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Second Party Opinion

Südzucker's Sustainability-Linked Financing Framework

Oct. 19, 2022

Südzucker Group is a European agribusiness group headquartered in Germany. The group owns more than 100 production sites globally. It operates in five business segments, the major one being sugar production, followed by special products (food ingredients and portion packs), fruit-based products, ethanol, protein feed production, and finally the starch segment.

Südzucker is a leading European producer of sugar and ethanol with diversified business operations. It is 60.3% owned by a German cooperative whose members are German beet farmers.

In our view, Südzucker's Sustainability-Linked Financing Framework, published Oct. 19, 2022, is aligned with:

- ✓ Sustainability-Linked Bond Principles, ICMA, 2020
- ✓ Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2022

Issuer's Sustainability Objectives

Südzucker's sustainability strategy is built on three pillars: people, planet, and value. The company has committed to conducting its business sustainably, minimizing the possible negative impact of its activities on the environment. Through the issuance of sustainability-linked financing instruments, Südzucker aims to further align its funding strategy to this commitment.

To combat climate change, Südzucker is focusing on three areas to achieve carbon-neutrality in its own production: increase of energy efficiency, switch to fuels with lower greenhouse gas (GHG) emissions (also implying the phase-out from coal usage), and switch from fossil fuel to renewable energy. The company is flagging its supply chain decarbonization as the next step in its strategy implementation.

Selected Key Performance Indicators (KPIs) And Sustainability Performance Targets (SPTs)

KPI	SPT	Baseline	2021 performance
Absolute scope 1 and 2 GHG emissions (comprising emissions measured in absolute terms in millions)	SPT 1: Reduce absolute scope 1 and 2 GHG Emissions by 32% to 2.5 metric tons (MT) of CO2 by year-end 2026 from the 2018 base year	3.7 MT CO2	2.9 MT CO2

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of tons of carbon dioxide
[CO2] from all financially
consolidated businesses)

SPT 2: Reduce absolute scope 1 and 2 GHG emissions by 50% to 1.9 MT CO2 by year end 2030 from a 2018 base year	3.7 MT CO2	2.9 MT CO2
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Second Party Opinion Summary

Selection of key performance indicators (KPIs)

Alignment  Südzucker's sustainability-linked framework is aligned with this component of the SLBP and SLLP.

KPI 1	Absolute scope 1 and 2 GHG emissions (measured in absolute terms in millions of tons of CO2 from all financially consolidated businesses)	Not aligned	Aligned	Strong	Advanced
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Calibration of sustainability performance targets (SPTs)

Alignment  Südzucker's sustainability-linked framework is aligned with this component of the SLBP and SLLP.

SPT 1	Reduce absolute scope 1 and 2 GHG emissions by 32% by year-end 2026 from a 2018 base year	Not aligned	Aligned	Strong	Advanced
SPT 2	Reduce absolute scope 1 and 2 GHG emissions by 50% by year-end 2030 from a 2018 base year	Not aligned	Aligned	Strong	Advanced

Instrument characteristics

Alignment  Südzucker's sustainability-linked framework is aligned with this component of the SLBP and SLLP.

The issuer's framework covers bonds, loans and any other financing instruments whose characteristics are linked to sustainability performance targets. The instruments issued under the framework will have a sustainability-linked feature that will result in a coupon or margin adjustment, or a premium payment in case of trigger event.

Reporting

Alignment  Südzucker's sustainability-linked framework is aligned with this component of the SLBP and SLLP.

Score	Not aligned	Aligned	Strong	Advanced
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Südzucker commits to reporting on the KPI's performance yearly through the publication of its annual report, or within another document published on its website. The reporting will include up-to-date information on the KPI's performance and an external verification assurance relative to the KPI outlining the performance against SPTs.

Post-issuance review

Alignment  Südzucker's sustainability-linked framework is aligned with this component of the SLBP and SLLP.

Südzucker will obtain an independent external verification of the KPI's performance from a qualified external verifier. This verification will be provided annually, at least until the reporting date relevant for assessing the achievement of the SPT(s), and it will be made publicly available on the company's website.

Framework Assessment

Selection of key performance indicators (KPIs)

The Principles make optional recommendations for stronger structuring practices, which inform our relevancy opinion as aligned, strong, or advanced. For each KPI, we consider how relevant the KPI is for sustainability by exploring the clarity and characteristics of the defined KPI; its significance for the issuer’s sustainability disclosures; and how material it is to the issuer’s industry and strategy.

 Südzucker’s sustainability-linked framework is aligned with this component of the SLBP and SLLP.

KPI 1	Absolute scope 1 and 2 GHG emissions (measured in absolute terms in millions of tons of CO2 emitted from all financially consolidated businesses)	Not aligned	Aligned	Strong	Advanced

We consider the KPI selected by Südzucker aligned with the SLBP and SLLP, given that agriculture is generally an energy-intensive business, and reducing GHG emissions, even if only scope 1 and 2 emissions, would directly contribute to the company’s and sector’s carbon neutrality.

The issuer clearly articulates the reasons for selecting this particular KPI and aligns the KPI calculation method with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standards, as well as GHG Protocol scope 2 Guidance, which we view as a strength.

The emissions from the agriculture industry account for about 12% of EU-27 GHG emissions, so a reduction of GHG footprint is an important measure the industry can take to address climate change.

At the same time, the KPI does not include scope 3 GHG emissions, which represented 73% of the company’s total emissions in 2018. We view this as a limitation. However, at the time of drafting the framework, the science-based target initiative (SBTi) methodology for forest, land, and agriculture was under development, so the company postponed including a scope 3 target in its framework. Outside of the framework, in its 2021 annual report, Südzucker has set a group reduction target for scope 3 emissions by 30% by 2030 compared with the 2018 base year.

Calibration of sustainability performance targets (SPTs)

The Principles make optional recommendations for stronger structuring practices, which inform our ambition opinion as aligned, strong, or advanced. We consider the level of ambition for each target by assessing its clarity and characteristics, how the issuer defines the target with reference either to its past performance, or to external or competitor benchmarks, and how it explains what factors could influence future performance.

 Südzucker’s sustainability-linked framework is aligned with this component of the SLBP and SLLP.

SPT 1	Reduce absolute scope 1 and 2 GHG Emissions by 32% by year to 2.5 MT CO2 end 2026 from a 2018 base year	Not aligned	Aligned	Strong	Advanced

While setting this SPT, the issuer clearly outlines the timeline for target achievement (2026) and the baseline year (2018).

Südzucker has already achieved a pronounced reduction in scope 1 and 2 GHG emissions (down 21% as of year-end 2021 from 2018, or 2.9 MT in CO2 equivalent down from 3.7 MT). However, this was in part because of one-off sugar plant closures from 2018-2021, which the company made to address global sugar production surplus. These plants were in part selected based on forecast

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use of coal and investment needed to switch to alternative energies, which contributed to the strong reduction in GHG emissions over the same period. Accounting for the challenges related to the EU energy crisis and global value chain disruptions, we believe this target remains reasonably ambitious. Also, agriculture is a volatile sector, with year-on-year GHG emissions that can vary significantly and are difficult to predict because they can be heavily affected by crop volumes, which depend on weather conditions.

Based on a 2018 baseline, the annual reduction of GHG emissions required for both SPTs is broadly consistent with SBTi's general guidance of a linear annual reduction rate of 4.2% for absolute scope 1 and 2 GHG emissions in a 1.5 C warming scenario, and is more ambitious than the newly released forest, land, and agriculture (FLAG) sector approach of 3.03% annual reduction of absolute GHG emissions. In addition, while the peer benchmarking was limited to a small number of companies, Südzucker's 2026 target showed greater ambition than the public ones set by peers on similar time horizons.

SPT 2 Reduce absolute scope 1 and 2 GHG emissions by 50% to 1.9 MT CO₂ by year-end 2030 from a 2018 base year

Not aligned

Aligned

Strong

Advanced

For SPT2, based on the information provided, we view the ambition slightly above peers' and more in line with the company's historical trajectory of GHG emissions reduction. The issuer also clearly defines the time horizon (2030) and the base year (2018).

Südzucker has submitted this target to SBTi in May 2022. It was calculated according to SBTi guidelines and criteria, according to the 1.5 C warming scenario validation standards. We understand that this target was submitted to SBTi, but is pending validation.

We view positively that the issuer's target is among the most ambitious compared with those of European peers. However, the level ambition is lower than the historical reduction from 2018-2021. We considered several factors that can explain this lower level of ambition. The main ones include the lower availability of natural gas, supply chain disruptions, and the plant closures in the past few years that materially contributed to reducing the issuer's carbon footprint. Same as SPT1, Südzucker operates in a volatile sector, with year-on-year GHG emissions that can vary significantly and are difficult to predict because they can be heavily affected by crop volumes, which depend on weather conditions.

Finally, similar to SPT1, based on a 2018 baseline, the annual reduction of GHG emissions required to achieve the SPT is broadly consistent with SBTi's general guidance of a linear annual reduction rate of 4.2% for absolute scope 1 and 2 GHG emissions for a 1.5 C scenario, and is more ambitious than the newly released FLAG sector approach of 3.03% annual reduction of absolute GHG emissions.

Instrument characteristics

The Principles require disclosure of the type of financial and/or structural impact involving trigger event(s), as well as the potential variation of the instrument's financial and/or structural characteristics.

 Südzucker's sustainability-linked framework is aligned with this component of the SLBP and SLLP.

The issuer's framework covers bonds, loans and any other financing instruments whose characteristics are linked to sustainability performance targets. The instruments issued under the framework will have a sustainability-linked feature that will result in a coupon or margin adjustment, or a premium payment in case of trigger event.

As outlined in the framework, sustainability-linked financing Instruments can be of any seniority, including subordinated or hybrid instruments, but in any case, are expected to be issued ranking without preference to any other conventional instrument of similar status and subordination.

The ultimate characteristics of the concrete instrument are to be specified in its corresponding documentation. A trigger event occurs if the SPT(s) has not been achieved on the target

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observation date, the performance level against the targets has not been reported in satisfactory manner, or verification of SPT(s) at the target observation date has not been provided.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 Südzucker's sustainability-linked framework is aligned with this component of the SLBP and SLLP.

Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider Südzucker's overall reporting practices aligned with the Principles.

The issuer commits to report on the performance of the KPI yearly through the publication of its annual report, or within another document published on its website. The reporting will include up-to-date information on the KPI's performance, an external verification assurance relative to the KPI outlining the performance against SPTs, and any information that would be relevant monitoring the KPI's progress against the SPT.

Where feasible, the issuer could also report on the qualitative and quantitative explanation of the contribution of main factors (including M&A activity) to the KPI's evolution, provide illustration of the positive sustainability impact of achieved performance, or disclose any reassessments of the KPI and restatements of the SPTs. The issuer could also report on new or proposed regulations relative to KPI and its SPTs. While we view as good practice the reporting of this information, we believe there is no strong commitment in the framework.

Post-issuance review

The Principles require post-issuance review commitments including the type of post-issuance third-party verification, periodicity and how this will be made available to key stakeholders. Our opinion describes whether the documentation is aligned or not aligned with these requirements. Please note, our second party opinion is not itself a post-issuance review.

 Südzucker's sustainability-linked framework is aligned with this component of the SLBP and SLLP.

Südzucker commits to obtain an independent external verification of the KPI's performance from a qualified external verifier. This verification will be provided annually, at least until the reporting date relevant for assessing the achievement of the SPT(s), and it will be made publicly available on Südzucker's website.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

Südzucker Group's sustainability-linked financial framework intends to contribute to the following SDG:

KPI

SDGs

Absolute scope 1 and 2 GHG emissions (emissions measured in absolute terms in millions of tons of CO₂ emitted from all financially consolidated businesses)



13. Climate action[§]

[§]The KPI is likely to contribute to the SDGs.

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