</i>	<i>9,846</i>	<i>9,846</i>	<i>0</i>
Liabilities to companies with which there is a participating interest	0	0	0	3,910	3,910	0
Other liabilities	110,084	110,084	0	106,130	106,130	0
<i>thereof for taxes</i>	<i>5,357</i>	<i>5,357</i>	<i>0</i>	<i>3,942</i>	<i>3,942</i>	<i>0</i>
<i>thereof for social security</i>	<i>8,452</i>	<i>8,452</i>	<i>0</i>	<i>8,683</i>	<i>8,683</i>	<i>0</i>
	<b>1,857,065</b>	<b>673,439</b>	<b>1,183,626</b>	<b>1,584,302</b>	<b>742,104</b>	<b>842,198</b>

As at 29 February 2016, the item “**Bonds and debt securities**” included short-term commercial paper for group financing; this is no longer included as at 28 February 2017 due to the higher refinancing via SZ Finance.

**Liabilities to banks** amount to €'000 208,648 (188,778), of which €'000 (64,385) have a remaining term of over five years.

Obligations to beet growers of €'000 205,252 (160,167) are reported under **trade payables**.

**Liabilities to affiliated companies** totalling €'000 1,283,958 (959,763) primarily concern borrowing from bonds issued through Südzucker International Finance B.V., Oud-Beijerland / Netherlands.

**Other liabilities** primarily include liabilities to insurance institutions, tax liabilities and liabilities from payroll accounting.

All liabilities are unsecured.

#### (11) **Contingent liabilities, other financial commitments and derivative financial instruments**

Of the future liabilities from lease agreements for IT systems, warehouses and factory and office equipment as well as from company lease agreements, € 9.5 (2.4) million is due within one year, € 37.0 (0.0) million in more than one year – with € 12.8 (0.0) million due in more than five years; € 0.5 (0.5) million relates to affiliated companies and is due within one year. The increase in liabilities from lease agreements was largely due to the extension of existing and the signing of new lease agreements as part of the improvement to the logistics structure and the expansion of export business. Other financial commitments from open orders totaled € 11.9 (40.6) million as of the balance sheet date.

For bonds issued by Südzucker Finance B.V. in favor of the creditors, Südzucker AG issued guarantees totaling € 400.0 million (€ 400.0 million) and, in the case of the subordinate hybrid bond, a subordinated guarantee totaling € 700.0 million (€ 700.0 million). A further guarantee was issued in favor of the creditors of BENEIO Orafti Chile S.A. for a maximum credit line of USD 25.0 (25.0) million; as of the balance sheet date the company had accessed USD 9.9 (24.2) million from the credit line. Due to the financial situation of the companies, utilization of the guarantees issued is not currently anticipated.

Südzucker AG is jointly and severally liable for credit taken out by Rackwitzer Biogas GmbH in the (original) amount of € 10 million. Utilization is unlikely due to the financial situation of Rackwitzer Biogas GmbH.

Besides the other financial commitments and contingent liabilities presented, there are no off-balance-sheet transactions that would be of importance for the financial position of the company.

For a loan in the amount of GBP 12.5 million to a subsidiary, Südzucker AG entered into a currency swap to hedge the currency risk associated with interest payments and loan repayment. The hedged item (loan granted in a foreign currency) and the hedging instrument (cross currency swap) are considered a micro-hedge because together they meet the requirements for hedging a single asset. Accordingly, no depreciation of the GBP receivable is taken due to currency fluctuations and no provision is recognized in the event of a negative market value of the hedging instrument. On the balance sheet date, the cross currency swap had a negative market value of € 2.9 (0.6) million. The maturity dates of the hedging instrument are 21 October 2016 and 27 March 2019.

Price guarantees were concluded for sugar sales contracts with world market price-based price determination using sugar futures contracts and forex forwards. The hedged item (sugar sales contracts) and the hedging instruments (sugar futures and forex forwards) are considered a single valuation unit (micro hedge) because the requirements for the creation of valuation units are met. Accordingly, no provision is recognized in the case of a negative market value for the hedging instruments (net hedge presentation method).

World market price-based purchase and sales contracts are concluded for the sugar commercial transaction; their net position is hedged with regard to price using sugar futures. The hedged item (sugar commercial transaction) and the hedging instrument (sugar futures) are considered a single valuation unit (portfolio hedge) because the requirements for the creation of valuation units are met. The positive market value of the hedged item and the hedging instrument are recognized accordingly (gross hedge presentation method).

As at 28 February 2017, open sugar futures were concluded with a sugar equivalent of approximately 673 thousand tonnes for price hedging of the 2016 and 2017 campaign. The positive market value amounts to € +26.5 (+0.3) million; the negative market value is € -17.1 (0.0) million. Positive and negative market values of € +1.7 (0.0) and € -14.8 (0.0) million, respectively, exist for the associated forex forwards.

Südzucker uses longer-term supply contracts and derivative hedging instruments (wheat futures) to hedge raw material prices for the wheat starch plant in Zeitz. Considered here are the future demand for raw materials or the corresponding framework contracts as the hedged item together with the hedging instruments as the valuation unit (micro hedge) because the requirements for the creation of valuation units are met. Accordingly, no provision is recognized in the case of a negative market value for the hedging instruments (Einfrierungsmethode). As at 28 February 2017, open wheat futures were concluded with a volume of approximately 83 thousand tonnes of wheat for deliveries in the 2017/18 financial year and the market value totaled € +0.2 (+0.0) million.

The compliance of these parameters is reviewed prospectively, and the effectiveness of the hedge is assessed regularly as part of the risk management system. The effectiveness test determined that the significant value-determining parameters (critical terms) such as nominal amounts, currency, beginning, maturity, etc. of the hedged item and hedge are compliant in each case, which is why it can be assumed that the opposite cash flows will completely offset each other in the future.

## Notes to the income statement

### (12) Sales

(€ '000)	2016/17	2015/16
<b>Classification according to activities</b>		
Own production	943,416	932,325
<i>thereof sugar</i>	<i>780,054</i>	<i>798,835</i>
<i>thereof other revenue</i>	<i>163,362</i>	<i>133,490</i>
Revenues from services	161,496	98,166
Merchandise revenue	173,698	140,356
<i>thereof sugar</i>	<i>86,681</i>	<i>102,851</i>
<i>thereof by products</i>	<i>39,290</i>	<i>37,505</i>
	<b>1,278,610</b>	<b>1,170,847</b>
<b>Classification according to geographical markets</b>		
Germany	784,960	753,799
EU	420,986	404,878
Others	72,664	12,170
	<b>1,278,610</b>	<b>1,170,847</b>

Due to the new version of section 277 (1) HGB in the version of BilRUG (HGB new version), the prior year figures for revenues are not comparable with the year under review because no adjustment is made to the prior year revenues. The application of section 277 (1) HGB (new version) for the previous year would have resulted in revenues of €'000 1,214,324.

Starting with the 2016 financial year, income from scrap sales in the amount of €'000 334 (254), income from the sale of pallets in the amount of €'000 56 (62), income from renting and leasing in the amount of €'000 2,371 (2,597), income from group allocations in the amount of €'000 33,872 (40,111) and income from canteens and vending machines in the amount of €'000 498 (453) that in previous years was recognized under other operating income will now be recognized under revenues.

### (13) Change in work in progress and finished goods inventories and internal costs capitalized

(€ '000)	2016/17	2015/16
Change in finished goods and work in progress	50,605	-103,600
Internal costs capitalized	4,129	3,486
	<b>54,734</b>	<b>-100,114</b>

### (14) Other operating income

Due to the change in recognition of revenues in accordance with section 277 (1) HGB in the version of BilRUG (HGB new version), income that was previously recognized under operating income will now be qualified as revenues. The prior year figures for revenues are therefore not comparable with the year under review because no adjustment is made to the prior year revenues. If application had been the same in the previous year, other operating income would have been lower by €'000 43,477, from €'000 87,286 to €'000 43,809.

Other operating income includes income from prior periods totalling €'000 4,302 (20,075), which largely resulted from accounting profits and the reversal of provisions. Also included is income from currency translation totalling €'000 118 (134).

Other operating income included income from the release of special untaxed reserves in the amount of €'000 1,334 (1,351) and income from the reversal of deferred items totalling €'000 0 (11,890).

#### (15) Cost of materials

(€ '000)	2016/17	2015/16
Cost of raw materials and consumables and merchandise	845,758	693,491
Cost of purchased services	142,331	110,763
	<b>988,089</b>	<b>804,254</b>

The change in recognition of revenues in accordance with section 277 (1) HGB in the version of BilRUG (HGB new version) requires a reclassification of other operating expenses associated with sales revenues into "cost of purchased services". The prior year figures for cost of purchased services are therefore not comparable with the year under review because no adjustment is made to the prior year expenses. If application had been the same in the previous year, this would have resulted in a cost of materials of €'000 810,416.

#### (16) Personnel expenses

(€ '000)	2016/17	2015/16
Wages and salaries	155,693	149,061
Social contributions and expenses for retirement and other benefits	62,412	47,003
<i>thereof retirement benefits</i>	35,477	20,747
- Service cost	8,746	8,710
- Parameter adjustments, among others	26,731	12,037
	<b>218,105</b>	<b>196,064</b>

#### Average number of employees during the year

Industrial employees	1,201	1,148
Salaried employees	1,102	1,099
Apprentices	198	199
	<b>2,501</b>	<b>2,446</b>

#### (17) Other operating expenses

The change in recognition of revenues in accordance with section 277 (1) HGB in the version of BilRUG (HGB new version) requires a reclassification of other operating expenses associated with sales revenues into "cost of purchased services". The prior year figures for other operating expenses are therefore not comparable with the year under review because no adjustment is made to the prior year expenses. If application had been the same in the previous year, other operating expenses would have been lower by €'000 6,162, from €'000 215,951 to €'000 195,789.

Other operating expenses include expenses from prior periods totalling €'000 900 (255). Also included are expenses from currency translation totalling €'000 3,705 (175).

Other taxes in the amount of €'000 866 (748) shown under a separate item the annual report for the previous year are recognized under other operating expenses.

#### (18) Investment income/expense

(€ '000)	2016/17	2015/16
Income from profit transfer agreements	170,790	185,890
Income from investments	39,188	28,803
<i>thereof from affiliated companies</i>	<i>39,188</i>	<i>28,304</i>
<i>thereof from other investments</i>	<i>0</i>	<i>499</i>
Expenses from transfer of losses	-22	-1
	<b>209,956</b>	<b>214,692</b>

#### (19) Interest income/expense

(€ '000)	2016/17	2015/16
Expenses / Income from other long-term financial investments and loans	2,575	-2,495
Other interest and similar income	16,349	14,090
<i>thereof from affiliated companies</i>	<i>7,645</i>	<i>12,664</i>
Interest and similar expenses	-49,998	-47,713
<i>thereof from discounting</i>	<i>-20,632</i>	<i>-21,124</i>
<i>thereof from affiliated companies</i>	<i>-25,082</i>	<i>-21,996</i>
	<b>-31,074</b>	<b>-36,118</b>

Expense from the unwinding of the discount for long-term obligations totaling €'000 20,632 (21,124) is recognized in the interest result in the year under review. This primarily results from the unwinding of the discount for provisions for pensions and similar obligations totaling €'000 19,940 (20,209) and/or non-current provisions for personnel expenses and liabilities totaling €'000 692 (915), which are netted against income from the fair value measurement of plan assets of €'000 2,464 (2,666).

#### (20) Taxes on income

Taxes on income comprise tax expense from the current financial year and tax income from previous years.

Deferred tax assets of € 145.4 million result primarily from higher valuations in the commercial balance sheet for provisions for pensions, part-time early retirement and anniversaries and other provisions along with loss carryforwards for German corporate income tax (Körperschaftsteuer) and the trade tax on income (Gewerbesteuer) in comparison to the tax balance sheet.

This compares with deferred tax liabilities of € 19.5 million. They primarily result from higher valuations of financial assets in the commercial balance sheet compared to the tax balance sheet.

In total deferred tax assets exceeded deferred tax liabilities; deferred tax assets were not recognized.

In determining deferred taxes a theoretical tax rate of 29 % is assumed. The reported tax income in the amount of € 11.9 million comes from the reversal of tax provisions. The effective tax rate for the 2016/17 financial year is 20 %. Differences between the theoretical tax rate and the effective tax rate largely result from tax reductions from tax-free income and non-deductible operating expenses.

## Other disclosures

### (21) Research and development expenses

Research and development expenses totalled €'000 20,245 (20,345) and were completely recognized in the income statement.

### (22) Total compensation of the executive board and supervisory board and former executive board and supervisory board members

The total compensation granted to members of the executive board by Südzucker AG in the 2016/17 financial year amounted to € 2.2 million (€ 2.9 million). The variable component makes up 31 percent (36 percent) of their remuneration in cash, and depends on the dividend to be approved by the annual general meeting. Provisions for pensions of € 27.3 million (€ 27.4 million) relate to former members of Südzucker AG's executive board and their dependents. Pension payments to former members of Südzucker AG's executive board and their dependents amounted to € 3.5 million (€ 2.7 million). Total remuneration paid to Südzucker AG's supervisory board for all activities was € 1.6 million (€ 1.2 million) in the 2016/17 financial year. The remuneration systems for the executive board and supervisory board are discussed under "Remuneration" in the Südzucker group management report.

### (23) Disclosures pursuant to section 160 (1) No. 8 AktG

There are no security transactions subject to disclosure for the 2016/17 financial year.

### (24) Events after the balance sheet

There were no significant changes to the economic environment or to the situation in our industry after the close of the fiscal year. There are also no other special events for Südzucker AG that would require reporting.

**(25) Consolidated financial statement**

As the parent company of Südzucker Group, Südzucker AG has prepared consolidated financial statements as at 28 February 2017 according to the International Financial Reporting Standards (IFRS) as adopted by the EU. These are provided to the operator of the German Federal Gazette (Bundesanzeiger) for publication.

**(26) Shareholdings**

Both equity and the annual results of German participations are disclosed uniformly according to the German Commercial Code (HGB). If a profit and loss transfer agreement exists with the relevant participation, the annual results are disclosed as zero. The list of shareholdings is found on pages 1 ff in these notes to the financial statements. Disclosures are presented in compliance with section 313 (2) and section 285 No. 11 HGB.

**(27) Supervisory board and executive board****SUPERVISORY BOARD****Dr. Hans-Jörg Gebhard, Eppingen****Chairman**

Chairman of the executive board of Verband Süddeutscher Zuckerrübenanbauer e. V.

*Memberships in other domestic, statutory supervisory boards*

- CropEnergies AG, Mannheim
- GoodMills Deutschland GmbH, Hamburg

*Memberships in comparable German and foreign supervisory committees*

- AGRANA Beteiligungs-AG, Vienna, Austria
- AGRANA Zucker, Stärke und Frucht Holding AG, Vienna, Austria (2. Deputy Chairman)
- Freiburger Holding GmbH, Berlin
- Raffinerie Tirlemontoise S.A., Brussels, Belgium
- Saint Louis Sucre S.A.S., Paris, France
- Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG, Stuttgart (Chairman)
- Vereinigte Hagelversicherung VVaG, Gießen
- Z & S Zucker und Stärke Holding AG, Vienna, Austria

**Franz-Josef Möllenberg\*, Rellingen****1. Deputy Chairman**

Former Chairman of Gewerkschaft Nahrung-Genuss-Gaststätten

*Memberships in other domestic, statutory supervisory boards*

- CropEnergies AG, Mannheim

**Erwin Hameseder, Mühldorf, Austria****2. Deputy Chairman**

Chairman of Raiffeisen-Holding Niederösterreich-Wien reg.Gen.m.b.H.

*Memberships in comparable German and foreign supervisory committees*

- Flughafen Wien AG, Vienna, Austria (1. Deputy Chairman)
- RWA Raiffeisen Ware Austria AG, Vienna, Austria
- RWA Raiffeisen Ware Austria Handel und Vermögensverwaltung eGen, Vienna, Austria

- UNIQA Versicherungen AG, Vienna, Austria (2. Deputy Chairman)

*Group-mandates*

- AGRANA Beteiligungs-AG, Vienna, Austria (Chairman)
- AGRANA Zucker, Stärke und Frucht Holding AG, Vienna, Austria (1. Deputy Chairman)
- Leipnik-Lundenburger Invest Beteiligungs-AG, Vienna, Austria
- Mediaprint Zeitungs- und Zeitschriften GmbH & Co. KG, Vienna, Austria (Chairman)
- Raiffeisen Bank International AG, Vienna, Austria (1. Deputy Chairman)
- Raiffeisen Zentralbank Österreich AG, Vienna, Austria (Chairman)
- Raiffeisenlandesbank Niederösterreich-Wien AG, Vienna, Austria (Chairman)
- STRABAG SE, Villach, Austria (Deputy Chairman)
- Z & S Zucker und Stärke Holding AG, Vienna, Austria (Chairman)

**Dr. Jochen Fenner, Gelchsheim**

Chairman of the executive board of Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG and Chairman of the executive board of Verband Fränkischer Zuckerrübenbauer e.V.

*Memberships in comparable German and foreign supervisory committees*

- AGRANA Beteiligungs-AG, Vienna, Austria
- AGRANA Zucker, Stärke und Frucht Holding AG, Vienna, Austria
- Z & S Zucker und Stärke Holding AG, Vienna, Austria

\* Arbeitnehmervertreter

**Helmut Friedl, Egling a. d. Paar**

Chairman of the executive board of Verband bayerischer Zuckerrübenanbauer e. V.

*Memberships in comparable German and foreign supervisory committees*

- BMG Donau–Lech eG, Mering

**Yüksel Gediagac\*, Berlin**

Chairman of the central works council of Freiberger Lebensmittel GmbH & Co. Produktions- und Vertriebs KG

**Veronika Haslinger, Vienna, Austria**

Managing director of Raiffeisen–Holding Niederösterreich–Wien reg.Gen.m.b.H.

*Memberships in comparable German and foreign supervisory committees*

- Süddeutsche Zuckerrübenverwertungs–Genossenschaft eG, Stuttgart

*Group–mandates of Raiffeisen–Holding Niederösterreich–Wien reg.Gen.m.b.H.*

- KURIER Beteiligungs–Aktiengesellschaft, Vienna, Austria (Chairman)
- Mediaprint Zeitungs– und Zeitschriftenverlag Gesellschaft m.b.H., Vienna, Austria
- NÖM AG, Baden, Austria
- Österreichische Rundfunksender GmbH, Vienna, Austria
- Raiffeisen Informatik GmbH, Vienna, Austria

**Ralf Hentzschel, Panschwitz–Kuckau**

Chairman of the general committee of Verband Sächsisch–Thüringischer Zuckerrübenanbauer e.V.

*Memberships in comparable German and foreign supervisory committees*

- Süddeutsche Zuckerrübenverwertungs–Genossenschaft eG, Stuttgart (Deputy Chairman)

**Wolfgang Kirsch, Königstein**

Chairman of the executive board of DZ Bank AG

*Memberships in comparable German and foreign supervisory committees*

- Adolf Würth GmbH & Co. KG, Künzelsau

*Group–mandates of DZ Bank AG*

- Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall (Chairman)

- R+V Versicherung AG, Wiesbaden (Chairman)
- Union Asset Management Holding AG, Frankfurt/Main (Chairman)

**Georg Koch, Wabern**

Chairman of the executive board of Verband der Zuckerrübenanbauer Kassel e.V.

**Susanne Kunschert, Stuttgart**

Managing partner of Pilz GmbH & Co. KG

*Memberships in comparable German and foreign supervisory committees*

- Karlsruher Institut für Technologie, Karlsruhe
- Süddeutsche Zuckerrübenverwertungs–Genossenschaft eG, Stuttgart

**Günther Link\*, Oberickelsheim**

Chairman of the works council at the Ochsenfurt plant of Südzucker AG

**Bernd Maiweg\*, Aahrbergen**

Divisional officer of Gewerkschaft Nahrung–Genuss–Gaststätten

**Joachim Rukwied, Eberstadt**

President of Deutscher Bauernverband e.V.

*Memberships in other domestic, statutory supervisory boards*

- BAYWA AG, München
- R+V Versicherung AG, Wiesbaden

*Memberships in comparable German and foreign supervisory committees*

- Buchstelle Landesbauernverband Baden–Württemberg GmbH, Stuttgart (Chairman)
- Kreditanstalt für Wiederaufbau, Frankfurt/Main
- LBF–Unternehmensberatungsdienste GmbH, Stuttgart (Chairman)
- LAND–DATA GmbH, Visselhövede (Chairman)
- Landwirtschaftliche Rentenbank, Frankfurt/Main (Chairman)
- Messe Berlin GmbH, Berlin

**Ronny Schreiber\*, Einhausen**

Chairman of the works council of the Mannheim head office of Südzucker AG

\* Employee representatives

**Petra Schwalbe\*, Berlin**

East state area chairwoman of Gewerkschaft Nahrung-Genuss-Gaststätten

*Memberships in comparable German and foreign supervisory committees*

- Philipp Morris GmbH, München

**Nadine Seidemann\*, Donauwörth**

Member of the works council at the Rain plant of Südzucker AG

**Franz-Rudolf Vogel\*, Worms**

Chairman of the central works council of Südzucker AG

**Wolfgang Vogl\*, Bernried**

Manager of the Plattling and Rain plants of Südzucker AG

*Group-mandates*

- BGD Bodengesundheitsdienst GmbH, Mannheim

**Rolf Wiederhold\*, Wabern**

Chairman of the works council at the Wabern plant of Südzucker AG

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\* Employee representatives

## BOARD OF DIRECTORS

### EXECUTIVE BOARD

**Dr. Wolfgang Heer (Chairman), Ludwigshafen am Rhein** (Appointed until 28 Februar 2018)

#### *Group-mandates*

- AGRANA Beteiligungs-AG, Vienna, Austria (1. Deputy Chairman)
- AGRANA Zucker, Stärke und Frucht Holding AG, Vienna, Austria (Chairman)
- CropEnergies AG, Mannheim
- ED&F MAN Holdings Limited, London, Great Britain
- Freiburger Holding GmbH, Berlin (Chairman)
- PortionPack Europe Holding B. V., Oud-Beijerland, Netherlands
- Raffinerie Tirlemontoise S.A., Brussels, Belgium
- Saint Louis Sucre S.A.S., Paris, France
- Südzucker Polska S.A., Wroclaw, Poland (Deputy Chairman)
- Z & S Zucker und Stärke Holding AG, Vienna, Austria (Deputy Chairman)

**Dr. Thomas Kirchberg, Ochsenfurt** (Appointed until 31 August 2022)

#### *Group-mandates*

- AGRANA Beteiligungs-AG, Vienna, Austria
- BGD Bodengesundheitsdienst GmbH, Mannheim (Chairman)
- Freiburger Holding GmbH, Berlin
- Raffinerie Tirlemontoise S.A., Brussels, Belgium
- Saint Louis Sucre S.A.S., Paris, France (Chairman)
- Südzucker Moldova S.A., Chisinau, Moldova (Chairman)
- Südzucker Polska S.A., Wroclaw, Poland (Chairman)
- Südzucker Versicherungs-Vermittlungs-GmbH, Mannheim

**Thomas Kölbl, Speyer** (Appointed until 31 Mai 2019)

#### *Memberships in other domestic, statutory supervisory boards*

- EUWAX Aktiengesellschaft, Stuttgart

#### *Memberships in comparable German and foreign supervisory committees*

- Boerse Stuttgart GmbH, Stuttgart

- Baden-Württembergische Wertpapierbörse, Stuttgart (until 1 March 2017)

#### *Group-mandates*

- AGRANA Internationale Verwaltungs- und Asset-Management GmbH, Vienna, Austria
- AGRANA Stärke GmbH, Vienna, Austria
- AGRANA Zucker GmbH, Vienna, Austria
- CropEnergies AG, Mannheim (Deputy Chairman)
- ED&F MAN Holdings Limited, London/Great Britain
- Freiburger Holding GmbH, Berlin
- PortionPack Europe Holding B. V., Oud-Beijerland, Netherlands (Chairman)
- Raffinerie Tirlemontoise S.A., Brussels, Belgium
- Saint Louis Sucre S.A.S., Paris, France
- Südzucker Polska S.A., Wroclaw, Poland
- Südzucker Versicherungs-Vermittlungs-GmbH, Mannheim (Chairman)

**Dipl. Ing. Johann Marihart, Limberg, Austria** (Appointed until 31 Januar 2019)

#### *Memberships in comparable German and foreign supervisory committees*

- BBG Bundesbeschaffungsges. m. b. H., Vienna, Austria
- Österreichische Forschungsförderungsgesellschaft mbH, Vienna, Austria (Deputy Chairman)
- Ottakringer Getränke AG, Vienna, Austria
- Spanische Hofreitschule – Bundesgestüt Piber, Vienna, Austria (Chairman)
- tecnet equity NÖ Technologiebeteiligungs-Invest GmbH, St. Pölten, Austria
- TÜV Austria Holding AG, Vienna, Austria (Chairman)

#### *Group-mandates*

- AGRANA Research & Innovation Center GmbH, Vienna, Austria (Chairman)
- AGRANA Stärke GmbH, Vienna, Austria (Chairman)
- AGRANA Zucker GmbH, Vienna, Austria (Chairman)
- AUSTRIA JUICE GmbH, Allhartsberg, Austria
- Freiburger Holding GmbH, Berlin
- Österreichische Rübensamenzucht Gesellschaft m.b.H., Vienna, Austria (Chairman)

- Raffinerie Tirlemontoise S.A., Brussels, Belgium  
(Chairman)
- Saint Louis Sucre S.A.S., Paris, France

**(28) Fees for services by the company's external auditors**

The following expenses were incurred in the 2016/17 financial year for services provided by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft:

(€ '000)	2016/17	2015/16
Auditing services	509	542
Other assurance services	137	13
Tax advisory services	117	14
Other services	24	36
	<b>787</b>	<b>605</b>

**(29) Declaration of compliance per note 161 AktG**

The executive board and supervisory board issued the declaration of compliance relating to the German Corporate Governance Code in accordance with note 161 of the German Stock Corporation Act (AktG) on 19 May 2016. It is available on the Internet via our website at: ([www.suedzucker.de/en/Investor-Relations/Corporate-Governance/](http://www.suedzucker.de/en/Investor-Relations/Corporate-Governance/)).

**(30) Proposed appropriation of earnings**

Net earnings available for distribution of Südzucker AG amount to €'000 91,940 (61,327). It will be proposed to the annual general meeting that a dividend of € 0.45 (0.30) per share be distributed and be appropriated as follows:

(in €)	2016/17
Distribution of a dividend of € 0.45 per share	
on 204,183,292 shares	91.882.481,40
Profit carried forward	57.738,35
<b>Net earnings available for distribution</b>	<b>91.940.219,75</b>

If on the day of the annual general meeting treasury shares exist, the resolution proposal will be modified – in the event of a distribution of € 0.45 per qualifying share – to have the corresponding higher remaining value carried forward.

The dividend is to be paid on 25 Juli 2017.

## List of shareholdings

	Shortcut	Location	Country	Direct shareholder	(%)	Equity € million	Earnings after tax € million
<b>I. Fully consolidated companies</b>							
<b>Sugar segment</b>							
<b>Business Unit Sugar</b>							
<b>Division Südzucker and sales companies</b>							
Südzucker AG	SZAG	Mannheim	Germany				
Sudzucker Hellas E.P.E.		Agios Dimitrios	Greece	SZH	99.94	1.55	0.31
				SZV	0.06		
Sudzucker Ibérica S.L.U.		Barcelona	Spanien	SZH	100.00	1.51	0.62
SÜDZUCKER DO BRASIL S/A – IMPORTAÇÃO E EXPORTAÇÃO (ehemals Hosa Trading Importação e Exportação S.A.)		São Paulo	Brasil	SZH	100.00	0.35	0.09
				SZAG	0.00		
Südzucker United Kingdom Limited		West Lothian	Great Britain	SZH	100.00	0.83	1.19
<b>Division Sugar Belgium</b>							
Raffinerie Tirlemontoise S.A.	RT	Bruxelles	Belgium	SZH	99.41	1.094.06	25.51
Nougat Chabert & Guillot SA	NC&G	Montélimar	France	SOGEL AF	99.75	4.44	0.68 1)
S.C.I. DU MARINET		Upie	France	SOGEL AF	99.75		1)
				NC&G	0.25		
Rafti B.V.		Wijchen	Niederlands	TSNH	100.00	11.06	1.05
Raftir Nederland Beheer B.V.		Groningen	Niederlands	RT	100.00	6.96	0.06
S.O.G.E.L.A.F. SARL	SOGELAF	Paris	France	RT	100.00	22.63	0.00
Tiense Suikerraffinaderij Nederland Holding B.V.	TSNH	Wijchen	Niederlands	RT	100.00	2.55	1.51
Tiense Suikerraffinaderij Services g.c.v.		Bruxelles	Belgium	RT	100.00	998.74	16.68
				AGS	0.00		
<b>Division Sugar France</b>							
Saint Louis Sucre S.A.S.	SLS	Paris	France	RT	99.80	112.77	-13.2
Société Française d'Organisation et de Participations "S.F.O.P."		Paris	France	SLS	100.00	15.84	0.00
<b>Division Sugar Poland</b>							
Südzucker Polska S.A.	SZPL	Wroclaw	Poland	SZH	99.59	399.30	54.57
"POLTERRA" Sp. z o.o.		Wroclaw	Poland	SZPL	100.00	0.84	0.01
Przedsiębiorstwo Rolne "KLOS" Sp. z o.o.		Wroclaw	Poland	SZPLN	100.00	0.30	0.01
Südzucker Polska Nieruchomosci Sp. z o.o.	SZPLN	Wroclaw	Poland	SZPL	100.00	-2.68	-0.19

\* Profit and loss transfer agreement

1) Disclosures for Subgroup / Group consolidated financial statements

2) Disclosures for the last applicable financial closing

3) Exemption pursuant § 264 (3) HGB

4) Exemption pursuant § 264b HGB

5) Voting majority

6) Statement of equity/net earnings based on a period of accounting differing from the calendar year

	Shortcut	Location	Country	Direct shareholder	(%)	Equity € million	Earnings after tax € million
<b>Division Sugar AGRANA</b>							
<b>Sugar Austria</b>							
AGRANA Zucker GmbH	AZ	Vienna	Austria	AB AMV	98.91 1.09	327.22	28.80
AGRANA ZHG Zucker Handels GmbH		Vienna	Austria	AZ	100.00	0.61	-0.41
<b>Sugar Romania</b>							
AGRANA AGRO S.R.L.		Roman	Romania	AGR AZ	99.00 1.00	0.12	0.11
AGRANA BUZAU S.R.L.		Buzau	Romania	AGR AZ	99.00 1.00	0.70	-0.04
AGRANA TANDAREI S.R.L.		Tandarei	Romania	AGR AZ	99.00 1.00	0.78	0.00
S.C. AGRANA Romania S.A.	AGR	Bukarest	Romania	AZ AIV&A	98.40 0.04	-3.00	-10.79
<b>Sugar Slovakia</b>							
Slovenské Cukrovary s.r.o.		Sered	Slovakia	AZ	100.00	46.35	4.35
<b>Sugar Czech Republic</b>							
Moravskoslezské Cukrovary A.S.	MC	Hrusovany	Czech Republic	AZ	100.00	76.45	11.15
<b>Sugar Hungary</b>							
AGRANA Magyarország Értékesítési Kft.	AME	Budapest	Hungary	MCeF AZ	99.70 0.30	5.28	0.09
Biogáz Fejlesztő Kft.		Kaposvár	Hungary	AME	100.00	0.81	0.36
Koronás Irodaház Szolgáltató Korlátolt Felelősségű Társaság		Budapest	Hungary	MCeF	100.00	1.28	0.00
Magyar Cukorgyártó és Forgalmazó Zrt.	MCeF	Budapest	Hungary	AZ	87.60	80.05	7.68
<b>Sugar Bulgaria</b>							
AGRANA Trading EOOD		Sofia	Bulgaria	AZ	100.00	2.73	0.85
<b>Sugar Bosnia</b>							
AGRANA BIH Holding GmbH	ABIH	Vienna	Austria	AZ SZH	75.00 25.00	9.32	-0.01
AGRANA d.o.o.		Brcko	Bosnia Herzegovina	ABIH	100.00	0.11	-0.01
<b>AGRANA Holding/Other</b>							
AGRANA Beteiligungs-Aktiengesellschaft	AB	Vienna	Austria	Z&S SZAG	78.34 2.74	753.44	72.24
AGRANA Group-Services GmbH	AGS	Vienna	Austria	AB	100.00	2.36	1.06
AGRANA Marketing- und Vertriebsservice Gesellschaft m.b.H.	AMV	Vienna	Austria	AB	100.00	8.80	0.68
Agrana Research & Innovation Center GmbH		Vienna	Austria	AB	100.00	3.66	0.05
INSTANTINA Nahrungsmittel Entwicklungs- und Produktionsgesellschaft m.b.H.		Vienna	Austria	AB	66.67	8.21	0.47

\* Profit and loss transfer agreement

- 1) Disclosures for Subgroup / Group consolidated financial statements
- 2) Disclosures for the last applicable financial closing
- 3) Exemption pursuant § 264 (3) HGB
- 4) Exemption pursuant § 264b HGB
- 5) Voting majority
- 6) Statement of equity/net earnings based on a period of accounting differing from the calendar year

	Shortcut	Location	Country	Direct shareholder	(%)	Equity € million	Earnings after tax € million
<b>Division Sugar Moldau</b>							
Südzucker Moldova S.A.	SZM	Chisinau	Moldova	SZH	83.92	47.21	6.85
Agro Credit S.R.L.		Drochia	Moldova	SZH	100.00	0.02	0.00
Agro-SZM S.R.L.		Drochia	Moldova	SZM	100.00	5.91	0.94
AGRO-BARABOIENI S. R. L.		Baraboi. rl. Donduseni	Moldova	SZM	100.00	0.15	0.04
<b>Division Agriculture</b>							
Agrar und Umwelt AG Loberaue	A&U	Rackwitz	Germany	SZAG	100.00	28.42	1.77
Rackwitzer Biogas GmbH		Rackwitz	Germany	A&U	100.00	0.03	0.00
Terra e.G.		Sömmerda	Germany	SZVW	100.00	7.94	-0.84
Wolteritzer Agrar GmbH		Rackwitz	Germany	A&U	100.00	0.16	0.00
Zschortauer Agrar GmbH		Rackwitz	Germany	A&U	100.00	0.03	0.00
Zschortauer Futtermittel GmbH		Rackwitz	Germany	A&U	74.00	4.13	0.30
<b>Sugar Other</b>							
AHG Agrar-Holding GmbH		Mannheim	Germany	SZAG	100.00	0.03	* 3)
AGRANA Zucker, Stärke und Frucht Holding AG	AZS	Vienna	Austria	SZAG	50.00	530.53	48.92 <sup>1)</sup> 5)
Z & S Zucker und Stärke Holding AG	Z&S	Vienna	Austria	AZS	100.00		1)
AIH Agrar-Industrie-Holding GmbH	AIH	Mannheim	Germany	SZAG	100.00	0.24	0.00 6)
BGD Bodengesundheitsdienst GmbH		Mannheim	Germany	SZAG	100.00	0.03	* 3)
Sächsisch-Thüringische Zuckerfabriken Verwaltungsgesellschaft mbH		Mannheim	Germany	SZAG	100.00	0.03	0.00
Südprojekt Silo und Logistik GmbH & Co. KG		Mannheim	Germany	SZAG	100.00	36.30	1.00 6)
Südzucker Holding GmbH	SZH	Mannheim	Germany	SZAG	100.00	715.77	* 3)
Südzucker International Finance B.V.		Oud-Beijerland	Netherlands	SZAG	100.00	17.96	1.06
Südzucker Tiefkühl-Holding GmbH	SZTK	Ochsenfurt	Germany	SZAG	100.00	559.08	* 3)
Südzucker Versicherungs-Vermittlungs-GmbH		Mannheim	Germany	SZAG	51.00	1.54	1.48
Südzucker Verwaltungs GmbH	SZVW	Mannheim	Germany	SZAG	100.00	10.03	* 3)
<b>Special productssegment</b>							
<b>Division BENE0</b>							
BENE0 GmbH	B	Mannheim	Germany	SZAG	100.00	180.48	* 3)
BENE0 Asia Pacific Pte. Ltd.		Singapore	Singapore	BP	100.00	1.40	0.13
BENE0 Iberica S.L. Unipersonal		Barcelona	Spain	BO	100.00	0.12	0.02
BENE0 Inc.		Morris Plains	USA	BP	100.00	15.09	1.55
BENE0 India Private Limited		New Delhi	India	BP	99.99	0.01	-0.01
				B	0.01		
BENE0 Latinoamerica Coordenação Regional Ltda.		Vila Olímpia. Sao Paulo	Brasil	BO	100.00	0.2	0.01
				BP	0.00		
BENE0-Orafti S.A.	BO	Orege	Belgium	BR	100.00	273.54	21.10

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4) Exemption pursuant § 264b HGB

5) Voting majority

6) Statement of equity/net earnings based on a period of accounting differing from the calendar year

	Shortcut	Location	Country	Direct share- holder	(%)	Equity € million	Earnings after tax € million
				B	0.00		
BENEO-Palatinit GmbH	BP	Mannheim	Germany	B SZAG	85.00 15.00	23.58	* 3)
BENEO-Remy N.V.	BR	Wijgmaal (Leu- ven)	Belgium	B BP	100.00 0.00	240.27	4.47 1)
Veniremy N.V.		Wijgmaal (Leu- ven)	Belgium	BR	100.00		1)
Orafti Chile S.A.		Pemuco	Chile	BO BP	99.99 0.01	180.11	3.64
REMY ITALIA S.P.A.		Confienza (PV)	Italy	BR	66.70	0.64	0.05
<b>Division Freiberger</b>							
Freiberger Holding GmbH	FH	Berlin	Germany	SZTK SZAG	90.00 10.00	122.35	* 3)
Alberto Lebensmittel GmbH		Berlin	Germany	FLG KG	100.00	0.03	0.00
Favorit Lebensmittel-Vertriebs GmbH		Berlin	Germany	FLM	100.00	0.09	0.01
Feinschmecker Eiscreme und Tiefkühlkost GmbH		Berlin	Germany	FH	100.00	0.13	0.01
Feinschmecker Feinkost GmbH	FF	Berlin	Germany	FLM	100.00	0.09	0.00
Freiberger France S.A.R.L.		St. Didier au Mont d'Or	France	FLM	100.00	-1.68	-1.60
Freiberger GmbH		Berlin	Germany	FLG KG	100.00	0.05	0.00
Freiberger Lebensmittel GmbH	FLM	Berlin	Germany	FLG KG	100.00	24.42	* 3)
Freiberger Lebensmittel GmbH & Co. Produktions- und Vertriebs KG	FLG KG	Berlin	Germany	FH	100.00	52.06	* 4)
Freiberger Osterweddungen GmbH & Co. KG (ehe- mals Great Star Food Production GmbH & Co. KG)		Sülzetal	Germany	FLG KG	100.00	0.00	* 4)
Freiberger Polska Sp.z o.o.		Warszawa	Poland	FLM FF	99.00 1.00	0.69	0.20
Freiberger UK Ltd.		Spalding	Great Britain	FLM	100.00	7.21	7.23
Freiberger USA Inc.		Morris Plains	USA	FLM	100.00	-0.85	-0.12
Prim AS Tiefkühlprodukte Gesellschaft m.b.H.		Oberhofen	Austria	FLM	100.00	9.77	2.38
Sandhof Limited	SL	Westhoughton	Great Britain	FLM	100.00	36.00	18.44
Stateside Foods Ltd.		Westhoughton	Great Britain	SL	100.00	25.35	8.14
<b>Division PortionPack</b>							
PortionPack Europe Holding B.V.	PPEH	Oud-Beijerland	Netherlands	SZAG	100.00	34.13	1.67
Elite Portion Pack Belgium NV		Herentals	Belgium	PPEH PPH	100.00 0.00	0.29	0.23
Hellma Gastronomicky Servis Praha spol. s.r.o.		Praha	Czech Republic	PPEH	100.00	4.16	1.06
Hellma Gastronomie-Service GmbH		Nürnberg	Germany	PPEH	100.00	4.44	* 3)
Hellma Lebensmittel-Verpackungs-Gesellschaft m.b.H		Vienna	Austria	PPEH	100.00	0.75	0.19
PortionPack Holland B.V.	PPH	Oud-Beijerland	Netherlands	PPEH	100.00	2.18	4.78
SAES The Portion Company. S.L.U.		La Llagosta (Barcelona)	Spain	PPEH	100.00	0.33	0.14
Single Source Limited	SSL	Telford / Shropshire	Great Britain	PPEH	100.00	3.69	0.17 1)

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5) Voting majority

6) Statement of equity/net earnings based on a period of accounting differing from the calendar year

	Shortcut	Location	Country	Direct share- holder	(%)	Equity € million	Earnings after tax € million
Central Legal Funding Limited	CLF	Telford / Shropshire	Great Britain	SSL	75.00		1)
Santeau Limited		Telford / Shropshire	Great Britain	CLF	100.00		1)
Van Oordt Drukkerij B.V.		Oud-Beijerland	Nederlands	VOP	100.00	0.15	0.00
Van Oordt Landgraaf B.V.		Landgraaf	Nederlands	PPH	100.00	2.36	0.00
Van Oordt the portion company B.V.	VOP	Oud-Beijerland	Nederlands	PPH	100.00	14.78	3.42
<b>Division Starch</b>							
AGRANA Stärke GmbH	AS	Vienna	Austria	AB AMV	98.91 1.09	327.11	61.47
S.C. A.G.F.D. Tandarei s.r.l.		Tandarei	Romania	AS	100.00	3.14	0.00
<b>CropEnergies segment</b>							
CropEnergies AG	CEAG	Mannheim	Germany	SZAG	69.19	431.97	44.27
BioWanze S.A.		Bruxelles	Belgium	CEAG CEB	100.00 0.00	241.72	28.80
Compagnie Financière de l'Artois SA	CF	Loon-Plage	France	CEAG	100.00	19.99	2.18
CropEnergies Beteiligungs GmbH	CEBet	Mannheim	Germany	CEAG	100.00	61.23	* 3)
CropEnergies Bioethanol GmbH	CEB	Zeitz	Germany	CEBet CEAG	85.00 15.00	72.44	* 3)
CropEnergies Inc.		Houston	USA	CEBet	100.00	0.08	-0.02
Ensus UK Limited		Yarm	Great Britain	CEAG	100.00	52.22	17.89
RYSEN ALCOOLS SAS	RYS	Loon-Plage	France	CF	100.00	9.34	2.04
Ryssen Chile SpA		Lampa. Santiago de Chile	Chile	RYS	100.00	0.36	0.03
<b>Fruit segment</b>							
<b>Division Fruit preparations (AGRANA Fruit)</b>							
AGRANA Fruit S.A.S.	AF	Paris	France	FA	100.00	123.31	19.15
AGRANA Fruit Argentina S.A.		Buenos Aires	Argentinien	AF AFSS	84.82 15.17	3.27	0.23
AGRANA Fruit Australia Pty Ltd.	AF AUS	Central Mangro- ve	Australien	AF	100.00	21.52	1.36 1)
Agrana Fruit Management Australia Pty Limited		Sydney	Australien	AF AUS	100.00		1)
AGRANA Fruit Austria GmbH	AFA	Gleisdorf	Austria	AF AIV&A	99.98 0.02	19.59	1.41
AGRANA Fruit Brasil Indústria. Comércio. Importa- cao e Exportacao Ltda.		Sao Paulo	Brasil	AFB	100.00	9.71	4.11
AGRANA Fruit Brasil Participacoes Ltda.	AFB	Sao Paulo	Brasil	AF AFA	99.99 0.01	6.84	-0.01
AGRANA Fruit Dachang Co.. Ltd.		Dachang	China	AF AFK	75.00 25.00	22.22	4.66
AGRANA Fruit Fiji Pty Ltd.		Sigatoka	Fiji	AF	100.00	0.72	-0.20
AGRANA Fruit France S.A.		Paris	France	AF	100.00	19.11	1.83
AGRANA Fruit Germany GmbH		Konstanz	Germany	AF	100.00	12.72	2.24
AGRANA FRUIT INDIA PRIVATE LIMITED		New Delhi	India	AF	99.99	1.98	0.00

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4) Exemption pursuant § 264b HGB

5) Voting majority

6) Statement of equity/net earnings based on a period of accounting differing from the calendar year

	Shortcut	Location	Country	Direct share- holder	(%)	Equity € million	Earnings after tax € million
				AFSG	0.01		
AGRANA Fruit Istanbul Gıda Sanayi ve Ticaret A.S.		Istanbul	Turkey	AF	100.00	5.83	1.71
AGRANA Fruit Korea Co. Ltd.	AFK	Seoul	South Korea	AF	100.00	15.20	1.70
AGRANA Fruit Latinoamérica S. de R.L. de C.V.		Michoacan	Mexico	AF AFSG	99.99 0.01	13.04	1.66
AGRANA Fruit Luka TOV		Vinnitsa	Ukraine	AF	99.97	2.55	0.76
AGRANA Fruit México. S.A. de C.V.		Michoacan	Mexico	AFUS	100.00	12.55	3.54
AGRANA Fruit Polska SP z.o.o.		Ostroleka	Poland	AF	100.00	12.19	1.11
AGRANA Fruit Services GmbH	AFSG	Vienna	Austria	AF	100.00	11.35	2.22
AGRANA Fruit Services S.A.S.	AFSS	Paris	France	AF	100.00	0.15	-0.02
AGRANA Fruit South Africa (Proprietary) Ltd.		Johannesburg	South Africa	AF	100.00	1.64	-0.99
AGRANA Fruit Ukraine TOV		Vinnitsa	Ukraine	AF	99.80	17.93	1.01
AGRANA Fruit US. Inc.	AFUS	Brecksville	Ohio/USA	AF	100.00	70.75	2.92
AGRANA Nile Fruits Processing SAE		Qalyoubia	Egypt	AF	51.00	5.67	3.68
Dirafrost FFI N. V.	DFFI	Herk-de-Stad	Belgium	AF	100.00	1.70	-1.17
Dirafrost Maroc SARL		Laouamra	Marocco	DFFI	100.00	3.09	0.05
Financière Atys S.A.S.	FA	Paris	France	AIV&A	100.00	121.29	15.09
Main Process S.A.		Buenos Aires	Argentina	Sud AF AFSS	95.00 4.75 0.25	23.17	0.81
o.o.o. AGRANA Fruit Moscow Region		Serpuchov	Russia	AF	100.00	31.49	6.78
Sudinver S.A.	Sud	Buenos Aires	Argentina	AF AFSS	95.00 5.00	3.96	0.00
Yube d.o.o.		Pozega	Serbia	DFFI	100.00	1.16	0.11
<b>Division Fruit juice concentrates(Austria Juice)</b>							
AUSTRIA JUICE GmbH	AJU	Allhartsberg	Austria	AIV&A	50.01	63.99	8.22
AGRANA JUICE (XIANYANG) CO., LTD		Xianyang City	China	AJU	100.00	12.26	0.25
AGRANA Juice Sales & Marketing GmbH	AJS&M	Bingen	Germany	AJU	100.00	1.72	0.42
AUSTRIA JUICE Germany GmbH		Bingen	Germany	AJS&M	100.00	1.23	0.00
AGRANA Juice Hungary Kft.		Vásárosnamény	Hungary	AJU	100.00	16.22	1.24
AUSTRIA JUICE Poland Sp. z.o.o.		Chelm	Poland	AJU	100.00	44.77	2.85
AUSTRIA Juice Romania S.r.l. (ehemals AGRANA Juice Romania Vaslui S.r.l.)		Vaslui	Romania	AJU	100.00	2.35	0.00
AUSTRIA JUICE Ukraine TOV (ehemals AUSTRIA JUICE Ukraine LLC)		Vinnitsa	Ukraine	AJU	100.00	3.87	0.58
<b>Fruit Other</b>							
AGRANA Internationale Verwaltungs- und Asset-Management GmbH	AIV&A	Vienna	Austria	AB AMV	98.91 1.09	240.29	8.58

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5) Voting majority

6) Statement of equity/net earnings based on a period of accounting differing from the calendar year

	Shortcut	Location	Country	Direct shareholder	(%)	Equity € million	Earnings after tax € million
<b>II. Joint ventures and associated companies</b>							
<b>Sugar segment</b>							
<b>Business Unit Sugar</b>							
<b>Division Südzucker and sales companies</b>							
	Maxi S.r.l.	Bolzano	Italy	SZH	50.00	5.57	3.70 <sup>6)</sup>
<b>Division AGRANA Sugar</b>							
<b>Sugar Bosnien</b>							
	"AGRAGOLD" d.o.o.	Brcko	Bosnia Herzegovina	ASB	100.00	2.19	0.08
	AGRAGOLD d.o.o.	Zagreb	Croatia	ASB	100.00	1.16	0.06
	AGRAGOLD dooel Skopje	Skopje	Macedonia	ASB	100.00	0.25	0.02
	AGRAGOLD trgovina d.o.o.	Ljubljana	Slovenia	ASB	100.00	0.82	0.09
	AGRANA Studen Sugar Trading GmbH	Vienna	Austria	ABIH	50.00	6.30	2.31
	AGRANA-STUDEN Albania sh.p.k (ehemals AGRANA-STUDEN Albania)	Tirane	Albania	ASB	100.00	0.25	0.15
	AGRANA-STUDEN Beteiligungs GmbH	ASB Vienna	Austria	ABIH	50.00	16.05	1.05
	Company for trade and services AGRANA-STUDEN Serbia d.o.o. Beograd	Beograd	Serbia	ASB	100.00	0.36	0.08
	STUDEN-AGRANA Rafinerija Secera d.o.o.	Brcko	Bosnia Herzegovina	ASB	100.00	8.09	0.60
<b>Sugar Übrige</b>							
	ED&F MAN Holdings Limited	London	Great Britain	SZH	35.00	933.85	66.04 <sup>6)</sup>
<b>Special productssegment</b>							
<b>Division PortionPack</b>							
	Collaborative Packing Solutions [Pty] Ltd	Johannesburg	South Africa	PPEH	40.00	0.59	0.11
<b>Division Starch Starch</b>							
	GreenPower E85 Kft	Szabadegyháza	Hungary	HK	100.00	0.77	-0.04
	HUNGRANA Keményitő- és Isocukorgyártó és Forgalmazó Kft.	HK Szabadegyháza	Hungary	AS	50.00	114.98	55.25
	HungranaTrans Kft.	Szabadegyháza	Hungary	HK	100.00	3.27	1.08
<b>CropEnergies segment</b>							
	CT Biocarbonic GmbH	Zeitz	Germany	CEBet	50.00	3.27	0.09

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5) Voting majority

6) Statement of equity/net earnings based on a period of accounting differing from the calendar year

	Shortcut	Location	Country	Direct shareholder	(%)	Equity € million	Earnings after tax € million
<b>III. Not consolidated companies and other participations &gt; 20%</b>							
<b>Not consolidated companies</b>							
<b>Sugar segment</b>							
<b>Geschäftsbereich Zucker</b>							
<b>Division Südzucker und Vertriebsgesellschaften</b>							
S.Z.I.L. LTD		Kfar Saba	Israel	SZH	100.00		
<b>Division AGRANA Sugar</b>							
<b>Sugar Czech Republic</b>							
PERCA s.r.o.		Hrusovany	Czech Republic	MC	100.00	0.06	0.05
DELHIA SHELF s.r.o.		Hrusovany	Czech Republic	MC	100.00	0.00	0.00
<b>Sugar Bosnia</b>							
AGRANA Croatia d.o.o.		Zagreb	Croatia	AZ	100.00	0.01	0.01
AGRANA Makedonija DOOEL Skopje		Skopje	Macedonia	AZ	100.00	0.13	0.05 6)
<b>AGRANA Holding/Other</b>							
Österreichische Rübensamenzucht Gesellschaft m.b.H.		Vienna	Austria	AZ	86.00	1.91	0.01 6)
<b>Sugar Other</b>							
Acucar e Alcool do Sul Participacoes Ltda.		Alto de Pinheiros	Brasil	SZH AIH	99.90 0.10	0.05	0.00 6)
Arbeitsgemeinschaft für Versuchswesen und Beratung im Zuckerrübenanbau Zeitz GmbH		Kretzschau	Germany	SZAG	80.00	0.04	0.01
Sächsisch-Thüringische Zuckerfabriken GmbH & Co. KG		Mannheim	Germany	SZAG	100.00	0.02	0.00
Südprojekt Immobilienverwaltungsgesellschaft mbH		Mannheim	Germany	SZAG	100.00	0.24	0.01 6)
Südtrans GmbH		Mannheim	Germany	SZAG	100.00	0.10	0.00 6)
Südzucker Beteiligungs GmbH		Mannheim	Germany	SZAG	100.00	0.02	0.00 6)
Südzucker International GmbH		Ochsenfurt	Germany	SZH	100.00	0.03	0.00
Südzucker Reise-Service GmbH		Mannheim	Germany	SZAG	100.00	1.19	0.10
Südzucker Verkauf GmbH	SZV	Mannheim	Germany	SZH	100.00	0.03	0.00
<b>Special products segment</b>							
<b>Division Starch</b>							
AGRANA Skrob s.r.o.		Hrusovany	Czech	AS	100.00	0.08	0.00 6)
AGRANA Amidi srl		Sterzing	Italy	AS	100.00	0.02	0.01

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4) Exemption pursuant § 264b HGB

5) Voting majority

6) Statement of equity/net earnings based on a period of accounting differing from the calendar year

Shortcut	Location	Country	Direct shareholder	(%)	Equity € million	Earnings after tax € million	
<b>Not consolidated joint ventures and associated companies</b>							
<b>Sugar segment</b>							
<b>Geschäftsbereich Zucker</b>							
<b>Division Sugar Belgium</b>							
Food Port N.V. (formerly Bio-Generator Regio – Leuven – PORT NV)	Tienen	Belgium	RT	35.71	2.15	-0.10	2) 6)
<b>Division AGRANA Sugar</b>							
<b>Sugar Bosnia</b>							
SCO STUDEN & CO. BRASIL EXPORTACAO E IMPORTACAO LTDA.	Sao Paulo	Brasil	ASB	100.00	-0.02	0.00	6)
AGRANA-STUDEN Kosovo L.L.C.	Prishtina	Serbia	ASB	100.00			6)
<b>Sugar Other</b>							
Felix Koch Offenbach Couleur und Karamel GmbH	Offenbach	Germany	SZH	25.10	7.89	1.89	2) 6)
Maritime Investment Holdings Pte. Ltd	Singapore	Singapore	SZH	25.00	9.27	-0.73	6)
<b>Special products segment</b>							
<b>Division BENEÓ</b>							
INVITA Australia PTE Ltd	Balgowlah	Australia	BP	35.00	0.22	1.44	6)
<b>Other participations &gt; 20%</b>							
<b>Sugar segment</b>							
<b>Business Unit Sugar</b>							
<b>Division Sugar France</b>							
GARDEL S.A.	Le Moule	France	SLS	24.28	50.53	0.17	6)
Eastern Sugar B.V.	Breda	Nederlands	SLS	50.00	0.56	-0.11	6)
Sucrerie et Distillerie de Souppes-Ouvré Fils S.A.	Paris	France	SLS	44.50	45.37	0.06	6)
<b>Division AGRANA Sugar</b>							
<b>Sugar Hungary</b>							
Cukoripari Egyesülés	Budapest	Hungary	MCeF	44.27	0.13	0.00	6)

\* Profit and loss transfer agreement

1) Disclosures for Subgroup / Group consolidated financial statements

2) Disclosures for the last applicable financial closing

3) Exemption pursuant § 264 (3) HGB

4) Exemption pursuant § 264b HGB

5) Voting majority

6) Statement of equity/net earnings based on a period of accounting differing from the calendar year

## RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the management report of the company includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Mannheim, 24 April 2017

### THE EXECUTIVE BOARD



Dr. Wolfgang Heer  
(Chairman)



Dr. Thomas Kirchberg



Thomas Kölbl



Johann Marihart

## AUDITORS REPORT

We have audited the financial statements – comprising the balance sheet, income statement and the notes to the financial statements – including the bookkeeping and the management report of Südzucker AG, Mannheim, for the financial year from 1 March 2015 to 28 February 2017. Bookkeeping and the preparation of financial statements and the management report in accordance with German commercial law are the responsibility of the executive board of the company. Our responsibility is to express an opinion on the financial statements – taking the bookkeeping into consideration – and on the management report based on our audit.

We conducted our audit of the financial statements in accordance with note 317 of the German Commercial Code (HGB) and generally accepted German standards for the audit of financial statements promulgated by Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the financial statements, prepared in accordance with German generally accepted accounting principles, and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the bookkeeping, financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the executive board as well as evaluating the overall presentation of the financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the financial statements comply with legal requirements and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with generally accepted accounting principles. The management report is consistent with the financial statements and as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 24 April 2017

**PricewaterhouseCoopers GmbH**  
**Wirtschaftsprüfungsgesellschaft**

Michael Conrad

Auditor

Olav Krützfeldt

Auditor

## FORWARD-LOOKING STATEMENTS / FORECASTS

This annual report contains forward looking statements based on assumptions and estimates made by the executive board of Südzucker AG. Although the executive board may be convinced that these assumptions and estimates are reasonable, future actual developments and future actual results may vary considerably from the assumptions and estimates due to many external and internal factors. For example, matters to be mentioned in this connection include pending negotiations relating to the world trade agreement (WTA), changes to the overall economic situation, changes to EU sugar policies, consumer behaviour and state food and energy policies. Südzucker AG assumes no responsibility and accepts no liability that future developments and future actual results achieved will be the same as the assumptions and estimates included in this annual report.

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### **Südzucker on the internet**

More detailed information about Südzucker Group is available at the company's website:

[www.suedzucker.de](http://www.suedzucker.de)

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