

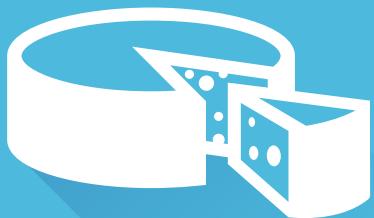
## *Combined annual report and sustainability report 2016*

Moving

*... for increased value added*



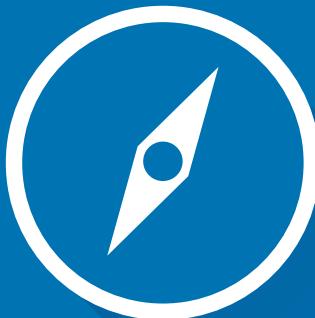
*... for more impact*



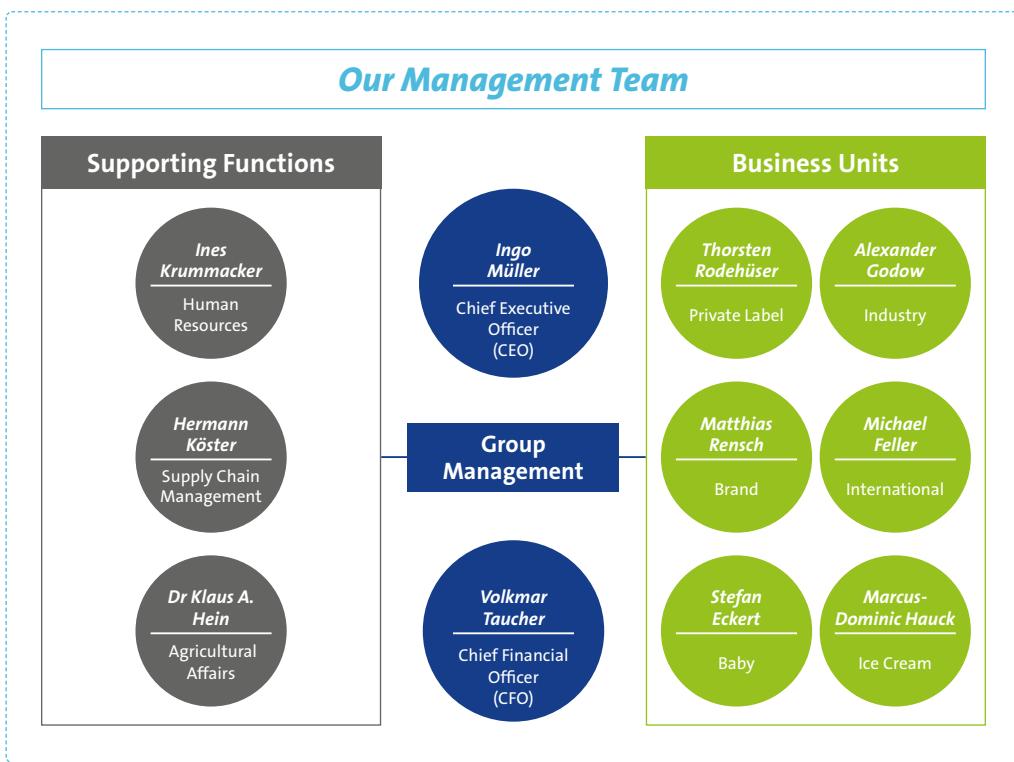
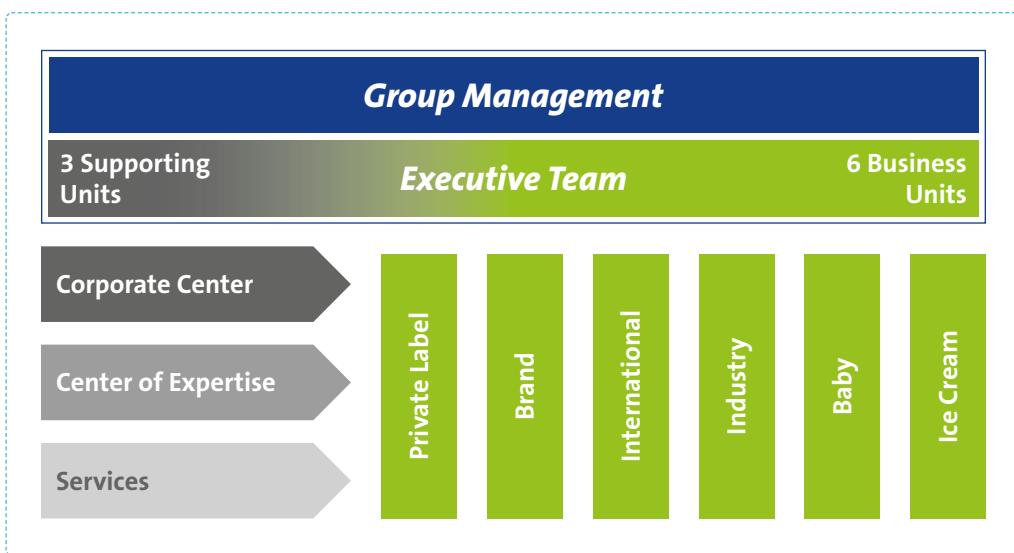
*... for a successful future*



*... for secure prospects*



# **DMK GROUP – our new structure**



You will find more information on the new structure in the "Business and responsibility" section from page 10 onwards.

# About this report

## Reporting framework

With its combined annual report and sustainability report, the DMK GROUP documents its economic, ecological and social achievements for relevant groups of stakeholders. This fifth combined annual report and sustainability report provides information on the results and most significant developments of the 2016 fiscal year from 1 January to 31 December 2016. The report also contains information on developments in the current 2017 calendar year. DMK reports on the company's progress every year. The last combined annual report and sustainability report appeared in June 2016.

The combined reporting is based on the Guidelines of the Global Reporting Initiative (GRI), and the GRI G4 Guidelines are applied. Against this background, DMK conducted a materiality analysis in 2015. The report presents the management approaches and performance indicators for the key topics. The DMK GROUP reports in accordance with the Core option of the G4 Guidelines. The report was not externally audited. The GRI Content Index can be found on pages 74 to 75. This Index may also be downloaded from the website at [@ www.dmk.de/GRI-Content-Index\\_2016\\_EN.pdf](http://www.dmk.de/GRI-Content-Index_2016_EN.pdf).

Unless otherwise stated, the content, key figures, ratios and indicators in the report refer to the associated companies and participating interests of DMK (see cover pages). These include:

- ▶ The dairy farmers and member dairies of Deutsches Milchkontor eG and contract suppliers to DMK GmbH,
- ▶ DMK GmbH and subsidiaries in which DMK holds a stake of at least 75 percent.

DOC Kaas has been included in the balance sheet in fully consolidated form for the first time. Further ratios will be consolidated in the course of 2017.

DMK has gathered the content, key figures, ratios and indicators in close collaboration with the responsible departments and by analysing the following management systems:

- ▶ Consolidated annual financial statements/financial data
- ▶ Employee key figures/ratios: electronic human resources management system, occupational health and safety management system
- ▶ Environmental ratios: DIN EN ISO 14001 environmental management system
- ▶ DIN EN ISO 50001 energy management system
- ▶ Quality ratios: Quality Management System
- ▶ Integrated Management System (IMS).

**The aim of this report is to create a compact overview for all stakeholder groups and promote dialogue. For that reason, insights from stakeholder surveys and from the dialogue with various groups have, for example, been incorporated into the report. DMK is interested in your opinion. If you have any suggestions or comments about this report, please write to:**

 [nachhaltigkeit@dmk.de](mailto:nachhaltigkeit@dmk.de)

**Responsible for this report:**  
Corporate Communication and Corporate Strategy

## Further information:

Further information on the Global Reporting Initiative and the GRI Guidelines can be found at:

[@ www.globalreporting.org](http://www.globalreporting.org)

Extensive material about the company and the DMK Sustainability Programme is available at: [@ www.dmk.de](http://www.dmk.de)

## Note

For ease of reading the masculine form is used in this report in referring to persons. This is always taken to mean people of both genders.

## ***DMK in brief***

With 23 sites in ten Federal regions across Germany, two sites in Hoogeveen in the Netherlands and around 7,200 employees, the DMK GROUP is Germany's largest dairy company, sourcing its raw milk from more than 8,600 active dairy farmers. The cooperative-based company headquartered in Zeven, Lower Saxony, processed around 7.3 billion kilos of milk in the year under review to make internationally acclaimed quality products for retailers, food manufacturers and bulk consumers. With a turnover of 5.1 billion euros, the DMK GROUP is also one of the key players in the European dairy industry. Through strong brands such as MILRAM, Osterland, Oldenburger, Rose, Dutch Original Cheese, Humana, Casarelli, intact, sanotact, hansal and NORMI, DMK is present in more than 100 countries all over the world. The product portfolio ranges from basic milk products and cheese through dairy ingredients for food manufacturing to baby food, ice cream and health products.

## ***Group key figures***

	<b>2016</b>
Incoming raw materials <sup>1</sup>	billion kg
Turnover	EUR billion
Investments	EUR million
Tangible assets	EUR million
Equity capital	EUR million
Balance sheet total	EUR million
Average number of employees	7,203
Apprentices	226

As at 31.12.2016

<sup>1</sup> Raw milk from Deutsches Milchkontor eG dairy farmers and DMK GmbH contract suppliers as well as from DOC Kaas B.A. dairy farmers.

# Moving for more value

The DMK GROUP's rigorous response to the sustained crisis in the dairy market and the questions arising from the merger and the investment programme of the past years is to make sweeping changes in its organisation and corporate culture. The concrete goals and actions developed for the restructuring will ensure higher value added in the future and therefore competitive milk prices for the cooperative owners and solid prospects for the workforce. The company's future strategic focus will no longer be on increased external growth through mergers, but on internal improvements, so as to become more agile with a corporate structure that is geared to market conditions. DMK will thus be able to respond to developments faster and operate in the competitive arena on a par with other international dairy companies. This also includes actively addressing the increasing requirements of retail partners and industry customers on responsible milk production and processing.

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## ***How a new organisation and more efficient structures will create the base for competitive milk prices.***

The DMK GROUP closed the fiscal year as an economically stable company. At the same time, developments in 2016 with the global dairy market crisis and unsatisfactory milk price payments confirmed the need for a reorganisation focusing on more efficient structures and higher value added. With MOVE, DMK has designed a programme that will create these perspectives for its dairy farmers and staff members.

- ▶ With a wide-ranging action package based on the four modules organisation, raw materials planning, product portfolio and expenses, DMK is reacting to the crisis situation in the global dairy markets.
- ▶ With the DMK 2020 Sustainability Strategy and the Milkmaster Programme, which became binding on its dairy farmers in 2016 when it was embedded in the Milk Delivery Regulations, DMK continues to pursue a holistic and market-oriented approach to the topic of sustainability.

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**5.1 billion euros**  
turnover (slightly increased)

**34%**  
equity ratio remains stable

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*“We are going to make decisive changes in our organisation: we will make the DMK GROUP more agile in the market, we will refine raw materials planning, we will concentrate our portfolio and we will optimise the expenses structure. The goal is higher value added for our farmers. We don't want to get bigger, we want to get better.”*

*Ingo Müller, CEO DMK GROUP*

# *Moving for increased value added*





**Ingo Müller**  
Chief Executive Officer (CEO)  
DMK GROUP



**Volkmar Taucher**  
Chief Financial Officer (CFO)  
DMK GROUP

## **Foreword by the DMK GmbH Group Management**

### **Ladies and Gentlemen, Shareholders,**

In the years 2015 and 2016, our industry suffered the most serious market crisis in decades. Its effects have hit our company and its shareholders hard, on the level not only of our customer mix, but also the country and product mix. Against this background, we consider it to be proof of success and a confirmation of our investments in the past years that we have nevertheless succeeded in keeping the DMK GROUP economically stable in the reporting period, with a turnover of 5.1 billion euros and an equity ratio of 34 percent. On the other hand, we feel that our dairy farmers' situation and the level of the milk price paid to them by DMK are unsatisfactory. Although we put all available funds into the payments, milk prices were not what the members of our cooperative should be able to expect as the owners of our company. The active dialogue that we conduct with all members of our cooperative is defined by demonstrating the prospects that DMK offers its dairy farmers.

These prospects are inextricably linked with the fundamental realignment of our company that we developed during the reporting period. Its aim is to create value added for the dairy farmers through competitive milk prices and at the same time create a future for our company and its employees. The strategic focus lies on increasing value creation, not on more external growth, because we are convinced that we can earn competitive milk prices for all dairy farmers with a compact, high-margin company. In the context of the realignment we are now organising our company, following the completion of the mergers and infrastructure investments of the past years, in a way that will put us on a par with successful European competitors. The action package for this purpose that was approved in the reporting period has four goals: an organisation that will be more agile in the market, more accurate raw materials planning, a product portfolio focused on profitable segments and an optimised expenditure structure.

These goals can only be reached by a fundamental change process – in short: we have to get moving. The name of the MOVE change programme which we developed in 2016 as the central module of the action plan, and which we have been implementing systematically since March of this year, indicates that fact: with MOVE, we are streamlining and completely redesigning our organisation. The new structure is primarily defined by six business units. These will operate autonomously under the names DMK BRAND, DMK PRIVATE LABEL, DMK INTERNATIONAL, DMK INDUSTRY, DMK BABY and DMK ICE CREAM. The business units will have their own balance sheets, own strategy, own planning and their own production, sales and marketing concepts. Our reorganisation increases not only transparency, but in particular efficiency, flexibility and speed in the different markets.

We are also creating new prospects for our staff members with the reorganisation. At the same time, the fundamental change is accompanied by changes and challenges for them. For example, with MOVE we cannot avoid the loss of jobs that is demanded by the removal of merger-related double structures. However, the programme ensures that

the reduction of 250 full-time equivalent jobs (FTEs) will be carried out in a sensible and future-oriented way that is aligned with the new corporate structure. The upcoming change processes and the future success of our company depend crucially on our staff members. Our company doesn't just have to move organisationally – a culture change is also essential to the future of DMK. For this reason, we also put a cross-departmental working group in place in the reporting period which helped to create a firm definition of a target culture and to develop principles of conduct based on the core values of the DMK vision. We will implement these in a targeted way in the company in the current fiscal year.

## *“Our strategic focus lies on increasing value creation, not on more external growth.”*

The subject of sustainability is and will remain a fixed component of DMK's corporate culture. We have been implementing sustainability measures for many years now, and produced aspirational guidelines for responsible milk production and processing in the year 2013 in the form of the DMK 2020 Sustainability Strategy. Our timely consideration of sustainability issues is paying off today. The requirements imposed by our customers, consumers and the political sphere are rising continually. The solid foundations we laid have proved their value in this context. This is also demonstrated in the light of the challenging market situation in the reporting period, against the background of which we were able to achieve progress in important areas. For example, we have made enormous efforts concerning the demand for non-GMO feed, and we now source more than 90 percent of our cocoa and palm oil in compliance with the UTZ and RSPO standards. In addition, in the interests of solidarity with our shareholders we made the Milkmaster Programme binding on all DMK dairy farmers in the reporting period.

In parallel with these activities, we stepped up our efforts to generate value added for DMK from the enhanced sustainability performance delivered to customers. We are continuing on this course in the current year.

The Supervisory Board also elected Heinz Korte as the successor to the long-standing Supervisory Board Chairman Otto Lattwesen in 2016. Furthermore, after nine years in office Dr Josef Schwaiger handed over the reins to Ingo Müller as the new Chief Executive Officer. Thanks to the commitment of both long-standing executives, the transition of the business to the next generation went smoothly. The work of Otto Lattwesen and Dr Josef Schwaiger had a formative influence on DMK's corporate culture and development and made a decisive contribution to the prospects that we see for our company today in the changing global dairy market. We were therefore all the more saddened by the tragic death of Otto Lattwesen, whose work will always be an example to us all.

We see ourselves as well equipped for the current fiscal year with the strategic considerations, programmes and actions which we developed in 2016. It can be assumed at present that there will be less seasonal fluctuation in the milk volume than in the previous year and that the dairy industry can expect a better-balanced global market and a stable domestic market. We started the implementation of the MOVE programme at the beginning of 2017. The restructured supporting units and business units led the way as planned. Our goal is for the culture change triggered by MOVE to create a new and different sense of group membership in our employees and to take the reorganisation a huge step forward through the prospect of higher value added for our dairy farmers by the end of the year. The issue that will define the current fiscal year for our company is already clear: moving for more value.

Sincerely  
Ingo Müller  
CEO DMK GROUP

Sincerely  
Volkmar Taucher  
CFO DMK GROUP

## 6 Leadership and strategy

*Foreword by the cooperative's elected officers*



**Heinz Korte**  
Chairman of the  
Supervisory Board



**Thomas Stürtz**  
Chairman of the Board of Management,  
Deutsches Milchkontor eG

## Foreword by the cooperative's elected officers

### **Ladies and Gentlemen, Dear Members,**

The years 2015 and 2016 confronted us with an unprecedented dairy market crisis. The members of DMK's cooperative are particularly affected, since Germany has the toughest competition in Europe and the growing crisis also hit the company hard in virtually all its markets. The average milk price earned by DMK, at 25.20 eurocents/kilo (2016), lagged expectations and was unsatisfactory.

The fact that we had made the right, necessary investments in the past put us in a position to process the higher milk volumes in 2016. In order to achieve competitive milk prices on this basis, DMK developed the MOVE change programme to realign the company. It is now being implemented. It was designed in close coordination with our cooperative's executive bodies and presented to the dairy farmers at nine events amongst other channels.

DMK was faced with other changes in the reporting period: both Supervisory Board Chairman Otto Lattwesen and CEO Dr Josef Schwaiger handed their responsibilities over to successors. The two committed champions of the cooperative system have in past years represented the interests of responsible, modern agriculture far beyond the corporate borders and as a result have had a formative influence on their future development.

We are familiar with the tense situation on the farms, not least because of our direct and constant dialogue with the cooperative members. The company therefore saved a total of 50 million euros in costs in 2016 and addressed the dairy farmers' difficult situation and dissatisfaction with great frankness and concrete actions. It is DMK's stated objective with the realignment to give them the prospect of profiting in full from the investments in factories and equipment and therefore from higher value added.

Since the 2016 dairy crisis preoccupied the entire industry, we as a cooperative participated in a wide range of discussions on the regional and federal levels. In doing so, we exchanged views with other market players and, amongst other things, deliberated on how we could act together to gain a better hearing – for example, using an interest group as spokesperson. Despite the significant rise in the reporting period in the number of members who gave notice – with whom we are seeking direct dialogue – we hope that our partnership-based collaboration will bear fruit and that as a result we will not lose sight going forward of the cohesion that defines the essence of the cooperative.

Sincerely  
**Heinz Korte**  
Chairman of the Supervisory Board

Sincerely  
**Thomas Stürtz**  
Chairman of the Board of Management,  
Deutsches Milchkontor eG



# *Obituary*

Otto Lattwesen  
† 30.12.2016

It is with deep sadness that we take leave of our long-standing Supervisory Board Chairman

## **Otto Lattwesen**

In a number of offices from 1977 onwards, including Supervisory Board Chairman from 1999, Otto Lattwesen played a crucial role in the development and expansion of Nordmilch, or DMK Deutsches Milchkontor after the merger with Humana.

His passion for agriculture, his convinced and convincing championship of the cooperative system, combined with his knowledge and far-sightedness in dairy industry and market issues, had a very decisive and lasting influence on our cooperative.

We mourn a personality with an extraordinary creative power and ability to take decisions, coupled with great prudence. We are losing a particularly warm person, with an ever-present, subtle sense of humour, even in difficult moments.

The work of Otto Lattwesen will always be an example to us all.

On behalf of  
Deutsches Milchkontor eG and DMK Deutsches Milchkontor GmbH

Thomas Stürz  
Chairman of the Board of Management

Ingo Müller  
CEO DMK GROUP

Heinz Korte  
Chairman of the Supervisory Board

Volkmar Taucher  
CFO DMK GROUP

# Highlights



**milkmaster**

Real farmers for true milk

## **Integration launched**

As at 1 April 2016, DMK integrated the operating units of DOC Kaas into the Group. DOC Kaas is the Netherlands' second-largest cheese manufacturer. With the company, which is also run on the cooperative system, and the new sales organisation DOC Dairy Partners B.V., which was formed in 2016, DMK can expand its international market access without making direct investments and increase its value added with new products. The 1,000-plus dairy farmers deliver around 700 million kilos of raw milk to DOC Kaas and will profit in the long term in the same way as the DMK dairy farmers from the synergy effects arising from the merger.

## **Investment in a market of the future**

In the second half of 2016, DMK took a stake of around 60 percent in the Russian cheese manufacturer RichArt. As part of its internationalisation strategy, the company will thereby gain direct access to Russia, a market of the future, despite the embargo and will be in a position to expand its business with all possible speed if and when the markets open up again. With its own local production and distribution as well as its own brands and its own sales capability in the country, a foreign market can be penetrated in a form that permits DMK to participate in the long term in the products' entire supply chain.

## **33.6 million euro Milkmaster bonus**

The Milkmaster Programme became binding on all dairy farmers from the beginning of 2016 following its integration into the Milk Delivery Regulations. The dairy farmers now supply proof of their progress annually in the five areas of animal health, feeding, feed cultivation and milk quality and receive a bonus in accordance with their achievements. Thanks to the enormous commitment of our dairy farmers, just under 6,100 farms participated in the Milkmaster Programme in 2016 despite the tense market situation. This figure corresponds to 77 percent of the dairy farmers and 94 percent of the milk volume. A total of 33.6 million euros was paid to the farms as Milkmaster bonuses in the reporting period.



#### **MOVE change programme launched**

MOVE, the core programme for the further development of the company, has now been launched in practice. The change process took 15 months to prepare. The DMK GROUP aims to achieve significantly higher profitability and value added with the organisational and entrepreneurial reorganisation. For example, the company wishes to regain its attractiveness to dairy farmers by paying competitive milk prices. To this end, the DMK GROUP is being given a more agile structure so as to become faster and more efficient. The programme is all about increased autonomy and entrepreneurship. Higher value added on all levels of the Group has top priority.

#### **MILRAM cheese portfolio expands**

DMK has once more expanded the high-value-added area of MILRAM cheese products, for example, by the introduction of Tomate-Basilikum Käse (tomato and basil cheese) as the "MILRAM Cheese of the Year 2016" for the self-service cabinet and MILRAM Drei-PfefferKäse (three-pepper cheese) (September 2016) for counter service. The successful new products contributed to MILRAM's repeated above-average market growth in the self-service cabinets in 2016, with an excellent increase in sales volume and value. As a result of the brand strategy pursued by the company, DMK now has the broadest self-service cheese portfolio of all the top brands with MILRAM.

#### **Award-winning employer**

"Focus" magazine has awarded DMK the distinction of being a top employer for the fifth year in a row. In Germany's largest national survey of this kind, the magazine, in collaboration with the jobs network XING and the employer rating portal "kununu", identifies the best employers in Germany out of companies with more than 500 employees. In total, more than 70,000 assessments by employees from all hierarchical levels and age groups are incorporated into the rankings via a representative survey by "Statista", a survey of XING members and the kununu employer ratings from the previous year. DMK took 10th place in the ranking of grocery and luxury foods companies in the category of large companies with more than 2,000 employees.

## **Business and responsibility**

The DMK GROUP set out a roadmap for the comprehensive restructuring of the company in the year under review. The concrete goals, actions and strategies developed for this purpose will ensure higher value added in the future and therefore competitive milk prices for the cooperative members and solid prospects for the workforce. With the sweeping structural change, DMK is also responding to the prolonged crisis situation in the dairy market and bringing the process that began with the factory structure concept and the investments of past years to a conclusion, with the goal of securing a leading position in the European competitive arena.

### **Solid base for the future**

The serious crisis in the global dairy market in the year 2016 has once more highlighted which markets and products have current and future potential and what course DMK has to pursue to leverage this potential for the benefit of the dairy farmers and the company's future.

A turnover of 5.1 billion euros and stable equity ratio year on year of 34 percent are attributable to the company's sound positioning. Despite weaknesses in the global market, the company has been able to continue with the implementation of its strategy. The MILRAM brand in the consumer and food service sectors, the export brand Oldenburger and the special products in the Ingredients sector buoyed up the consolidated income and thereby affirmed the validity of the past years' investments in machinery and plant for higher value added. The strategy of systematically expanding the business in lucrative markets outside the saturated home market also paid off in 2016. The integration of Dutch cheese specialist DOC Kaas's operating units, which started in 2016 and is the last growth-boosting investment for the time being, is also now supporting the strategic direction.

### **Fundamental restructuring**

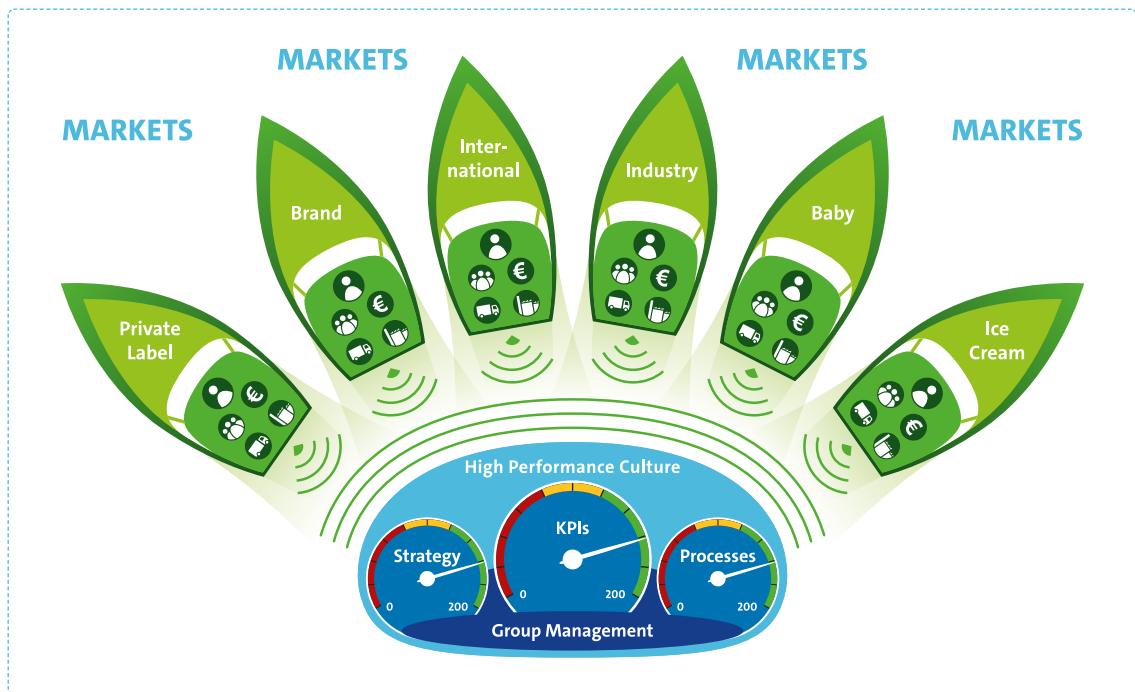
Although DMK was able to secure its foundations for the future with its sound consolidated income in the reporting period, the company was nevertheless unable to pay

its cooperative owners competitive milk prices. There was no way to change this situation, although profit was reduced to the minimum required by business needs and a cost reduction programme was undertaken during the year. This demonstrates the need for fundamental changes in the company's organisation which will put DMK in a position to earn stable long-term milk prices from the past years' investments. The company has to move to achieve this goal – in terms of its internal structures and various markets.

Against this backdrop and in view of the positioning of the major players in the European competitive arena, DMK developed a fundamental restructuring concept in the year under review. This followed on from the implementation of the factory structure in the years 2012 to 2015. After the company's growth through mergers in the past years, a radical development in the organisation is vital in order to master the current and future challenges. For this purpose, in 2016 DMK developed an action package with four modules for competitive restructuring which gave top priority not to growth, but to value added. The action package is aimed at the following:

- ▶ an organisation that will be more agile in the market,
- ▶ more accurate raw materials planning,
- ▶ a product portfolio focused on profitable segments and
- ▶ an optimised expenditure structure.

### The DMK GROUP's market orientation



### Change programme for transformation

The core of the concept is the MOVE change programme, which was likewise developed in 2016. It defines how the action package for the further development of the company is to be implemented from the start of 2017 onwards, in a targeted and speedy manner.

MOVE will change DMK fundamentally as a company – in terms of structures, accountabilities, processes and corporate culture. The company now has a nimbler structure as a strategic holding company that will enable the six Business Units Brand, Private Label, International, Industry, Baby and Ice Cream to operate faster, more efficiently and more autonomously in the market.

With the new organisation, the business units are being given extensive operational autonomy, can make independent decisions in their day-to-day business and have their own distribution functions, research and development and their own income statements. In addition to the Group Management under Ingo Müller (CEO) and Volkmar Taucher (CFO), who will decide on overall corporate strategies and directives, the company's new structure contains a second level of management with nine people of Chief Operating Officer (COO) rank. In addition to the heads of the six Business Units, this Executive Team also includes the heads of the supporting functions Agricultural Affairs, Supply Chain Management and Human Resources.

The six business units are supported by two organisational units which will act as in-house service providers: The Service Unit will take on recurring work which can be digitally and technically standardised and efficiently bundled. The Center of Expertise will be available for special tasks which always require new solutions. A third organisational unit, the Corporate Center, will provide reliable guidelines for the Group as a whole. These will include, for example, the strategic direction, directives and the management of the DMK GROUP's capital. The three organisational units will give the total organisation better performance capabilities, take work off the hands of the business units in the everyday running of the business and ensure cross-company synergies and uniform standards. The goals of the realignment are to achieve competitive milk prices and a future-proof stance for the company among the top players in European competition, so that the DMK GROUP continues to be positioned as an attractive company for dairy farmers, employees and business partners.

#### ***MOVE implementation***

In addition to the business and sustainability strategies, the main work in progress in the current fiscal year concerns the transformation initiated with MOVE: the analysis and conceptual design for MOVE were carried out from December 2015 onwards, after which DMK prepared its implementation in Group-wide detailed plans between September 2016 and February 2017. The implementation phase was launched in March, when all employees were transferred to the new organisational structure and training and technical measures implemented. This phase is supported by communications and cultural measures. For example, Corporate Communication drew up a new concept in the reporting period for the members' magazine "Milchwelt", which will be launched in the current year. The monthly "Milchinfo" was also revamped and now, in the new "DMK kompakt" format, will provide not only milk prices but other important information as well. The employees are receiving information about ongoing and forthcoming changes

through a wide variety of channels in order to take the company's cultural transformation forward. This is being done through the employees' magazine "DMK intern" in addition to a website especially set up for the workforce. Corporate Communication developed a concept for "DMK Intern" which includes not only a new layout, but also an English version which has been available since MOVE was launched. From August until the end of the year MOVE's second phase will be conducted with a review and adjustment process and the international roll-out.

The focus for DMK in 2017 still – and, indeed, particularly – continues to be expansion of the high value added business segments within the new corporate structure.

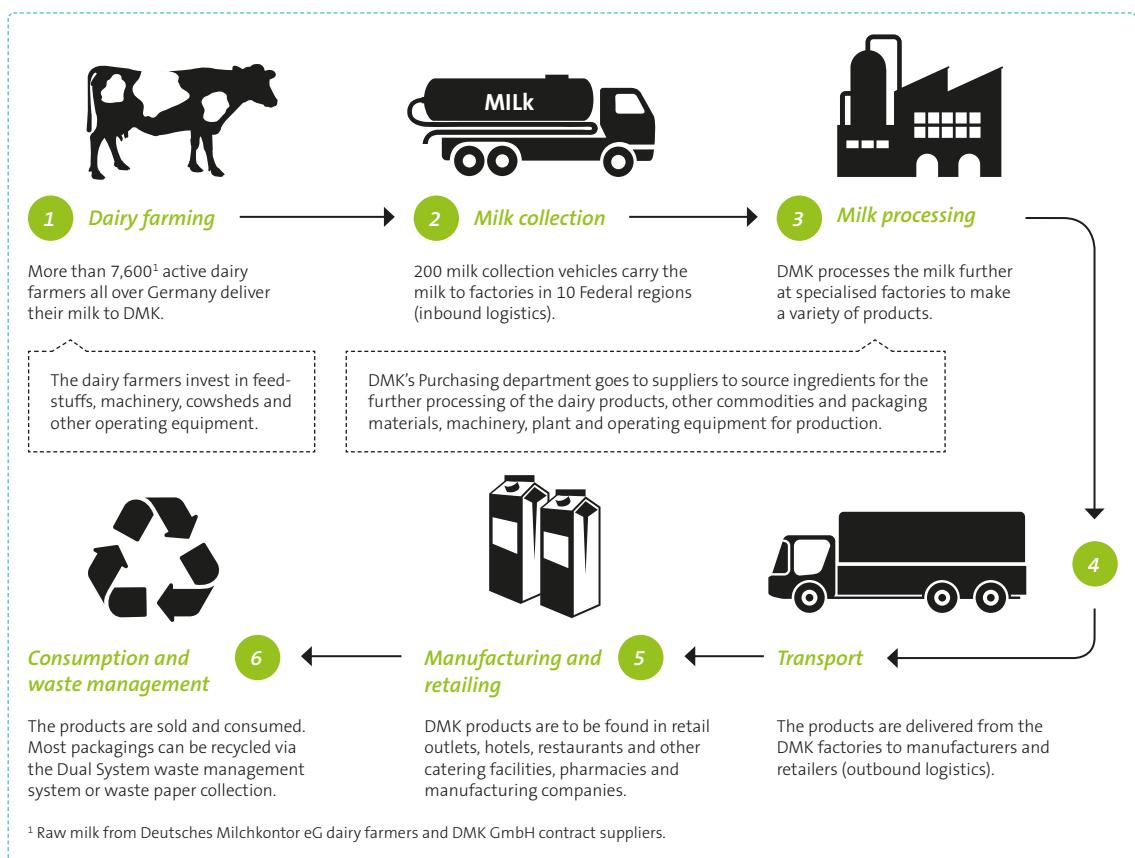
With MOVE, the structural realignment and the closure of the administrative facilities in Everswinkel, 2017 will see DMK finally completing the integration process triggered by mergers. The focus of the restructured company lies on an innovative offering of goods and services, the brand as a value-creating lever, access to international markets, efficient processes along the supply chain and a high-impact, agile organisation. By this means, DMK can use the foundations laid in past years to achieve, as a profit-oriented company, high value added in the future even in difficult markets and therefore also make competitive payments to the dairy farmers.

#### ***A diversity of conflicting demands***

Embedding sustainability in the supply chain is also among DMK's future challenges. With the Milkmaster Programme and the DMK 2020 Sustainability Strategy, the company is pursuing a holistic approach and accentuates topics such as animal health, certain aspects of animal welfare and others. DMK is initiating improvements with dairy farmers and other suppliers in the upstream supply chain for this purpose. Appreciation for these activities from retailers would help us in achieving major progress.

### DMK GROUP value chain – from the cow to the fridge

The DMK GROUP produces cheese, fresh dairy products and ingredients, and through subsidiaries also baby food, ice cream and health products.



DMK's competitiveness also depends crucially on actively tackling the increasing requirements of retail partners and industry customers on responsible milk production and processing. Food retailers and manufacturers are increasingly developing their own lists of requirements for animal products on the basis of their sustainability goals for the supply chain. This leads to challenges for DMK concerning both the contents of its work and the processes used, since customers are making increasingly

pressing demands for the implementation of certain individual topics, specific standards and certificates. This diversity leads to conflicting situations during implementation. The entire supply chain is required to aim for the simplification or mutual recognition of standards on the one hand, and to take responsibility for fair payment of the additional services on the other. In a dynamic market environment, this also demands a great deal of persuasion and information work.

## Sustainability Strategy DMK 2020



By 2020, we want to advance sustainability at the DMK GROUP in five areas each with four fields of action and a total of 60 goals.



### AGRICULTURE

#### *Our aspiration*

We will improve the conditions in which our cattle are kept and reduce their environmental impact.

#### *Fields of action*

- Cow comfort
- Animal health
- Feed cultivation
- Feeding



### ENVIRONMENT

#### *Our aspiration*

We will improve the eco-balance at our sites.

#### *Fields of action*

- Energy
- Water
- Waste
- Logistics



### MILK

#### *Our aspiration*

We will take responsibility for our dairy products.

#### *Fields of action*

- Value added
- Quality
- Product safety
- Packaging



### TEAM

#### *Our aspiration*

Together we will do our utmost to attain long-term success for every individual and for DMK.

#### *Fields of action*

- Satisfaction
- Training
- Diversity
- Elected office



### SOCIETY

#### *Our aspiration*

We will support the regions we operate in.

#### *Fields of action*

- Dialogue
- Dairy competence
- Research
- Engagement

For detailed Information on the status of the DMK 2020 Sustainability Strategy goals please see pages 72 – 73.

### Proven successes

DMK's early action to systematically progress important current dairy industry issues at an early point in time has proven its value in the challenging environment of the reporting period. For example, in 2016 Milkmaster was made binding on all dairy farmers as part of the Milk Delivery Regulations, and the company was able to source more than 90 percent of its cocoa and palm oil from sources certified as sustainable. In addition, the company has made major efforts to implement the requirement of non-GMO feeding and has achieved successes in converting to certified sustainable imported soya feeds, together with the upstream supply chain –

specifically with the dairy farmers and the feed industry. By now, around half of DMK's farmers source soya that is accredited as sustainable. The distinctions of being a "top employer" and a "green company" also number among the year's achievements.

**≈90%**

*of our cocoa and palm oil is sourced from sources certified as sustainable.*

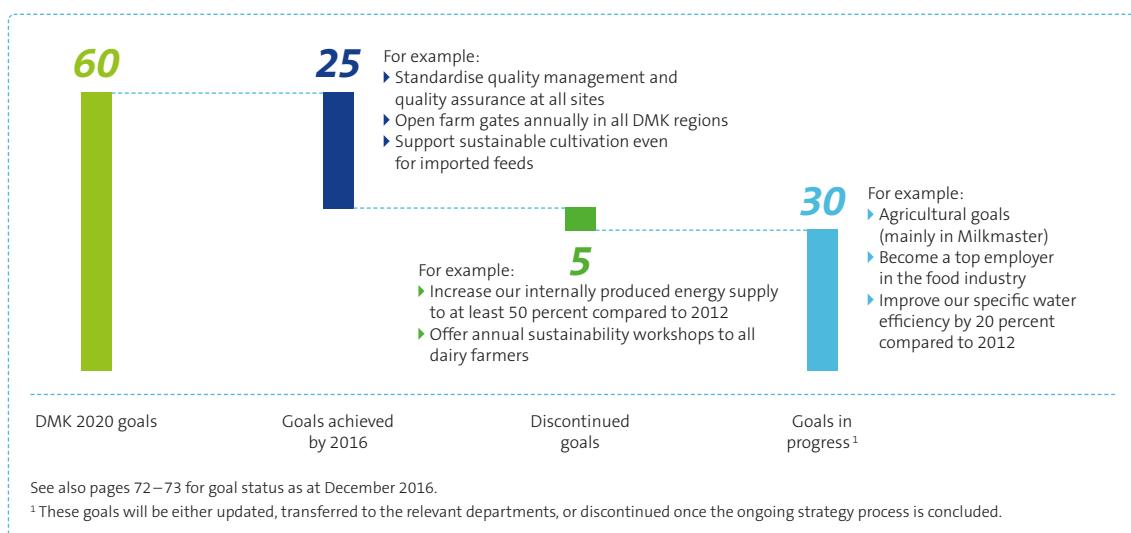
### Sustainability as a communal task

The Management Team and the cooperative's executive bodies also consulted closely on sustainability issues in the reporting period. Departments such as Purchasing, Agricultural Affairs and Occupational Health and Safety/Environmental Protection worked hard in the year under review on implementing the 60 DMK 2020 goals. The Energy and Environmental Management departments, for example, worked together on product-integrated environmental protection projects and also with Sustainability Management on customer enquiries about climate protection and the eco-balance, or life cycle analysis. The Agricultural Affairs department received support in 2016 in its many and various Milkmaster-related tasks, non-GMO feeding and the conversion to the guidelines of the European Feed Manufacturers' Federation (FEFAC).

### Sustainability Strategy updated

DMK reviewed the overall DMK 2020 Sustainability Strategy and its goals in 2016 on the basis of the materiality analysis and changing framework conditions. The intention was to publish an updated sustainability strategy in this report. However, its finalisation was delayed because of the MOVE realignment and the overhaul of the corporate strategy, and the company is publishing the progress on DMK 2020 for the reporting period as before, along the five areas, 20 fields of action and 60 goals. The future plans for dealing with the individual goals are described in the goals balance sheet.

### DMK 2020 goals balance sheet



# Cooperative

With a good 8,600 dairy farmers and cooperative shareholders in Deutsches Milchkontor eG and DOC Kaas B.A., the DMK GROUP is one of the major dairies in Europe organised on the cooperative system. In the year under review, the company's economic situation had a crucial impact on the topics discussed in the cooperative's executive bodies.

## ***Intensive dialogue with the dairy farmers***

The challenging business situation for the dairy farmers and the unsatisfactory milk prices were the dominant themes of the year 2016. DMK repeatedly sought an intensive exchange with the cooperative shareholders on these subjects. At the Extraordinary Assembly in February 2016, 365 out of a total of 421 members' representatives from all regions discussed questions about the company's development and the future of the cooperative. Just under 3,500 dairy farmers took part in the 35 District Assemblies in their collection areas in March and April 2016. The subject matter focused on the dairy market situation, the possibilities for controlling volumes, the merger with DOC Kaas, the Milkmaster bonus and DMK's cost-cutting measures. 73 percent of the elected representatives came to Hanover for the Annual Assembly in June 2016 to discuss the future of the company and the cooperative. In the year under review, the company conducted the traditional "DMK vor Ort" (DMK on site) meetings as Regional Assemblies at which the members of the new Group Management explained their action plan in person.

The cooperative's Advisory Board met four times as scheduled. It pointed emphatically to the difficult situation on the farms and accompanied the realignment of the company critically and constructively. The agenda also included the nomination of new candidates for the Supervisory Board. The Supervisory Board of DMK Deutsches Milchkontor GmbH elected Heinz Korte as its new Chairman in December of the year under review. His

period of office began on 1 January 2017. He is now the Chairman of the Supervisory Boards of both DMK GmbH and Deutsches Milchkontor eG (as from September 2016).

District Assemblies were held once again in the spring of 2017. The company's representatives faced question and answer sessions about the situation on the dairy market and the realignment of DMK at 33 locations. The primary issue under discussion was the MOVE change programme which DMK developed in the reporting period.

## ***The cooperative under scrutiny***

In the year 2016, a Committee for Member Relations and Member Loyalty was commissioned to analyse concrete points about the future of the cooperative and to prepare a vote as proposed by several members. The Management Team presented the results at the Annual Assembly in June 2016. Votes on three changes to the articles of association were proposed by representatives in this context. The Annual Assembly rejected by a majority the proposals to shorten the notice period for termination, make changes in the obligation to supply milk and use volume control instruments. Important questions here which, however, are still being discussed with the corporate management and the executive bodies, include the issues of how DMK can enhance the advantages of the cooperative and cohesion among the members, what changes need to be made to achieve this and how farms wishing to terminate their membership should be handled. The Management Team of DMK Deutsches Milchkontor GmbH clearly supports the principle of the cooperative, which protects nationwide regional agriculture for the long term.



*"In increasingly complex and internationally focused dairy markets, an efficient cooperative remains the right organisation for dairy farmers and intact agricultural regions even in the 21st century."*

Dr Klaus A. Hein, Managing Director of Deutsches Milchkontor eG and Chief Agri Business and Member Affairs

## Regional Assemblies

A total of nine Regional Assemblies took place in the autumn of 2016. More than 50 percent of the dairy farmers were represented in a discussion about the current business situation. The DMK Management Team presented its action plan.



- ▶ A good 3,800 dairy farmers attended the Regional Assemblies in nine cities and six Federal regions.
- ▶ The Supervisory Board, Board of Management and Management Team introduced the dairy farmers to the realignment of the dairy company.
- ▶ The focus of the realignment and the presented action plan for 2017 was on higher value added to achieve competitive milk prices. In discussions lasting for several hours, the elected officers and Management Team responded to questions from the members.

## Committed Young Dairy Farmers' Working Group

The members of the Young Dairy Farmers' Working Group (AKJM) had intensive discussions in the reporting period both with the Management Team and with the Chairman of the Board of Management and the Chairman of the Supervisory Board. The group is made up of 68 committed farmers between the ages of 18 and 30. It represents the interests of young farmers on a voluntary basis and also engages in the personal and professional training of potential future members of the elected executive bodies. The members of the Working Group are important multipliers in the regions and a valuable interface between farmers, executive bodies and the GmbH.

In consultation with the corporate management, one focal area in 2016 was the work of the future business units. In communication with the elected executive bodies, the central issue was the work of the Members' Committee and the Regional Assemblies. A webinar for the members of the Working Group which was held in August 2016 took the subject of "online food sales".

The annual study trip in February 2016 took the Working Group to the Netherlands; in January 2017 the destination was Schleswig-Holstein. The programme included a tour of a slaughterhouse for bovine animals, a lively debate with the dairy economics network IFCN, a tour of the DMK factory in Nordhackstedt and a visit to a dairy farm.

## Stakeholder relations

Dialogue with stakeholders traditionally plays an important role for the DMK GROUP. The 2015 materiality analysis shows the most important concerns of all stakeholders. DMK works on current and individual concerns with stakeholders in a variety of forums.

### Regular dialogue with relevant stakeholders

The most important stakeholder groups for the DMK GROUP are:

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>▶ Dairy farmers</li><li>▶ Employees</li><li>▶ Business partners</li><li>▶ Consumers/the public</li></ul> | <ul style="list-style-type: none"><li>▶ Political sphere/<br/>public agencies</li><li>▶ Associations/NGOs</li><li>▶ Media</li><li>▶ Science/academia</li></ul> |
|--|--|

As part of the development of the DMK 2020 strategy, the company identified the relevant stakeholders and their concerns by analyses and discussions in the years 2012 and 2013. During the reporting period, a review of the results in the analysis for GRI G4 confirmed the validity of the existing stakeholder overviews ([@ www.dmk.de/Stakeholder\\_overview](http://www.dmk.de/Stakeholder_overview)). The DMK GROUP is in regular contact with a large number of stakeholders, by way of discussions, events, working groups and other means. The table below gives a selection from the reporting period.

According to an up-to-date review, DMK is a member of around 100 organisations and associations on the domestic and international levels. An overview of its important memberships can be found at [@ www.dmk.de/memberships\\_and\\_cooperations\\_2016.pdf](http://www.dmk.de/memberships_and_cooperations_2016.pdf).

DMK constantly picks up on current topics through its regular exchanges with stakeholders. In the year 2016, milk prices and the future of the cooperative were the focus for the dairy farmers, while customers and the public were asking more about animal welfare, compliance and climate protection. Together with the other players in the supply chain, DMK also worked on converting to sustainable feedstuffs in accordance with the FEFAC standard (see page 41) in 2016.

### High response to stakeholder survey

DMK carried out the annual stakeholder survey from July to August 2016. The survey has grown into an important tool for feedback on the Combined Report and the current concerns of a variety of shareholders. 279 people participated in the survey, almost three times as many as in the previous year.

DMK in dialogue	Selected events and activities
DMK representatives at events	<ul style="list-style-type: none"><li>▶ Participation at agricultural shows (Tarmstedter Ausstellung, LandTageNord, Norla, Mela) and sales shows in Hamburg, Paris (SIAL), Dubai, Amsterdam, Shanghai, South Korea and Myanmar</li><li>▶ Facilitation MIV Seminar environmental protection and latest dairy industry technology</li><li>▶ Speaker at Fresenius Practitioners' Conference "Powder and bulk goods"</li></ul>
DMK as host	<ul style="list-style-type: none"><li>▶ Just under 300 tours of Milkmaster farms</li><li>▶ Dialogue with around 200 vets</li><li>▶ DMK Technology Day in Zeven, with Hannover University of Applied Sciences and Arts, Faculty II</li></ul>
DMK representatives in specialist and working groups	<ul style="list-style-type: none"><li>▶ Exchange of thoughts with Deutscher Tierschutzbund (German animal protection league)</li><li>▶ Environment working group with MIV and BVE</li><li>▶ Consultations in regional parliaments of Lower Saxony, Thuringia and Hesse</li><li>▶ Joined "Partnership Environment Business" of Bremen region</li><li>▶ Sponsored Lower Saxony Regional Working Group on Healthier Working</li></ul>

### Statements by stakeholders



*"In the European Dairy PEF Project, a standard method for calculating the environmental footprint in the dairy sector was developed. The DMK GROUP played a crucial role in this and tested it on products in practice. The project could not have succeeded otherwise. We are proud that companies like DMK are advancing the leading role of the European dairy industry in environmental protection issues as well as elsewhere."*

Hélène Simonin, Director Food, Environment & Health,  
European Dairy Association (EDA)

*"Agricultural production is facing completely new operating conditions. Capitalising on higher sustainability standards is a joint challenge for producers, consumers, the energy industry, politicians and also food retailers, and essentially requires sustainability to be quantifiable. DMK's Milkmaster Programme is a good example of how the concept of sustainability can be made measurable and transparent on the company level. We are glad of the close working relationship with DMK, whose contribution to sustainable value added also helps in the conservation of grassland regions."*

Dr Arno Krause, Managing Director Grünlandzentrum  
Niedersachsen/Bremen e.V.

*"The 'IG Milch' industry platform is primarily about the interests of dairy farmers and their cooperatives. We want in this organisation to agree on joint positions from the point of view of the shareholders on political issues and to put them forward to political bodies and public agencies – on both the national and international stage."*

Thomas Stürz, Chairman of the Management Board of  
Deutsches Milchkontor eG and Chairman of the "IG Milch"



*"DMK has made it its mission to work as economically and sustainably as possible and thereby protect the interests of a wide range of stakeholders. That is also one of the concerns of the Council for the Future and Sustainability, of which I have been a member for several years. Where can we create value, achieve efficiency improvements and safeguard the future of the company and the members? The supreme objective of all considerations is competitive milk prices for the dairy farmers."*

Dagmar Bottembruch, start-up investor, management consultant and member of the DMK Council for the Future and Sustainability



*"Today's society is becoming more and more interested in how milk is produced. The implementation of high standards in the Milkmaster Programme is therefore a top priority for us dairy farmers. We have to explain authentically to the public how we live from our cows, with and for them!"*

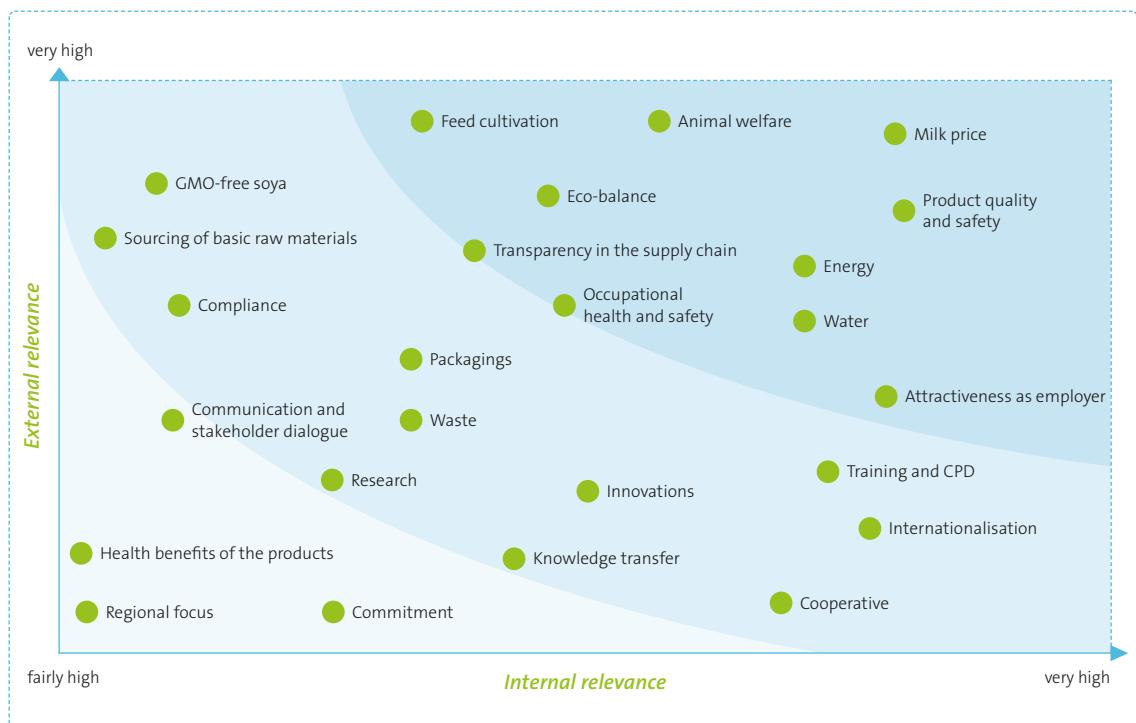
Amos Venema, Deutsches Milchkontor eG dairy farmer

**≈280**  
people took part in the 2016  
stakeholder survey.

The response was particularly high among dairy farmers and employees. More than half of the respondents rated the reporting as good or very good. The feedback also includes a desire for even more transparency, a balanced choice of topics and a critical debate on hot-spot sustainability topics, more ratios and information from the

company's sites. DMK will take these suggestions into account in the constant further development of the reporting and implement them step by step. The survey also found that the issues from the materiality analysis continue to be relevant. The survey respondents prioritised the five most important themes from the materiality analysis in the following order: milk price, product quality and safety, animal welfare, supply chain transparency and feed cultivation. External stakeholders rated feed cultivation and animal welfare as the most important subjects. The latest results are largely in line with the 2015 materiality matrix.

#### Summary of the important topics – materiality matrix



**Topics of greatest material importance to sustainability in accordance with GRI G4 at the DMK GROUP**

Topic	Important		Management approach
	within	outside	
	the company		
Milk price	●	●	Business strategy
Animal welfare	●	●	Milkmaster
Feed cultivation		●	Milkmaster
Transparency in the supply chain		●	Supplier Management
Product quality and safety	●	●	IFS, BRC, DIN EN ISO 22000, Integrated Management System (IMS)
Eco-balance	●	●	DIN EN ISO 14044
Energy <sup>1</sup>	●		DIN EN ISO 14001, DIN EN ISO 50001, Integrated Management System (IMS), others e.g. product-integrated environmental protection
Water <sup>1</sup>	●		DIN EN ISO 14001, Integrated Management System (IMS), others e.g. product-integrated environmental protection
Occupational health and safety <sup>1</sup>	●		Occupational Safety Management, Integrated Management System (IMS)
Attractiveness as employer	●	●	Corporate vision, business strategy, HR strategy

<sup>1</sup> Including compliance with laws and regulations.

**GRI G4 materiality analysis**

In the year 2015, DMK implemented a materiality analysis in accordance with GRI G4, collecting and assessing stakeholders' concerns in several stages and through a number of channels. These included the annual stakeholder survey, internal surveys of the sales function and the specialist departments involved in the DMK 2020 Sustainability Programme, the analysis of customer and consumer enquiries and the available eco-balance studies, an analysis of competitors' activities and a report from a research institute. The result of all analyses was a compilation totalling around 400 topics. From these, DMK formed topic categories and grouped sub-topics below them. The company ultimately identified the 25 most important topics and classified and prioritised

them in a materiality matrix in accordance with the number of times they were mentioned in the analyses. DMK will update this classification regularly.

Topics that were of major importance to stakeholders and DMK alike were defined by the company as the "topics of greatest material importance" (see table), which serve to provide DMK with longer-term orientation. DMK continuously picks up on the latest topics through dialogue with stakeholders. The materiality matrix is also used to assess opportunities and risks. The specialist departments also take a precautionary approach to handling potential negative effects – for example, using the Milkmaster Programme and management systems such as DIN EN ISO 14001 and 50001.



## ***How entrepreneurially organised business units will improve their market performance with increased dynamism and customer orientation.***

The successes achieved by DMK in domestic and international markets in 2016 in an extremely difficult market, with gains in the branded products and ingredients segments in particular, clearly show where the potential for increased value added lies. The new corporate structure developed in the year under review gives the business areas the organisational framework that they need to implement this potential through shorter times to market and targeted, customer-oriented action in the markets.

- ▶ Under the new organisational structure developed in 2016, the Business Units Brand, Private Label, International, Industry, Baby and Ice Cream will operate like autonomous companies in the domestic and international markets.
- ▶ DMK guarantees a high level of quality and safety through numerous external certificates and comprehensive systems, and develops solutions along the entire supply chain that are targeted towards sustainability in order to meet rising customer requirements.

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**6**

**business units with independent responsibility for sales and production after reorganisation**

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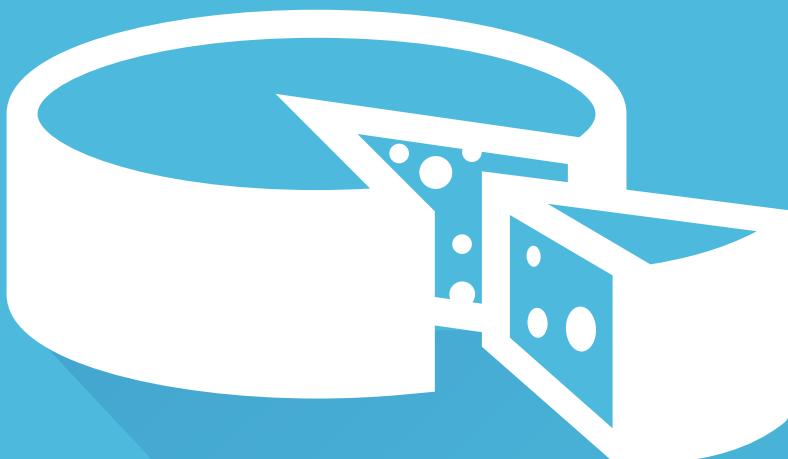
**100**

**export countries throughout the world**

*“The reorganisation with six autonomous business units puts us in a position to respond even more flexibly to specific customer wishes and changing market situations with the wide variety of our high-quality products.”*

*Marina Schomacker, MOVE ambassador and head of R&D department*

# *Moving for more impact in the markets*



## Brands and products

DMK's branded products business in the consumer and food service sectors developed very positively in 2016 in an extremely difficult market environment due to the abundance of raw materials available world-wide. The ingredients business also made a positive profit contribution.

### **Successfully preparing for the anniversary**

MILRAM FrühlingsQuark (herb curd) celebrates a big birthday in 2017. When it first appeared in the chilled cabinets in 1967, it was a genuine innovation: a creamy, savoury, ready-prepared curd had never been available before. FrühlingsQuark is still the biggest-selling herb curd in Germany to this day. DMK extended the successful savoury curd product line with new products in the year under review, right on time for the 50th anniversary.



- ▶ With a market share by value of 53 percent, MILRAM was once more the clear market leader in the savoury curd segment in the reporting period.
- ▶ In the extended competitive environment of sandwich spreads, the 200g pack of MILRAM FrühlingsQuark was the second-biggest seller in the year 2016, the 200g pack of MILRAM FrühlingsQuark light was also among the top ten.
- ▶ DMK further extended the successful line with KresseQuark (cress curd) in 2016 as the "Curd of the Year".
- ▶ In the same year, DMK developed two pack designs to boost retail sales throughout the anniversary year of 2017, with FrühlingsQuark in the "Party" and "Retro" versions.

As in the previous year, the plentiful global supply of raw milk in 2016 led to a difficult market situation in the first half of the year in particular, affecting DMK products not only in the consumer segment, but also in food service, private labels and the ingredients business. The market

situation in private labels, for example, saw a significant recovery in the second half of the year. However, against the background of the ever-increasing requirements imposed by German retailers on more and more diversified product assortments, the dairy industry is still faced with major challenges in this country.



*“The reorganisation positions the Business Units Brand, Private Label, Industry, International, Baby and Ice Cream as autonomous companies for the future, thereby enabling faster and more efficient responses to varying market requirements.”*

Matthias Rensch, Chief Operating Officer DMK BRAND

#### **Above-average growth with MILRAM**

Despite the difficult conditions, the MILRAM brand developed very positively at food retailers in 2016. Intensive collaboration with customers and successful new product launches were the main contributors to this outcome. For example, DMK launched a new cream cheese for self-service on the market and introduced the new “Cheese of the Year” concept with Tomate-BasilikumKäse in the year under review. In the self-service segment, MILRAM, which has the broadest product portfolio of all the top branded players, grew significantly faster than the market in 2016 and gained additional market shares. MILRAM is the self-service market leader in the north. MILRAM also scored at cheese counters with its new added-ingredients cheese, the Drei-PfefferKäse.

With MILRAM buttermilk drinks, which saw a design relaunch in the reporting period and added rhubarb and strawberry as a new variety of the year, the brand is following the trend towards home-grown fruits. Sales of fruit buttermilk rose considerably by volume and value in the year under review, kefir drink sales actually doubled on both measures. MILRAM was once more the clear market leader in the savoury curd and sour cream categories.

Growing the MILRAM brand continues to be a focus after the DMK GROUP's reorganisation. The company is working on a selection of new products here, such as the self-service cheese varieties “Rügener” and “Küstenkäse”, which were launched in March 2017 with extensive advertising and communication activities, including, for example, a TV spot which successfully supported the new MILRAM cheese products.

#### **Food-Service market leader**

DMK also enjoyed very good growth with the MILRAM Food-Service brand in the steadily growing domestic and international eating-out market in 2016. The company further expanded its market leadership in Germany, Austria and Switzerland and reinforced its position as the premier supplier to the trade and customers by activities including attendance at trade shows and the further expansion of its online product range for professional cooks. Enhanced competence in desserts and successful new products were both major contributors here. In order to expand its own position as the market leader, DMK is working in this field in 2017 on further strengthening its collaboration with retail partners and wholesalers, and is positioning itself as a full-liner with even greater future assortment depth and ever more differentiated product concepts.

#### **Higher value added in ingredients**

As in all other product segments, the market situation for ingredients was defined particularly in the first half of the year 2016 by sharp volume increases and the fact that many dairy companies were selling skimmed milk powder to the EU's intervention agencies at the set minimum price because of the price decline triggered by enormous over-supply. In the second half of the year, volume dropped significantly, fats experienced an explosion in prices, while the market for proteins grew much more gradually against the background of high intervention volumes. The modern milk powder tower at the Zeven site, which is now operating at a high output level, provides a good negotiating basis for long-term contracts with large companies as a result of qualities that meet the highest standards, thereby also generating direct value added for the dairy farmers.

Despite the extremely difficult market situation, the Ingredients business area succeeded in making a positive contribution to DMK's consolidated income in 2016. wheyco and DP Supply, subsidiaries which concentrate on whey processing and special products, were able to achieve their targets thanks to a rigorous strategic focus on higher value added. Although the Joint Venture ArNoCo, which specialises in whey protein concentrate and lactose, struggled with challenges relating to the volume of whey available due to market trends, it was nevertheless in a position to implement its own plans for quality-based development.

The area of fresh ingredients for manufacturing continued to grow steadily in 2016, unaffected by developments in the overall market. The restructuring of the DMK powder factories, with a strategic focus on the two large powder sites of Zeven and Hohenwestedt, was completed in the year under review. This will produce positive effects in the Ingredients business area before the end of this year. Against the background of expected market developments, Ingredients and its subsidiaries will continue with the ongoing portfolio optimisation in the current year and continue to focus on the expansion of its special products.

#### **Products with certified quality**

In all product segments, DMK tests 100 percent of its products along the entire supply chain for quality and safety – for example, using the legally prescribed HACCP (Hazard Analysis Critical Control Points) concept. Quality management is part of the company's Integrated Management System. As part of the integration of DOC Kaas during the reporting period, DMK deployed a working group that focused intensively on harmonising the two organisations' quality systems.

External agencies also test quality regularly. All sites are certified in accordance with a quality and product safety standard (IFS, BRC, DIN EN ISO 22000). Extensive audits were performed in the factories in 2016 according to various quality standards (see table below). All 23 sites attained the "Higher Level" in the IFS audits, and all five sites tested achieved an A, the highest level, in the BRC audit.

In addition, DMK's Quality Management performed 16 internal quality audits at the sites and 24 supplier audits in 2016. The quality system was scrutinised in 32 customer audits at a number of DMK sites. The audit results were consistently good, confirming the high standards in quality and product safety. The awards regularly received by DMK products are also important evidence of these efforts' success. In 2016, they amassed a total of 251 DLG awards.

<i>Number of certified sites 2016</i>	<i>DMK GmbH</i>	<i>DMK subsidiaries</i>
<b>Standard</b>		
International Food Standard (IFS)	15	8
British Retail Consortium (BRC)	4	1
ISO 22000/Food Safety System Certification (FSSC) 22000	5	3
Q&S (feedstuffs standard)	7	5
Unannounced Q&S spot audits	5	0
Organic	3	0
Kosher	11	0
Halal	13	1
IFS-Food Check <sup>1</sup>	5	0

<sup>1</sup> This unannounced hygiene audit takes place annually for the IFS audit at the request of retailers at all sites which supply retailers with private label products.

DMK is obliged to comply with the relevant country-specific requirements in its international business. Registrations with extensive paperwork are needed for many export countries. In 2016, the emphasis lay on a review of the FDA requirements for deliveries to the US market.

#### **Rising customer requirements**

The requirements of DMK customers from industry and retailing have changed markedly over the past few years. High transparency is demanded, about animal welfare, environmental protection and compliance, for example – and in an ever-greater level of detail. DMK once more processed a large number of customer enquiries in the reporting period by means of close collaboration between Sales, Purchasing, Quality Management and Sustainability Management. Food retailers' demand for dairy products from cows fed on non-GMO feedstuffs led to sweeping changes at DMK in 2016 (see page 41): three sites in total were audited and certified last year with the seal of the VLOG "Ohne GenTechnik" standard.

To comply with the increasing demand for "Ohne GenTechnik"-certified dairy products, plans are in place to have more sites certified in the current fiscal year.

DMK had "Meadow Milk" certification carried out in 2016 at one site to meet the requirements of a customer from the Dutch market, and included selected nearby dairy farms in addition to the processing factory. "Meadow Milk" certifications are planned for two further DMK sites in the current fiscal year.

The Federal Ministry of Food and Agriculture commissioned VLOG (the Association for Non-genetically modified food) to award the "Ohne GenTechnik" ("Free from Genetic Engineering") seal to foodstuffs. The association also awards the "VLOG geprüft" ("VLOG tested") seal to animal feeds. The VLOG standard is recognised throughout Germany and is currently gaining in importance in other European countries.

#### **DMK brands**



Aus der Heimat der Frische



# Innovations

Innovations increase value added and support profitable growth. The Innovation Management and Research & Development departments are important sources of inspiration for the topics of the future and work closely with the business units.

## ***Innovation activities in a challenging market environment***

DMK introduced a number of innovative products and new varieties for the MILRAM and Oldenburger brands in the reporting period – for example, the Oldenburger Yoghurt Drink for the Asian market. This has been well received by consumers as an on-trend product. DMK also launched various innovative products on the market for the manufacturing sector. The company deferred several innovation projects in 2016 because of market conditions, and therefore has major potential for future innovations. Many of the products launched in the last two years are making a stable contribution to value added. There were a good 70 projects in the innovative product introduction process (IPP) at the end of the year.

## ***Focus on trend scouting and analysis***

Since early identification of trends forms the basis of future innovations, scouting for and analysing trends is a focal area in innovation management. The goal is to develop innovative solutions for retailers and food manufacturers from changing requirements. DMK bundles requirements and networks activities across various business units by means of innovation initiatives. Current innovation initiatives include:

- ▶ Cheese 2020+, which is aimed at further expanding DMK's core competence and developing new segments and markets with innovative solutions.
- ▶ Building the core competence in curd with innovations for consumers and industry.
- ▶ Differentiated varieties of raw milk such as "Ohne GenTechnik", meadow milk and organic milk, which make up a broad area of innovation for new requirements on raw materials and products with increased added value.

## ***Flexible processes and structures***

DMK successfully migrated the IPP to specialised SAP project and portfolio management in the year under review, thus securing fast project throughput times in product introduction as well as synergies within the company. In addition to classic market research and expert panels, DMK increasingly used mobile applications for intelligent trend analysis in 2016. In addition, the group of people driving new ideas for DMK was enlarged by collaboration with a network of start-up companies as well as students from the University of Bremen.

## ***Solutions developed by Research & Development***

In Research & Development (R&D), DMK worked on 490 projects in the areas of products, processes and packaging as well as on optimisation projects in 2016. Examples are changes in materials for thermoform trays for cheese at four sites and the launch of products such as MILRAM KresseQuark and a variety of fruit buttermilk drinks.

The number of technical patent specifications published rose from four in 2013 to eleven and twelve respectively in 2014 and 2015 and to a total of 44 in the year under review. These include, for example, processes for the manufacture of lactose-free or low-germ dairy products.

The two Milk Innovation Centers (MIC) in Zeven and Edewecht are the DMK centres of competence for the development of products, processes, technologies and packaging as well as application technologies for raw milk. They are staffed by experienced developers and technologists, working on new solutions for raw milk and optimisation measures that are important to the



*“With the new structure, we’ll be even closer to the market. Our business units will develop their own products and packagings, enabling them to be even more targeted in responding with innovative solutions to their customers’ wishes.”*

Alexander Godow, Chief Operating Officer DMK INDUSTRY

### **Health-conscious nutrition stimulates innovation**

There is a close link between nutrition and health. DMK started the “Health-conscious Nutrition” innovation initiative with this in mind. It has the goal of supporting consumers with innovations for health-conscious nutrition which are also a pleasure to eat or drink.

- ▶ DMK develops these innovations for retailers and food manufacturers.
- ▶ In 2016, the company prepared to extend its portfolio for the successful new “Skyr” product. This product, whose recipe harmoniously combines high protein, low fat and fruit, was launched in 2015.
- ▶ A cross-departmental team is working on activities to reduce added sugar. Concepts for consumers with sensitivities, to lactose, for example, are also being extended.



implementation of specific processes. The R&D department was involved in the commissioning of various new systems in the reporting period. These include the mozzarella cheese factory in Georgsmarienhütte, the aseptic bucket-filling plant in Erfurt to expand the Food Service segment, and the new milk powder factory in Zeven.

### **Systematic packaging improvement**

Packagings are increasingly becoming a focus for consumers and retail partners. R&D has therefore developed a software-based assessment system to analyse the sustainability of packagings, which can compare the latter quantitatively, starting with the material. The assessment system delivers pointers on improvements and enables an objective analysis of the sustainability effects.

The system can be used, for instance, to compare similar cheese packagings. As an example, in one multi-layer plastic package DMK replaced the bottom film with a monofilm made of PET. Although a three-layered top film was replaced by a four-layered material, the assessment system indicated that the sustainability factor was better because the weight of the plastic part was reduced from 51 to around 48 percent. The PET monofilm improved recyclability and at the same time reduced the weight. This comparability of identified sustainability factors creates a standardised basis for discussion for the entire DMK product portfolio. The assessment system can be integrated into the standard product and packaging development processes because it is simple to use.

## Internationalisation

Political unrest, strong pressure on prices, keener competition and increasing access restrictions prevailed in DKM's various international markets in the year under review. Against this backdrop, the stable development of the Oldenburger export brand and of the international business with ingredients has been a major success.

### **Baby food factory with an international focus**

DKM sold its shares in Milchwirtschaftliche Industrie Gesellschaft Herford GmbH & Co.KG (MIG) in December to focus exclusively going forward on its own baby food business with the international Humana brand. To this end, DMK will invest by the end of 2017 in the dairy site Strückhausen in Lower Saxony, and will expand it into a future-oriented site for baby food manufacturing. The facility will start production in 2018.



- ▶ The global market for baby food is growing steadily, not least because of rising incomes in the emerging economies. DMK is responding to this development by expanding the Strückhausen site in order to guarantee its own quality standards in the long term.
- ▶ The milk formula for babies and toddlers produced at the site is sold in the German home market and in more than 55 growth markets internationally.
- ▶ The raw milk is sourced from regional farmers in accordance with special regulations for the production of baby food.

World market prices for milk and dairy products were marked by sharp fluctuations in the reporting period. The first half of 2016 saw sustained pressure on prices, with a plentiful supply and stagnating demand in the import countries in general. However, this pressure eased in the second half of the year thanks to a reduced supply from Europe, Oceania and South America.

While the German dairy industry's exports in the first nine months stagnated at around the previous year's level, cheese exports rose again after years of stagnation particularly in the business with non-EU countries, showing growth with mozzarella and other products. Russia, however, once the third largest non-EU market, remained closed. There was a further rise in exports of



*“With our positioning in fast-growing non-EU countries, the reorganisation with an autonomous Business Unit International will ensure more agility and presence in the different regions.”*

*Michael Feller, Chief Operating Officer DMK INTERNATIONAL*

liquid dairy products in small packs to non-EU countries, particularly China. A temporary over-supply occurred for skimmed milk powder, which had to be compensated by increased sales to the EU intervention agencies.

#### ***Oldenburger successful with portfolio expansion***

Although there was still no access to the important Russian market in 2016 due to sanctions, and the market restrictions are having more of a negative effect due to the increased concentration on locally produced goods in countries such as Hungary and Poland, the DMK export brand Oldenburger was able to expand its share of foreign business slightly in 2016. The extension of the portfolio by value-added articles, especially for consumers, was one contributor here. With the acquisition of Russian cheese manufacturer RichArt, DMK has taken a first step towards local presence and production in non-EU countries and at the same time enabled activities in the Russian market, which is currently closed.

#### ***Double-digit growth in MENA***

Despite the challenging situation in the MENA (Middle East North Africa) countries and Africa, mainly due to the political unrest in the region, DMK realised growth of around 25 percent on these markets with the Rose and Oldenburger brands in the year under review. This growth was mainly bolstered by the efforts to expand the export brands' presence and by active marketing through local distributors.

China continued to be one of DMK's focal markets in 2016. Business in this country was marked by high pressure on prices due to the increased number of local and

international competitors. DMK succeeded in keeping its business in China stable in the reporting period, helped, for example, by the launch of new products such as Oldenburger UHT milk with 0.3 percent fat in a small 200ml pack with a straw. The introduction of additional innovative Oldenburger milkshakes here is planned for the current year.

#### ***Product range extended***

In other regions, too, line extensions contributed to business growth. For example, DMK launched the Oldenburger Butteresse product in the reclosable tub in Spain and Eastern Europe in 2016 and also worked on adding to the Rose brand product portfolio step by step. By acquiring DOC Kaas, DMK has extended its portfolio with cheese of Dutch origin. Through the new distribution company DOC Dairy Partners B.V., which was formed in 2016, the Group is opening up additional market potentials in the Netherlands, Belgium and France for these and other DMK products.

The product portfolio was also extended in the reporting period in the Ingredients business area, mainly by the addition of higher-value-added products. As the market leader for industry products in Germany, this business area further consolidated its position in the rest of Europe. In China, the extended product range and good working relationship with the local office helped particularly to keep the business stable despite the difficult market situation.

## Product responsibility

Stakeholders are demanding more and more transparency in the supply chain. Enquiries from retail and industry customers, for example, have risen sharply in the past few years. DMK has been working on implementing the higher requirements since 2013, and can now boast initial successes in its switch to sustainable raw materials. In addition, the company is also contributing to the development of eco-balancing (product life cycle analysis) methods.

### **On the way to 100 percent sustainable cocoa, palm oil and wood**

DMK has already been using cocoa of which 91 percent is UTZ certified and palm oil of which 93 percent is RSPO certified at all its sites and at wholly owned subsidiaries since 2016. As a minimum criterion, the company purchases palm oil for all dairy products, including ice cream, in accordance with the mass balance approach. DMK has been a member of UTZ and RSPO, the internationally recognised standards for more sustainable farming, since 2014. The company has procured book & claim certificates from RSPO for the quantities of palm oil that are not yet certified. These ensure that, for every certificate purchased, a tonne of palm oil is grown according to the RSPO standard. The DMK GROUP acquired 100 of these certificates in total in the year under review. The transition of wood to the FSC or PEFC standards, which ensure sustainable forestry, for all primary and secondary packaging and wood-based lolly sticks is also progressing. By December 2016, around 70 percent of all possible material had been switched to FSC, including almost 90 percent of the secondary packaging. The share of PEFC standard wood, on the other hand, accounts for a very small proportion.

### **Ecological product footprint**

Together with other European dairy companies and retailers, DMK has been participating in the eco-balance project "Dairy PEF" (Product Environmental Footprint) since 2015. The company completed an eco-balance for the "MILRAM Benjamin" Gouda in 2016, for which it examined six DMK dairy farms from northern Germany and the process of making cheese from their milk at the

Edewecht site. This analysis revealed that raw milk production has the biggest influence on the eco-balance across all environmental impact categories.

In the context of this project, DMK tested various possibilities for communication with consumers with a total of 1,000 people in September 2016. The test showed that consumers had a strong interest in cheese as a product. In addition to the environmental footprint, information about animal welfare in particular is important to the majority. They prefer to have a combined environmental and animal welfare label directly on the cheese packaging. The results will be incorporated into the final conclusions of the Dairy PEF project, which are expected in 2017.

In the year 2016, DMK developed a method at the Zeven site for integrating the eco-balance assessment of products and processes into corporate controlling. This makes it possible, for example, to determine CO<sub>2</sub> emissions along the supply chain. DMK will analyse the project results in 2017.

### **Supplier management further developed**

The supply chain is becoming a core concern for stakeholders. Customers are increasingly demanding proof of responsible sourcing. In addition, political efforts are ongoing to make compliance with human rights an obligatory element of the supply chain. DMK takes the supply chain of dairy farming into account through the Milkmaster Programme and that of other suppliers through its central purchasing function.



*"We live in dynamic times, and our retail and industry customers' requirements are diverse and constantly increasing. Our new organisational structure will undoubtedly help us to respond to them faster, better and in a more targeted way – that's the basis for shared success!"*

*Thorsten Rodehäuser, Chief Operating Officer DMK PRIVATE LABEL*

### **Distinguished as a sustainable supplier**

EcoVadis gave DMK a "very good" rating for its sustainability achievements in 2016. A large industry customer also awarded DMK the title of "sustainable supplier".



- ▶ EcoVadis runs a highly respected platform that produces sustainability assessments for global supply chains and is used by manufacturers all over the world.
- ▶ In 2016, EcoVadis reviewed DMK's achievements in sustainability and assessed them as very good – also compared to other dairy companies. DMK ranked above the average of the companies assessed in each of the five areas examined as well as in the overall assessment. DMK was awarded "Silver" status for its sustainability achievements.
- ▶ A large industry customer also awarded DMK the title of "sustainable supplier" in 2016. The Milkmaster Programme in particular found acclaim and met the customer's high expectations regarding animal welfare.

DMK's suppliers of such supplies and additives as cocoa, sugar, fruit and packaging materials acknowledge the DMK Code of Conduct by signing the company's purchasing terms and conditions. The Code of Conduct contains social and environmental aspects with which DMK suppliers undertake to comply. A whistle-blower system is accessible to business partners and suppliers. A large proportion of DMK's direct suppliers come from Germany or the rest of Europe and have relatively high social standards at their production sites. One key area for close scrutiny in the reporting period consisted of upstream

production stages for some merchandise categories. This need was flagged up by the risk analysis conducted in 2015. DMK is currently preparing the introduction of a software-based supplier management tool and is also reviewing the introduction of a supplier code of conduct in this context. In addition, the company incorporated sustainability aspects derived from the corporate goals into its merchandise category strategies in the year under review. The topic of sustainability is therefore now systematically embedded in the purchasing processes.



***How the focus on responsible milk production and processing contributes to a secure future for the dairy farmers.***

The Milkmaster Programme was made binding on all DMK dairy farmers in the challenging business environment of the reporting period. By this move, DMK is also responding to changes in various stakeholder groups' requirements, which include an increasing significance of sustainability along the entire supply chain. With its positive attitude to change at all times and the many activities and measures it undertakes, the company helps dairy farmers to meet an extremely wide range of requirements and thereby secure their future viability and business success.

- ▶ DMK does not just concentrate strategically on individual sustainability trends, but pursues an integrated approach composed of animal welfare, environmental protection and the farmers' business perspective.
- ▶ As a responsible dairy company and a key player in the industry, DMK engages beyond its own corporate borders in a number of initiatives and working groups on industry-wide focal topics, and champions future-proof, responsible agriculture.

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**33.6 million euros**

Milkmaster bonus 2016

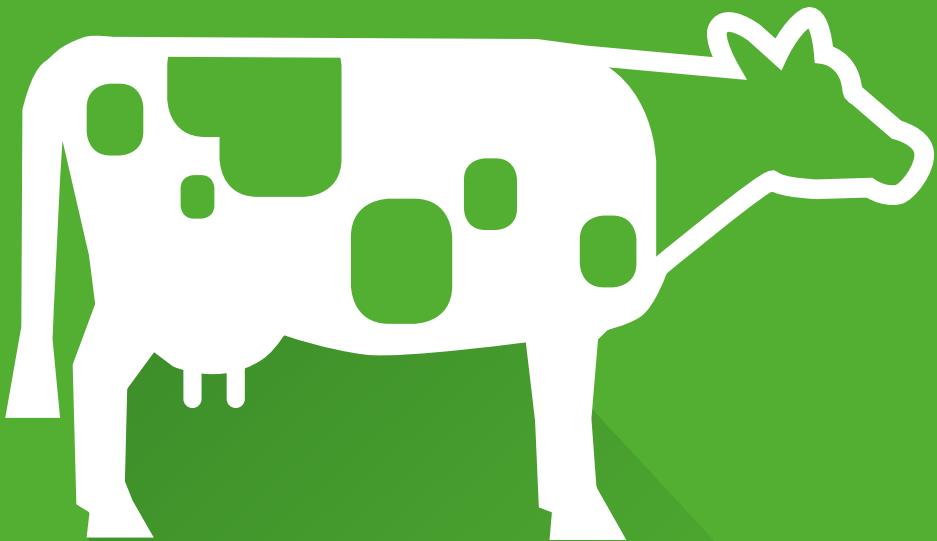
**48%**

Around half of the dairy farmers are already using accredited sustainable soya feed, almost 20 percent use no soya at all

*“With MOVE, we are completely redesigning our company to achieve higher value added and thereby also earn value added and competitive milk prices for our dairy farmers. Our Milkmaster Programme contributes to these goals.”*

*Heinz Korte, Chairman of the Supervisory Board*

# *Moving for a successful future*



# **Business environment and background**

The dairy crisis in the year 2016 was characterised by low milk prices and extensive debates on possible solutions. In parallel, increasing demands were placed on dairy companies and dairy farmers with regard to animal welfare and topics such as milk from cows fed on non-GMO feed-stuffs and pasture grazing. DMK pursues a holistic approach of cost-effectiveness in harmony with social and ecological topics and champions diversity in the German dairy industry.

## ***Below-average milk prices in challenging market environment***

The crisis in the dairy market, which had already reached serious proportions in 2015, continued in the 2016 reporting period with sharp price fluctuations, a sometimes extreme imbalance between supply and demand and milk prices that reached their lowest ever point. In the first half of the year, the market for milk and dairy products recorded an oversupply across the whole of Europe and world-wide, together with pressure on prices and mounting inventories of long-life products.

Prices started to recover from the summer onwards. Nevertheless, the business environment on international markets remained unfavourable in some cases: Russia, once the largest non-EU market for cheese, remained closed due to sanctions, there was a slow-down in economic growth in China and persistently low oil prices

depressed purchasing power in the oil-producing countries. The payments for milk made by DMK were unsatisfactory both for the dairy farmers and for the company, lagging expectations.

## ***Positioning in political debates***

The milk price crisis was also a matter of concern for political players in the reporting period. In addition to financial support, they initiated various discussions with market players. DMK was invited to participate in consultations at the regional parliaments of Lower Saxony, Thuringia and Hesse. The company explained the context and took a stance on key market topics at these sessions: policy-makers should not take steps to regulate the market, the farmers' work needs to regain the respect and appreciation of the public and consumers and be paid for by retailers at fair prices which reflect the value of the products.

### ***2016 milk prices***

	(eurocents/kg)
Average DMK milk price	25.20 <sup>1</sup>
Average BLE milk price	26.73 <sup>2</sup>
Average milk price of comparable dairy companies	26.47 <sup>3</sup>

<sup>1</sup> Including all average premiums (Milkmaster bonus, logistics bonus, GMO allowance and dividend).

<sup>2</sup> Price comparison incl. premiums and deductions according to the German ordinance on reporting for conventional milk.

<sup>3</sup> Average milk prices of 11 comparable dairies incl. extra payments made, volume and quality premiums, dividend, annual delivery 500,000 kilos.

### ***Fat/protein content 2016***

	Avg. fat content (%)	Avg. protein content (%)
Deutsches Milchkontor eG	4.10	3.41
DMK GmbH contract suppliers	4.02	3.40

Raw milk quality of Deutsches Milchkontor eG dairy farmers and DMK GmbH contract suppliers; excluding raw milk quality of member dairies, subsidiaries, milk swaps and purchases of raw milk. The main value determinants of cow's milk are fat and protein, their content therefore has an economic significance. In addition, the protein and fat content is an important indicator of animal health and feeding that favours rumination.

In the second half of the year, DMK also took part in talks at the regional and Federal level at which one topic under discussion was an industry organisation. Against this background, the Interessengemeinschaft Genossenschaftliche Milchwirtschaft (IG Milch) was set up, an interest group that acts as a peer-based shared platform for six dairy companies and is headed by Thomas Stürz, the Chairman of the Board of Management of Deutsches Milchkontor eG.

#### ***Milk Delivery Regulations examined in light of competition law***

In April 2016, the Bundeskartellamt (the independent German federal competition authority) initiated pilot proceedings against Deutsches Milchkontor eG and DMK Deutsches Milchkontor GmbH and is now scrutinising the supply agreements between the company and the farmers. DMK was in dialogue with the Bundeskartellamt right from the start. In a status report published in March 2017, the Bundeskartellamt deemed that the supply relationships between milk producers and milk processors raised competition concerns and proposed changes. DMK has objected in the strongest terms and set forth its position accordingly in solidarity with the largest associations in the dairy industry.

#### ***Product differentiation with wide-ranging impact***

DMK has seen itself faced with increasing requirements for some years now. Retail and industry customers in particular raise such topics as animal welfare, non-GMO feeding, organic agriculture, regionality, meadow milk and hay milk, CO<sub>2</sub> reduction, lactose-free and vegan products. The impact of certain requirements has been little discussed to date. This product differentiation leads to higher costs for farms and dairies, for example, since they require the goods to be separated from the time they originate to the time they are packed. Certain requirements, such as pasture grazing, cannot be implemented everywhere because of the conditions at certain locations.

In some cases, the requirements have a negative environmental impact – for example, because the differentiated milk collection needed leads to extra tours, or because of the extra cleaning required due to separate merchandise flows at the production facilities. Particularly in view of the present market situation, changes can only be carried out cost-effectively if there is sufficient demand and if they are properly rewarded. Furthermore, the debate does not sufficiently address the fact that consumers' and retailers' expectations of swift changes on the one hand are faced on the other with a lack of availability on the supply market, a lack of sustainable feed, for example, or certified non-GMO stabilisers, not to mention the lead times needed by the farmers. The farmers cannot master this challenge on their own. It should therefore be the shared concern of the dairy industry to produce products of animal origin of a high quality, strengthen domestic production and also make customers' requirements economically feasible for dairy farmers.

#### ***Comprehensive sustainability approach***

With the DMK 2020 Strategy and the Milkmaster Programme, DMK has pursued a comprehensive approach to ensure more sustainability in dairy farming since 2013. Its strategic approaches do not concentrate on individual aspects such as pasture grazing. Rather, they integrate animal welfare aspects, environmental protection and the farmers' business perspective in a comprehensive and complex manner: cost-efficient entrepreneurship that harmonises the requirements of customers and consumers with the business needs of the dairy farmers continues to be DMK's focus. Furthermore, DMK involves the entire supply chain in topics such as animal health and sustainable feed.

## The Milkmaster Programme

The Milkmaster Programme, developed in 2014, comprehensively promotes animal welfare and sustainability in dairy farming. All DMK dairy farmers were included in the Milkmaster Programme in the year under review. The Milkmaster bonus sets incentives for improvements and was paid to participating dairy farmers for the first time in 2016.

### *The modules of the Milkmaster Programme*



### **Milkmaster Programme implemented across the board**

As from 1 January 2016, the Milkmaster Programme based on the Milkmaster Production Code has been a component of the Milk Delivery Regulations and therefore binding on all DMK dairy farmers. In the first step, this obligation includes all Deutsches Milchkontor eG's dairy farmers and DMK GmbH's contract suppliers, suppliers from subsidiaries are to follow in subsequent steps. Milkmaster consists of a monitoring system (report) and a confirmation, advisory and bonus system. The basis for inclusion in the bonus system is participation in the company's volume planning.

Just under 6,100 dairy farmers or 77 percent took part in the Milkmaster self-assessment in 2016. This corresponds to 94 percent of the milk volume. 63 percent of the dairy farmers with 75 percent of the milk volume participated in the previous year.

### **33.6 million euro Milkmaster bonus**

Milkmaster uses a bonus system to reward the work of dairy farmers who perform especially well in cow comfort, animal health, feed cultivation, feeding and milk quality with a cash premium. All farmers can earn bonus



*"As our stakeholders' requirements of raw milk become more and more differentiated, we see it as our responsibility to support the dairy farmers in their claims for more money in return for more work."*

Stefan Eckert, Chief Operating Officer DMK BABY

points in the five areas. The points are then used to determine the amount of the bonus payment. By this means, Milkmaster promotes the dairy farms' further development in socially relevant topics in an efficient and targeted fashion. These topics include, in the cow comfort section, the loose housing system with a specific area for calving or the isolation of sick cows, in animal health, threshold values for somatic cell counts and lifetime yields, and in feed cultivation, the use of certified soya. Almost all farms which took part in the self-assessment received a Milkmaster bonus. In the introductory year, DMK paid Milkmaster bonuses in the amount of 26.5 million euros for the period from 1 January to 30 September. They amounted on average to just under 0.6 eurocents/kilo of milk. The Milkmaster bonus for 2016 came to a total of 33.6 million euros.

#### **Monitoring the results**

On the basis of their self-assessments, the dairy farmers receive an annual report on their results with an in-depth analysis of their own performance compared with that of other dairy farmers. Every two years, every dairy farmer is subjected to an audit conducted by an external, independent and accredited certifying company. Around half of the dairy farmers were audited in the reporting period, some 3,000 audits took place. DMK had previously explained what was expected of the audits to 75 external auditors at events in six regions.

DKM has been advising farmers for a long time on subjects relating to quality, business issues and now increasingly to Milkmaster with a system of consultants and Regional Managers. During the reporting period, one focus was on intensive advice to farmers about the

switch to non-GMO feeding. The farmers received detailed information about the concrete implementation of Milkmaster's requirements and the conditions for the Milkmaster bonus through a variety of communication channels such as the "webmelker" online portal and the members' magazine "Milchwelt", as well as additional personal informational letters about non-GMO feeding and sustainable feed, for example.

#### **Milkmaster Report for progress control**

The Milkmaster Report presents the results of all the dairy farmers' self-assessments on the basis of 148 ratios. DMK also makes selected results available to a wider public. The Milkmaster Report 2016 showed major differences in the regions and in the size categories of the farms and reflected the enormous heterogeneity of the DMK dairy farmers, for example in terms of housing systems.

#### **Acceptance by customers**

Customers are increasingly developing their own lists of requirements for animal products and playing a role in deciding which standards will become established in the market. Milkmaster promotes animal welfare holistically, thereby fulfilling large parts of customers' requirements, as shown by discussions held in 2016. It remains to be seen who will finance the desired higher performance in the supply chain, particularly in times when milk prices are low. DMK advocates to customers that they should reward the milk producers' increased performance even more in the spirit of fair trade relations.

## Animal welfare and environmental impact

Animal welfare is one of the social stakeholder groups' most important concerns. It is also of major importance to dairy farmers, since only healthy and contented cows give a good milk yield. Another key concern for stakeholders is sustainable feedstuffs. DMK worked on this topic intensively in 2016 and launched the transition successfully.

### **Improving animal welfare and reducing environmental impact**

DMK pursues a comprehensive approach to animal welfare and environmental protection: cow comfort, animal health, feed cultivation, feeding and milk quality are integrated into the Milkmaster Programme and have been reviewed annually since 2015 for all dairy farmers on the basis of 148 ratios, including housing systems, for example. DMK also contributes its experiences from the Milkmaster Programme to the development of industry-wide animal welfare directives for dairy cows. The company is also in conversation with several environmental organisations that are committed advocates of animal welfare.

An eco-balance drawn up in the reporting period using data from 23 farms showed among other things that the type of feed and the spreading of fertilisers are clearly reflected in the environmental impact. The high quality of data attained by collecting primary data enables DMK to form clusters with parameters such as region, milk yield, the amount of pasture grazing and method of spreading liquid manure, and therefore to discover relationships.

Practical environmental protection is established on many farms. One in two farms generated its own renewable energy in 2016. The majority have installed photovoltaic plants, while biogas systems account for the largest share of the energy generation. Energy-saving measures for milking and for cooling the raw milk, such as plate coolers and pipe coolers or heat recovery, are now a matter of course for many dairy farmers.

### **Number of cows per farm 2016**

**90**



Average figure, estimate based on milk volume

Housing systems used by DMK dairy farmers 2016	Share (%)	Volume of milk (%)
Farms with loose housing	70	94
Farms with tie-stall housing	30	6

Own estimated based on self-assessment 2016.

Depending on regional conditions and the size of the farm, pasture grazing can be offered under both housing systems.

### **Animal health is an important field of action**

Veterinary surgeons, as important contacts for the farms, are of central importance in promoting animal health. From September to December 2016, DMK provided information about the Milkmaster Programme and approaches to improving animal health on the farms to just under 200 vets at ten events in all the regions. On the same occasions, the company also presented details of twice-yearly veterinary care and the documentation of the herd care reports as contents of the Milkmaster bonus system.

The DMK Breeding Management innovation group also engaged with animal health in June 2016 at a practical workshop on cow signalling: reading and assessing behaviour, body language and external signs of well-being are of crucial importance to managing a healthy herd, especially in the case of calves and young cattle.

## Non-GMO feedstuffs

German food retailers are increasingly taking their demands for milk and dairy products from cows fed on feedstuffs that have not been genetically modified to the supply chain. DMK has reacted and in 2016 switched to fresh milk with the "Ohne GenTechnik" seal. More selected products followed at the beginning of 2017.



- ▶ In a difficult market situation, DMK therefore reacted to an additional customer requirement and was able to convince many dairy farmers to switch to non-GMO feed.
- ▶ The company mastered the extensive changeover processes within a short period of time thanks to the actively committed collaboration of many colleagues and dairy farmers.
- ▶ A requirement such as freedom from GMO demands parallel raw materials flows along the entire supply chain, such as separate milk collection, processing and filling. For this reason, DMK also has to consider other economic factors with regard to further changeovers now and in the future in the interests of the cooperative dairy farmers.
- ▶ DMK extended the line of non-GMO products to cheese products in the first half of 2017.

## Certification of sustainable feedstuffs established

The public gaze has focused increasingly on feedstuffs in the past few years, retailers are currently concentrating on the issue of feeds that have not been genetically modified. Other stakeholders, environmental protection organisations in particular, have their sights primarily on sustainable soya cultivation. DMK embedded feed in the DMK 2020 Sustainability Strategy as far back as 2013 and subsequently in the Milkmaster Programme, aiming at a comprehensive approach to sustainable feedstuffs.

In the year under review, DMK successfully worked on solutions together with a variety of players along the supply chain: it is not only the farmers who have to deal with this topic, but the feed manufacturers and industry associations as well. Dairy farmers' increased use of soya meal that meets the FEFAC Soy Sourcing Guidelines represents progress for the whole industry. DMK has also built the certification and use of sustainable soya feed into the Milkmaster bonus system, creating a financial incentive for dairy farmers. Around half of the dairy farms (approximately 48 percent) were using soya feeds which were accredited as sustainable in the year 2016.

Almost 20 percent of dairy farmers work entirely without soya. Regionally grown feed components can be used as an alternative to imported feedstuffs.

Feedstuffs used 2016	Share (%)
Farms with only regionally produced feed components (100%) in the total diet	13
Farms with mainly regionally produced feed components ( $\geq 50\%$ ) in the total diet	85
Farms with less than half regionally produced feed components ( $< 50\%$ ) in the total diet	2

Self-assessment database 2016

FEFAC, the European Feed Manufacturers' Federation, has developed minimum standards for sustainably produced soya together with the International Trade Center (ITC). These include, for example, no engagement in child labour, protection of areas assigned as legal reserves or conservation areas, evidence of ownership rights and compliance with the rules of integrated crop management.

# Environmental protection at the production sites

DMK considers environmental impacts along the entire supply chain and has committed to making continuous improvements in environmental protection at its production sites beyond compliance with the laws and regulations. The protection of resources is an importance concern for the company. All its sites are certified in accordance with both ISO 50001, 19 and ISO 14001.

## New environmental management standard implemented

DMK has been working for more than six years with an Integrated Management System (IMS) which combines the quality, health and safety, environmental and energy systems.

In the reporting period, DMK began to integrate the new requirements of the ISO 14001 – 2015 standard into the existing environmental management system. A readiness audit conducted by the certifying company at the end of 2016 confirmed that it had been properly implemented. In the current fiscal year, DMK will implement the new standard at all certified sites and have it externally audited. The Agricultural Affairs department will be involved in future so that the environmental effects of dairy farming can also be assessed.

DMK once more received the GC mark “Green Company” for its exemplary energy and environmental management system in 2016.

## Optimised water efficiency

The specific water efficiency, in other words the consumption of water per kilo of raw milk intake, was slightly higher than the previous year at all sites in the year under review at an average of 1.08 l/kg. One reason for this was the declining volume of milk because of the crisis in the dairy market. Individual sites were not fully utilised. However, production systems still had to be cleaned periodically for reasons of hygiene. In absolute terms, water consumption fell very slightly in the reporting period.

Actions to improve specific water efficiency were taken at some sites. The new systems installed at Erfurt, Georgsmarienhütte and Zeven showed high water consumption levels in the previous year when they were commissioned. DMK optimised the systems in the reporting period to the extent that Georgsmarienhütte improved its specific water efficiency by four percent compared to last year and Zeven by six percent.

### Fresh water ( $m^3$ )

2015	2,650,120	5,484,922	8,135,042
2016	2,819,929	5,045,926	7,865,855

■ Own water (groundwater well)  
■ External water (from the municipal water supply)

DMK GmbH + min. 75% owned subsidiaries (excl. sanotact, Sunval, MIG Herford, Rosen Eiskrem and DOC Kaas); based on the readings of flow meters.

## Lower product losses via sewage

One corporate goal in 2016 was to reduce the loss of product via sewage. To this end, DMK continuously analyses the current status of the sewage by measuring and recording certain parameters. The COD load (chemical oxygen demand), for example, provides information about the organic substances in sewage and allows conclusions to be drawn about milk loss. The company was able to develop and implement improvement measures by allocating COD loads to production processes. In Nordhakstedt, for example, the cleaning processes were optimised in the year under review, thereby reducing the specific COD load by 20 percent compared to the previous year. Since employees play an important role in



*“The high priority of environmental protection at the production sites will continue in place with the new corporate structure. The cross-departmental tasks at the sites will find standardised solutions as a result of centralised rules at the corporate level.”*

Hermann Köster, Chief Operating Officer Supply Chain

### **Product-integrated environmental protection at the DMK GROUP**

Product-integrated environmental protection (PIUS) is preventive environmental protection which allows environmental pollution to be avoided at source. DMK also made substantial investments in protecting the neighbourhood from noise emissions in 2016 as part of its “end-of-pipe” environmental protection.



- ▶ PIUS minimises environmental impact across production processes and consisted in the reporting period of projects on heat recovery and on avoiding losses of product via sewage.
- ▶ In 2016, the company installed state-of-the-art protection against noise emissions at new plants. Extensive noise-reducing actions were also taken at existing facilities.
- ▶ In Georgsmarienhütte, a modern noise barrier and relocation of the factory entrance have ensured optimum prevention of noise pollution. Regular sound measurements monitor production-related noise emissions and ensure that the set noise-emission values are complied with.

this procedure, DMK ran online trainings to specifically raise their awareness of leak prevention, correct connections and the handling of product residues.

#### **Sewage (m<sup>3</sup>)**

	3,071,266	5,049,624	8,120,890
2015	2,520,927	5,214,347	7,735,274
	■ Direct discharge (own treatment plant)	■ Indirect discharge (municipal treatment plant)	

DMK GmbH + min. 75% owned subsidiaries (excl. sanotact, Sunval, MIG Herford, Rosen Eiskrem and DOC Kaas); based on the readings of flow meters.

#### **Protecting resources in production**

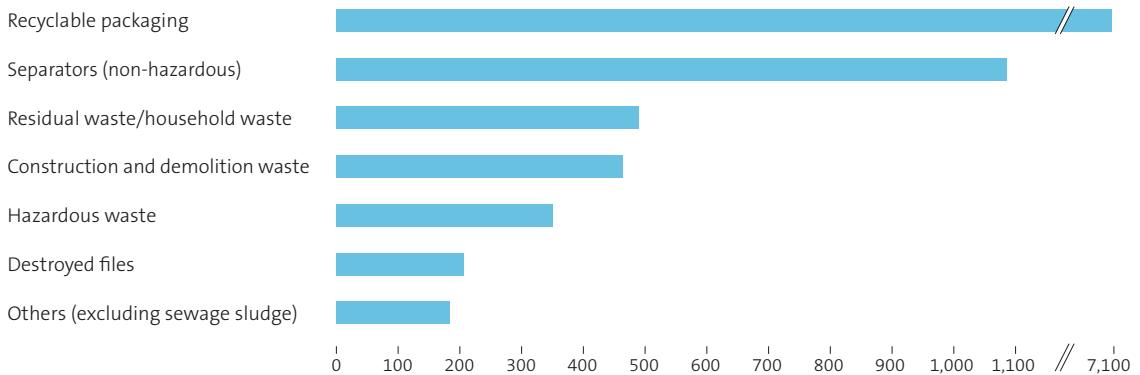
In the context of product-integrated environmental protection (PIUS), DMK is currently installing a system at the Altentreptow site which involves all production processes in reducing the consumption of resources and energy. The Federal Environment Ministry supported this PIUS project with more than 2 million euros from the environmental innovation programme. By reaping the benefit of the innovative heat recovery processes in this system, DMK can save up to 4,700 tonnes of CO<sub>2</sub> and avoid the consumption of up to 25,000 MWh of primary energy. In addition, the company will achieve a significant reduction in organic pollution from the whey processing plants in the project through material flow optimisation in the cleaning and rinsing water.

### High level of waste recycling

At around 97 percent of all waste, recycling remained at a high level in the reporting period. A recyclables management concept has been introduced at all sites which is constantly being further developed. The company collects recyclables separately and directs them to

the best possible recycling option. In Zeven, a system for internal waste logistics was created which increases waste bundling, thus reducing transport. The utilisation of waste containers is also optimised in outbound logistics to the recycling companies to reduce the number of transport trips.

### Waste by type 2016 (t)



DMK GmbH + 75% owned subsidiaries (excl. sanotact, Sunval, Rosen Eiskrem, DOC Kaas and MIG Herford).

### Direct energy consumption (kWh)

	2015	2016
Total direct energy consumption	1,901,429,267	1,742,633,775
Of which, direct energy from non-renewable energy sources	1,867,035,308	1,719,503,414
Electricity	459,715,212	349,345,086
Natural gas	1,175,836,566	1,154,149,201
District heating	134,347,905	118,409,792
Diesel fuel/heating fuels refined from crude oil	94,314,320	94,555,795
Liquid gas	911,653	855,868
Heating oil	2,509,652	2,187,672
Of which, direct energy from renewable sources	33,793,959	23,130,361
Hydro power	534,730	499,580
Biomass	33,259,229	22,630,781

DMK GmbH incl. all min. 75% owned subsidiaries, excl. DOC Kaas; 2015 figures were adjusted compared to the combined annual report and sustainability report 2015 due to a misinterpretation of the GRI requirement. Basis for the gathering of data on direct energy from non-renewable energy sources is the actual quantities of energy consumed; basis for the gathering of data on direct energy from renewable data sources is the purchase/conversion of wood consumption for biomass. Hydro power at the Rimbeck site, biomass at the Waren site.

### **Focus on energy management**

Energy consumption fell in 2016 because of the reduced milk volume. In relation to the volume of milk, energy consumption (specific energy efficiency) rose, because more energy-intensive products were manufactured. DMK reached the interim goal set for the reporting period of improving energy efficiency by 1.7 percent compared to 2011. By optimising existing processes and sourcing equipment with maximised energy efficiency, the company was able to save or avoid a total of approx. 51 million kWh of energy in 2016 (electricity and gas, based on in-house calculations and measurements). The thermal buffer silo in Zeven made a major contribution here, and further effects are to be expected in the current fiscal year. With this technology, energy is saved in linked heating and cooling processes by thermal buffering, or intermediate storage. DMK started the installation of a thermal buffer silo at the Altentreptow site in the reporting period and continuously reviews the feasibility and cost-efficiency of infrastructural and energy-saving projects at different sites.

Environmental management is part of the company's Integrated Management System. All sites are ISO 50001-certified. A rising number of enquiries about environmental and climate protection from customers show that these aspects are increasingly gaining in importance when DMK is assessed as a supplier. The sites' energy officers meet regularly to exchange their experiences with projects and savings potentials. The Energy department provides support in evaluating changes in laws and ordinances, including in the area of the German renewable energies law and the cogeneration protection law, which may have considerable financial implications for the company.

DMK has been taking part since 2016 in the "Copernicus-Projekte für die Energiewende" research project, in which science, business and civil society are developing

technological and economic solutions for the conversion of the energy system. The company is engaged in the sub-project "SynErgie" on the subject of "Cross-Commodity and Demand Site Management", which is examining how companies with large generating plants can be involved in network stabilisation. They could help to regulate energy peaks that are caused by a high demand for electricity at certain times and which cannot as yet be covered on a stable basis by the fluctuating supply of renewable energies.

DMK has been able to save approximately 21 percent of energy compared to the previous year in the administration functions by using energy-efficient hardware components and highly modern heat recovery systems for temperature control in the server rooms.

DMK is currently gathering information about its direct greenhouse gas emissions (GG emissions, Scope 1) for production for eco-balance purposes. These emissions were slightly higher than the previous year in 2016, with 235,213t CO<sub>2</sub> (DMK GmbH incl. 75% owned subsidiaries, calculated on the basis of the volume of gas used in production).

### **Optimisation in logistics**

A key logistical topic in the reporting period was to improve processes at the powder warehouse in Zeven, which was commissioned at the end of 2015, and at the same time stabilise the warehouse and palleting technology. DMK also continued to expand the central warehouse in Erfurt with additional automatic high-bay warehousing. In addition to the building and the conveyor technology, this entailed the integration of a modern, high-performance management system, which was commissioned in early 2017. In the area of outgoing freight, the company added a transport module to the pallet loading optimisation software for deliveries to customers. This module will further increase truck utilisation in the future, with the aim of reducing costs and environmental pollution.



***How readiness to change will bring employees and cooperative shareholders new opportunities for success.***

As an employer, DMK is responsible for around 7,200 workers at 25 sites. The persistent crisis in the dairy market confronts the company with particular challenges in this area. With the structural change in the organisation and corporate culture, DMK is setting the direction for a successful entrepreneurial future, thereby creating secure prospects for the employees and cooperative shareholders.

- ▶ DMK is accompanying the culture change needed within the company for a successful repositioning with information media such as the employees' magazine "DMK intern" and a specially created website, amongst other measures. In-house MOVE ambassadors act as multipliers supporting the transformation.
- ▶ By involving the cooperative members and their representatives closely in the restructuring process, DMK is ensuring that the shareholders also support all the company's important decisions.

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**39**

in-house MOVE ambassadors  
as multipliers

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**9**

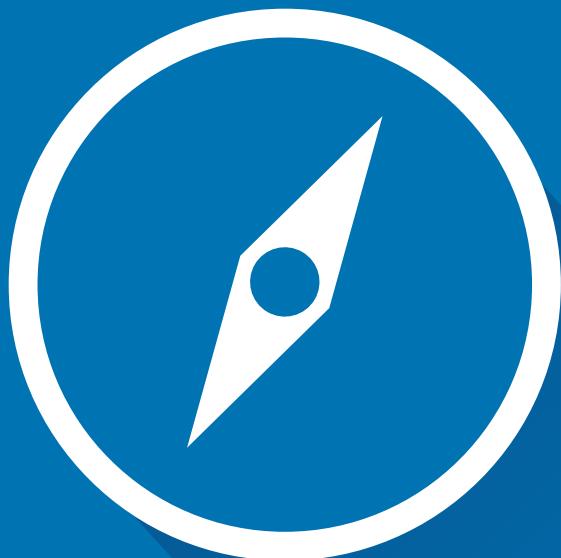
MOVE events in six Federal  
regions with elected officers  
and corporate management

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*"Following the past growth, we are aiming for performance rather than scale with MOVE. To achieve this, we will be more efficient and transparent in all processes with our new structure. A fair and open dialogue with our employees is a fixed component of our corporate culture in this regard."*

*Andrea Striet, MOVE ambassador and head of IT department*

# *Moving for secure prospects*



# Values and opportunities

DMK is a values-oriented company. In connection with the MOVE change programme, the company is therefore now also initiating a culture change that is based on its core values: entrepreneurial, fair and innovative. Ensuring high standards of occupational health and safety is part of the company's self-conception.

## **Enduring foundations of our community**

DMK actively champions integrity, compliance with the law and fair competition at home and abroad. The DMK Code of Conduct lays down the standards for acting lawfully and adhering to social and environmental standards. The company expects business partners to align themselves with these guidelines. By building a compliance management system, DMK wants to counter economic crime in the narrower sense, for example, competition infringements, corruption and fraud. An outside lawyer is available to employees and business partners as an ombudsman to whom they can refer information about legal infringements. The DMK GROUP protects the honest informant rigorously from all forms of influence.

## **Culture change with MOVE**

A cultural transformation is needed to bring about the changes that DMK wishes to achieve with MOVE. The company has developed a competences model for this purpose on the basis of its vision. MOVE affirms and underpins the corporate vision introduced in 2013, which has entrepreneurial, fair and innovative as its core values. DMK is also scrutinising topics such as working relationships and improves these with measures such as a leaner meetings culture. The new organisation encourages a new performance culture, because the business units operate autonomously and the Supporting Units Center of Expertise and Service also have to show their in-house customers an enhanced service mentality. DMK is implementing culture change measures in three phases, from November 2016 to the spring of 2018. DMK has introduced a Change Tracking tool with the goal of tracking and adjusting the progress of the measures. This tool will review the progress of change by targeted surveys of the workforce members about strategy, values, leadership, systems and processes.

## **Occupational health and safety management for accident prevention**

In health and safety, DMK was able to reduce the number of accidents in the reporting period. All sites successfully participated in the bonus system of the BGN (the statutory accident insurance company for the food industry and related sectors), which confirms that their occupational health and safety management system goes beyond the statutory requirements.

### **Total accidents**

2015 <sup>1</sup>	238
2016	231

### **Accidents per 1 mill. working hours**

		Absence time index 2016 <sup>2</sup>
2015 <sup>1</sup>	29	
2016	31	0.38

DMK GmbH + min. 100% owned subsidiaries (excl. Sunval, DP Supply, DOC Kaas); DMK records accidents of one day of absence or over, therefore recording accidents much more stringently than the BGN (the statutory accident insurance company for the food industry and related sectors), which records accidents from three days' absence upwards in its statistics; main types of accident: stumbling/slipping/falling, accidents with machinery, accidents with hazardous substances, fork-lift accidents, burns/scalds.

<sup>1</sup> DMK + 100% owned subsidiaries (excl. sanotact, Sunval, DP Supply, Rosen Eiskrem)

<sup>2</sup> Periods of absence due to accident in relation to hours worked.

The core of the DMK health and safety management system is systematic risk assessment, which was extended to the assessment of mental stress in a 2016 pilot project. The safety of all employees is important to DMK. In 2016, the company invested further in safety technology and fire and explosion protection, and therefore, for example, improved machine safety at palleting systems



*“As a values-oriented company, we have a need to promote and embody the culture change on the basis of our core values entrepreneurial, fair and innovative. This is the only way that a realignment can enjoy long-term success and be future-oriented.”*

*Marcus-Dominic Hauck, Chief Operating Officer DMK ICE CREAM*

### **Competences model to support culture change**

Based on the vision and the three core values entrepreneurial, fair and innovative, DMK has developed a competences model as a tool for strategic human resources work.

- ▶ The competences model to reinforce the organisational realignment reflects the company's core values and strategic goals.
- ▶ Four indicators of potential support three areas of competence based on the core values, assess, for example, the appetite for learning and for change and reveal individual development potentials.
- ▶ Among other things, the competences model provides the foundation of leadership principles and job descriptions as well as of the assessment of employees' development status in the annual staff appraisals. This will help human resources development to make progress on a targeted and values culture-oriented basis.



and protection against falling when working at height, as well as installing early fire detection systems. Since the cause of most occupational accidents is behaviour-related, DMK continues to work on the safety culture using the “attitude and behaviour change in occupational health and safety” process. The company introduced this process at Georgsmarienhütte and Altentreptow in 2016, which takes the total to eight sites. DMK has given training in methods of identifying the causes of accidents at all sites in order to introduce appropriate protective measures. DMK has been conducting central safety audits of serious accidents at the sites since 2016.

#### **External company management**

DMK works solely with service providers who undertake to comply with the currently valid framework conditions

on safety, environmental protection, fire protection and hygiene. Trained external company coordinators implement DMK's external company management at the sites. DMK gives all external companies contract-related inductions into site-specific risks and rules. Top priority goes to accident avoidance and the economical use of resources.

#### **SMETA social standard further implemented**

The Sedex Members Ethical Trade Audit (SMETA) demanded by some customers ensures high social standards. DMK's files information on working standards, health & safety, the environment and business practices in the Sedex database. A SMETA team ensures practical implementation of the social standards at the sites. SMETA audits were successfully conducted at three further sites in 2016.

# **Employees**

Employees' development and satisfaction was of great importance to DMK in 2016, as always. The company implemented appropriate measures in a focused and cost-conscious fashion. This helps to ensure that employees identify with the company, remain committed and help to support the change process initiated with MOVE despite the currently difficult economic situation.

## ***MOVE drives human resources work***

The changes and deep retrenchments in the company also affected employees in the year 2016. DMK announced the loss of 250 full-time equivalents in administration and the partial closure of the Everswinkel site, which had already been decided before MOVE was initiated. This development was understandably accompanied by insecurity among the workforce. DMK is developing socially compatible solutions for the workers affected in close consultation with the Works Council.

In parallel, the organisational realignment due to MOVE was the main driver in human resources work in the reporting period. The restructuring demanded extensive efforts, for example, to bundle task areas and categorise processes, as well as in the consultations with the employees' representative bodies. The new MOVE organisational structure came into effect in the spring of 2017. This structure will promote entrepreneurial thinking and action and has the goal of increasing the DMK GROUP's value added. The structural and cultural transformation required for this is being supported by MOVE ambassadors, extensive communication and other measures. The communication measures include the employees' magazine "DMK intern", which was overhauled and redesigned in the reporting period, and which has also appeared in English since March 2017, and a website created in connection with MOVE. Both channels enable the company to contact all DMK employees world-wide and provide them with detailed information.

Irrespective of the major changes, the company's evaluation by its employees in the annual ranking by "Focus" magazine remained stable. The magazine once more awarded the DMK GROUP a top position and as one of the best employers in Germany – for the fifth time running.

## ***Human resources processes further optimised***

DMK implemented a number of initiatives in the reporting period which facilitate more efficient work and therefore also contribute to the company's realignment with MOVE. For example, the new digital applicant management system makes processing applications simpler and easier and also allows for those involved to be efficiently integrated into the process. "Employee Self Service" has also introduced automation to simplify and accelerate employment-related operating processes. For example, it manages working hours, pay-slips, applications for holidays and overtime as well as personal data, and gives line managers a good overview of the position at all times. At the same time, the system increases employees' autonomy.

## ***Focused progress for employee development***

The continuous and up-to-date training and professional development of DMK's employees is and will remain essential to the future success and competitiveness of the organisation. The company also examined closely what measures would make sense in this area and how efficiency and effectiveness could be improved in 2016. DMK mainly conducted lower-cost in-house training programmes. All continuing professional development (CPD)



*“With MOVE, we are going forward and changing our company. A new start of this kind offers many opportunities for every individual to contribute, and to discover and exploit new areas for himself or herself.”*

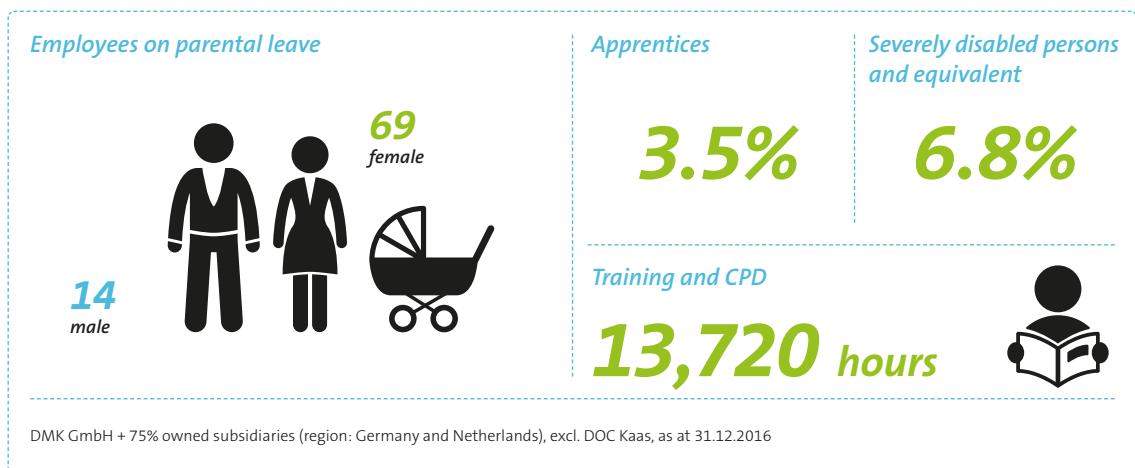
Ines Krummacker, Chief Human Resources Officer

activities from 2016 onwards will have downstream impact analyses attached in which the transfer effect from a training, for example, will be discussed with the trainee's line manager. A focus of the training programmes in the reporting period was the topic of change: to prepare the organisation for the transformation, DMK equipped established and emerging DMK executives with skills in change topics and will expand and continue this practice in the current year.

The “Training & Development” learning management system will serve in future as the central point of contact for all training and CPD measures. It was thoroughly tested in a pilot phase at three sites in the fourth quarter of 2016 and from 2017 onwards makes it easier for all

concerned to use the seminar and training offerings. Basic compulsory trainings from the areas of occupational health and safety and quality management, for example how to handle hazardous goods, are available online as a first step. Following the roll-out, other topics will be added to the existing portfolio online and as live events in the course of 2017.

DMK continued to be committed to high-quality and future-oriented training in the reporting period. 215 apprentices are being trained in 15 different professions, at 20 training centres with more than 100 trainers. When training apprentices, the company also considers future-oriented topics such as “Ausbildung 4.0” (training for the future) and the special characteristics of Generation Z.



### **MOVE ambassadors as change agents**

A network of executives and employees has been available within the company since the spring of 2017 as MOVE ambassadors. They actively champion the change process and support the associated culture change as contacts for the employees.



- ▶ DMK created the network with the aim of raising awareness in the company of the changes planned through MOVE. The MOVE ambassadors provide information on the contents of the programme and, together with line managers, are the people to contact if employees have questions.
- ▶ The network was launched with 39 colleagues at seven sites. They had all worked in MOVE project teams in the past months.
- ▶ A roll-out of the MOVE ambassador network to all sites is scheduled.

In 2016, DMK participated in selected vocational training and university shows and continued to maintain its long-standing cooperative relationships with universities, by giving speeches within lecture series and other activities.

### **Employee satisfaction as an investment in the future**

Contributing to employees' health and supporting them in personal issues is a matter of concern to DMK. A central theme continues to be ensuring that work is compatible with family life. In collaboration with an external family service agency, DMK has been helping employees since 2015 with questions and problems and provides practical support in the areas of childcare and home-care/elder care. An increasing number of employees use

the offerings relating to child care, the arrangement of outpatient services and places in homes as well as respite care during holidays. Employees also received their first ever opportunity to take advantage of events on topics such as enduring powers of attorney and living wills, or courses on first aid for babies and children.

Employees also make good use of the activities of DMK's company health management. DMK introduced an employee health improvement programme at Alten-treptow in 2016. This includes a holistic approach to managing stress. Employees who travel abroad on business can also take advantage of a new service. This consists of support in questions before and during the trip and help in crises relating to health and safety.

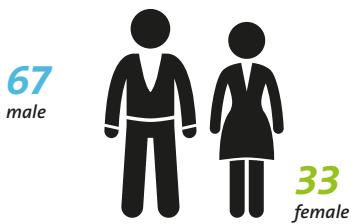
**Employees by type of employment contract (total number: 6,180)**

	Number	(%)
Permanent	5,565	90.0
of whom, full time	5,135	92.3
of whom, part-time	430	7.7
Temporary	615	10.0
Employees covered by collective bargaining agreements <sup>1</sup>	6,035	97.7
Employee turnover	494	8.0
New hires <sup>2</sup>	355	5.7

<sup>1</sup> Excluding senior executives.

<sup>2</sup> Excluding seasonal workers.

**Employees by gender 2016 (%)**



**Proportion of women (%)**

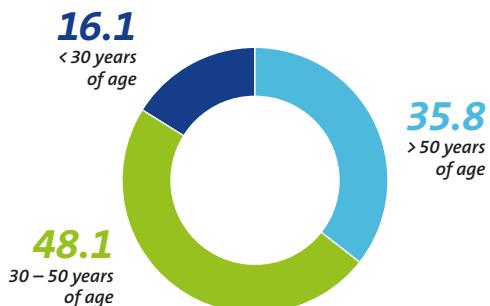
Level	2015	2016	Target <sup>1</sup>	Goal achieved
Supervisory Board	8	17	10	✓
Management Board	15	25	15	✓
2nd level	20	20	20	✓

DMK GmbH

<sup>1</sup> DMK GmbH is obliged to define binding targets for increasing the share of women by 30.06.2017.

**Avg. 14.2 years of tenure**

**Age structure of employees 2016 (%)**



DMK GmbH + 75% owned subsidiaries (region: Germany and Netherlands), excl. DOC Kaas, as at 31.12.2016. The total number of employees and all resulting ratios have fallen due to the sale of MIG GmbH.

## Dairy farmers

The year under review was challenging for the dairy farmers because of the economic situation and low milk prices. The market situation continued to contribute to structural change. DMK is wooing the confidence of the farmers with an action plan aimed at achieving competitive milk prices.

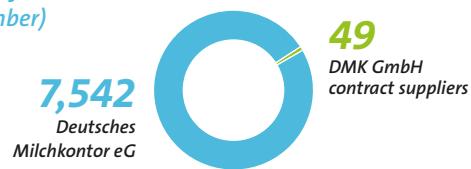
### **Difficult economic situation**

Milk prices reached their lowest ever point in the market in 2016. The milk prices paid out did not satisfy either the dairy farmers or DMK. A situation which had already been tense in the previous year became even more so in 2016 and placed a huge strain on the farms' liquidity. Most dairy companies in Germany pay for the milk monthly, while DMK settles its payments to dairy farmers fortnightly. Even if the payment lagged expectations overall, this long-established practice of twice-monthly payments supported the farmers in a year which frequently saw liquidity bottlenecks on the farms.

Deutsches Milchkontor eG's 7,600 or so active dairy farmers and DMK GmbH's contract suppliers delivered a total of around 5.8 billion kilos of raw milk in 2016. With significant regional differences, this corresponds to an average milk volume per dairy farmer of just under 765,000 kilos. The milk price crisis accelerated structural change throughout the industry and led to small farms in particular discontinuing milk production.

In the past few years, dairy farms that have grown have more than made up for the milk volumes that were lost due to discontinued milk production. In the course of the year 2016, this long-term trend was disrupted. From the beginning of April 2016 onwards, DMK recorded a decline in the milk volume supplied, because many dairy farmers reacted to the very low milk prices by reducing the amounts they produced. In total, the volume of milk supplied by DMK dairy farmers in 2016 fell, after adjustment, by 2.6 percent.

### *Dairy farmers 2016 (number)*



Avg. volume of milk per farm (1,000 kg)	
Deutsches Milchkontor eG	
DMK GmbH contract suppliers	
Annual average	

Against the background of unsatisfactory milk prices, many members of the cooperative handed in their notice to DMK at the end of the year. The DMK GROUP takes this very seriously. The most important goal of the fundamental realignment of the company that started in the reporting period, as stated in the action plan presented in the autumn, is to earn competitive milk prices for the dairy farmers.

### **Growing demands on dairy farmers**

The fiscal year made heavy demands on the dairy farmers. In difficult economic times, the Milkmaster Programme became binding on them from 1 January 2016 onwards as part of the Milk Delivery Regulations. This entailed added documentation requirements and, for some farms, major efforts to comply with its rules. As many as 77 percent of the dairy farmers took part in the Milkmaster Programme's voluntary self-assessment in the year under review.

### Seminars on milk price hedging

In the year 2016, DMK launched its first seminars for dairy farmers about hedging milk prices via the commodity futures exchange. This form of business risk management focuses on protecting liquidity and helps dairy farmers to reduce their price fluctuation risk in volatile markets and to improve the reliability of their planning.

- ▶ The goal of the day seminars at five sites was to explain the mode of operation of commodity futures exchanges and illustrate options for hedging milk prices.
- ▶ DMK invited all dairy farmers to the seminars. The delegates, a good 100 in number, were very satisfied with the quality of the seminar.



- ▶ The importance of hedging milk prices is increasing. The market's currently low liquid trading volume is rising continuously and more and more players are taking an interest in the topic. DMK has also been hedging individual transactions via the commodity futures exchange since July 2016 and is looking at milk price hedging concepts for its members.

The production of raw milk is also becoming more and more complex, as customers increasingly demand different types of raw milk, such as milk from cows fed on non-GMO feedstuffs or meadow milk. The need to differentiate between raw milk types faces dairy farmers with major challenges. DMK supports the dairy farmers with targeted information and strives for efficient implementation and payments that are in line with the market.

### Channels of communication with dairy farmers 2016

- ▶ Milchwelt: 1 x per month, distributed via milk collection vehicles
- ▶ DMK Newsletter: 1 x per month, online and by fax
- ▶ Member info: 1 x per month, delivered with milk price account
- ▶ webmelker: online portal with the farm's individual data
- ▶ Regional Managers and consultants: contacts in every region

### DMK in dialogue with dairy farmers

DMK has been providing the dairy farmers with information on every subject relating to the company and to milk production through a variety of channels for years. The increased need for information and dialogue could therefore be met in the period under review via established channels and formats such as "Milchwelt", the members' magazine, and the "webmelker" portal. For example, DMK accompanied the introduction of the Milkmaster bonus with detailed, two-page explanations in "Milchwelt" of each of the five areas relevant to the bonus.

To further optimise the exchange of thoughts and ideas with its members, the company overhauled and streamlined its communication with the dairy farmers as at the end of 2016. For example, as from January 2017 "DMK kompakt" was introduced. This publication replaced "Milchinfo" and gives dairy farmers monthly information not only about the current milk price but also about other relevant topics.

## **Region and responsibility**

DMK's regional roots play an important role at the 23 sites across Germany and in the eight large dairy farming regions. The dairy farmers themselves are an important pillar of the image of agriculture in the regions. DMK was forced to reduce its engagement in the form of donations and sponsorships for cost reasons in the year under review.

### **Dairy farmers engaged in the regions**

The Milkmaster Programme's self-assessment included an extra section with questions about public relations work on the farms for the first time in 2016. Just under 6,100 dairy farms in total took part in the self-assessment. The data therefore provide an interesting panorama of dairy farmers' activities in the regions. Almost 30 percent of farms supervise apprentices or agricultural students. More than 60 percent of them have received groups of visitors in the past twelve months. The "Open Farm Days" organised by the Federal regions' farmers' associations play a particular role here. More than 230,000 consumers and interested professionals were able to form a picture of modern agriculture and the dairy farmers' valuable work through these events in 2016.

In addition, a good 230 DMK farms offer the public holiday opportunities in various forms. According to the self-assessment, more than 40 percent of the dairy farmers also engage in voluntary work for the industry in professional associations or other organisations, and invest around six hours per month on average in these activities. DMK considers that the active commitment of dairy farmers in the regions and for the industry over and above their day-to-day business deserves great respect.

### **Milkmaster Farms attract many visitors**

DMK officially opened two Milkmaster Farms in 2015 to promote internal and external dialogue. These farms are open to selected target groups. The farms showcase the work that DMK dairy farmers do every day and how the Milkmaster Programme works in practical application.

**≈300**

*people held discussions on  
our two Milkmaster Farms in 2016.*

Almost 300 guests took advantage of the two Milkmaster Farms' services in the reporting period. These included DMK customers and executives. The Milkmaster Expert Panel and the Young Farmers' Working Group (AKJME) held meetings on a Milkmaster Farm.

**The two Milkmaster Farms have professionally equipped conference rooms and offer the opportunity of Milkmaster Farm guided tours or other individual farm tours. The Milkmaster Farms' target groups are customers, veterinary surgeons and feed advisers, NGOs and media, politicians and DMK employees.**

## **Communicating the importance of agriculture**

The origins and manufacturing process of food are a growing centre of attention. Retailers and consumers are increasingly asking about the origin of the raw milk and want to know about the conditions under which the milk is produced.

- ▶ The regional dairy industry associations are among the players creating transparency and working hard to improve the dairy industry's public image. The dairy farmers help to finance these associations by a cost allocation. Examples are two projects run by the Landesvereinigung der Milchwirtschaft Niedersachsen, the Lower Saxony association, of which DMK is a member.
- ▶ The "My KuhTube" project aims to give consumers and interested persons insights into everyday life on a farm and make agriculture transparent. The videos of farmers from the region can be viewed on YouTube and Facebook or on the Internet at [www.mykuhtube.de/my-kuhtube/](http://www.mykuhtube.de/my-kuhtube/). DMK farmers are among those showing their farms and day-to-day working lives on My KuhTube.
- ▶ In another project, the Lower Saxony dairy industry presents the "Milchland" award of the "Golden Olga" every year for entrepreneurial performance and sustainable farming. Two DMK farmers once more won a silver and a bronze Olga in 2016.



## **Support for students**

DMK carried out its own international scholarship programme in the years 2014 and 2015. A continuation of the programme is currently under review. At present, one student from Mauritius has held a scholarship since September 2015 in cooperation with the Jacobs University Bremen. He completed an internship with DMK in the summer of 2016.

DMK regularly gives bachelor's, master's and PhD students the opportunity to gain practical experience and work on relevant topics from DMK's world. In 2016, the company supported several research projects, for example on eco-balances and various topics relating to cheese.

## **Employees' voluntary commitments supported**

DMK encourages employees' voluntary commitments with the "Freiwillig und unbezahlbar" (Voluntary and beyond price) programme and gives 500 euros per project to support selected projects. Eight employees received funding for their voluntary activities in the reporting period. A local sports club received the donation for the integration opportunities it provides for young migrants. Another sports association used its award to facilitate free programmes for socially underprivileged children and young people. One employee who does voluntary work in the fire service used the funds to set up a junior fire service.

# Extract from the Group Management Report of Deutsches Milchkontor eG 2016

## All-time low for prices of dairy products

After a continuous rise ten years in a row, the milk supplied by German dairy farmers dropped by a minimal amount of around 31.4 million tonnes in 2016.<sup>1</sup> Production of drinking milk stabilised from January to November after the previous year's decline and was up by 0.2%. Dried milk and yoghurt products continued their upward trajectory in this period with pluses of 4.8% and 3.2% respectively. While cheese production fell by 2.8%, butter showed a slight increase of 0.9%.<sup>2</sup> The concentration process among dairy farmers continued unabated and the dairy herds are now reduced to 4.22 million head of cattle.

The reporting period was characterised by considerable price fluctuations overall: prices paid to dairy farmers fell to the lowest level since 2009. According to figures from the central dairy market reporting organisation ZMB, the price of conventional cow's milk with 4% fat and 3.4% protein was around 26.5 eurocents/kilo, almost 10.0% short of the previous year's level. The price of sliceable cheeses recovered after an all-time low in the spring, and the average for the year was marginally higher than the year before at around 2.6 euros/kilo. Butter prices rose significantly to an average of just under 3.40 euros/kilo, while the price of skimmed milk powder stayed just under the previous year's level after intervention-related fluctuations.<sup>1</sup> Export quotas saw little change overall in the first three quarters, and cheese exports increased by 4.1% and exports of bulk milk by 12.6%.

## Increased competitiveness

The Group's focus remained unchanged in 2016: to optimise the processing of raw milk and realise improvement potentials in order to increase the milk prices paid. In a difficult market environment, results of operations and milk prices did not reach the desired level, despite an improvement by the autumn. To counter the negative market trend and put the company in a competitive position, the Group set up a comprehensive restructuring programme in the reporting period.

The Group also continued to drive forward its internationalisation strategy in 2016 and acquired a 60% stake in the RichArt GROUP, a Russian cheese specialist, as at 1 September 2016. To strengthen its competitiveness in the domestic and international markets, the Group also implemented its merger with the Netherlands' second-largest cheese manufacturer, the DOC GROUP, as at 1 April 2016. DOC Kaas B.V. was integrated into DMK Deutsches Milchkontor GmbH as a subsidiary, and in return DOC Kaas B.A. received shares in DMK Deutsches Milchkontor GmbH. The two DOC production locations in Hoogeveen, the Netherlands, made a positive contribution to the consolidated net income. DMK founded DOC Dairy Partners B.V. for targeted marketing of Dutch cheese. The company will also distribute DMK Deutsches Milchkontor GmbH products in the Benelux countries and America in future.

To improve the cost-efficiency of the production departments, Total Productive Management (TPM), which was launched in 2014 as a pilot project, was extended to the Altentreptow, Erfurt, Holdorf and Neubörger sites in the year under review. There are plans to introduce TPM at Georgsmarienhütte in 2017. The production of non-GMO milk which was started in 2016 at the Everswinkel, Rimbeck and Erfurt sites is to be expanded in 2017.

In the light of the global dairy market crisis and the resulting collapse in performance, DMK decided in 2016 to cut around 250 full-time equivalent jobs at the administrative sites of Bremen, Everswinkel and Zeven. This action also entails the partial closure of the administrative centre at the Everswinkel site. Corresponding obligations for these measures, which are aimed at improving the company's efficiency and performance capability, are recognised in the annual financial statements and have depressed the results of operations. The growth plans in the baby food and ice cream segments did not come to fruition in 2016 because of extraordinary developments outside Germany and start-up difficulties associated with the restructuring of the ice cream production sites. These have also had a negative effect on the income statement.

<sup>1</sup> ZMB Zentrale Milchmarkt Berichterstattung (2017): Retrospective on the year 2016: 2016 dairy market fluctuated sharply.

<sup>2</sup> Federal Office for Agriculture and Food (BLE) (2017): Manufacturing of selected dairy products by month, [www.ble.de](http://www.ble.de).

The branded products business continued to develop well in 2016. The launch of the new MILRAM KresseQuark (cress curd), MILRAM Tomate-BasilikumKäse and MILRAM Drei-PfefferKäse among others meant that the company was well set for further sound growth in this business. In total, the branded products business posted an improved value contribution. Sales rose by a good 10% by volume in Germany compared to the previous year. Sales by volume of branded cheeses actually increased by around 23.4%. The export brand Oldenburger is an important component of DMK's internationalisation, and the company is continuing to drive forward extensions to the Oldenburger portfolio with high-value-added articles.

#### ***Investments in new production facilities***

The Group's main investments in the reporting period went to expand production capacity. One key area was the construction of new production facilities for baby food in Strückhausen and for high-protein, yoghurt and dessert products in Erfurt. The Group also invested in two energy generating plants at the Zeven and Edewecht sites. For 2017, DMK is planning to invest approximately 137.3 million euros in strategic acquisitions, processing capacities, the optimisation of the energy supply to the factories and improvements in the sites' environmental compatibility. The focus of the investments will be on expanding and building baby food production.

#### ***Economically stable development***

Compared to the previous year, Group turnover rose in 2016 by 9.9% to 5,064.5 million euros, exceeding the forecast target of over 5 billion euros. The consolidated net profit for the year rose compared to the previous year by 0.5 million euros to 13.5 million euros. With an absolute increase in foreign sales of 136.0 million euros compared to the previous year, the share of foreign turnover in the reporting period was around 38.8% (2015: 39.7%). The main reasons for the slight decline in the share of export sales were falling prices and shrinking demand from China and Russia.

The main goal of DMK's financial management is to ensure liquidity while minimising financial expenses. In the 2016 fiscal year, solvency was assured at all times and the liquidity position was stable. The Group's net liquidity improved in 2016 compared to the figure on the previous year's balance sheet date because liabilities due

to borrowings were repaid and therefore reduced, and cash and cash equivalents were higher on the balance sheet date. Because of the positive cash flow from operating activities, sufficient unutilised lines of credit and the steering and planning systems in place, DMK does not expect any liquidity bottlenecks in 2017.

The consolidated equity ratio was 34.3% on the balance sheet date in 2016 (31 December 2015: 36.8%). Overall, there was a rise in equity of 11.1 million euros and a rise in the balance sheet total of 145.9 million euros, mainly due to the initial consolidation of DOC Kaas B.V. and the year-on-year fall in the equity ratio.

#### ***Taking responsibility***

The development of the business and the company in 2016 was not satisfactory. The Group did not fully reach the goals set for its milk payments. Persistently low prices on the dairy market in the reporting period put both the milk suppliers and the Group under pressure. DMK is aware of its responsibility towards the shareholders of Deutsches Milchkontor eG and DOC Kaas B.A. and is striving for an improvement in its operating income in order to keep milk prices competitive on a permanent basis. Aiming for this goal, the Group initiated several action packages in 2016 with which the company can operate more efficiently and effectively and leverage the potentials for value creation.

The Group has solid finances at its back for the future and will keep to its adopted strategy in order to increase the value added generated from the raw milk. With the investments it has made and a continuing focus on internationalisation, DMK is well positioned to market its milk volumes going forward. The Group has taken an important step into the future by actively implementing its organisational realignment, and is expecting the results of its operations to grow overall in the year 2017. DMK's income will be increasingly influenced by markets outside its home territory. The company will also actively implement its self-imposed cost reduction programme so as to support its own milk suppliers with competitive milk prices. DMK is aiming once more for an increase in the consolidated net income for the year in 2017.

The full annual and consolidated financial statements and the Group Management Report all received unqualified audit opinions from the Genossenschaftsverband Weser-Ems e.V. They will be published in the German Federal Gazette.

The printed financial statements are in abridged form.

## ***Deutsches Milchkontor eG Group and Deutsches Milchkontor eG 2016 Financial information***

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## **Deutsches Milchkontor eG Group profit and loss account**

*for the period from 1 January 2016 to 31 December 2016*

	2016 in EUR million	2015 in EUR million
1. Sales revenues	5,064.5	4,607.7
2. Increase or decrease in finished goods inventories and work in progress	−21.2	−9.1
3. Capitalised cost of self-constructed assets	1.5	1.9
4. Other operating income	69.8	73.0
Subtotal	5,114.6	4,673.5
5. Cost of materials		
a) Cost of raw materials, consumables and supplies, and of purchased materials	3,938.8	3,579.6
b) Cost of purchased services	27.6	16.9
	3,966.4	3,596.5
<b>GROSS PROFIT OR LOSS</b>	<b>1,148.2</b>	<b>1,077.0</b>
6. Personnel expenses		
a) Wages and salaries	376.2	340.7
b) Social security and other pension costs	72.4	68.9
	448.6	409.6
7. Depreciation of intangible assets and tangible assets	141.5	128.5
8. Other operating expenses	502.8	483.1
Subtotal (1.– 8.)	55.3	55.8
9. Income from associated companies	1.0	0.0
10. Income from participating interests and capital contributions	0.5	0.8
11. Income from transfer of profits	1.0	1.4
12. Income from other investments and long-term loans	0.1	0.1
13. Other interest and similar income	0.6	0.4
Subtotal (9.– 13.)	3.2	2.7
14. Expenses from associated companies	0.0	0.6
15. Write-downs of financial assets and investments held as current assets	5.0	0.0
16. Interest and similar expenses	20.0	26.1
17. Payment for participatory capital	1.5	1.7
18. Taxes on income	16.7	15.3
<b>19. RESULT AFTER TAX</b>	<b>15.3</b>	<b>14.8</b>
20. Other taxes	1.8	1.8
<b>21. CONSOLIDATED NET PROFIT FOR THE YEAR</b>	<b>13.5</b>	<b>13.0</b>

**Deutsches Milchkontor eG Group balance sheet**

as at 31 December 2016

<b>Assets</b>	<b>31.12.2016 in EUR million</b>	<b>31.12.2015 in EUR million</b>
<b>A. FIXED ASSETS</b>		
I. Intangible assets		
1. Concessions, industrial property rights and similar rights and values, as well as licences thereto	15.6	13.8
2. Goodwill	3.0	19.6
3. Payments on account	5.5	5.4
Total intangible assets	24.1	38.8
II. Tangible assets		
1. Land and leasehold rights and buildings, including buildings on third-party land	290.6	271.9
2. Plant and machinery	401.2	414.3
3. Other fixtures and fittings, tools and equipment	33.6	37.5
4. Payments on account and tangible assets under construction	73.9	37.5
Total tangible assets	799.3	761.2
III. Financial assets		
1. Shares in associated companies	31.6	13.5
2. Loans to associated companies	1.0	0.9
3. Participating interests in associated companies	11.5	10.5
4. Participating interests	12.6	6.6
5. Loans to companies in which a participating interest is held	2.0	0.6
6. Capital contributions to cooperative societies	0.7	0.7
7. Investments held as fixed assets	0.0	0.0
8. Other loans	1.2	1.9
Total financial assets	60.6	34.7
Total fixed assets	884.0	834.7
<b>B. CURRENT ASSETS</b>		
I. Inventories		
1. Raw materials and supplies	57.3	70.2
2. Work in progress	21.1	19.5
3. Finished goods and goods for resale	236.9	234.3
4. Payments on account	0.7	0.3
Total inventories	316.0	324.3
II. Accounts receivable and other assets		
1. Accounts receivable (trade debtors)	301.0	258.9
2. Due from associated companies	25.3	8.6
3. Due from companies in which a participating interest is held	9.2	5.5
4. Other assets	129.5	103.3
Total accounts receivable etc.	465.0	376.3
III. Investments		
1. Other investments	0.3	0.3
IV. Cash in hand, cash on deposit with Deutsche Bundesbank, cash in other bank accounts and cheques	39.1	21.5
<b>C. PREPAYMENTS AND ACCRUED INCOME</b>	2.0	2.9
<b>D. DEFERRED TAX ASSETS</b>	0.7	1.1
<b>E. DIFFERENCE DUE TO CAPITAL ACCOUNT</b>	0.0	0.1
<b>Total assets</b>	<b>1,707.1</b>	<b>1,561.2</b>

<i>Equity capital and liabilities</i>	<i>31.12.2016 in EUR million</i>	<i>31.12.2015 in EUR million</i>
<b>A. EQUITY CAPITAL</b>		
I. Capital contributions		
1. of remaining members	176.9	174.8
2. of withdrawing members	5.9	6.5
3. from cancelled shares	0.0	0.0
Total capital contributions	182.8	181.3
II. Capital reserve	46.4	72.1
III. Revenue reserves		
1. Statutory reserve	114.5	114.5
2. Other revenue reserves	136.9	181.3
Total revenue reserves	251.4	295.8
IV. Difference in equity due to foreign currency translation	0.0	0.0
V. Participatory capital	38.3	38.3
VI. Consolidated net profit/consolidated net loss		
1. Total consolidated loss carried forward	-2.5	-31.7
2. Consolidated net profit for the year	13.5	13.0
3. Allocations to reserves	0.0	-8.5
4. Withdrawal from reserves	2.6	0.0
5. Non-controlling interests	-5.7	-3.5
Total consolidated net profit/loss	7.9	-30.7
VII. Non-controlling interests	58.5	17.3
Total equity capital	585.3	574.1
<b>B. DIFFERENCE DUE TO CONSOLIDATION OF CAPITAL</b>	1.7	0.8
<b>C. SPECIAL ITEM FOR INVESTMENT SUBSIDIES</b>	11.9	12.1
<b>D. ACCRUED LIABILITIES</b>		
1. Provisions for pensions and similar obligations	114.1	114.6
2. Provisions for taxation	24.1	21.7
3. Other provisions	198.1	123.6
Total accrued liabilities	336.3	259.9
<b>E. LIABILITIES</b>		
1. Due to banks	330.9	386.6
2. Advance payments received	2.2	2.7
3. Accounts payable (trade creditors)	277.3	200.0
4. Due to associated companies	11.0	10.0
5. Due to companies in which a participating interest is held	3.5	0.7
6. Other liabilities	138.2	102.8
Total liabilities	763.1	702.8
<b>F. DEFERRED INCOME</b>	0.2	0.6
<b>G. DEFERRED TAX LIABILITIES</b>	8.6	10.9
<b>Total equity capital and liabilities</b>	<b>1,707.1</b>	<b>1,561.2</b>

## **Deutsches Milchkontor eG Group cash flow statement**

*for the period from 1 January 2016 to 31 December 2016*

	2016 in EUR million
1. Consolidated net profit for the year	13.5
2. +/- Depreciation/write-ups of fixed assets	141.1
3. +/- Increase/decrease in provisions	42.4
4. +/- Other non-cash expenses/income	5.4
5. -/+ Increase/decrease in inventories, accounts receivable and other assets which cannot be allocated to investing or financing activities	-3.8
6. +/- Increase/decrease in accounts payable and other liabilities which cannot be allocated to investing or financing activities	51.1
7. -/+ Gain/loss from disposal of fixed assets	-23.2
8. +/- Interest expenses/interest income	20.8
9. - Other income from participating interests	-1.5
10. +/- Expenditure/income of exceptional size or incidence	17.8
11. +/- Expenses/income from income tax	16.7
12. + Cash receipts relating to income of exceptional size or incidence	3.1
13. - Cash payments relating to expenditure of exceptional size or incidence	0.0
14. - Income tax payments	-13.2
15. = Cash flow from operating activities	270.2
16. + Payments from disposal of intangible assets	0.1
17. - Investments in intangible assets	-5.5
18. + Payments from disposal of tangible assets	7.9
19. - Investments in tangible assets	-129.1
20. + Payments from disposal of financial assets	0.9
21. - Investments in financial assets	-19.6
22. + Inpayments to the scope of consolidation	26.5
23. - Outpayments to the scope of consolidation	-37.3
24. + Interest received	0.7
25. + Dividends received/income from transfer of profits	1.5
26. = Cash flow from investing activities	-153.9
27. + Inpayments for capital contributions and participatory capital	8.1
28. - Outpayments for capital contributions and participatory capital	-6.5
29. + Inpayments from financial loans	15.0
30. - Outpayments for repayment of financial loans	-111.8
31. + Inpayments from allowances/contributions received	2.2
32. - Interest paid	-14.0
33. - Payment for participatory capital	-8.3
34. - Dividends paid to other shareholders	-4.4
35. = Cash flow from financing activities	-119.7
36. Net increase (decrease) in cash and cash equivalents	-3.4
37. +/- Changes in cash and cash equivalents due to exchange rates	0.0
38. +/- Changes in cash and cash equivalents due to the scope of consolidation	0.9
39. + Cash and cash equivalents at beginning of period	-124.4
40. = Cash and cash equivalents at end of period	-126.9

## **Deutsches Milchkontor eG profit and loss account**

*for the period from 1 January 2016 to 31 December 2016*

	2016 in EUR thousand	2015 in EUR thousand
1. Sales revenues	1,502,283.1	1,701,264.5
2. Other operating income	1,121.9	2,181.8
Subtotal	1,503,405.0	1,703,446.3
3. Cost of materials		
a) Cost of raw materials, consumables and supplies, and of purchased materials	1,487,852.0	1,682,426.9
	1,487,852.0	1,682,426.9
GROSS PROFIT OR LOSS	15,553.0	21,019.4
4. Personnel expenses		
a) Wages and salaries	352.7	373.3
b) Social security and other pension costs	0.0	0.0
	352.7	373.3
5. Depreciation of intangible assets and tangible assets	16.7	15.7
6. Other operating expenses	11,436.7	10,666.5
Subtotal (1.– 6.)	3,746.9	9,963.9
7. Income from participating interests and capital contributions	0.6	0.7
8. Income from other investments and long-term loans	42.7	591.2
9. Other interest and similar income	511.9	567.2
Subtotal (7.– 9.)	555.2	1,159.1
10. Interest and similar expenses	74.0	6.3
11. Payment for participatory capital	0.0	320.9
12. Taxes on income	41.2	–70.2
<b>13. RESULT AFTER TAX</b>	<b>4,269.3</b>	<b>10,866.0</b>
14. Other taxes	27.9	24.1
<b>15. NET PROFIT FOR THE YEAR</b>	<b>4,241.4</b>	<b>10,841.9</b>

## ***Deutsches Milchkontor eG balance sheet***

*as at 31 December 2016*

<b>Assets</b>	<b>31.12.2016 in EUR thousand</b>	<b>31.12.2015 in EUR thousand</b>
<b>A. FIXED ASSETS</b>		
I. Tangible assets		
1. Land and leasehold rights and buildings, including buildings on third-party land	258.5	273.9
2. Other fixtures and fittings, tools and equipment	4.8	1.0
Total tangible assets	263.3	274.9
II. Financial assets		
1. Shares in associated companies	335,457.1	335,457.1
2. Participating interests	13.3	13.3
3. Capital contributions to cooperative societies	13.4	13.4
4. Investments held as fixed assets	0.0	0.6
5. Other loans	1,176.9	1,972.5
Total financial assets	336,660.7	337,456.9
Total fixed assets	336,924.0	337,731.8
<b>B. CURRENT ASSETS</b>		
I. Accounts receivable and other assets		
1. Accounts receivable (trade debtors)	276.4	224.3
2. Due from associated companies	231,871.8	165,577.5
3. Other assets	6,752.0	7,508.4
Total accounts receivable etc.	238,900.2	173,310.2
II. Cash in hand, cash on deposit with Deutsche Bundesbank, cash in other bank accounts and cheques	53.8	10.2
<b>Total assets</b>	<b>575,878.0</b>	<b>511,052.2</b>

<i>Equity capital and liabilities</i>	<i>31.12.2016 in EUR thousand</i>	<i>31.12.2015 in EUR thousand</i>
<b>A. EQUITY CAPITAL</b>		
I. Capital contributions		
1. of remaining members	176,900.8	174,771.4
2. of withdrawing members	5,927.5	6,519.9
3. from cancelled shares	2.0	13.6
Total capital contributions	<b>182,830.3</b>	<b>181,304.9</b>
II. Capital reserve	<b>35,412.8</b>	<b>35,412.8</b>
III. Revenue reserves		
1. Statutory reserve	114,477.2	114,477.2
2. Other revenue reserves	79,635.1	82,235.1
Total revenue reserves	<b>194,112.3</b>	<b>196,712.3</b>
IV. Net profit		
1. Profit brought forward	1,041.7	4,562.4
2. Net profit for the year	4,241.4	10,841.9
3. Allocations to reserves	0.0	-7,500.0
4. Withdrawal from reserves	2,600.0	0.0
Total net profit	<b>7,883.1</b>	<b>7,904.3</b>
Total equity capital	<b>420,238.5</b>	<b>421,334.3</b>
<b>B. ACCRUED LIABILITIES</b>		
1. Provisions for taxation	4,992.7	5,983.4
2. Other provisions	8,913.3	1,210.7
Total accrued liabilities	<b>13,906.0</b>	<b>7,194.1</b>
<b>C. LIABILITIES</b>		
1. Accounts payable (trade creditors)	83,368.1	79,851.2
2. Due to associated companies	0.0	0.4
3. Other liabilities	58,365.4	2,672.2
Total liabilities	<b>141,733.5</b>	<b>82,523.8</b>
<b>Total equity capital and liabilities</b>	<b>575,878.0</b>	<b>511,052.2</b>

## ***DMK Deutsches Milchkontor GmbH 2016 Financial information***

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## **DMK Deutsches Milchkontor GmbH profit and loss account**

*for the period from 1 January 2016 to 31 December 2016*

	2016 in EUR million	2015 in EUR million
1. Sales revenues	3,793.1	3,247.2
2. Increase or decrease in finished goods inventories and work in progress	2.0	–25.0
3. Capitalised cost of self-constructed assets	1.0	1.7
4. Other operating income	20.9	73.5
Subtotal	3,817.0	3,297.4
5. Cost of materials		
a) Cost of raw materials, consumables and supplies, and of purchased materials	3,111.5	2,611.8
b) Cost of purchased services	61.4	62.6
	3,172.9	2,674.4
<b>GROSS PROFIT OR LOSS</b>	<b>644.1</b>	<b>623.0</b>
6. Personnel expenses		
a) Wages and salaries	220.9	197.1
b) Social security and other pension costs	39.9	39.2
	260.8	236.3
7. Depreciation of intangible assets and tangible assets	78.6	68.8
8. Other operating expenses	301.0	280.0
Subtotal (1.– 8.)	3.7	37.9
9. Income from participating interests and capital contributions	18.7	1.9
10. Income from transfer of profits	0.0	4.2
11. Income from other investments and long-term loans	1.6	0.5
12. Other interest and similar income	4.3	4.3
Subtotal (9.– 12.)	24.6	10.9
13. Write-down of financial assets and short-term investments	17.6	0.0
14. Interest and similar expenses	15.3	23.2
15. Payment for participatory capital	1.5	1.9
16. Taxes on income	2.4	8.3
17. RESULT AFTER TAX	–8.5	15.4
18. Other taxes	0.6	0.6
<b>19. NET LOSS FOR THE YEAR/NET PROFIT FOR THE YEAR</b>	<b>–9.1</b>	<b>14.8</b>

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DMK Deutsches Milchkontor GmbH balance sheet

**DMK Deutsches Milchkontor GmbH balance sheet**  
as at 31 December 2016

<b>Assets</b>	<b>31.12.2016 in EUR million</b>	<b>31.12.2015 in EUR million</b>
<b>A. FIXED ASSETS</b>		
I. Intangible assets		
1. Concessions, industrial property rights and similar rights and values, as well as licences thereto	11.6	9.9
2. Payments on account	5.1	5.4
Total intangible assets	16.7	15.3
II. Tangible assets		
1. Land and leasehold rights and buildings, including buildings on third-party land	161.3	175.6
2. Plant and machinery	236.1	263.2
3. Other fixtures and fittings, tools and equipment	18.7	21.4
4. Payments on account and tangible assets under construction	17.9	18.2
Total tangible assets	434.0	478.4
III. Financial assets		
1. Shares in associated companies	264.3	215.0
2. Loans to associated companies	81.4	22.3
3. Participating interests	2.4	3.4
4. Loans to companies in which a participating interest is held	0.0	0.6
5. Capital contributions to cooperative societies	0.6	0.6
6. Other loans	1.1	0.0
Total financial assets	349.8	241.9
Total fixed assets	800.5	735.6
<b>B. CURRENT ASSETS</b>		
I. Inventories		
1. Raw materials and supplies	31.4	32.5
2. Work in progress	16.7	13.4
3. Finished goods and goods for resale	100.9	111.4
Total inventories	149.0	157.3
II. Accounts receivable and other assets		
1. Accounts receivable (trade debtors)	131.7	138.7
2. Due from associated companies	236.4	151.0
3. Due from companies in which a participating interest is held	0.0	0.9
4. Other assets	83.5	72.6
Total accounts receivable etc.	451.6	363.2
III. Cash in hand, cash on deposit with Deutsche Bundesbank, cash in other bank accounts and cheques	3.3	4.0
<b>C. PREPAYMENTS AND ACCRUED INCOME</b>	<b>1.5</b>	<b>2.5</b>
<b>Total assets</b>	<b>1,405.9</b>	<b>1,262.6</b>

<i>Equity capital and liabilities</i>	<i>31.12.2016 in EUR million</i>	<i>31.12.2015 in EUR million</i>
<b>A. EQUITY CAPITAL</b>		
I. Subscribed capital	166.7	150.0
II. Capital reserve	193.6	193.6
III. Revenue reserves	92.6	77.8
IV. Participatory capital	38.3	38.3
V. Net loss for the year/net profit for the year	-9.1	14.8
Total equity capital	482.1	474.5
<b>B. SPECIAL ITEM FOR INVESTMENT SUBSIDIES</b>	0.5	0.3
<b>C. ACCRUED LIABILITIES</b>		
1. Provisions for pensions and similar obligations	103.8	106.8
2. Provisions for taxation	4.3	4.1
3. Other provisions	117.4	67.4
Total accrued liabilities	225.5	178.3
<b>D. LIABILITIES</b>		
1. Due to banks	255.8	279.9
2. Advance payments received	0.2	0.2
3. Accounts payable (trade creditors)	66.2	45.9
4. Due to associated companies	317.2	206.5
5. Due to companies in which a participating interest is held	0.0	0.0
6. Other liabilities	58.4	77.0
Total liabilities	697.8	609.5
<b>Total equity capital and liabilities</b>	<b>1,405.9</b>	<b>1,262.6</b>

## 72 Financial information and key figures

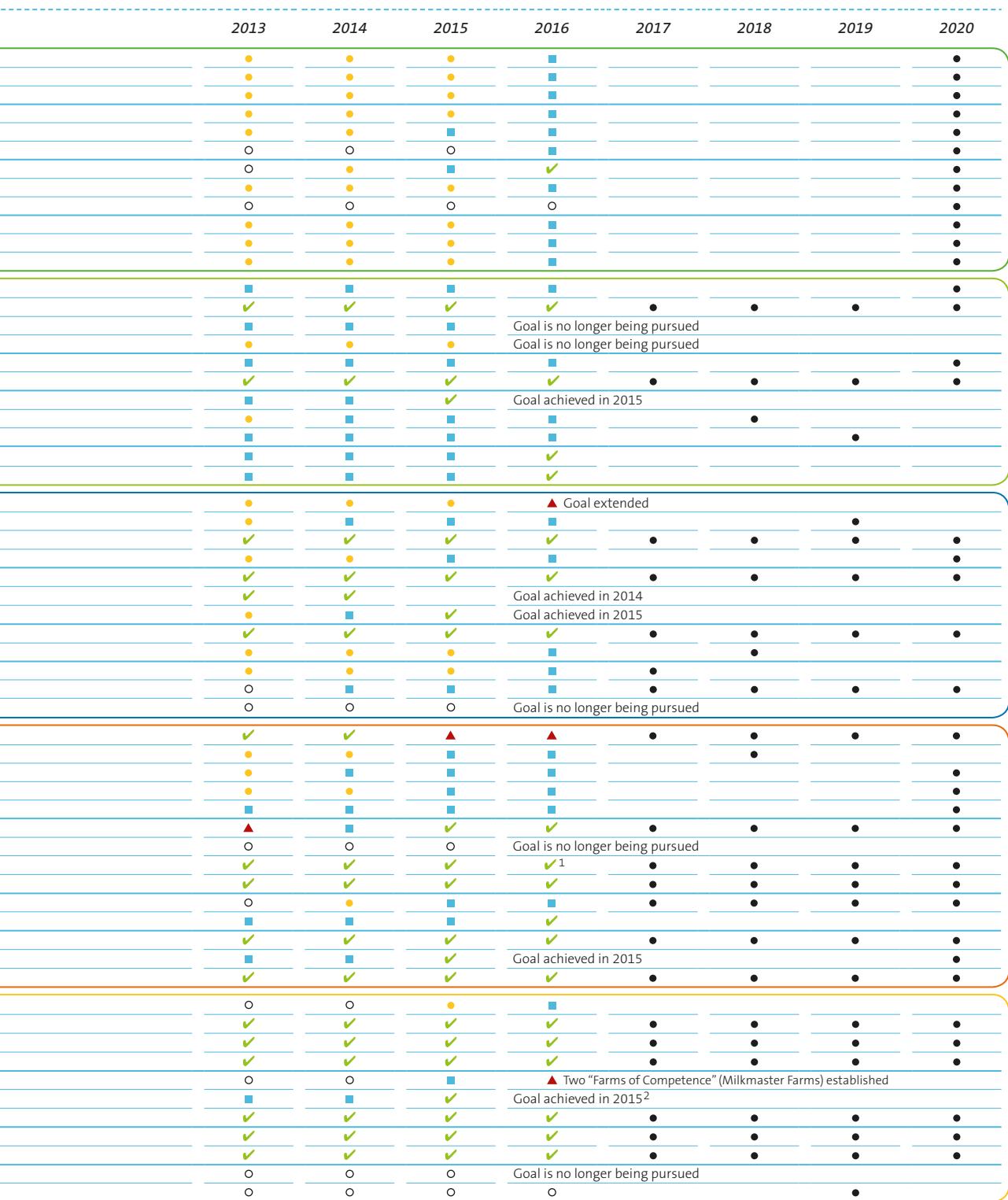
Goal status of DMK 2020 Sustainability Strategy

<b>Area</b>	<b>Field of action</b>	<b>Goals 2020: To achieve this goal at DMK, we want to ...</b>
<b>AGRICULTURE</b> 	Cow comfort	<ul style="list-style-type: none"> <li>maintain and promote sufficient exercise for our cows</li> <li>maintain and promote proper rest areas</li> <li>continuously promote our cattle's well-being</li> <li>continuously improve animal health</li> <li>promote veterinary care for all cattle</li> <li>further develop preventive health care with modern measuring methods and professional herd management</li> <li>support sustainable cultivation even for imported feeds</li> <li>reduce nitrogen and phosphate deposition from farmyard manure</li> <li>promote biodiversity in our regions</li> </ul>
	Animal health	<ul style="list-style-type: none"> <li>implement animal-friendly feeding that matches the cows' needs</li> <li>support professional feed management</li> <li>establish optimum feeding and drinking conditions for all cattle</li> </ul>
	Feed cultivation	<ul style="list-style-type: none"> <li>improve energy efficiency by 15 percent compared to 2011</li> <li>constantly encourage all DMK employees to reduce energy consumption</li> <li>increase our internally produced energy supply to at least 50 percent compared to 2011</li> <li>initiate projects for climate-neutral energy generation</li> </ul>
	Feeding	<ul style="list-style-type: none"> <li>improve our specific water efficiency by 20 percent compared to 2012</li> <li>continuously raise DMK employees' awareness of using water responsibly</li> <li>optimise our transportation network and make it more efficient</li> <li>in deliveries to our customers, we will reduce the share of logistics errors to less than 0.5 percent</li> <li>use economical technologies in transport vehicles</li> </ul>
<b>ENVIRONMENT</b> 	Energy	<ul style="list-style-type: none"> <li>reduce the volume of residual waste at DMK by increasing the sorting quotas</li> <li>put in place a comprehensive waste flow optimisation concept at all DMK sites</li> </ul>
	Water	<ul style="list-style-type: none"> <li>include DMK suppliers in taking responsibility for compliance with social and environmental standards</li> <li>purchase important basic raw materials from sustainable agriculture</li> <li>introduce innovative product concepts with a high value contribution</li> <li>have at least 20 percent of innovation projects related to sustainability</li> <li>continue external auditing of all dairy farmers by QM-Milk</li> </ul>
	Logistics	<ul style="list-style-type: none"> <li>agree on standardised quality assurance at all locations with all subsidiaries</li> <li>standardise quality management and quality assurance at all our sites</li> <li>have an external annual inspection of quality and product safety processes</li> <li>constantly increase product safety across the value chain</li> <li>develop innovative environmentally friendly and modern packaging concepts</li> <li>reduce pollution and increase environmental compatibility in packagings</li> <li>give end consumers targeted information about sustainable packagings and their recycling</li> </ul>
	Waste	<ul style="list-style-type: none"> <li>achieve competitive milk prices on a long-term basis</li> <li>make DMK a top employer in the food industry</li> <li>further expand the values-based, sustainable corporate culture</li> <li>have no accidents at DMK sites</li> <li>embed a behaviour-based safety culture at all our sites</li> <li>further develop key topics in milk production</li> <li>offer annual sustainability workshops for all dairy farmers</li> <li>enable all employees to pursue regular and targeted development</li> <li>raise awareness of key DMK topics continuously and at all sites</li> <li>promote the dairy industry as an attractive professional field for all ages and cultural groups</li> <li>offer career starters sound training that ensures good prospects</li> <li>promote the dairy farmers' role as elected officers in the cooperative's executive bodies</li> <li>increase the ratio of young dairy farmers among our cooperative's elected officers</li> <li>support voluntary organisations in which our employees are engaged</li> </ul>
<b>TEAM</b> 	Satisfaction	<ul style="list-style-type: none"> <li>give consumers transparent information about the path milk takes</li> <li>hold an annual meeting with relevant stakeholders</li> <li>make a real difference to important issues in the agricultural and food industry</li> <li>open farm gates in all DMK regions every year</li> <li>set up 16 farms of competence in the DMK regions</li> </ul>
	Training	<ul style="list-style-type: none"> <li>establish a DMK scholarship programme for international young talents in the milk and dairy industry</li> <li>be an active shaper of sustainability in the milk value chain</li> </ul>
	Diversity	<ul style="list-style-type: none"> <li>support research across the milk value chain</li> <li>promote young scientists with research projects for the milk industry</li> </ul>
	Elected office	<ul style="list-style-type: none"> <li>establish a school farm programme in regions close to cities</li> <li>support projects to promote regional attractiveness</li> </ul>
<b>SOCIETY</b> 	Dialogue	<ul style="list-style-type: none"> <li>support voluntary organisations in which our employees are engaged</li> </ul>
	Dairy competence	<ul style="list-style-type: none"> <li>give consumers transparent information about the path milk takes</li> <li>hold an annual meeting with relevant stakeholders</li> <li>make a real difference to important issues in the agricultural and food industry</li> <li>open farm gates in all DMK regions every year</li> <li>set up 16 farms of competence in the DMK regions</li> <li>establish a DMK scholarship programme for international young talents in the milk and dairy industry</li> <li>be an active shaper of sustainability in the milk value chain</li> </ul>
	Research	<ul style="list-style-type: none"> <li>support research across the milk value chain</li> <li>promote young scientists with research projects for the milk industry</li> </ul>
	Commitment	<ul style="list-style-type: none"> <li>establish a school farm programme in regions close to cities</li> <li>support projects to promote regional attractiveness</li> </ul>

All these goals are part of the DMK 2020 Sustainability Strategy and were defined and developed in 2012.

All goals are reviewed annually.

## ***Goal status of DMK 2020 Sustainability Strategy***



**Status of goals:** O = not yet started, ● = planning has started, ■ = implementation has started, ✓ = goal achieved, ▲ = goal not achieved. ● = planned goal achievement

<sup>1</sup> This goal could not be implemented for every employee as planned because of the company's difficult situation.

<sup>2</sup> Establishment of scholarship programme currently under review.

# GRI Content Index

**DMK GROUP** reports in accordance with GRI-G4

This report was prepared in accordance with the Core option of the G4 Guidelines of the Global Reporting Initiative (GRI). The material topics were identified in 2015 and reviewed in 2016 (see pp. 18–21). An external audit of the report and the individual indicators was not requested.

## *General standard disclosure*

GRI indicator	Page/Reference
<b>STRATEGY AND ANALYSIS</b>	
G4-1 Statement about the relevance of sustainability to the organisation	pp. 4–5
<b>ORGANISATIONAL PROFILE</b>	
G4-3 Name of the organisation	Title, cover <i>DMK in brief</i>
G4-4 Primary brands, products and services	Cover <i>DMK in brief</i> , pp. 24–25, p. 27
G4-5 Location of headquarters	Cover <i>DMK in brief</i> , <i>Sites</i>
G4-6 Countries where the organisation operates	Cover <i>DMK in brief</i> , p. 22, pp. 30–31
G4-7 Ownership and legal form	Cover <i>DMK in brief</i> , p. 76, Cover <i>Structure of the executive bodies, Group structure</i>
G4-8 Markets served	Cover <i>DMK in brief</i> , pp. 24–25, pp. 30–31
G4-9 Scale of the organisation	Cover <i>DMK in brief</i> , p. 53, Section <i>Financial information and key figures</i>
G4-10 Employees by employment contract <sup>1</sup>	p. 53
G4-11 Employees covered by collective bargaining agreements	p. 53
G4-12 The organisation's supply chain	p. 13
G4-13 Significant changes in the organisation during the reporting period	Cover <i>DMK GROUP – our new structure, About this report</i> , pp. 4–5, pp. 10–15, Section <i>Financial information and key figures</i>
G4-14 Whether/how the precautionary approach or principle is addressed	p. 21
G4-15 Support for external social charters, principles and initiatives	p. 9, p. 18, pp. 32–33, p. 37, p. 41, p. 49
G4-16 Memberships of associations and advocacy organisations <sup>1</sup>	p. 18, pp. 32–33, p. 49, <a href="http://www.dmk.de/memberships_and_cooperations_2016.pdf">www.dmk.de/memberships_and_cooperations_2016.pdf</a>
<b>IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES</b>	
G4-17 Organisational structure	Cover <i>DMK GROUP – our new structure</i> , p. 11, Section <i>Financial information and key figures</i> , Cover <i>Sites</i> , <i>Structure of executive bodies, Group structure</i>
G4-18 Process for defining the report content and the Aspect Boundaries	Cover <i>About this report</i> , pp. 18–21
G4-19 Material aspects	p. 21, p. 75
G4-20 Aspect Boundary of each material Aspect within the organisation	p. 21
G4-21 Aspect Boundary of each material Aspect outside the organisation	p. 21
G4-22 Reasons for and effect of any restatements of information in previous reports	Cover <i>About this report</i>
G4-23 Significant changes from previous reporting periods	Cover <i>About this report</i>
<b>STAKEHOLDER ENGAGEMENT</b>	
G4-24 Stakeholder groups engaged	pp. 18–21
G4-25 Basis for identification and selection of stakeholders	pp. 18–21
G4-26 Approach to stakeholder engagement	pp. 18–21
G4-27 Key topics and concerns of stakeholders	pp. 18–21, <a href="http://www.dmk.de/Stakeholder_overview">www.dmk.de/Stakeholder_overview</a>
<b>REPORT PROFILE</b>	
G4-28 Reporting period	Cover <i>About this report</i>
G4-29 Date of most recent previous report	Cover <i>About this report</i>
G4-30 Reporting cycle	Cover <i>About this report</i>
G4-31 Contact point for questions regarding the report	Cover <i>About this report</i>
G4-32 "In accordance" option chosen	Cover <i>About this report</i> , p. 74
G4-33 External assurance for the report	Cover <i>About this report</i> , p. 74
<b>GOVERNANCE</b>	
G4-34 Governance structure	Cover <i>DMK GROUP – our new structure</i> , p. 4, p. 76, Cover <i>Structure of executive bodies</i>
<b>ETHICS AND INTEGRITY</b>	
G4-56 Values, principles, standards and norms of behaviour	pp. 4–5, pp. 48–49

If available, more than one indicator per GRI Material Aspect is reported.

### Specific standard disclosures

<i>DMA (Disclosure on Management Approach) and indicators</i>		<i>Page/Reference</i>
<b>IMPORTANT TOPIC: ANIMAL WELFARE</b>		
<b>GRI Material Aspect: Animal welfare</b>		
G4-DMA		p. 21, pp. 38–39, pp. 40–41, pp. 72–73
FP11	Housing type	p. 40
	Total of animals raised per farm	p. 40
	Farms in Milkmaster Programme	p. 38
	Average somatic cell counts	p. 38
<b>IMPORTANT TOPIC: FEED CULTIVATION</b>		
<b>GRI Material Aspect: not available</b>		
G4-DMA		p. 21, pp. 40–41, pp. 72–73
	Feedstuffs used	p. 41
<b>IMPORTANT TOPIC: TRANSPARENCY IN THE SUPPLY CHAIN</b>		
<b>GRI Material Aspects: Assessment of suppliers with regard to Environmental Aspects/Labour Practices/Human Rights</b>		
G4-DMA		p. 21, pp. 32–33, pp. 72–73
	Share of suppliers who have subscribed to the DMK Supplier Code	p. 33, Data for indicator is not being gathered as yet
<b>IMPORTANT TOPIC: MILK PRICES</b>		
<b>GRI Material Aspect: Economic performance</b>		
G4-DMA		p. 21, pp. 10–11, pp. 72–73
G4-EC1	Direct economic value generated and distributed	Section <i>Financial information and key figures</i>
	Milk prices	p. 36
<b>IMPORTANT TOPIC: PRODUCT QUALITY AND SAFETY</b>		
<b>GRI Material Aspect: Customer health and safety</b>		
G4-DMA		p. 21, pp. 26–27, pp. 72–73
G4-PR1	Products for which health and safety impacts are assessed	p. 26
FPS	Sites certified independently for quality and food safety	p. 26
<b>IMPORTANT TOPIC: ECO-BALANCE (LIFE CYCLE ANALYSIS)</b>		
<b>GRI Material Aspect: Emissions</b>		
G4-DMA		p. 21, pp. 32–33
G4-EN15	Direct GHG emissions (Scope 1) <sup>2</sup>	p. 45
<b>GRI Material Aspect: Products and services</b>		
G4-DMA		p. 21, pp. 40–41, pp. 42–45
G4-EN27	Extent of impact mitigation of environmental impacts of products	pp. 32–33, pp. 40–41, pp. 42–45
<b>IMPORTANT TOPIC: ENERGY</b>		
<b>GRI Material Aspect: Energy</b>		
G4-DMA		p. 21, pp. 42–45, pp. 72–73
G4-EN3	Energy consumption within the organisation <sup>3</sup>	p. 44
G4-EN6	Reduction of energy consumption	pp. 44–45
<b>IMPORTANT TOPIC: WATER</b>		
<b>GRI Material Aspect: Water</b>		
G4-DMA		p. 21, pp. 42–43, p. 45, pp. 72–73
G4-EN8	Water withdrawal by source	p. 42
<b>GRI Material Aspect: Effluents and waste</b>		
G4-DMA		p. 21, pp. 42–43, p. 45, pp. 72–73
G4-EN22	Water discharge by quality and destination	p. 43
<b>IMPORTANT TOPIC: OCCUPATIONAL HEALTH AND SAFETY</b>		
<b>GRI Material Aspect: Occupational health and safety</b>		
G4-DMA		p. 21, pp. 48–49, pp. 72–73
G4-LA6	Injuries, occupational diseases, lost days, absenteeism and work-related fatalities <sup>4</sup>	p. 48
<b>IMPORTANT TOPIC: ATTRACTIVENESS AS EMPLOYER</b>		
<b>GRI Material Aspect: Employment</b>		
G4-DMA		p. 21, pp. 50–53, pp. 72–73
G4-LA1	New employee hires and employee turnover <sup>1</sup>	p. 53
	Tenure	p. 53
<b>GRI Material Aspect: Training and education</b>		
G4-DMA		p. 21, pp. 50–53, pp. 72–73
G4-LA9	Training and education <sup>1,5</sup>	p. 51

Notes and omissions:

<sup>1</sup> For more employee ratios see [@www.dmk.de/employee\\_ratios\\_2016.pdf](http://www.dmk.de/employee_ratios_2016.pdf)

<sup>2</sup> G4-EN15: CO<sub>2</sub> emissions only relating to in-house production.

<sup>3</sup> G4-EN3: Total consumption and quantity of purchased heating energy, cooling energy, steam and electricity not stated.

<sup>4</sup> G4-LA6: Rate of injury corresponds to number of accidents. Rates of occupational diseases, absenteeism and work-related fatalities not disclosed. Differentiation by gender and data about contractual partners not available.

<sup>5</sup> G4-LA9: Hours of training by employee category are not currently recorded in the training controlling system.

# Executive bodies

## *Deutsches Milchkontor eG* *Board of Management*

*Thomas Stürz*  
Chairman  
  
*Dr Klaus Wagner*  
Deputy Chairman  
  
*Detlef Horstmann*  
  
*Alfons Kerfeld*  
  
*Franz-Josef Krechtmann*

*Reiner Lübben*  
  
*Christian Mülker*  
(until June 2016)  
  
*Harald Nitschke*  
  
*Jörg Pape*  
  
*Dirk Schröder*

## *Management Board* *Deutsches Milchkontor eG*

*Dr Reinhard Vogel-Lackenberg*  
(until February 2017)  
  
*Dr Klaus A. Hein*  
(since February 2017)

## *Supervisory Board* *of Deutsches Milchkontor eG*

*Otto Lattwesen †*  
Chairman (until September 2016)  
(Member until December 2016)  
  
*Heinz Korte*  
Chairman (since September 2016)  
  
*Dr Herbert Grimberg<sup>1</sup>*  
Deputy Chairman  
  
*Dirk Baus*  
  
*Mohamed Boudih<sup>1</sup>* (until June 2016)  
  
*Uwe Boye*  
  
*Udo Eckhoff*  
  
*Philipp Kowolik* (since January 2017)  
  
*Benedikt Langemeyer*  
  
*Melanie Mörlen* (since June 2016)  
  
*Franz Morgret* (until June 2016)  
  
*Adolf Oehlmann*  
  
*Frerk Osterndorff*  
  
*Matthias Schrader* (since June 2016)  
  
*Meyk Wendekamm*

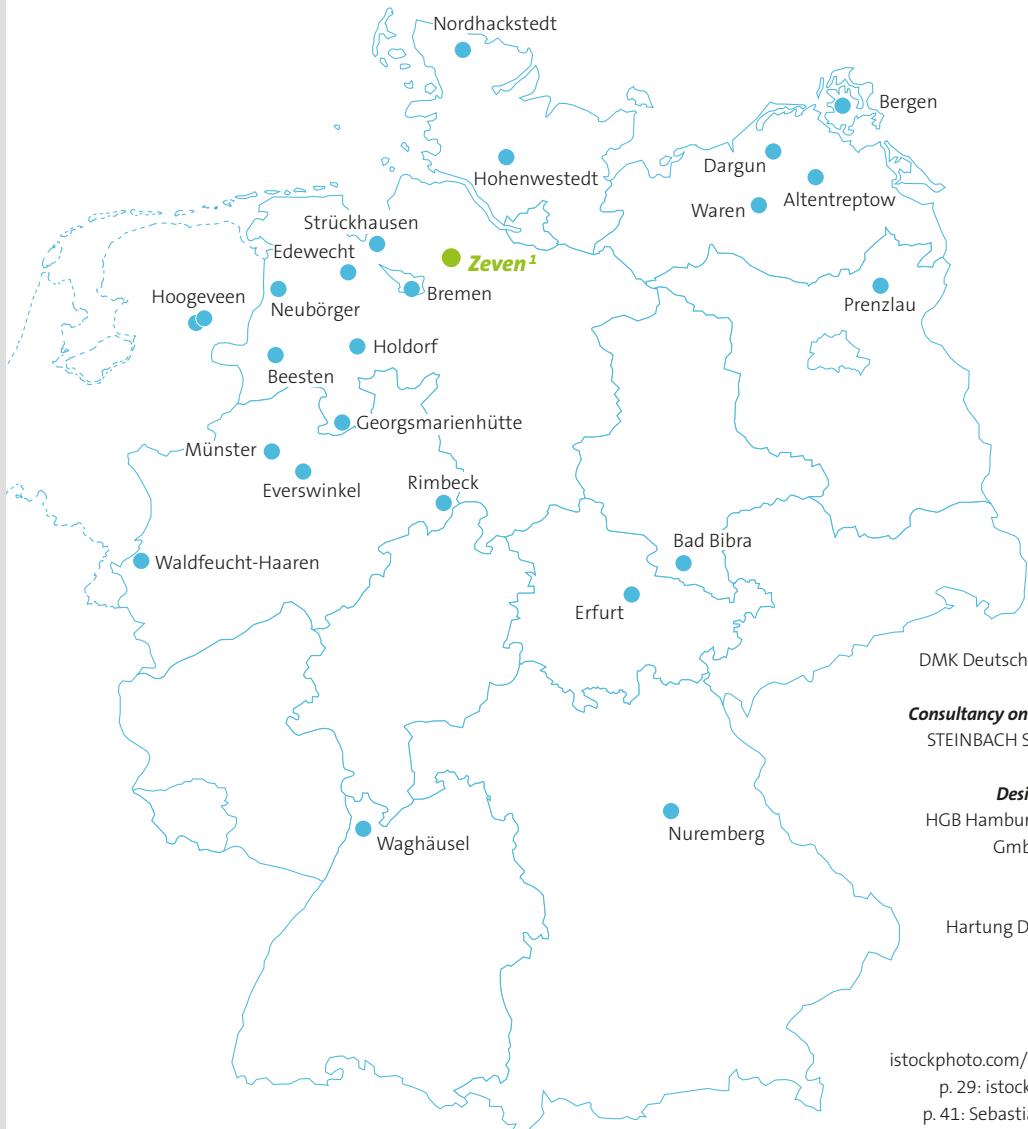
## *Supervisory Board* *of DMK GmbH*

*Otto Lattwesen †*  
Chairman (until December 2016)  
  
*Dr Herbert Grimberg<sup>1</sup>*  
Deputy Chairman  
  
*Dirk Baus* (until April 2016)  
  
*Hartmut Börger*  
  
*Mohamed Boudih<sup>1</sup>* (until April 2016)  
  
*Udo Eckhoff*  
  
*Dr Mechthild Frentrup*  
  
*Jens Klausen* (since May 2016)  
  
*Heinz Korte*  
  
*Benedikt Langemeyer*  
  
*Melanie Mörlen* (since May 2016)  
  
*Franz Morgret* (until April 2016)  
  
*Arjan Schimmel*  
  
*Matthias Schrader* (since May 2016)  
  
*Meyk Wendekamm*

## *Management Team/* *Management Board*

*Dr Josef Schwaiger*  
Chief Executive Officer  
(until September 2016)  
  
*Michael Feller*  
Marketing/Sales  
  
*Dr Dirk Gloy*  
Production/Logistics/QM  
(until August 2016)  
  
*Ines Krummacker*  
Human Resources  
  
*Ingo Müller*  
Ingredients  
Agricultural Affairs/Raw Materials  
(since March 2016)  
  
Production/Logistics/QM  
(since September 2016)  
Chief Executive Officer  
(since October 2016)  
  
*Volkmar Taucher*  
Chief Financial Officer  
  
*Sönke Voss*  
Agricultural Affairs/Raw Materials  
(until March 2016)

# Sites



## Publication details

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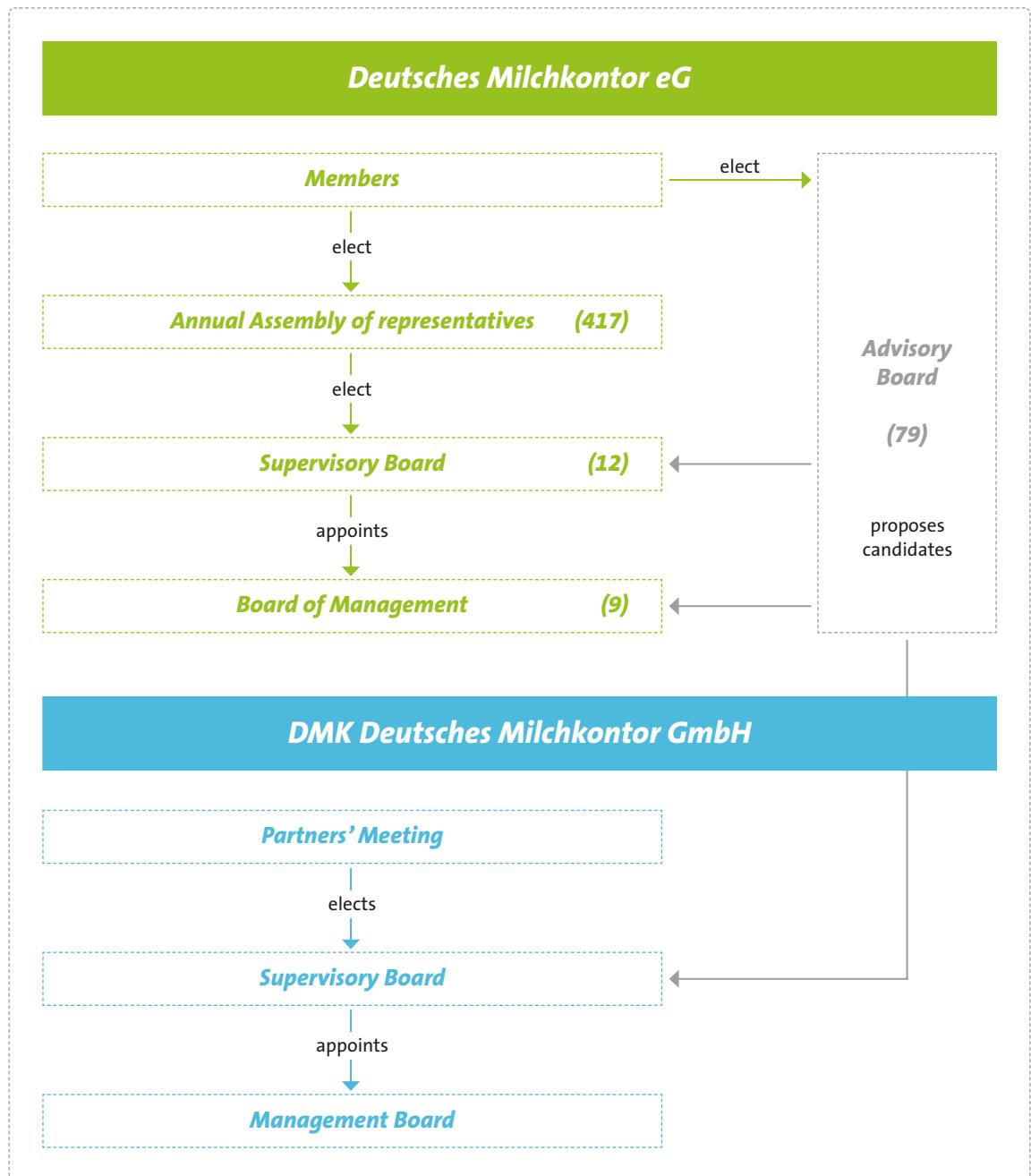
Icons: The Noun Project

<sup>1</sup> Registered address, registered office

Production sites and Bremen administrative headquarters of DMK Deutsches Milchkontor GmbH as at 31.12.2016 as well as production sites in Germany as at 31.12.2016 of subsidiaries in which Deutsches Milchkontor eG Group holds a minimum share of 75% and DOC Kaas B.V. sites.

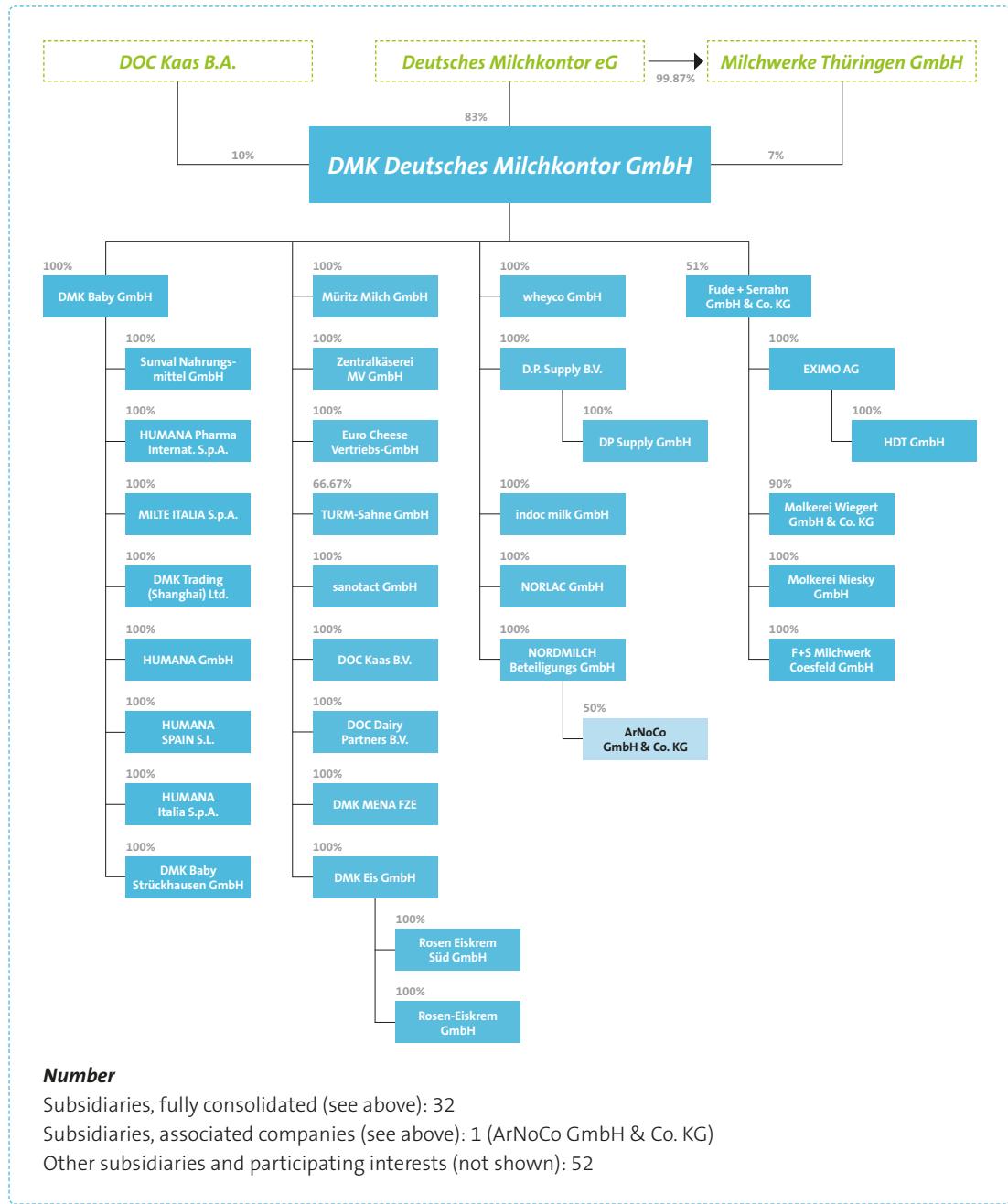


# *Structure of executive bodies*



Number of members in brackets; as at 31.12.2016

## Group structure of Deutsches Milchkontor eG Group



As at 31.12.2016

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