



**Nordic Sugar**

Member of Nordzucker Group

## Nordic Sugar A/S Annual report 2016/17

1 March 2016 – 28 February 2017

CVR no. 29 78 18 34

Langebrogade 1, 1014 Copenhagen K

Date of approval: 24 May 2017

Chairman of the general meeting: Louise Eksing

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## Company information

### Company

Nordic Sugar A/S  
Langebrogade 1  
DK-1014 Copenhagen K

CVR no.: 29 78 18 34  
Founded: 31 August 2006  
Registered office: Copenhagen, Denmark  
Financial year: 1 March – 28 February

Telephone: +45 32 66 25 00  
Internet: [www.nordicsugar.com](http://www.nordicsugar.com)  
E-mail: [sugarinfo@nordicsugar.com](mailto:sugarinfo@nordicsugar.com)

The annual report can be obtained from the company's address.

### Board of Directors

Hartwig Fuchs, Chairman  
Sven Jansen, Vice Chairman  
Sven Buhrmann  
Frank Knälmann  
Inga Dransfeld-Haase  
Lars Kristian Andersen \*)  
Klaus Hansen \*)  
Lone Gønge \*)

\*) employee-elected

### Executive Board

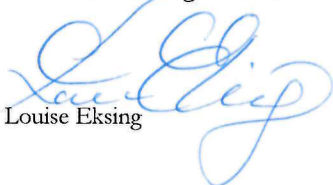
Jesper Thomassen, Managing Director

### Auditor

Ernst & Young Godkendt Revisionspartnerselskab

Approved by the company's annual general meeting on 24 May 2017

### Chairman of the general meeting

  
Louise Eksing

## Management's statement

The Board of Directors and the Executive Board have today approved the annual report of Nordic Sugar A/S for 2016/17.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

We believe that the annual report gives a true and fair view of the company's assets, liabilities and equity, financial position as per 28 February 2017 and the results for the financial year 1 March 2016 – 28 February 2017.

We also believe that the management's review gives a fair presentation of the development in the company's activities and financial performance, results for the year and of the company's financial position.

We present the annual report for approval at the annual general meeting.

Copenhagen, 24 May 2017

### Executive Board:



Jesper Thomassen  
Managing Director

### Board of Directors:



Hartwig Fuchs  
Chairman




Sven Jansen  
Vice Chairman



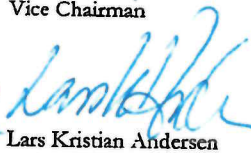
Sven Buhmann



Frank Knälmann



Inga Dransfeld-Haase



Lars Kristian Andersen



Klaus Hansen



Lone Gønge



# Independent auditor's report

## To the shareholder of Nordic Sugar A/S

### Report on financial statements

We have audited the financial statements of Nordic Sugar A/S for the financial year 1 March 2016 – 28 February 2017, which comprise an income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the company at 28 February 2017 and of the results of the company's operations for the financial year 1 March 2016 – 28 February 2017 in accordance with the Danish Financial Statements Act.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

### Independent auditor's report

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### Statement on the Management's review

Management is responsible for the Management's review.

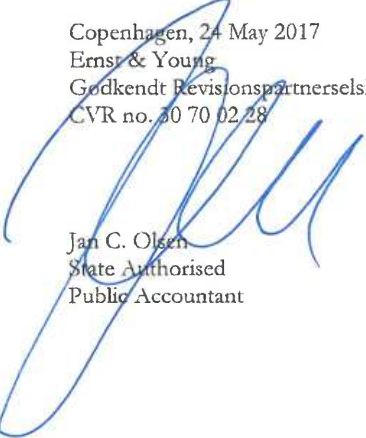
Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 24 May 2017  
Ernst & Young  
Godkendt Revisionspartnerselskab  
CVR no. 30 70 02 28



Jan C. Olsen  
State Authorised  
Public Accountant

## Management's review

### Key figures and financial ratios (DKKm)

<b>Income statement:</b>	2016/17	2015/16	2014/15	2013/14	2012/13
Revenue	3,142	2,546	3,188	3,467	3,523
EBIT	245	-5	251	585	619
Income from investments in subsidiaries	-3	49	30	22	33
Financial income and expenses, net	8	20	2	21	-8
Profit for the year	195	62	222	494	490
<b>Balance sheet:</b>					
Assets	2,993	3,292	3,543	4,095	3,895
Equity	2,262	2,088	2,277	2,355	2,351
Investment in property, plant and equipment	110	79	34	155	86
<b>Financial ratios (%):</b>					
EBITDA margin	11.1	4.0	11.6	20.7	21.0
EBIT margin	7.8	-0.2	7.9	16.9	17.6
ROIC	13.2	-0.2	11.7	27.0	30.2

The above-mentioned KPI's are calculated in accordance with the "Recommendations and financial ratios 2015" issued by the Danish Financial Services Union. See definitions of financial ratios on page 17.

### Core activity

Nordic Sugar A/S consists of Nordic Sugar's sugar activities in Denmark as well as ownership of a number of foreign subsidiaries.

Nordic Sugar A/S develops, produces and sells a wide range of sugar products and animal feed based on sugar beet as the main raw material. The majority of the sugar is sold within the food industry and retail market in Northern Europe and to related companies in the Nordzucker Group. Nordic Sugar A/S owns subsidiaries in Finland and Lithuania with similar sugar activities.

### Development in activities and financial position

Nordic Sugar A/S realised revenues of DKK 3,142 million which is DKK 596 million higher than last year (2015/16: DKK 2,546 million). The higher revenues are mainly a combination of significantly higher sales of quota sugar and higher sales prices on out of quota sugar. Gross profit of DKK 557 million (2015/16: DKK 337 million) was DKK 220 million higher than last year which is mainly due to significantly higher sales volumes of quota sugar, higher sales prices on out of quota sugar and lower beet costs.

EBIT of DKK 245 million (2015/16: DKK -5 million) is DKK 250 million higher than last year which is mainly a result of the above-mentioned increase in gross profit of DKK 220 million. Other income and expenses between gross profit and EBIT have a total positive effect of DKK 30 million compared to last year which is mainly due to lower distribution and sales expenses and general cost reductions. The reduction of distribution and sales expenses is mainly due to lower storage and handling costs following a significant reduction of inventories plus general cost reductions.

Financial income and expenses, net, amounted to DKK 8 million (2015/16: DKK 20 million). The decrease in financial income and expenses, net, is due to lower gains on sugar futures and foreign currency contracts related to export of sugar.

Profit for the year is in line with expectations and it is considered as satisfying.

Assets are DKK 299 million (2015/16: DKK 3,292 million) lower than last year which is mainly due to significantly lower inventories. Inventories are DKK 277 million lower than last year due to lower inventory levels resulting from significantly higher sales. Financial assets are DKK 43 million lower than last year due to the value adjustment of the investment in Nordic

Sugar OY mainly driven by the dividend payment of DKK 40 million. Liabilities are DKK 473 million (2015/16: DKK 1,204 million) lower than last year which is mainly due to a lower financial debt to Nordzucker AG as a result of the positive earnings and significant decrease in inventories.

The sugar quota in Denmark for the production year 2016/17 was unchanged compared to last year and amounted to 372,383 tons.

### **Foreign investments**

Nordic Sugar A/S' investments in subsidiaries, which mainly consist of sugar activities in Finland and Lithuania, showed an improved development during the financial year 2016/17 due to a positive development in sugar prices and costs plus rather low inventory levels of sugar.

### **The regulation of the sugar market in the EU**

The implemented sugar market regime means that only 85% of the total sugar consumption is produced inside the EU. The remaining 15% of the sugar consumption is imported from countries outside the EU and predominantly consists of raw sugar which is refined to white sugar inside the EU. The current European sugar regime is valid until 30 September 2017 after which date the production quota system falls away. After the end of the sugar market regime, production is expected to increase significantly without limitations on sales. Therefore, competition is expected to increase and the development in sales prices and earnings is expected to be more closely linked to the development in world market prices. Furthermore, sales to countries outside of the EU are expected to increase as the current WTO export limit of 1,374,000 tons is also going to fall away after 30 September 2017.

The European Commission issued export licenses for 1,350,000 tons of out of quota sugar in the sugar marketing year 2015/16 and also 1,350,000 tons of out of quota sugar in the sugar marketing year 2016/17. The interest for the export licenses from the European sugar producers has been moderate in the sugar marketing year 2015/16 as well as in the sugar marketing year 2016/17; in the sugar marketing year 2015/16 due to moderate crop in EU, the same for the sugar marketing year 2016/17, but for the sugar marketing year 2016/17 also the outlook to the new set of regulations as from 1 October 2017 may have moderated the interest for export licenses somewhat.

### **Research and development activities**

The company incurs research and development expenses in relation to product and production process development. Those expenses amounted to DKK 23 million (2015/16: DKK 23 million).

### **Outlook for 2017/18**

The company expects a positive EBIT for the financial year 2017/18 which is somewhat above this year. However, it is affected by the uncertainties related to the abolishment of the sugar market regime after 30 September 2017 and the development of the sales prices on the world market.

### **Specific risks**

#### **Commercial risks:**

The European sugar regime is overall governed by policy makers and, therefore, sugar earnings are susceptible to any political changes in the area. Please see above section concerning the regulation of the sugar market in the EU for further information.

#### **Credit risks:**

The main credit risks include trade debtors, other outstanding amounts, including gains on derivative financial instruments (forward exchange contracts) and bank deposits. Trade debtors are spread in such a manner that the company's credit risks are not considered exceptional. Furthermore, trade debtors are in all material respects covered by credit insurance.

Agreements concerning financial instruments are only entered into with recognised credit institutions.

#### **Financial risks:**

The company's funding is handled through Nordzucker. On an ongoing basis, the company's management considers whether the capital structure is in accordance with the interests of the company and the shareholder. The overall objective is to have a capital structure which supports long-term growth and at the same time maximises the return for the company's stakeholders through an optimisation of the balance between equity and debt. The company's strategy is unchanged from last year.



**Exchange rate risks:**

Exchange rate risks occur as a consequence of the company's business operations. Nordic Sugar A/S pursues a policy of limiting the impact of exchange rate movements on the company's results and financial position through active currency management hedging significant transactions in foreign currencies.

**Statement on corporate social responsibility**

Sustainability, including CSR requirements, is an integrated part of Nordic Sugar's business model and the way we conduct business. It is a line responsibility and sustainability issues identified as key to our business and our stakeholders are managed by a holistic approach.

In connection with a recent materiality assessment, we have identified climate impact as one of the issues that matters most. As sugar production is an energy-intensive process, we have focused on energy and climate impacts for many years. We aim to improve our energy efficiency, not only because we want to reduce our climate impact, but also our energy costs which have a major impact on our bottom line.

In 2016, we implemented a new energy and climate strategy and agreed on new targets as we had already met the energy and climate targets we had set in 2012. From 2012 to 2016, we reduced our absolute energy consumption in Nordzucker group by approximately 25%.

Our new overall objective is to promote the efficient use of natural resources by improving our production efficiency. Our new targets are:

- By 2020, we will reduce our energy consumption by 10% per ton sugar (white value) compared to 2014 (50% compared to 1990).
- By 2020, we will reduce our CO2 emission by 10% per ton sugar (white value) compared to 2014 (68% compared to 1990).
- In addition, we will reduce our GHG emission from the agricultural part of our business by increasing the yield per hectare. In 2020, we want the 20% of our top-performing growers to have a 20 tons sugar yield per hectare (the 20.20.20 project).

We measure our targets at least once a year and report the results on our website, [www.sustainability.nordzucker.com](http://www.sustainability.nordzucker.com).

Nordzucker's Code of Conduct and Supplier Code of Conduct are a well-established part of the way we do business. The Supplier Code of Conduct is a substantial part of all supplier audits. These audits are performed on a risk based approach which includes supplier questionnaires, country risks, experiences with the suppliers, criticality and food safety aspects.

Our most important raw material supply is of course sugar beets. During 2016, we continued to use the Sustainability Agriculture Initiative (SAI) platform to support our growers in moving towards a sustainable production of sugar beets and other products. The SAI platform is a global food industry initiative for sustainable agriculture. It seeks involvement from all food chain stakeholders that are willing to play an active role in the development, recognition and implementation of sustainable practices for mainstream agriculture. In Denmark, 39 growers completed self-assessments and the results of these were verified by a third party verifier. The preliminary results showed that all growers are above silver level, according to the SAI model, and that the majority is at gold level.

In 2016, we updated our energy and environmental policy to focus even more on the energy and climate part of the policy. Apart from energy and climate impacts, the most significant environmental aspect we have is other emissions to air. In addition to the energy and climate reduction plans in all our factories, the sugar factories in Denmark have reconstructed their boilers to reduce NOx and SOx emissions in order to be in compliance with the EU Industrial Emission Directive that came into force on 1 January 2016.

To reduce resources and CO2 emission, we have increased the size of our big bags from 1000 kg to 1200 kg sugar which means that we can utilize the capacity of the containers better during transport, loading 24 tons instead of 20 tons. By doing so, we have saved approximately 16.7 tons CO2 in one year.

Last year, we continued the implementation of an updated Nordzucker Safety and Health strategy action plan 2017-18, and among the actions already implemented is an ad hoc risk assessment tool. The risk assessment tool should be used before a non-routine work is going to take place. In addition a new training video for contractors and new employees has been

implemented. These actions are taken to reduce the risk and thereby the number of accidents on our factories. Our new overall group targets are LTI 1 < 7.0 and LTI 3 < 2.6 in 2017. (LTI is lost time injuries).

As a result of our dedicated continued work with sustainability, Nordic Sugar has achieved good improvements within all sustainability areas. We have a constant focus on increasing sugar yield per hectare with less consumption of fertilisers, pesticides and water emission. We focus on customer satisfaction and product safety by setting ambitious targets within these areas. We have an objective to improve the ratio of women in leadership positions in order to ensure diversity and to support our business strategy. Health and safety is always in our focus and all sites have ambitious targets for reduced absence. Our vision is zero accidents. A positive trend in the number of accidents was achieved in 2015 and sustained in 2016. Our results in these areas are published on our sustainability web-site, [www.sustainability.nordzucker.com](http://www.sustainability.nordzucker.com) and are backed by certifications according to a number of standards, including ISO 9001, ISO 14001, FSCC 22000, OHSAS 18001 and ISO 50001.

Further information on Nordic Sugar's work with and results in the area of sustainability is available in a separate section of our website, [www.sustainability.nordzucker.com](http://www.sustainability.nordzucker.com).

## HR policy

With respect to the female representatives of the board, being the underrepresented gender, the board decided on 25 June 2015 that the target for 2019 should be 40 % female members of the board. No changes were made in the board during the financial year 2016/17 with respect to board members elected at the general assembly. One out of five board members elected at the general assembly is a female representative. Thus, the target for 2019 has not yet been achieved. The company is working on meeting the target set for 2019.

It was also decided in 2013 to implement a policy to increase the number of female managers at other management levels. Main focus areas in the policy are:

- to ensure that Nordic Sugar A/S' staff policy at all times and in all respects promotes equal career opportunities for men and women, including in connection with employment procedures and recruitment, maternity and paternity leave and return from leave;
- to create a framework for women's career development through networking;
- to ensure that talent programs contribute to rendering female management talents;
- to aim at having both female and male candidates presented during recruitment; and
- an aim of having at least 1 female candidate on the shortlist when recruiting at management level.

Initiatives for the financial year 2016/17 to achieve the targets of the policy have been listed below. The initiatives have created a broader base for the female candidates in management positions and include among others:

- When recruiting, a special focus is continuously set at choosing a diverse segment aiming for female representation in both screening process and final rounds. This also applies when recruiting at managerial level.
- Recruiting 17 new white collar employees in financial year 2016/17, 6 of those were female.
- In the financial year 2016/17, 1 new female manager was appointed, coming from a non-managerial job within the company.
- When new female managers are appointed, the company supports their participation in networking groups outside the company as well as internal networking.

## Income statement

1 March 2016 - 28 February 2017

(DKKm)	Note	2016/17	2015/16
<b>Revenue</b>	3	3,142	2,546
Production costs	4	(2,585)	(2,209)
<b>Gross profit</b>		557	337
Distribution and sales expenses	4	(242)	(262)
Administrative expenses	4	(78)	(82)
Other operating income		104	102
Other operating expenses		(96)	(100)
<b>EBIT</b>		245	(5)
Income from investments in subsidiaries	5	(3)	49
Financial income	6	20	22
Financial expenses	6	(12)	(2)
<b>Profit before tax</b>		250	64
Income tax	7	(55)	(2)
<b>Profit for the year</b>		195	62

## Balance sheet

### ASSETS

(DKKm)	Note	28 February 2017	29 February 2016
<b>NON-CURRENT ASSETS</b>			
Intangible assets	8		
Other intangible assets		13	10
<b>Total</b>		<b>13</b>	<b>10</b>
<b>Property, plant and equipment</b>			
Land and buildings	9	226	238
Plant and machinery		606	579
Fixtures, fittings, tools and equipment		13	14
Prepayments and assets under construction		-	3
<b>Total</b>		<b>845</b>	<b>834</b>
<b>Financial assets</b>			
Investments in subsidiaries	10	879	922
<b>Total</b>		<b>879</b>	<b>922</b>
<b>Total non-current assets</b>		<b>1,737</b>	<b>1,766</b>
<b>CURRENT ASSETS</b>			
<b>Inventories</b>			
Raw materials and consumables		96	95
Finished goods and goods for resale		816	1.094
<b>Total</b>		<b>912</b>	<b>1,189</b>
<b>Receivables</b>			
Trade receivables	11	221	207
Receivables from related parties		60	84
Current income tax receivable from Nordic Sugar Holding A/S		7	1
Other receivables		41	38
Accruals		2	3
<b>Total</b>		<b>331</b>	<b>333</b>
Cash and cash equivalents		13	4
<b>Total current assets</b>		<b>1,256</b>	<b>1,526</b>
<b>Total assets</b>		<b>2,993</b>	<b>3,292</b>

## Balance sheet

### EQUITY AND LIABILITIES

(DKKm)	Note	28 February 2017	29 February 2016
<b>EQUITY</b>			
Share capital	12	1,000	1,000
Cash flow hedges		12	( 29)
Other reserves		1,055	1,055
Proposed dividend		195	62
<b>Total equity</b>		<b>2,262</b>	<b>2,088</b>
<b>PROVISIONS</b>			
Provision for deferred tax liability	13	127	133
Other provisions	14	6	2
<b>Total provisions</b>		<b>133</b>	<b>135</b>
<b>NON-CURRENT DEBT</b>			
Other payables	15 16	1	2
<b>Total</b>		<b>1</b>	<b>2</b>
<b>CURRENT DEBT</b>			
Trade payables	15	240	179
Amounts owed to related parties		275	776
Other payables	16	82	112
<b>Total</b>		<b>597</b>	<b>1,067</b>
<b>Total liabilities</b>		<b>731</b>	<b>1,204</b>
<b>Total equity and liabilities</b>		<b>2,993</b>	<b>3,292</b>

### OTHER NOTES

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## Statement of changes in equity

(DKKm)	Note	Share capital	Other reserves	Cash flow hedging	Proposed dividend	Total
Equity at 1 March 2015		1,000	1,055	0	222	2,277
Dividend paid					(222)	(222)
Transferred, cf. distribution of profit	2				62	62
Changes in cash flow hedging				(37)		(37)
Tax on changes in cash flow hedging				8		8
Equity at 1 March 2016		1,000	1,055	(29)	62	2,088
Dividend paid					(62)	(62)
Transferred, cf. distribution of profit	2				195	195
Changes in cash flow hedging				52		52
Tax on changes in cash flow hedging				(11)		(11)
Equity at 28 February 2017		1,000	1,055	12	195	2,262

## Note 1 – Accounting policies

The annual report of Nordic Sugar A/S has been prepared in accordance with the Danish Financial Statements Act's rules for large enterprises in reporting class C.

Effective from the financial year 2016/17, act no. 738 of 1 July 2015 has been adopted. This implies a change in the measurement with regards to yearly assessment of residual values of property, plant and equipment. In future, residual values of property, plant and equipment are subject to annual assessment. The company has no significant residual values relating to property, plant and equipment other than those relating to the company's land which is not depreciated. Consequently, the change is made in accordance with section 4 of the executive order on transitional provisions with future effect only as a change in accounting estimates with no impact on equity. The change has no impact on the income statement or balance sheet for the financial year 2016/17 or the comparative figures.

Apart from the above changes as well as new and changed presentation and disclosure requirements, which follow from act no. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

The Annual Report is presented in Danish kroner (DKK), which is the functional currency of the company.

With reference to section 112.1 of the Danish Financial Statements Act, no consolidated financial statements have been prepared for Nordic Sugar A/S, since the company and its subsidiaries are included in the consolidated financial statements of Nordzucker AG which are prepared in accordance with IFRS and are available at Nordzucker's homepage [www.nordzucker.de](http://www.nordzucker.de).

### Accounting estimates, assumptions and uncertainties

In determining the carrying amount of assets and liabilities at the balance sheet date, estimates are required of how future events will affect the valuation at the balance sheet date. Estimates, which are significant for the financial reporting, are mainly made in relation to measurement of inventories, depreciation and write down, including impairment of investments in subsidiaries, amortisation, provisions plus contingent assets and contingent liabilities. Estimates are based on assumptions which are reasonable, but which in the nature of the case are uncertain. The assumptions may be incomplete or inaccurate and unexpected events or circumstances may arise. Furthermore, the company is subject to risks and uncertainties which may imply that the actual results may differ from these estimates.

Risk perception and risk management are mentioned in Management's review.

### Currency translation

Transactions in foreign currency are recognised using the exchange rate prevailing at the day of the transaction. Non-monetary assets acquired in foreign currency are not subsequently adjusted. Receivables, liabilities and other monetary items in foreign currency are translated using the exchange rate prevailing at the balance sheet date. Currency adjustments arising from the difference between the exchange rate at the transaction date and the balance sheet date are re-recognised in the income statement under financial items. Currency adjustments of debt in foreign currency are recognised in the income statement.

### Derivatives

The company uses forward exchange contracts to reduce exchange rate risks. Sugar futures as well as oil swaps are used to reduce the risk of sugar sales based on world market prices respectively production costs, including forward currency contracts to hedge mainly transactions in USD and NOK. The company does not use derivatives for speculative purposes. Derivative financial instruments are initially recognised at fair value and are subsequently remeasured to the fair value at each balance sheet date.

Fair value of derivatives is included in Other receivables (positive fair value) or Other payables (negative fair value) as the case may be. Hedge accounting is applied for hedging of oil (cash flow hedging) where realised as well as unrealised gains and losses on derivatives are deferred in equity until the hedged item is recognised in the income statement under the same item as the hedged risk (production costs). Hedge accounting is not applied for hedging of revenues where realised as well as unrealised gains and losses on derivatives are recognised in the income statement as financial items.

Fair values of derivative financial instruments are calculated on the basis of current market data and recognised valuation methods (level 2: Value based on recognised valuation methods on the basis of observable market information).

## Income statement

### Revenue

Revenue comprises invoiced sales less returned goods, bonuses and discounts granted in connection with sales. Sale of goods is recognised when the goods have been delivered and ownership and risk have passed to the buyer.

### Production costs

Production costs include raw materials, consumables, direct labour and indirect production costs such as maintenance and depreciation of production plant as well as administration and plant management. Production costs also include research and development costs. Research costs are recognised in the income statement in the year in which they are incurred. Clearly defined and identifiable development projects in which the technical degree of exploitation, adequate resources and potential future market or development possibility inside the company are recognisable, and where it is the intention to produce, market or use the project, are recognised as intangible assets where a correlation between the costs incurred and future earnings exists.

### Distribution and sales expenses

Distribution and sales expenses comprise transportation costs, salary expenses for sales and logistics personnel, advertising and exhibition expenses, depreciation and other indirect expenses. Furthermore, it includes cost of warehouses and silos.

### Administrative expenses

Administrative expenses comprise expenses of the administrative staff and management and other indirect expenses.

Audit fees are not disclosed with reference to section 96.3 of the Danish Financial Statements Act. The fee is specified in the consolidated financial statements of Nordzucker AG.

### Other operating income

Other operating income comprises income of a secondary nature in relation to the activities of the company, including gains on the sale of intangible assets, property, plant and equipment, rental income plus recharged intercompany services.

### Other operating expenses

Other operating expenses comprise expenses of a secondary nature in relation to the activities of the company, including losses on the sale of intangible assets and property, plant and equipment.

### Government grants

Government grants include EU compensation for renouncing of sugar quotas (sale of sugar quotas), CO<sub>2</sub> allowances and investments. EU compensation for renouncing of sugar quotas (sale of sugar quotas) and CO<sub>2</sub> allowances are recognised in the income statement on a systematic basis to match the related cost. Investment grants are set off against the cost of the subsidised assets. In case the investment grants exceed the carrying amount of the assets, the residual is recognised as other operating income.

### Income from investments in subsidiaries

The item comprises profit from sale of investments in subsidiaries, any write downs plus dividends from investments in subsidiaries. Dividends are recognised when the right to receive dividends has been approved by the relevant company bodies. To the extent that distributed dividends exceed accumulated earnings after acquisition, only the part comprising accumulated earnings after acquisition is recognised in the income statement.

### Financial income and expenses

All financial costs are recognised in the income statement. Financial income and expenses include interest income, interest expenses, commission for committed facilities, borrowing expenses, amortisation of financial assets and liabilities, gains and losses on derivatives where hedge accounting is not applied plus the interest part of finance leases.

### Income tax

Income tax consists of current tax and changes in deferred tax. Income tax related to cash flow hedging is recognised in equity until the hedged item is recognised in the income statement.

## Note 1 – Accounting policies - continued

### Current tax

The tax currently payable is based on the taxable profit for the year using the applicable tax rates that have been enacted at the balance sheet date.

### Deferred tax

Deferred tax is measured according to the balance sheet liability method in respect of all temporary differences between the tax base and the carrying amount of an asset or liability. Deferred tax on goodwill is not recognised unless the goodwill is tax deductible. Taxation arising on the sale of investments in subsidiaries is not recognised in the balance sheet unless the investments are expected to be sold within a short period. The tax base of tax losses carried forward and negative deferred tax are recognised as assets when it is likely that they will reduce future tax payments within a reasonable period of time. Deferred tax is measured on the basis of the regulatory tax rules and tax rates applicable at the balance sheet date when the deferred tax is expected to become current tax. Changes in deferred tax due to changes in tax rates are recognised in the income statement.

Nordic Sugar A/S is jointly taxed with its Danish parent company Nordic Sugar Holding A/S. Current Danish income tax is divided between the jointly taxed companies relative to their taxable income. Withholding taxes relating to dividends from subsidiaries outside Denmark are recognised in the year in which the dividend is declared.

## Balance sheet

### Other intangible assets

Intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation is made on a straight-line basis over the estimated useful lives of the assets.

Other intangible assets include additional sugar quota acquired from the EU. The quotas are measured at the price fixed by the EU and are depreciated over the useful life of 9 years. The useful life is similar to the expected remaining period of the current EU sugar regulations.

#### Amortisation period:

Patents, licences and other intellectual property rights	up to 20 years
Software	up to 5 years
CO2 quotas	when consumed

Useful life is determined on the basis of management's experience in the company's business areas and reflects in the opinion of management the best estimate of the economic useful lives of the assets.

### Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and write downs. Cost includes costs of materials, components, sub-supplier services, direct labour and indirect production costs. Interest and other borrowing costs are not included in cost. Property, plant and equipment are depreciated on a straight-line basis over the expected useful lives of the assets. Depreciation is initiated when the assets are deemed to be ready for use. Land is not depreciated.

#### Depreciation period:

Buildings	20-60 years
Plant and machinery	10-25 years
Fixtures, fittings, tools and equipment	3-15 years

The basis of depreciation is determined subject to the residual value of the asset. The residual value is estimated to be 0 as it is the intention to keep all property, plant and equipment until the end of the physical useful life.

Expenditure relating to repair and maintenance of property, plant and equipment is recognised either as indirect production costs in the cost of inventories or directly in the income statement.

Finance leases are measured at the lower of the fair value of the leases and the present value of the future minimum lease payments at the time of leasing. Finance leases are subsequently depreciated on the same basis as other property, plant and equipment. Residual lease obligations are recognised in the balance sheet under other payables and interest charges on the lease are recognised as financial expenses in the income statement.

## Note 1 – Accounting policies - continued

Lease payments under operating leases are accrued and recognised in the income statement as operating expenses over the lease term.

Gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

### Financial assets

Investments in subsidiaries are measured at cost less write downs. To the extent that distributed dividends exceed accumulated earnings after acquisition, only the part comprising accumulated earnings after acquisition is recognised in the income statement. The remaining part reduces the value of investments in subsidiaries.

### Impairment of non-current assets

At year-end, the carrying amount of tangible and intangible assets is reviewed to determine any indication of impairment.

In the case of such indication, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are deemed to be independent of other assets, an estimate is made of the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is determined at the higher of the fair value less selling cost and the value in use. In the determination of value in use, estimated future cash flows are discounted by a discount rate reflecting market assessments of the time value of money and special risks associated with the asset for which adjustments have not been made in the estimated future cash flows.

Where the recoverable amount of the asset or unit is estimated to be lower than the carrying amount, the carrying amount is written down to the recoverable amount.

Any impairment loss is recognised in the income statement. Where the impairment is subsequently reversed, the carrying amount of the asset is increased to the adjusted estimate of the recoverable amount, however not exceeding the carrying amount, which the asset would have had, had it not been written down. Reversal of impairment is recognised in the income statement.

Non-current financial assets that are not measured at fair value are assessed at the balance sheet date to determine if any objective indicators exist that an asset or group of assets has been impaired. In that case, the recoverable amount of the asset is determined and where lower than the carrying amount is written down to the recoverable amount.

### Inventories

Finished goods and goods for resale are recognised on a first-in/first-out (FIFO) basis and measured at cost. Raw materials and consumables are measured based on periodical average prices. Where cost exceeds the realisable value, a write down to this lower value is performed. Cost includes raw materials, consumables, direct labour and indirect production costs such as maintenance and depreciation of production plant and operations as well as administration and plant management. Obsolete items, including slow-moving items, are written down to net realisable value.

### Receivables

Receivables mainly include trade receivables and short-term loans to other subsidiaries of the Nordzucker Group.

Trade receivables are initially measured at cost and subsequently at amortised cost or a lower value subject to individual assessment of potential loss. Fixed-interest short-term loans to subsidiaries are held to maturity and measured at amortised cost.

Other receivables include fair value of derivatives, margin payments related to sugar futures plus receivables from VAT and other duties etc.

### Equity

Dividends are recognised as a liability at the date of adoption at the annual general meeting. Proposed dividend payments for the financial year are disclosed as a separate line item in equity.

### Pension liabilities

Contributions under defined contribution plans are recognised in the income statement in the period they are related to and any contributions payable are recognised in the balance sheet as other payables.



### Other provisions

Other provisions primarily relate to obligations concerning restructuring and obligations towards employees. Provisions are recognised for legal and constructive obligations that have arisen as a result of past events in the financial year or prior years, and where it is likely that the company's financial resources will be required in settling such obligations. The provisions are measured according to management's assessment of the amount by which the obligation is expected to be settled.

### Financial liabilities

Mortgage debt and debt to credit institutions are measured at the time of the loan at nominal value less capital loss and transaction expenses and subsequently at amortised cost. The difference between the loan proceeds and the nominal value is recognised as a financial item in the income statement over the term of the loan.

Other payables, which include production levies, trade payables, payables to subsidiaries as well as other debt, are measured at amortised cost.

### Cash flow statement

With reference to section 86.4 of the Danish Financial Statements Act, no cash flow statement for Nordic Sugar A/S has been prepared. Cash flows for Nordic Sugar A/S are part of the consolidated financial statements of Nordzucker AG.

### Segment information on revenue

Segment information is based on the company's accounting policies, risks and internal financial management.

### Definition of key figures and financial ratios

EBITDA margin % =  $\frac{\text{Operating profit (EBIT) before depreciation and amortisation} \times 100}{\text{Revenue}}$

EBIT margin % =  $\frac{\text{Operating profit (EBIT)} \times 100}{\text{Revenue}}$

Return on invested capital =  $\frac{\text{Operating profit (EBIT)} \times 100}{\text{Average invested capital, including goodwill}}$   
(ROIC) %

## Notes to the income statement

<b>2 Distribution of profit</b>		
	2016/17	2015/16
<b>(DKKm)</b>		
Amount to be carried forward	-	-
Proposed dividend	195	62
<b>Total</b>	<b>195</b>	<b>62</b>
<b>3 Segment reporting</b>		
	2016/17	2015/16
<b>(DKKm)</b>		
<b>Product segments:</b>		
Sugar	2,827	2,257
By-products	202	195
Other	113	94
<b>Total</b>	<b>3,142</b>	<b>2,546</b>
<b>4 Employee expenses</b>		
	2016/17	2015/16
<b>(DKKm)</b>		
<b>Employee expenses</b>		
Wages and salaries	(244)	(232)
Defined contribution plans	(21)	(21)
Social security expenses etc.	(5)	(5)
<b>Total</b>	<b>(270)</b>	<b>(258)</b>
<b>Employee expenses are included in the costs below</b>		
Production costs	(158)	(152)
Distribution and sales expenses	(45)	(45)
Administrative expenses	(63)	(56)
<b>Total</b>	<b>(266)</b>	<b>(253)</b>
<b>Employee expenses, which are included in the balance sheet</b>		
Projects	(4)	(5)
<b>Total employee expenses</b>	<b>(270)</b>	<b>(258)</b>
Average number of employees	509	516

The remuneration of management and board amounted to DKKt 2,555 respectively 50 during the financial year 2016/17. The remuneration of management and board amounted to DKKt 2,353 respectively 75 during the financial year 2015/16.

Management has a bonus agreement which is dependent on the financial performance of Nordic Sugar and individual targets.

## Notes to the income statement

<b>5 Income from investments in subsidiaries</b>		
	2016/17	2015/16
<b>(DKKm)</b>		
Dividend from Nordic Sugar OY	40	47
Value adjustment of investment in Nordic Sugar OY	(43)	-
Adjustment of sales price concerning Danisco Sugar GmbH	-	2
<b>Total</b>	<b>(3)</b>	<b>49</b>
<b>6 Financial income and expenses</b>		
	2016/17	2015/16
<b>(DKKm)</b>		
<b>Financial income</b>		
Gains on derivatives	17	20
Other financial income	3	2
<b>Total</b>	<b>20</b>	<b>22</b>
<b>Financial expenses</b>		
Financial expenses to related parties	(1)	(2)
Losses on derivatives	(10)	(2)
Other financial expenses	(1)	2
<b>Total</b>	<b>(12)</b>	<b>(2)</b>
<b>Financial income and expenses, net</b>	<b>8</b>	<b>20</b>
<b>7 Income tax</b>		
	2016/17	2015/16
<b>(DKKm)</b>		
Current tax on profit for the year recognised in the income statement	(69)	1
Change in deferred tax for the year recognised in the income statement	14	(2)
Change in deferred tax for previous years recognised in the income statement	-	1
Adjustment of current tax for previous years	-	(2)
<b>Total</b>	<b>(55)</b>	<b>(2)</b>

Total current tax for the financial year 2016/17 amounts to DKKm 72 of which DKKm 3 have been recognised in equity.

## Notes to the balance sheet

### 8 Intangible assets

(DKKm)	Sugar quotas	Software	Rights	Total
Cost at 1 March 2016	117	79	11	207
Additions	-	-	14	14
Disposals	-	(77)	(10)	(87)
<b>Cost at 28 February 2017</b>	<b>117</b>	<b>2</b>	<b>15</b>	<b>134</b>
Amortisation at 1 March 2016	(109)	(77)	(11)	(197)
Amortisation of disposals during the year	-	77	10	87
Amortisation for the year	(8)	-	(3)	(11)
<b>Amortisation at 28 February 2017</b>	<b>(117)</b>	<b>-</b>	<b>(4)</b>	<b>(121)</b>
<b>Carrying amount at 28 February 2017</b>	<b>-</b>	<b>2</b>	<b>11</b>	<b>13</b>

### 9 Property, plant and equipment

(DKKm)	Land and buildings	Plant and machinery	Fixtures, fittings, tools and equipment	Prepayments and assets under construction	Total
Cost at 1 March 2016	754	2,287	68	3	3,112
Additions	9	98	3	-	110
Disposals	(4)	(32)	(4)	-	(40)
Reclassifications	1	2	-	(3)	-
<b>Cost at 28 February 2017</b>	<b>760</b>	<b>2,355</b>	<b>67</b>	<b>-</b>	<b>3,182</b>
Depreciation and write-downs at 1 March 2016	(516)	(1,708)	(54)	-	(2,278)
Depreciation of disposals during the year	3	31	3	-	37
Depreciation for the year	(21)	(72)	(3)	-	(96)
Reclassifications	-	-	-	-	-
<b>Depreciation/write-downs at 28 February 2017</b>	<b>(534)</b>	<b>(1,749)</b>	<b>(54)</b>	<b>-</b>	<b>(2,337)</b>
<b>Carrying amount at 28 February 2017</b>	<b>226</b>	<b>606</b>	<b>13</b>	<b>-</b>	<b>845</b>
Carrying amount of leased assets	1	-	-	-	1

There are no pledges in property, plant and equipment.

## Notes to the balance sheet

### 10 Financial assets

(DKKm)	Investments in subsidiaries
Cost at 1 March 2016	922
Additions	-
Disposal	-
Value adjustment	( 43)
<b>Carrying amount at 28 February 2017</b>	<b>879</b>

Subsidiaries	Country	Currency	Nominal capital *	Nordic Sugar's share in %
Nordic Sugar Oy	Finland	EUR	15,000	100
Sucros Oy	Finland	EUR	58,866	80
Suomen Sokeri Oy	Finland	EUR	38,683	80
Nordic Sugar SIA	Latvia	EUR	2	100
AB Nordic Sugar Kedainiai	Lithuania	EUR	25,931	71
Ingolf Wesenberg & Co. AS	Norway	NOK	100	50

\* Nominal share capital in 1,000's.

Subsidiaries	Country	Currency	Result**	Equity**
Nordic Sugar Oy	Finland	EUR	1	54
Sucros Oy	Finland	EUR	0	104
Suomen Sokeri Oy	Finland	EUR	5	43
Nordic Sugar SIA	Latvia	EUR	0	0
AB Nordic Sugar Kedainiai	Lithuania	EUR	8	47
Ingolf Wesenberg & Co. AS	Norway	NOK	0	0

\*\* Result and equity are stated in million local currency based on local GAAP in the respective countries and the latest available annual report.



## Notes to the balance sheet

### 11 Receivables

(DKKm)	2016/17 28 February 2017	2015/16 29 February 2016
<b>Other receivables</b>		
VAT and other taxes	18	9
Derivative financial instruments	22	8
Margin payments related to sugar futures	-	18
Other	1	3
<b>Total</b>	<b>41</b>	<b>38</b>

Accruals include accrued insurance premiums and prepaid rent etc.

Receivables payable more than 1 year after the balance sheet date	0	0
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### 12 Equity

The share capital amounting to DKK 1 billion consists of 1,000,000 A shares with a nominal value of DKK 100 each and 9,000,000 B shares with a nominal value of DKK 100 each. The B shares have preference of up to 10% accumulated dividend.

The share capital has remained unchanged over the past 5 years.

### 13 Provision for deferred tax liability

(DKKm)	2016/17 28 February 2017	2015/16 29 February 2016
Deferred tax liability at 1 March	133	140
Change in deferred tax recognised in the income statement	(14)	1
Change in deferred tax recognised in equity	8	(8)
<b>Deferred tax liability at 28 February</b>	<b>127</b>	<b>133</b>

### 14 Other provisions

(DKKm)	2016/17 28 February 2017	2015/16 29 February 2016
Other provisions at 1 March	2	15
Provisions during the year	6	2
Provisions reversed during the year	-	(13)
Provisions utilised during the year	(2)	(2)
<b>Other provisions at 28 February</b>	<b>6</b>	<b>2</b>
<b>Due date is expected to be:</b>		
Within 1 year	6	2
Over 1 year	-	-
<b>Total</b>	<b>6</b>	<b>2</b>

Other provisions mainly include obligations towards employees and related to restructuring.

### 15 Maturity analysis of debt

(DKKm)	2016/17 28 February 2017	2015/16 29 February 2016
<b>Remaining contractual maturities</b>		
Within 1 year	597	1,067
Between 1 and 5 years	1	2
<b>Total</b>	<b>598</b>	<b>1,069</b>

## Notes to the balance sheet

16 Other payables		
(DKKm)	2016/17 28 February 2017	2015/16 29 February 2016
<b>Non-current other payables</b>		
Finance lease debt	1	2
<b>Total</b>	<b>1</b>	<b>2</b>
<b>Current other payables</b>		
Wages, salaries, holiday pay, etc.	49	47
VAT and other taxes	8	8
Finance lease debt	1	1
Derivative financial instruments	6	39
Other items	18	17
<b>Total</b>	<b>82</b>	<b>112</b>

## Supplementary notes

### 17 Financial instruments

(DKKm)

The company uses FX forward currency contracts to hedge currency exposure related to sales and purchases in other currencies than EUR unless the exposure in another currency is immaterial. The company uses sugar futures to hedge price exposure related to sales outside of the EU. The company also uses oil swaps to hedge the price of purchased oil. The company does not use derivatives for speculative purposes.

Hedge accounting is applied for hedging of oil, including related FX exposure in USD (cash flow hedging) while other exposures are considered as economic hedges where gains and losses from derivatives are recognised immediately in the income statement as gains or losses.

#### Currency exposure as per 28 February 2017 (DKKm)

	Period	Recognised receivables	Recognised payables	Hedging	Net position
EUR	< 1 year	142	(62)	0	80
NOK	< 1 year	37	(2)	(35)	0
USD	< 1 year	1	0	0	1
Other currencies	< 1 year	0	0	0	0
<b>Total</b>		<b>180</b>	<b>(64)</b>	<b>(35)</b>	<b>81</b>

#### Price exposure related to sugar (DKKm)

The company has sold 10,650 tons of sugar via sugar futures as per 28 February 2017 for the period until February 2018. The fair value of the sugar futures is DKKm 3 on 28 February 2017.

The fair value of FX forward contracts except for cash flow hedges cf. below is DKKm -1 on 28 February 2017.

#### Cash flow hedging (DKKm)

The company has applied cash flow hedging for the following anticipated oil transactions as per 28 February 2017:

(DKKm)	Period	Contractual value	Gain recognised in equity
Oil swaps	0-12 months	64	12
FX forward contracts	0-12 months	Same as oil swap	3
<b>Total</b>		<b>0</b>	<b>15</b>

During the financial year 2016/17 losses of DKKm 43 have been offset against inventory of which DKKm 36 have been recognised in production costs as a result of sales transactions.

### 18 Contingent assets and contingent liabilities

(DKKm)	2016/17 28 February 2017	2015/16 29 February 2016
Guarantees and other financial commitments	97	56
<b>Total</b>	<b>97</b>	<b>56</b>
<b>Operating lease and rental obligations</b>		
Maturity of operating lease and rental obligations:		
Within 1 year	14	14
Between 2 and 5 years	17	21
<b>Total</b>	<b>31</b>	<b>35</b>

## Supplementary notes

### 18 Contingent assets and contingent liabilities - continued

#### Operating lease and rental obligations

The company has only entered into operating lease agreements in the normal line of business. The leasing agreements include buildings and equipment.

#### Legal proceedings pending

There are no pending legal proceedings.

#### Joint and several liability

The parent company is jointly taxed with the Danish subsidiary. As the administrative company, together with the subsidiary, the Company has joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties in the joint taxation unit. At 28 February 2017, the net taxes payable to SKAT by the companies included in the joint taxation amounted to DKKt 0. Any subsequent corrections of the taxable income subject to joint taxation or withholding taxes on dividends, etc., may entail that the companies' liability will increase. The Group as a whole is not liable to others.

### 19 Transactions with related parties

#### Ownership

Nordic Sugar A/S is wholly owned by Nordic Sugar Holding A/S, Langebrogade 1, 1014 Copenhagen K.

#### Transactions with related parties:

Nordic Sugar A/S trades sugar and related feed products with related parties in the Nordzucker group as a normal part of the business. Furthermore, Nordic Sugar A/S provides services and receives services from the same entities.

The below transactions have taken place during the financial year 2016/17 (DKKm).

<b>Sugar and by-products etc.:</b>	<u>Sale</u>	<u>Purchase</u>
Sugar and by-products etc. to subsidiaries	186	306
Sugar and by-products etc. to other related parties	914	395
<b>Services:</b>	<u>Sale</u>	<u>Purchase</u>
Services provided to/received from subsidiaries	16	28
Services provided to/received from other related parties	109	100
<b>Balance sheet transactions:</b>		
Loan from other related parties (balance as per 28 February 2017)		222
Financial expenses to related parties		1
	<u>Sale</u>	<u>Purchase</u>
Investments in plant, property and equipment to other related parties	1	0

Outlays have not been considered in the above figures.

For information on remuneration of management and board please see note 4.

### 20 Post balance sheet events

There have been no subsequent events of significance to the annual report 2016/17 after the end of the financial year on 28 February 2017.