

# Annual Report 2014







# Foreword



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During the early months of 2014 we were still buoyed by the favourable market conditions of year-end 2013. This, however, did not prevent the continuation of the far-reaching change process in the group that was initiated at the beginning of 2013. The important choices that we made in the past were maintained, but our focus sharpened, and our industrial and commercial ambitions became more clear-cut. As the new mozzarella line became operational, cheese became Milcobel's main product. The decision currently being implemented to centralize the powder production in Kallo will soon also raise our milk powders to the highest standard of quality and functionality.



Raising the group as a whole to a higher level is the most important mission. To this end, the expertise already available in the management has been strengthened with experienced and competent people from outside. Our cooperative structure, controlling a professional dairy group, appeals to both ‘old’ and ‘new’ highly qualified staff. This is significant.

In 2014, Milcobel has seen its turnover grow to more than 1 billion euros. The diversity and focus in our dairy portfolio and the strong position of our more downstream activities – ice cream and cheese service – are the result of a deliberate strategy which we pursue even when things get difficult. Especially the second half of 2014 was not easy. End-of-quota concerns, the “hard” landing and falling prices put pressure on the income of dairy farms.

Many are pinning their hopes on Milcobel, and the milk price debate is never far off in our contacts with members. It is remarkable how the security offered in many areas by a cooperative group like Milcobel is taken for granted. Continuing to offer this security and perspective in the long term, however, requires effort and investment. This is communicated in the member-based structures.

The virtually full attendance at those meetings shows how great the involvement of the members (and member circle boards) is. Cooperation is about working together, joining forces, creating value together, and sharing the results fairly in a long-term perspective. Sometimes this will be at odds with the question “What can Milcobel do for me now?” It challenges us to position our cooperative project even more strongly in the market. Milcobel is not only a “safe” and reliable partner for the dairy farm; it also gives the Belgian dairy farming and dairy industry an identity in a globalizing market.

Guido Veys  
Chairman of the Board of Directors





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Milcobel in 2014







## Milcobel in 2014

We may begin this survey in exactly the same vein as last year: the past year turned out completely different than the previous year. After the positive picture in 2013, 2014 was marked by the expected opposite trend, with a fairly sharp fall in dairy prices that had a (albeit delayed) knock-on effect on milk prices. Sadly enough, the changes made in our group had not progressed far enough yet to stem the tide.

Because of the strong demand for milk powder at the end of 2013, beginning of 2014, and the shortage of drying capacity at the main European players, powder prices remained at a satisfactory level for longer than anticipated. Milk production, which had increased sharply under the effect of high prices, led to an oversupply of cheese; the unusual result was a sharp decline in foil cheese prices at the beginning of 2014, while milk prices remained high. It presaged a difficult year for the dairy plants, which depend entirely on cheese in this price segment, with mozzarella

also being adversely affected. The price of butter fat, which recovered during the course of the year, also fell to lower levels than its share in the milk price was supposed to yield.

From the second quarter onwards, a slow decrease in prices of other dairy products set in as a result of a greater supply on the world market and a fall in demand from China, although dairy prices and milk prices long remained at an acceptable level. The Russian boycott had a disastrous effect. While for most players the direct loss of turnover was fairly limited, dairy prices dropped to world level within a matter of two weeks, with a huge impact on margins.

Thanks to the satisfactory first six months, the average milk price in 2014 still turned out very acceptable, although due to the absence of the expected price buffer with cheese, milk prices in Belgium fell more sharply than in the neighbouring countries, so that Belgium ended up at the bottom of the European ranking in terms of milk prices.

By the beginning of 2015, however, most other countries had followed suit with low prices, although the perception of 2014, which on balance was not such a bad year, is totally different from at the end of 2013, when we had witnessed a long period of stable high prices.

As was mentioned at the end of 2013, Milcobel, being an open cooperative, is more than ever the reference for milk pricing in Belgium, and developments on the cooperative side in Wallonia meant that the whole sector tried to surpass the Milcobel price.


The strong prices and the prospect of the abolition of the milk quotas encouraged the existing members to boost their milk production. The fact that Belgium narrowly escaped a super-levy for the 2013-2014 campaign contribut-

ed to a very positive feeling in the sector. By the end of 2014, milk production was eventually curbed, as the lower milk prices could no longer bear a super-levy. In 2014, 1,171 million litres of milk was collected. That is just 2.2% or 25 million litres more than in 2013. The number of member-suppliers continued to fall, from 2,878 to 2,777 in 2014, despite the good prices, whereas the average delivery volume rose from just under 400,000 litres to virtually 422,000 litres per supplier.

Less milk was sold than in 2013, so that our own processing increased from 1,057 to 1,146 million litres, or +8.5%. More milk powder was produced, while the start-up the second mozzarella line also absorbed more milk volume. Consumption cheese was fairly stable, while in the Drinks segment it was decided to play a less active part in the low private label market for white milk.

It was decided at the beginning of 2014 to group all dairy activities together under the Milcobel flag, which would be used both internally and externally as exclusive reference. This is already evident in all communication, in the designation of the sites, and the picture that people get when they visit Milcobel. The planned organization of the group, and more particularly of Milcobel Dairy, has been implemented, and we are proud and satisfied that we now have very competent people to reinforce the organization in the right places and to strengthen the group with a view to raising Milcobel along with the available knowledge and expertise to a higher level.





A great deal of effort went into getting the ERP system implemented throughout the entire Dairy business by 1 January 2015; this has been largely achieved, so that planning, steering and reporting should definitely work better by the end of the first half of 2015.

The level of investment remained high, with 38 million euros being invested in 2014. The board of directors approved the implementation of a project for a new powder tower and a full upgrade of the milk processing in Kallo. The first payment on orders for this new powder tower already accounts for the main share of the investments in 2014. Other major projects include new capacity for Ysco, the completion of the second mozzarella line in Langemark, and the whey processing installation in Moorslede.

In the area of quality and performance, there are still several points in Dairy that need improving. Quality improvements should become sustainable, and often it should be possible to work simpler and get things right the first time. Inefficiency and errors cost more than the profits made by productivity improvements; that is why it should be even more of an and-and story. For this purpose, the site organizations are now being audited and strengthened as well.

## **Results for 2014**

When evaluating the various activities, it is worth noting how primarily the so-called non-dairy activities (Ysco and Cheese service) helped to support the milk price, along with powder during the first six months.

In the Mozzarella segment, the investment only became operational in the second half of the year, at a time when we found ourselves in sport market situations. Low prices (under pressure from foil cheese) and logical start-up costs weighed on the result. It was not until near the year-end, when milk prices had fallen sharply, that consumption cheese really began to show a profit. In Drinks, performance fell short of expectations due to quality and organizational issues.

As in the previous year, our more downstream activities – cheese trade and ice cream – returned better results than expected in the context of the dairy market.

Good contracts and an excellent delivery service yielded volume and margin growth in ice cream, despite the fact that dairy prices only really began to fall from the summer, when a large portion of sales is achieved. Coupled with a solid performance of the operating activities, this produced a result for ice cream that was even better than in 2012 and 2013.

As in 2013, the cheese service experienced a difficult start, owing primarily to a number of internal projects such as the integration of Heremans and the start-up of a new picking system. An excellent fourth quarter in terms of volume, costs and efficiency went a long way to make up for this, and the result of 2013 was amply exceeded. The strong performance of Camal and the greatly improved result of DupontCheese Nederland also contributed substantially to this achievement.



The milk price paid fell from €38.63 per 100 litres in 2013 to €36.57 in 2014, or a 5.3% decrease. As a result, the second highest milk price ever was achieved, although, as was mentioned earlier, the level at the year-end fell short of the market level. Both the fat and protein content were lower than the previous year: -0.74 grams per litre for fat and -0.11 grams per litre for protein. All of this resulted in a turnover of more than €1 billion (€1,011 million), or a 2.6% increase (equivalent to the growth in milk collection). The operating result fell from €19 million to €3 million, while the group's consolidated net result amounted to €2.2 million, compared to €6.5 million the previous year. Our EBITDA amounted to €35 million, which nearly covers our investments. The proposed dividend is kept at 4%. The remaining result will go to shoring up the group's reserves.

## Outlook for 2015

Despite increased volatility, the long-term prospects for dairy products remain good on the world market and by extension in Europe as well. Hesitant consumption in Europe does, however, remain a downside. This is still due to the aftermath of the economic crisis, but also to uncertainty about the future and the lack of growth. Sustainability and environmental impact may also play an equally significant role as the price situation when it comes to the future of the dairy industry in Europe.

Whereas 2015 started out with major uncertainties about the impact of the end of milk quotas and the fear of still lower prices for the time being, we saw milk production in

Europe being curbed at the start of 2015, as well as a slightly greater scarcity of supply in other parts of the world. This led to (unexpected) temporary improvements in dairy prices, which since then have fallen back to the level of early 2015 so that the milk prices paid in fact remain too high in relation to the dairy market.

For the rest of 2015, a lot will depend on developments in demand (China, Russia), and probably even more on developments in supply. The price level cannot be predicted, given the sizeable impact of a relatively small surplus or shortage on world markets, and the different figures that are circulating for post-quota growth.

As regards processing, we are looking at further improvements in Milcobel for 2015. The enlarged capacity for mozzarella is sold as more volume, allowing economies of scale to come into play, while the phase of start-up costs is now behind us. In the powder segment, we will focus entirely on the upgrading of milk powder, pending the completion of the new tower, which will not produce baby food mixes. In consumption cheese, we should be able to make the investments in Moorslede pay back, while our brand positioning should enable us to maintain the results of year-end 2014 at current milk prices.

Drinks remains a difficult segment, as the contracts with the strong retail sector put enormous pressure on margins, while the site and its organization are not entirely finalized yet. Strategic decisions will be taken here in terms of portfolio and investments.





This year's outlook for ice cream is very good with higher volumes, lower input prices and even slightly better sale prices. Here we should be able to attain the level of return that may be expected given the financial resources deployed. The cheese service should also be able to consolidate on a shrinking market, with a targeted positive net result in the Netherlands, and confirmation in Camal and Bruges.

A decision has yet to be taken on one potential major project connected with the increasing whey processing. Despite our growth, however, it seems that our scale is not big enough to justify major investments. We will keep looking at possible joint venture projects to optimize and in any case stabilize valorisation.

By increasingly focusing on processing and its efficient organization, we want to develop Milcobel further in the direction of versatility and sustainability.

In the area of sales and product knowledge and development, too, necessary further steps need to be taken. We can only deliver if we realize added value and also see this valorised in the market. On Milcobel's scale this is the only way to be profitable on a sustainable basis and to make and keep the business attractive in every possible scenario.





Cooperative news







# Cooperative news

In the course of 2014 it was shown once more how crucial the cooperative member-based structures were to the involvement of the member-suppliers in Milcobel's operations. At the board level of the 9 member circles, a total of 18 board meetings were held in 2014. The council of the cooperative met 5 times. Specific attention was paid to an improved attuning of agendas and interaction between the council of the cooperative and the member circle boards on the one hand and the board of directors on the other.

## Activities of the member-based structures

Half the members of each member circle board are re-elected on an alternating basis every three years, which benefits the continuity and "alertness" of the board's activities. Accordingly, half the members of each member circle board were renewed in 2014 by (re-)election.

The council of the cooperative – for which a new chairman was elected in 2014 – concerned itself with various topics connected with the relationship between the cooperative and the dairy farmer as associate and as milk supplier.

The cooperative topics that were discussed included a further reduction in the number of types of associate, conditions for granting funding to members, and ways to strengthen the cooperative's equity capital.

On the subject of milk supply and delivery conditions, the council of the cooperative made a thorough evaluation of the milk quality, took a closer look at situations where milk is delivered which is found to contain residues of inhibitors, and made an analysis of the economics of collection. In the interest of commercialization, it was also decided to enforce a generalized participation in the paratuberculosis programme. Considerable emphasis was also put on keeping track of milk deliveries in connection with the risk of super-levies. With the prospect of the abolition of the milk quotas, renewed attention was given to the implementation of a prognosis model that would allow suppliers to report their projected milk production.

Finally, the council of the cooperative also attached considerable importance to business-related themes in Milcobel: annual reporting of results and performance, monitoring of change processes and investment plans, and changes in the Milcobel organization. As prices became more volatile in the last few years, systematic reporting and monitoring of the market situation is gaining importance as well.

The field organization was thoroughly restructured during 2014 as a proactive measure in anticipation of the abolition of the milk quotas. It remains the express wish of the board of directors that Milcobel distinguishes itself by a qualitative field organization that is close to the member-suppliers and is open to all members as part of the cooperative relationship management.



## Milk supply

The following trends can be reported as regards milk supply during 2014:

- The number of member-suppliers fell further, from 2,993 in 2012 to 2,878 in 2013 and 2,777 in 2014, which corresponds to a relatively modest relapse rate of -3.5%.
- The number of Dutch and French member-suppliers in 2014 was 55 and 36 respectively. The share of the volumes of milk supplied was 3.6% for the Netherlands and 2.6% for France.
- For 2014, the supply of members' milk increased by 25.3 million litres, or +2.2%. This puts the total supply of members' milk at 1,171,609,439 litres. 2014 was characterized by a large supply of milk during the first six months. This was fostered by good milk prices and favourable milk production conditions. Towards the end of the year, production was curbed as Belgium was due to incur an unavoidable super-levy, which made for a particularly hard "soft landing".
- The average individual volume of milk delivered by Milcobel members increased from 372,519 litres in 2012 to 397,450 litres in 2013 and 421,897 litres in 2014. Variation within the supplier population remains considerable. More than 20% of the milk is supplied by the 7% suppliers who now account for more than 900,000 litres.

## Milk quality

The quality of the milk supplied remained at a very high level in 2014 as well:

- 94.5% of the milk supplied met the bacterial count standard of max. 50,000/ml
- 92.6% of the milk had a cell count of less than 350,000/ml
- 89.3% of the milk met the e-coli count standard of max. 50/ml
- 99.7% of the milk supplied remained free of demonstrable residues of inhibitors

After the extra-quality premium system was differentiated in 2013, 84% of the suppliers now receive an extra-quality premium. This corresponds to 90% of the milk supply. 80% of the milk meets all the requisite extra-quality standards: bacteria count  $\leq 25,000/\text{ml}$ , cell count  $\leq 300,000/\text{ml}$ , and e-coli count  $\leq 50/\text{ml}$ . 10% of the milk meets the low bacteria count standard in combination with the cell count standard or the e-coli count standard.

The quality policy as regards the milk supply continues to rest on the further remediation of a relatively small number of situations involving structural shortcomings. Intensified monitoring of the bacteria count still proves to be a usable parameter for this policy. The special monitoring procedure for suppliers in cases where a bacteria count of more than 100,000/ml was found turns out to be an efficient tool.

2014 also saw intensified testing for the presence of inhibitors in the milk below the customary penalty level. Repeated violations as regards demonstrable presence of inhibitors, no matter in what concentrations, can lead to a compulsory audit of the business and loss of entitlement to the extra-quality premium. With this approach, Milcobel shows its concern with the public health issue of antibiotic resistance.

As of mid-2014, mandatory participation in the paratuberculosis programme was added to the conditions for entitlement to an IKM premium. On 1 January 2014, participation in the “sustainability monitor” also became part of Milcobel’s delivery conditions. Within a matter of one year, more than 30% of the dairy farms have been audited for the sustainability initiatives they have taken and implemented.

## External relations

As a major cooperative of dairy farmers, Milcobel continued to participate actively in sectoral dialogue in 2014. This took place under the auspices of the Belgian Dairy Industry Confederation (BCZ), the General Association of Cooperative Dairies (AVCZ), and within the context of inter-professional consultations between the dairy industry and agricultural organizations in Belgium.

In that respect, Milcobel remains an important party in various consultative bodies in the area of quality monitoring, the elaboration of sustainability criteria for dairy farming, changes to the IKM specifications, amendments to the legislation concerning milk money settlements, and the proactive approach to further minimizing the use of antibiotics and residues of inhibitors in milk.

At the beginning of January 2013, Milcobel obtained official recognition as a producers' organization, and in 2014 the application for renewal of this recognition was filed with the competent authorities.

Milcobel made sustained efforts to contribute to the enrichment of knowledge about the cooperative business model among a wider audience, mostly through testimonials. There is a growing interest in the cooperative story, as more and more people realize that a cooperative business model is synonymous with sustainable enterprise and corporate social responsibility!

## **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; at the beginning of 2014, this monitor became part of the delivery conditions for milk. Within a matter of one year, more than 30% of the 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 possible ratio between mileage and energy consumption per unit volume of collected milk. In the area of 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.





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, and environmental protection. Those aspects are also important criteria in the development of new investment trajectories.

Presence in the social environment by actively taking part in all sorts of initiatives is another aspect of Milcobel's sustainability policy. Examples include partnership in initiatives to acquaint young people with technology, participation in educational training programmes, cooperation with local and regional organizations, support for various image-building initiatives, etc.

The organization of the cooperative process within Milcobel was nominated in 2014 as an example of the proper application of the cooperative principles as adopted by the International Cooperative Alliance (ICA).

Finally, Milcobel remained an active member of the United Nations "Global Compact" programme in 2014.

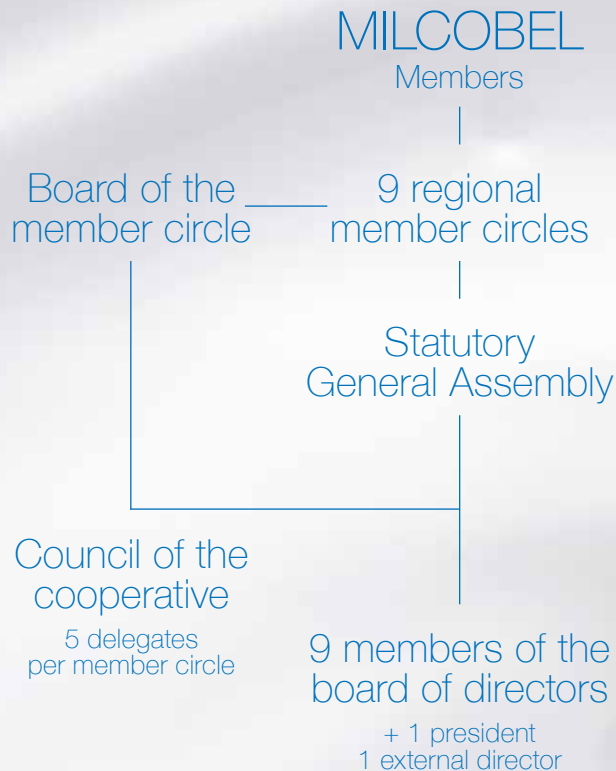




Milcobel-structure



# Cooperative structure



# Group structure







Key figures







# Key figures

2012

2013

2014

## Key figures milk flow

Milk from members' farms	1,114,948,082	1,146,317,686	<b>1,171,609,439</b>
Available total incl. third parties	1,131,898,100	1,173,571,689	<b>1,211,831,939</b>
Total sales	73,582,945	122,198,561	<b>74,382,705</b>
Available for transformation	1,058,315,155	1,051,373,128	<b>1,146,303,386</b>


## Key figures collection of the members

Average number of suppliers	2,993	2,878	<b>2,777</b>
Quantity of milk supplied	1,114,948,082	1,146,317,686	<b>1,171,609,439</b>
Average fat content	42.93	42.76	<b>42.02</b>
Average protein content	35.27	35.30	<b>35.19</b>
Price paid for milk in millions of euro	351.57	442.86	<b>428.50</b>
Euro per litre	0.3153	0.3863	<b>0.3657</b>


## Key figures milcobel group (in thousands of euro)

Turnover	880,205	985,481	<b>1,011,491</b>
Investments fixed assets	37,443	42,716	<b>38,596</b>
Result	3,683	6,494	<b>2,282</b>
Capital and reserves	113,011	120,401	<b>127,241</b>
Solvability %	27.5	26.6	<b>28.2</b>
Average number of employees	1,967	1,955	<b>2,014</b>





# Milcobel Dairy Operations







# Milcobel Dairy Operations

2014 was the first year in which all production sites were monitored and controlled under joint management. This is in keeping with the newly established structure of Mico-bel's organization, in which all milk processing operations are grouped together under Milcobel Dairy. The activities of the different sites are outlined below.

## **Moorslede**

In Moorslede, the integration of the production activities in Gierle and Wuustwezel was completed in 2014. The increased capacity of the site was consolidated and now offers scope for new market opportunities. Further optimization is a top priority, primarily by increasing productivity and guaranteeing product quality. The launch of an S&OP platform (coordination between Sales and Operations) is a major contributing factor to an optimal alignment between market needs and production capacity.

The ERP implementation went smoothly and ensured a flawless transition in the production, warehouse and delivery environments. This implementation is not only a basis for efficiency improvement; it also strengthens the Moorslede-Dupont cheese axis.

The start of construction of an RO installation (reverse osmosis) will allow the production of thickened whey in 2015, which can directly go to market at reduced costs.

## **Langemark**

In order to control the milk flow, the powder division in Langemark produced a record volume of milk powder in 2014: more than 31,000 tonnes in total. After a 5-year period – marked by audits, improvement projects, zoning, monitoring and training – the status of high-quality supplier has been confirmed, so that high-end customers who set very high quality standards can now be supplied.

The start-up of the second mozzarella line remains a key milestone for Langemark in 2014, resulting in a doubling of capacity. This start-up was slightly delayed, with full attention being focused on achieving a stable operating level. This phase is now followed by several programmes to guarantee a consistent top quality and to increase efficiency and output.

Increased attention to by-products led to an improved quality standard of whey products.

In a first round of organizational changes, all production divisions are now controlled by one production manager in order to take advantage of a synergy effect: common procedures and approach to arrive at the same best practices.

## Schoten

At the Schoten site, which had encountered problems in the past, quality was put first in 2014: the customer's quality standards have now become non-negotiable and central to all processes and decisions. Quality is constantly being improved, which should result in the production of drinks according to the "first time right" principle under all circumstances.

To help the staff of the pack filling division with their work, Milcobel invested in additional technical support and training in the Tetra Pak filling division, with updated correct and readable work instructions.



The improvement of certain recipes for chocolate drink opens up new market opportunities and volume growth for existing customers. For the future, the adaptation of recipes to production on an industrial scale in a more coherent and consistent manner will be further improved.

Finally, a start was made on restructuring the organization in line with the needs and priorities of an up-to-standard production facility, coupled with the inflow of new staff to reinforce the team.





## Kallo

For Kallo, 2014 was the year of preparation for the future. After many attempts, a project was eventually worked out (POW(d)ER) to equip the plant with the necessary purpose-built installations to ensure, for the next 20 years, the competitive transformation of milk into quality milk powder for the Milcobel Group. An investment budget of 85 million euros has been earmarked for a complete overhaul of the first milk processing and evaporation. The oldest powder tower will be replaced entirely by a large new spray drier, while the other two existing powder towers will undergo a thorough upgrade. The timeline for the implementation of this programme is 2015-2016. The new spray drier tower will be fully operational by the end of 2016. Current operations will continue throughout the works.

In order to make the investments pay off, changes will be made to the organization to allow continuous production,

while the ancillary structures will be rearranged. This restructuring process also entails a headcount reduction by around 50 people. In the social dialogue with the trade unions, an agreement has been reached to implement this workforce reduction as much as possible by phasing out the deployment of temporary workers and agency staff, as well as by retirement. A few redundancies are unavoidable, however.

In the context of the introduction of the continuous production system, the staff chose by referendum to start a pilot project for self-rostering. This new way of staff planning – where employees can plan their timetable according to their individual work-life needs – is an absolute novelty in the Belgian food industry. In this way, Milcobel responds to the social need for age-conscious human resources management.

## Corporate Support Functions

Based on the redefined organizational structure, Milcobel strengthens both its group identity and the way it operates as a group. The purchasing and engineering activities are centrally controlled. The teams were defined and set up here, and in 2015 they will release the available synergy within the Milcobel Group.







Milkobal

The image shows a close-up, low-angle shot of a white building facade. The word "Milkobal" is written in large, bold, blue letters. The "M" is partially cut off on the left and has a green circular element behind it. Two silver outdoor light fixtures are mounted on the wall above the text. In the bottom right corner, there are some out-of-focus tree branches with yellowish-brown leaves. The sky is a clear, bright blue.





Milcobel Dairy ■  
Commercial ■



**INCOLAC**

Pure whole cow's milk!

Full Cream Milk Powder  
Lait entier en poudre  
Leite em pó

INSTANT



Belgian Quality - Qualité Belge



Proteins  
Calcium  
Vitamins A&D

كولاك

COLAC



# Milcobel Dairy Commercial

## 2014: A year of extremes

After the record year 2013, when for several months an all-time high price was paid for most dairy products, 2014 will go down in history as a year of extremes.

The ever growing milk production and the radical slow-down in Chinese demand already heralded a major change in the first half of the year. The EU sanctions on export and the Russian import ban on dairy products combined to intensify the downward trend in prices.

With overall demand for milk products within the EU still stagnating, this domestic market is totally unable to absorb the increased supply of milk. The international export markets are, more than ever, determining factors for the dairy market and dairy prices. In certain parts of the world, the situation was compounded by great political instability and attendant currency problems.

As a result, the year ended with all-time low prices.

Despite these low prices, many buyers still exhibited a wait-and-see attitude. It is assumed that the abolition of EU quotas will cause a further decline in the market. High milk production levels in Oceania gave rise to a worldwide tendency of oversupply, resulting in a sharp fall in world market prices.

## Mozzarella & Southern European cheese specialties

The further expansion and development of the cheese activities is one of the spearheads of Milcobel's strategy. The start-up and getting up-and-running of a second mozzarella line can be seen as an important milestone in the implementation of this strategy.





In commercial terms, full attention went to expanding and strengthening our customer portfolio. Thanks to the worldwide growth of pizza consumption and the associated industry, Milcobel continues to be structurally active in a healthy demand market. Besides further strengthening its market position within Europe, Milcobel also concentrated its efforts on an even stronger internationalization of the sales channels. The main challenge was to control at every moment the synchronization between the gradual expansion of capacity and the sales volumes. Effective consultation between Sales and Operations minimizes problems and increases total output.

2014 will forever be linked to the Russian ban on European cheese. The importance of this market for European export should not be underestimated. Although the immediate impact on our own cheese activities was generally limited, the resulting pressure on all cheese prices led to a steep downward slide of cheese prices in an overall declining dairy market. Mozzarella was not left unscathed either.

The reallocation of the milk supply and processing of the existing cheese stocks takes time, while the global cheese market continued to be plagued by uncertainty. Consequently, cheese was unable in 2014 to play to the full its traditional role of propping up the milk valorisation in a shrinking dairy market.

Nevertheless, the appreciation shown by many new customers and prospects worldwide for the quality of our products makes us fully confident into the deployment of the mozzarella strategic plan!

Besides mozzarella, the Moorslede site also makes a number of Southern European style cheese specialities. This site is now running at full speed and turns out a very high and specific quality standard. This allows us to stave off the general pressure on prices and to carry on building a stable market for those products. What is remarkable in this respect is how advantage can be taken of the growing worldwide popularity of Southern European eating habits.



It is a perfectly good reason to be present on international markets and food fairs, and to further expand and strengthen that presence.

### **Powder and butter**

Against all expectations, the powder market stood its ground for a very long time, despite a vigorous growth in worldwide milk supply. Although demand was down on the record year 2013, prices held up well for a long time. Low stocks and especially the limited drying capacity available in the market helped to keep prices high during the first six months. We were able to make the most of the flexibility of supply and our achieved position as high-quality supplier to the chocolate industry. In emerging markets, Milcobel is seen as a prominent player capable of building a stable customer base. A tightened focus on quality and an upgrade of packaging techniques sustain this development. The powder activities played an important part in absorbing the extra milk supply within Milcobel during the first six months.

However, as was indicated earlier, 2014 was a year of extremes. Within a matter of a few weeks, prices dropped to world market level. The highly optimistic supply forecasts in Oceania and the virtual standstill of imports into China served to undermine world market prices further. Prices aligned themselves to that situation in the second half of the year. The permanent quest for the ideal balance between whole-milk powder and/or skimmed milk powder + butter is particularly important. Although butter was also dragged down in the price fall, a recovery could be observed and the combination of skimmed milk powder and butter was generally the most attractive in the second half of the year. On average, 2014 was a year of solid revenues for the powder activity but, as always, the price level of the last quarter continues to resonate.

### **Drinks**

In 2014, the commercial integration of the former Inza operations in Milcobel Drinks continued. The most important consequence is that the production of the private label white milk is now incorporated in the group's overall milk valorisation plan. The result is a less active involvement in a market that has been under severe pressure for many years and in which the Schoten site has few competitive advantages. This restructuring has served to shift the focus more than ever to the development of products with greater added value, such as flavoured and nutritional drinks.







Milcobel Brands







# Milcobel Brands

In February 2014, a new brand organization was announced, grouping together all consumer brand related activities (drinks, cheese, butter). In practice this means that the sales and marketing teams of Schoten and Moorslede were combined, areas and duties reassigned, and accommodated in Kallo.

In May 2014, the order entry and physical distribution of the butter and cheese activities (cold storage and transport) in Belgium and Luxembourg were transferred to Dupont Bruges, which specializes in retail distribution.

In Drinks, the packaging design and recipes of Yoghho! Yoghho! and of Choco!Choco! were reviewed after a detailed consumer survey. The aim is to become more visible on the shop shelf and to gradually increase both the trial rate and repeat rate through POS advertising.

In cheese, additional listings were obtained from the big retailers for the Brugge brand (such as diced cheese). Thanks to substantial marketing support (such as TV commercials), the year ended once more with growth and a consolidated market share.





Cheese service



# Cheese service

## Link between consumer and producer inspired by 'Passion for Cheese'

DupontCheese is active through its three legal entities (Kaasimport Jan Dupont NV, Camal SA, DupontCheese 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'. In that sense, DupontCheese has become a real specialist and supplier to other wholesalers-distributors (such as meat products, dairy, catering). 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 'make to order' 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.

## Supply Chain competence

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). The consequence is a night-time operation of picking/order preparation and physical distribution. Transport is entrusted to subsidiary Cheeseline NV, which has its own vehicle fleet and four hubs to ensure optimal geographical coverage and customer service. In 2014, investment continued with the implementation of a WMS system based on scanning for the picking operations. This contributes not only to an improved data management (such as permanent inventory), but also reduces errors and increases productivity, which will become a major focus of attention in 2015.

### **Consolidation in the sector calls for efficiency improvement**

At the beginning of 2014, Milcobel CVBA acquired 100% of the shares of Heremans NV, a Ternat-based family business

and a specialist cheese distributor in the Brussels area. Those activities were integrated in Bruges in mid-2014, and the company Heremans NV was merged with Kaasimport Jan Dupont NV. At the same time, it was decided from a synergy perspective to transfer the Belgian retail distribution activities for the brands from Milcobel Dairy to Dupont Bruges.

A well-spread regional establishment is achieved with Dupont in the north of Belgium, Camal in the south of Belgium, and Dupont Nederland BV in the Netherlands. A thoroughgoing consolidation movement is under way in the cheese distribution industry in the Netherlands and France, in which we anticipate more fierce competition conditions over the next few years.







Ice cream







# Ice cream

## **Fine spring, moderate summer**

In its projections for 2014, Ysco had anticipated a volume growth of around 8%, but a realized growth of just 4% fell short of expectations. Nevertheless, the year had got off to a promising start with a fine spring, and by the end of June sales were already more than 8 million litres ahead of schedule. Unfortunately, Ysco was unable to keep up this momentum because of a fairly moderate summer, thus ending the year with a profit of more than 5 million litres. Thanks to price increases and a more upmarket product mix, turnover was nearly 7% higher.

French sales were hit hard in 2014 by the loss of several contracts and customers, falling by nearly 3 million litres to 32.5 million litres. Nevertheless, at 21% France remains Ysco's biggest market. The Netherlands, traditionally the second biggest market, grew by 1 million litres, its share still at around 18%.

Export witnessed a modest growth and finished up in third place with a 13% share, with the strong profit in Eastern Europe being offset by a sharp decline in Greece. Growth in 2014 was very clearly driven by Germany where Ysco, thanks to new customers and increased sales to existing customers, realized a 60% increase or as much as 7 million litres. The United Kingdom, the fifth market, reported a slight increase by half a million litres, while Belgium again increased by nearly one million litres, and now accounts for 10% of the total volume. Scandinavia fell by half a million litres and still accounts for 9% of the sales volume; Denmark in particular reported shrinking sales. Spain continued the downward trend of recent years and now represents just 6% of sales.



### **Even more private label**

The share of private label in the brand portfolio continued to increase, and now accounts for 92% of the total volume. Co-packing – producing under other producers' brands – remained stable at around 2%. Sales of Ysco's own brands saw a sharp fall by 2 million litres, the main reason being the switch made by a major German retailer from Ysco brand to private label. This evolution is perfectly logical and in line with Ysco's strategy.

An analysis of the different segments shows that retail accounts for 94.5% of total Ysco sales; the food service share, however, fell further and amounts to only 3.5% of total volume.

### **Scoop ice cream and jumbos**

Driven by a vigorous increase in the premium segment, scoop ice cream strengthened its position as the largest product group. Scoop ice cream increased by 4 million litres and accounts for 35% of the total volume. Sales of cones, which are heavily dependent on good weather, fell by more than 2 million litres due to the bad summer in Europe, and represent 30% of the total volume. Sales of jumbos witnessed a tremendous growth by 4 million litres and now represent 22.5% of the total volume and even 32% of turnover.

The older chocosticks product group fell for the fifth year in a row, losing nearly one million litres, and now accounts for a 4.4% share of volume. Sorbet, which is made in the same machines as chocosticks, was able to offset this decline with a 3.3% share of volume.





Cakes experienced another decline by half a million litres, whereas cups rose sharply by nearly one million litres. Both product groups now each represent 2% of the total volume.

### **Stable result despite higher raw material prices**

During contract negotiations for 2014, Ysco managed to secure price increases from most customers. Those increases were necessary to make up for higher raw material prices. Prices of chocolate and nuts in particular increased further after the annual contracts were concluded, causing a slight fall in margin in percentage terms. This minor margin decrease, however, was amply offset by the 7% rise in turnover, allowing Ysco to end 2014 with a satisfactory result.

Important aspects of this good result were also the high production output of Argentan, the lower financial costs driven by low interest rates, and good fixed cost management.

Ysco's positive results of recent years should also be seen in the wider context of the European ice cream market. Until recently, the market was characterized by overcapacity, which brought tremendous pressure to bear on margins. In order to survive in this market, Ysco was obliged to build solid foundations in order eventually to return to good growth figures and fair margins.

### **Will 2015 be the record year?**

Negotiations on the annual contracts for 2015 began in the summer of 2014. That period was marked by a sharp fall in dairy prices and a further decrease in sugar prices. Nevertheless, a further turnover growth is expected to be realized. As always, the evolution of raw material prices and the summer weather will remain unknown factors.





Who is who in Milcobel?



# Who is who in Milcobel?



## BOARD OF DIRECTORS

Veys Guido  
Geelen Jean  
D'Hooghe Karel  
Desmet Christian  
Bruurs Jan  
Van Laer Luc  
Coens - De Roo Greet  
Vermander Geert  
Wallays Jan  
D'haemer Kris  
Peeters Paul

Chairman  
Deputy chairman, Circle Limburg & Brabant  
Circle Noord-Oost-Vlaanderen  
Circle Zuid-Oost-Vlaanderen  
Circle Noord-West Antwerpen  
Circle Kempenland  
Circle 't Brugse Ommeland  
Circle Westhoek  
Circle Zuid-West-Vlaanderen  
French-speaking Circle  
External director





### **AUDIT COMMITTEE**

Jan Wallays  
Jean Geelen  
Jan Bruurs

Guido Veys  
Kris D'haemer

### **STATUTORY AUDITORS**

PricewaterhouseCoopers  
Represented by Griet Helsen

### **MANAGEMENT**

Eddy de Mûelenaere  
Geert Neiryndck  
Peter Koopmans  
Luc Van Hoe  
Patrick Huyskens  
Bert Van Nieuwenborgh  
Eddy Leloup  
Kris Lambrecht

CEO  
Finance  
Milcobel Dairy Operations  
Milcobel Dairy Commercial  
DupontCheese + Milcobel Brands  
Ysco - Ice Cream  
Cooperative Affairs  
Human Resources



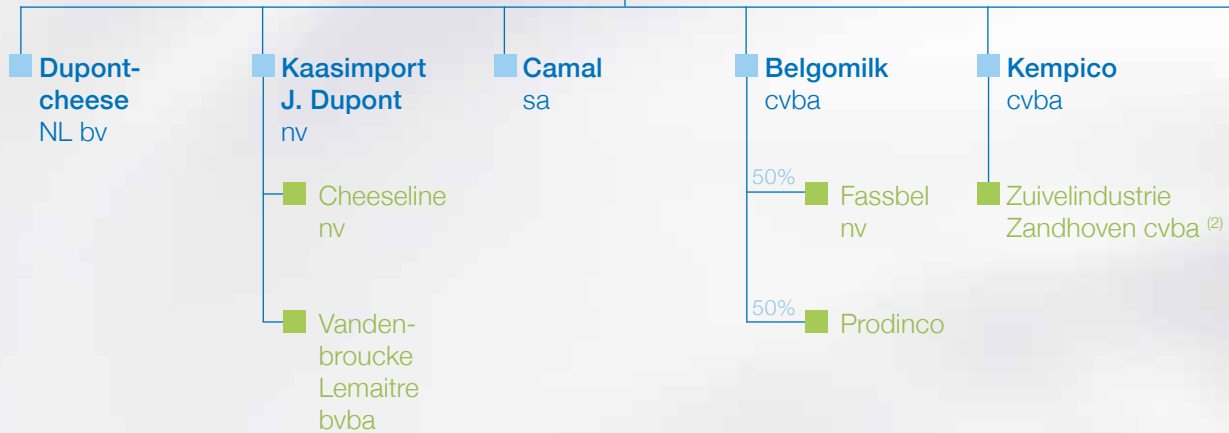


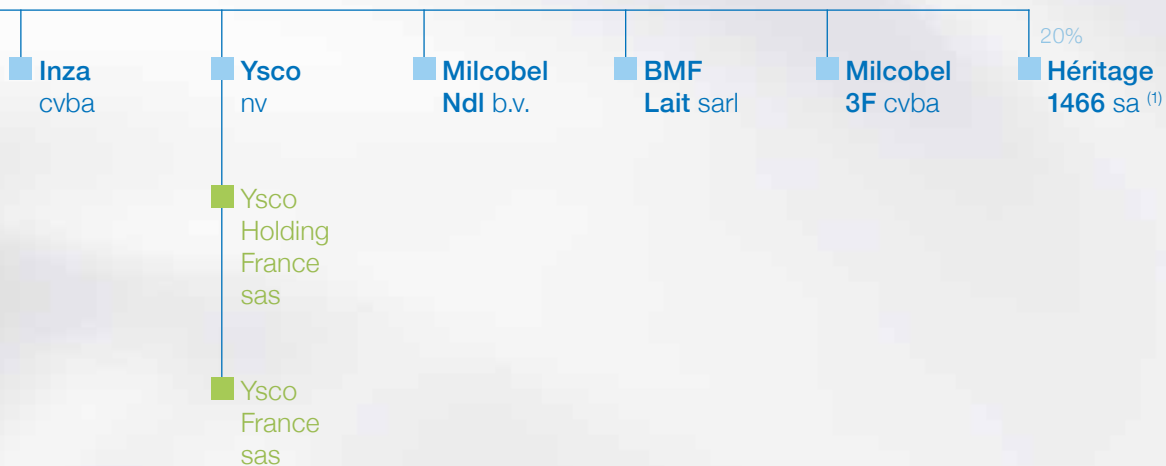
Group structure



# Members — MILCOBEL

cvba





<sup>(1)</sup> As to asset mutation

<sup>(2)</sup> Not included





Annual accounts



# A. Annual accounts

## 1. Consolidated balance sheet after appropriation

### ASSETS

(in €)	Codes	PERIOD 2014	PERIOD 2013
<b>FIXED ASSETS</b>	<b>20/28</b>	<b>215,380,873</b>	<b>202,853,112</b>
Intangible fixed assets	21	10,480,387	9,933,770
Positive consolidation differences	9920	1,970,055	1,965,999
Tangible fixed assets	22/27	201,808,013	189,816,294
Land and buildings	22	54,972,595	48,585,642
Plant, machinery and equipment	23	121,734,100	104,514,503
Furniture and vehicles	24	7,771,221	7,502,101
Leasing and other similar rights	25	733,921	1,314,849
Other tangible fixed assets	26	363,195	297,785
Assets under construction and advance payments	27	16,232,981	27,601,414
Financial fixed assets	28	1,122,418	1,137,049
Companies accounted for using the equity method	9921	993,055	944,906
Participating interests	99211	993,055	944,906
Other enterprises	284/8	129,363	192,143
Participating interests and shares	284	1,990	2,790
Amounts receivable	285/8	127,373	189,353
<b>CURRENT ASSETS</b>	<b>29/58</b>	<b>236,106,419</b>	<b>249,592,558</b>
Amounts receivable after more than one year	29	1,771,281	1,469,971
Other amounts receivable	291	1,771,281	1,469,971
Stocks and contracts in progress	3	106,534,218	108,833,559
Stocks	30/36	106,534,218	108,833,559
Raw materials and consumables	30/31	16,161,869	17,061,415
Finished goods	33	76,268,677	78,689,943
Goods purchased for resale	34	14,103,672	13,082,201
Amounts receivable within one year	40/41	125,843,345	136,126,705
Trade debtors	40	118,030,866	127,049,126
Other investments and deposits	41	7,812,479	9,077,579
Cash at bank and in hand	54/58	210,028	502,670
Deferred charges and accrued income	490/1	1,747,547	2,659,653
<b>TOTAL ASSETS</b>	<b>20/58</b>	<b>451,487,292</b>	<b>452,445,670</b>



## LIABILITIES

(in €)

	Codes	PERIOD 2014	PERIOD 2013
<b>EQUITY</b>	<b>10/15</b>	<b>127,241,872</b>	<b>120,401,350</b>
Capital	10	38,454,640	31,909,358
Issued capital	100	38,930,240	33,101,370
Uncalled capital	101	475,600	1,192,012
Share premium account	11	31	31
Consolidated reserves (+)(-)	9910	84,706,446	83,732,842
Translation differences (+)(-)	9912	2,731	2,731
Investment grants	15	4,078,024	4,756,388
<b>MINORITY INTERESTS</b>	<b>9913</b>	<b>67,628</b>	<b>69,575</b>
<b>PROVISIONS, DEFERRED TAXES AND LATENT TAXATION LIABILITIES</b>	<b>16</b>	<b>31,332,634</b>	<b>28,862,834</b>
Provisions for liabilities and charges	160/5	6,204,250	4,459,219
Pensions and similar obligations	160	3,529,645	3,687,119
Other liabilities and charges	163/5	2,674,605	772,100
Deferred tax and latent taxation liabilities	168	25,128,384	24,403,615
<b>AMOUNTS PAYABLE</b>	<b>17/49</b>	<b>292,845,158</b>	<b>303,111,911</b>
Amounts payable after more than one year	17	87,068,922	82,202,228
Financial debts	170/4	86,066,241	82,185,849
Leasing and other similar obligations	172	605,396	1,179,710
Credit institutions	173	85,460,845	81,006,139
Other amounts payable	178/9	1,002,681	16,379
Amounts payable within one year	42/48	205,042,111	220,012,725
Current portion of amounts payable after more than one year falling due within one year	42	23,407,108	23,358,095
Financial debts	43	66,007,940	52,753,864
Credit institutions	430/8	66,007,940	52,753,864
Trade debts	44	90,308,287	120,828,966
Suppliers	440/4	90,308,287	120,828,966
Taxes, remuneration and social security	45	20,629,998	19,967,100
Taxes	450/3	3,243,507	3,052,227
Remuneration and social security	454/9	17,386,491	16,914,873
Other amounts payable	47/48	4,688,778	3,104,700
Deferred charges and accrued income	492/3	734,125	896,958
<b>TOTAL LIABILITIES</b>	<b>10/49</b>	<b>451,487,292</b>	<b>452,445,670</b>

## 2. Consolidated income statement

(in €)	Codes	PERIOD 2014	PERIOD 2013
Operating income	70/74	1,021,824,168	1,014,690,380
Turnover	70	1,011,491,641	985,481,093
Increase (decrease) in stocks of finished goods, work and contracts in progress	71	-2,034,234	14,997,389
Other operating income	74	12,366,761	14,211,898
Operating charges	60/64	1,013,203,643	1,001,070,506
Raw materials, consumables	60	746,394,304	744,601,859
Purchases	600/8	745,935,061	743,287,834
Increase (Decrease) in stocks	609	459,243	1,314,025
Services and other goods	61	126,951,544	125,467,997
Remuneration, social security costs and pensions	62	110,468,574	104,371,512
Depreciation of and amounts written off formation expenses, intangible and tangible fixed assets	630	24,434,844	22,005,071
Amounts written down stocks, contracts in progress and trade debtors - Appropriations (write-backs)	631/4	109,367	5,284
Provisions for risks and charges - Appropriations	635/7	1,745,561	793,518
Other operating charges	640/8	3,099,449	3,825,265
<b>OPERATING PROFIT (OPERATING LOSS)</b>	<b>9901</b>	<b>8,620,525</b>	<b>13,619,874</b>
Financial income	75	4,902,112	4,690,766
Income from financial fixed assets	750	1,904,492	146,037
Income from current assets	751	71,395	90,951
Other financial income	752/9	2,926,225	4,453,778
Financial charges	65	10,396,168	10,871,239
Debt charges	650	7,490,440	7,857,741
Amounts written down on positive consolidation differences	9961	634,213	543,293
Other financial charges	652/9	2,271,515	2,470,205
<b>PROFIT (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXES</b>	<b>9902</b>	<b>3,126,469</b>	<b>7,439,401</b>
Extraordinary income	76	364,604	1,562,359
Gain on disposal of fixed assets	763	109,324	1,558,642
Other extraordinary income	764/9	255,280	3,717
Extraordinary charges	66	683,731	293,452
Loss on disposal of fixed assets	663	119,641	288,374
Other extraordinary charges	664/8	564,090	5,078
<b>PROFIT (LOSS) FOR THE PERIOD BEFORE TAXES</b>	<b>9903</b>	<b>2,807,342</b>	<b>8,708,308</b>

	Codes	PERIOD 2014	PERIOD 2013
Transfer from postponed taxes and latent taxation liabilities	780	1,569,368	671,208
Transfer to postponed taxes and latent taxation liabilities	680	1,973,273	2,085,096
Income taxes	67/77	171,232	754,235
Income taxes	670/3	181,597	818,024
Adjustment of income taxes and write-back of tax provisions	77	10,365	63,789
<b>PROFIT (LOSS) FOR THE PERIOD</b>	<b>9904</b>	<b>2,232,205</b>	<b>6,540,185</b>
Share in the result of the companies accounted for using the equity method	9975	48,149	-49,044
Profits	99751	48,149	
Losses	99651		49,044
<b>CONSOLIDATED PROFIT (LOSS)</b>	<b>9976</b>	<b>2,280,354</b>	<b>6,491,141</b>
Of which:			
Share of third parties	99761	-1,947	-2,623
Share of the group	99762	2,282,301	6,493,764



### 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 – Frankrijk	F	100,00	0,00
Milcobel Nederland b.v. – Demerstraat 29 4635 BT Huijbergen - Nederland	F	100,00	0,00
Milcobel 3 F CVBA – Fabriekstraat 141 9120 Kallo (Beveren-Waas) – België – 0424.899.491	F	100,00	0,00
Cheeseline NV – Lieven Bauwensstraat 9 8200 Sint-Andries – België – 0441.187.078	F	100,00	0,00
Fassbel NV – Fabriekstraat 141 9120 Beveren-Waas – België – 0476.830.917	F	50,00	0,00
Kaasimport Dupont NV – Lieven Bauwensstraat 9 8200 Sint-Andries – België – 0405.109.216	F	100,00	0,00
Ysco NV – Fabriekstraat 141 9120 Beveren-Waas – België – 0472.336.451	F	100,00	0,00
Ysco France sas – Avenue de la 2e DB 53 61208 Argentan - Cedex – Frankrijk	F	100,00	0,00
Ysco holding France sas – Rue de la Gare 3087 5929 Boeschepe – Frankrijk	F	100,00	0,00
Belgomilk CVBA – Fabriekstraat 141 9120 Beveren-Waas – België – 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)
ZVF Inza CVBA – Wasserijstraat 5 2900 Schoten – België – 0428.890.547	F	100,00	0,00
Kempico CVBA – Fabriekstraat 141 9120 Beveren-Waas – België – 0431.515.287	F	99,74	0,00
Zuivelindustrie Zandhoven CVBA Wasserijstraat 5 – 2900 Schoten – België – 0406.045.562		99,99	0,00
Camal sa – Route de Légipont 12 4671 Barchon – België – 0412.859.912	F	100,00	0,00
Héritage 1466 sa – Rue de Charneux 32 4650 Herve – België – 0425.964.513	E4	20,00	0,00
DupontCheese Nederland b.v. – Escudoweg 1 2153 PC Nieuw-Vennep – Nederland – 800505177B01	F	100,00	0,00
Vandenbroucke-Lemaître BVBA – Dirk Martensstraat 14 8200 Sint-Andries – België – 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.

## **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 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. Summary of valuation rules and methods of calculating of deferred taxes**

Disclosure of the criteria governing the valuation of the various items in the consolidated annual accounts, and 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:

	min.	max.
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	



## 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.





## **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.

**SUMMARY OF VALUATION RULES AND METHODS OF CALCULATING OF DEFERRED TAXES**

Analysis of Heading 168 of the liabilities	(code 168)
Future taxation ( <i>Pursuant to article 76 of the Royal Decree of 30 January 2001 in implementation of Company Law</i> )	25,128,385
Deferred taxes ( <i>Pursuant to article 129 of aforementioned Royal Decree</i> )	174,875
	24,953,510

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.

#### 4. 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 period	31,619	13,512,836	7,652,847	3.440,729
Movements during the period				
Acquisitions, including produced fixed assets		7,000		2,415,609
Sales and disposals				455,451
Transfers from one heading to another		3,719,399		-3,719,399
Other movements				740,257
<b>Acquisition value at the end of the period</b>	<b>31,619</b>	<b>17,239,235</b>	<b>7,652,847</b>	<b>2,421,745</b>
Depreciation and amounts written down at the end of the period		7,488,018	7,216,244	
Movements during the period				
Recorded		2,024,195	136,603	
Cancelled				
Other movements				
<b>Depreciation and amounts written down at the end of the period</b>		<b>9,512,213</b>	<b>7,352,847</b>	
<b>NET BOOK VALUE AT THE END OF THE PERIOD</b>	<b>31,619</b>	<b>7,727,022</b>	<b>300,000</b>	<b>2,421,745</b>



5. 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 period	92,609,983	328,829,450	21,807,025
Movements during the period			
Acquisitions, including produced fixed assets	587,024	334,203	437,684
Sales and disposals	1,207,425	3,470,539	1,018,758
Transfers from one heading to another	9,619,060	34,038,885	1,476,967
Other movements		13,111	
<b>Acquisition value at the end of the period</b>	<b>101,608,642</b>	<b>359,745,110</b>	<b>22,702,918</b>
Depreciation and amounts written down at the end of the period	44,024,341	224,314,946	14,304,924
Movements during the period			
Recorded	3,291,291	17,004,862	1,346,448
Cancelled	679,585	3,317,054	754,181
Other movements		8,256	34,506
<b>Depreciation and amounts written down at the end of the period</b>	<b>46,636,047</b>	<b>238,011,010</b>	<b>14,931,697</b>
<b>NET BOOK VALUE AT THE END OF THE PERIOD</b>	<b>54,972,595</b>	<b>121,734,100</b>	<b>7,771,221</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 period	4,595,287	1,050,792	27,601,414
Movements during the period			
Acquisitions, including produced fixed assets			34,814,565
Sales and disposals			187,901
Transfers from one heading to another		115,927	-45,250,840
Other movements			-744,257
<b>Acquisition value at the end of the period</b>	<b>4,595,287</b>	<b>1,166,719</b>	<b>16,232,981</b>
Depreciation and amounts written down at the end of the period	3,280,438	753,007	
Movements during the period			
Recorded	580,928	50,517	
Other movements			
<b>Depreciation and amounts written down at the end of the period</b>	<b>3,861,366</b>	<b>803,524</b>	
<b>NET BOOK VALUE AT THE END OF THE PERIOD</b>	<b>733,921</b>	<b>363,195</b>	<b>16,232,981</b>
Of which:			
Plant, machinery and equipment	733,921		

6. Statement of financial fixed assets

			ENTERPRISES ACCOUNTED FOR USING THE EQUITY METHOD (code 280)	ANOTHER ENTERPRISES (code 282)
PARTICIPATING INTERESTS				
Acquisition value at the end of the period			1,030,163	2,791
Movements in the capital and reserves of the enterprises at the end of the previous period				
Share in the result for the financial period				800
Acquisition value at the end of the period			1,030,163	1,991
Movements in the capital and reserves of the enterprises accounted for using the equity method			-85,257	
Share in the result for the financial period			48,149	
Movements in the capital and reserves of the enterprises accounted for using the equity method			-37,108	
NET BOOK VALUE AT THE END OF THE PERIOD			993,055	1,991
AMOUNTS RECEIVABLE				ANOTHER ENTERPRISES (code 283)
Net book value at the end of the previous period				189,353
Movements during the period				
Additions				11,070
Repayments				73,050
NET BOOK VALUE AT THE END OF THE PERIOD				127,373



## 7. Statement of consolidated reserves

CONSOLIDATED RESERVES		(code 9910)
Consolidated reserves at the end of the previous period		83,732,842
Movements during the period:		
Shares of the group in the consolidated income		2,282,301
Other movements		
Dividends		-1,308,697
CONSOLIDATED RESERVES AT THE END OF THE PREVIOUS PERIOD		84,706,446

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

POSITIVE DIFFERENCES CONSOLIDATION		(code 9920)
Net book value at the end of the previous period		1,965,999
Movements during the period:		
Arising from an increase of the percentage held		638,268
Write-downs		-634,213
NET BOOK VALUE AT THE END OF THE PERIOD		1,970,054

## 9. Statement of amounts payable

ANALYSIS OF THE AMOUNTS ORIGINALLY PAYABLE AFTER ONE YEAR ACCORDING TO THEIR RESIDUAL TERM	DEBTS WITHIN ONE YEAR (code 42)	BETWEEN ONE AND FIVE YEARS (code 17)	OVER FIVE YEARS (code 17)
Financial debts	23,407,108	59,507,349	26,558,892
Leasing and other similar obligations	574,314	605,396	
Credit institutions	22,832,794	58,901,953	26,558,892
Other loans		1,002,681	
<b>TOTAL</b>	<b>23,407,108</b>	<b>60,510,030</b>	<b>26,558,892</b>

## 10. Results

OPERATING INCOME		PERIOD 2014	PERIOD 2013
Aggregate turnover of the group in Belgium		456,111,361	443,711,595
AVERAGE NUMBER OF PERSONS EMPLOYED AND PERSONNEL CHARGE		PERIOD 2014	PERIOD 2013
Consolidated enterprises and fully consolidated enterprises			
Average number of persons employed		2,014	1,955
Workers		1,541	1,492
Employees		456	447
Management personnel		17	16
Personnel costs			
Remuneration, social security costs		110,127,149	104,005,335
Pensions		341,424	366,177
Average number of persons employed in Belgium by the enterprises concerned		1,811	1,748

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

OPERATING INCOME	PERIOD 2014
Substantial commitments to acquire fixed assets	36,500,000
Commitments from transactions to exchange rates	6,299,544

### Information concerning important litigation and other commitments

- All engagements of the Milcobel Group by the banks have been honoured
- An engagement for a minimum turnover of 5.269 K euro for external storage.
- 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).

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

The company has contracted a group insurance policy for its employees and managers with a Belgian insurance company.

The costs are partially supported by the company and partially by the concerned person.

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

AFFILIATED ENTERPRISES			PERIOD 2014	PERIOD 2013
Financial fixed assets				
Participating interests and shares			993,055	944,906
Transactions with related parties outside normal market conditions			nihil	nihil

## 13. Financial relationships with

DIRECTORS OR MANAGERS OF THE CONSOLIDATION ENTERPRISE				PERIOD 2014
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				868,654
AUDITORS OR PEOPLE THEY ARE LINKED TO				PERIOD 2014
Fees for auditor's mandate				
Fees for auditor's mandat				111,900
Fees for exceptional services or special missions executed in the group by the auditor				
Other attestation missions				9,400
Fees for people linked to the audit				
Fees for auditor's mandate				23,850
Fees for exceptional services or special missions executed in the group by the people they are linked to the auditor				
Other missions external to the audit				47,310

## 4. Consolidated Annual Accounts 2014

In accordance with legal and statutory obligations, we are delighted to report the consolidated annual accounts of Milcobel cvba as on December 31, 2014.

### ASSETS

#### II. INTANGIBLE FIXED ASSETS (10,480,386 EUROS)

These concern mainly investments in software (2,4 million euros) and the purchase of greenhouse gas allowances.

#### III. TANGIBLE FIXED ASSETS (201,808,013 EUROS)

The investments for the financial year amount to 36,1 million euros and can be split as follows:

- General: 1,7 million euros
- Butter, powder and cheeses: 21,1 million euros
- Consumption milk: 1,9 million euros
- Ice cream: 9,8 million euros
- Cheese: 1,6 million euros

#### V. FINANCIAL FIXED ASSETS (1,122,418 EUROS)

Companies with a participating interest (993,054 Euros) are related to cvba Zandhoven and Héritage 1466 sa.

#### VII. STOCK (106,534,218 EUROS)

Stock represents 23% of the balance sheet total and have decreased with 2% compared to last year.

### LIABILITIES

#### IX. PROVISIONS AND DEFERRED TAXATION (31,332.634 EURO)

The item deferred taxation (25,128,384 Euro) is mainly due to the difference between the business economic and fiscal valuation of tangible fixed assets.

## **X. DEBTS OVER MORE THAN ONE YEAR (87,068,922 EUROS)**

The financial debts (86,066,240 Euro) mainly relate to fixed credits entered into with various banks. In 2014, 27,3 million euros of loans were taken out and 23,3 million euros of loans repaid.

## **XI. DEBTS OVER MAXIMUM 1 YEAR (205,042,110 EUROS)**

The debts have decreased with 6,8% compared to last year

## **RESULTS**

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

Sales achieved in the year 2014 amount to 1,011 million euros.

The turnover can be split as follows:

- 605 million realised from dairy activities.
- 223 million realised from ice cream activities.
- 183 million from distribution and packaging activities for the cheese trade.

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

Debt servicing costs remained stable compared to 2013.

## **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 infavourable 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, 31 March 2015

G. Veys  
President

J. Geelen  
Vice-President



## 5. Statutory auditor's report

Statutory auditor's report to the general shareholders' meeting on the consolidated accounts for the year ended 31 december 2014

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 2014 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 451.487.292,43 and a consolidated profit for the year of EUR 2.280.354,14.

#### *Board of directors' responsibility for the preparation of the consolidated accounts*

The board of directors is 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 board of directors 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). 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 board of directors, as well as evaluating the overall presentation of the consolidated accounts.

We have obtained from the board of directors 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 2014 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 board of directors is 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, 4 May 2015

The Statutory Auditor

PwC Bedrijfsrevisoren BCVBA / PwC Reviseurs d'Entreprises SCCRL

represented by Griet Helsen\* - Bedrijfsrevisor

\*Griet Helsen SC SPRL

Board Member,

represented by its fixed representative, Griet Helsen

## B. Consolidated cash flow

(in €)

PERIOD 2014

PERIOD 2013

### A. OPERATING ACTIVITIES

consolidated result, share of group	2,282,301	6,493,764
third party share	-1,947	-2,623
depreciation of fixed assets	24,434,844	22,005,071
provisions	1,745,031	792,623
depreciation of positive consolidation differences	634,213	543,293
deferred taxes	724,770	1,413,888
<i>= cash flow</i>	<i>29,819,212</i>	<i>31,246,016</i>
movement in stocks	2,299,340	-13,683,363
movement in trade accounts receivable	9,018,260	-12,242,127
movement in other accounts receivable	1,265,100	2,227,672
movement in trade debts	-30,520,679	40,692,939
movement in other debts	2,246,975	591,299
movement in accrued and deferred accounts	749,273	-1,012,806
<i>= movement in requirement for working capital</i>	<i>-14,941,731</i>	<i>16,573,614</i>
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>14,877,481</b>	<b>47,819,630</b>

### B. INVESTMENT ACTIVITIES

additions of intangible fixed assets	-2,378,851	-2,533,871
additions of tangible fixed assets	-36,173,476	-40,181,717
reclassifications of intangible fixed assets	455,451	3,726
reclassifications of tangible assets	1,133,802	774,468
movements in financial fixed assets	14,631	19,677
increase positive consolidation differences	-638,268	-168,182
movements in the consolidated circle	-10,106	-192,080
<b>NET CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>-37,596,817</b>	<b>-42,277,979</b>

	PERIOD 2014	PERIOD 2013
<b>C. FINANCING ACTIVITIES</b>		
increase of long-term financial debts	27,300,000	10,500,000
repayment of long-term debts	-23,370,595	-24,691,650
movement in other long-term debts	986,302	9,899
movement in other long-term receivables	-301,310	642,749
movement in shareholders' equity	5,866,917	2,121,273
paid dividends	-1,308,697	-1,224,917
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>9,172,617</b>	<b>-12,642,646</b>
<b>= NET CASH (A+B+C)</b>	<b>-13,546,719</b>	<b>-7,100,995</b>
<b>+ OPENING CASH</b>	<b>-52,251,194</b>	<b>-45,150,199</b>
<b>= CLOSING CASH (*)</b>	<b>-65,797,913</b>	<b>-52,251,194</b>

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





## Credits

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