



FrieslandCampina nir
nourishing by nature

2017

AT THE
TABLE WITH
FRANS
AND HEIN

Higher milk price

+24%

ANNUAL OVERVIEW

HIGHER
REVENUE,
lower profit

*More cows
out in the
pasture*

New
organisational
structure

Nourishing by nature

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Explanatory note
In this Annual Overview, FrieslandCampina presents the key developments and results for 2017.

For the formal Annual Report, including the comprehensive Financial Statements, we refer to the Annual Report of Royal FrieslandCampina N.V. The structure of the Annual Report is more elaborate, complies with current corporate governance rules and is drawn up in accordance with the International Financial Reporting Standards as adopted in the European Union (EU-IFRS). In case of any differences between the Annual Overview and the Annual Report, the Annual Report prevails. The Dutch version prevails in any event.

Both reports are available at www.frieslandcampina.com

February 2018



Foreword

Dear reader,

2017 was a memorable and challenging year for FrieslandCampina in more ways than one. After two years of low milk prices, the milk price rose by 24.0 percent in 2017 compared to 2016, to 40.01 euros per 100 kilos of milk. This is good news for member dairy farmers. The revenue of Royal FrieslandCampina N.V. increased by 10.1 percent to 12.1 billion euros in 2017. Profit decreased by 37.3 percent to 227 million euros. This was the result of a write-off of assets in China and Germany, and restructuring costs. In addition, volume and profit developments were under pressure, especially in Europe. This is in part due to the higher milk price and the increase in the costs of other raw materials and packaging costs.

Versatility and competitiveness

The dairy market is characterised by substantial fluctuations. Minor changes in conditions and sentiment have a major impact on the supply and demand of dairy products, and consequently on prices. This volatility is expected to be structural. As a player on the world market, this demands greater versatility and competitiveness on the part of FrieslandCampina. Furthermore, customers and consumers expect innovation on the dairy shop shelves and we are seeing that especially local players are anticipating this need. The ability to adjust more quickly to new conditions and to be leading in innovation is a necessity in enabling the company to operate successfully over the long term.

New foundation for acceleration

This is why we took measures in 2017. For example, the organisation structure has been simplified to be able to react faster and ‘win in the market’. The number of jobs at the central

office is declining. Employee autonomy to take decisions in the market in which they operate is increasing. And we are intensifying our focus on cost reduction. This makes FrieslandCampina better able to anticipate consumer and customer demand. Our purpose *nourishing by nature* provides the framework for this: better nutrition for the world’s consumers, a good living for our farmers, now and for generations to come. Three robust pillars that operate as the basis on which FrieslandCampina develops and markets its products.

Sustainability

Nourishing by nature also means that FrieslandCampina wants to be leading in our sector in achieving the Sustainable Development Goals of the United Nations. We are improving our sustainability performance across the entire chain - from dairy farms to production facilities to logistics - and are showing tangible results. Together with member dairy farmers, we must continue to seek a healthy balance between their supply of milk, our processing capacity and the demand for dairy products by consumers and customers. Our challenge for 2018 is to define a sustainable and structural solution to achieve this.

A word of thanks

The world is rapidly changing. That makes us curious and ambitious. We do not want to watch from the sidelines, we want to participate and make a contribution. This requires constant effort from everyone involved in the company. I would like to thank all FrieslandCampina employees on behalf of the Executive Board. Your inspiration and energy are indispensable to making FrieslandCampina an even more successful

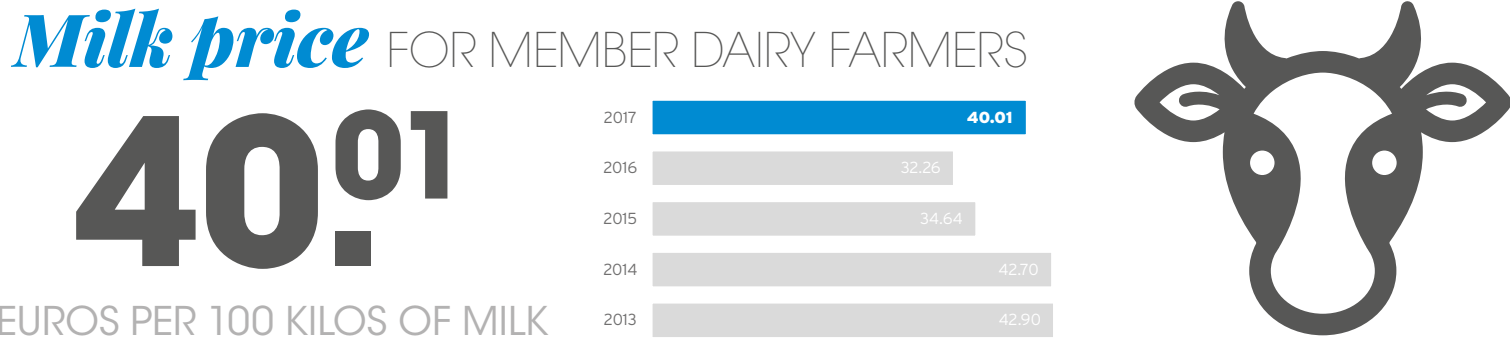
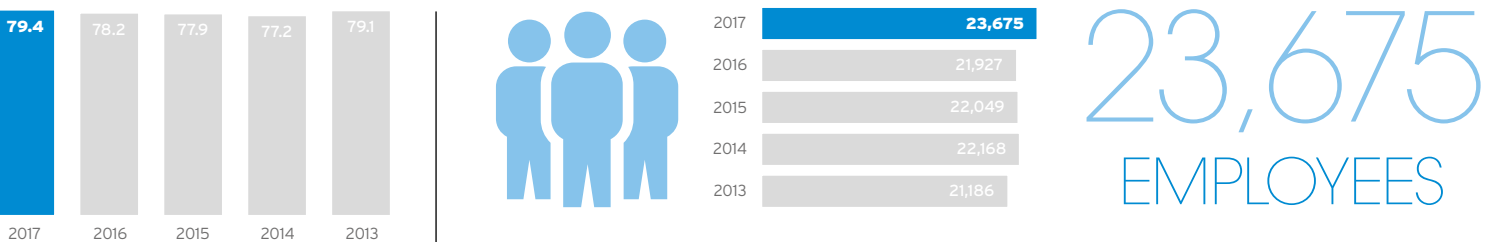
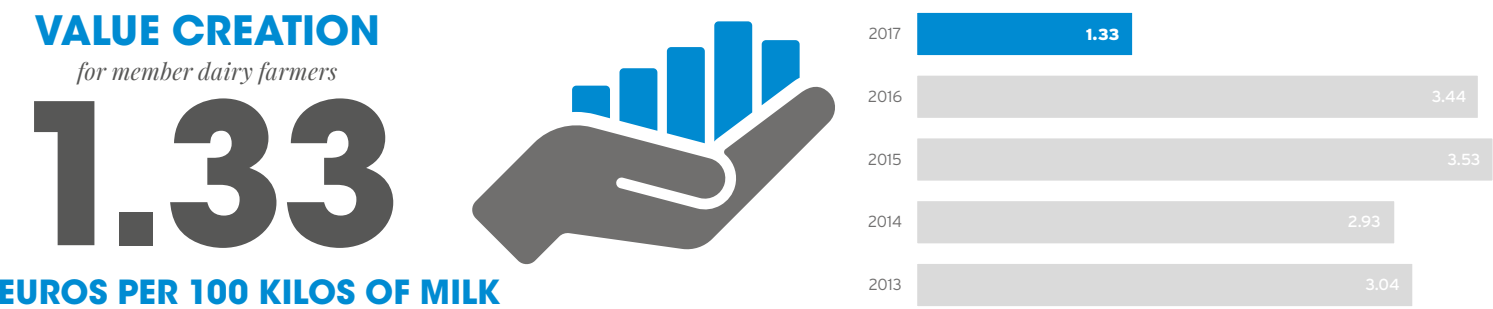
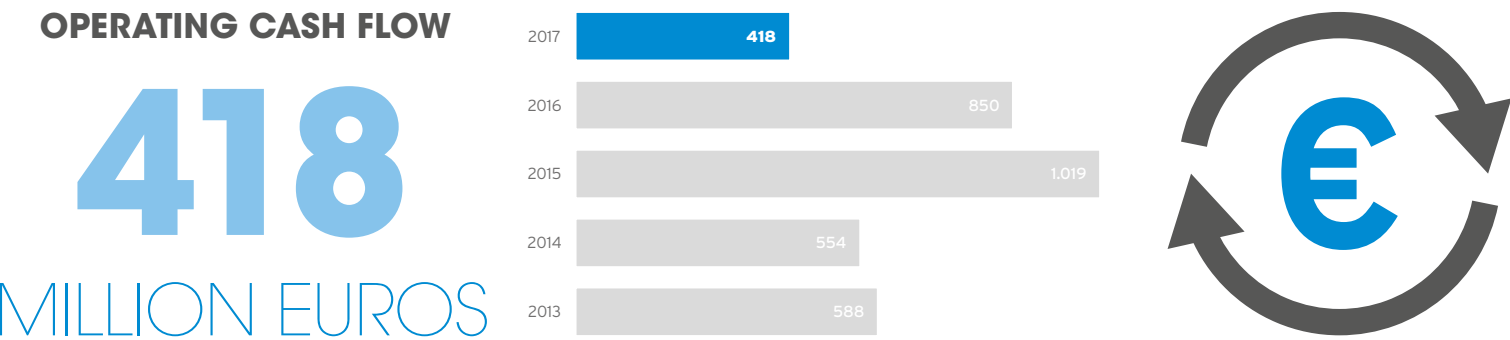
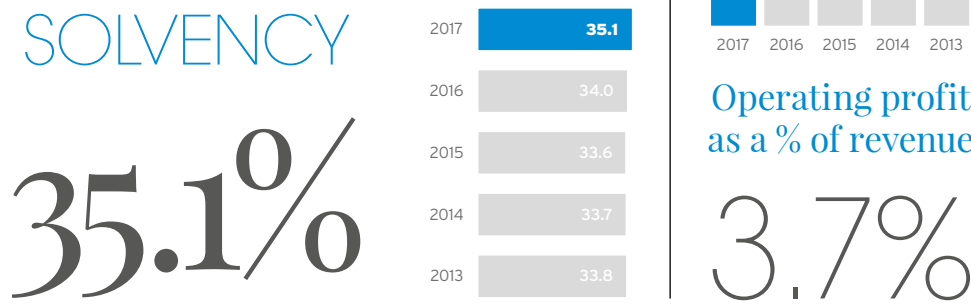
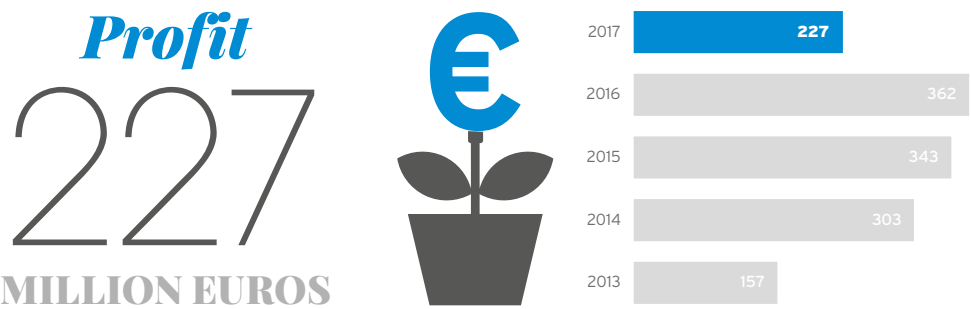
company that makes a contribution to society. In conclusion, I would like to thank Roelof Joosten for his unabating efforts on behalf of the company over the past fourteen years, including the last few years as CEO. During these years he has made an important contribution to the success of FrieslandCampina.

Hein Schumacher
Chief Executive Officer
Royal FrieslandCampina N.V.

Amersfoort (Netherlands), 16 February 2018

**The world is changing:
we do not want to watch
from the sidelines, but
participate and make a
contribution**

KEY FIGURES



MAMA IDA GREW UP WITH SUSU BENDERA

Frisian Flag in Indonesia

Mama Ida, as Ida Sudaiaati Mintarsih is lovingly known in her community, lives together with her husband and runs a small travel and consulting agency for pilgrims to Mecca. Her three grandchildren regularly visit her, because their school is right around the corner from Nan. “When the children come home from school, there is a glass of milk for everyone. Just like there was for me when I was young.”

A glass every day

Frisian Flag has been available in Indonesia since 1922. In Indonesia, the sweetened condensed milk is better known under the name ‘Susu Bendera’, meaning ‘milk flag’. Ida Sudaiaati Mintarsih cannot imagine life without ‘Susu’. “When I was a child, I drank a glass of milk at breakfast time and before going to sleep. I still do this and it is delicious.”

“Susu always tastes good”

“The sweetened condensed milk is available in sachets or tins. I buy both when I do my monthly shopping. The key for me is to always have it on hand at home. This is because Susu not only tastes good as a beverage, or in coffee or tea, I also use it as an ingredient or as a flavour enhancer in the dishes I prepare.

For example, my grandchildren are crazy about sweet milk sandwiches, even more so when I also cover them with some chocolate sprinkles. Even though Susu Bendera has now been known as Frisian Flag for some time, it tastes just as delicious as it used to and is good for any age.”

*“I always take
Vifit Sport after
I exercise. Protein
supports the recovery
of my muscles”*

Marcel Krikke - triathlete

nourishing by nature - better nutrition for the world's consumers





BUILDING
STRONG FAMILIES
SINCE 1871

◀ CONTENTS ▶



AWALI
DENGAN
NUTRISI



AKHIRI
DENGAN
MANIS



About FrieslandCampina route2020 strategy: sustainable growth and value creation

Providing the growing world population with the right nutrients in a sustainable way is the key challenge for the coming decades. By offering trustworthy, relevant and nourishing dairy products, FrieslandCampina contributes to safeguarding food and nutrient security. FrieslandCampina's purpose - *nourishing by nature* - stands for better nutrition for the world's consumers, a good living for our farmers, now and for generations to come.

nourishing by nature

Better nutrition, a good living
for our farmers, now and for
generations to come

Purpose: nourishing by nature

Better nutrition

The global population is expected to grow from 7.6 billion people in 2017 to over 9.8 billion by 2050. This, together with the increase in wealth, will result in an increased demand for food. With its dairy products, FrieslandCampina can contribute towards feeding the world's population both in the long and short term. FrieslandCampina will focus on improving its products' recipes and on ensuring dairy products remain affordable and thus relevant for all income groups. This is in line with the United Nations' Sustainable Development Goals 'Good nutrition and sustainable food production' (SDG 2, 3).

A good living for our farmers

FrieslandCampina's goal is to optimise milk valorisation, so as to maximise its contribution to the incomes of dairy farmers and the continuity of dairy farms for many generations to come. FrieslandCampina strives to pay one of the highest milk prices in Northwest Europe.

By doing so FrieslandCampina remains an attractive company for member dairy farmers. In a number of countries in Asia, Africa and Eastern Europe FrieslandCampina supports local dairy farmers in improving their farm management and the quality of their milk. This is in line with the United Nations' Sustainable Development Goal 'Decent work and economic growth' (SDG 8).

Now and for generations to come

FrieslandCampina also focuses on future generations. This is why FrieslandCampina invests in sustainable long-term growth and in the financial health of the company and the cooperative. The aim is to achieve climate-neutral growth and reduce the use of scarce natural resources such as water, raw materials and fossil fuels. This is in line with the United Nations' Sustainable Development Goals 'Affordable and clean energy' (SDG 7) and 'Responsible consumption and production' (SDG 12).





The Sustainable Development Goals of the United Nations

The United Nations have developed a series of Sustainable Development Goals (SDGs): seventeen ambitious goals relating to topics such as responsible production and consumption, climate, sustainable communities, health and well-being, and efforts to fight poverty and starvation. These development goals have been endorsed by 193 countries and give governments and the business sector a roadmap for a more just and sustainable future. The FrieslandCampina *route2020* strategy and the *nourishing by nature* sustainability policy are in line with the SDG's of the United Nations.



Aspiration

FrieslandCampina's long-term aspirations are:

- to achieve around **5** percent annual volume growth up to 2020 in selected priority product-market combinations;
- to efficiently process and valorise around **10** billion kilos of member dairy farmers' milk;
- to reach **15** billion euros in revenue by 2020;
- to be financially healthy and in harmony with nature and society in the short term and in **20** years' time, in order to create value for following generations of dairy farmers as well.

Leverage the unique milk chain: from grass to glass

During its more than 140 years' history FrieslandCampina has built up strong market and brand positions. Recognisable brands and discerning quality are our foundation. The unique Dutch milk chain is a valuable concept for continuing to bind customers and consumers to FrieslandCampina's products and brands. Frisian Flag, Dutch Lady, Peak, Campina, Chocomel and Frico are examples of brands that have existed for generations. FrieslandCampina wants to increase the consumer demand for Dutch dairy products throughout the world. FrieslandCampina accomplishes this in various ways, such as the from grass to glass concept, and by investing even more in the appeal of Dutch dairy, for example by preserving the visibility of cows in the Dutch landscape.

To continue to be successful, the focus will remain on the sustainable growth of the most valuable product-market combinations

Generate the highest value from milk

FrieslandCampina aims to generate more revenue from the milk supplied by focusing on combinations of primary products and by-products that deliver the most value. Improving the results on the least profitable billions of kilos of milk will require more effort over the coming years.

To remain attractive to both customers and consumers, FrieslandCampina must offer high-quality, safe and sustainable products – both today and in the long term. The production and processing of raw milk must therefore continue to meet the increasing demands of both the market and society in terms of quality, safety, sustainability and transparency.



Focus on markets that provide the highest growth, profit and valorisation of member milk

In the *route2020* strategy, choices have been made to utilise capital, production capacity and employees in such a way that long-term and sustainable value is created for member dairy farmers and society.

FrieslandCampina is globally active with a wide range of products. Every market situation is different and FrieslandCampina focuses on a limited number of specific product-market combinations – also for the long term. In selecting these combinations we consider the following factors:

- market growth: expected growth of the market in combination with FrieslandCampina's ability to grow in this market;
- profitability: the possibility of achieving profit in the product-market combination;
- member milk valorisation: the degree to which the product contributes towards the processing of member milk while also generating profit.

Based on the above criteria, three groups of product-market combinations have been selected as a focus for FrieslandCampina:

- expanding leading positions in growth markets;
- protecting volume in home markets;
- developing future markets.

Highly engaged, capable people effectively working together

FrieslandCampina has highly engaged and motivated employees. They are the foundation of FrieslandCampina's success. Worldwide there is a strong feeling of mutual commitment. Considerable attention is being paid to the continuous improvement of skills and ways of working.

A number of specific areas is important for the successful roll-out of the updated *route2020* strategy:

- improving the capabilities that are key for being successful in the market, including innovation, commercial performance and further digitalisation;
- reducing costs to enable investment in long-term growth, for example through supply chain and overhead efficiencies;
- continuously working on improving the quality of products and the safety of employees;
- appropriate business conduct in line with the Compass Code of Conduct, based on the principles of integrity, respect and transparency.

MORE GREEN ROOFS FOR FARMERS

“It is a good feeling to be involved in creating a sustainable world”

Since September 2017, 1,357 solar panels have been glistening on the 170-metre long roof of the stable at the Elshof dairy farm. Its owner, Henk Elshof, is the first farmer to benefit from the Solar Programme. With green roof he is making a contribution to FrieslandCampina's climate-neutral growth objective.

For some time, Henk Elshof, dairy farmer in Oldentrijne (Province of Friesland), and his wife Trienke had been entertaining the idea of putting solar panels on the roof of their stable. “When we received an invitation to register for the Solar Programme, we jumped at the opportunity. It was a perfect fit with our energy-neutral production plans.”

‘Roof rental solution’

The Dutch Ministry of Economic Affairs has made a more than 200-million-euro grant available for this purpose. This grant makes it possible to install 416,000 solar panels on 310 member dairy farms. The Elshof dairy farm was the first to make use of the so-called ‘roof rental solution’, developed in collaboration with GroenLeven. This is a Dutch company that produces large-scale solar roofs and solar parks.

“The roof rental solution is really very simple,” Elshof explains. “We rent out the roof of our stable to GroenLeven and GroenLeven then looks after the financing, installation and maintenance of the panels. The electricity we generate is supplied to FrieslandCampina and is used to supply their production facilities and offices with electricity.”

Triple benefit

“Thanks to the grant scheme, we do not need to make a large investment up front. The panels are written off over a period of fifteen years and the ownership then automatically reverts to us. In the interim, we have the option of deciding to acquire them from GroenLeven, in full or in part. We receive an annual payment for making our roof available. This is in addition to the payment we receive for every green certificate that is produced.

It gives us a good feeling to be involved in creating a sustainable world. This project really only comes with benefits. You do not need to do anything for it, there are no headaches and you end up with some money on top of everything else.”



Always there for me

For generations, Peak milk has continued to provide Nigerian families with quality nutrition.



Reach for your Peak

INSIGHT CREATES OPPORTUNITIES

Together with the World Wide Fund for Nature and the Rabobank, FrieslandCampina has developed six indicators that, in mutual conjunction, provide practical insight into a dairy farm's ecological performance: greenhouse gas emissions, protein produced from the farm, ammonia emissions, nitrogen soil balance, permanent grasslands, and nature & landscape management. Insight into these indicators creates opportunities in a market that increasingly attaches importance to sustainable methods of production.



MORE DAIRY FARMERS LET THEIR COWS GRAZE

2017 is the second year in a row that the number of member dairy farmers practising pasture grazing has increased. FrieslandCampina organised 'grazing clinics' for dairy farmers who were considering migrating to grazing. Participants were given advice from an experienced grazing coach, enabling them to make a smooth transition. In the meantime, 79.4 percent of Dutch member dairy farmers practise some form of grazing.



Introduction of BOLA CREMOSO CHEESE IN SPAIN

In Spain, FrieslandCampina introduced Bola Cremoso, a new ball-shaped cheese, as part of its existing brands Sombrero de Copa, Royal Hollandia, Castillo de Holanda and Victoria. The cheese comes in a yellow jacket, is creamier and milder in taste, and contains less salt than the red ball-shaped cheese familiar to Spanish consumers.

FRISO *largest e-commerce player*

Friso in China derives a large part of its revenues from sales via the internet. It is China's largest e-commerce brand in infant nutrition.



PEAK SPONSORS NIGERIAN PARALYMPIC TEAM

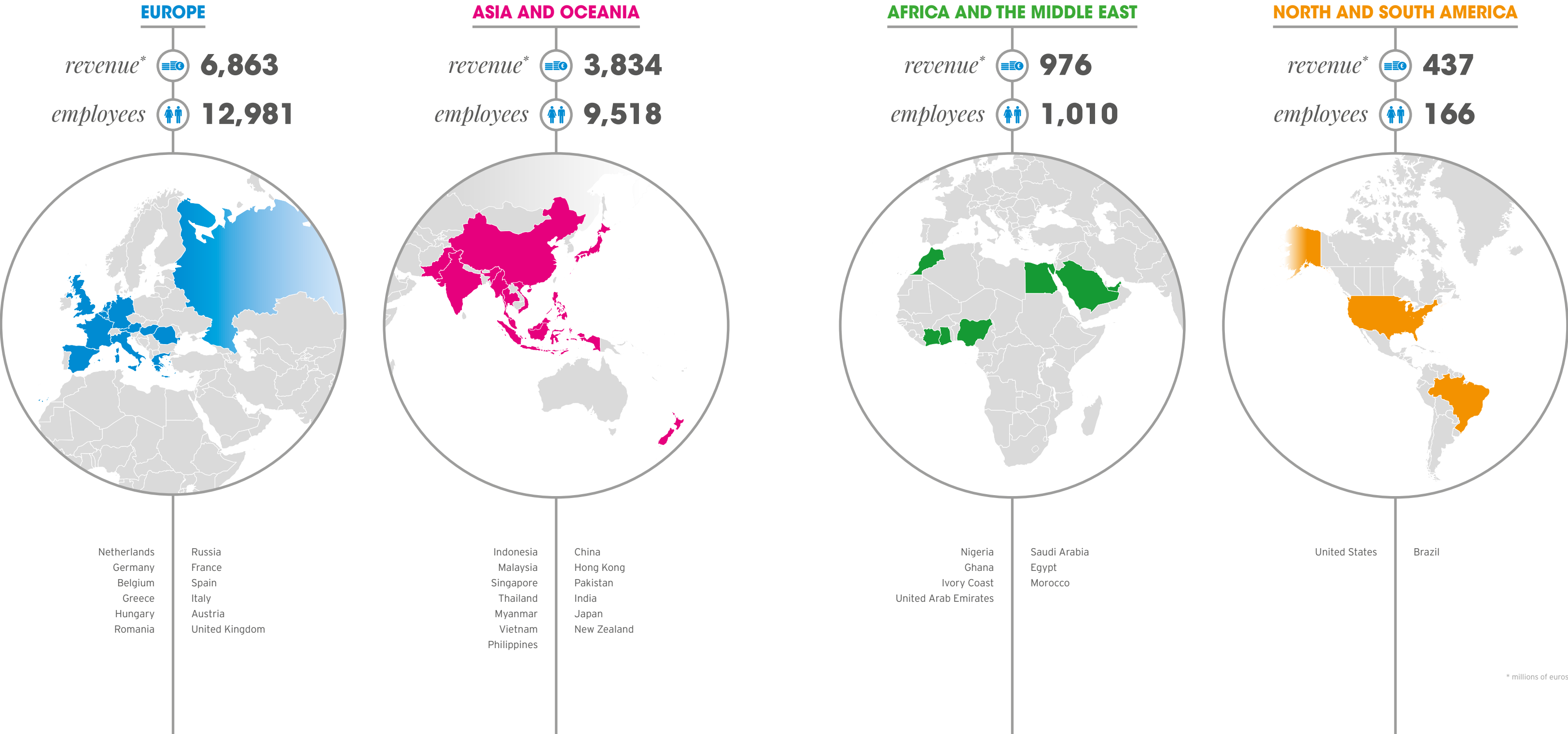
FrieslandCampina WAMCO Nigeria is sponsoring the Nigerian Paralympic Team. The sponsorship includes the renovation of the strength training sports hall of the Surulere National Stadium in Lagos so that it can subsequently be fitted up with modern training and fitness equipment. Using the brand Peak as the sponsorship brand is a source of inspiration for the paralympic sportsmen and -women who want to improve their performance through willpower and determination during the upcoming Games.



Debic desserts innovation

FrieslandCampina Foodservice has developed a new line of Debic desserts that anticipates the need of professional chefs for new desserts requiring a limited number of preparatory steps.

Our markets



* millions of euros

*“It is our dream
for our son to be able
to take over the
family business”*

Pieter de Jong – FrieslandCampina member dairy farmer

nourishing by nature – a good living for our farmers



Our brands

INGREDIENTS:



PASTRY CHEF JURGEN ABOUT DEBIC

“I work with passion and with excellent products”

Twenty-five years ago Jurgen Koens became a baker. As a fifteen-year-old boy, he got himself a job in the kitchen of a hotel in Cadzand-Bad in the Province of Zeeland (Netherlands). Here he discovered that he could make his hobby his work as he mastered the bakery profession. “As a chef or baker, you must be able to rely on the constant quality of your products, otherwise you might as well give up straightaway.”

A good chef, pastry chef or baker cannot do without dairy. Apart from the required knowledge and expertise, dairy often forms part of a culinary masterpiece and consequently is a determining factor in the success of chefs and bakers.

Constant variety

Jurgen runs his own pastry boutique, where he sells cakes, pastry, bonbons, confectionery and ice cream products to consumers and

the catering sector. “No sector is as varied as the food sector. No two days are the same for me. New developments and new products contribute to innovation and creativity. It is this constant variety that makes my work so much fun.”

Constant quality

“I use different types of butter in our recipes for mousse, ganache, dough and cream. Debic’s whipped cream has a beautiful colour and is a very stable product to work with. I can also sincerely recommend other Debic dairy products to any of my colleagues looking for quality.”

In this profession you can only survive if you work with passion and with excellent products. Debic is a brand that we have been able to rely on for a long time. To me it stands for constant quality, which enables me to supply excellent products to my customers.”

Onze nieuwe outfit.



Onze zuivel zit vanaf nu in een nieuwe verpakking. Melk, kwark, vla, en zelfs de boter en slagroom. Allemaal nieuw. En de inhoud? Dat is de vertrouwde Campina zoals je dat kent. Heerlijke



natuurlijke zuivel van Hollandse bodem, tot de rand gevuld met belangrijke voedingsstoffen zoals calcium, proteïne en vitaminen. Zo word en blijf je sterk met Campina.



CHEESE ONLINE

Zijerveld, a supplier of Dutch and foreign cheeses, is using its webshop, Zijerveld Online, to accelerate the digital cheese experience for customers and consumers alike. This includes providing online advice in the shop about cheese and wine options.

Top 10 CONSUMER BRANDS

in 2017 by revenue in euros

1	Friso	Worldwide
2	Frisian Flag	Indonesia
3	Dutch Lady	Vietnam, Malaysia, Myanmar, Singapore, China, Hong Kong
4	Campina	Netherlands, Belgium
5	Peak	Nigeria
6	Debic	Foodservice in Europe
7	Alaska	Philippines
8	Frico	Worldwide
9	Foremost	Thailand
10	Rainbow	Saudi Arabia, United Arab Emirates

FIRE IN THE LAGOS PRODUCTION FACILITY IN NIGERIA

The fire at FrieslandCampina WAMCO Nigeria in Lagos, at the beginning of 2017, caused serious damage to the evaporated milk production hall. Thanks to the tremendous efforts of our employees, capacity has since been fully restored.



FRISO PRESTIGE ALSO AVAILABLE IN HONG KONG

Friso Prestige was introduced in Hong Kong last year. This means that, in addition to Friso Gold, Friso Prestige infant nutrition is now available to consumers as well.

FRICO ONLINE

New technologies are making it possible to directly approach customers and consumers. The Frico cheese brand has developed personalised videos and has distributed these in twenty countries via Facebook and Instagram. Frico has more than four million followers in Africa and the Middle East.



VIFIT SPORT introduced to growth markets

FrieslandCampina has introduced a protein-rich sports nutrition line for sportsmen and -women to the market in the Netherlands, Belgium and Great Britain, under the brand name Vifit Sport. This initiative anticipates the increasing demand for protein-rich products that aid in the recovery and build-up of muscle. The Vifit Sport brand will be sponsoring the LottoNL-Jumbo Cycling Team and will be the name-giving sponsor of the BMC Vifit Sport Pro Triathlon Team for a period of three years.

2017

REPORT OF THE EXECUTIVE BOARD

DEVELOPMENTS AND RESULTS

*Higher revenue,
lower profit,
significant increase
in milk price*

The revenue of Royal FrieslandCampina N.V. increased by 10.1 percent to 12.1 billion euros in 2017. This is primarily due to higher sales prices and the addition of the revenue of Engro Foods in Pakistan. Profit decreased by 37.3 percent to 227 million euros.



ONE-OFF COSTS
REDUCE PROFIT IN
THE SECOND HALF
OF THE YEAR

Negative currency translation effects reduced the profit, which also declined due to write-offs in China and Germany and restructuring costs. The increase in revenue offsets the increased milk price, but this was not adequate to cover the increase in other raw material and packaging costs. This put the margins, particularly in consumer activities, under pressure.

The sales volumes of consumer products in Southeast Asia and of Friso infant nutrition in China show positive developments. The same applies to sales volumes in Africa in general. In addition, there is growth in the sales of caseinates and ingredients for the pharmaceutical industry.

The milk price for member dairy farmers increased significantly by 24.0 percent to 40.01 euros per 100 kilos of milk due to a higher guaranteed price for raw milk. The value creation (performance premium and issue of

member bonds) decreased by 228 million euros to 142 million euros. Per 100 kilos of milk, the value creation decreased by 61.3 percent to 1.33 euros. The decrease in value creation is due to the adjustment of the profit appropriation and lower profit.

2017 dairy market: the year of butter
2017 was a year of recovery. Dairy prices rose considerably after two years of low milk prices. The 2017 dairy year will be especially remembered as the year of butter. Butter is tasty and is once again 'allowed'. The result, different from past years, is a shortage in milk fat and a surplus of milk protein. The market prices for cream and butter reached a record high in the third quarter, while the price for milk protein, in the form of skimmed milk powder, declined significantly. This caused a significant increase in the stocks of skimmed milk powder. This demonstrates the high volatility of the dairy market. Minor changes in conditions and sentiment can have a major impact on

the supply and demand for dairy products, and consequently on prices.

Market developments during 2017
At the start of the year prices for dairy products were under pressure, because international demand was lagging with large stocks of dairy products throughout the world. This was a reason for the European Commission to institute a voluntary subsidised milk reduction programme. As a result the European milk supply declined by just over 1 percent during the first half of 2017. Due to this reduced milk supply and the rising demand for dairy products, prices slowly increased during the year. Not only within the European Union, but also on the global market. This drove many farmers to produce more milk. Milk production increased by about 4 percent and prices began to drop. When the European Commission announced it was not intending to support the market and instead planned to sell more skimmed milk powder from its intervention stocks on the market.

Simplified organisational structure effective from 1 January 2018

FrieslandCampina: key events in 2017

Simplified organisational structure

In August 2017, FrieslandCampina announced it was going to simplify its organisation structure by forming four global business groups: Consumer Dairy, Specialised Nutrition, Ingredients and Dairy Essentials.

The simplified structure enables FrieslandCampina to more decisively react to market developments and realise its strategic priorities. As a result, the management of the company will also be adjusted effective 1 January 2018 by reducing the Executive Board and by appointing an Executive Leadership Team. The Executive Board consists of the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). The Executive Leadership Team consists of the two members of the Executive Board, the presidents of the four business groups and of FrieslandCampina China, as well as the functional managers of Human Resources, Research & Development and Supply Chain. The new organisation went into effect on 1 January 2018.

Four global business groups

As from 1 January 2018, FrieslandCampina's new organisational structure increases the Company's agility. We have created four business groups with global operations:

- FrieslandCampina Consumer Dairy, consisting of the former business groups Consumer Products Europe, Middle East & Africa, Consumer Products Asia and the consumer-oriented activities of Cheese, Butter & Milkpowder.

- FrieslandCampina Specialised Nutrition focusing on special nutrition, such as infant, sports and elderly nutrition.
- FrieslandCampina Ingredients, focusing on the production and sale of ingredients for the business-to-business market.
- FrieslandCampina Dairy Essentials, focused on the production and sale of essential basic dairy products, such as cheese, butter and milk powder for the food industry and the retail sector. This business group is also responsible for optimising milk processing.

Sale of Riedel activities and the interest in Synlait Milk

FrieslandCampina has decided to fully focus on its dairy portfolio. The sale of the fruit juices and fruit drinks activities of Riedel in the Netherlands and Belgium to the Dutch investment company, Standard Investment, on 10 November 2017 is consistent with this focus. Riedel is the producer of various products including Appelsientje, CoolBest, DubbelFriss, DubbelDrank, Taksi and Extran. On 3 March 2017, FrieslandCampina sold its 8.2-percent interest in Synlait Milk Ltd in New Zealand for 32 million euros. The shares in this company were acquired for 23 million euros in 2013 and 2014.

New start in Germany

On 23 November 2017, FrieslandCampina Germany announced a strategic reorientation. Priorities are the investments in the main brands Landliebe, Tuffi and Frico, combining all commercial activities in the Düsseldorf area, and other measures designed to increase profitability. In addition, it was decided to close the production facility in Gütersloh.

Interest in China Huishan Dairy

In 2015, FrieslandCampina took a 1.1-percent interest in China Huishan Dairy Holdings Company Ltd (China Huishan Dairy). This was part of the agreement at the start-up of the Friesland Huishan Dairy joint venture. The original investment in China Huishan Dairy amounted to 27 million euros. In 2017, China Huishan Dairy ran into financial problems, resulting in a full write-off of our interest.

Friesland Huishan Dairy joint venture

China Huishan Dairy's financial problems negatively affected the development of the joint venture. The core of the operation continues and is focused on continuity. Due to the loss of our partner, the utilisation of the joint venture's plant declined and the roll-out of the business plan was delayed. This has resulted in the write-off of tangible assets in the amount of 36 million euros and the write-off of a deferred tax asset in the amount of 24 million euros. In spite of the delays incurred, FrieslandCampina has positive expectations of the long-term potential of Dutch Lady infant nutrition on China.

Further reinforcement of the organisation

In the context of the realisation of the route2020 strategy, a number of projects are ongoing within FrieslandCampina that are designed to produce greater efficiency and cost reductions.

The Summit programme was started up in 2010 with the objective of standardising planning and information systems, processes and data for all FrieslandCampina operating companies. This programme is key in creating a more integrated networked organisation. The objective is to achieve more effective (logistics) planning and decision-making, as well as to work more efficiently by making better use of economies of scale. During 2017, Summit was successfully implemented in Thailand, the Netherlands (Maasdam and Rotterdam,

源於天然 薈萃科研

保存天然營養* 消化輕鬆好EASY



專業科研 保存天然營養*

荷蘭美素佳兒®及農林業學世界排名第一*的荷蘭瓦赫寧根大學及研究中心，一直緊密合作，以專業的農業科學為基礎，精心鑽研天然飼料對乳牛成長的重要性，從而增加其所生產牛奶中的天然營養*。在奶粉製造過程中，荷蘭美素佳兒®更採用特有的LockNutri營養鎖留系統®，保存牛奶的蛋白質更貼近其天然結構，消化輕鬆 好Easy。



Operating profit under pressure due to one-off costs, negative currency translation effects and pressure on margin due to increase in raw material prices

and various cheese locations), Belgium and the United Kingdom. Overall, 70 percent of all employees involved are working on the new platform. The objective is to complete the programme in 2019.

The Finance for the Future Programme focuses on the creation of a more efficient and strengthened finance organisation. Part of the programme involves the concentration of operational finance activities in regional Financial Shared Services Centres. In 2017, a Financial Shared Services Centre was opened in Budapest (Hungary). Other centres have been established in Wollega (Netherlands) and in Kuala Lumpur (Malaysia).

In WCOM Reloaded employees at various production facilities are working together on improvements. This is resulting in new standardised ways of working, changes in tasks and responsibilities, more efficient staffing levels, different shift compositions and adjustments to the organisation structure. The lead time of this programme at a location is approximately three years. At year-end 2017, the programme had been implemented at twenty locations.

Revenue increased by 10.1 percent to 12.1 billion euros

Increased revenue
Revenue increased by 10.1 percent to 12.1 billion euros. This is primarily due to higher sales prices (+11.0 percent in comparison to 2016) and the addition of the revenue of Engro Foods in Pakistan. The increase in revenue is primarily due to the increase in the second half of the year of cheese prices and higher prices for butter and fat-related products. The volume mix effect is -1.2 percent due to lower volumes, particularly in Europe. Currency translation effects had a negative impact of -1.8 percent on revenue.

The volume of added value products, such as infant nutrition and dairy-based beverages, decreased by 1.9 percent (adjusted for the consolidation effect of Engro Foods Pakistan and the sale of the activities of Riedel). The volume of basic products rose in the first half of 2017, but declined in the second half of the year.

We are seeing positive volume developments in Indonesia (primarily condensed milk), Vietnam, China/Hong Kong (primarily with the Friso brand) and Africa. The same applies to the sale of caseinates and ingredients for the pharmaceutical industry. In addition, there was growth in the volume of dairy-based beverages in Southeast Asia. In Nigeria the revenue in euros was under significant pressure due to negative currency translation effects.

In 2017, 1.3 billion kilos of raw milk was sold directly. Via the Dutch Milk Foundation the same volume of milk was made available (0.6 billion kilos) as in 2016, and, in comparison to 2016, less milk was sold on the spot market.

Decrease in operating profit and profit
Operating profit in 2017 decreased by 119 million euros (-21.1 percent) to 444 million euros. This decline was caused by negative currency translation effects, one-off costs and failure to fully pass on the increased cost to higher sales prices.

Currency translation effects (particularly the Nigerian naira and the Chinese renminbi) had a negative impact of 36 million euros (-6.4 percent) on operating profit. Incidental costs reduced the operating profit further. These costs include costs for restructuring and write-offs of assets in Germany and China, and are only partly compensated by the gain on the sale of the Riedel activities. On balance these one-off items decrease the result by 90 million euros.

The cost of goods sold increased by 12.3 percent to 10,191 million euros. This is mainly due to the significantly higher price for raw milk and increased prices for other raw materials. As a result operating profit is under pressure because price increases can only be transferred in some part to the sales prices, or with a delay.

FrieslandCampina invested 536 million euros in advertising and promotions (2016: 540 million euros) to improve its brands.

The total compensation paid to member dairy farmers for their supplied milk increased by 22.6 percent in 2017 to 4,346 million euros (2016: 3,544 million euros). This is the highest total compensation paid to member dairy farmers since FrieslandCampina's inception. The increase is primarily due to the higher milk price.

Members supplied 0.5 percent less milk. In the context of the temporary 10-cent measure, 4.8 million euros was paid out (0.04 euro per 100 kilos of milk) in 2017. This was charged to the operating profit.



The operating profit of the Ingredients business group remained stable in comparison to the previous financial year. Due to a sharp decline in the last quarter, the profit of the Cheese, Butter & Milkpowder business group deteriorated somewhat. Operating profit was under pressure at Consumer Products Europe, Middle East & Africa, Consumer Products China and Consumer Products Asia. This was primarily caused by negative currency translation effects and the ability to only partially or with delay pass on the increased costs in higher sales prices.

The profit over 2017 decreased by 37.3 percent to 227 million euros (2016: 362 million euros). This is the result of a lower operating profit and a higher effective tax rate.

Investments
In 2017, FrieslandCampina invested 531 million euros (2016: 518 million euros). The primary purpose of the investments was to process the increasing quantity of milk produced by member dairy farmers, creating maximum value by products that respond to the needs and wishes of customers and consumers. Investments were also made in further improving product quality, safety and

efficiency. Since 2009, a total of 4.1 billion euros has been invested in fixed assets, of which over 70 percent in the Netherlands.

- New production facilities went into operation in 2017, including:
- FrieslandCampina Consumer Products Europe, Middle East & Africa in Leeuwarden (Netherlands)
Investment: 138 million euros
Objective: second part of expansion of milk processing capacity by renewing and expanding production capacity for evaporated and condensed milk for export
 - FrieslandCampina Ingredients in Beilen (Netherlands)
Investment: 57 million euros
Objective: expansion of small packaging capacity for infant nutrition

- Ongoing investments*
- FrieslandCampina Ingredients in Borculo (Netherlands)
Investment: 58 million euros
Duration: 2016-2019
Objective: expansion of production capacity and application of high-quality micro-filtration technology

Profit decreased by 37.3 percent to 227 million euros

Milk supply stable at 10,716 million kilos

More money for members, but decreased value creation

Over 2017, a total of 142 million euros will be paid out to member dairy farmers (2016: 371 million euros) in addition to the guaranteed price. Of this, the performance premium is 110 million euros (1.03 euros per 100 kilos of milk, excluding VAT). The issue of member bonds over 2017 amounts to 32 million euros (0.30 euros per 100 kilos of milk, excluding VAT). In total, the performance premium and the issue of member bonds per 100 kilos of milk amount to 1.33 euros (2016: 3.44 euros), a decline of 61.3 percent. The decrease is due to the adjustment of the profit appropriation and lower profit.

The milk price for member dairy farmers over 2017 amounts to 40.01 euros per 100 kilos of milk, excluding VAT. Compared to 2016 (32.26 euros), this represents a 24.0 percent increase. The guaranteed price over 2017 was 37.96 euros per 100 kilos of milk, which is a 33.8 percent increase compared to 2016 (28.38 euros). The increase in the guaranteed price is the result of the higher milk prices of

the reference companies. The compensation for special supplements (Landliebe, organic milk) amounts to 0.12 euros per 100 kilos of milk and the meadow milk premium amounts to 0.60 euros per 100 kilos of milk.

The FrieslandCampina performance price over 2017 amounts to 41.80 euros per 100 kilos of milk, excluding VAT. Compared to 2016 (35.01 euros), this represents a 19.4 percent increase, which is due to the higher guaranteed price. The performance price includes the additional payment of 0.04 euros per 100 kilos of milk in the context of the temporary 10-cent measure. The addition to retained earnings in 2017 amounts to 1.33 euros per 100 kilos of milk compared to 2.12 euros in 2016.

The organic milk price for 2017 amounts to 51.43 euros, per 100 kilos of milk, excluding VAT (2016: 51.65 euros). The organic milk guaranteed price is 49.10 euros per 100 kilos of milk (2016: 47.71 euros) The performance premium and the issue of member bonds are the same as for regular milk. The organic milk guaranteed price is determined on the basis

Milk price methodology and profit appropriation 2017-2019

The milk price FrieslandCampina pays on an annual basis to member dairy farmers consists of the guaranteed price, the meadow milk premium, the special supplements premium, the performance premium (jointly making up the cash price) and the issue of member bonds. The milk is reimbursed on the basis of the value of the kilos of supplied protein, fat and lactose in a 10;5;1 ratio. The FrieslandCampina performance price consists of the milk price plus the interest on member bonds and member certificates, and the addition to the company's retained earnings.

The amount of retained earnings and the performance premium is proportionate to FrieslandCampina's profit. For the years 2017-2019, 55 percent of the profit, based on the guaranteed price, as far as it attributes to the shareholder of the company, is added to the company's equity. 35 percent of the profit is paid out to member dairy farmers as a performance premium and 10 percent is paid out to member dairy farmers in the form of member bonds. The issue of member bonds is based on the value of the milk supplied in the relevant financial year.

Based on the company's results for the first half of the year and the quantity of milk supplied, an interim payment can be made in September of each year. The interim payment is 75 percent of the performance premium over the first half year. The final settlement takes place in March of the subsequent year, based on the company's results for the financial year and the total quantity of milk supplied.

of supply and demand for organic milk on the Western European market.

In September 2017, an interim payment amounting to 1.17 euros per 100 kilos of milk was paid to the member dairy farmers. This is 75 percent of the pro forma performance premium over the first half year (0.59 euros per 100 kilos of milk over the entire year). The final settlement will take place in March 2018, based on FrieslandCampina's results for the financial year and the quantity of milk supplied by dairy farmers in 2017. The performance premium over 2017 amounts to 1.03 euros per 100 kilos of milk. This means that member dairy farmers will receive a performance premium of 0.44 euros per 100 kilos of milk in March 2018.

In total, the interest on member bonds stayed the same (44 million euros). On the one hand this is due to the increased number of bonds and on the other hand due to a lower interest rate. The interest rate over the period 1 January to 31 May 2017 was 3.031 percent. The interest rate over the period 1 June to 30 November 2017 was 2.996 percent, while the interest rate in the month of December 2017 was 2.976 percent (the interest rate on the 6-month Euribor was -0.274 percent for December 2017). The average interest payment per 100 kilos of member milk is 0.42 euro (2016: 0.41 euro).

Milk supply virtually stable

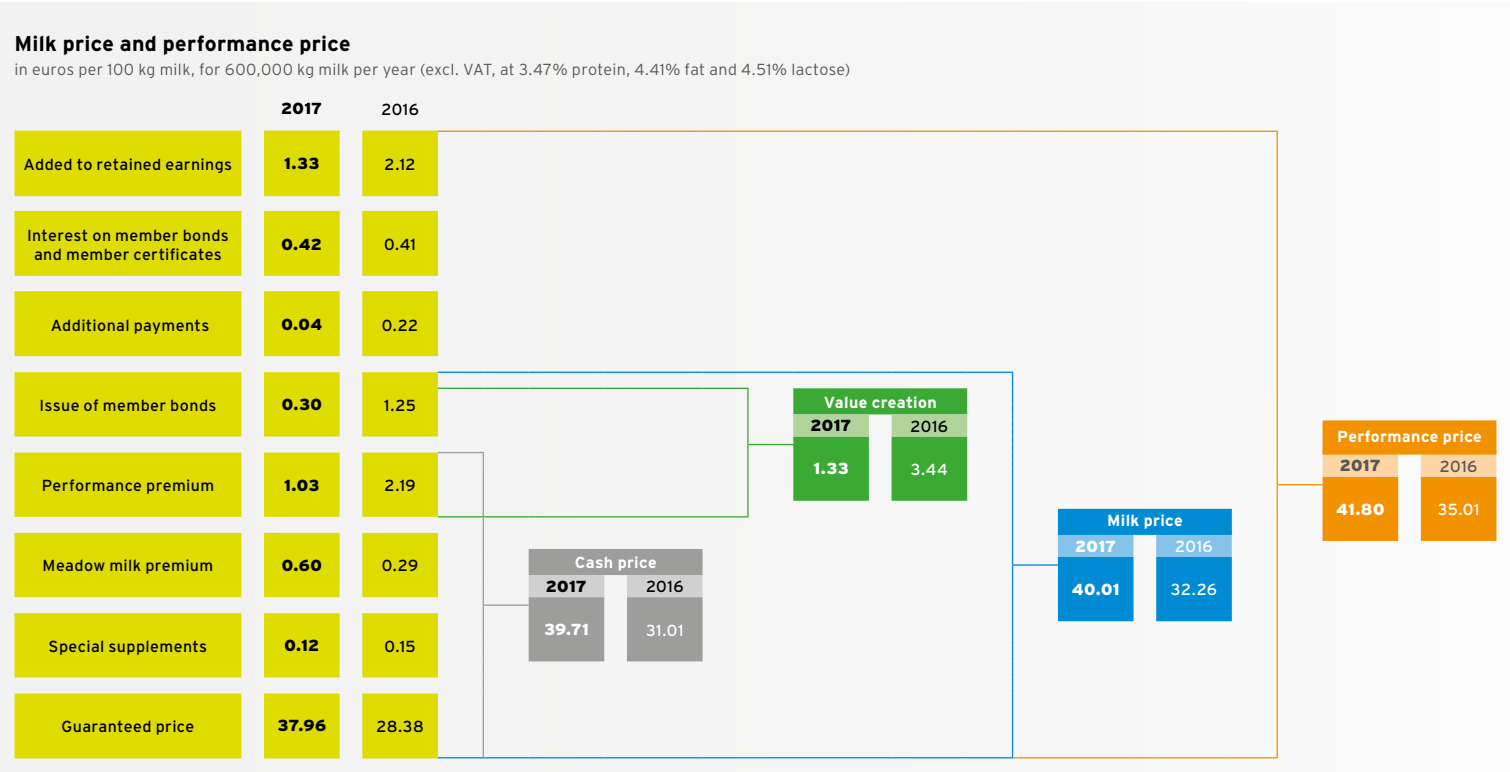
In 2017, 10,716 million kilos of milk were supplied by the cooperative's member dairy farmers, which is virtually the same level of milk that was supplied in 2016 (10,774 million kilos).

Temporary measures

During the initial months of 2017, two temporary milk volume control measures were in effect: the so-called 10-cent measure and the temporary FrieslandCampina standstill measure. Between 1 October 2016 and 1 April 2017, FrieslandCampina paid member dairy farmers 0.10 euro for each kilo of less milk supplied. In the first three months of 2017, 48 million kilos less milk was supplied in comparison to the reference volume and 4.8 million euros was paid to the participating member dairy farmers.

The temporary standstill measure was in effect between 9 January and 1 March 2017. This measure was to contribute to balancing the milk supply and available processing capacity. In its capacity planning for 2017, FrieslandCampina had taken into account the implementation of the system of phosphate rights on 1 January 2017, which was deferred to 1 January 2018 at the time. During the period in which the temporary standstill measure was in effect, 53 million kilos less milk was supplied in comparison to the reference volume. On the basis of this temporary cooperative

scheme, 6.9 million euros was paid to member dairy farmers. This payment was financed from withholding 90 percent of the monthly guaranteed price over the volume of milk supplied over and above the reference volume.



Milk price increased by 24.0 percent to 40.01 euros per 100 kilos of milk



Realisation of route2020 strategy

FrieslandCampina’s route2020 strategy is focused on sustainable growth and value creation.

Expanding leading positions in growth markets

In four out of eight growth markets, FrieslandCampina succeeded in realising volume growth. The most successful markets in 2017 were China/Hong Kong (primarily with the Friso infant nutrition brand) and Indonesia (primarily with condensed milk). In addition, the performance of the priority product-market combinations in Nigeria and the Middle East improved. In the Philippines, volumes were lower than in 2016, due to the intensified competition of local brands. Volumes lagged in the Europe, Middle East & Africa business group.

Protecting volume in domestic markets

Volume growth was realised in three of the five domestic markets. In the Netherlands, this was due to Campina (quark, yoghurt) and Chocomel. The cheese volume development in most markets (except in Africa) was positive, especially in export and private label activities. This contributed to the total volume growth of domestic markets. The growth trend in the food service segment started in 2015 continued, thanks to the Debic, Campina and other B2B products (cream, milkshakes and desserts). In Germany, dairy-based beverage volumes were under pressure and Landliebe volumes declined in comparison to 2016. Measures have since been announced in Germany.

Developing future markets

In general, future markets grew by 4 percent in comparison to last year, with the exception of Pakistan. This growth is primarily due to dairy-based beverages in Africa (evaporated milk and condensed milk) and medical nutrition in the Ingredients business group. The volume in Myanmar was lagging in comparison to plan due to weak market demand.

Positive volume developments in consumer products in Southeast Asia, China and Africa and growth in the sale of caseinates and ingredients for the pharmaceutical industry

ASPIRATION

- To achieve around 5 percent annual volume growth up to 2020 in the selected priority product-market combinations.
- To efficiently process approximately 10 billion kilos of milk supplied by member dairy farmers.
- To grow to 15 billion euros revenue by 2020.

- To be financially healthy and in harmony with nature and society in the short term and in 20 years’ time in order to also create value for the following generations of dairy farmers.

REALISATION

- In 2017, the volumes in the selected priority product-market combinations were equal to those for the year 2016.
- In 2017, 10.7 billion kilos of milk supplied by member dairy farmers was processed.
- In 2017, 12.1 billion euros in revenue was realised.

- In 2017, buffer capital was 14.2 percent in comparison to 14.0 percent in 2016.
- The development of the sustainability programme is on track: six of the ten core objectives for 2020 were achieved by year-end 2017. Energy efficiency and greenhouse gas emissions at farms require more attention.

“Insight into greenhouse gas emissions at the farm level helps dairy farmers to clearly focus their activities”

Jeroen Hospers – Research Specialist FrieslandCampina

nourishing by nature – now and for generations to come



Business groups

Consumer Products Europe, Middle East & Africa

- Revenue and volume in the Netherlands and Belgium were under pressure due to increasing competition from brands and private labels in a slightly declining market.
- The revenue and volume of food service products grew.
- Dutch investment company Standard Investment took over the Riedel fruit juices and fruit drinks activities in the Netherlands and Belgium. This enables FrieslandCampina to primarily focus on its dairy portfolio.
- The result trend in Germany continues to be disappointing due to the fact that the rising guaranteed price could only be passed on in part and with a delay.
- Positive revenue, volume and market share trends in Southeast Europe.
- Revenue and volume in the Middle East were under pressure due to negative currency translation effects and the rising guaranteed price that due to price regulation cannot be passed on in sales prices.
- Volume and result recovered in North and West Africa. However, revenue and result in Nigeria were under pressure due to a fire at a production facility and negative currency translation effects.

Revenue in 2017 rose to 3,518 million euros, an increase of 3 percent in comparison to 2016. This is primarily due to higher sales prices in response to the significantly increased guaranteed price and the purchase price of other raw materials. In 2017, volumes decreased for various reasons, including a fire in Nigeria and the decision not to renew poorly performing private label contracts. In spite of the implementation of price increases, the operating profit decreased due to negative currency translation effects, primarily in Nigeria, and a delay in passing on increased costs as a result of standing contracts with customers.

Consumer Products Asia

- Volume grew in Indonesia, Vietnam, Hong Kong and Thailand.
- Frisian Flag experienced strong growth with its condensed milk in Indonesia.
- Volume and result were under pressure in the Philippines, in particular due to strong price competition from local producers.
- Friso is market leader in Hong Kong. Due to a decrease in the number of Chinese tourists in Hong Kong and the stricter border policy, volume and result grew at a reduced rate.
- Market shares in the region were under pressure due to increasing price competition by local competitors.
- Engro Foods in Pakistan experienced a difficult year. Sales declined due to local protests against packaged milk and margin was under pressure due to unfavourable tax measures.

Revenue in 2017 rose by 9 percent to 2,529 million euros due to the acquisition of Engro Foods in Pakistan at the end of 2016. The company contributes to revenue for the full year in 2017. Autonomous revenue declined by 3.2 percent, with stable volumes. The positive currency translation effect on revenue amounted to 72 million euros (3.1 percent). The operating profit declined due to the increase in raw material prices that could only partly be passed on in sales prices and only after a delay. Price competition, especially by local competitors, is increasing.

Key figures	2017	2016	Δ%
millions of euros, unless stated otherwise			
Revenue	3,518	3,419	2.9
Revenue before currency translation effects	3,618	3,419	5.8
Operating profit ¹	▼		
Price effect on revenue ¹	▲		
Volume trend (percentage) ¹ (adjusted for disposals)	-4.8		
Volume-mix effect on revenue (percentage) ¹	-2.8		

¹ Compared to 2016

Key figures	2017	2016	Δ%
millions of euros, unless stated otherwise			
Revenue	2,529	2,321	9.0
Revenue excluding acquisition	2,238	2,312	-3.2
Revenue excluding acquisition and before currency translation effects	2,310	2,312	-0.1
Operating profit ¹	▼		
Price effect on revenue ¹	▼		
Volume trend (percentage) ¹	23.8		
Volume trend excluding acquisition (percentage) ¹	0.5		
Volume-mix effect on revenue (percentage) ¹	0.2		

¹ Compared to 2016



Consumer Products China

- Friso Prestige grew significantly in volume due to the expansion of its distribution network to include additional cities and the increasing demand for more premium infant nutrition.
- Friso Gold continued to be the market leader in digital sales, but volume was under pressure
- Dutch Lady Gold, Friso Gold and Friso Prestige Stage 1, Stage 2 and Stage 3 were approved by the China Food and Drug Administration.
- The importance of online activation and sales continued to increase in China.
- Black&White condensed milk continued to grow in the catering segment.

At 583 million euros, revenue stayed approximately the same as in 2016. Competition on price increased ahead of the new registration criteria for infant nutrition. Effective from 1 January 2018, only infant nutrition recipes approved by the Chinese authorities can be sold. The result is that the number of recipes will be limited.

The total Friso market share remained the same in comparison to 2016, in a highly competitive market. Dutch Lady infant nutrition produced by the joint venture Friesland Huishan Dairy is gradually growing in revenue, as well as volume. The partner in this joint venture, China Huishan Dairy Holdings Company Ltd, ran into financial problems at the end of March 2017. This caused the partner's production to be lost and the business group's volume declined by 3.9 percent. The business group's operating profit was under pressure due to negative currency translation effects and increased competition.

Key figures	2017	2016	Δ%
millions of euros, unless stated otherwise			
Revenue	583	575	1.4
Revenue before currency translation effects	604	575	5.0
Operating profit ¹	▼		
Price effect on revenue ¹	▼		
Volume trend (percentage) ¹	-3.9		
Volume-mix effect on revenue (percentage) ¹	7.4		

¹ Compared to 2016

Cheese, Butter & Milkpowder

- Cheese sales to supermarkets in Europe rose in volume as well as value.
- The volume and the result for the Zijerveld cheese merchant increased.
- The sales of meadow cheese continued to increase.
- The sales prices for butter achieved a record high and the sales volume of specialty butters continued to grow.
- Milk powder sales prices continued to be low in part due to the European stocks of skimmed milk powder.
- FrieslandCampina Export's result was under pressure due to difficult market conditions, especially in Africa, the higher guaranteed price and negative currency translation effects.

Revenue in 2017 rose by 21.0 percent to 3,104 million euros. The total sales volume declined due to the reduced sale of basic products. The sales prices for butter (for industrial buyers) and for cheese, albeit at a lower rate, rose significantly in the first three quarters. These price increases resulted in a significantly higher operating profit in the first half of the year. However, the significant decrease in butter and cheese prices in the fourth quarter offset these positive results.

Key figures	2017	2016	Δ%
millions of euros, unless stated otherwise			
Revenue	3,104	2,565	21.0
Operating profit ¹	▼		
Price effect on revenue ¹	▲		
Volume trend (percentage) ¹	-4.5		
Volume-mix effect on revenue (percentage) ¹	-2.3		

¹ Compared to 2016

Ingredients

- FrieslandCampina DMV was successful in the sale of caseinates and protein-rich specialties for sports nutrition. In addition, a promising start was made in the medical segment.
- FrieslandCampina Domo grew in volume, while the result was under pressure due to increasing competition on ingredients for infant nutrition and rising raw material costs.
- DFE Pharma experienced growth due to growth in market share among major clients.
- The creamers market was competitive due to recent expansions in market capacity and the volatility of the costs of raw materials.
- The margin improved due to cost controls and improvements in efficiency.

Revenue in 2017 rose by 7.6 percent to 1,793 million euros. This increase is primarily due to price increases. Volume rose somewhat, while the operating profit remained the same in comparison with 2016. Excluding the one-off gain in 2016, due to the sale of a business unit, the operating profit rose as a result of an improved margin.

Key figures	2017	2016	Δ%
millions of euros, unless stated otherwise			
Revenue	1,793	1,667	7.6
Operating profit ¹	~		
Price effect on revenue ¹	▲		
Volume trend (percentage) ¹	0.6		
Volume-mix effect on revenue (percentage) ¹	0.5		

¹ Compared to 2016



Innovation

FrieslandCampina focuses its innovations on the realisation of sustainable growth and the health and well-being of consumers. Specific research & development programmes focus on improvements in the dairy farming sector and in the area of sustainability. In 2017, FrieslandCampina invested 81 million euros in research & development activities.

Milk contains high-quality proteins, minerals, such as calcium, and vitamins, such as B2 and B12. FrieslandCampina makes an effort to gain even better insight into the nutritional needs of babies, children, adults, active sports people and the elderly in different countries and cultures, allowing it to contribute to people's health. This translates into new products and better processing capabilities.

Key developments in 2017

- The composition of Frisomum Dualcare+ has been adjusted to meet the needs of pregnant women and the unborn child.
- In China, the Chinese government has approved the recipes for Friso Gold, Friso Prestige and Dutch Lady Gold (Stage 1, 2, 3).
- New infant nutrition ingredients were developed for various B2B customers.
- The range of ingredients for FrieslandCampina DMV's sports nutrition products was further expanded.
- Recipes for evaporated milk were improved on the basis of new knowledge and insights about proteins in relation to consumer taste preferences and applications.
- Protein-rich sports nutrition for sports people was developed and introduced under the name Vifit Sport.
- The medical nutrition research programme offers prospects for the coming years.
- The FrieslandCampina Institute organised a conference during which knowledge, insight and experiences about sport and nutrition were shared with 800 nutrition experts.

Milk in coffee and tea beverages

Rainbow Qubez, a product composed of concentrated milk, tea and herbs, was introduced in the Middle East. This is a traditional Karak tea with an authentic flavour that takes minutes to prepare instead of half an hour. Following the development of Lattiz (milk foam system for the catering sector) in 2015, this is once again a groundbreaking innovation using milk in coffee and tea drinks.

Cheese innovations

A new E-number free mozzarella variation was introduced, responding to demand from pizza and salad producers. An Edam cheese with low salt content, yet extremely flavourful, was developed for the Spanish market. A new 35+ cheese was developed for a retail organisation. The product contains less fat and stands out in terms of flavour and structure. FrieslandCampina won various awards with this new cheese.

Packaging

FrieslandCampina also renews and improves packaging. A new PET production line and packaging have been developed and put into use for Vifit Goedemorgen and Landliebe. New re-sealable packaging, with a 60 percent lower CO₂ footprint, was developed for Milner sliced cheese.

Increasingly more attention is focused on making processes, products and dairy farming sustainable



Cooperation
through means of
open innovation

More sustainability
Processes, products and dairy farming are becoming increasingly sustainable. Based on heat recovery, FrieslandCampina saves significant quantities of energy in the milk drying process. For our dairy farmers, FrieslandCampina has developed a practical model that calculates the emission of greenhouse gases for the milk produced on individual dairy farms. The model uses

various data points, such as farm size, feed composition, use of artificial fertilisers, herd characteristics and energy generation. The results provide dairy farmers with better insight into how the emission of greenhouse gases associated with milk production can be reduced.

Website: open innovation
Collaboration through open innovation and particularly with start-ups is important to FrieslandCampina. External parties are invited to contribute to innovations via a website (www.frieslandcampina.com/en/innovation/open-innovation). This results in new knowledge and insights that are not directly available within the company, enabling it to more quickly anticipate new developments.

In 2018, innovations are foreseen in a number of areas, such as sustainability, infant nutrition, sports nutrition, coffee and tea creamers, and a further reduction of sugar, salt and calories. In various areas the company is collaborating with other organisations, such as Wageningen University & Research.

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Quality

FrieslandCampina, together with the cooperative's member dairy farmers, controls the entire production chain: from grass to glass. FrieslandCampina uses its own integrated quality system, Foqus, to safeguard the safety and quality of its products throughout the production chain. By means of Foqus, FrieslandCampina provides consumers, customers and governments the guarantee that the products and production processes comply with the strict requirements pertaining to food safety, quality, safety in working conditions, fire safety and the environment. Through an extensive programme of training and audits, Foqus is safeguarded and continuously monitored at production facilities, member dairy farmers and suppliers of raw materials.

FrieslandCampina developed the Golden Quality Rules in 2016. These rules encourage all employees to meet the quality expectations of customers and consumers to an even greater extent. The Golden Quality Rules ensure that product and process quality are safeguarded even more effectively and efficiently.

The Golden Quality Rules, supported by an internal communication campaign, were introduced at all locations in 2017. Part of this initiative is the presentation of Golden Quality Certificates to production facilities that have not had any quality incidents for at least one year and that scored well in the Foqus audit.

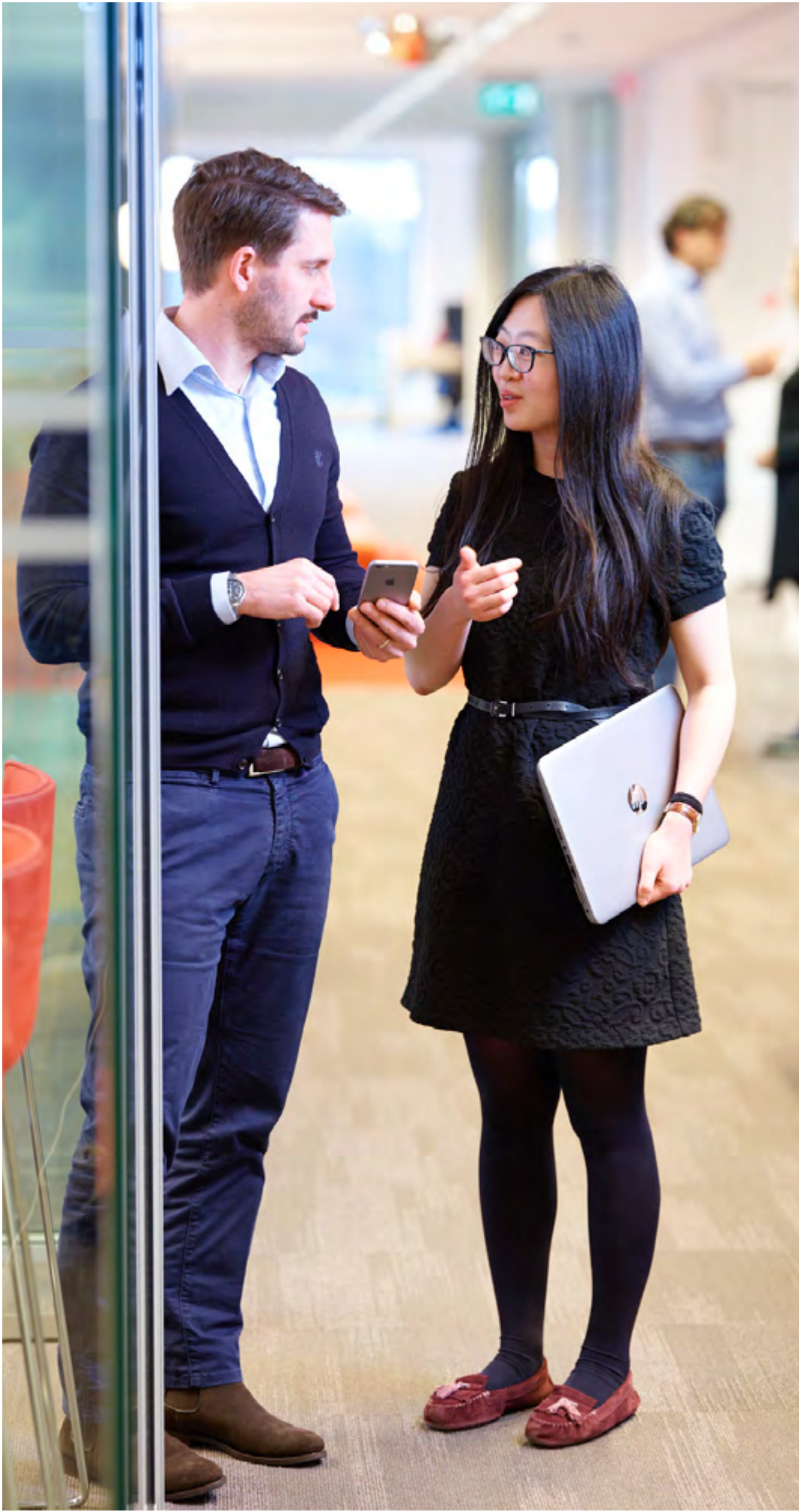
- The Golden Quality Rules concern:
- satisfied consumers and customers;
 - qualified and committed people;
 - robust processes;
 - clean and efficiently organised work areas;
 - the sustainable implementation of changes and resolution of problems;
 - reliable data;
 - professional partners and suppliers.

The Foqus module for member dairy farmers (Foqus Planet) gives priority to safeguarding quality and food safety. In addition, stimulating pasture grazing and sustainability in the dairy farming sector is key. Different programmes, linked to financial compensation, are used to provide this stimulation.

Statutory requirements form the basis for monitoring quality. Furthermore, additional requirements must be met. Various international standards, such as GMP+, HACCP, ISO 9001, ISO 22000, FSSC 22000, OSHAS 18000 and ISO 14000, have been integrated into Foqus. This way FrieslandCampina's buyers, as well as consumers, can rely on the fact that products are safe and of high quality, and that they are produced in a responsible manner. Each year FrieslandCampina reviews the Foqus requirements and makes adjustments as necessary, so that the system is always in line with legislation and the newest knowledge and insights.

VARIOUS INNOVATIONS IN 2017

Vifit Sport	protein-rich 'after exercising' sports nutrition
Vifit, Vifit Goedemorgen, Vifit Sport	new PET bottle
Rainbow Qubez	concentrated product of milk and tea, in innovative packaging, that simplifies and speeds up the preparation of Karak tea, while retaining its authentic flavour
Yazoo No Added Sugar	dairy-based beverage without added sugars in various flavours for the British market
Fruttis-yoghurt	protein-rich yogurt for the Russian market
Campina met een vleugje smaak	dairy-based beverage in two flavours for the Belgian market
Frisomum Dualcare+	nutrition for pregnant women and the unborn child
Milner	new, re-sealable and more sustainable packaging for sliced cheese
Edam	improved Edam cheese recipe (less salt) for the Spanish market



Our employees

In 2017, the average number of employees (FTEs) rose by 8 percent to 23,675, primarily due to the acquisition of Engro Foods in Pakistan.

Talent Management

Focused recruitment, development and retention of talent are crucial for FrieslandCampina to continue to be successful. Progress was made in this area in 2017:

- FrieslandCampina developed its employer’s image and received various best employer awards in Nigeria, China, Malaysia and Hong Kong.
- Internal candidates were appointed to 71 percent of vacant management positions (target is 75 percent).
- Of the internal senior management appointments, 46 percent were promotions. A large part of these promotions (40 percent) came from the Future Leaders pool.
- Sixty leadership programmes are being provided by recognised business schools throughout the world. A large internal leadership programme (Nourishing Leadership) involving 1,344 participants also forms part of this.

Diversity

FrieslandCampina aims to increase the percentage women in senior management positions to 30 percent by 2020. In 2017, this was 23.1 percent which is virtually the same as in 2016. At year-end 2017, FrieslandCampina appointed a new Executive Leadership Team. Forty percent of the members of the Executive Leadership Team and fifty percent of the members of the Executive Board are women. Four nationalities are represented among the ten members of the Executive Leadership Team. The appointments indicate that FrieslandCampina is intensifying its diversity in the new organisation.

Culture

FrieslandCampina’s culture ensures that colleagues appreciate each other, communicating openly and acting decisively. In 2018, the company launches a programme using these values to shape an energetic and performance-driven culture to focus on winning. This programme includes a number of projects to influence our employees’ attitude and behaviour, ensuring we achieve our ambitions. Employees take inspiration from the following starting points: our purpose *nourishing by nature* is leading; have a commercial attitude; and behave as if FrieslandCampina is your own company. The programme also results in changes to our remuneration systems, new development programmes for managers and new meeting structures. This is supported by an extensive communication campaign.

Social Agenda

A Social Agenda was developed together with the Central Works Council in the Netherlands. This Social Agenda sets out the direction for developing FrieslandCampina’s social policy, its terms and conditions of employment and labour relations.

Compass

In 2017, FrieslandCampina once again focused the attention of its employees on Compass, its Code of Conduct for good business behaviour, and the Speak Up procedure. New employees attend an introduction session and must complete mandatory e-learning about Compass and Speak Up. Employees complete mandatory e-learning and training courses about Compass topics that are relevant to their position, such

as fair competition practices, fair business practices and the privacy/protection of personal data. The Compass Code of Conduct and the Speak Up procedure are available on FrieslandCampina’s website.

FrieslandCampina wants everyone to come home safe and sound

Safety

FrieslandCampina aims to create the safest possible workplace for its employees and suppliers. The objective is zero accidents and incidents, so that everyone working for FrieslandCampina comes home safe and sound (zero harm).

In 2017, the number of accidents resulting in sick leave at FrieslandCampina locations stabilised at 40 (2016: 36). In 2017, the measurement and management of the ‘number accidents resulting in sick leave’ was expanded to include the ‘number of accidents resulting in work adjustment’ and the ‘number of accidents requiring medical treatment’ (collectively the ‘total number of accidents’). The total number of accidents declined by 24 percent to 169 accidents (2016: 223). The total number of accidents per 200,000 hours worked declined from 0.78 to 0.55.

In 2017, the main causes of accidents were related to:

1. Unsafe behaviour: acting too fast (with good intentions: to prevent process interruption).
2. Falling, tripping, slipping (falling from stairs, slippery floors).
3. Machines (interventions in rotating parts, exposure to steam, hot liquids, pressure, electricity, et cetera).
4. Internal transport (forklift truck and pallet truck collisions).

In 2017, additional attention was paid to the safety of temporary employees and suppliers, explosion safety - through means of a global ATEX Programme, accident analyses and lessons learned from incidents.

Number of Employees	2017	2016
Average number of FTEs		
Consumer Products Europe, Middle East & Africa	7,160	7,313
Consumer Products Asia	7,773	6,190
Consumer Products China	1,153	1,101
Cheese, Butter & Milkpowder	2,723	2,720
Ingredients	3,060	3,094
Corporate & Support	1,806	1,509
FrieslandCampina	23,675	21,927



Queso Holandés original... y más

BLACK&WHITE LARGEST MUG OF TEA WORLD RECORD

On 25 November 2017, the Black&White brand established a new Guinness World Record in Shanghai. With the help of a hundred milk tea masters, the largest mug in the world was filled with Hong Kong-style milk tea. The gigantic Black&White mug was 1.8 metres high with a 2.2-metre diameter. The mug was filled with 4,050 litres of hot milk tea over a period of almost three hours.



Record high online sales of Friso in China during 'Double 11'



During 'Double 11', the largest online shopping festival in the world, Friso infant nutrition revenues in China reached a record high - an exceptionally strong performance on the part of Friso Prestige. Member dairy farmers were used for online communication, a special Friso-style song, live broadcasts and home deliveries of Friso products. Our from grass to glass concept was also introduced in China, using authentic farmer's stories.



Growth of Rainbow in the Middle East

Due to the strong growth of its Rainbow products, FrieslandCampina has become market leader in evaporated milk in Saudi Arabia. Rainbow Qubez, a dissolvable capsule for preparing Karak, a milk tea, was introduced to the United Arab Emirates in order to realise further growth in evaporated milk in the Middle East.

Top 5 INDUSTRIAL PRODUCTS in 2017 by revenue in euros

- 1 **DMV Excellion** (caseinate)
- 2 **Kievit Vana Blanca** (creamers)
- 3 **Domo Vivinal GOS** (galacto-oligosaccharides)
- 4 **DFE Pharmatose** (pharmaceutical lactose)
- 5 **Kievit Vana Grasa** (fat powders)

NEW INFANT NUTRITION PACKING LINE IN BEILEN

A new infant nutrition packing line was installed at the production facility in Beilen (Netherlands). This has significantly expanded the infant nutrition packing capacity. The entire line is fully automated and can fill cans of infant nutrition at a speed of 200 cans per minute. The entire packing process meets the highest possible quality standards.



SALE OF RIEDEL ACTIVITIES

FrieslandCampina wants to increasingly focus on dairy and has therefore sold its fruit juices and fruit drinks operations. Riedel is known for its Appelsientje, CoolBest, DubbelFriss, DubbelDrank, Taksi and Extran brands.



Member dairy farmers go digital

Our member dairy farmers are increasingly using digital tools. In the spring of 2017, FrieslandCampina introduced the milk app for member dairy farmers. This way they can readily access the most up-to-date milk supply and quality data. FrieslandCampina also participates in the Coöperatie Datahub (Cooperative Data Hub). This cooperative collaborates with companies, knowledge institutions and entrepreneurs in the agricultural sector on the development of innovative working methods designed to improve performance in the area of sustainability, profitability and well-being.



INTRODUCTION OF ORGANIC VIVINAL GOS SYRUP

FrieslandCampina Domo has introduced an organic GOS syrup. This way it anticipates the increasing demand for organic ingredients for infant nutrition. This organic dairy ingredient is rich in non-digestible galacto-oligosaccharides (GOS) and is produced from organically certified lactose through means of a patented enzyme technology. In the intestines the product stimulates the growth of beneficial bacteria, inhibits the growth of harmful bacteria and helps maintain a healthy digestive system.

Purpose-driven enterprise

The objectives and activities in the area of corporate

social responsibility form an integral part of

FrieslandCampina’s business strategy. They are linked

to FrieslandCampina’s purpose: *nourishing by nature –*

better nutrition for the world’s consumers, a good living

for our farmers, now and for generations to come. The

activities contribute to the Sustainable Development

Goals of the United Nations.

Sustainable Development Goals

The Sustainable Development Goals comprise seventeen ambitious goals relating to topics such as responsible production and consumption, climate, sustainable communities, health, well-being and efforts to fight poverty and starvation. These development goals have been endorsed by 193 countries and give governments and the business sector a roadmap for a fairer and more sustainable future. The FrieslandCampina *route2020* strategy and the *nourishing by nature* sustainability policy are in line with the Sustainable Development Goals.

Better nutrition for the world’s consumers

FrieslandCampina’s nutritional policy is based on the WHO Global Action Plan. It is consistent with two Sustainable Development Goals of the United Nations: to end hunger in the world and to promote good health and well-being. FrieslandCampina works on a healthy product range, is transparent in its communications about its products and initiates educational programmes about healthy nutrition.

2017 results

Balanced product range

FrieslandCampina’s product range has a good balance between consumer products as basic nutritional products for daily consumption and indulgence products for occasional consumption. Starting in 2017, this indicator will be reported on the basis of sales volume. The objective is to achieve a proportion of at least 70 percent basic nutritional products and therefore a maximum of 30 percent indulgence products. In 2017, this target was achieved with proportions of 81.2 percent and 18.8 percent, respectively.

Product composition

The largest part of FrieslandCampina’s consumer products complies with the FrieslandCampina criteria for e.g. protein, calories, sugar, salt and fat. The objective is that by 2020, at least 65 percent of the products (on the basis of sales volume) comply with the criteria as described in the FrieslandCampina Global Nutritional Standards. In 2017, this was 64.5 percent. The FrieslandCampina Global Nutritional Standards are scientific nutritional criteria that FrieslandCampina’s consumer products are expected to meet. They are used as a guideline in the reformulation programme.

Milk naturally contains important nutrients such as protein and calcium that FrieslandCampina wants to retain in its products as much as possible. According to the World Health Organisation, in the fight against diseases of affluence (obesity and nutrition-related diseases), it is important to limit the intake of sugar, salt and fat. FrieslandCampina aims to limit the content of these nutrients in its products. The criteria for trans-fat, saturated fat, added sugar and salt are taken from the criteria of Choices International, developed by independent scientists.

The number of calories and the quantity of salt, sugar, fat and protein to be met by a product depends on the type of product (for example, milk product, cheese, butter or meat substitute) and its importance in daily nutrition (basic food products for daily consumption, self-indulgent products or products for a specific target group).

A good living for our farmers

FrieslandCampina’s goal is to optimise milk valorisation, so as to maximise its contribution to the incomes of dairy farmers and the continuity of dairy farms for many generations to come. The task is to process the milk of the Zuivelcoöperatie FrieslandCampina’s member dairy farmers and to sell it at a price that ensures value is created in a sustainable way over the long term for member dairy farmers and society. This value creation becomes evident in the level of the performance premium and member bonds that member dairy farmers receive on top of the guaranteed price for their milk. FrieslandCampina has more than 140 years of experience in the dairy farming sector and applies the knowledge gained to help dairy farmers in countries in Asia, Africa and Eastern Europe to further develop their farms, for example on the basis of the Dairy Development Programme.

2017 results

Dairy Development Programme

In 2017, more than 55,000 local farmers in nine countries in Africa, Asia and Eastern Europe were part of the Dairy Development Programme (DDP). In 2017, the Big Push Programme was initiated in Pakistan. This programme of the Engro Foods subsidiary and the Punjab Skills Development Fund focuses on improving milk quality, productivity and the livelihood of 9,000 small dairy farmers in the south of the Punjab Province.

A milk collection centre was opened in Saki, Nigeria, in June 2017. Five hundred dairy farmers drop off their milk here every day, which is then transported to Lagos. In Thailand, Malaysia, Indonesia, Nigeria, Vietnam, Uganda and Ethiopia, more than 375 dairy farmers were trained by FrieslandCampina member dairy farmers as part of the Farmer2Farmer programme. In addition, this year, for the first time, FrieslandCampina measured the extent to which dairy farms in DDP countries comply with the Good Dairy Farming Practices of the United Nations Food and Agriculture Organisation (FAO). This was done for a select focus group of 199 dairy farms in Vietnam, Indonesia and Malaysia. 54 percent scored at least satisfactory.

Now and for generations to come

FrieslandCampina is working on climate-neutral growth of the dairy farming sector, continuous improvement of animal health and animal welfare, and the preservation of biodiversity. In relation to climate, the goal FrieslandCampina has set for itself is to keep the greenhouse gas emissions in 2020 of the cooperative and the company as a whole equal or lower to 2010. This also applies in case of an increase in production. This includes the greenhouse gases released at member dairy farms, during

transport from the farm to production facilities and when the dairy is processed. To achieve climate-neutral growth, FrieslandCampina is working on creating an efficient and sustainable production chain. This means

Key figures	2017	2016	Δ%
Better nutrition for the world’s consumers			
Balanced product supply ¹ (basic food products sold as a percentage of the total volume of consumer products sold)	81	76 ³	5
Product composition ² (products that meet the FrieslandCampina Global Nutritional Standards as a percentage of the total volume of consumer products sold)	64	62 ³	2
A good living for our farmers			
Value creation member dairy farmers (in euros per 100 kilos of milk)	1.33	3.44	-61.3
Local farmers who participate in a training programme in DDP countries (number)	20,347	18,752	8.5
Local dairy farms that at a minimum received a 'satisfactory' rating in relation to the FAO’s Good Dairy Farming Practices in DDP countries (as a percentage of the research group)	54		
Now and for generations to come			
Sustainable production			
Energy consumption (GJ/tonne product)	2.82	2.77	1.8
Greenhouse gas emission production and transport (kt CO ₂ equivalent)	883	926	-4.6
Sustainable procurement of raw materials			
Sustainable agricultural raw materials (percentage of total raw materials) ⁴	55	43	
Green electricity (percentage of total electricity consumed)	80	78	
Dairy Farms			
Pasture grazing (percentage of member dairy farms in the Netherlands applying a form of pasture grazing)	79.4	78.2	
Greenhouse gas emissions by member dairy farms (kt CO ₂ equivalent)	12,098	13,206	-8.4

¹ FrieslandCampina’s product range has a good balance between basic nutritional products for daily consumption and indulgence products meant for occasional consumption.

² The largest part of FrieslandCampina’s product range complies with the criteria for elements such as protein, calories, sugar, salt and fat, as described in the FrieslandCampina Global Nutritional Standards.

³ Several details of the monitoring process were refined in comparison to 2016. The auditor did not provide any assurance for the 2016 figures.

⁴ Raw materials with globally recognised sustainability certificates or products for which a plan for sustainable development is created in cooperation with suppliers.

2017 is the first year in which all of FrieslandCampina's production facilities in Europe made 100 percent use of green electricity

improving sustainability in dairy farming, procuring sustainable (agricultural) raw materials, and reducing energy consumption in the production of dairy products. Furthermore, the issue of green certificates stimulates member dairy farmers to generate sustainable energy, for example with wind turbines, solar panels or biomass.

Worldwide, antibiotics make a key contribution to countering bacterial infections in both humans and animals. To help prevent antibiotics resistance, the Dutch animal sectors have negotiated agreements with the government relating to responsible antibiotics consumption. At dairy farms, antibiotics may be applied only on the explicit instructions of a veterinarian. The use of antibiotics at dairy farms has decreased in recent years. This is the result of the efforts made by FrieslandCampina's member dairy farmers and due to better collaboration with other parties in the dairy chain, including veterinarians.

A grazing cow is part of the Dutch cultural landscape. FrieslandCampina encourages member dairy farmers in the Netherlands, Belgium and Germany to allow their cows and young livestock to graze. When dairy cows are allowed to graze in the pasture for a minimum of six hours a day on at least 120 days per year, the dairy farmer is entitled to a meadow milk premium of gross 1.50 euro per 100 kilos of milk. Furthermore, FrieslandCampina also allows the option of partial pasture grazing with a 0.46 euro mark-up per 100 kilos of milk. To qualify, dairy farmers must allow a minimum of 25 percent of the cattle present on their dairy farm to graze in the pasture for a minimum of six hours a day on at least 120 days per year.

2017 results

Climate-neutral growth

The greenhouse gas emission for production and transport, in kt CO₂ equivalent, declined by 4.6 percent. The key reason for this is the increasing quantity of energy produced from renewable resources (solar panels, wind) by the cooperative's member dairy farmers, as well as the increased purchase of renewable energy to replace the energy produced with fossil fuels. In 2017, energy consumption increased by 1.8 percent to 2.82 GJ/tonne.

A programme designed to enable FrieslandCampina to reduce its energy consumption by at least 8 percent over a period of four years was initiated in 2017. The programme includes various components, which will result in significant reductions such as the technological process innovations in Leeuwarden and Gerkesklooster (both in the Netherlands) to be completed in 2018. During start-up, these projects will initially lead to increased energy consumption.

Sustainable procurement of raw materials

In addition to milk, FrieslandCampina also uses other agricultural raw materials for its products. By 2020, FrieslandCampina aims to only purchase agricultural raw materials and paper packaging acquired from fully sustainably managed sources. Agricultural raw materials that are already (partially) purchased from sustainably managed sources include for example cocoa, soy oil, palm oil, cane sugar, starch and paper packaging. These are products with globally recognised certificates or products for which a plan for sustainable development is created in cooperation with suppliers.

In 2017, the share of raw materials purchased from sustainably managed sources increased to 55 percent. This represents an increase of 12 percentage points compared to 2016. For example, the share of cane sugar purchased from sustainably managed sources increased by 16 percentage points. In addition, the purchase of starch from sustainably managed sources rose by 21 percentage points in 2017. Furthermore, the purchase of paper packaging from sustainably managed sources rose by 14 percentage points, particularly due to the increased purchase of sustainable corrugated cardboard.

FrieslandCampina is a co-founder of the BICEPS Network for more sustainable ocean shipping. The BICEPS Network factors in the environmental performance of shipping companies in the procurement of sea freight and aims to simultaneously accelerate the implementation of successful sustainable innovations in this sector. In 2017, FrieslandCampina used the scores from the BICEPS Rating System as an additional selection criterion in the procurement of sea freight. In 2017, the number of participants in the BICEPS Network doubled to ten participating companies, and innovation sessions were held on sustainable fuels and fuel efficiency techniques.

2017 is the first year in which all of FrieslandCampina's production facilities in Europe made 100 percent use of green electricity. This represents 80 percent of FrieslandCampina's total worldwide electricity consumption. Almost 30 percent of all green electricity is purchased from our members. In addition to the purchase of green electricity, some of the production facilities also directly generate solar energy on their roofs.

Dairy farms

In 2017, 79.4 percent of member dairy farmers in the Netherlands practised some form of pasture grazing. This represents an increase of 1.2 percent in comparison to 2016. In 2017, 314 member dairy farmers used pasture grazing for their dairy cattle for the first time. In 2017, the sales volume of meadow cheese once again increased.

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FrieslandCampina, the World Wildlife Fund (WWF) and Rabobank have developed a methodology that makes it possible to measure the impact of dairy farms on biodiversity and climate at farm level. This provides insight into potential farm improvements. FrieslandCampina, together with member dairy farmers, will be investigating how to make use of this methodology.



DAIRY DEVELOPMENT PROGRAMME

A better future for Nigerian dairy farmers

“The Dairy Development Programme most certainly contributed to the growth of our farm and that of other dairy farmers,” says Nigerian dairy farmer Moyosore Olatunde Rafiu. “Together we created more employment in Nigeria, better opportunities for youth and a better livelihood for our residents.”

On the basis of the Dairy Development Programme, FrieslandCampina provides local dairy farmers (often small farms) in Asia, Africa and Eastern Europe with knowledge and expertise about sustainable and efficient farming practices. The goal: to increase milk production and improve milk quality. This provides farmers with a better income and more local milk of better quality becomes available for the population.

Healthy operation

Moyosore owned three cows in 2009, when he established his company Genius Integrated Farms. Nowadays, he has thirty cows grazing on twenty hectares of land on his dairy farm, close to the Nigerian city of Iseyin.

This dairy farmer has participated in the programme for the past five years. “The training, advice and technical support provided by FrieslandCampina help us run a healthy dairy farm. For example, we learn how artificial insemination can improve the genes of our cows. We also learn how to innovate in the area of nutrition and caring for our animals.”

Increased returns

“Recently we attended a Farmer2Farmer training session. In this session, experienced dairy farmers from the Netherlands taught us how to manage our farm and how to achieve increased returns. All of the knowledge we applied in actual practice resulted in an improvement of our milk quality and increased milk production. The result: increased revenues.”

The future

“It is good to be able to build on the experience of a leading dairy enterprise such as FrieslandCampina. Thanks to the Dairy Development Programme I look forward to a bright future for the dairy farmers in my country.”

AT THE KITCHEN TABLE

Frans & Hein

2017 was a year in which FrieslandCampina resolved various issues. This has provided a perfect foundation for a productive 2018. Both directors consider it their task to improve the balance between milk supply, processing capacity and market demand. Frans: “FrieslandCampina is a link in the chain, not the final station.” Hein emphasises the importance of a close relationship between producer and consumer: “To safeguard the long term, we must collectively formulate how to bring sustainability, value development and quality together for the enterprise and the dairy farmer.”



Frans Keurentjes (left), Chairman of the Board of the cooperative and the Supervisory Board, and Hein Schumacher, CEO

Adding sustainable value continues to be a collective priority

About 2017

Hein: “After a number of lean years, the high milk price in 2017 gives our member dairy farmers a nice boost. The fact that the company for a large part was able to translate this into higher dairy product prices indicates that we have a solid basis. This is thanks to our strong brands and the alertness of the organisation. In addition, we made progress in a number of major markets in Southeast Asia. The business group Ingredients also performed well in 2017. In 2017, FrieslandCampina launched a transformation programme to increase the agility of the company. A new organisational structure is giving us a better market orientation, enabling us to act faster and provides us with greater insight to enable us to allocate our resources where they have the greatest impact. In short, there is a solid foundation. In that sense, 2017 has been a productive year.” On balance, apart from these

positive developments, the 2017 financials also include some challenges according to Hein. “In Europe we were faced with severe competition, especially in Germany. We have taken measures to improve our performance in that market in the future. In China we intervened in the joint venture Friesland Huishan Dairy, after our partner ran into difficulties. Both interventions were unpleasant but essential.”

Frans, too, is enthusiastic about the high milk price. “This has given us some breathing space. In addition, I am happy that as a cooperative with The Merits of Milk, we now have a vision that will provide us with a compass for navigating through the coming years. Clarity and unanimity are conditions for making a successful journey together. I consider the third positive result we achieved in 2017, the impressive steps forward we have made in relation to sustainability at and around

the farm. Think of the increase in pasture grazing, the installation of solar panels and the phosphate reduction that the sector for a large part has funded itself.” Frans adds a caveat. “The phosphate regulation, together with other measures, has increased uncertainty among farmers. Over the past two years, the Dutch political establishment has started to involve itself in many areas which previously were under the control of the farmer: ranging from animal well-being to CO₂ emissions and biodiversity. This affects the farmer’s autonomy as an independent entrepreneur. Also, the two temporary measures that FrieslandCampina was forced to announce at the beginning of the year had a significant impact on the state of mind of member dairy farmers. It is distressing when you are forced to limit your milk production.”

About sustained value creation

Hein considers it a collective task to continue to add as much value as possible to milk. “This is something that FrieslandCampina has always done well by developing strong brands and by investing in new markets. However, the world is changing and the competition is not sitting still. Since the elimination of the milk quota, an entirely new situation has emerged. And that is not the only thing. Two dominant revolutions are currently drastically changing society: sustainability and digitisation. And naturally this in turn affects FrieslandCampina. In my view we have to play a leading role in this area. Not as an observer, but by actively participating. Or better still, by taking the lead when it concerns the dairy sector.”

Value creation continues to be the highest priority in 2018 for Frans as well. “We need to come to a new mutual agreement on how to

Frans: “We have to be aware that we milk our cows in order to provide a family, for example in Almere or Shanghai, with a high-quality dairy product”

Hein: “Everything I do starts and ends with our purpose. I hope that everyone who works here abides by this principle”

approach the market.” He considers aligning the producer with the consumer a key objective for 2018. “We want to strengthen that chain. FrieslandCampina is a link in this respect, not the end of line as some members currently see it. We have to be aware that we milk our cows in order to provide a family, for example in Almere or Shanghai, with a high-quality dairy product.”

“Although we have been working together in the same way for more than 140 years, the cooperative is an excellent organisational form that is a perfect fit for our time,” according to Hein. “It provides for a natural balance between the urge for short-term profits versus making a contribution to society over the long term. Before anything else, members want to pass on their farm to the next generation. This is why it is of vital importance for them to participate in these major changes, otherwise that continuity will be adversely affected. As the owners of the company, the cooperative’s members are faced with market risks, the consequences of which you have to share and accept. Put in another way, the company’s threats and opportunities have an impact at the farm level. For me that is the essence of our cooperative. As management of the company and the cooperative, it is important for us to provide clarity regarding what is coming our way and to be transparent about how we believe we need to respond to that.”

“In that context, trusting your own strength is a good guiding principle,” says Frans. “Just take a look at what we have in-house in terms of expertise: farmers at the farm, employees in our

plants and, for example, marketing expertise. We are in a favourable position to leverage the changes that the sustainability revolution, for example, demands from us. For some members this is still a bridge too far. We will start to involve them more, with, as a guiding principle: you do not have to, but you should want to”

About milk production and the market
“In the classical approach, the cooperative offered security and shield from the uncertain outside world,” says Frans. “As farmer I can freely supply what I want, because there is a guaranteed price. But modern times require us to anticipate what the market is able to absorb and to respond accordingly. For the members this means that if you want to produce freely, this will not be without consequences. The market’s intake capacity is going to play a more dominant role in this context.”

Hein: “I would like to link the debate about members supplying more or less milk to the value the company can continue to add over the long term. Precisely to safeguard the long term, we must collectively formulate how to bring sustainability, value development and quality together. The ambition is to still be the best in ten years’ time. This goes together with certain decisions and measures. Differentiated milk prices already exist today. Just think of the meadow milk premium, for example. The consumer is prepared to pay more for this milk and we pass this on to the dairy farmer. Both of us view that as a major challenge, but we are determined to make progress in this area in 2018. The urgency is high.”

Frans places the development of the milk price in a historical perspective. “Before 2007, fluctuations in milk price per kilo were a matter of mere cents. That provided security and clarity. Due to the reform of agricultural policy in the European Union and the elimination of export subsidies, the volatility of dairy prices has increased since 2007. The FrieslandCampina merger at the end of December 2008 was a direct response to that. Fluctuations on the global market have an even greater impact on the milk price our members receive. Subsequent to the abolition of the milk quota in April 2015, we have seen the milk price fluctuate by multiples of ten cents at a time, causing greater financial uncertainty for farmers. Add to this the increased involvement of government organisations and NGOs, that is not likely to disappear any time soon. In short, the times have changed and are often turbulent.”

About proud owners
“Everything I do starts and ends with our purpose. I hope that everyone who works here abides by this principle,” says Hein. “Let me put it more succinctly: if you are not able to reconcile yourself with this guiding principle, then you should not want to work here. *Nourishing by nature* is the answer to the question why we do what we do. And how we make the difference. When your ambition is ‘better nutrition for the world’, then that demands integrity and quality. To have the opportunity to work together on this, gives a feeling of pride.” Indicating how he wants to stimulate this feeling in 2018, “First and

foremost by promoting an owner’s mindset. No matter where you work, no matter what you do, act as an owner. You then feel the consequences of your actions and this motivates you to constantly improve yourself. This is not as simple as it sounds, because it is confrontational and it makes you vulnerable. But it also ensures that we get the best out of ourselves.” Frans adds: “I see a nice parallel in this with the cooperative. As members we can identify with this, because ownership is self-evident for us. We are constantly looking for insight into the performance of our dairy farm and what we can do to improve it. We ourselves and no one else are responsible. Employees and members can find common ground here.”



KEY FIGURES

millions of euros, unless stated otherwise	2017	2016	Δ%
Results			
Revenue	12,110	11,001	10.1
Revenue before currency translation effects	12,313	11,001	11.9
Operating profit	444	563	-21.1
Operating profit before currency translation effects	480	563	-14.7
Profit	227	362	-37.3
Profit before currency translation effects	243	362	-32.9
Operating profit as a % of revenue	3.7	5.1	
Balance Sheet			
Balance sheet total	9,046	9,318	-2.9
Equity attributable to the shareholder and other providers of capital	3,178	3,169	0.3
Equity as a % of the balance sheet total	35.1%	34.0%	
Buffer capital as a % of the balance sheet total ¹	14.2%	14.0%	
Net debt ²	1,400	1,225	14.3
Cash Flow			
Net cash flow from operating activities	418	850	-50.8
Net cash flow used in investment activities	-414	-955	56.6
Investments			
	531	518	2.5
Total compensation member dairy farmers			
	4,346	3,544	22.6
Value creation for member dairy farmers			
in euros per 100 kilos of milk (excluding VAT, at 3.47% protein, 4.41% fat and 4.51% lactose)			
Guaranteed price	37.96	28.38	33.8
Performance premium	1.03	2.19	
Meadow milk premium ³	0.60	0.29	
Special supplements ⁴	0.12	0.15	
Cash price	39.71	31.01	28.1
Issue of member bonds	0.30	1.25	
Milk price	40.01	32.26	24.0
Additional payments ⁵	0.04	0.22	
Interest on member bonds	0.42	0.41	
Retained earnings	1.33	2.12	
Performance price	41.80	35.01	19.4
Other Information			
Employees (average number of FTEs) ⁶	23,675	21,927	8.0
Number of accidents (per 200,000 hours worked)	0.55	0.78	
Number of member dairy farms at year-end	12,707	13,300	-4.5
Number of member dairy farmers at year-end	18,645	18,906	-1.4
Total milk processed (millions of kg) ⁶	11,433	11,231	1.8
Milk supplied by member dairy farmers (millions of kg)	10,716	10,774	-0.5

¹ Buffer capital is the equity attributable to the shareholder.

² The net debt concerns current and non-current interest-bearing borrowings, payables to Zuivelcoöperatie FrieslandCampina U.A. less the cash and cash equivalents at the company's free disposal.

³ Dairy farmers applying pasturing receive a 1.50 euro meadow milk premium per 100 kilos of milk for 2017. An amount of 1.00 euros per 100 kilos of meadow milk is paid from the operating profit. On average, on all FrieslandCampina members milk, this amounts to 0.60 euro per 100 kilos of milk. Furthermore, another 0.50 euro per 100 kg of meadow milk is paid out pursuant to cooperative schemes. To finance this amount, 0.35 euro per 100 kilos of milk is withheld from all milk. This also pays for the partial pasture grazing premium.

⁴ Special supplements concern the total amount of payments per 100 kilos of milk of Landliebe milk of 1.00 euro per 100 kilos of milk, and the difference between the guaranteed price of organic milk (49.10 euros) and the guaranteed price (37.96 euros) per 100 kilos of milk. On average on all FrieslandCampina members milk, this amounts to 0.12 euro per 100 kilos of milk.

⁵ In 2017, 4.8 million euros were paid out (0.04 euro per 100 kilos of milk) in the context of the temporary 10-cent measure. In 2016, 23.8 million euros were paid out (0.22 euros per 100 kilos of milk) in the context of the temporary 2-cent and 10-cent measures.

⁶ Increase in employees and total amount of milk processed is due to adding Engro Foods, Pakistan

CONSOLIDATED INCOME STATEMENT

In miljoenen euro's	2017	2016
Revenue	12,110	11,001
Cost of goods sold	-10,191	-9,075
Gross profit	1,919	1,926
Advertising and promotion costs	-536	-540
Selling and general administrative costs	-867	-810
Other operating costs	-155	-46
Other operating income	83	33
Operating profit	444	563
Finance income	10	18
Finance costs	-68	-59
Share of profit of joint ventures and associates, net of tax	21	20
Profit before tax	407	542
Income tax	-180	-180
Profit for the year	227	362
Profit attributable to:		
• holders of member bonds	44	44
• provider of cooperative loan	9	9
• shareholder	143	229
• shareholder and other providers of capital	196	282
• non-controlling interests	31	80
Profit for the year	227	362

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December, in millions of euros

	2017	2016 ¹
Assets		
Property, plant and equipment	3,208	3,228
Intangible assets	1,757	1,924
Biological assets	8	8
Deferred tax assets	301	344
Joint ventures and associates	123	126
Employee benefits	10	6
Other financial assets	42	165
Non-current assets	5,449	5,801
Inventories	1,518	1,527
Trade and other receivables	1,655	1,392
Income tax receivable	29	28
Other financial assets	35	51
Cash and cash equivalents	356	514
Assets held for sale	4	5
Current assets	3,597	3,517
Total assets	9,046	9,318
Equity		
Issued capital	370	370
Share premium	114	114
Other reserves	-236	-51
Retained earnings	1,039	876
Equity attributable to shareholder	1,287	1,309
Member bonds	1,596	1,564
Cooperative loan	295	296
Equity attributable to shareholder and other providers of capital	3,178	3,169
Non-controlling interests	334	446
Total equity	3,512	3,615
Liabilities		
Employee benefits	475	539
Deferred tax liabilities	181	221
Provisions	14	14
Interest-bearing borrowings	999	1,152
Other financial liabilities	109	98
Non-current liabilities	1,778	2,024
Interest-bearing borrowings	661	558
Trade and other payables	2,891	2,907
Income tax payable	138	170
Provisions	62	36
Other financial liabilities	4	8
Current liabilities	3,756	3,679
Total liabilities	5,534	5,703
Total equity and liabilities	9,046	9,318

¹ The presentation of the comparative figures for 2016 has been adjusted to reflect the final purchase price allocation related to Engro Foods Ltd. See Note 1 for a disclosure of the adjustment of the purchase price allocation.

CONSOLIDATED STATEMENT OF CASH FLOWS

In millions of euros

	2017	2016
Cash flows from operating activities		
Profit before tax	407	542
Adjustments for:		
• interest	35	28
• depreciation of plant and equipment and amortisation of intangible assets	368	307
• impairments of fixed and intangible assets and reversals of impairments	75	22
• impairments of other financial assets	27	
• share of profit of joint ventures and associates	-21	-20
• other finance income and costs	15	10
• issue of member bonds	32	135
• gain on disposals	-72	-28
• insurance compensation granted	-10	
Total adjustments	449	454
Movements in:		
• inventories	-57	-196
• receivables	-89	-77
• liabilities	-94	318
• employee benefits	-46	-32
• provisions	26	-16
Total movements	-260	-3
Cash flows from operating activities	596	993
Dividends received	22	20
Income tax paid	-162	-140
Interest paid	-49	-40
Interest received	11	17
Net cash flows from operating activities	418	850
Investing activities		
Investments in property, plant and equipment and intangible assets	-530	-567
Disposals of property, plant and equipment, intangible assets and assets held for sale	25	26
Divestments of businesses, net of cash and cash equivalents	71	30
Received repayments of loans issued	4	2
Loans issued	-14	-22
Acquisitions, net of cash and cash equivalents acquired	-7	-423
Investments in and divestments of securities	31	-1
Insurance compensation received - fixed assets	6	
Net cash flows used in investing activities	-414	-955
Financing activities		
Dividends paid to non-controlling interests	-103	-77
Interest payment to holders of member bonds	-37	-36
Interest-bearing borrowings drawn	1,886	709
Repayment of interest-bearing borrowings	-1,843	-902
Transactions with holder of put option	-8	80
Payment of contingent consideration	-17	
Settlement of derivatives and other	6	-1
Net cash flows used in financing activities	-116	-227
Net cash flow	-112	-332
Cash and cash equivalents at 1 January ¹	354	718
Net cash flow	-112	-332
Currency translation differences on cash and cash equivalents	-49	-32
Cash and cash equivalents at 31 December¹	193	354

¹ Cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of FrieslandCampina's cash management.

FINANCIAL HISTORY

In millions of euros, unless stated otherwise	2017	2016	2015	2014	2013
Key figures					
Income statement					
Revenue	12,110	11,001	11,210	11,348	11,281
Operating profit before one-time items				412	513
Operating profit	444	563	576	489	313
Profit for the year	227	362	343	303	157
Guaranteed price	37.96	28.38	30.68	39.38	39.45
Performance premium in euros per 100 kg	1.03	2.19	2.25	1.86	1.81
Issue of member bonds in euros per 100 kg	0.30	1.25	1.28	1.07	1.23
Meadow milk premium per 100 kg of milk	0.60	0.29	0.29	0.29	0.31
Special supplements in euros per 100 kg	0.12	0.15	0.14	0.10	0.10
Milk price in euros per 100 kg	40.01	32.26	34.64	42.70	42.90
Financial position					
Balance sheet total	9,046	9,318	8,421	7,676	7,112
Equity attributable to the shareholder	1,287	1,309	1,108	991	920
Equity attributable to the shareholder and other providers of capital	3,178	3,169	2,832	2,587	2,405
Net debt	1,400	1,225	1,108	981	696
Cash flows					
Net cash flows from operating activities	418	850	1,019	554	588
Net cash flows used in investing activities	-414	-955	-705	-627	-576
Depreciation of plant and equipment and amortisation of intangible assets	368	307	275	231	213
Additional information					
Equity as a % of total assets	35.1	34.0	33.6	33.7	33.8
Employees (average number of FTEs)	23,675	21,927	22,049	22,168	21,186
Total milk processed (in millions of kg)	11,433	11,231	11,066	10,716	10,659
Milk supplied by members (in millions of kg)	10,716	10,774	10,060	9,453	9,261

Executive Board



Hein (H.M.A.) Schumacher (1971)

Position Chief Executive Officer
Appointment 1 January 2018
Nationality Dutch
Responsible for Business groups, FrieslandCampina China, Cooperative Affairs, Corporate Communication, Corporate Human Resources, Corporate Internal Audit, Corporate Legal Department & Company Secretariat, Corporate Public Affairs, Corporate Strategy & Fast Forward transformation programme, Corporate Supply Chain, Corporate Sustainability, Global Research & Development
Other positions Member of the Board of the Dutch Dairy Association (NZO), Member of the Supervisory Board of the TIAS School for Business & Society



Jaska (J.M.) de Bakker (1970)

Position Chief Financial Officer
Appointment 1 January 2018
Nationality Dutch
Responsible for Corporate Finance & Reporting, Corporate ICT and Digital, Corporate Mergers & Acquisitions, Corporate Real Estate, Corporate Tax, Corporate Treasury, Global Finance Processes & Shared Services, Enterprise Risk Management and Corporate Internal Control, Summit
Other positions None

Executive Leadership Team



Hein Schumacher
Chief Executive Officer



Jaska de Bakker
Chief Financial Officer



Roel van Neerbos
President FrieslandCampina
Consumer Dairy



Berndt Kodden
President FrieslandCampina
Specialised Nutrition



Hans Meeuwis
President FrieslandCampina
Dairy Essentials



Kathy Fortmann
President FrieslandCampina
Ingredients



Rahul Colaco
President FrieslandCampina
China



Geraldine Fraser
Corporate Director
Human Resources



Margrethe Jonkman
Global Director
Research & Development



Jaap Wilbers
Corporate Director
Supply Chain



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Globally, we consume millions of dairy products daily. Via our milk, quark, yoghurt and cheese we take in important nutrients, such as protein, calcium, and vitamin B2 and B12. With all of our great dairy products we contribute to a healthier and more sustainable nutrition for everyone. And at FrieslandCampina we consider that very important.

We are a cooperative. We combine the professionalism and entrepreneurship of all of our member dairy farmers with that of our employees. This way we get the best from each other and from our milk; from grass to glass. Apart from quality, safety and sustainability, this also guarantees the natural flavour of all of our products. And that is something you can taste!

