Bluestar Adisseo Company

Executive summary of 2016 annual report

I. Highlights

1 **This report is extracted from the whole package of 2016 annual report. In order to understand the Company's operation results, financial position and future plans, investors should go to SSE website and other official disclosure channel to read the whole package of 2016 annual report.**

2 **The Company's Board of Directors, Board of Supervisors, directors, supervisors, and senior management guarantee that, the content of the annual report is authentic, accurate and complete, and contains no false statement, misleading presentation or material omissions, and they assume individual and several & joint legal liabilities for the annual report.**

3 **All of the Company's directors have attended the meeting of the Board of Directors.**

4 **KPMG Huazhen LLP issued an unqualified audit opinion.**

5 **The Board of Directors has reviewed the profit distribution plan and the plan to use the statutory reserve to perform a capital increase in the reporting period.**

As audited by KPMG Huazhen LLP, the net profit attributable to the shareholders of the Company for the year ended 31st December 2016 amounted to RMB 1,865,346,347 and the accumulated profits available for distribution at parent company level as at 31st December 2016 amounted to RMB 624,360,836.

Therefore, in order to share the Company's operation achievements with all shareholders, as well as enabling the Company for further development in consideration of the Company's actual operation situations, the Company proposes that: based on the Company's total share capital of 2,681,901,273 shares dated 31 December 2016, the Company will distribute to all shareholders, cash dividend of RMB 2.28 yuan per 10 shares (inclusive of tax). The total amount of the cash dividends to be distributed is RMB 611,473,490.24 yuan.

The above proposal is still subject to the approval of 2016 Annual General Shareholders' Meeting.

II. Basic overview of the Company

1 Company profile

Brief information on the Company's stock				
Type of security	Stock exchange on which the securities are listed	Share abbreviation	Share code	Share abbreviation before modification
Ordinary Shares	Shanghai Stock Exchange	Adisseo	600299	BNCM

	Secretary to the Board of Directors	Securities Representative
Name	Wang Peng	
Contact address	9 West Beitucheng Road, Chaoyang District, Beijing	
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2 Main businesses, Operating Methods and Industry explanation of the company during the reporting period

The primary businesses of the Group are as follows: research, development, production and sale of feed additives for animal nutrition.

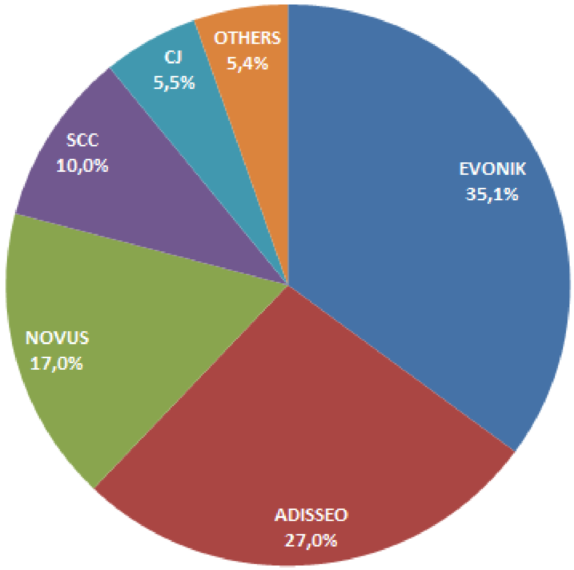
Adisseo is a global leader in nutrition and health feed solutions including research and development, production and sales with over 75 years' experience. Its principal products include methionine, vitamins, enzymes and other animal feed additives. By relying on its rich product mix, expansive sales, distribution platforms and strong technical support team, the Company provides innovative feed additives solutions to around 2,600 customers located in 140 countries globally.

Adisseo supplies three types of products: Performance products (including methionine, vitamins, ammonium sulfate and sodium sulfate), Specialty products (including enzymes, rumen-protected methionine and organic selenium and probiotics additives) and Other products (including carbon disulfide, sulfuric acid and services of processing powder).

Adisseo has become a global leader in its main product lines:

- Adisseo is a world leader methionine and the world's second largest producer of methionine in 2016 by market share. Adisseo is also one of the two global methionine producers capable of producing methionine in both powder and liquid forms.
- Adisseo is one of the two international methionine producers to establish production facilities in China;
- Adisseo is a world-leading supplier of Non-Starch Polysaccharide enzymes;
- Adisseo is the world-leading producer of rumen-protected methionine.

2016 estimated market share by major player breakdowns as follows: (*Feedinfo* estimate)



Methionine is one of the Adisseo's main product categories. The complicated production processes of chemical synthesis of methionine require significant expertise and initial capital investment. The whole production process is regulated and supervised strictly from the prospective of environmental protection and production safety. Therefore, only a few producers in the world are capable of producing methionine safely, sustainably and in large scale.

Its global leadership in the methionine market and deep scientific know-how in feed nutrition have enabled Adisseo to establish long-term and stable relationships with its customers. Taking full advantage of its unparalleled global sales network, Adisseo provides its customers with a comprehensive and diverse product mix that include vitamins and enzymes, to satisfy the customers' demand for multiple products, and consistently provides high-quality products and after-sales service in all product lines. Adisseo is also one of the most recognized suppliers of Non-Starch Polysaccharide enzymes and vitamins in the feed industry. Furthermore, Adisseo has a powerful team of technical experts to offer professional consultation on additive application technologies and feed formulation and finished products analysis, strengthening its position as the go-to supplier for and its long-term and productive relationships with its customers.

The main performance-driven factors for Adisseo are the following:

- Worldwide meat consumption. Adisseo sells its products on the animal feed additives market. This market is driven by the worldwide consumption of meat. It is mainly exposed to business risks on the poultry segment and specifically the methionine market. This market grows sustainably each year due to the growth in the poultry meat market and to the industrialization of the feed industry.

- Currency exchange rates. Adisseo sells its products in different countries, mainly in US dollar, partly in Euro and partly in RMB. Regarding cost, its plants are mainly in Europe and China, it purchases a significant portion of its raw material in Euro, US dollar and RMB.
- Brent oil. Adisseo uses raw materials that are partly derivatives of Brent oil.

Adisseo has set up local supply chain systems operating in an efficient and highly-responsive way based on the distribution of its regional customers. Its manufacturing network includes six plants: four in France, one in Spain and one in China. From those plants, it delivers its finished products directly or indirectly to its customers in the world. It either ships direct to its customers or regional warehouses. Adisseo also has a dedicated warehouse in Shanghai for traded products that are sourced in China, grouped in this warehouse and shipped worldwide either to customers or to its regional warehouses.

Adisseo is a key participant for every regional market worldwide.

China has one of the world's largest methionine demands. Adisseo is one of the first global enterprise to establish major production facilities to produce methionine in China. With its integrated production process and world-class manufacturing capability, the Adisseo Nanjing plant has become one of the world's largest liquid methionine producers at comparatively one of the lowest cost, which will enable to seize the opportunities afforded by China's rapidly-growing methionine demand, swiftly respond to the changes in the market and further enhance its competitiveness and market position.

Adisseo actively explores extended and innovative products in relevant industries through its leading methionine technologies and has developed rumen-protected methionine products specially designed for dairy cows to improve the protein level of milk. Adisseo is the largest producers and suppliers of rumen-protected methionine globally with outstanding advantages in technological advancement and market positioning.

3 Main financial data for the latest three reporting periods

Unit: Yuan Currency: RMB

Main accounting data	2016	2015	Changes in comparison with the same period of last year (%)	2014
Total assets	19,943,821,352	17,913,081,071	11%	32,712,243,163
Operating revenue	10,688,263,140	15,173,331,658	-30%	19,464,593,278
Net profit attributable to the shareholders of the Company	1,865,346,347	1,528,651,062	22%	1,475,377,366
Net profit attributable to the shareholders of the Company after deduction of non-recurring profit or losses	1,866,719,988	259,638,679	619%	(1,008,239,323)

Net assets attributable to the shareholders of the Company	12,075,838,659	10,189,335,115	19%	7,634,951,766
Net cash flow arising from operating activities	3,053,923,615	3,555,802,311	-14%	2,471,293,869
Basic earnings per share (Yuan/ share)	0.70	0.58	20%	0.56
Diluted earnings per share (Yuan/ share)	0.70	0.58	20%	0.56
Weighted average return on net asset (%)	16.79	17.60	-5%	19.38

3. 1 Main financial data on a quarterly basis for the reporting period

Unit: Yuan Currency: RMB

	Q1 2016	**Q2 2016**	**Q3 2016**	**Q4 2016**
Operating revenue	2,747,694,741	2,687,261,393	2,655,332,179	2,597,974,827
Net profit attributable to the shareholders of the Company	560,653,855	540,885,846	443,552,414	320,254,232
Net profit attributable to the shareholders of the Company after deduction of non-recurring profits and losses	560,404,235	538,516,340	446,829,457	320,969,956
Net cash flow from operating activities	949,522,412	564,437,478	663,599,887	876,363,838

Explanation of the data difference between the above quarterly financial data with the data published in previous quarterly reports:

☐ Applicable √ Not applicable

4 Share structure and shareholders

4. 1 Common sharehoders and top 10 shareholders

Unit: shares

Total number of shareholders by the end of reporting period				24,184		
Total number of shareholders at the end of the last month before the date when the annual report was published				25,142		
Shares held by top ten shareholders						
Name of shareholder	Change	Number of shares	Proportion	Number of	Status of pledged or	Type of

(full name)	in the reporting period	held by end of the period	of shares held (%)	shares with trading restrictions	frozen shares		shareholder
					Share status	Number	
China National Bluestar (Group) Co., Ltd.	0	2,389,387,160	89.09	2,107,341,862	Frozen	10,000,000	Stated owned legal entity
Truevalue AM-SPDB-Truevalue Xinhuoli No.1 multi-layer asset mgt plan	20,762,282	20,762,282	0.77	0	Unknown	0	Unknown
Taida Hongli Fund-Minsheng Bank-No. 300 Asset Management Plan	0	9,629,629	0.36	0	Unknown	0	Unknown
Changshi Investment Company Ltd	6,563,822	6,563,822	0.24	0	Pledged	6,560,000	Unknown
China Electronic Investment Holding Company	0	5,185,185	0.19	0	Unknown	0	Unknown
Guangxi Railway Development Investment Fund	0	5,185,185	0.19	0	Unknown	0	Unknown
PingAn Dahua Fund – NO. 3 Asset Management Plan	0	5,185,185	0.19	0	Unknown	0	Unknown
Jianxin Fund-Industriy Bank-No.1 Jianxinfuda Multiple clients Asset management plan	0	4,955,557	0.18	0	Unknown	0	Unknown
Zhang Shaobo	-605,254	4,579,931	0.17	0	Unknown	0	Unknown
Jiangsu Juhe Chuangyi Emerging Industry Investment Fund LLP	3,790,000	3,790,000	0.14	0	Unknown	0	Unknown
Statement on related relationship or acting in concert among the above shareholders	the State-owned corporation shareholders, China National Bluestar (Group) Co., Ltd. and Beijing Research and Design Institute of Rubber Industry (who owns 3,737,262 shares), are subsidiaries of China National Chemical Corporation. Except for the abovementioned shareholders, the Company does not know whether any related relationship exists among other shareholders, or whether the other shareholders have acted in concert as regulated by the Administrative Measures for Purchasing of Listed						

	Companies.
Description for the participation in margin trading business of the top 10 shareholders (If any)	Not applicable

4.2 Block diagram of the shareholding interest and control relationship between the Company and its controlling shareholders

√ Applicable □ Not applicable

China Bluestar (Group) Co., Ltd.

↓ **89.09%**

Bluestar Adisseo Company

4.3 Block diagram of the shareholding interest and control relationship between the Company and its ultimate controlling shareholder

√ Applicable □ Not applicable

State Assets Supervision and Administration Commission of China

↓ 100%

China National Chemical Corporation

↓ 63.58%

China Bluestar (Group) Co., Ltd.

↓ 89.09%

Bluestar Adisseo Company

5 Corporate Bond issuance

Not applicable

III. MD&A

1 Analysis of results of operations of main businesses in the reporting period

1.1 Analysis of main business

Analysis of main changes in items of profit & loss statement and cash flow statement

Unit: Yuan Currency: RMB

Items	Amount of current period	Amount in the same period of last year	Change (%)
Operating revenue	10,688,263,140	15,173,331,658	-30%
Cost of sales	5,618,473,986	8,906,372,900	-37%
Selling and distribution expenses	900,475,273	952,871,565	-5%
General and administrative expenses	849,592,390	980,573,478	-13%
Financial expenses	(32,392,590)	502,569,156	-106%
Net cash flow from operating activities	3,053,923,615	3,555,802,311	-14%
Net cash flow from investing activities	(609,768,378)	(997,053,575)	-39%
Net cash flow from financing activities	(751,646,313)	798,518,058	-194%
Research and development expenditure	245,649,340	165,471,057	48%

(1) Income & Cost Analysis

√ Applicable ☐ Not applicable

a. Analysis by industry, by product and by region

Main operations by industry						
By industry	Operating revenue	Cost of sales	Gross profit ratio (%)	Increase/de-crease in operating revenue on the same period of last year (%)	Increase/decrease in operating cost on the same period of last year (%)	Variation in GP ratio on the same period of last year
Health and Nutrition	10,688,263,140	5,618,473,986	47%	-12%	-5%	-4 %

Main operations by product						
By product	Operating revenue	Cost of sales	Gross profit ratio (%)	Increase/decrease in operating revenue on the same period of last year (%)	Increase/decrease in operating cost on the same period of last year (%)	Variation in GP ratio on the same period of last year
Performance products	8,734,157,910	4,568,963,128	48%	-15%	-8%	-4%
Specialty products	1,357,009,686	684,284,187	50%	-2%	11%	-5%
Other products	597,095,544	365,226,671	39%	17%	6%	7%
Total	10,688,263,140	5,618,473,986	47%	-12%	-5%	-4%

Main operations by region						
By region	Operating revenue	Cost of sales (*)	Gross profit ratio (%)	Increase/decrease in operating revenue on the same period of last year (%)	Increase/decrease in operating cost on the same period of last year (%)	Variation in GP ratio on the same period of last year
Europe / Africa/MO	3,399,606,010			-13%		
North & Central America	2,094,702,587			-3%		
Asia / Pacific (excluded China)	1,755,642,101			-15%		
South America	1,725,907,555			-17%		
China	1,410,838,352			-16%		
Other	301,566,535			-5%		
Total	**10,688,263,140**			**-12%**		

Explanation on main business by industry, by product and by regions

√Applicable ☐ Not applicable

(*) The Company discloses only operating revenue by region due to the fact that neither operating cost, nor gross margin are monitored by region.

Performance products are mainly driven by the methionine business. This year, Adisseo faced with a less favorable market environment, after an exceptional 2015 year, as expected. It generated a price decrease on the methionine market and thus leading to a decrease in operating income by 15%. Thanks to a rigorous cost control and plant's management, as well as positive external factors (stronger US$/€ impact and low raw material cost due to Brent oil), operating expenses have decreased by 8%. The combination of these impacts and a high profitability of the sulfuric business resulted in a decrease in gross profit ratio by 4%.

Operating revenue in Specialty products is quite stable despite the effect of 2016 global dairy market crisis on ruminants' volumes. The decrease in ruminants' volumes is offset by an increase in enzymes volumes sold.

Regions where Adisseo business is developing are mostly Asia Pacific, China and South America.

Analysis of the factors impacting the income from sale of products

In comparison with 2015	Change in Volume	Change in sales price	Exchange rate impact
Performance products	470,776,137	(2,501,885,118)	454,275,511
Specialty products	(57,935,035)	(47,369,876)	81,420,257

Adisseo's operating revenue in 2016 totaled RMB 10,688,263,140 and decreased by 17% at constant EUR/CNY rate (i.e. -12% at current EUR/CNY rate), compared to 2015.

Operating revenue from Performance products decreased by 15% due to the impact of price decrease on the methionine market, which has been partially compensated by higher volumes of methionine products sold and increase in vitamins selling prices in comparison with 2015.

b. Production, Sales and Inventory Quantity analysis

☐Applicable √Not applicable

Units of volume by category of products comprising are not homogeneous. Therefore, no disclosure have been provided.

c. Cost analysis table

Unit: Yuan

By industry							
By industry	Cost composition items	Amount of current period	Proportion to the total cost of current period (%)	Amount of the same period of last year	Proportion to the total cost of the same period of last year (%)	Proportion of change in the amount of current period over the same period of last year	Explanation

						(%)	
Health and Nutrition		5,618,473,986	100%	5,941,636,279	67%	-5%	Positive impact of low raw material cost.

By product							
By product	Cost composition items	Amount of current period	Proportion to the total cost of current period (%)	Amount of the same period of last year	Proportion to the total cost of the same period of last year (%)	Proportion of change in the amount of current period over the same period of last year (%)	Explanation
Performance products	Raw materials, purchased equipment and consumables used (67%), Depreciation and amortization (12%), Other (21%)	4,568,963,128	81%	4,980,878,515	56%	-8%	Positive impact of low raw material cost.
Specialty products	Raw materials, purchased equipment and consumables used (72%), Depreciation and amortization (8%), Other (20%)	684,284,187	12%	615,935,606	7%	11%	Unfavorable impact of exchange rate €/CNY and slight increase in manufacturing fixed costs for ruminants.

By product							
By product	Cost composition items	Amount of current period	Proportion to the total cost of current period (%)	Amount of the same period of last year	Proportion to the total cost of the same period of last year (%)	Proportion of change in the amount of current period over the same period of last year (%)	Explanation
Other products	Raw materials, purchased equipment and consumables used (48%), Depreciation and amortization (21%), Other (31%)	365,226,671	7%	344,822,158	4%	6%	Unfavorable impact of exchange rate €/CNY

Other explanations related to cost analysis

☐Applicable √Not applicable

d. Main customers and main suppliers

√Applicable ☐Not applicable

The total amount of sales revenue from Adisseo's top 5 customers amounted to RMB 314 million, accounting for 3% of the Group's total operating revenue. There is no sales revenue from the related parties.
N°1: RMB 68 million; N°2: RMB 67 million; N°3: RMB 62 million; N°4: RMB 61 million; N°5: RMB 56 million.

The total amount of purchasing from the Company's top 5 suppliers amounted to RMB 1,024.19 million accounting for 18% of the Company's total operating cost, in which the amount of purchasing from the related parties is null.
N°1: RMB 348 million; N°2: RMB 300 million; N°3: RMB 153 million; N°4: RMB 145 million; N°5: RMB 78 million.

(2) Expenses

√Applicable ☐Not applicable

Items	Amount of current period	Amount in the same period of last year	Change (%)
Selling and distribution expenses	900,475,273	952,871,565	-5%
General and administrative expenses	849,592,390	980,573,478	-13%
Financial (income)/expenses	(32,392,590)	502,569,156	-106%

The decrease of financial expense is mainly due to interests earned on BAC funds and the increase in currency exchange result in 2016.

(3) R&D expenditures

√Applicable ☐Not applicable

Unit: Yuan

Research and development expenditure recorded in expenses of current period	243,211,995
Research and development expenditure capitalized of current period	2,437,345
Total research and development expenditure	245,649,340
Proportion of total research and development expenditure to operating revenue (%)	2.30%
R&D headcount as of December 31 2016	145
% of R&D headcount over total headcount	7%
% of capitalized R&D expenditure over total amount	0.99%

Explanation

☐Applicable √Not applicable

(4) Cash flow

√Applicable ☐Not applicable

The Adisseo net cash flow from operating activities amounts to RMB 3,053,923,616 compared to RMB 3,779,933,760 last year (at Adisseo scope). Including BNCM activities, the net cash flow from operating activities amounted to RMB 3,555,802,311 in 2015.

The decrease of net cash flow from operating activities compared to the same period of last year is explained by:

- RMB -898 million (-24%) due to the decrease in Adisseo's sales (Adisseo scope);
- RMB 172 million (5%) due to changes in the EUR/CNY currency exchange rate (Adisseo scope);

- RMB 224 million (-100%) due to the exchange-out of BNCM in the Restructuring, i.e., the BNCM activities between 1/1/2015 – 06/30/2015.

The economic performance of Adisseo mainly explains the still high level of cash generated. The operating cash flow generated by Adisseo enabled to invest RMB 616,666,994, reimbursed various debt for an amount of RMB 11,700,913 and paid dividends for an amount of RMB 771,642,413.

1.2 Significant change in the Company's profit composition or profit sources in the reporting period arises from the ancillary businesses

☐ Applicable √ Not applicable

1.3 Analysis of assets and liabilities

(1) Information of assets and liabilities

Unit: Yuan

Items	As at December 31 , 2016		As at December 31, 2015		% change	Explanation
	Amount	Percentage to total assets (%)	Amount	Percentage to total assets (%)		
Cash at bank and on hand	6,681,296,187	34%	4,941,121,304	28%	35%	Increase related to Adisseo business performance
Advances to suppliers	71,815,235	0%	42,894,418	0%	67%	Increase linked to new suppliers in China
Interest receivable	1,040,703	0%	493,308	0%	111%	Interest on BAC funds
Other current assets	468,296,784	2%	295,953,999	2%	58%	French VAT credit repayment postponed to January 2017
Available-for-sale financial assets	14,334,527	0%	3,275,648	0%	338%	Minority stakes investments in French start up
Long-term prepaid expenses	2,367,403	0%	7,804,167	0%	-70%	Amortization of capitalized fees
Deferred tax assets	164,911,390	1%	92,237,712	1%	79%	Decrease in enacted tax rate in France from 2020 strongly impacted net deferred tax balance
Other non-current assets	2,747,272	0%	11,171,808	0%	-75%	Transfer of prepayment due to property & equipment received
Derivative financial	68,508,557	0%	19,717,561	0%	247%	Change related to hedging of EUR/USD

Items	As at December 31 , 2016		As at December 31, 2015		% change	Explanation
	Amount	Percentage to total assets (%)	Amount	Percentage to total assets (%)		
liabilities						
Advances from customers	20,811,000	0%	11,402,470	0%	83%	Increase of receipt in advance in China
Interest payable	5,543,874	0%	3,132,185	0%	77%	Interests on profit sharing, increase due to the profit increase in 2015
Dividends payable	104,121,900	1%	0	0%	100%	Dividends not paid yet
Current portion of non-current liabilities	117,170,579	1%	84,893,599	0%	38%	Increase in provision
Other current liabilities	18,639,860	0%	13,329,420	0%	40%	Deferred income
Long-term employee benefits payable	647,814,349	3%	280,982,475	2%	131%	Profit sharing increase due to the profits increase in 2015
Provisions	29,196,374	0%	158,006,336	1%	-82%	
Other comprehensive income	(860,732,283)	-4%	(1,329,496,651)	-7%	35%	Impact of exchange rate EUR/CNY
Surplus reserve	256,211,737	1%	137,670,120	1%	86%	Allocation of 10% of the distributable profits of BAC

(2) **Restricted assets at the end of reporting period**

☐ Applicable √ Not applicable

(3) **Other information**

☐ Applicable √ Not applicable

1.4 Analysis of chemical industry business information

i. Basic information of the industry

a. Modifications in regulation

☐ Applicable √ Not applicable

b. Basic information of the subdivided sectors industry and the companies' position in the industry

√ Ap pilcab le ☐ Not applicable

- Industry trend

The animal feed additives industry is exposed to favorable global “megatrends” and is expected to grow significantly over the coming years. This growth is expected to be driven primarily by the industrialization of meat production, global population growth and wealth creation. This should be the case in emerging markets, where consumers’ dietary preferences are expected to shift towards protein-rich diets.

Adisseo multi-product portfolio enhances its position with customers and differentiates our product offering from that of our competitors. Since Adisseo supplies a range of nutritional feed additives, it can provide value-added formulation advice to our customers and advise them with respect to their feed additive inclusion rate decisions.

This industry is further characterized by high entry barriers, such as high technological know-how, increasingly stringent regulations to obtain permits and authorizations, compliance with national and regional environmental and health and safety regulations, the ability to source key intermediates and the large capital investments required to develop new methionine and vitamin production capacities.

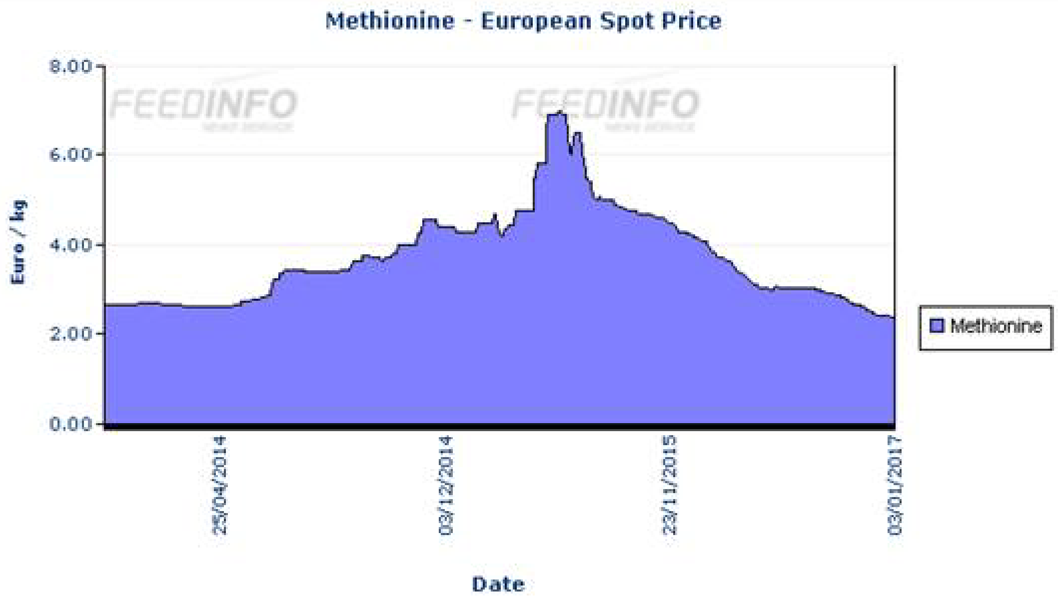
The chemical process to manufacture methionine requires significant manufacturing expertise and process technology. Access to, or development of, such expertise and technology constitutes a significant barrier to entry in this market. Furthermore, technical and commercial expertise and on-going investment in product and process innovation are critical factors to remain competitive.

Based on industry practice, the initial capital expenditures to build a world-scale, greenfield chemical methionine production facility would require a large amount of capital investment and could require at least four years to permit, plan and construct. Furthermore, access to key intermediates and raw materials used for manufacturing methionine, such as MMP for which there is only a limited number of merchant suppliers, is critical to the establishment of new production facilities.

On the demand side, global methionine continues to grow on a global scale at a rate of around 5 to 6% per year.

On the supply side, methionine supply shortage in 2015 has impacted market prices up. The announced new capacities from competitors have finally come on stream after some delays. In 2016, Adisseo faced with a less favorable market environment in the methionine business, after an exceptional 2015 year, as expected.

Negative impacts from price have been partly compensated by Adisseo volumes growth, and favorable raw material prices based on a low Brent level.



- <u>Adisseo's Competitive landscape in each Business</u>

Production capacity in the global methionine market is concentrated, large companies such as Evonik, Adisseo, Novus and Sumitomo are key players. Due to population growth, economic development of emerging economies, and the modernization of the animal husbandry sector, the demand for methionine in the Asia-Pacific area, including China, continues to increase rapidly. China has one of the world's highest production volumes for pork, poultry and livestock. Its animal husbandry sector continues to grow rapidly, which leads to rapid growth in demand for methionine. As the aforementioned key methionine players continue to strengthen their global position currently, they have increased investments in Asia, while domestic companies represented by Chongqing Ziguang Chemicals keep investing in additional capacity and Zhejiang NHU should enter the methionine market during the 1st semester of 2017 with a small new unit.

Vitamins are another important Performance product for Adisseo. Vitamins are widely used in medicine, food additives and animal feed additives. In recent years, as China's vitamin sector continues to grow, China has become a major producer and exporter of vitamins, and the production technology and market shares for vitamin C, vitamin E, vitamin B2 and vitamin D3 are top-ranked globally. Adisseo's major competitors in the vitamins market mainly include BASF S.E., DSM N.V., Zhejiang NHU and Zhejiang Pharmaceutical. The domestic vitamin A & E production in China is dominated by Zhejiang NHU and Zhejiang Pharmaceuticals Joint Stock Company.

The enzyme market needs extensive research & development, patented technology and capital expenditure for the production. Novozymes, DuPont, Ab Vista, BASF, DSM and Adisseo are the main players.

As indicated above, Adisseo is the world's second largest producer of methionine in 2016 with a market share of 27%. (Refer to Section 3 "Basic overview of the Company").

Based on *Feedinfo* October 2016 report, the capacity of methionine (KT per year) by major players breaks down as follows:

	2016	2017
ADISSEO	410	410
CJ	80	80
UNIS	75	100
EVONIK	530	530
SCC	155	160
NHU	0	40
NOVUS	230	230
VOLZHSKY	25	25
TOTAL	**1505**	**1575**

Based on public information, the main competitors of Adisseo on its different markets are as follows:

- Evonik, previously Degussa, was established in 1873, focused on specialty chemicals. Its methionine products are mainly powder methionine. Based on Evonik's 2016 annual report, its 2016 sales totaled EUR 12,732 million, net profit reached EUR 844 million, of which sales from the nutritional health sector of EUR 4,316 million.
- Novus is an American animal additives company, providing feed solutions for poultry, pork, rumen-protected, and aquaculture. Its products include methionine, chelated trace elements, feed enzymes, and mainly produces liquid methionine.
- CJ CheilJedang is a core subsidiary in charge of the food and bioengineering business unit of the CJ Group. It has led the development of the Korean food industry for the past 60 years, and contributed to the development of the bioengineering industry as the nation's top food originated company. CJ is advancing with their objective to lower input costs and diversify towards more competitive raw material sources. CJ's production process is partially independent from petroleum based raw materials.
- Chongqing Unisplendour Chemical Co (UNIS) is one of the natural gas fine chemical production bases with the largest scale, the most advanced technology and competitive cost in China. It is becoming one of the major methionine producers as it has recently increased its capacity by successfully implementing the second phase at their Ningxia dl Methionine plant. By the end of December 2016, the UNIS facility has been capable of manufacturing around

90kt -100 kt per annum.

- Sumitomo Chemical is a major company within the Sumitomo Group. Its business sectors include basic chemicals, petrochemical and plastic chemicals, IT-related chemicals, health & crop science and pharmaceuticals. Methionine is a primary business in the health & crop sciences sector. As one of the major methionine producers globally, Sumitomo is the only company other than Adisseo that can produce both powder and liquid methionine.
- NHU is a Chinese company specialized in the production of bulk pharmaceutical chemicals, medications, health products, food additives, feed additives and flavors and aromas. NHU are making exceptional progress in bringing their brand new dl Methionine factory on-stream. The facility is expected to gradually scale up during the first quarter of 2017 and reach close to nameplate capacity of 50kt per annum during the first semester of 2017.
- Sichuan Hebang Group's primary business includes manufacture and sale of pesticides and pesticide intermediaries, pharmaceutical intermediaries, soda products, smart glass, salt, phosphate, new materials, and production and sales of environmental protection products.
- DuPont was established in 1802, its business spans over 90 countries and regions globally. Its main products and services include agriculture and foods, buildings and construction, telecommunications and transport, and energy and biotechnology sectors. In May 2011, DuPont purchased Danisco, a global leader in bio enzyme production to fill DuPont's gap in the biotechnology sector.
- DSM N.V. is an international nutritional supplements, chemicals materials and pharmaceutical group. The company was established in 1902, headquartered in the Netherlands, with over 200 institutions in Europe, Asia, and South Americas and 22,000 employees in total globally. Animal nutrition and health is a key business group under DSM. DSM provides high quality raw materials and animal feed additives for poultry, aquaculture, swine, rumen-protected animals and pets which are used to produce higher quality and better quality meat, eggs and milk. DSM's main products include amino acids, enzyme, vitamin, beta-carotene and pre-mix feeds, etc.
- Established in 1935, Associated British Foods is an international food manufacturing and retail company headquartered in London, and is one of the major food manufacturers in the world. Based on Associated British Foods' 2016 financial statements, its sales reached GBP 13.4 billion and its net profit was GBP 821 million.
- BASF S.E. is a globally leading chemicals company, providing products and services in chemical products, plastics, agricultural product, refined chemicals, petroleum and natural gas. Based on the 2016 Annual Report published by BASF, its sales amounted to EUR 57.6 billion, with a net profit of EUR 4.1 billion.

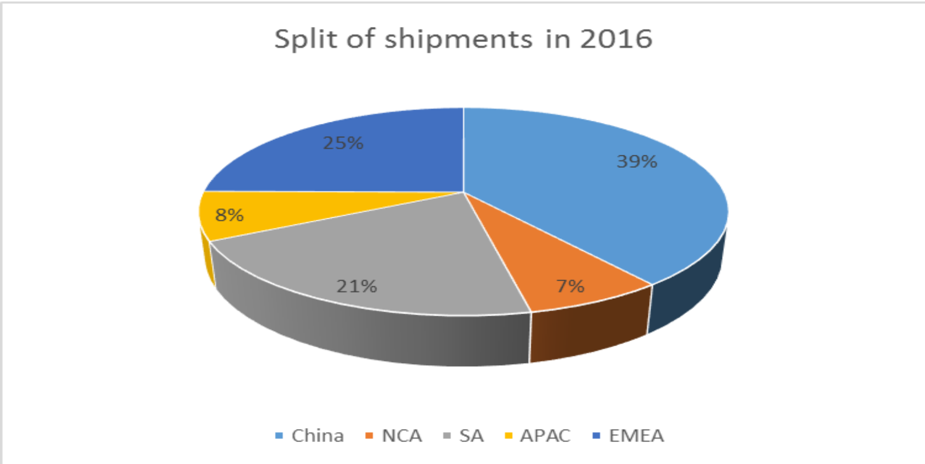
ii. Product and production

a. Main operating mode

√ Applicable ☐ Not applicable

Adisseo constantly adapts its distribution network as per the evolution of flows of goods.

In 2016, Adisseo moved around 950,000t of finished products worldwide (compared to 600,000t in 2015) and used all mode of transportations: railway, sea freight, road transportation. Below the split per region in terms of number of shipments in 2016:



NCA: North and Central America *APAC: Asia-Pacific*

SA: South America *EMEA: Europe Middle East & Africa*

Sea freight accounts for more than 95% of the volumes moved for finished products. Depending on products it uses container (for solid products) and ISO tanks and parcel tankers (for liquid products).
Raw materials transportation is entirely in the hands of its suppliers. For intermediary products Adisseo is managing dedicated fleets of rail cars.

Adisseo's production materials and finished products inventories are stored in tanks for liquid products and traditional warehouses for the other products. Warehouses located in its factories are managed by its own people and warehouses outside its factories are all outsourced to logistics providers. For both outsourced and insourced warehouses, Adisseo has established policies with regard to warehouse management. These policies are regularly audited and improved.

Change of main operating mode during the reporting period

☐ Applicable √ Not applicable

b. Information of principal product

√ Ap pitab le ☐ Not applicable

Products	Subdivided sectors industry	Main raw material	Field of Application	Factors affecting the price
Methionine, methionine hydroxyl analogue, vitamins, ammonium sulfate and sodium sulfate	Performance products	Propylene, gas, ammoniac, sulphur, methanol. E-oil	Animal Feeds	Energy and raw material costs, Brent oil and US dollar level.
Enzyme preparation, rumen-protected methionine and organic selenium additives	Specialty products	Enzymes: visco, cellulose, stearic acid, wheat flour. Rumen-protected methio. : propylene, gas, ammoniac, Sulphur, methanol, latex, isobutyl propionate silica et organic selenium	Animal Feeds	Energy and raw material costs, Brent oil and US dollar level.
Carbon disulfide, sulfuric acid and services of processing powder	Other products	Gas, sulphur.	Industrial application	Energy and raw material costs, Brent oil and US dollar level.

Adisseo is a major player in the feed ingredient industry sector. As such, the company portfolio encompasses more than 62 products, available for sale at customers worldwide.

Adisseo benefits from accessing global markets thanks to effective Global Market Access organization and processes able to determine applicable technical regulations and manage product compliance to those regulations in this respect.

In the absence of harmonized standards and requirements as well as differing national standards across countries, feed business operators need to be aware of the regulations for each country they want to access. Some countries and jurisdictions impose specific technical restrictions such as product testing, certification and shipment inspection requirements. In addition, the complex regulatory framework in some countries is constantly being updated and expanded.

In this complex technical trade environment, Adisseo ensures products market access in more than 130 countries, resulting in more than 950 official registrations approvals worldwide.

Adisseo acknowledges its responsibility for food and feed safety and consecutively control associated risks. During the manufacture of feed products, our company places the highest priority on the safety and health of our products and as such, places the highest emphasis on ensuring that each product is safe and fit for animal consumption and is in compliance with the current industry standards.
For this purpose, company management has decided to implement and maintain an integrated management system through its worldwide activities (manufacturing and trade), complying in general to the ISO 9001 standard, and in addition, where applicable, complying to the ISO 22000:2005 and to the FAMI-QS Code of Practice.
Adisseo is recognized by stakes as a visible and credible global leader, as such the company holds membership at major worldwide feed industry associations and committees in North America, Latin America, Europe and China.

c. R&D and innovation

√ Applicable ☐ Not applicable

Adisseo R&D program is structured into 3 activities:

- Discovery – fundamental research, developing in partnership with academics or start-up companies
- Innovation – testing and commercialization through world-wide R&D centers
- Enhancement – ongoing enhancement for validated projects

Adisseo continues to make significant efforts to reinforce its R&D programs.

Adisseo promotes a policy of reinforced and continuous research and innovation for its products, production processes as well as its businesses, work and organization methods. There are 7 research and development centers focused on several different areas such as analysis, nutrition, formulation, biotechnology, chemical processes, chemistry, formulation and processes. In 2016, the Company's total research and development expenditures amounted to RMB 245,649,340 (including expenditure capitalized for the period) and its proportion to net assets and operating revenue was 1.5% and 2.3%, respectively.

Please refer to Section 4, Part II-1-(3) R&D expenditures for detailed figures.

d. Manufacturing techniques

√ Applicable ☐ Not applicable

Adisseo's vertically integrated production process ensures a reliable supply for the key intermediates in methionine production and capturing the full value versus competition.

Main raw materials sourced externally are propylene, methanol, natural gas and sulphuric products. Some intermediates produced in excess are sold (sulphuric acid and carbon disulphide). The end products are powder and liquid methionine; sodium sulphate and ammonium sulphate constitute by products.

Adisseo manufacturing network includes six plants: four in France, one in Spain and one in China. From those plants Adisseo delivers its finished products directly or indirectly to around 2,600 clients in the world. According to commercial agreements, it ships directly to customers or regional warehouses and from those regional warehouses to customers.

Adisseo also has a dedicated warehouse in Shanghai for traded products that are sourced in China, grouped in this warehouse and shipped worldwide either to customers or its regional warehouses.
Adisseo constantly adapts its distribution network according to the evolution of the demand to guarantee the best service possible to customers.

e. Production capacity and operation situation

☐ Applicable √ Not applicable

Change in capacity production during the reporting period

√ Applicable ☐ Not applicable

After completion of the second phase of its development in 2016, the Nanjing plant in China can produce liquid methionine at full capacity i.e. 140,000 tons p.a. This plant is totally integrated from sulphur and petrochemical raw materials to methionine allowing Adisseo to fully master the complete production process and reach full competitiveness of the site.

Adjustment and improvement on product line or product capacity structure

☐ Applicable √ Not applicable

Description of unusual production halts

☐ Applicable √ Not applicable

iii. Purchasing of raw material

a. Basic information of principal raw material

√ Applicable ☐ Not applicable

Unit: RMB

Raw material	Purchasing pattern	Market value of raw material	Prices Fluctuation vs 2015	Impact on operating cost of the company due to the

				fluctuation in the purchase price
Propylene 95%	Long-term contract	682 370 262	+28.1%	Increase in operating cost but the market price is still acceptable
Methanol	Long-term contract	158 544 717	+14%	Slight increase in operating cost
Sulphur	Long-term contract	164 020 909	-11.2%	Slight decrease in operating cost

b. Measures to address the risk of price variation of raw materials
Description of financing approaches (including derivatives deals)

☐ Applicable √Not applicable

Description of other methods (including periodically reserve)

☐ Applicable √Not applicable

iv. Description of sales of product

a. Sales pattern

√ Applicable ☐ Not applicable

Adisseo manages different kinds of contracts depending on the clients' needs and the product.
For methionine sales, Adisseo could propose spot sales, simple contract between 1 and 12 months with prices fixed at the order, or long-term contract over many years with fixed volumes and prices defined by quarter/month.

b. Basic information of main business by subdivided sectors industry

√ Applicable ☐ Not applicable

Information on Adisseo's main operations by business are specified above in Adisseo's "Income and Cost analysis". Refer to Section IV. II. Analysis of results of operations of main businesses in the reporting period.
Adisseo' industry is "Health and Nutrition".

Pricing strategy and price variation of principal product

√ Ap pilcab le ☐ Not applicable

Historical pricing volatility in the methionine market has been attributable to exogenous factors like natural disasters or animal disease outbreaks and competitive behaviours from industry participants.

Competitive behaviours within the industry and related new capacity announcements or start-ups could also affect the supply and demand balance.

The pricing environment for vitamins is primarily driven by supply and demand dynamic s. The primary end for vitamin A and E markets are animal feed. However, vitamin E is also driven by the human food, pharmaceutical and cosmetics markets.

The pricing of our products is in most cases in-line with market pricing which can vary from region to region. Where possible, our prices also reflect a premium for the value-added support services that we provide to our customers.

Our global pricing policy is implemented at three levels: global, regional and national. Our global pricing strategy is established by our Global business directors. The responsibility of the Regional business managers is to adapt this global pricing strategy according to the specific market and competitive environment of the countries under their responsibility.

Regular reviews facilitate Adisseo ability to secure contracts with key customers at the right price and to seize profit-maximizing opportunities. A substantial number of our contracts across all our business lines are concluded on a quarterly basis with fixed pricing for such period.

c. Basic information of main operating by sales channel

√ Ap pilcab le ☐ Not applicable

Adisseo sales by distributors represent 7% of the total sales in 2016 (compared to 9% in 2015). The main part (93%) is performed directly by Adisseo own commercial network.

d. Accounting policy of revenue recognition of every marketing channel

√ Applicable ☐ Not applicable

For detail on the accounting policy of revenue recognition, please refer to the accounting policies described in Section 11.

e. Information of co-products, by-products, semi-finished products, waste materials, recycling products of residual heat

√Applicable ☐ Not applicable

Unit: RMB

Product	Capacity of production for the year	Pricing methods	Main customers	Proportion to total operating revenue
Sodium sulfate	Not disclosed	Market prices	Feed and chemical producers	Not disclosed
Ammonium sulfate	Not disclosed	Based on indexes (raw materials and energy)	Fertilizers producers	Not disclosed
Carbon sulphur	Not disclosed	Based on indexes (raw materials and energy)	Viscose, rubber vulcanization, agrochemicals producers	Not disclosed

v. Environmental protection and safety production

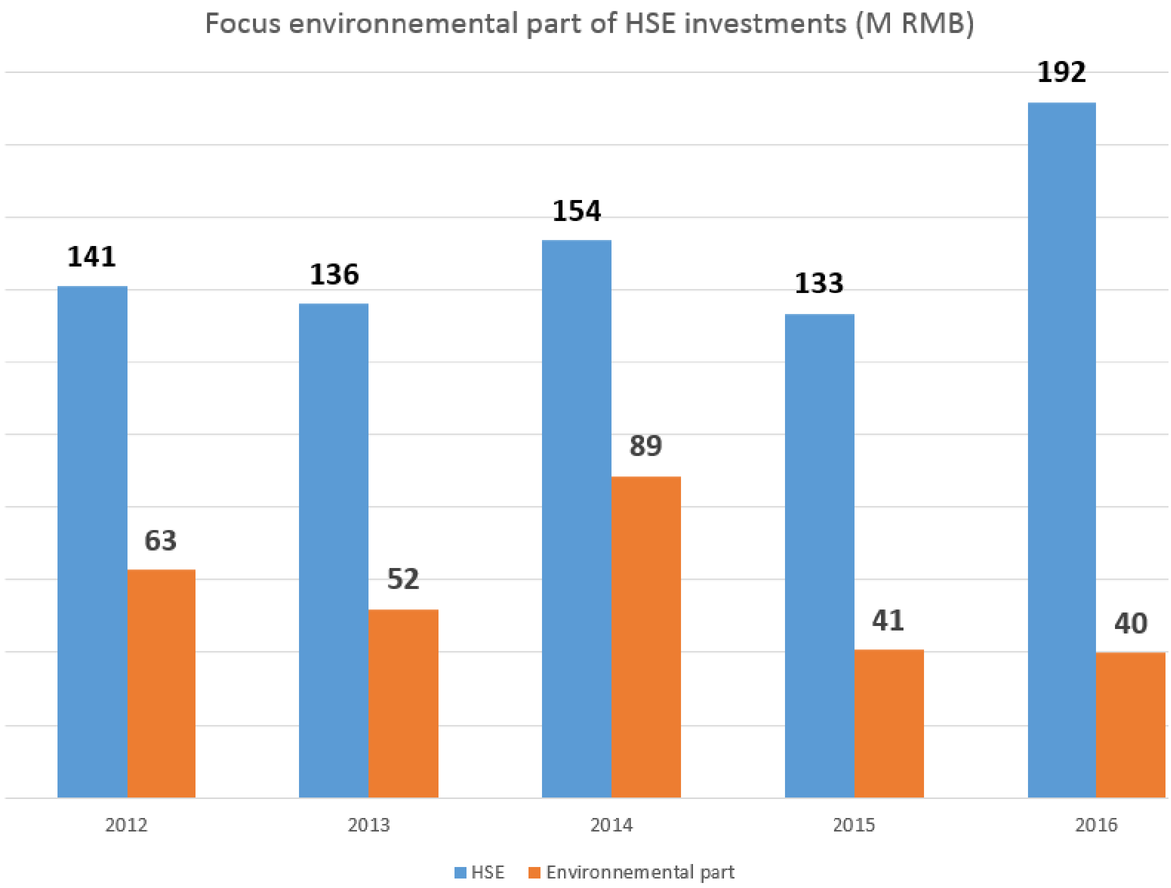
a. Description of significant accidents happened in safety production

☐ Applicable √ Not applicable

b. Investment in environmental protection during the reporting period

√ Applicable ☐Not applicable

Adisseo investments in environmental protection consist mainly in decreasing consumption of water and energy for production and helps to limit chronic rejection.



HSE: Health and Safety Executive

General information related to significant environmental events in the reporting period

☐ Applicable √ Not applicable

c. Others

☐ Applicable √ Not applicable

1.5 Summary of Analysis of overall investments

☐ Applicable √ Not applicable

(1) Significant equity investment acquired in the reporting period

☐ Applicable √ Not applicable

(2) Significant non-equity investment made in the reporting period

☐ Applicable √ Not applicable

(3) Financial Assets measured at fair value

√ Applicable ☐ Not applicable

Adisseo holds derivative financial instruments to manage the effect of changes in currency exchange rates. Derivatives are not used for speculative purposes. For most of those transactions, the Group applies cash flow hedge accounting and documents, at the inception of the hedge, the type of hedging relationship, the hedging instruments, the nature and the term of the hedged item.

For further detail, please refer to paragraph 55 "Hedging" in Section 11.

1.6 Sales of Major Assets and Equity

☐ Applicable √ Not applicable

1.7 Analysis of companies controlled by or invested in the Company

The following figures are based on financial information before elimination of the entities.

Company Name	Registered/Subscribed Capital	Business	Total assets	Net assets	Net profit	Change
Adisseo France SAS	EUR 83,417,000	R&D, production and distribution	9,652,743,128	5,619,248,566	1,669,351,461	*NA*
BANC Nanjing	RMB 1,833,000,000	R&D, production and distribution of other products	4,072,013,000	2,646,976,715	331,006,715	*NA*
Adisseo Life Science	USD 700,000	Distribution & Sourcing	767,216,893	487,038,758	66,988,758	*NA*
Adisseo USA Inc.	USD 3,139,000	Distribution	385,065,872	272,814,879	67,090,587	*NA*
Adisseo Brazil	BRL 1,987,106	Distribution	276,523,200	-19,428,916	-29,530,561	*NA*

Subsidiaries representing more than 10% of the Group's consolidated net profit:

Company Name	Adisseo France SAS	BANC Nanjing
Business	R&D, production and distribution	R&D, production and distribution
Revenue	9,027,046,741	1,622,257,715

Adisseo France SAS is an important subsidiary of Adisseo: the main businesses of this company are the R&D, the manufacturing as well as the distribution of protected methionine for ruminants and vitamin A produced at the Commentry plant, powder methionine produced at the Commentry and the Roussillon plants, upstream products of methionine at the Les Roches plant and also of AT88 produced at Burgos plant (Spain).

BANC Nanjing is the second entity within Adisseo and deals with a plant producing liquid methionine.

1.8 Structured entities controlled by the Company

☐ Applicable √ Not applicable

2 **Description of reason for listing suspension of the Company's shares**

☐ Applicable √ Not applicable

3 **Description and reason of delisting of the Company's shares**

☐ Applicable √ Not applicable

4 **Analysis of the reasons and impacts of changes in accounting policies or accounting estimates**

☐ Applicable √ Not applicable

5 **An analysis of the reasons and impacts of correction of significant accounting errors**

☐ Applicable √ Not applicable

6 **Scope of consolidated financial statements**

√Applicable ☐ Not applicable

See Note VIII for the change of consolidation scope and Note IX for rights and interests in other subjects.