

# Milk. Our profession, our future.

Annual Report 2016







2016 was a highly eventful year for our dairy cooperative and its members, starting out as it did with low milk prices that even hit rock bottom in June, only to recover vigorously later on. Such an increase in such a short time was unparalleled, but more than welcome for our members. Milcobel incorporated that increase as quickly as possible into the milk price paid to its members. Compared with the dairy industries in all the neighbouring countries, the increase in Belgium was the biggest and was passed on to its members quickest. This is clear proof that the professionalization process that was begun in our company, the tighter management, the maximization of the synergy benefits between the different sites, and the further optimization of the business processes are beginning to pay off.



**01** ANNUAL REPORT  
2016  
**FOREWORD**

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2016 was also the year of the governance reform. Here, too, a more professional structure was needed to face the future. Within the renewed cooperative structure, with a greater say for our council of the cooperative, the composition of the board of directors was entirely renewed as well, with a greater role for women, young people, and the transfer of knowledge. Eventually we started on 21 June with seven directors. We have already taken steps in the last few months, and will continue to do so in the future, to make the whole cooperative structure run to everyone's satisfaction.

2016 was also the year in which one of our biggest projects had to be completed: the new powder tower of our entirely overhauled plant in Kallo. I can already tell you that this project - thanks to strict planning and supervision - was successfully completed on time and within budget. In October we already started producing high-quality powder, and all the requisite quality and performance tests were carried out and completed successfully.

We are seeing general social trends such as volatility, opportunism and short-term thinking and action - reinforced in part by the social media - steadily gaining a foothold in our cooperative as well. As a cooperative, however, we opt for a long-term vision by appreciating our loyal members more.

Those members believe in our cooperative structure and in Milcobel as a milk-processing company. They believe in our product portfolio in which cheese, such as the Brugge cheeses that are highly visible, and mozzarella with which we have set a standard in Europe, occupies a very prominent place. Our loyalty bonus was introduced as a token of this appreciation.

All of this, and the fact that today we have a choice between optimization and/or further maximization and optimization, reinforces my conviction that we will be able to keep offering certainty to our members and that we will be able to keep collecting, processing and valorising our members' milk at all times. And that is precisely the reason why we as dairy farmers want to join forces in our cooperative.

Dirk Ryckaert  
Chairman



02

ANNUAL REPORT  
2016  
CONTENT

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**Milk.**  
**Our profession,**  
**our future.**

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Foreword	3
Milcobel in 2016	11
Cooperative news	17
Milcobel-structure	25
Key figures	31
Dairy Operations	35
Dairy Products & Ingredients	41
Consumer Products	47
Ice cream	53
Human Resources	59
Who is who in Milcobel?	63
Group structure	69
Financial report	75
Credits	109



03

ANNUAL REPORT  
2016  
MILCOBEL IN 2016

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2016 was another busy and eventful year. The first six months were characterized by a particularly weak market that saw a very swift recovery, a cooperative that finalized its governance reform, and a company with fewer organizational and staff changes, but not necessarily with less activity, quite the opposite!

Internally we call 2016 a pivotal year. After nearly three years of declining dairy prices, and falling milk prices, we hit rock bottom in the first half of 2016. The oversupply of milk, coupled with an inadequate capacity to dry all the surplus milk, led to an overproduction of cheese and, consequently, falling cheese prices. As a result, milk prices had deteriorated to such an extent that milk production eventually diminished, which led to lower cheese production volumes and rapidly improving cheese prices, and spectacularly rising prices for fat and cream. Where in mid-2016 Milcobel recorded the lowest or near-lowest milk prices in Europe, we began to see a spectacular upturn in August. The delaying effect of cheese meant that this increase occurred slightly later than with the

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Belgian competitors, but ultimately this brought us to a higher (and sustained) milk price that is highly competitive compared with our European colleagues until at least 2Q 2017. At year-end we were even able to earmark seven million euros for a loyalty bonus.

Under those difficult conditions, nearly twice as many dairies discontinued their operations as before: at the year-end, we had 2,871 active member-suppliers, or just 200 more than in 2015, despite the switchover of 309 RFC suppliers and 51 new members. Nevertheless, we collected 1.444 billion litres of milk, compared with 1.225 billion litres in 2015, or an 18% increase. The average delivery volume per supplier rose from 456,000 litres to 503,000 litres. Despite the good year-end, the average milk price was 27.65 eurocents per litre, which is 1.26 eurocents less than the already low price in 2015. An important step for the cooperative internally was the completion of the governance reform. Besides making a professional board of directors and council of the cooperative function properly, the greatest challenge lies in communication. Courage and openness, including in the feedback to member circle boards, are essential to keep up or strengthen confidence in the cooperative organization. Total consensus is no longer possible, especially not in times of volatility and constant change.



On the other hand, acceptance of decisions that have been adopted by democratic process is crucial to the success of a cooperative.

At the corporate level, a great deal has been achieved in recent years. A characteristic example of the improved performance is that the increased milk supply has been fully processed on the existing installations, with the same total labour and salary cost as in 2015, despite the start-up and trial run of the renewed plant in Kallo. Without this improvement, our milk price would have undoubtedly ended up again at the bottom of the European rankings. It should be mentioned that Ysco also reported another excellent year.

At the organizational level, a final stage has been completed with a clearer positioning and demarcation of our commercial structures for dairy products. DPI or Dairy Products & Ingredients, the successor of Milcobel Dairy, handles the B2B sales: milk powders, industrial cheese, cream, butter, whey, as well as Southern European exports of consumer cheeses and drinks. CPS or Consumer Products takes in all B2C sales, i.e. all consumer cheese (except Southern Europe) and European sales of drinks. As of 1 January 2017, all Consumer Cheese is invoiced through Dupont, which means that the organizations of Dupont, Consumer Cheese and Drinks are now fully integrated.



We are making good progress in the area of HR, both in terms of employer image and internally in terms of processes for the benefit of our staff. Besides talent management, curtailing absenteeism is an absolute priority for 2017, while work safety is an area that unfortunately still leaves much to be desired.

### **OUTLOOK FOR 2017**

In 2017 we should normally be able to carry on performing as we did in 2016. The market remains under threat from the EU's stocks of skimmed milk powder. Although the other dairy products are falling slightly in price, we do not believe the market will hit rock bottom just yet. If milk production remains under control, as would seem to be the case, 2017 should be a better year for our members.

Certain suppliers are leaving us in 2017. Although this is certainly not the wisest decision they can make with an eye to the future and the long term, it is quite understandable in view of the premature promises that were made in the past and have not been fulfilled, or too late.

In terms of performance, all the elements are there to make the company function even better in every respect, and to valorise the milk produced by our members.

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Until it becomes clear what our own milk supply will be in the future and how we will organize ourselves accordingly, we will fill up capacity to order for colleagues in order to optimize our own transformation cost.

In consultation with the cooperative, the strategy will be outlined for the coming years, looking even further ahead if possible. In that way, we should be able to organize Milcobel as a truly professional and highly profitable company for the benefit of our employees and members.  
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04

ANNUAL REPORT  
2016

COOPERATIVE NEWS

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### Activities of the member-based structures

In 2016, the activities of the member-based structures centred mainly on the governance reform within Milcobel. At the board level of the 9 member circles, a total of 30 board meetings were held in 2016. During the first six months, those took place according to the old structures; during the second half of the year, the new structures were in place. The governance reform was finalized on the basis of a thoroughly revised set of internal rules approved by an extraordinary general meeting on 16 March 2016.

Key events include the renewal of the council of the cooperative, which met six times in 2016, and the formation of a council for junior members, which met twice.

The renewed structures made it possible to put into practice the objective of having young people and women as members.

The tailpiece of the governance reform was the appointment of an entirely new board of directors. The internal directors were appointed by the general meeting of 21 June 2016 after an external assessment, followed by an internal selection procedure and a favourable recommendation from the council of the cooperative.

The purpose of the governance reform is to achieve a more thoroughgoing professionalism at all levels of activity of the member-based structures. In order to improve the standard of professionalism, interim assessments and training programmes are set up. In 2016, a start was made with outlining the necessary procedures for that purpose. The members of the board of directors and the chairmen of the member circles completed a first training programme that could help them in the performance of their duties.

Much attention also goes to further improvements in the communication process. Fast and interactive communication between the different levels of the member-based structures is a priority. More and more information and documents are made available to member-suppliers over the closed member portal of the Milcobel website.

As far as actual functioning is concerned, the decisions that emerged from the profile exercise that was conducted in 2015 were rolled out further in practice: the number of associate types has been reduced to two; the accumulation of capital has been relaxed and is based on the average milk delivery volume over the past five years; the former DQA premium is now fully incorporated in the standard price, and a suitable system of volume premiums has been introduced.

In 2016 - as before on the basis of a favourable opinion from the council of the cooperative - certain decisions were made that are very much in line with current developments and trends in the industry. Those decisions concerned the conditions under which member-suppliers can change over to organic dairy farming, with the introduction of a loyalty bonus and the implementation of a grazing procedure.

### **Milk supply**

There was a sharp increase in the milk supply to 1,444,386,747 litres in 2016. This increase was primarily realized by the entry of 309 former Belgian FrieslandCampina suppliers whose contract was terminated at the end of 2015 and on 1 February 2016 began to supply their milk as Milcobel members. 51 milk producers who supplied to several other buyers also

came to join the cooperative. The existing member-suppliers, too, increased their milk production in the post-quota era.

- There were 2,871 member-suppliers in 2016, which is more than in the previous years (2,878 in 2013, 2,777 in 2014, and 2,687 in 2015), thanks to the new members who joined as indicated above. Nevertheless, we should not overlook the fact that 2016 was also characterized by a high discontinuation rate. A total of 170 Milcobel members ceased their milk production activity. This corresponds to 6.3% of the number of members in 2015, and is significantly higher than in



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previous years. The increasing discontinuation trend can be seen across the industry. Growing price and income volatility, in combination with the age factor and no prospect of anyone taking over the business, leads to the cessation of milk production at several dairies.

- The number of Dutch and French member-suppliers remained virtually unchanged in 2016 at 51 and 35 respectively.
- Where the average individual volume of milk delivered by Milcobel members had already increased vigorously over the last few years, reaching 455,901 litres in 2015, that volume rocketed to 503,095 litres in 2016, or an increase by more than 10%. 2016 also saw an even greater variation of delivery volumes. In 2015, nearly 25% of the milk was supplied by the 8.6% suppliers who each deliver more than 900,000 litres. In 2016, this had evolved to a situation where this group of suppliers represents 12.5% of the supplier population and supplies 33.5% of the milk.

### **Milk quality**

In 2016, the quality of the milk supplied was up to the standard that had been attained earlier. This standard means that virtually all the milk is of an impeccable

quality and amply satisfies all the relevant quality criteria. This has been achieved through compliance with the solid legal framework, the application of an internal extra-quality system, the implementation of certain special procedures that quickly detect noncompliant milk quality situations, and the constant quality monitoring by the incoming inspection system and field staff.

The majority of suppliers deliver milk that satisfies the strictest quality standards all year round. 98.2% of the milk supplied is free of penalty points, and 86.5% of the collected milk qualifies for an extra-quality premium. Any quality issues and anomalies are essentially confined to a relatively small number of suppliers. Often those are persistent situations where the same problems keep recurring. Tightening up individual responsibility remains important: dealing with recurrent issues with a small number of suppliers cannot be made the responsibility of the cooperative as a whole. For that reason, issues should be proactively addressed in an early warning system and compulsory improvement programmes.

In 2016, no anomalies were reported under the sectoral monitoring programme Monimilk, which indicates that the raw milk was safe in terms of chemical and bacteriological risk factors.

The entire member population of Milcobel now participates in the Belgian paratuberculosis programme and in the sustainability monitor that forms part of the DQA certification.

### External relations

As a major cooperative of dairy farmers, Milcobel continued to participate actively in sectoral dialogue in 2016. This took place primarily under the auspices of the Belgian Dairy Industry Confederation (BCZ) and within the context of inter-professional consultations between the dairy industry and agricultural organizations in Belgium. Milcobel remains an important party in various consultative bodies in the organization of quality monitoring, the elaboration of sustainability criteria for dairy farming, adjustments to the DQA specifications, and the proactive approach to further minimizing the use of antibiotics and residues of inhibitors in milk.

Already at the beginning of January 2013, Milcobel obtained official recognition as a producers' organization, and in 2016 the application for renewal of this recognition was filed with the competent authorities in accordance with the regulations. In that way, Milcobel retains its official recognition as a producers' organization.





Milcobel made every effort to help familiarize a wider audience with the cooperative business model, mostly through testimonials. As a matter of fact, more and more people realize that a cooperative business model is synonymous with sustainable enterprise and corporate social responsibility!

Finally, in June 2016 Milcobel hosted the annual scientific congress of IFCN in Ghent. This shows Milcobel's involvement in knowledge and relations as regards the business economic aspects of dairy farming and the dairy industry worldwide.

## **Sustainability**

As the cooperative business model has an intrinsically strong focus on the long-term perspective, it is obvious that particular attention is paid at all levels of Milcobel to the integration of sustainability initiatives.

In 2013, Milcobel played a leading role in elaborating and implementing the “sustainability monitor for dairy farming” in the area of milk production; compulsory participation in this monitor has since become part of the delivery conditions for milk. At year-end 2016, all dairy farms have been audited for the sustainability initiatives they have taken and implemented.

As far as the collection of milk is concerned, the logistical organization continues to aim for full loads with the lowest and best possible ratio between mileage and fuel consumption per unit volume of collected milk. Through Ysco, Milcobel takes part in NexTrust, which is designed to develop trusted collaborative logistics networks. In the area of milk processing, the “Sustainable Business Charter” programme was rolled out further across all production sites. This is seen as a powerful instrument to give concrete shape to sustainable business and to work towards continually improving environmental, social and economic performance.

New goals and priorities are put into practice through regular audits.

In virtually all activities and at all levels, further measures are being taken and/or projects set up with a strong focus on energy saving, water saving and recycling, environmental protection and, not least, ergonomic improvements in working conditions and work safety of employees.

Retaining certification in the context of private specifications applied by buyers-customers also contributes to the sustainability of commercial relations and sales opportunities for our dairy products.

Finally, Milcobel remained an active member of the United Nations 'Global Compact' programme in 2016.



05

ANNUAL REPORT  
2016  
STRUCTURE

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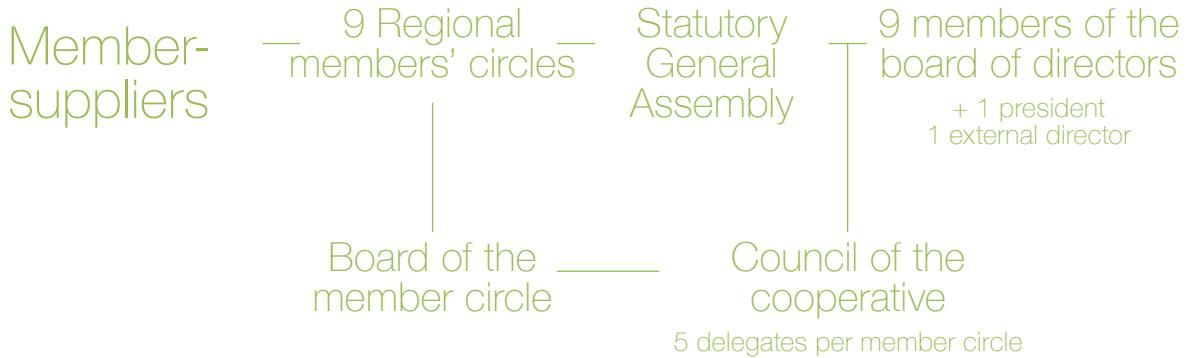
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# Cooperative structure 2016

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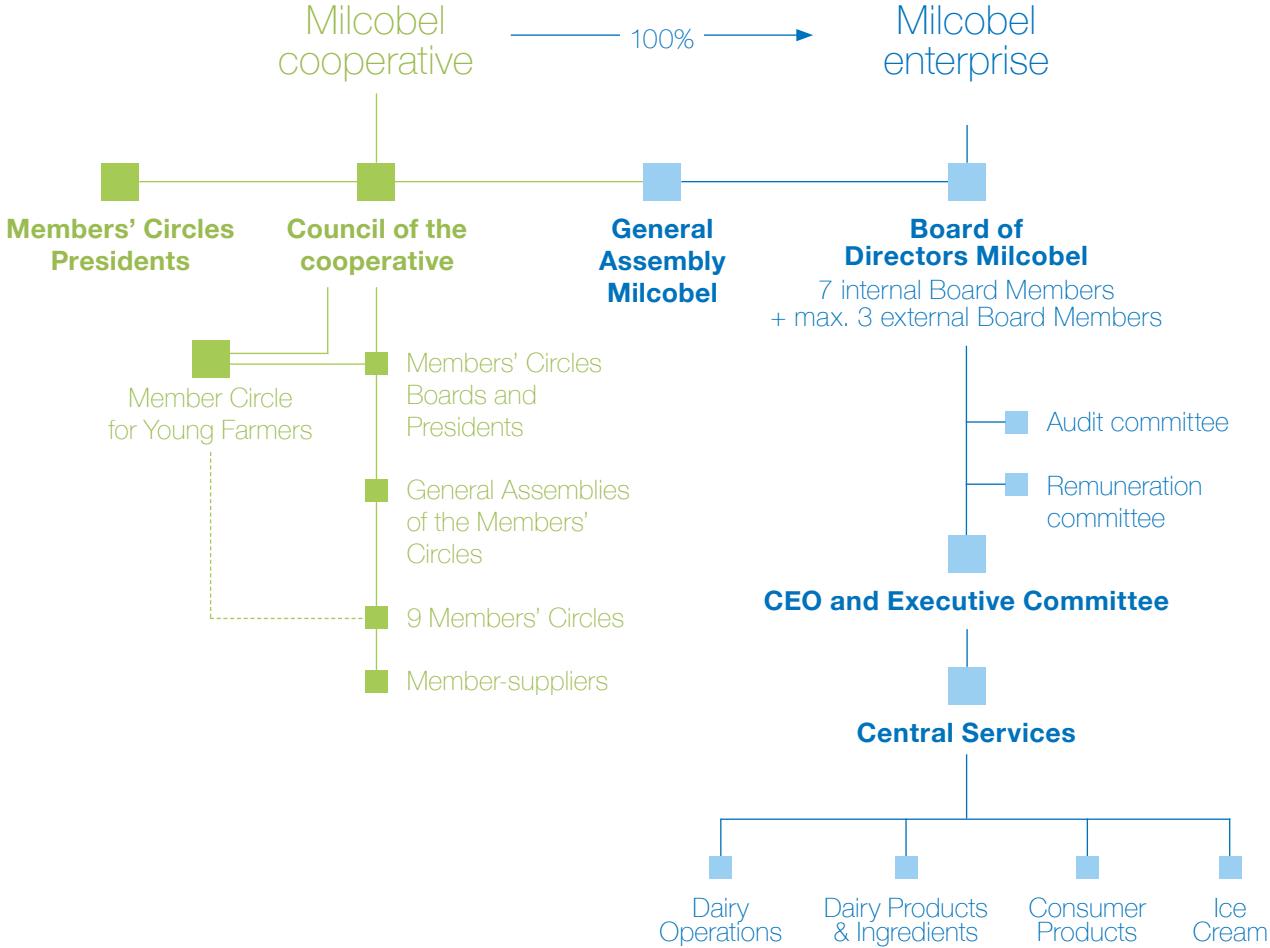


# Group structure 2016

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# Milcobel structure 2017





06

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2016  
KEY FIGURES

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	2014	2015	2016
<b>Key figures milk flow</b>			
Milk from members' farms	1,171,609,439	1,225,006,807	<b>1,444,386,747</b>
Available total incl. third parties	1,211,831,939	1,265,120,760	<b>1,504,609,965</b>
Total sales	74,382,705	69,102,277	<b>84,932,843</b>
Available for transformation	1,146,303,386	1,196,018,483	<b>1,419,677,122</b>
<b>Key figures collection of the members</b>			
Average number of suppliers	2,777	2,688	<b>2,871</b>
Quantity of milk supplied	1,171,609,439	1,225,006,807	<b>1,444,386,747</b>
Average fat content	42.02	42.42	<b>42.62</b>
Average protein content	35.19	35.35	<b>35.48</b>
Price paid for milk in millions of euro	428.50	357.10	<b>399.32</b>
Euro per litre	0.3657	0.2891	<b>0.2765</b>
<b>Key figures Milcobel group (in thousands of euro)</b>			
Turnover	1,011,491	945,051	<b>991,146</b>
Investments fixed assets	38,596	61,369	<b>39,753</b>
Result	2,282	1,598	<b>3,586</b>
Capital and reserves	127,241	129,781	<b>136,753</b>
Solvability %	28.2	26.4	<b>25.8</b>
Average number of employees	2,014	1,967	<b>2,006</b>



07

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2016

DAIRY OPERATIONS

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In 2016, focus was on the further professionalization of our production plants. This should result in efficient production facilities that bring high-quality products to the customer at the right time and at reduced transformation costs.

A substantial increase in milk supply by nearly 20% was handled by the existing infrastructure, while the new powder tower in Kallo - POW(d)ER - was still under construction. This extra milk was processed into milk powder in Kallo and in Langemark, without any additional transformation costs (staff, energy, fixed costs, etc.) to speak of.

Capacity was increased at all plants without additional investments by focusing on precise planning and by reducing downtimes and idling time. The higher output, coupled with improved shift utilization, led to a significant increase in productivity.

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All production plants are committed to the 'FIRST TIME RIGHT' principle to get the end product into the right quality spectrum right from the start. This ultimately serves to substantially reduce 'scrap', cut transformation costs, and optimize the use of ingredients.

### **Kallo**

Kallo finalized the POW(d)ER project in 2016. On 20 July 2016, following the start-up of the new first processing stage in March, the first batch of milk was passed through the new evaporators to the powder tower, and the powder that was made in four hours was perfectly up to standard. During the subsequent months, the new plant was fully tested all through, and gradually but surely brought up to standard in terms of end product quality, capacity and efficiency. At the same time, the old installation was used to process the extra milk that was collected by Milcobel. It was a major challenge to upgrade the old plant with the existing workforce, and at the same time get to know and start up the new plant.

In 2017, we will concentrate on operating the plant at a high and stable level, and on mastering the production of a Pow(d)er+ end product. This high-grade milk powder will distinguish itself from a standard powder, and can be tailored to the specific needs of specific customers.

## Moorslede

Moorslede was off to a very good start in 2016: increased productivity, reduced energy consumption, very low scrap levels, etc.; in other words, a highly efficient and stable production plant.

In September, increased sales were anticipated and capacity was expanded.

By the autumn of 2016, production at the plant was at stable performance levels.

## Langemark

Langemark remained committed to the 'FIRST TIME RIGHT' principle, with the prevention of high scrap levels at the plant and the improvement of product quality in the market being the prime objectives. Progress was made in several areas: an in-depth analysis was made of the physiochemical process of the cheese production, and process parameters were fine-tuned to obtain a better product and the right kind of cheese. The packaging of the product was improved through mechanical optimization and a better choice of materials for a longer shelf life.



This repositioning in terms of quality was essential, since our 100% fresh mozzarella in block form made from cow's milk is a top quality product for our customers.

In view of the investments made in recent years, an output of 45,000 tonnes was projected for the site. A thoroughgoing analysis of machines, processes and planning led us to conclude that this output level could increase significantly without extra capital expenditure and with a considerable reduction in transformation costs. The first 10% output growth was achieved in 2016, with a significant increase in productivity and a dramatic fall in energy consumption. A second and third step will be realized in the next few years.



## Schoten

The site was off to a good start at the beginning of 2016 with improved productivity and quality well under control.

The production of growth milk under contract was examined with a critical eye, and priority was given to an even better quality assurance of the end product. By year-end 2016, significant progress was made in this activity in terms of systems, processes, discipline, product failure and quality in the market. As a result, production under contract received a better rating from the customer.

In the flavoured drinks division, the plant witnessed a higher level of scrap due to effects arising from the ingredients, which could only be controlled to a limited degree by the existing installation.

Temporary measures were put in place that kept the situation partly under control; an accelerated action plan, implemented at the beginning of 2017, should ensure that a high-quality product is turned out using the right processes.

It remains a challenge for Schoten and Drinks to make a solid contribution to the group's valorisation of milk by a more committed organization and a significant improvement in efficiency.



08

ANNUAL REPORT  
2016 DAIRY PRODUCTS  
& INGREDIENTS

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2016 was marked by a great volatility of the global dairy markets. The European milk supply in the first four months still witnessed a vigorous growth following the end of the European quota system in April 2015. Dairy farmers could now produce without restriction, and this resulted in a very strong growth in the Netherlands and Ireland in particular. This growth in milk production, however, was not matched by a growth in demand. Persistently low oil prices and political tensions led to a major deterioration of the economic situation in many of our markets.

### **Milcobel Dairy Commercial**

The first full post-quota year in the European dairy industry showed two distinct trends. The first half of 2016 was characterized by falling quotations and prices. As in the second half of 2015, the market-regulating effect of milk powder intervention in the EU continued throughout that period, and the valorisation of cheese was even lower than the milk powder/butter combination. The tide turned in the second half of the year as milk production shrank in a number of EU member states, leading to a swift upturn in prices of butter and cheese in particular.

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Milk powder also witnessed a recovery, although this was inhibited by the intervention stock of 350,000 tonnes of skimmed milk powder that had in the meantime been built up in Europe.

### **Mozzarella & Southern European cheese specialities**

As there was not enough powdering capacity available yet in Europe at the beginning of the year, cheese experienced the greatest pressure on prices. The lowest prices for cheese were recorded in May and June, but six months later those prices had doubled. Despite those difficult market conditions, the planned expansion of the mozzarella production in Langemark and the marketing was carried out with success. Thanks to a rapid response and aggressive pricing policy, the second half of the year ensured that mozzarella made a substantial contribution to the marketing results of Dairy Products & Ingredients. We consolidated and strengthened our leadership position in the main European markets, and further developed new markets with growth potential in the Far East.

The reference image of mozzarella with a high standard of service and impeccable quality that has been acquired over many years through our presence in



certain markets is now also increasingly recognized and appreciated as such outside Europe. To support this expansion, we made further investments in R&D and sales divisions.

Within the segment of Southern European specialities, we were better able in 2016 to withstand the pressure on prices by maintaining high quality standards and flexible logistics. Consequently, these products, made at the Moorslede cheese dairy, also made a substantial contribution.



## **Milk powder and butter**

The POW(d)ER+ project was started up in Kallo against a backdrop of difficult markets for milk powder. The first milk powder batch, which was already of fairly good quality, arrived in July at a time when the market began to recover. This even allowed us to put trial products on the market at correct valorisations.

Production runs for our standard products on the new powder tower were stepped up further towards the end of the year. The high bacteriological and physicochemical quality standards being set were validated at the beginning of 2017. Despite the difficult conditions on several of our export markets, sales of our products were assured by a high standard of service, good quality and strong customer relations.

Full milk powder prices recovered in the second half of 2016, whereas prices for skimmed milk powder were still inhibited by the intervention stocks.

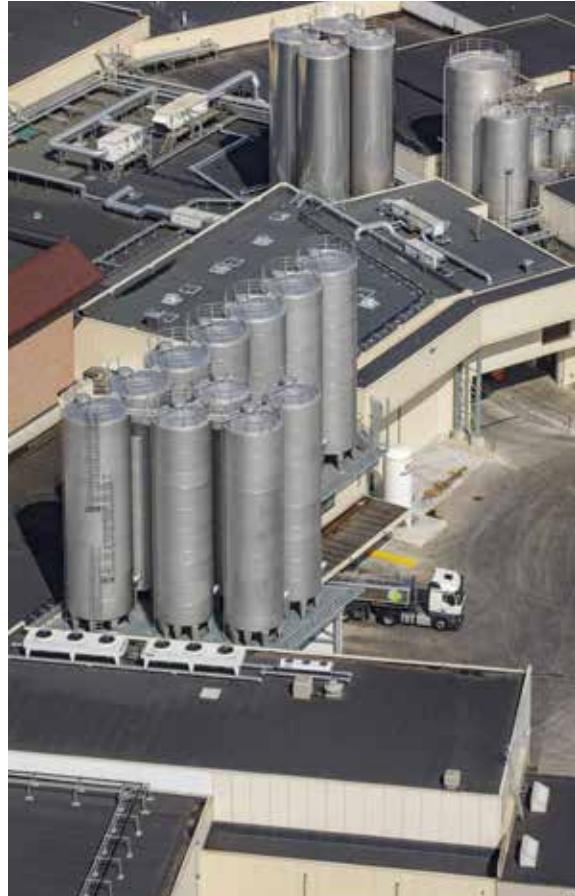
The butterfat markets also showed greater robustness in 2016. Current scientific opinion on the health aspects of butterfat in a balanced diet appears to be lasting. As a result of this favourable development, more butter and cream was marketed in 2016.

**Whey**

In 2016, maximum commercial return was achieved on the investment made to separate the whey from Moorslede and Langemark after concentration.

Our high-quality whey from the mozzarella production in Langemark can now be put to even better use in baby food and other food applications.

The whey from our consumer cheese production can now also be sourced directly from Moorslede for food and cattle feed applications.



09

ANNUAL REPORT  
2016 CONSUMER  
PRODUCTS

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## Consumer Products

Our brand structure was further strengthened in 2016 with the corporate brand Milcobel and the consumer brands (Brugge, Nazareth, Choco!Choco!, Yogho!Yogho!, Inza, Incolac).

As regards the corporate brand Milcobel, focus was on 'employer branding', and our presence at job fairs, campus recruitment, recruitment sites, and even on our milk collection tankers was highly rated with the eye-catching 'Kom werken met (m)elk van ons!' (Come and work with us/our milk).

2016 was another successful year for consumer cheese, with solid growth for our flagship brand Brugge, both on the local market and on the selective export markets. This was reflected in turnover and volume growth, market share gain in Belgium, and a wider and more loyal consumer base. The Brugge brand has become an umbrella brand with a rich portfolio of cheeses ranging from old and mature to young and creamy, in wedges or prepacked. It has attracted a much wider and younger consumer population, and has strengthened our position in the urban areas. The advertising campaign ('The right cheese is quickly chosen') has further enhanced spontaneous brand recognition, and Brugge is now one of the top brands in the cheese category. Besides our own brands, we also actively market licensed



brands and premium private label brands. A number of initiatives were taken with trademark owners (such as Averbode) and retailers on specific propositions. Belgian Gouda, represented at most of the large retailers under trademark, held its own very well in the face of 'cheap' imports from Germany and the Netherlands. The Belgian consumer appreciates quality and a genuine home-grown product!

Butter (consumer packaging) benefited from the spillover from the Brugge brand investments and efforts ('Brugge butter rolls') and from the rehabilitation of butter in cooking and as a wholesome food.

Drinks went through a strategic exercise involving a critical analysis of all products and market segments. The supply side was involved as well with a view to the formulation of a holistic plan for the future. The outcome of this exercise was the 'FIX 2020' programme, in which focus is directed towards three segments: flavoured drinks, GUM (in co-manufacturing),

and private label white milk as ‘factory filler’. This means that certain activities will be gradually phased out in order to streamline operations. One example is the closure of the glass packaging line in Schoten. The brand business in Drinks will be phased out in favour of private label/co-manufacturing along the same lines as the successful Ysco strategy.

### **Cheese Service: inspired by ‘Passion for Cheese’**

DupontCheese is active through three legal entities (Kaasimport Jan Dupont NV, Camal SA, Dupont Nederland BV) in all cheese distribution channels in Belgium, Luxembourg, the Netherlands and the border region of Northern France. Its customer base encompasses the entire spectrum of specialist cheese shops, traditional shops (butchers, caterers, market vendors), convenience stores, social and commercial catering, and retail. The product range is differentiated and adapted to the needs of each channel, DupontCheese having opted for a radical focus on ‘cheese in all its aspects’. This focus on cheese in all its forms (bulk, packaged) has resulted in a deep and wide assortment (1,000 cheeses, more than 2,000 references), deliverable within 24 hours according to the ‘just in time’ principle. In order to live up to this promise on a daily basis, preferential relations have been





developed with a supplier pool of around 250 cheese manufacturers, some of which specialize in raw milk cheeses and/or AOC designations. To optimize the supply route for these smaller producers, platforms ('grouping') were established in France, Italy, Switzerland, the Netherlands and the Iberian Peninsula. The activities are situated primarily in the 'premium' segment, and the commercial strategy is based on a sales organization per channel (traditional, out-of-home, retail) in order to respond more effectively to the needs of the end consumer and the customer.

In recent years, the investment profile has changed from hardware to software. It no longer suffices to have the right product; the goods and data flows must also be controlled in an integrated way. The supply chain is based on the 'just in time' principle from A to B (order on day A before 6pm, delivery on day B), using its own logistical system. In 2016, preparations were made in Bruges for the migration to the ERP platform of the Milcobel Group in the first quarter of 2017. This is also the precondition for a further strengthening of the axis between Bruges (commercial organization and packaging and distribution centre) and Moorslede (production and maturing of consumer cheeses).



A large billboard mounted on the front facade of a grey corrugated metal building. The billboard features the YSCO logo on the left, which includes a blue circle with a yellow 'Y' and the letters 'SCO' in blue. To the right of the logo is a photograph of a young girl with blonde hair in a ponytail, wearing a white shirt and holding a chocolate ice cream cone. The billboard is held up by several metal brackets.

10

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2016  
ICE CREAM

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### Another record year

After an absolute record year in terms of sales in 2015, it was Ysco's ambition to at least match that volume in 2016. The majority of the major contracts were renewed, and some additional contracts were signed. The first five months of 2016 were as forecast, and by the end of May a lead of around 5% had been achieved. Sales were seriously affected by the bad weather in June and July, and by the end of July there was a shortfall of one million litres. Thanks to the fine autumn weather, the shortfall could be turned around to a lead, and so the 2015 record was effectively broken. The year ended for Ysco at 181 million litres, a volume growth of around 4%. Turnover, too, had increased by more than 4%.

The results for the French market were in the same negative vein as in previous years. The main reason for this was the increased promotional pressure from the leading brands and the loss of certain contracts.

Despite this loss, France is still the biggest market with 18% of the total volume. Germany recorded another year of growth, reaching 16.6% of the total volume. The Netherlands, too, saw sales increase in 2016 and remained the third biggest market for Ysco. Nevertheless, growth in 2016 was very clearly driven by the export markets, attaining as much as 30% thanks to new contracts in Italy and even Australia, as well as a stronger presence in Eastern Europe. This growth figure makes export the fourth biggest market for Ysco, and already represents 15% of the total volume. The United Kingdom, Ysco's fifth market with a share of 11.5%, reported a good year with a slight increase. Belgium and Luxembourg, too, continued to grow, accounting for nearly 10% of sales. Scandinavia witnessed a slight growth to a share of 8%, while Spain continued to lose ground, ending with a share of just 5%.

The share of private label brands in the overall portfolio stagnated for the first time in years and stabilized at 93.6%. The share of the Ysco brand, which is now mainly sold in the food service market, fell from 5% to 4.1%. Co-manufacturing - producing for leading brands - increased from 1.6% to 2.3% as a result of additional contracts.

### **Solid growth in jumbos**

Although the volume of scoop ice cream shrank by 0.7 million litres, it remains the largest product group in volume terms at 32%. The decrease was primarily attributable to falling sales of 900 ml tubs. Sales of cones, which are heavily dependent on good weather, increased by nearly two million litres and represent 30% of the total volume.

As in 2015, 2016 was once again the year of the jumbos, with sales showing a solid growth of 6.5 million litres to nearly 28% of the total volume. In terms of turnover,

it has become by far the leading product group.

Sales of classic chocosticks shrank again slightly, while sorbet, which is made in the same machines, stagnated despite the fine autumn weather. Sales of cups, a product group that is sold mainly in the food service, remained status quo in volume terms, while cakes followed the downward trend of recent years.

Output at both sites ranged from satisfactory to good, although there is still room for improvement at the Langemark site in particular. In this context, a number of improvement projects have been started up, such as the 'jumbo run'.



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Commercial negotiations for 2017 have been completed, and volumes are expected to be at the same level as 2016. The year-end is still fairly uncertain, particularly in terms of production, as sales for 2018 must take into account the new Lidl production plant that is due to become operational in the autumn of 2017.

Financially, Ysco's contribution to the milk price in 2016 was slightly higher than in 2015, while in 2017 we expect that price to be slightly lower than in the last two years due to higher input prices (dairy, vanilla, etc.).





11

ANNUAL REPORT  
2016

HUMAN RESOURCES

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**Milk.**  
**Our profession,**  
**our future.**



The ongoing professionalization of Milcobel and the improved results did not go unnoticed in the labour market. Milcobel succeeded in 2016 in promoting itself with an employer brand in which the dynamic, professional and high-tech aspect of the milk processing industry is combined with the sustainable and Belgium-based economic model of our cooperative. Thanks in part to the ambassadorship of our own staff ('Kom werken met (m)elk van ons!' (Come and work with us/our milk!)), Milcobel is finding it easier to attract new talented people who are totally committed to working for the future of the organization.

Innovative agreements were concluded with the social partners - in their new composition following the social elections of May 2016 - that help to ensure that our employees are encouraged to understand and pursue the diversity of our corporate goals: the importance and mutual interaction of productivity goals and goals in terms of customer focus and employee well-being are recognized and collectively pursued.

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We are convinced that the growing efficiency of the organization and the strong commitment of our workforce provide a powerful and positive momentum

that enables our organization to keep responding successfully to the challenges we continue to face in the industry.



# 12 ANNUAL REPORT 2016 WHO IS WHO IN MILCOBEL?

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## **BOARD OF DIRECTORS**

Dirk Ryckaert

Jan Wallays

Geert Vermander

Betty Eeckhaut

Luc Van Laer

Lucas Van Dessel

Kris D'haemer

Chairman

Deputy Chairman Enterprise Affairs

Deputy Chairman Cooperative Affairs



**AUDIT COMMITTEE**

Dirk Ryckaert  
Jan Wallays  
Kris D’haemer

**STATUTORY AUDITORS**

PricewaterhouseCoopers  
Represented by Griet Helsen

**MANAGEMENT**

Eddy de Mûelenaere	CEO
Geert Neiryck	CFO
Peter Koopmans	Dairy Operations
Luc Van Hoe (*)	Dairy Products & Ingredients
Patrick Huyskens	Consumer Products
Bert Van Nieuwenborgh	Ysco – Ice Cream
Eddy Leloup	Cooperative Affairs
Kris Lambrecht	Human Resources

(\*) as from 1/1/2017: Francis Relaes



**NIUW**  
NIEUW  
NIEUW  
NIEUW

**2 PAKKETS**  
2 PAKKETS  
2 PAKKETS

KA  
**Brugges**  
Vanille

**Brugges**  
Vanille

13

ANNUAL REPORT  
2016 GROUP  
STRUCTURE

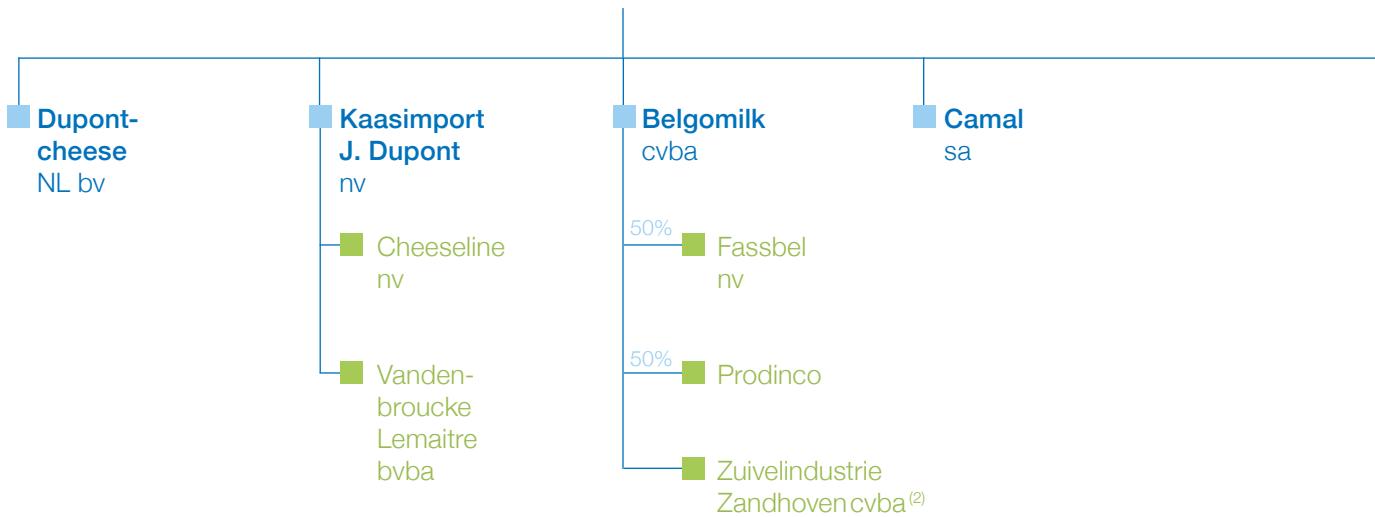
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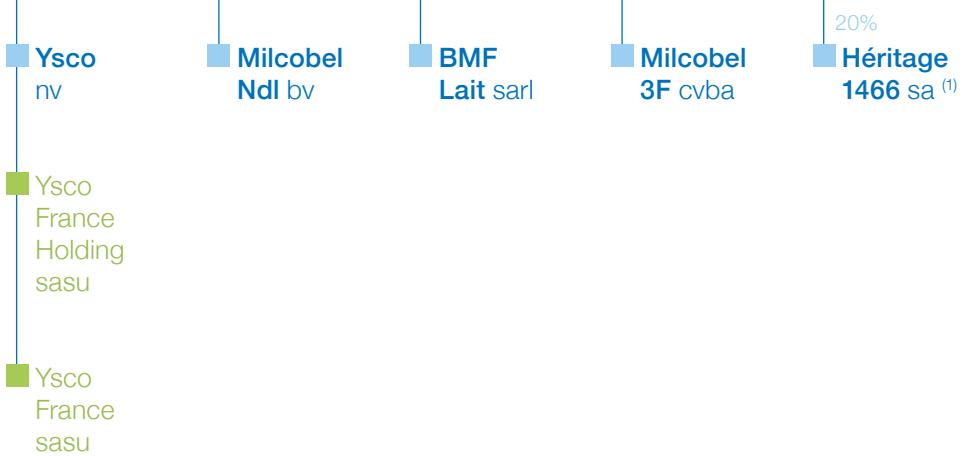
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**our future.**



Members ——— MILCOBEL  
cvba





(1) As to asset mutation

(2) Not included



14

ANNUAL REPORT

2016

FINANCIAL REPORT

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10.691 13,04

9.090 11,09

2.233 2,72

[Show chart](#)

3.316 3,90

-4

633 0,73

11.153 12,67

14.453 16,42

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# A. Consolidated accounts

## 1. Consolidated balance sheet after appropriation

### ASSETS

(in €)	Codes	PERIOD 2016	PERIOD 2015
<b>FIXED ASSETS</b>	<b>21/28</b>	<b>260.338.817,59</b>	<b>249.220.634,55</b>
Intangible fixed assets	21	8,427,950.69	9,857,596.57
Positive consolidation differences	9920	705,085.67	1,335.841.27
Tangible fixed assets	22/27	250,091,851.15	236,900,179.23
Land and buildings	22	73,237,164.03	54,173,865.50
Plant, machinery and equipment	23	160,331,187.14	119,900,736.67
Furniture and vehicles	24	8,353,590.05	8,244,099.75
Leasing and other similar rights	25	-	155,759.14
Other tangible fixed assets	26	249,059.71	317,009.29
Assets under construction and advance payments	27	7,920,850.22	54,108,708.88
Financial fixed assets	28	1,113,930.08	1,127,017.48
Companies accounted for using the equity method	9921	994,830.79	1,004,968.19
Participating interests	99211	994,830.79	1,004,968.19
Other enterprises	284/8	119,099.29	122,049.29
Participating interests and shares	284	1,556.58	1,556.58
Amounts receivable	285/8	117,542.71	120,492.71
<b>CURRENT ASSETS</b>	<b>29/58</b>	<b>268,438,334.93</b>	<b>241,730,993.51</b>
Amounts receivable after more than one year	29	2,995,439.83	3,213,885.22
Other amounts receivable	291	2,995,439.83	3,213,885.22
Stocks and contracts in progress	3	127,689,770.46	115,685,461.24
Stocks	30/36	127,689,770.46	115,685,461.24
Raw materials and consumables	30/31	19,047,038.66	16,480,147.70
Finished goods	33	94,571,092.90	84,149,423.19
Goods purchased for resale	34	14,071,638.90	15,055,890.35
Amounts receivable within one year	40/41	136,157,401.71	120,927,310.47
Trade debtors	40	127,592,192.48	113,511,417.19
Other investments and deposits	41	8,565,209.23	7,415,893.28
Cash at bank and in hand	54/58	477,903.03	533,888.73
Deferred charges and accrued income	490/1	1,117,819.90	1,370,447.85
<b>TOTAL ASSETS</b>	<b>20/58</b>	<b>528,777,152.52</b>	<b>490,951,628.06</b>

## LIABILITIES

(in €)

	Codes	PERIOD 2016	PERIOD 2015
<b>EQUITY</b>	<b>10/15</b>	<b>136,753,623.36</b>	<b>129,781,922.94</b>
Capital	10	46,771,057.13	41,154,818.99
Issued capital	100	46,774,565.00	41,158,032.50
Uncalled capital	101	3,507.87	3,213.51
Share premium account	11	31.26	31.26
Consolidated reserves	9910	86,699,789.46	84,791,703.53
Translation differences	9912	2,730.77	2,730.77
Investment grants	15	3,280,014.74	3,832,638.39
<b>MINORITY INTERESTS</b>	<b>9913</b>	<b>64,575.86</b>	<b>66,125.89</b>
<b>PROVISIONS, DEFERRED TAXES AND LATENT TAXATION LIABILITIES</b>	<b>16</b>	<b>31,158,910.95</b>	<b>32,210,823.48</b>
Provisions for liabilities and charges	160/5	4,547,201.96	5,234,877.34
Pensions and similar obligations	160	3,296,145.07	3,429,323.38
Other liabilities and charges	163/5	1,251,056.89	1,805,553.96
Deferred taxes	168	26,611,708.99	26,975,946.14
<b>AMOUNTS PAYABLE</b>	<b>17/49</b>	<b>360,800,042.35</b>	<b>328,892,755.75</b>
Amounts payable after more than one year	17	148,665,877.00	131,398,828.54
Financial debts	170/4	148,665,877.00	130,648,828.54
Leasing and other similar obligations	172	-	3,520.37
Credit institutions	173	148,665,877.00	130,645,308.17
Other amounts payable	178/9	500,000.00	750,000.00
Amounts payable within one year	42/48	211,648,359.46	196,660,733.74
Current portion of amounts payable after more than one year falling due within one year	42	34,750,402.88	29,760,917.41
Financial debts	43	26,629,394.94	41,018,395.33
Credit institutions	430/8	26,629,394.94	41,018,395.33
Trade debts	44	129,294,815.09	104,730,130.02
Suppliers	440/4	129,294,815.09	104,730,130.02
Taxes, remuneration and social security	45	18,975,316.50	19,796,529.69
Taxes	450/3	2,284,044.84	2,824,096.25
Remuneration and social security	454/9	16,691,271.66	16,972,433.44
Other amounts payable	47/48	1,998,430.05	1,354,761.29
Accrual and deferred income	492/3	485,805.89	833,193.47
<b>TOTAL LIABILITIES</b>	<b>10/49</b>	<b>528,777,152.52</b>	<b>490,951,628.06</b>

## 2. Consolidated income statement

(in €)	Codes	PERIOD2016	PERIOD 2015
Operating income	70/76	1,017,369,667.47	965,155,302.29
Turnover	70	991,146,284.28	945,051,413.66
Increase (decrease) in stocks of finished goods, work and contracts in progress	71	10,413,571.66	7,745,558.92
Other operating income	74	15,678,998.62	12,077,244.42
Non-recurring operating income	76	130,812.91	281,085.29
Operating charges	60/66	1,004,205,152.84	955,439,289.60
Raw materials, consumables	60	728,643,939.96	684,215,762.54
Purchases	600/8	730,230,846.91	685,621,446.40
Decrease (increase) in stocks	609	-1,586,906.95	-1,405,683.86
Services and other goods	61	135,619,384.95	130,922,946.24
Remuneration, social security costs and pensions	62	109,604,212.27	110,926,553.60
Depreciation of and amounts written off formation expenses, intangible and tangible fixed assets	630	27,434,629.97	25,921,740.88
Amounts written off stocks, contracts in progress and trade debtors - Appropriations (write-backs)	631/4	55,479.04	361,805.65
Provisions for liabilities and charges - Appropriations (uses and write-backs)	635/7	-687,675.38	-969,372.74
Other operating charges	640/8	3,330,198.20	3,770,386.59
Non-recurring operating charges	66	204,983.83	289,466.84
<b>OPERATING PROFIT (OPERATING LOSS)</b>	<b>9901</b>	<b>13,164,514.63</b>	<b>9,716,012.69</b>
Financial income	75	1,982,474.44	4,047,244.21
Income from financial fixed assets	750	161,713.53	103,783.92
Income from current assets	751	35,652.07	49,252.48
Other financial income	752/9	1,785,198.84	3,894,207.81
Financial charges	65	11,628,570.91	10,179,469.57
Debt charges	650	6,919,541.22	6,948,234.01
Amounts written off positive consolidation differences	9961	630,755.60	634,213.02
Other financial charges	652/9	4,078,274.09	2,597,022.54
<b>GAIN (LOSS) FOR THE PERIOD BEFORE TAXES</b>	<b>9903</b>	<b>3,518,418.16</b>	<b>3,583,787.33</b>

	Codes	PERIOD 2016	PERIOD 2015
Transfer from deferred taxes and latent taxation liabilities	780	2,001,383.62	562,354.12
Transfer to deferred taxes and latent taxation liabilities	680	1,637,146.45	2,409,915.77
Income taxes	67/77	286,637.89	149,546.85
Taxes	670/3	299,586.41	168,353.11
Adjustment of income taxes and write-back of tax provisions	77	12,948.52	18,806.26
<b>GAIN (LOSS) FOR THE PERIOD</b>	<b>9904</b>	<b>3,596,017.44</b>	<b>1,586,678.83</b>
Share in the result of the companies accounted for using the equity method	9975	-10,137.40	11,913.20
Profits	99751		11,913.20
Losses	99651	10,137.40	
<b>CONSOLIDATED RESULT</b>	<b>9976</b>	<b>3,585,880.04</b>	<b>1,598,592.03</b>
Of which:			
Share of third parties	99761	-1,550.03	-1,502.12
Share of the group	99762	3,587,430.07	1,600,094.15



### 3. Notes on the consolidated annual accounts

#### 1. List of the consolidated subsidiary companies and companies included using the equity method

NAME, full address of the REGISTERED OFFICE and for the enterprise governed by Belgian law, the COMPANY NUMBER	Method used (1)	Proportion of capital held (2) (in %)	Change of percentage of capital held (as compared to the previous period)
B.M.F. Lait sarl. – Rue de la Gare 3087 59299 Boeschepe – France	F	100.00	0.00
Milcobel Nederland b.v. – Demerstraat 29 4635 BT Huijbergen - The Netherlands	F	100.00	0.00
Milcobel 3 F CVBA – Fabriekstraat 141 9120 Beveren-Waas – Belgium – 0424.899.491	F	100.00	0.00
Cheeseline NV – Lieven Bauwensstraat 9 8200 Sint-Andries – Belgium – 0441.187.078	F	100.00	0.00
Fassbel NV – Fabriekstraat 141 9120 Beveren-Waas – Belgium – 0476.830.917	F	50.00	0.00
Kaasimport Dupont NV – Lieven Bauwensstraat 9 8200 Sint-Andries – Belgium – 0405.109.216	F	100.00	0.00
Ysco NV – Fabriekstraat 141 9120 Beveren-Waas – Belgium – 0472.336.451	F	100.00	0.00
Ysco France sas – Avenue de la 2e DB 53 61208 Argentan - Cedex – France	F	100.00	0.00
Ysco holding France sas – Rue de la Gare 3087 59299 Boeschepe – France	F	100.00	0.00
Belgomilk CVBA – Fabriekstraat 141 9120 Beveren-Waas – Belgium – 0870.017.447	F	100.00	0.00

NAME, full address of the REGISTERED OFFICE and for the enterprise governed by Belgian law, the COMPANY NUMBER	Method used (1)	Proportion of capital held (2) (in %)	Change of percentage of capital held (as compared to the previous period)
Zuivelindustrie Zandhoven CVBA – Wasserijstraat 5 2900 Schoten – Belgium – 0406.045.562	F	99.99	0.00
Camal sa – Route de Légipont 12 4671 Barchon – Belgium – 0412.859.912	F	100.00	0.00
Héritage 1466 sa – Rue de Charneux 32 4650 Herve – Belgium – 0425.964.513	E4	20.00	0.00
DupontCheese Nederland b.v. – Escudoweg 1 2153 PC Nieuw-Vennep – The Netherlands – 800505177B01	F	100.00	0.00
Vandenbroucke-Lemaître BVBA – Dirk Martensstraat 14 8200 Sint-Andries – Belgium – 0415.616.492	F	92.00	0.00

(1) F: Full consolidation

E4: Joint subsidiary enterprise accounted for using the equity method where its activities cannot be closely integrated into the activities of the enterprise having the joint control (article 134, second al. of the aforementioned Royal Decree).

(2) Proportion of capital of those enterprises being held by the enterprises included in the consolidated accounts and persons acting in their own names but on behalf of these enterprises.

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## 2. Consolidation criteria and changes in the consolidation scope

Information and the criteria governing the application of full consolidation, proportional consolidation and the equity method as well as those cases in which these criteria are departed from, and justification for such departures (Pursuant to Article 165, I. of the Royal Decree of 30 January 2001 in implementation of Company Law).

The full consolidation method was applied to all companies which are controlled directly or indirectly by the consolidating company, by law or in fact, and to companies over which control is shared. These companies have been included in the consolidated annual accounts using the full consolidation method or the equity method, according to the degree of integration into Milcobel. The participations in affiliated companies have been valued and included in the accounts using the equity method.

## 3. Valuation rules

Specification of the criteria of significant importance for valuation of the various items in the consolidated financial statements, in particular:

- the application and adjustments of depreciation, amounts written down and provisions for liabilities and charges, and revaluations (pursuant to article 165, VI.a. of the Royal Decree of 30 January 2001 in implementation of Company Law).
- the bases of translation applied to express in the consolidated accounts items which are, or originally were, expressed in a currency other than the currency in which the consolidated accounts are stated, and the translation in the consolidated accounts of the accounting statements of subsidiaries and associated enterprises governed by foreign law (pursuant to Article 165, VI.b. of the aforementioned Royal Decree).



## ASSETS

### Establishment costs

The establishment costs are depreciated on a straight-line basis at 20%.

### Intangible fixed assets

The acquisitions and brought in intangible fixed assets are booked on the asset side of the balance sheet at their acquisition price or brought in value and are depreciated on a straight-line basis in accordance with the following percentages:

1. Research and development costs	20	20
2. Concessions, patents, licences, brands, etc..	10	20
3. Goodwill	10	20
4. Advance payments	0	0

### Consolidation differences

The consolidation differences represent the divergences between on the one hand the acquisition value and on the other the corresponding part of the equity capital on the date on which the shares have been acquired or a nearby date close to it.

Insofar as these differences originate from an over or under valuation of specific items on the asset or liabilities side, they will be allocated to it. The remaining difference is included in the consolidated accounts in the item “consolidation differences” on the asset or liabilities side of the balance sheet, depending on whether the acquisition value is higher or lower than the share in the (possibly recalculated) equity capital.

Activated consolidation differences are depreciated in a straight line over a five-year period. Additional or extraordinary depreciations are applied to these differences when, as a result of changes in economic circumstances, it is no longer justified to retain them at that particular value in the consolidated balance sheet.

Negative consolidation differences are booked to the liabilities side. They only benefit the consolidated profit & loss account to cover operational losses incurred for reasons existing at the time of the acquisition (overcapacity, staffing levels too high) and within a limited period of time. They are booked to code 9960 ‘Amounts written down on positive consolidation differences’.

### Tangible fixed assets

Tangible fixed assets are booked to the asset side of the balance sheet at their acquisition price (incl. additional costs) or their brought in value. Depreciations are booked according to the straight-line method (pro rata temporis) over the economic life.

The depreciation percentages are as follows:

	min.	max.
1. Industrial, administrative and commercial buildings	3	10
2. Plant, machinery and equipment	5	25
3. Vehicles	10	25
4. Office equipment and furniture	10	33
5. Other tangible fixed assets	3	20
6. Assets under construction and advance payments	0	0
7. Leasing and similar rights	according to the category to which the asset belongs	



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## Stocks

- Raw materials: acquisition value according to weighted average price or lower market value on balance sheet date for solid and liquid dairy produce and for ice cream activities
- Consumables and goods purchased for resale:
  - o acquisition value according to weighted average price or lower market value on balance sheet date for solid and liquid dairy produce and for ice cream activities;
  - o acquisition value according to FIFO method or lower market value on balance sheet date for liquid dairy produce;
  - o acquisition value according to the weighted average price, FIFO method or individualisation of the price of each component for the cheese distribution and this depending on the nature of the product. The acquisition value may not exceed the market value on the balance sheet date.
- Finished goods:
  - o valuation at manufacture price or market value, if this is lower on the balance sheet date;
  - o in addition to the purchasing cost of raw materials, consumer goods and consumables, the manufacture price includes production costs that are directly accountable to individual products or product groups.

### Accounts receivable within one year

Accounts receivable are included at nominal value. Write downs are booked to these accounts receivable when their collectibility is in doubt.

### Investments

Shares and fixed income securities: acquisition value.  
Credit balances at financial institutions: nominal value.

### Cash at bank and in hand

Valuation at nominal value.



Sneetjes • Tranches  
Grandes feuilles de vanille assaisonnées  
Valkers nutrijnstandaard voor suikers



# JONG • JEUNE

## Kaas 50+ Fromage



	Per 100 g	Per 100 g
Water	36,4	36,4
Proteïne	25,4	25,4
Vet	17,4	17,4
Koolhydraten	0,4	0,4
Minerale stoffen	0,4	0,4
Calorieën	314	314
Calorieën uit suikers	17,4	17,4

Netto gewicht  
**180 g e**  
180 g net weight



Nez exhaler dans  
Celle qui respire  
Te gebruiken tot  
A consumer jusqu'au

22.11.2016  
EXP. DATE



Belgium  
www.milkobal.be  
www.farmalab.com

Produced in Belgium  
Produit en Belgique  
Produced in Belgium  
Produit en Belgique

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## LIABILITIES

### Consolidated reserves

The group reserves include the reserves and results carried forward of the consolidated company, raised with the share of the group in the results, after deduction of dividends, of the full and proportionally consolidated companies and the companies to which the equity method has been applied.

### Investment grants

Investment grants are valued at nominal value after deduction of deferred taxes.

### Provisions for risks and costs

The Board of Directors decides, on the basis of a prudent evaluation, which provisions should be made to cover the cost of early retirement, major repairs and maintenance, settlement of claims, supplied guarantees, hedge risks and possible other risks and costs that are probable or certain on the balance sheet date, but the extent of which is not yet known.

### Deferred tax and latent liabilities

Deferred tax and latent liabilities are booked:

- to the differences resulting from the application of the valuation rules of the group with respect to the statutory valuation rules of the group companies;
- to the temporary differences between accounting and tax results;
- to the granted not yet depreciated investment grants and untaxed gains values included in the company's equity capital.

### Amounts payable after one year and within one year

Amounts payable are booked at their nominal value.

### Deferred charges and accrued income

Revenue and costs are allocated to the period to which they apply.

### Foreign currency

Foreign currency receivables and payables are valued at the exchange rate applicable on the balance sheet date. Negative exchange rate differences are booked in results. Positive exchange rate differences are booked to transitory accounts on the liabilities side.

#### 4. Methods of calculating of deferred taxes

Detailed explanation on the methods applied in determining deferred taxes (deferral method, liability method, ...)

Deferred tax and latent liabilities are booked:

- to the differences resulting from the application of the valuation rules of the Group with respect to the statutory valuation rules of the Group companies;
- to the temporary differences between accounting and tax results;
- to the granted not yet depreciated iPLCestment grants and untaxed gains values included in the company's equity capital.

#### FUTURE TAXATION AND DEFERRED TAXES

Analysis of Heading 168 of the liabilities

Future taxation (*Pursuant to article 76 of the Royal Decree of 30 January 2001 in implementation of Company Law*)

Deferred taxes (*Pursuant to article 129 of aforementioned Royal Decree*)

(code 168)

26,611,708.99

62,506.72

26,549,202.27

## 5. Statement of intangible fixed assets

	RESEARCH AND DEVELOPMENT COSTS (code 210)	CONCESSIONS, PATENTS, LICENCES, KNOWHOW, BRANDS AND SIMILAR RIGHTS (code 211)	GOODWILL (code 212)	ADVANCE PAYMENTS (code 213)
Acquisition value at the end of the previous period	49,619.28	19,555,181.62	7,652,847.05	1,514,335.88
Movements during the period				
Acquisitions, including produced fixed assets	29,152.82			785,570.61
Sales and disposals			619,733.78	159,327.18
Transfers from one heading to another		325,981.95		-325,981.95
Other movements		34,663.94		
<b>Acquisition value at the end of the period</b>	<b>78,772.10</b>	<b>19,915,827.51</b>	<b>7,033,113.27</b>	<b>1,814,597.36</b>
Depreciation and amounts written down at the end of the previous period		11,261,540.21	7,652,847.05	
Movements during the period				
Recorded		2,117,561.77		
Transferred from one heading to another				
Cancelled			619,733.78	
Other movements		2,144.30		
<b>Depreciation and amounts written down at the end of the period</b>		<b>13,381,246.28</b>	<b>7,033,113.27</b>	
<b>NET BOOK VALUE AT THE END OF THE PERIOD</b>	<b>78,772.10</b>	<b>6,534,581.23</b>		<b>1,814,597.36</b>

## 6. Statement of tangible fixed assets

	LAND AND BUILDINGS (code 22)	PLANT, MACHINERY AND EQUIPMENT (code 23)	FURNITURE AND VEHICLES (code 24)
Acquisition value at the end of the previous period	104,120,782.55	376,412,424.63	23,767,459.56
Movements during the period			
Acquisitions, including produced fixed assets		280,482.05	199,812.44
Sales and disposals	121,630.47	360,029.33	1,529,074.86
Transfers from one heading to another	22,764,269.32	64,422,173.82	1,804,497.85
Other movements	-24,965.36	24,965.36	
<b>Acquisition value at the end of the period</b>	<b>126,738,456.04</b>	<b>440,780,016.53</b>	<b>24,242,694.99</b>
Depreciation and amounts written down at the end of the previous period	49,946,917.05	256,511,687.96	15,523,359.81
Movements during the period			
Recorded	3,675,792.42	19,716,656.98	1,699,204.32
Cancelled	121,417.46	277,371.25	1,333,459.19
Transferred from one heading to another		4,500,000.00	
Other movements		-2,144.30	
<b>Depreciation and amounts written down at the end of the period</b>	<b>53,501,292.01</b>	<b>280,448,829.39</b>	<b>15,889,104.94</b>
<b>NET BOOK VALUE AT THE END OF THE PERIOD</b>	<b>73,237,164.03</b>	<b>160,331,187.14</b>	<b>8,353,590.05</b>

	LEASING AND SIMILAR RIGHTS (code 25)	OTHER TANGIBLE FIXED ASSETS (code 26)	ASSETS UNDER CONSTRUCTION AND ADVANCED PAYMENTS (code 27)
Acquisition value at the end of the previous period	4,551,557.18	1,195,028.51	54,108,708.88
Movements during the period			
Acquisitions, including produced fixed assets			38,486,260.70
Sales and disposals	25,578.34		146,567.43
Transfers from one heading to another	-4,500,000.00	1,947.00	-84,492,887.99
Other movements			-34,663.94
<b>Acquisition value at the end of the period</b>	<b>25,978.84</b>	<b>1,196,975.51</b>	<b>7,920,850.22</b>
Depreciation and amounts written down at the end of the previous period	4,395,798.04	878,019.22	
Movements during the period			
Recorded	155,517.90	69,896.58	
Cancelled	25,337.10		
Transferred from one heading to another	-4,500,000.00		
<b>Depreciation and amounts written down at the end of the period</b>	<b>25,978.84</b>	<b>947,915.80</b>	
<b>NET BOOK VALUE AT THE END OF THE PERIOD</b>		<b>249,059.71</b>	<b>7,920,850.22</b>

## 7. Statement of financial fixed assets

			ENTERPRISES ACCOUNTED FOR USING THE EQUITY METHOD (code 280)	OTHER ENTERPRISES (code 282)
<b>PARTICIPATING INTERESTS</b>				
Acquisition value at the end of the previous period			1,030,163.28	1,556.58
Movements during the period				
<b>Acquisition value at the end of the period</b>			<b>1,030,163.28</b>	<b>1,556.58</b>
Movements in the capital and reserves at the end of the previous period			-25,195.09	
Movements during the period				
Share in the result for the financial period			-10,137.40	
<b>Movements in the capital and reserves at the end of the period</b>			<b>-35,332.49</b>	
<b>NET BOOK VALUE AT THE END OF THE PERIOD</b>			<b>994,830.79</b>	<b>1,556.58</b>
<b>AMOUNTS RECEIVABLE</b>				OTHER ENTERPRISES (code 283)
Net book value at the end of the previous period				120,492.71
Movements during the period				
Additions				10,040.00
Repayments				12,990.00
<b>NET BOOK VALUE AT THE END OF THE PERIOD</b>				<b>117,542.71</b>

## 8. Statement of consolidated reserves

<b>CONSOLIDATED RESERVES</b>			(code 9910)
Consolidated reserves at the end of the previous period			84,791,703.53
Movements during the period:			
Shares of the group in the consolidated income			3,587,430.07
Other movements			-1,679,344.14
Dividends			1,679,344.14
<b>CONSOLIDATED RESERVES AT THE END OF THE PERIOD</b>			<b>86,699,789.46</b>

## 9. Statement of consolidation differences and differences resulting from the application of the equity method

<b>POSITIVE DIFFERENCES CONSOLIDATION</b>			(code 9920)
Net book value at the end of the previous period			1,335,841.27
Movements during the period:			
Depreciations			-630,755.60
<b>NET BOOK VALUE AT THE END OF THE PERIOD</b>			<b>705,085.67</b>

## 10. Statement of amounts payable

<b>BREAKDOWN OF AMOUNTS PAYABLE WITH AN ORIGINAL PERIOD TO MATURITY OF MORE THAN ONE YEAR, ACCORDING TO THEIR RESIDUAL TERM</b>	<b>DEBTS WITHIN ONE YEAR (code 42)</b>	<b>BETWEEN ONE AND FIVE YEARS (code 17)</b>	<b>OVER FIVE YEARS (code 17)</b>
Financial debts	34,750,402.88	101,268,727.00	46,897,150.00
Credit institutions	34,750,402.88	101,268,727.00	46,897,150.00
Other amounts payable		500,000.00	
<b>TOTAL</b>	<b>34,750,402.88</b>	<b>101,768,727.00</b>	<b>46,897,150.00</b>

## 11. Net turnover

<b>NET TURNOVER</b>			PERIOD 2016	PERIOD 2015
Aggregate turnover of the group in Belgium			347,487,582.53	365,584,822.91
<b>AVERAGE NUMBER OF PERSONS EMPLOYED AND PERSONNEL CHARGES</b>			PERIOD 2016	PERIOD 2015
Consolidated enterprises and fully consolidated enterprises				
Average number of persons employed (in units)			2,006	1,967
Workers			1,524	1,497
Employees			468	453
Management personnel			14	17
Personnel costs				
Remuneration, social security costs			109,259,622.00	110,570,577.32
Pensions			344,590.27	355,976.28
Average number of persons employed in Belgium by the enterprises concerned			1,788	1,762
<b>NON-RECURRING INCOME</b>			PERIOD 2016	PERIOD 2015
Non-recurring operating income			130,812.91	281,085.29
Capital gains on disposal of intangible and tangible fixed asset			57,053.27	52,637.07
Other non-recurring operating income			73,759.64	228,448.22
<b>NON-RECURRING EXPENSES</b>			PERIOD 2016	PERIOD 2015
Non-recurring operating charges			204,983.83	289,466.84
Non-recurring depreciation of and amounts written off formation expenses, intangible and tangible fixed assets				272,299.20
Capital losses on disposal of intangible and tangible fixed assets			48,566.59	10,491.88
Other non-recurring operating charges			156,417.24	6,675.76

## 12. Rights and commitments not reflected in the balance sheet

RIGHTS AND COMMITMENTS NOT REFLECTED IN THE BALANCE SHEET			PERIOD 2016
Substantial commitments to acquire fixed assets			10,700,000.00
Commitments from transactions to exchange rates			32,202,577.45
Information concerning important litigation and other commitments			
<ul style="list-style-type: none"> <li>- All engagements of the Milcobel Group by the banks have been honoured.</li> <li>- An engagement for a minimum turnover of 5,323 K euro for external storage.</li> <li>- Long term agreement of 9 years with the obligation to buy Alpha bottles, although with a possibility to stop the agreement - 1,990 K euro (early termination fee).</li> </ul>			
Commitments with respect to retirement and survivors' pensions in favour of their personnel or executives, at the expense of the enterprises included in the consolidation.			
<ul style="list-style-type: none"> <li>The company has contracted a group insurance policy for its employees and managers with a Belgian insurance company.</li> <li>The costs are partially supported by the company and partially by the concerned person.</li> </ul>			

## 13. Relationships with affiliated enterprises and enterprises linked by participating interests but not included in the consolidation

AFFILIATED ENTERPRISES		PERIOD 2016	PERIOD 2015
Financial fixed assets			
Participating interests and shares		994,830.79	1,004,968.19
Transactions with enterprises linked by participating interests out of market conditions		nihil	nihil

## 14. Financial relationships with

DIRECTORS, INDIVIDUALS OR BODIES CORPORATE FROM THE CONSOLIDATED ENTERPRISES				PERIOD 2016
Total amount of remuneration granted in respect of their responsibilities in the consolidation enterprise, its subsidiary companies and its affiliated companies, including the amounts in respect of retirement pensions granted to former directors or managers.				1,103,993.80
AUDITORS OR PEOPLE THEY ARE LINKED TO				PERIOD 2016
Fees for auditor's mandate				
Auditor's fees according to a mandate at the group level led by the company publishing the information				108,900.00
Fees for exceptional services or special missions executed in the company and its branches by the auditor				
Other attestation missions				2,189.00
Fees to people auditors are linked to according to the mandate at the group level led by the company publishing the information				17,350.00

## 15. Derivatives not measured at fair value

For each category of derivative financial instruments	Hedged risk	Speculation / Hedging	Scope	Period : Booked value	Period : Real value
Interest rate swap	Interest	2-Hedging	50243714	0.00	0.00



# B. Other documents to be filed under Belgian company law

## 1. Consolidated Annual Accounts 2016

In accordance with legal and statutory obligations, we are delighted to report the consolidated annual accounts of Milcobel cvba as on December 31, 2016.

### ASSETS

#### II. INTANGIBLE FIXED ASSETS (8,427,950 EUROS)

These concern mainly investments in software (0.786 million euros) and the purchase of greenhouse gas allowances.

#### III. TANGIBLE FIXED ASSETS (250,091,851 EUROS)

The investments for the financial year amount to 38.9 million euros and can be split as follows:

- General : 1.8 million euros
- Butter, powder and cheese : 30.2 million euros
- Ice cream : 5.9 million euros
- Cheese : 1.0 million euros

#### V. FINANCIAL FIXED ASSETS (1,113,930 EUROS)

Companies with a participating interest (994,830 euros) are related to CVBA Zandhoven en Héritage 1466 SA.

#### VII. STOCK (127,689,770 EUROS)

Stock represents 24% of the balance sheet total and have increased with 10% compared to last year.

### LIABILITIES

#### IX. PROVISIONS AND DEFERRED TAXATION (31,158,910 EUROS)

The item deferred taxation (26,611,708 Euros) is mainly due to the difference between the business economic and fiscal valuation of tangible fixed assets.

## **X. DEBTS OVER MORE THAN ONE YEAR (148,665,877 EUROS)**

The financial debts (148,165,877 euros) mainly relate to fixed credits entered into with various banks. In 2016, 56.1 million euros of loans were taken out and 33.5 million euros of loans repaid.

## **XI. DEBTS OVER MAXIMUM 1 YEAR (211,648,359 EUROS)**

The debts have increased with 7,6 % compared to last year.

## **RESULTS**

### **I. & II. OPERATING RESULTS**

Sales achieved in the year 2016 amount to 991 million euros. The turnover can be split as follows:

- 533 million realised from dairy activities;
- 266 million realised from ice cream activities;
- 192 million from distribution and packaging activities for the cheese trade.

### **IV. & V. FINANCIAL RESULTS**

Debt servicing costs remained stable compared to the previous year.

## **EVENTS AFTER BALANCE SHEET DATE**

No significant events occurred after the balance sheet date that would profoundly affect future activities.

## **FINANCIAL TOOLS**

The exchange risk for significant sales contracts agreed in foreign currency is covered by currency contracts. A great deal of the short-term interest bearing debts are covered by interest covers aiming at reducing the impact of interest variations. Most of the long-term interest bearing debts are covered at fixed interest rates.

## PROSPECTS

Market conditions remain favorable for the B2B activities.

## RESEARCH AND DEVELOPMENT

Existing research and development activities are continued in the various divisions.

## RISKS AND UNCERTAINTIES

In addition to general business risks, the Milcobel group is facing risks specifically associated with a dairy business. Calamities could be the cause of serious disruption in milk supplies and the production and sales process. This risk is limited by the introduction of a quality assurance system (DQA).

Kallo, 14 march 2017

D. Ryckaert  
President

J. Wallays  
Vice-President

G.Vermander  
Vice-President

## 2. Extra information

The figures for financial year 2015 are not identical to the filed figures for financial year 2015. The purchases of goods and services in various goods for fiscal year 2015 have been adjusted for an amount of EUR 7,692,128.98. This concerns a correction related to intercompany eliminations and has no impact on the net result for financial year 2015.

## C. Statutory auditor's report

Statutory auditor's report to the general members' meeting on the consolidated accounts for the year ended 31 December 2016.

In accordance with the legal requirements, we report to you on the performance of our mandate of statutory auditor. This report includes our opinion on the consolidated accounts, as well as the required additional statement. The consolidated accounts comprise the consolidated balance sheet as at 31 December 2016 and the consolidated income statements of for the year then ended, and the notes.

### **Report on the consolidated accounts - Unqualified opinion**

We have audited the consolidated accounts of Milcobel CVBA ("the Company") and its subsidiaries (jointly "the Group"), prepared in accordance with the financial-reporting framework applicable in Belgium and which show a consolidated balance-sheet total of EUR 528,777,152.52 and a consolidated profit for the year of EUR 3,585,880.04.

#### *Managers' responsibility for the preparation of the consolidated accounts*

The managers are responsible for the preparation and fair presentation of these consolidated accounts in accordance with the financial-reporting framework applicable in Belgium, and for such internal control as the managers determine, is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

#### *Statutory auditor's responsibility*

Our responsibility is to express an opinion on these consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISAs) as adopted in Belgium. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated accounts 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the managers, as well as evaluating the overall presentation of the consolidated accounts.

We have obtained from the managers and the company's officials the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unqualified opinion.

#### *Unqualified Opinion*

In our opinion, the consolidated accounts give a true and fair view of the Group's net equity and its financial position as at 31 December 2016 and of the results of its operations for the year then ended, in accordance with the financial-reporting framework applicable in Belgium.

### **Report on other legal and regulatory requirements**

The managers are responsible for the preparation and the content of the directors' report on the consolidated accounts.

In the context of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we provide the following additional statement which does not impact our opinion on the consolidated accounts:

- The directors' report on the consolidated accounts includes the information required by law, is consistent with the consolidated accounts and does not present any material inconsistencies with the information that we became aware of during the performance of our mandate.

St-Stevens-Woluwe, 5 May 2017

The Statutory Auditor  
PwC Bedrijfsrevisoren BCVBA  
represented by Griet Helsen - Réviseur d'Entreprises / Bedrijfsrevisor

## D. Consolidated cash flow

(in €)	PERIOD 2016	PERIOD 2015
<b>A. OPERATING ACTIVITIES</b>		
consolidated result, share of group	3,587,430.07	1,600,094.15
third party share	-1,550.03	-1,502.12
depreciation of fixed assets	27,434,629.97	25,921,740.88
provisions	-687,675.38	-969,372.74
depreciation of positive consolidation differences	630,755.60	634,213.02
deferred taxes	-364,237.15	1,847,561.64
<i>= cash flow</i>	30,599,353.08	29,032,734.83
movement in stocks	-12,004,309.22	-9,151,242.78
movement in trade accounts receivable	-14,080,775.29	4,519,448.83
movement in other accounts receivable	-1,149,315.95	396,585.68
movement in trade debts	25,564,685.07	14,421,843.49
movement in other debts	-177,544.43	-4,167,484.65
movement in accrued and deferred accounts	-94,759.63	476,167.61
<i>= movement in requirement for working capital</i>	-2,942,019.45	6,495,318.18
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>27,657,333.63</b>	<b>35,528,053.01</b>
<b>B. INVESTMENT ACTIVITIES</b>		
additions of intangible fixed assets	-814,723.43	-1,383,609.74
additions of tangible fixed assets	-38,966,555.20	-59,985,201.26
reclassifications of intangible fixed assets	159,327.18	99,892.62
reclassifications of tangible assets	425,295.44	877,801.89
movements in financial fixed assets	13,087.40	-4,599.20
<b>NET CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>-39,183,568.61</b>	<b>-60,395,715.69</b>

	PERIOD 2016	PERIOD 2015
<b>C. FINANCING ACTIVITIES</b>		
increase of investment loans	44,500,000.00	70,000,000.00
increase of financial debts	11,600,000.00	7,000,000.00
repayment of financial debts	-33,593,466.07	-26,063,602.88
movement in other long-term debts	-250,000.00	-252,681.63
movement in other long-term receivables	218,445.39	-1,442,603.97
movement in shareholders' equity	5,063,615.35	2,454,793.84
paid dividends	-1,679,345.00	-1,514,836.67
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>25,859,249.67</b>	<b>50,181,068.69</b>
<b>= NET CASH ( A+B+C )</b>	<b>14,333,014.69</b>	<b>25,313,406.01</b>
<b>+ OPENING CASH</b>	<b>-40,484,506.60</b>	<b>-65,797,912.61</b>
<b>= CLOSING CASH (*)</b>	<b>-26,151,491.91</b>	<b>-40,484,506.60</b>

(\*) cash = 'deposits' + 'cash at bank' + 'short-term financial debts to credit institutions'





## Credits

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