



Annual Report 2018

UELZENA EG AND GROUP

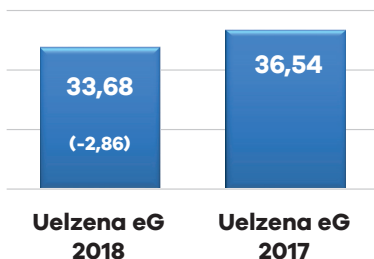


COMPANY

THIS HAPPENED IN 2018

For the Uelzena Group, the 2018 financial year was marked by a new record high for raw milk volumes received, declining sales and the implementation of two major investment projects at the Uelzen site.

MILK PAYOUT IN CT/KG



The milk price paid in 2018 was 33.68 ct/kg raw milk (2017: 36.54 ct/kg).

DEVELOPMENT OF RAW MATERIALS - GROUP

Quantity in tons	2018	2017
Raw milk	526,031	469,787
Cream	83,439	89,483
Skimmed milk/buttermilk conc.	19,981	30,420
Total	629,451	589,717

GROUP FIGURES - OVERVIEW

	2018	2017
Turnover in € million	648	703
Annual net profit in € million	8.92	9.31
Fixed assets in € million	98	76
Equity ratio in %	36.9	39.1

CONSOLIDATED SALES

	2018 '000 EUR	2017 '000 EUR	Deviation '000 EUR
Delicatessen, sweetened condensed milk	33,102	34,591	-1,489
Butter, butterfat, premixes	272,184	296,954	-24,770
Milk powder	120,748	146,229	-25,481
Cheese	86,531	93,531	-7,000
Specialty products	110,672	111,297	-625
Total			
Main product groups	623,237	682,602	-59,365

MILK PRODUCTION

In 2018, the member cooperatives in close co-operation with Uelzena eG accepted new raw milk suppliers from the region. 99 percent of the raw milk delivered came within a radius of 150 km around the production sites in Lower Saxony, Saxony-Anhalt and Schleswig-Holstein. The amount of raw milk received increased by 12 percent. Despite extreme drought and a hot summer in 2018, our long-term milk producers were able to keep the volumes they delivered at a stable level. Due to the expansion during the business year, the delivery of milk raw materials reached almost 629 kg, which is a new record high.

KEY FIGURES

Consolidates sales fell to €648 million (2017: €703 million). The decline in sales, mainly due to lower market prices for dairy products and lower raw material costs, affected all product groups.

An increase in the Group's fixed assets from €76 million to €98 million reflects the investments within the scope of the modernization and expansion program. Fixed and current assets increased to approximately €209 million. As a result and despite an annual surplus of almost €9 million, the equity ratio fell to 36.9% as planned.





UELZENA GROUP

Balance sheet and profit and loss account (excerpt)

BALANCE SHEET - ASSETS	31.12.2018	Previous year
	'000 EUR	'000 EUR
A. Fixed assets		
I. Intangible assets	535	814
II. Tangible assets	92,570	70,009
III. Financial assets	4,996	4,895
Total	98,101	75,718
B. Current assets		
I. Inventories	49,233	42,018
II. Receivables and other assets	46,670	44,304
III. Cash	15,420	12,547
Total	111,323	98,869
C. Accruals and deferrals	103	148
Total assets	209,527	174,734

BALANCE SHEET - LIABILITIES	31.12.2018	Previous year
	'000 EUR	'000 EUR
A. Equity		
I. Credit balances	17,028	16,951
II. Revenue reserves	25,203	23,812
III. Net income incl. carryforward	35,018	27,487
Total	77,249	68,250
B. Difference from capital consolidation	318	318
C. Provisions	19,214	17,838
D. Liabilities	112,619	88,184
E. Accruals and deferrals	0	0
F. Deferred tax liabilities	127	145
Total liabilities	209,527	174,734

PROFIT AND LOSS STATEMENT 01.01 - 31.12.	2018	Previous year
	'000 EUR	'000 EUR
Sales	647,248	702,950
Changes in inventories/other income	13,116	6,680
Material costs	-565,284	-620,695
Gross profit	95,080	88,936
Personnel costs	-41,856	-38,958
Depreciation	-8,103	-8,504
Other operational costs	-31,422	-27,014
Subtotal	13,698	14,460
Financial result	-1,077	-923
Taxes	-3,699	-4,231
Group profit	8,923	9,307



UELZENA EG

Balance sheet and profit and loss account (excerpt)

BALANCE SHEET - ASSETS	31.12.2018	Previous year
	'000 EUR	'000 EUR
A. Fixed assets		
I. Intangible assets	505	655
II. Tangible assets	70,413	46,386
III. Financial assets	17,680	17,680
Total	88,598	64,721
B. Current assets		
I. Inventories	27,319	19,576
II. Accounts receivable and other assets	72,045	70,925
III. Cash	8,007	8,939
Total	107,370	99,440
C. Accruals and deferrals	84	135
Total assets	196,052	164,296

BALANCE SHEET - LIABILITIES	31.12.2018	Previous year
	'000 EUR	'000 EUR
A. Fixed assets		
I. Credit balances	17,028	16,951
II. Revenue reserves	37,515	31,425
III. Annual net profit	4,799	6,091
Total	59,342	54,466
B. Provisions	14,753	14,730
C. Liabilities	121,956	95,100
D. Accruals and deferrals	0	0
Total liabilities	196.052	164.296

PROFIT AND LOSS STATEMENT 01.01 - 31.12.	2018	Previous year
	'000 EUR	'000 EUR
Sales	774,180	774,688
Changes in inventories/other income	9,707	3,902
Material costs	-735,795	-725,401
Gross profit	48,093	53,189
Personnel costs	-28,244	-26,433
Depreciation	-5,088	-5,331
Other operational costs	-20,586	-16,951
Subtotal	-5,826	4,474
Financial result	10,436	2,723
Taxes	189	-1,106
Annual net profit	4,799	6,091



PRODUCTS

Challenges for the Uelzena Group in the past business year were fluctuating market prices in the categories of milk fat, milk powder and cheese. The price for milk fat was lower than in the previous year but still reached a satisfactory level. To a limited extent, sales expansion in specific market segments could be implemented as planned.

PRODUCT QUALITY

Customers hold the high quality standards of the Uelzena Group in high esteem. Defect costs could be minimized in the business year 2018. This is based on a quality management system that operates according to the latest standards. For example, the conversion of the quality standard ISO 9001:2015 to the

latest version was smooth as was also confirmed by excellent audit results.

SUSTAINABLE SOURCING

In 2018, the further development of the sustainable sourcing of raw materials focused on the development of a concept for the sustainable production of raw milk and on compliance with labor and ethical standards for raw materials from risk countries. As a dairy, Uelzena eG has a special obligation to promote social acceptance of milk production and to ensure sustainable efficiency in accordance with the statutes. This is why Uelzena eG and its member cooperations participate in the national sustainability module milk project.



GROUP SALES

Specialty products developed successfully with growth in the categories instant beverages and contract drying. Milk powder and cheese also increased and reached their production capacities. Due to the poor price situation for milk fats and delicatessen products, sales were reduced. Overall, sales for the main product groups remained almost constant.

	2018 t	2017 t	Deviation t
Delicatessen, sweetened condensed milk	24,073	25,192	-1,119
Butter, butterfat, premixes	51,406	54,764	-3,358
Milk powder	78,017	76,663	1,354
Cheese	32,012	31,368	644
Specialty products	45,572	43,655	1,917
Total sales of main product groups	231,080	231,642	-562



PRODUCTION

In 2018, the Uelzena Group implemented many measures aimed at expanding or optimizing production at all sites. All investments pursue the development goal of efficient, low-emission production that saves on resources. In the long run, more investment plans will be used to align the production capacity to demands and to improve the economic performance and environmental efficiency.

YEAR OF INVESTMENTS

The new high-bay warehouse in Uelzen was completed and started its test operation at the end of 2018. With an investment of €17 million, about 13,000 pallet spaces were created. This increased independency from third party warehouses and improves the environmental balance because the elimination of intermediate transport leads to a reduction in CO2 emissions. Comprehensive modernization of the milk drying at the Uelzen site provides an expansion of capacities but also a significant reduction in air pollution and noise emissions.

OPTIMIZATION PROJECT

Already in place at the Uelzen site, the Project "Production OC 2025" was started at the Bismark site as well. The program provides for some changes and improvements in terms of organization and aims at optimizing communication at staff and management levels. This opens up productivity potential in a continuous improvement process.



For more information on all fields of action, please visit <https://www.uelzena.de/en/sustainability/>



EMPLOYEES

	2018	2017
Total	745	715
Male	512	500
Female	233	215
Apprenticeship/internship	52	51
Average age of staff in years	42,1	42,3
Average period of employment in years	12,2	12,7

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EMPLOYEES

The number of employees rose by 4 % to a total of 745 as per the last day of 2018. In the past year, 16 new apprentices and 57 professionally experienced specialists and managers were hired. For the most part, new employees replaced employees who had retired or were taking parental leave. However, the high workload and the many projects also demanded a moderate expansion of the workforce.

Considering the demographic change, the importance of continuous further training of new

and existing employees is on the increase. Competition for young specialists is intensifying and the demands placed on existing employees are also changing, so that on-going further training is a persuasive factor for success. The Uelzena Group meets these challenges by attracting potential employees through an attractive corporate image, by showing prospects for existing employees and promoting their personal and professional development, and by successfully qualifying trainees.



REGIONAL RESPONSIBILITY

The Uelzena Group is committed to strengthening the regions around our production sites. The aim is to create economic perspectives and an environment worth living in for employees and people in predominantly rural areas.

	2018	2017
Regional value for material in percent	82	77
Regional value for services in percent	17	18

The individual companies within the Group are not only important employers, but also buyers of raw materials and services. Most of the raw milk and other milk raw materials are procured from the region (94 percent

by volume, 85% by value), which means from within a radius of 150 km around the production sites. Due to the large investment projects, regional expenditures for services (radius 50 km around the sites) increased in absolute figures, but fell relative to total expenditures to 17 percent. The sponsoring of various projects supports the social interaction in the communities around the sites. For example, youth fire brigades, schools and sports clubs as well as the voluntary work of our employees are financially supported.



